

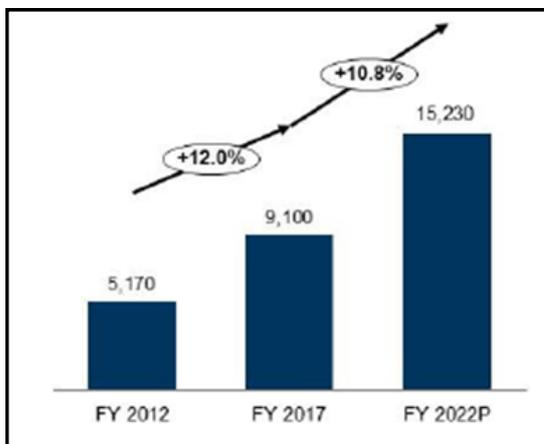
IPO UPDATE

Future Supply Chain Solutions Limited

Indian Data:

The Indian logistics market was estimated at approximately Rs9,100bn (USD140bn) in FY2017. It has grown approximately at a 12% CAGR between FY12-17. For India, the logistics market excluding rail freight and port handling is estimated at approximately Rs7,500bn(USD115bn) in FY2017 and the share of the organized logistics market is approximately 12% of the total, estimated at approximately Rs900bn (USD14bn). In developed markets like the United States and Europe, the share of the organized logistics market is over 80%. However, when we compare the logistics spent in India after adjusting for share of manufacturing/ agriculture in GDP and geographic size of the country, logistics in India is around two times less efficient than China and US.

Indian logistics market: (Rsbn)



Source: Red Herring Prospectus

Key factors contributing to the future growth include growth of the Indian economy, increasing urbanization, increasing consumerism due to higher per capita incomes, favorable regulatory changes, incentives from the government for infrastructure investment and higher levels of outsourcing of logistics activities. On the back of these drivers, organized logistics service providers are expected to grow faster than the logistics market. Some of the key drivers for organized logistics service providers are as follows:

- Growth in the underlying economy and the resultant increase in logistics demand;
- Urbanisation and population growth leading to increased consumerism;
- Evolving customer requirements and sophistication;
- Regulatory drivers, including the introduction of GST in India;
- Increased scale of logistics service providers to match increasing customer scale; and
- Adoption and availability of affordable technology.

Indian economy is expected to grow faster than most of the large economies in the world and Indian logistics industry is less efficient than most developed countries. Hence, it is expected that Indian logistics market will grow faster than most large economies globally.

SNAPSHOT	
Issue Opens	Wednesday, December 06, 2017
Issue Closes	Friday, December 08, 2017
Price Band	Rs660 to Rs664
Bid Lot	22 shares and multiples thereafter
Face Value	Rs10
Listing	BSE & NSE
Type of Issue	Offer for Sale (OFS)
Offer Size	Rs6497 mn
Implied Market Cap *	Rs25,988mn
PE (based on FY17 earning)*	56.8

Note : Implied Market Cap & PE are calculated at upper price band of Rs248

Details of Selling Shareholder & No of Shares	
Griffin Partners Limited	78,27,656
Future Enterprises Limited	19,56,914
Total	97,84,570

Issue allocation	
Reservations	% of Net Issue
QIB	50
NIB	15
Retail	35
Total	100

Object of the offer	
The Offer comprises an Offer for Sale (OFS) by the Selling Shareholders. The Company will not receive any proceeds from the OFS. The objects of the Offer for the Company are to achieve the benefit of listing the Equity Shares on the Stock Exchanges and for the sale of Equity Shares by the Selling Shareholders. Further, the Company expects that listing of Equity Shares will enhance its stability and brand image and provide liquidity to its existing shareholders.	

Last 3 year Summarized Financials			
Rs(mn)	FY15*	FY16	FY17
Sales	4079.63	5198.70	5611.83
EBITDA	639	699	743
EBITDA %	15.7%	13.5%	13.2%
Net profit After Tax	247	294	458
Net Profit Margin %	6.0%	5.7%	8.2%
Earning Per Share	6	8	12

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Conventional Approach of Customers	Emerging Approach of Customers
Conventional transportation and storage service providers	End to end supply chain management
Absence of VAS or use of only basic VAS	Capacity aggregation (Forwarder, co-loaders)
Role of logistics services are perceived as transactional/ user defined	Technology enabled operations (Track & trace, placement accuracy, efficiency in handling)
Logistics services are procured on this basis of lowest cost	VAS (Inventory management, route /network optimization, consolidation, packaging and labeling)
	Role of logistics services is evolving from a transactional role to a strategic role
	Focus on efficiency and quality

Source: Red Herring Prospectus

About the company:

Future Supply Chain Solutions Limited is one of India's largest organized third-party logistics service operators, according to the A&M Report. It offers third-party logistics services into various verticals including retail, fashion and apparel, automotive and engineering, food and beverage, fast-moving consumer goods (FMCG), e-commerce, healthcare, electronics and technology, home and furniture and ATMs.

The company is a pan-nation player and operated 42 distribution centres across the country as of 31 July 2017. In addition, it also operates two distribution centers of its customers. The company's hub-and-spoke distribution model comprises 14 hubs and 105 branches across India. In total, Future Supply Chain Solutions covers 11,228 pin codes across 29 states and 5 union territories in India.

The company is promoted by Future Enterprises Limited, which is promoted by Kishore Biyani. Other entities promoted by Kishore Biyani include Future Retail Limited, Future Consumer Limited and Future Lifestyle Fashions Limited (collectively, the "Future Entities"). While the business was originally established to provide supply chain and logistics solutions for the Promoter and certain of the Group Companies, the company has diversified the customer base across various sectors.

The company provides services across:

- Contract Logistics (69.8% of the total revenues in FY17): warehousing, distribution and other value-added services;
- Express Logistics: (21.7% of the total revenues in FY17) point-to-point, less-than truck-load, time-definite transportation services; and
- Temperature-Controlled Logistics: (6.2% of the total revenues in FY17) cold-chain warehousing, transportation solutions and distribution of perishable products.

The company is one of the largest service providers with an extensive network of facilities in a fast-growing third-party logistics market. The growth of the third-party logistics industry in India is expected to continue in line with the historical growth trajectory due to strong demand and supply side drivers. The locations of the facilities and delivery network enable the company to provide customers with access to multiple destinations for booking and delivery of goods across India. In addition, the distribution centre in Nagpur is one of the largest and most highly automated distribution centres in India, according to the A&M Report. It leases most of the locations and delivery vehicles, which enable it, expand operations in order to adapt to changing industry conditions, environments and customer needs.

Comprehensive solution for supply chain requirements: The supply chain provides a comprehensive solution for third-party logistics services through contract logistics, express logistics and temperature-controlled logistics. The company also provides end-to-end customized logistics and supply chain solutions created based on the customers' requirements.

Diversified customer base: The customer base spans many sectors, including retail, fashion and apparel, automotive and engineering, food and beverage, FMCG, e-commerce, healthcare, electronics and technology, home and furniture and ATMs.

Apart from the Promoter and certain Group Companies, the other clients include Pepe Jeans India Limited, Bakers Circle (India) Private Limited, Clarks Future Footwear Private Limited, HPL Electric & Power Limited, PepCart Logistics Private Limited (Pepperfry), Surya Roshni Limited, TTK Prestige Limited, Bestseller Fashion India Private Limited, Best United India Comforts Private Limited (JACK & JONES), VERO MODA Retail Private Limited, ONLY Retail Private Limited, M/s Asandas & Sons (HyFun FOODS), Reckitt Benckiser (India) Private Limited, Amway India Enterprises Private Limited, Kellogg India Private Limited, Mondelez India Foods Private Limited and Wildcraft India Private Limited to mention a few.

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About the company (contd.)

Dependency on the future group entities: The Future Entities are the key customers for whom the company has devoted significant scale in its operations. The scale of the logistics services for the Future Entities enables it to capture economies of scale and drives automation and standardization of processes to optimize the service offerings, thereby further strengthening relationship with these entities. Future Supply Chain states that it primarily undertakes the logistics functions for various Future Group entities. In fact, its dependency on the group entities is only increasing. In the last three years, the group companies accounted for 62.5%, 49.5% and 46.5%, respectively, of its revenue from operations. This figure increased to 69.7% in the six months ended 30 September 2017. This clearly indicates the dependency of the company on the single clientele. But one should keep in mind that this is how the business is designed for the company and the Future Group's high contribution in the logistics arm's revenues is likely to persist in the future as well.

Key Risks

- The Future Entities are the company's key customers and their Promoter and certain of their Group Companies account for a significant portion of its revenues. Any failure to maintain its relationship with these customers will have a material adverse effect on its financial performance and results of operations.
- The company's business is affected by prevailing economic conditions in India and indirectly affected by changes in consumer spending capacity in the sectors they serve within India.
- The company may face competition from a number of international and domestic third-party logistics companies, which may adversely affect their market position and business.
- Delays or defaults in payment by its customers could affect their cash flows and may adversely affect their financial condition and operations.
- An inability to pass on any increase in operating expenses to their customers may adversely affect their business and results of operations.
- Changing regulations in India could lead to new compliance requirements that are uncertain.

Outlook and Recommendations:

When compared to the latest tepid listing of Mahindra logistics, the company is different as the first was based on asset light model while the latter has capital locked in assets. In terms of valuations, at the upper price band the company is trading at 56.8x (EPS for FY17 Rs11.69). The company does depend on single clientele for major part of its revenues, but that's the kind of business layout of the company. The valuations do seem to be stretched leaving very little room for the investors. One can apply to the IPO but definitely is only for the high risk takers.

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