Future Supply Chain Solutions Limited

Issue Snapshot:

Issue Open: Dec 06 – Dec 08, 2017

Price Band: Rs. 660 – 664

Issue Size: 9,784,570 Equity Shares (Entirely Offer for sale)

Offer Size: Rs.645.78 crs – 649.69 crs

QIB	Upto	4,892,284 eq sh
Non Institutional	atleast	1,467,686 eq sh
Retail	atleast	3,424,600 eq sh

Face Value: Rs 10

Book value: Rs 83.31 (September 30, 2017)

Bid size: - 22 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity: Rs. 40.05 cr
Post issue Equity: Rs 40.05 cr

Listing: BSE & NSE

Global Co-Ordinators and Book Running Lead Managers: Edelweiss Financial Services Limited, CLSA India Private Limited, Nomura Financial Advisory & Securities (India) Private Limited

Book Running Lead Manager: IDFC Bank Limited, IIFL Holdings Limited, YES Securities (India) Limited

Registrar to issue: Link Intime India Private Limited

Shareholding Pattern

Shareholding Pattern	Pre issue %	*Post issue %
Promoter and Promoter Group	57.35	52.47
Public & Others	42.65	47.53
Total	**100.0**	**100.0**

Source for this Note: RHP

Background & Operations:

Future Supply Chain Solutions Limited (FSC) is one of India's largest organised third-party logistics service operators which offers automated and IT-enabled warehousing, distribution and other logistics solutions to a wide range of customers. Its service offerings, warehousing infrastructure, pan-India distribution network, "hub-and-spoke" transportation model and automated technology systems support its competitive market position. Its customers operates in various sectors across India, 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.

FSC's business model enables to act as a service provider that can comprehensively cover its customers supply chain needs. It provides solutions that enable its customers to leverage its distribution network and optimises the performance, cost and efficiency of their supply chains, shortening their lead-time to market. It offer its customers services in three key areas:

Contract Logistics: warehousing, distribution and other value-added services;
Express Logistics: point-to-point, less-than truck-load, time-definite transportation services; and
Temperature-Controlled Logistics: cold-chain warehousing, transportation solutions and distribution of perishable products.

FSC's distribution centres and delivery network form a supply chain system across India. As of September 30, 2017, it run its contract logistics operations through 42 distribution centres across India, covering approximately 3.84 million square feet of warehouse space and also operate 2 distribution centres of its customers, covering approximately 0.37 million square feet of warehouse space. It has adopted technology and processes throughout its offerings, including (i) a warehouse management system to track, process and manage inventory, (ii) a sortation system to allow picking of orders with accuracy, (iii) integration with customers' systems for automated inventory replenishment, (iv) GPS-enabled trucks that provide real-time visibility of shipments and (v) a mobile portal to allow its customers real-time visibility into their supply chain.

Objects of Issue:

The Offer comprises an Offer for Sale by the Selling Shareholders.

The Offer for Sale

Each of the Selling Shareholders will be entitled to the proceeds of the Offer for Sale of their respective portion of the Equity Shares after deducting its portion of the Offer expenses and relevant taxes thereon. FSC will not receive any proceeds from the Offer for Sale. The objects of the Offer for the Company is 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.

Competitive Strengths

One of the largest service providers with an extensive network of facilities in a fast-growing third-party logistics market: FSC is one of India's largest organised third-party logistics operators. According to the A&M Report, the Indian third-party logistics market has grown at a CAGR of approximately 12% between Fiscal 2012 and Fiscal 2017. 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. Its extensive network of 46 distribution centres, including 4 temperature-controlled distribution centres, 14 hubs and 106 branches (including franchisees and 12 of which are co-located on the same premises as its hubs), covering 11,235 pin codes across 29 states and 5 union territories creates a pan-India supply chain network. The locations of FSC's facilities and delivery network enables it to provide its customers with access to multiple destinations for booking and delivery of goods across India. It lease most of its locations and delivery vehicles, which enables to expand its operations in order to adapt to changing industry conditions, environments and customer needs. This enables FSC to reduce costs and increase margins.

Comprehensive solution for supply chain requirements: FSC's supply chain provides a comprehensive solution for third-party logistics services through contract logistics, express logistics and temperature-controlled logistics. It also provides end-to-end customised logistics and supply chain solutions that it create based on its customer's requirements. Its ability to manage the complete supply chain enables FSC customers to reduce the number of service providers they engage. Its logistics offerings also presents with cross-selling opportunities, which is a key driver behind its ability to enhance value proposition and strengthen relationships with its existing customers.

Diverse customer base across many sectors: FSC's 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. It has a diversified customer base in each of the sectors it serve, including Indian corporate groups and multinational companies apart from its Promoter and certain Group Companies. FSC is well positioned in the logistics industry in India, given its experience and infrastructure suited to serve a wide range of sectors. Over the years, it has built strong customer relations, demonstrating the value proposition it provides and positioning it for expected further growth.

At the forefront in introducing new standards of technology and automation in the logistics industry in India: FSC adoption of technology and automated processes differentiates it within the supply-chain management industry in India. It is at the forefront of warehouse management systems and automation solutions for meeting client-specific needs in India. It has made investments to implement automated technology and processes in order to increase capacity and operating efficiency, thereby improving its profitability and allowing to customise services to suit its requirements and those of its customers. It has adopted various technologies and automation in its business, including (i) "Dynamic Put-to-Light" (PTL) sortation system, which is an effective sorting technology, (ii) Warehouse Management System (WMS) that coordinates across receiving, put-away, and put, pack and dispatch processes in distribution centre operations, (iii) Transport Management System (TMS), which provides shipment-level visibility from pick-up, to delivery, to billing as well as routing solutions, and is also linked to its enterprise resource planning system, (iv) Vehicle Tracking System (VTS), which enables customers to track their goods online and in real-time while in transit, (v) a high-speed cross-belt sorter at distribution centre in MIHAN, Nagpur, which is the first of its kind in India, and which has increased sorting capacity in the distribution centre to approximately 2,000 cases per hour without having to increase physical storage space, (vi) remote access to delivery vehicles and (vii) a real-time data logging system that enables to monitor temperature variations in distribution centres and reefer trucks used in its temperature-controlled logistics services.

Longstanding relationship with Future Entities: The Future Entities are FSC's key customers and for whom it has devoted significant scale in its operations. The scale of its logistics services for the Future Entities enables it to capture economies of scale and drives automation and standardisation of processes to optimise its service offerings, thereby further strengthening relationship with these entities. Future Entities has experienced a growth in their revenues in the last three years. It has worked with the Future Entities on various projects over this period and has worked with them to aim to reduce costs and increase efficiencies in their supply chains. Further, FSC is in a position to leverage the 'Future' brand and, has become one of the largest logistics service providers in India. By leveraging its brand, FSC aims to differentiate itself as a provider of quality and reliable supply chain solutions, which further enhances its brand loyalty and market position.

Experienced management team with logistics and retail sector-specific knowledge: FSC has a management team with experience in the Indian logistics and retail industry. The quality of its management team has been critical in achieving its business results. All members of its senior management team has substantial experience. Its Chairman, Rakesh Biyani, has over 25 years of experience in the retail, fashion, supply chain and logistics sectors. Its management team is responsible for formulating its strategy, managing its service areas, diversifying business and sector mix, ensuring strong operating and technology platforms and expanding its customer relationships. Further, its management team enables it to conceptualise and develop new services, effectively market its services, and develop and maintain relationships with its customers and vendors.

Business Strategy:

Capitalise on the growth of the third-party logistics industry in India: The introduction of GST in India is expected to favour growth in outsourced logistics, and in particular, large-scale logistics operations that will be capable of handling multi-industry customers. According to the A&M Report, customers in India are also increasingly willing to pay a premium for higher quality of infrastructure and service, such as technology, automation and other value-added services and higher product safety. Customers in India are also increasingly willing to pay a premium for higher quality of infrastructure and service, such as technology, automation and other value-added services and higher product safety. FCS intends to capitalise on these opportunities in the Indian third-party logistics market, given its experience in adopting technology and automation to service its customers. It also intend to capitalise on the opportunities arising from the rollout of GST in India. The projected growth and the changes in the Indian third-party logistics market resulting from the introduction and implementation of GST in India will result in an increase in the dependence of existing and new customers on third party logistics services.

Target growth by identifying new customers, increasing share of existing customers' third-party logistics spending and leveraging existing relationships: FSC has implemented sales and marketing strategies under each of its key service areas to ensure a continuous flow of business. It is also able to target a large customer base due to its experience of dealing with customers across multiple sectors, which provides the company with a significant competitive advantage. Its strategy also includes marketing customised solutions to target customers and analysing their business processes to propose a comprehensive supply chain infrastructure and plan. Apart from expanding its reach to new customers, it aims to increase revenues and margins by expanding the range of services it offers to existing customers. As customers continues to grow and their supply chains increase in size and complexity, FSC intends to focus on expanding the range of services for which they rely on it cater to new geographies in which they operate and expand its services into their new product lines. FSC plans to leverage these relationships in order to secure logistics contracts with these vendors and thereby add to its customer base. It plans to engage with these potential customers through various customer engagement activities demonstrating its capabilities, including site visits.

Expand addressable market through customised and new service offerings: FSC has recently set up an Integrated Food Distribution Centre (IFDC) in Kolkata, which caters to multiple formats and categories for the food industry, including cold storage, in the same location. This new and customised offering enables higher throughputs, lower inventory, faster refills through lead-time reduction and transport cost optimisations for customers, among other benefits. As part of customised offerings, FSC also manage and operate its customer's distribution centres, enabling them to focus on their core business. It further intends to focus on other customised offerings to other customers across various sectors. FSC is also focusing on increasing its penetration in sectors, such as frozen foods, pharmaceuticals, quick-service restaurants, dairy and fruits and vegetables given its capability and experience across multiple sectors and ability to service the temperature-control requirements of these sectors.

Invest further in infrastructure and expand network: FSC plans to continue to invest in enhancing its infrastructure to enable to respond quickly to its customers changing needs, thereby continually improving the competitiveness of its supply chain solutions. It intends to increase capacity in its existing distribution centres in order to increase volume handling capability as well as identify certain new locations to establish additional distribution centres. In its express logistics services, it intend to expand the reach of its distribution network. It also has the capability to establish a branch in a new location suiting its customers' requirements. It intends to expand its temperature-controlled warehousing facilities initially into new locations focused around key metropolitan areas such as Kolkata, Delhi, Mumbai, Bengaluru and Chennai, followed by a second phase of expansion, focused on evolving consumption centres such as Indore, Mohali, Hyderabad and Cochin.

Explore inorganic growth opportunities*:* FSC may pursue commercially sustainable opportunities to invest in strategically located logistics facilities and technologies that complement its expansion goals and meet its customers increasing demands and requirements. It also pursue opportunities to acquire other logistics businesses in India (i) that allow it to enhance its scale and market position; (ii) that provide with a platform to extend reach to new geographic markets within India; and (iii) that add new services complementary to its service offerings or that allow to enter strategic businesses to capture additional revenue opportunities from existing customer base.

Continue to improve operating efficiencies and implement technological and process enhancements*:* FSC strives to make its operations more cost-efficient and effective in order to improve profitability and increase its earnings. This strategy will be driven by focusing on productivity improvement and profitability, by maximising the benefits of economies of scale of using technology and infrastructure. It intends to continue to adopt new infrastructure, in order to increase its operating efficiency and reliability. It also aims to improve further its operating efficiencies by increasing integration with its customer's internal systems and processes.

Industry:

Indian Logistics Industry

The Indian logistics market was estimated at approximately Rs.9,100 billion (US$ 140 billion) in Fiscal 2017. Indian logistics expenditure is approximately 6.0% of India's GDP (excluding inventory carrying cost), which is higher than that of the United States (approximately 5.5% of the United States' GDP), but lower than that of China (approximately 11.5% of China's GDP). However, when one compares the logistics spend in India after adjusting for the share of manufacturing/agriculture in GDP and geographic size of the country, logistics in India is around two times less efficient than China and the United States. If it include the impact of inventory cost, the difference in efficiencies becomes even wider as time of transport and cost of storage and handling in India is significantly higher than global benchmarks. Hence, there are opportunities to optimise the logistics spend in India. Inefficient logistics in India is measured by the logistics performance index, which is an indicator for logistics infrastructure and quality. GDP per capita has been observed to be significantly correlated to the logistics performance index of a country. For India, the logistics market excluding rail freight and port handling is estimated at approximately Rs.7,500 billion (US$ 115 billion) in Fiscal 2017 and the share of the organized logistics market is approximately 12% of the total, estimated at approximately Rs.900 billion (US$ 14 billion). In developed markets like the United States and Europe, the share of the organized logistics market is over 80%. The Indian logistics market has grown at approximately a 12% CAGR between Fiscals 2012 and 2017. The industry growth is expected to continue in line with the historical growth trajectory because of strong demand and supply-side drivers (Source: Industry estimates). 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.

Select Segments of Indian Logistics Industry

Contract Logistics

Contract logistics service providers provide inbound and outbound logistics services to various manufacturing and service companies. These service providers take responsibility for transportation, warehousing and other value-added activities such as packaging, kitting, sorting, labeling, reverse logistics and consolidation, among others. The key end user industry segments for these services are auto, retail, pharma, FMCG and CDIT, telecom, e-commerce and e-tail. The contract logistics market in India was estimated at approximately Rs.110 billion (US$ 1.7 billion) in Fiscal 2017. Contract logistics spend has grown at a faster pace than the overall Indian logistics industry at approximately 17% annually between Fiscals 2012 and 2017 (Source: Industry estimates).

Express Logistics

Express logistics offers door-to-door delivery across domestic regions along with real-time shipment tracking facilities, and serves the need for time-sensitive logistics services for customers requiring transport of less than truck load cargo. Express logistics services customers for whom speed to market is crucial for converting sales across regions, meeting customer expectations and maintaining business competitiveness. The key consumer industries of express logistics are auto components, banking and financial services, IT components, apparel, pharmaceuticals, telecom products and e-commerce, among others. The express logistics market in India was estimated at approximately Rs.100 billion (US$ 1.5 billion) in Fiscal 2017 and has grown at a CAGR of approximately 14% between Fiscals 2012 and 2017. Organized national players contribute to 50% of the express logistics spend (Source: Industry estimates).

Cold Chain Logistics

Cold chain is a temperature-controlled supply chain offering services, including refrigerated storage, transportation and distribution services along with associated value-added support activities. Demand for cold chain logistics services is primarily driven by bulk agricultural commodities (predominantly potato storage), consumer segments such as frozen food, dairy, confectionery, high-value fruits and vegetables, pharmaceuticals and B2B segments. The cold chain logistics market in India was estimated at approximately Rs.200 billion (US$ 3.1 billion) of which product and processed food based segments (addressable) cold chain spend is approximately Rs.33 billion (US$ 0.5 billion) in Fiscal 2017. Organized logistics service providers contribute 40% of the addressable cold chain spend (approximately 7% of the total cold chain spend) estimated at approximately Rs.13.5 billion (US$ 0.2 billion) in Fiscal 2017. Organized cold chain logistics, has grown at a higher pace than the overall logistics industry in India at approximately 25% annually between Fiscals 2012 and 2017 (Source: Industry estimates).

Competitive Positioning

Logistics service providers primarily operate through two kinds of business models in providing services such as transportation, warehousing and other value-added services as set forth below. Risk and return profiles of both the models are fundamentally different.

Asset-heavy model: The service providers own and maintain the infrastructure including the warehouses and vehicles. Operating out of owned infrastructure provides more control to the logistics service providers. Margins and ROCE (15-20%) are similar to that of infrastructure providers. Performance of asset heavy logistics service providers is dependent on the quality and availability of assets and the suitability of geography.

Service-based model: In the asset-light model, logistic service providers use infrastructure developed by others and customize it per customer requirements to deliver logistics services. The service-based model has following key characteristics: (i) high ROCE, (ii) customer stickiness and (iii) high entry barriers.

Risks and Upsides

Logistics service providers face the following general challenges in the market:

- Foreign direct investment activity is uncertain and is dependent on global policies and market volatility;
- Regulatory changes could affect growth;
- A slowdown in the user industry could affect the volumes handled by logistics service providers;
- Quality and availability of infrastructure could impact performance;
- Intense competition and low barriers to entry in certain segments could affect logistics service providers;
- Increasing scale could be challenging;
- The express logistics industry is sensitive to high operating costs; and
- There is a need to continuously invest in and evolve technology.

The following upsides are present for logistics services providers in the next three to five years.

- Make in India: The initiative was launched in late 2014 with the objective of making India a global manufacturing hub. The initiative aims to raise the GDP contribution of manufacturing to 25% from the current 16%. It targets 25 sectors including auto, construction, electronics, oil and gas, pharma, textiles and garments, food processing, roads and highways, ports and railways, among others. The initiative is expected to provide a boost to both infrastructure for logistics service providers and end user industries (Source: Make in India website)

- Faster growth in organized retail: Organized retail is expected to grow faster between 15-20% until Fiscal 2022, driven by high-income growth, urbanization, nuclearisation and evolving buying patterns. Expansion in organized retail is expected to create the need for more and sophisticated logistics services (Source: Industry estimates).

Key Concerns

The Future Entities are key customers and Promoter and certain of FSC's Group Companies account for a significant portion of its revenue*:* The Future Entities are FSC's key customers. Its revenue from Promoter and certain of its Group Companies was Rs. 2,490.00 million, Rs.3,504.69 million, Rs.2.573.90 million and Rs.1,895.15 million for the six months ended September 30, 2017 and Fiscals 2017, 2016 and 2015, respectively, which accounted for 69.7%, 62.5%, 49.5% and 46.5% of its revenue from operations for such periods. FSC is dependent on the Future Entities and expect them to continue to be its key customers. Any failure to maintain, or a deterioration of its relationship with the Future Entities will have a material adverse effect on its financial performance and results of operations. Further, FSC is also reliant on the various sectors in which the Future Entities operate. If any of those sectors suffer a downturn, for any reason, its results of operations and financial performance could be adversely affected

Business is affected by prevailing economic conditions in India and indirectly affected by changes in consumer spending capacity in the sectors FSC serves within India*:* Business of FSC is dependent on overall economic conditions in India and any slowdown or other disruption in the production of goods in India or the Indian economy may negatively affect the business in a number of ways, including financial condition and results of operations. It is also dependent on the economic conditions of the various sectors it serves. It caters to customers in a wide variety of sectors, including retail, fashion and apparel, automotive and engineering, food and beverage, FMCG, ecommerce, healthcare, electronics and technology, home and furniture and ATMs. Any disruptions or slowdowns in these sectors could negatively affect the logistics spending of its customers. Some of FS's customers are not suppliers of necessity goods, and, consequently, their goods are subject to high price elasticity, and unfavourable economic conditions may result in a reduction of demand for their goods. A fall in the purchasing power of retail and other end consumers, for any reason whatsoever, including rising consumer inflation, changing governmental policies and a slowdown in economic growth may have an adverse effect on its customer's revenues, production levels and profitability, and could in turn negatively affect their demand for its services or the terms on which FSC provide its services to them.

FSC may face competition from a number of international and domestic third-party logistics companies, which may adversely affect market position and business: While the logistics industry in India is generally fragmented, FSC may face competition from a number of international and domestic third-party logistics service providers, especially as the trend toward larger-scale logistics providers in India continues. Some of its competitors may have significantly greater financial and marketing resources and operates larger networks than it do. While the logistics industry in India is generally fragmented, FSC may face competition from a number of international and domestic third-party logistics service providers, especially as the trend toward larger-scale logistics providers in India continues. In the regions of India in which FSC operates, it face competition from certain regional logistics services providers and the unorganised sector, some of which have market presence in their respective areas of operation. If FSC is unable to compete effectively with its competitors, it may experience a decline in its revenues and profitability and its business, financial condition and results of operations could be materially and adversely affected.

Delays or defaults in payment by customers could affect cash flows and may adversely affect financial condition and operations: FSC extend credit to certain of its customers for long periods of time and there is no assurance that it will be able to recover outstanding amounts in part, full or at all. It has and may continue to have high levels of outstanding receivables. Further, for the six months ended September 30, 2017 and Fiscals 2017, 2016 and 2015, its average outstanding receivable days were 128 days, 141 days, 155 days and 163 days, respectively, while its average outstanding payment days to its vendors for the six months ended September 30, 2017 and Fiscals 2017, 2016 and 2015 were comparatively shorter at 82 days, 95 days, 117 days and 114 days, respectively. Hence, if delays or defaults in client payments continue or increase in proportion to FSC's total revenues, it could negatively affect its cash flows and consequently affect financial condition and operations

An inability to pass on any increase in operating expenses to the customers may adversely affect the business and results of operations: Rental expenses for leased space, power and fuel costs (which principally includes electricity and fuel consumed by warehousing operations), hire charges and transportation expenses (which principally includes the leasing costs of its leased vehicles, the cost of fuel consumed by reefer trucks and lease expenses for equipment), labour expenses, employee expenses and security expenses represent some of its most significant operating costs and an increase in such costs or inability to pass on such increased costs to the customers will adversely affect FSC results of operations. Although historically FSC has generally been able to pass on an increase in operating costs to its customers through an increase in its prices, there can be no assurance that it will be able to pass on any such increase in the future to customers, either wholly or in part, and its profitability and results of operations may be adversely affected.

Heavily dependent on machinery and equipment for operations: FSC's third-party logistics offerings are heavily dependent on machinery and equipment, including air conditioners, refrigeration infrastructure, data loggers, sorters and conveyors, vehicles and material handling equipment, including reach trucks, forklifts, very narrow aisle trucks and battery-operated pallet trucks. In particular, FSC's reefer trucks and other refrigeration equipment are critical to its temperature-controlled logistics operations, and any failure or breakdown of such trucks or equipment could significantly affect the operations in that business. Any significant malfunction or breakdown of machinery or equipment may entail significant repair and maintenance costs and cause delays in its operations. Further, FSC may also be open to public liability from the end consumer for defects in the quality of perishable products it store and transport. Accordingly, any breakdown or its machinery or equipment may have a significant effect on its business, reputation, financial results and growth.

Business is highly dependent on technology and automation: FSC use technology and automation processes throughout logistics offerings to enable efficient and cost-effective operational management to better serve customer's supply chain needs. Some of its recent technology and automation implementation may not result in the expected efficiencies and benefits it anticipate, which could adversely affect its operations and financial condition. Further, some of FSC's existing technologies and automation processes in the business may become obsolete or perform less efficiently compared to newer and better technologies and automation processes in the future. Its ability to maintain effective technology and automation depends, in part, upon its ability to make timely and cost-effective enhancements and additions to the technology and automation underpinning its operational platform and in part on its ability to introduce new technological and automation offerings and services that meet customer demands. It cannot be assured that it will be able to successfully keep up with technological and automation improvements in order to meet customers' needs, or that the technology and automation developed by others will not render its services less competitive or less attractive. In addition, any hardware or software failure relating to its technology could significantly disrupt customer workflows and cause economic losses for which could be held liable and which could damage reputation.

The trend toward outsourcing of supply chain management activities, throughout India or within specific sectors, may change, thereby reducing demand for services: FSC growth strategy is based on the assumption that the trend of outsourcing of supply chain management and other logistics services will continue, or rise, in the future to a certain extent. Third-party logistics service providers, such as FSC, are generally able to conduct supply chain management and other logistics services more efficiently than comparable in-house operations run by customers primarily as a result of expertise, implementation and adoption of technology, efficient management of operations and lower and more flexible employee cost structures. In addition, the company makes investments in storage space on the assumption of continued outsourcing of its customer's logistics needs and a reversal in that trend could result in excess storage space in its distribution centres, which could also result in higher rental costs as a percentage of revenue from operations. Furthermore, if customers change their logistics strategy by focusing on a new geographic region, this could result in having excess storage space that becomes unused.

Conditions and restrictions imposed on FSC by the agreements entered into with some of the customers could adversely affect business and results of operations: Certain of FSC's agreements with its customers impose conditions and restrictions on operations including in relation to an alteration in memorandum of association and articles of association, a change in its management and any change in control of the Company ("Restricted Activities"). It cannot be assured that it will obtain approvals to undertake any of these Restricted Activities, as and when required, or comply with such covenants or other covenants in the future. A majority of its customer contracts typically has a tenure ranging from one to three years. Further, some of its contracts may be terminated by its clients with or without cause, by giving short notice and without compensation, which may adversely affect the business. Further, in the event FSC is unable to renew its agreements within the prescribed period, or at all, this may materially affect its business and operations.

The performance of express logistics and temperature-controlled businesses may continue to decline*:* FSC's revenue from its express logistics services declined by 9.7% from Rs.1,556.33 million in Fiscal 2015 to Rs.1,405.00 million in Fiscal 2016, and further declined by 10.1% from Rs.1,405.00 million in Fiscal 2016 to Rs.1,263.00 million in Fiscal 2017. Although the decline in its revenue from express logistics services has been due to its focus on optimising its customer base to focus on providing high-margin services, it may not be able to increase its revenues from express logistics services in the level it expects, or at all. Further, its temperature-controlled logistics operations had a negative Rs.9.70 million of gross profit in Fiscal 2017. Although FSC only commenced its temperature-controlled logistics operations in Fiscal 2016 and it is continuing to develop the business, there is no assurance that it will be able to improve the performance of this business to the extent it expect, or at all.

A large portion of contract logistics operations is conducted through distribution centres in Nagpur and any damage or disruption of these distribution centres could have an effect on the business and results of operations*:* A large portion of FSC's contract logistics operations is handled through its distribution centres in Nagpur. Hence, any fires, natural disasters (such as flooding and earthquakes), acts of war, terrorist attacks, strikes and other events, many of which are beyond its control, that destroy, damage or otherwise adversely affect Nagpur distribution centres or the products stored in such distribution centres could have a material and adverse effect on its business, financial condition and results of operations. Although Nagpur distribution centres are covered by insurance with respect to such events that are beyond control, it may not be able to recover any part or all of its business disruption losses that could arise from any disruption of such distribution centres.

Dependence on third-party vendors could have an adverse effect on business financial condition and results of operations: FSC's ability to service its customers depends on the availability and costs of leased storage space, vehicles used for transport, equipment and adequate work force of independent contractors for operations. Apart from the reefer trucks used in temperature-controlled business, it do not typically own the vehicles or distribution centres used in its business. Instead, it lease its distribution centres, equipment and vehicles from third-party vendors. Further, FSC often engage independent contractors for its skilled and unskilled labour needs and, in the event that such contractors are not available, this may have a material and adverse effect on its operations. Further, if FSC is unable to procure the services of third-party vendors capable of sufficiently scaling up operations in response to increased demand from customers, it may be compelled to make capital expenditures or seek out costlier or lower quality third-party vendors to meet its needs. Any inability to secure leased spaces, equipment, vehicles or independent contractors or on attractive terms could have an adverse effect on its business, financial condition and results of operations.

All of facilities and most of FSC's vehicles used for transportation of goods are leased pursuant to longterm leases or leave and licence agreements, which may be unable to renew on satisfactory terms, or at all, or which may limit flexibility to seek new rental agreements or terms*:* All of FSC warehousing and distribution facilities are located in leased premises or have been taken on a leave and licence basis. Many of its current leases or leave and licence agreements cannot be terminated without cause, and are for terms ranging between 11 months and 15 years with lock-in periods typically between one and nine years. Further, its distribution centre in Napgur is subject to a lease term until November 2025. If its locations are no longer profitable or if there are other factors to close down a facility, it will generally remain liable to perform its obligations under the underlying lease or leave and licence agreement, which could, among other things, result in payment of rent for the balance of the rental term. FSC's obligation to continue making rental payments and fulfil other obligations under these agreements for closed facilities could have a material adverse effect on itsr business, financial condition and results of operations.

If FSC is unable to implement business and growth strategies effectively, its results of operations may be adversely affected: FSC's success depends on its ability to implement its business and growth strategies effectively. While its management typically considers potential revenues, costs and long-term sustainability when implementing its growth strategies, FSC cannot assure you that it will be able to execute its growth strategies in a timely manner, or at all, or within budget estimates or that it will meet the expectations of its customers. Its business and growth strategies will place significant demands on senior management and other resources, as well as its operational and technological advancement, and will require to develop and improve operational, financial and other internal controls. Further, its business and growth strategies may require it to incur indebtedness. FSC's inability to manage business and growth strategies could adversely affect its business, financial condition and results of operations.

FSC may not be able to continue or effectively manage expansion through investments in facilities, further technologies and other assets: FSC may seek to further expand its business by, among other things, pursuing commercially sustainable opportunities to invest in logistics facilities, technologies and other assets. However, its efforts to continue and effectively manage its expansion may not be successful. If FSC expand too rapidly, it may encounter financial difficulties in a business downturn. On the other hand, if FSC fails to expand at a sufficiently rapid pace, it may lose market share and potential customers to its competitors. Further, its ability to expand business is dependent on getting the requisite approvals and permits as well as securing ideal locations for its facilities. If FSC cannot get requisite approvals or permits or are unable to secure strategic locations for its facilities, its business and operations could be adversely affected.

FSC may be unable to effectively manage expansion through strategic acquisitions: FSC may pursue opportunities to acquire strategic businesses. Acquisitions, however, involve significant risks and Uncertainties. Furthermore, integration of newly acquired businesses may be costly and time-consuming, and each acquisition could present FSC with significant risks and difficulties in integration. FSC recently acquired a stake in Leanbox Logistics Solutions Pvt. Ltd., which uses technology to enhance last-mile delivery of goods. It cannot be assured hat this acquisition or any other acquisitions it may undertake will be successful. Its business, financial condition and results of operations could be materially and adversely affected if FSC is unable to integrate or benefit from acquisitions.

FSC's employee expense is a significant component of its operating costs*:* FSC's operations are highly dependent on skilled and semi-skilled labour. Due to economic growth in the past and the increase in competition for skilled and semi-skilled employees in India, wages in India, in recent years, has been increasing. Further, its plans to expand in order to increase growth will also result in expansion of its work force and may therefore necessitate increased levels of employee compensation. In addition, FSC may also need to increase its compensation levels to remain competitive in attracting and retaining the quality and number of skilled and semi-skilled employees that its business requires A significant long-term increase in FSC's employee benefit expense could reduce its profitability, which could, among other things, affect its growth, business and financial results.

Failure in maintaining the requisite standard for storage of perishable products stored with FSC or transported by it could have a negative effect on its business*:* In FSC's temperature-controlled logistics operations, it is required to maintain the requisite standard for storage of perishable products that it store and transport. It achieve this through various means, including by ensuring that its temperature-controlled facilities adhere to specific storage requirements as required by its customers in terms of the agreements entered into with them and deploying data loggers in its reefer trucks to ensure continuous monitoring of temperature. However, if it consistently, or frequently, fail to maintain the prescribed or requisite standards at its temperature-controlled facilities or in its reefer trucks, FSC may be unable to retain its temperature-controlled logistics customers which will have an adverse effect on its business, growth prospects and its financial results.

FSC could be adversely affected by instances of food-borne illness, as well as widespread negative publicity regarding food quality, illness, injury or other health concerns*:* Negative publicity, real or perceived, about food quality, illness, injury or other health concerns (including from lifestyle diseases) or similar issues stemming from food products FSC store or distribute for its customers in the food and beverage sector could materially and adversely affect it, regardless of whether they pertain to its own temperature controlled facilities or those operated by others. In addition, FSC cannot guarantee that its operational controls and employee training will be effective in preventing food-borne illnesses, food tampering and other food safety issues that may affect its operations. Food-borne illness or food tampering incidents could be caused by customers, employees or food suppliers and transporters and, therefore, could be outside of control.

Business is dependent on the road network in India and ability to utilise vehicles in an uninterrupted manner: The transportation and delivery services FSC provide are dependent on the road network in India. There are various factors which affect road transport such as political unrest, bad weather conditions, natural calamities, road construction, road quality, regional disturbances, fatigue or exhaustion of drivers, improper conduct of the drivers, accidents or mishaps and third-party negligence. In addition, any prolonged or significant downtime of its transportation vehicles or related equipment caused by unforeseen circumstances may cause major disruptions to its operations. In the event FSC is affected by such prolonged and significant downtime of its vehicles or equipment, its operations and financial performance may be materially and adversely affected.

FSC experiences the effects of seasonality, which may result in its operating results fluctuating significantly: Some of FSC's customer's businesses are subject to seasonality, which in turn, affects its business. As a result of such seasonality, its quarterly financial results may fluctuate significantly. Accordingly, results for any one quarter are not necessarily indicative of results to be expected for any other quarter and declines in demand during peak seasonal periods could materially and adversely affect the business, financial condition or results of operations

FSC is required to maintain various licences and permits for business from time to time*:* FSC's business is subject to government regulations and requires certain approvals, licences, registrations and permissions for operating its business, some of which may have expired and for which it may have either made or are in the process of making applications for obtaining the approval or their renewal. Such approvals, licenses and registrations elapse in the ordinary course of business and FSC makes applications for renewal as and when practicable and as per applicable law. Its failure to obtain or timely renew such licences and approvals and comply with the provisions of the applicable laws and regulations could lead to imposition of sanctions by the relevant authorities, including penalties. Furthermore, its failure to obtain or renew licences and approvals could affect FSC's ability to recover under its insurance policies.

Certain non-compliances by FS on directions issued by the Central Government may result in proceedings being initiated against the Company and affect reputation and business operations: FSC filed various applications with the Central Government for reconsideration of the appointment and payment of remuneration, along with approval to waive the recovery of remuneration paid, which were rejected by the Central Government. While FSC has initiated necessary processes in order to achieve compliance and the recovery of the remuneration paid, in the event any action is taken against the Company, this may have an adverse effect on its reputation, business and financial condition.

Inability to deliver products in a timely manner may affect its reputation and business prospects: Time is of the essence in FSC's business. Its third-party logistics operations are dependent upon timely pick-up and delivery of products that are stored in its distribution centres or that are otherwise distributed by it. However distribution of such products may be subject to delays including due to factors beyond control. Any delay in the delivery of products may result in a breach of the contract with the relevant customer and may be grounds for penalties, fines, other damages or termination of such contract. An inability to retain customers may harm FSC reputation and will have an adverse effect on its financial performance and business prospects.

FSC has in the past entered into related party transactions and may continue to do so in the future: FSC has entered into transactions with related parties. While all such transactions has been conducted on an arm's length basis and in the ordinary course of its business, there can be no assurance that it could not have achieved more favourable terms had such transactions not been entered into with related parties. Furthermore, it is likely that FSC may enter into related party transactions in the future. There can be no assurance that such transactions, individually or in the aggregate, will not have an adverse effect on its financial condition and results of operations.

Transportation operations depend on ability to generate sufficient transportation volumes to achieve acceptable profit margins or avoid losses: FSC transportation operations are dependent on the availability of sufficient transportation volumes to achieve acceptable margins and avoid losses. The high fixed costs that are typical in transportation operations do not vary significantly with variations in transportation volumes, and a relatively small change in transportation volumes or the prices FSC charge to its customers could have a significant effect on its results of operations

Political instability or changes in the Indian central government could adversely affect economic conditions in India and consequently, business: FSC is incorporated in India and currently derives all of its revenues from operations in India and all of its assets are located in India. Consequently, its performance and the market price of the Equity Shares may be affected by interest rates, government policies, taxation, social and ethnic instability and other political and economic developments affecting India. Any slowdown or perceived slowdown in the Indian economy, or in specific sectors of the Indian economy, could adversely affect the business, results of operations and financial condition and the price of the Equity Shares.

If inflation rises in India, increased costs may result in a decline in profits: Inflation rates in India has been volatile in recent years, and such volatility may continue. Increasing inflation in India could cause a rise in the costs of transportation, fuel, rent, wages, raw materials and other expenses. If FSC is unable to increase revenues sufficiently to offset increased costs due to inflation, it could have a material adverse effect on its business, prospects, financial condition, results of operations and cash flows.

Profit & Loss **Rs in million**

Particulars	H1FY18	FY17	FY16	FY15
Revenue from Operations	3574.2	5611.8	5198.7	4079.6
Other Income	77.9	158.1	86.0	27.6
Total Income	3652.0	5769.9	5284.7	4107.2
Total Expenditure	3012.3	4869.0	4499.3	3440.2
Cost of Logistics Services	2371.5	3752.8	3387.5	2616.8
Employee benefits expense	328.2	565.5	543.8	438.6
Other Expenses	312.6	550.8	568.1	384.9
PBIDT	639.7	900.9	785.4	667.0
Interest	43.3	127.6	132.6	103.3
PBDT	596.4	773.3	652.8	563.7
Depreciation	102.0	191.4	206.9	195.2
PBT	494.4	581.9	445.9	368.5
Exceptional items	0.0	0.0	0.0	2.8
Tax (incl. DT & FBT)	161.1	124.4	151.7	119.1
Tax	154.0	135.3	128.8	69.0
MAT credit entitlement	0.0	0.0	0.0	22.0

Deferred Tax	7.0	-10.9	22.9	72.2
Adj. Profit	333.3	457.5	294.3	246.6
EPS (Rs.)	8.52	11.7	7.5	6.3
Equity	391.4	391.4	391.4	391.4
Face Value	10.0	10.0	10.0	10.0
OPM (%)	15.7	13.2	13.5	15.7
PATM (%)	9.3	8.2	5.7	6.0

Balance Sheet: **Rs in million**

Particulars	H1FY18	FY17	FY16	FY15
Equity & Liabilities				
Shareholders Funds	**3260.5**	**2928.1**	**2472.4**	**2177.8**
Equity Share Capital	391.4	391.4	391.4	391.4
Other Equity	2869.2	2536.7	2081.0	1786.4
Non-Current Liabilities	**431.4**	**882.3**	**593.3**	**257.5**
Non-Current Borrowings	276.1	735.4	442.8	136.8
Provisions	30.3	26.5	19.1	16.2
Other non current liabilities	17.0	19.6	19.6	15.7
Deferred Tax Liabilities (Net)	108.0	100.9	111.8	88.9
Current Liabilities	**2065.1**	**1284.6**	**1771.3**	**1438.3**
Borrowings	520.8	0.0	360.2	382.9
Trade payables	1062.8	977.9	1082.6	814.2
Other Current Financial Liabilities	255.0	199.1	169.2	212.2
Other current liabilities	128.0	106.6	156.1	26.1
Provisions	98.5	1.1	3.4	2.9
Total Equity & Liabilities	**5757.0**	**5095.0**	**4837.0**	**3873.6**
Assets				
Non-Current Assets	**2415.7**	**2231.4**	**1743.0**	**1733.5**
Property, Plant And Equipment	2,074.65	1287.8	1370.8	1461.7
Intangible assets	9.3	9.7	13.4	27.9
Capital work in progress	4.5	698.1	18.3	12.9
Financial Assets				
Investments	100.0	0.0	0.1	0.1
Other Financial Assets	227.3	227.3	250.9	151.8
Other Non-Current Assets	0.0	0.0	0.1	0.1
Income Tax Assets(Net)	0.0	8.6	89.5	79.0
Financial Assets	**3341.3**	**2863.6**	**3094.0**	**2140.1**
Investments	0.1	0.1	0.0	0.0
Trade Receivables	2501.7	2167.1	2211.2	1819.1
Cash and Cash Equivalent	638.1	466.8	14.8	20.8
Bank Balances other than Cash and Cash Equivalent	3.4	3.3	4.7	4.2
Other Financial Assets	53.6	60.7	789.1	222.4
Other Current Assets	144.3	165.7	74.2	73.6
Total Assets	**5757.0**	**5095.0**	**4837.0**	**3873.6**

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