

BUY

TP: Rs 715 | ▲ 28%

FUTURE SUPPLY CHAIN SOLUTIONS

| Logistics

| 01 August 2019

Big earnings miss

Future Supply Chain (FSCSL) sharply underperformed our Q1FY20 profit estimates. Standalone revenue growth was healthy at 29% YoY, with contract logistics growing 44%, but slimmer gross margins (-490bps) caused a 5% YoY dip in EBITDA (adj. for Ind-AS 116). PAT nosedived 64% YoY on higher depreciation and interest cost. In our view, margins should recover from Q3 amid gradual pickup in utilisation of new warehousing space. We crop FY20/FY21 EPS by 23%/9% and roll forward to a new Jun'20 TP of Rs 715 (vs. Rs 780).

Sayan Das Sharma
research@bobcaps.in

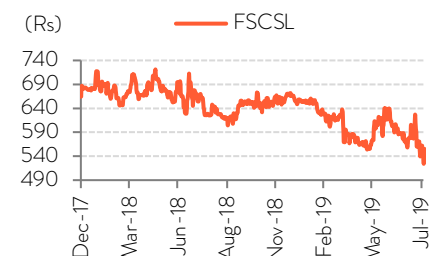
Contract logistics on strong footing: FSCSL's contract logistics segment maintained its upward trajectory, growing at 44% YoY, fueled by demand from both anchor and non-anchor customers. Three clients were added in this segment during Q1 – a food company, apparel brand and a global electronics manufacturer. Robust new client traction should drive the segment's growth going ahead. Express logistics revenue declined 4% YoY due to lower yield per trip (from higher intra-state movement of goods) and a demand slowdown.

Ticker/Price	FSCSL IN/Rs 557
Market cap	US\$ 322.6mn
Shares o/s	40mn
3M ADV	US\$ 0.1mn
52wk high/low	Rs 711/Rs 490
Promoter/FPI/DII	52%/5%/19%

Source: NSE

EBITDA margin disappoints but likely to recover: FSCSL added 0.7mn sq ft of warehousing space in Q1, primarily as food distribution centres. Delays by the anchor customer in switching its supply chain processes to the new distribution model translated into lower utilisation of the newly added space. Consequently, the company's EBITDA margin plunged 325bps YoY to 9.2% in Q1. FSCSL expects its client to transition to the new distribution centres over the next 3-4 months, which should boost utilisation and revive margins.

STOCK PERFORMANCE



Source: NSE

Maintain BUY: We scale back FY20/FY21 earnings estimates by 23%/9% and also cut our target P/E to 24x from 25x given the near-term margin pressure. Maintain BUY as we continue to like FSCSL for its entrenched presence in growing 3PL verticals, sustained growth momentum and robust clientele.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	903	964	933	1,136	1,381
Adj. EPS (Rs)	22.5	24.0	23.3	28.3	34.4
Adj. EPS growth (%)	92.8	6.7	(3.2)	21.7	21.5
Adj. ROAE (%)	21.8	17.0	14.5	15.3	16.0
Adj. P/E (x)	24.7	23.2	23.9	19.7	16.2
EV/EBITDA (x)	17.0	14.7	14.3	9.7	8.1

Source: Company, BOBCAPS Research

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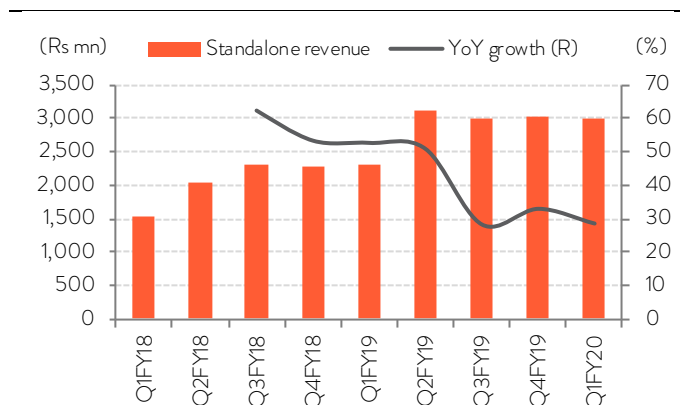


FIG 1 – QUARTERLY PERFORMANCE – STANDALONE

Y/E Mar (Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Total revenues	2,989	2,321	28.7	3,021	(1.1)
Cost of logistics services	2,211	1,604	37.9	2,111	4.8
% of sales	74.0	69.1	492bps	69.9	412bps
Employee expenses	264	223	18.6	247	7.3
% of sales	8.9	9.6	(75bps)	8.2	69bps
Other expenses	237	205	15.5	233	1.8
% of sales	7.9	8.8	(91bps)	7.7	22bps
Total expenditure	2,713	2,032	33.5	2,591	4.7
EBITDA	275	289	(4.9)	430	(36.0)
EBITDA margin (%)	9.2	12.5	(325bps)	14.2	(503bps)
Depreciation	148	100	47.9	114	30.0
EBIT	127	189	(32.8)	316	(59.8)
Interest expenses	75	18	314.3	62	19.7
Other income	13	11	15.4	12	12.7
Extraordinary income/(expense)	-	-	-	-	-
PBT	66	182	(64.0)	266	(75.3)
PBT margin (%)	2.2	7.9	(567bps)	8.8	(660bps)
Income tax	-	-	-	-	-
Adjusted PAT – before Ind-AS 116 adjustments	66	182	(64.0)	266	(75.3)
Adjusted PAT margin	2.2	7.9	(567bps)	8.8	(660bps)
IND-AS 116 impact	32	-	NM	-	NM
Reported PAT	34	182	(81.4)	160	(78.9)
PAT margin (%)	1.1	7.9	(673bps)	5.3	(418bps)

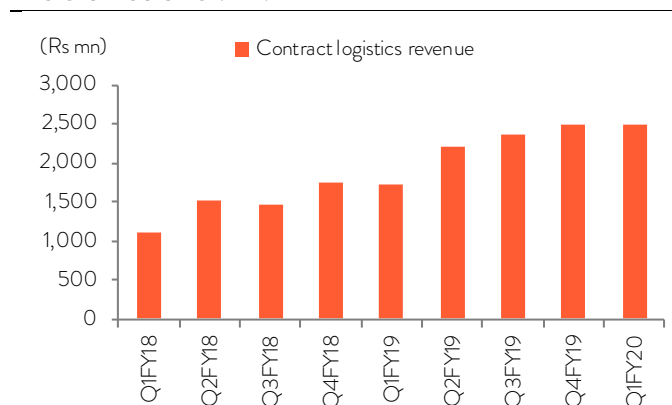
Source: Company, BOBCAPS Research

FIG 2 – REVENUE GREW AT 29% YOY IN Q1FY20



Source: Company, BOBCAPS Research

FIG 3 – ...LED BY 44% YOY GROWTH IN CONTRACT LOGISTICS SEGMENT



Source: Company, BOBCAPS Research

Valuation methodology

To account for the significant underperformance in Q1FY20, we crop our earnings estimates by 23%/9% in FY20/FY21. We also lower our one-year forward P/E multiple to 24x from 25x earlier in light of the near-term margin pressure. Rolling over valuations to Jun'21, we have a revised target price of Rs 715 from Rs 780 earlier.

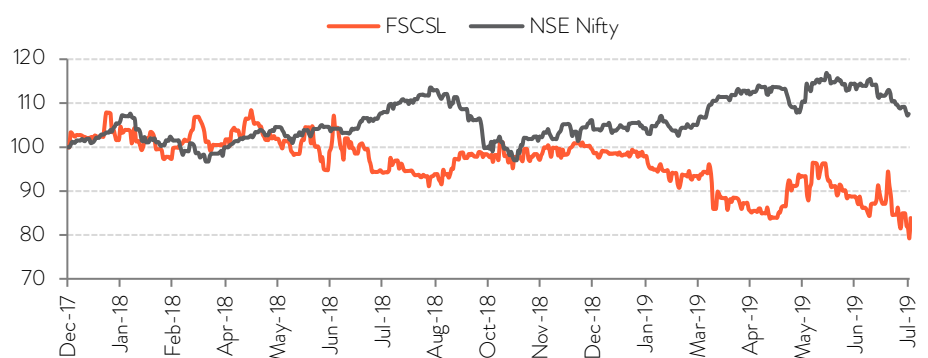
We remain positive on FSCSL's long-term prospects considering (1) its robust credentials in the Indian 3PL industry, (2) expertise in the rapidly growing consumer 3PL vertical, and (3) growing anchor clients. Maintain BUY.

FIG 8 – REVISED ESTIMATES

(Rs mn)	FY20E			FY21E			FY22E
	Old	New	Change (%)	Old	New	Change (%)	Introduced
Revenues	14,523	14,325	(1.4)	18,192	17,863	(1.8)	21,276
EBITDA	1,883	1,626	(13.6)	2,619	2,477	(5.4)	3,027
EBITDA margin (%)	13.0	11.4	(161)	14.4	13.9	(53)	14.2
PAT	1,204	933	(22.5)	1,244	1,136	(8.7)	1,381
PAT margin (%)	8.3	6.5	(178)	6.8	6.4	(48)	6.5

Source: Company, BOBCAPS Research

FIG 9 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key downside risks to our estimates are:

- growth moderation in anchor customer's business,
- high churn in the non-anchor client segment,
- lower-than-estimated ramp up in utilisation of new warehousing space, and
- prolonged slowdown in consumption spending.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E*	FY21E*	FY22E*
Total revenue	8,319	11,128	14,325	17,863	21,276
EBITDA	1,332	1,485	1,626	2,477	3,027
EBIT	876	1,068	1,065	1,735	2,152
Net interest income/(expenses)	(87)	(161)	(214)	(211)	(208)
Other income/(expenses)	114	56	82	54	28
Exceptional items	0	0	0	0	1
EBT	903	964	933	1,578	1,973
Income taxes	0	0	0	(442)	(592)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	903	964	933	1,136	1,381
Adjustments	0	0	0	0	0
Adjusted net profit	903	964	933	1,136	1,381

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E*	FY21E*	FY22E*
Accounts payables	1,764	2,367	2,974	3,585	4,252
Other current liabilities	707	1,169	886	1,080	1,217
Provisions	78	113	145	181	216
Debt funds	346	2,187	2,187	2,357	1,836
Other liabilities	0	0	0	0	0
Equity capital	401	401	401	401	401
Reserves & surplus	4,948	5,603	6,489	7,568	8,865
Shareholders' fund	5,348	6,003	6,890	7,969	9,266
Total liabilities and equities	8,244	11,839	13,082	15,171	16,787
Cash and cash eq.	797	1,177	449	231	108
Accounts receivables	2,591	3,488	3,925	4,649	5,538
Inventories	0	55	59	73	87
Other current assets	256	534	258	322	384
Investments	631	631	631	631	631
Net fixed assets	3,151	4,110	6,324	7,476	7,912
CWIP	25	639	0	0	0
Intangible assets	22	12	12	12	12
Deferred tax assets, net	0	0	0	0	0
Other assets	771	1,192	1,424	1,776	2,115
Total assets	8,244	11,839	13,082	15,171	16,787

Source: Company, BOBCAPS Research | *Without factoring in Ind-AS 116 impact

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E*	FY21E*	FY22E*
Net income + Depreciation	1,359	1,381	1,494	1,878	2,255
Interest expenses	87	161	214	211	208
Non-cash adjustments	(101)	0	0	0	0
Changes in working capital	322	(554)	(40)	(314)	(465)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	1,668	988	1,669	1,775	1,999
Capital expenditures	(1,660)	(1,980)	(2,136)	(1,895)	(1,311)
Change in investments	(631)	0	0	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(2,291)	(1,980)	(2,136)	(1,895)	(1,311)
Equities issued/Others	9	0	0	0	0
Debt raised/repaid	(481)	1,841	0	170	(520)
Interest expenses	(87)	(161)	(214)	(211)	(208)
Dividends paid	(48)	(60)	(47)	(57)	(83)
Other financing cash flows	(1,233)	385	0	0	0
Cash flow from financing	(1,840)	2,005	(261)	(99)	(812)
Changes in cash and cash eq.	(2,463)	1,013	(728)	(218)	(124)
Closing cash and cash eq.	797	1,177	449	231	108

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E*	FY21E*	FY22E*
Reported EPS	22.5	24.0	23.3	28.3	34.4
Adjusted EPS	22.5	24.0	23.3	28.3	34.4
Dividend per share	1.0	1.3	1.2	1.4	1.7
Book value per share	133.5	149.8	171.9	198.8	231.2

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E*	FY21E*	FY22E*
EV/Sales	2.7	2.0	1.6	1.3	1.1
EV/EBITDA	17.0	14.7	14.3	9.7	8.1
Adjusted P/E	24.7	23.2	23.9	19.7	16.2
P/BV	4.2	3.7	3.2	2.8	2.4

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E*	FY21E*	FY22E*
Tax burden (Net profit/PBT)	100.0	100.0	100.0	72.0	70.0
Interest burden (PBT/EBIT)	103.1	90.2	87.6	90.9	91.7
EBIT margin (EBIT/Revenue)	10.5	9.6	7.4	9.7	10.1
Asset turnover (Revenue/Avg TA)	1.7	1.6	1.7	1.8	2.0
Leverage (Avg TA/Avg Equity)	1.6	1.8	1.9	1.9	1.9
Adjusted ROAE	21.8	17.0	14.5	15.3	16.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets | *Without factoring in Ind-AS 116 impact

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E*	FY21E*	FY22E*
YoY growth (%)					
Revenue	48.2	33.8	28.7	24.7	19.1
EBITDA	79.2	11.5	9.5	52.3	22.2
Adjusted EPS	92.8	6.7	(3.2)	21.7	21.5
Profitability & Return ratios (%)					
EBITDA margin	16.0	13.3	11.4	13.9	14.2
EBIT margin	10.5	9.6	7.4	9.7	10.1
Adjusted profit margin	10.9	8.7	6.5	6.4	6.5
Adjusted ROAE	21.8	17.0	14.5	15.3	16.0
ROCE	18.3	15.4	12.3	17.9	20.1
Working capital days (days)					
Receivables	114	114	100	95	95
Inventory	0	2	2	2	2
Payables	92	90	85	85	85
Ratios (x)					
Gross asset turnover	2.9	2.4	2.2	2.0	2.0
Current ratio	1.5	1.5	1.2	1.1	1.1
Net interest coverage ratio	10.1	6.6	5.0	8.2	10.3
Adjusted debt/equity	(0.1)	0.2	0.3	0.3	0.2

Source: Company, BOBCAPS Research | *Without factoring in Ind-AS 116 impact

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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)



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

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