

BUY

TP: Rs 715 | ▲ 35%

FUTURE SUPPLY CHAIN SOLUTIONS

| Logistics

| 20 September 2019

Minority stake sale to strategic investor

Future Supply Chain (FSCSL) today announced plans to sell a 22% minority stake to Nippon Express, a Japanese logistics company. Key features of the transaction are outlined below.

- Nippon Express Co Ltd (Nippon), acting through its subsidiary Nippon Express (South Asia & Oceania) Pte Ltd, has agreed to acquire a 22% minority stake in FSCSL, through a combination of fresh share issuance and secondary purchase. The transaction is subject to requisite shareholder and regulatory approvals.
- FSCSL will issue 3.8mn fresh shares at Rs 664/sh (22% premium over current market price) to Nippon, amounting to 8.6% of diluted share capital, for an estimated consideration of Rs 2.5bn. Nippon will acquire a further 14.6% (pre-dilution share capital) from an institutional investor, taking its shareholding to 22% on a fully diluted basis.
- Nippon is a leading global logistics company headquartered in Japan, with a presence across various logistics segments, including multi-modal transportation, warehousing, third-party logistics and railways. It has been present in India since 2007, focusing on international freight forwarding. As of FY19, the company had aggregate revenue of US\$ 19.3bn.
- FSCSL and Nippon plan to enter into a business collaboration, leveraging the latter's competency across several key markets. FSCSL would also explore business opportunities with Nippon's Japanese and MNC clientele. For its part, Nippon expects to expand its footprint in India.
- We view the continuing interest from global logistics players in the Indian market as a positive. Several multinational companies have bolstered their presence in India in recent years, including CJ Express of Korea which acquired a 50% stake in DARCL couple of years ago.
- In our opinion, a successful deal would be a positive development for FSCSL. The transaction is likely to be EPS-accretive in FY21 and should improve the company's debt-equity ratio. We also expect FSCSL to benefit from Nippon's global pedigree and expertise.
- We maintain our earnings estimates pending further developments and reiterate our BUY rating on the company with a Jun'20 TP of Rs 715.

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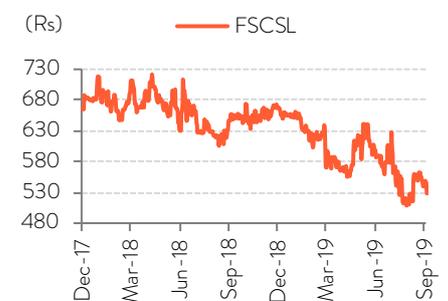
Ticker/Price	FSCSL IN/Rs 529
Market cap	US\$ 297.8mn
Shares o/s	40mn
3M ADV	US\$ 0.1mn
52wk high/low	Rs 711/Rs 490
Promoter/FPI/DII	52%/5%/19%

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY20E	FY21E	FY22E
Total revenue (Rs mn)	14,325	17,863	21,276
EBITDA (Rs mn)	1,626	2,477	3,027
Adj. net profit (Rs mn)	933	1,136	1,381
Adj. EPS (Rs)	23.3	28.3	34.4
Adj. EPS growth (%)	(3.2)	21.7	21.5
Adj. ROAE (%)	14.5	15.3	16.0
Adj. P/E (x)	22.7	18.7	15.4
EV/EBITDA (x)	13.6	9.2	7.7

Source: Company, BOBCAPS Research

STOCK PERFORMANCE

Source: NSE

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

HISTORICAL RATINGS AND TARGET PRICE: FUTURE SUPPLY CHAIN SOLUTIONS (FSCSL IN)



Note: B – Buy, A – Add, R – Reduce, S – Sell

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