sbicap securities
A Tradition of Trust

03 April 2017

Initiating Coverage | Sector: Logistics

Retail Research I BUY

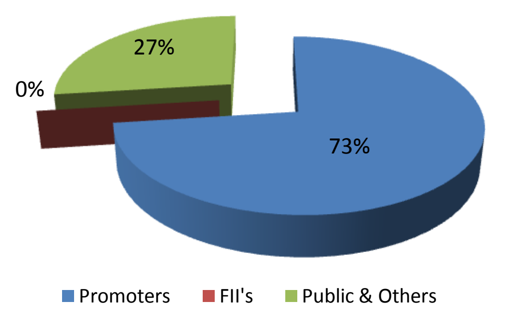
Tiger Logistics (India) Ltd.

Current Price	**Rs.**	**216**
Target Price	**Rs.**	**275**
Upside	**%**	**27**

STOCK DATA

BSE Code	536264
Bloomberg Code	TGLI IN
52 Week High / Low (Rs.)	304 / 138.10
Face Value (Rs.)	10
Diluted Number of Shares (Crore.)	1.057
Market Cap. (Rs Crore.)	228.84
Avg. Daily Volume (BSE)	26700

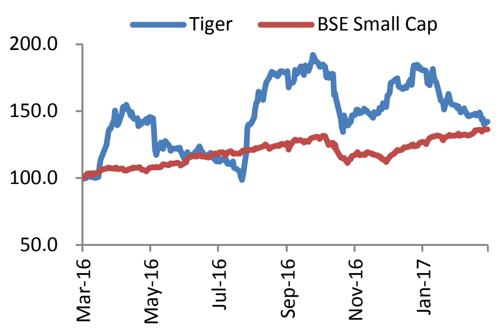
SHAREHOLDING PATTERN - December 2016(%)



RETURNS STATISTICS (%)

Particulars	1W	1M	3M	YTD
Tiger	-4.6	-7.8	-12.1	42.1
BSE Small Cap	0.1	3.4	20.1	36.2

Stock Performance (1-year)



We initiate coverage with a BUY rating on Tiger Logistic (Tiger) with a target price of Rs 275 giving an upside potential of 27%. Growing revenues at +25% CAGR over the past 5 years, we foresee Tiger almost doubling its NPM to 4.7% by FY19e in a span of 5 years.

Tiger is one of the country's leading providers of end-to-end supply chain solutions. Incorporated in 2000, Tiger entered into logistic space with a prime focus on international logistics. The company currently operates as International Freight Forwarders, Custom Clearance Agents, Transporters, Custom Consultants and Project Transportation Specialists with no geographical boundaries. The company therefore has well a diversified horizontal business spread. Moreover, with no client contributing more than 17% of the top line, the business is also vertically well spread with reduced dependence of revenue on any single client. Company operates in 3 segments of a) Multimodal logistic; which account for approx 55% of total revenue, b) Transportation; which accounts for around 20% & lastly c) Custom House Agent; which accounts for rest of the pie. Majority of its revenues is sourced from sectors like Automobiles, Project logistics, Commodities, Defence & Others.

Valuation

Our valuation is based on average of 3 methods. We have used the average of Ben Graham Formula and Relative ratios to arrive at our target price of Rs 275.

We have valued Tiger at a P/E of 20x of its FY18e earnings estimate. This valuation we believe is on conservative side as average of industry is way above it at 22.8.

We have also valued Tiger at an EV/EBITDA multiple of 12x on its FY18e EBITDA estimate.

FINANCIAL SUMMARY

Particulars	FY14	FY15	FY16	FY17E	FY18E	FY19E
Net Sales (Rs Mn)	1474.8	2458.2	2534.4	2960.4	3395.5	3870.8
Growth (%)	*20.7*	*66.7*	*3.1*	*16.8*	*14.7*	*14.0*
EBITDA (Rs Mn)	67.9	109.5	132.7	172.3	237.9	287.4
Adj PAT (Rs Mn)	39.0	57.8	72.9	105.1	150.4	182.5
Adj EPS (Rs)	3.7	5.5	6.9	9.9	14.2	17.2
BVPS (Rs)	25.9	27.9	34.8	44.8	59.0	76.3
EBITDA Margin (%)	4.6	4.5	5.2	5.8	7.0	7.4
Net Margin (%)	2.6	2.4	2.9	3.5	4.4	4.7
ROCE (%)	27.6	30.0	30.5	32.8	35.5	33.8
ROE (%)	17.9	20.3	22.0	24.5	27.4	25.5
P/E (x)	58.9	39.7	31.5	21.8	15.2	12.6

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Company Description

Incorporated in year 2000 the company entered into logistic space with a prime focus on international logistics. Based out of Delhi it has over the period emerged as one of the leading 3rd party logistic (3PL) service providers in the country. Further, it has recently received certification from Indian Customs as Authorized Economic Operator (AEO). Since its incorporation it has successfully managed to build a strong network of agents and partners all over the world with offices in Dubai and Singapore. With an existing base in northern and western India and plan to expand in southern and eastern India, it is uniquely poised to scale up its business to new heights.

The company currently operates as International Freight Forwarders, Custom Clearance Agents, Transporters, Custom Consultants and Project Transportation Specialists with no geographical boundaries. Company provides end-to-end services in entire supply chain space which includes pre-shipment inspection, packaging as well as delivering of goods to client's doorstep. Company deals extensively in Full Truck Load and as majority of its revenue is generated from multimodal operations it gives company enough headroom to cater to lesser number of customers. Multimodal operations also ensure more customer loyalty as customer will have to deal with only one service provider.

Company operates in 3 segments of a) Multimodal logistic; which accounts for approx 55% of total revenue, b) Transportation; which accounts for around 20% & lastly as c) Custom House Agent; which accounts for rest of the pie. Majority of its revenues is sourced from sectors like Automobiles, Project logistics, Commodities, Defence & Others. Company earns ~80% revenues from EXIM business where it enjoys more customer loyalty as the business is involves a fair degree of expertise.

Tiger enjoys long term relationship with its clients. Their current clientele include some well reputed brands like Hero, LG, TVS, Bajaj, Piaggio, Escorts, BHEL, Praj, Lloyd, Inox Wind, Milton, New Holland, Sterlite, ABB, Welspun, etc.

Industry Overview

Currently the annual logistics cost of the world is estimated at about US$ 3.5 trillion. India spends around 14.4% of its GDP on logistics and transportation as compared to less than 8% by the other developing countries as per 'The Associated Chamber of Commerce & Industry of India'. Indian logistics industry is expected to grow at a CAGR of around 9% between 2015 and 2020. Indian freight transport market is expected to grow at a CAGR of 13.35% by 2020 driven by the growth in the manufacturing, retail, FMCG and e-commerce sectors. Freight transport market in India is expected to be worth US$ 307.70 billion by 2020. As of now the 3PL activity is limited to only few industries like automotive, IT hardware, telecom and infrastructure equipment and is widely expected to grow.

In developing countries like India, an efficient logistics infrastructure can reduce the cost of transportation which in turn can contribute directly to economic development. However, India lags behind several other countries in the global setup in terms of logistics infrastructure and services. Inadequate infrastructure is the major bottleneck impacting the development of logistics and the efficient movement of cargo in the country. However, investments in the logistics sector in the form of Port infrastructure development, Dedicated Freight Corridors, development of national highways, expansion of the reach of the Railways will play a central role in the future of this industry. According to the survey conducted by the Transport intelligence in 2013, India ranks as the second most attractive logistics market in the future after China. In India, about 110 new logistics parks are expected to be operational with an estimated cost of US$ 1 billion. Hence, India offers huge opportunities in development of logistics services including warehousing, cold storage, shipping, ports and multi modal transportation, etc.

Macro Factors

As research suggests, logistic industry has a strong positive correlation with economic activity.

From the overall market trend and Macro economic analyses it can be understood that the overall macro factors are in favor of logistics.

Infra spending to help in reduction of logistic cost

Increase in infra spending in ports, airports, and other logistics parks as well as domestic demand growth and increase in trade will directly improve the operational efficiency and will help in improving overall operational margin by directly impacting the operating cost of the business.

'Make in India' to boost manufacturing sector

Country's focus on manufacturing will lead to improvement in economic activity. Government's aggressive 'Make in India' initiative and policy which are focused on boosting manufacturing sector of the country will help in generating higher business from existing business as well as in building larger customer base.

Revival in investment cycle

Overall at macro level there will be revival in investment cycle especially with predicted growth rate of Indian economy which is touted as one of the highest in the world. Also, due to government initiative and infra spending, private business participation is expected to rise even as investor's sentiment is likely to improve, leading to higher investments in economy. Further, due to increase in project spending, the company will be directly benefited as they are one of the few players who have expertise in project logistics.

GST rollout

The much awaited GST roll out which is set to benefit overall logistic industry at operational front is expected to be implemented in FY18. It is likely to help organized players with pan India presence gain benefit as compliance across the country will be simplified transforming operational efficiencies. The implementation of GST is expected to trim the logistics costs by around 20% from the current levels. Due to simplification of tax structure an organized player like Tiger logistics can emerge as a major player spanning the entire logistic chain. Post GST, the company will be able to focus on integrated warehouses at logistic-suitable locations rather than tax-suitable location.

About Management

Mr. Harpreet Singh Malhotra is first generation entrepreneur graduate from Delhi University who started the company back in year 2000 with 8 people. He was previously associated with Hero MotoCorp & Specialized in international logistics. He was instrumental in bringing BMW bikes to India. He has grown his team to 300 employees and has made several successful associations across the globe. Company under his leadership has received various awards & recognition.

Investment Rationale

Asset light business model helps in earning better returns

One of the company's main attractions from investor perspective will be its asset light business model resulting in better Return on Capital Employed and Return on Equity. Logistic industry being fragmented, company does not face problem in arranging for logistic facility with 3rd party, thus reducing risk & need to own assets all by themselves. Overall capital investment is low and any investment by the company will be directly in working capital thereby ensuring improved overall business profitability allowing the company focus on its core competency and core operations alone. Even during low growth period due to its lower capital investment its profitability will be less impacted as compared to its peers.

Focus on new areas

As per the company's expansion plan, they are expected to explore new areas of business to improve profitability and generate higher value for the business.

Entering new domestic markets:

The company presently generates its business largely from international logistics. Hence, moving forward, the company is expected to develop its domestic business especially given the domestic demand growth. Keeping in line with the company's strategy they will expand its business in southern and eastern India and is expected to have four new branches by FY18.

Higher focus on defence logistics

Company's other focus will be defence logistic as 10% of overall revenue is generated from defence logistic space. Defence logistics has a big business potential for the company due to huge spending by the government. It being a difficult space to enter as there are various compliances and other barriers, the company draws upon its experience and unique position to capitalize on the opportunity. Some of the achievements of company in the defence area are:

- Ashok Leyland trucks under United Nations peace mission, a help from India to Afghanistan during Afghanistan War, exported by Tiger Logistics in the year 2001.

- Airborne Warning and Control System (AWACS) aircraft import from Israel to India for Indian Air Force in the year 2009.
- Aircraft EMB – 1451 import (two times) from Brazil to India for DRDO (Defence Research and Development Organization) India in the year 2012.

Improve Import Logistics Revenue Share

The company's main forte is international logistic out of which primary business is generated from export logistic. Moving forward the company wants to improve the share of business generated from import logistic business and keeping in line with the same they have opened offices in Dubai and Singapore.

Leveraging Brands and AEO Status

The company has developed a credible and marketable brand over the period in its journey so far with its consistent focus on quality. In fact it has been awarded ISO 9001:2008 certification for 'quality measures' i.e. quality control management system by BVQI (Bureau Veritas Quality International) Norway. Further, the company has also been conferred with "World's Greatest Brand, 2015 -Asia & GCC" in the service category and has won several other awards reinforcing the trust and quality in its brand in logistic space. The company has also managed to build a massive network of agents and partners in foreign as well as domestic space. The company by leveraging its brand on the back of its new status as an Authorized Economic Operator will accrue following benefits -

- Waiver of bank guarantee for logistics service providers, custodians or terminal operators and customs brokers.
- Exemption from permission on case to case basis in case of transit of goods thus shortening delivery time.
- Waiver from fee for renewal of license for custom brokers.

By reaping the above benefits the company will be able to manage its working capital more efficiently and tap in lot of new business opportunities in largely unexplored logistic space

The quality of the service provided by the company has been reflected in the form of awards such as in year 2015 -16 "World's Greatest Brands of Asia & GCC®", by the process reviewer Price Waterhouse Coopers India (PWC India). The company recently has been certified as Authorized Economic Operator which gives company certain operational benefits. Most recently company has been awarded with fastest growing logistic player in Gujarat from EXIM.

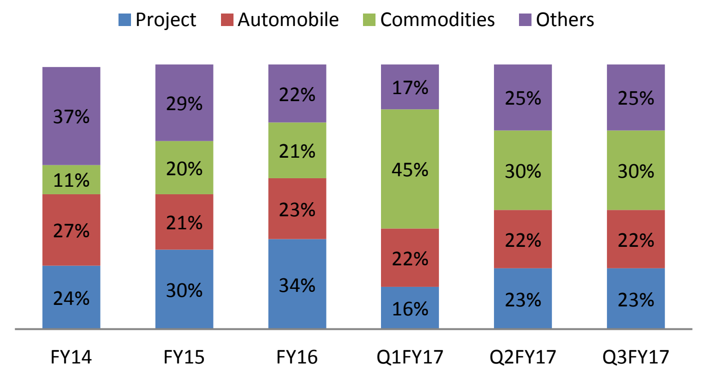
Well diversified business portfolio

The company has well diversified operational portfolio. Revenue of company comes from various industries namely:

- Capital goods (project logistic) contributing around 34% for the year ended FY 16,
- Automobile contributing around 23%,
- Commodities around 20%,
- Defence around 10%, &
- Other areas contributing the rest.

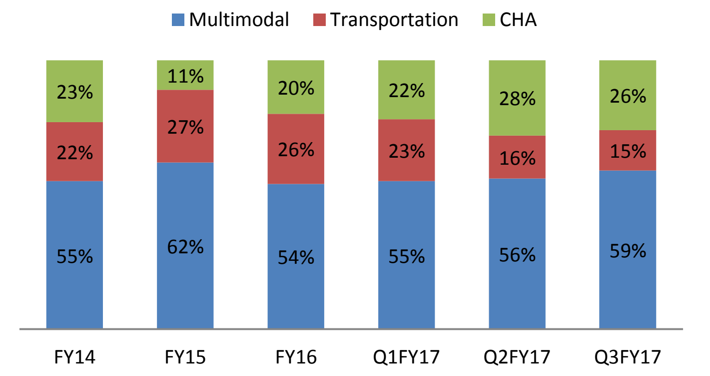
Segment wise company's revenue of around 54% is contributed by Multimodal segment which allows company to enjoy brand loyalty as majority of clients won't be comfortable dealing with too many vendors. Around 20% is contributed by Clearing business & rest from transportation. Thus, because of diversification and large area of operations, the company has managed to diversify its risk and has managed to insulate itself to a large extent from industry cycles.

Industry wise Revenue Composition



Source: Company / SSL Research

Segment wise Revenue Composition



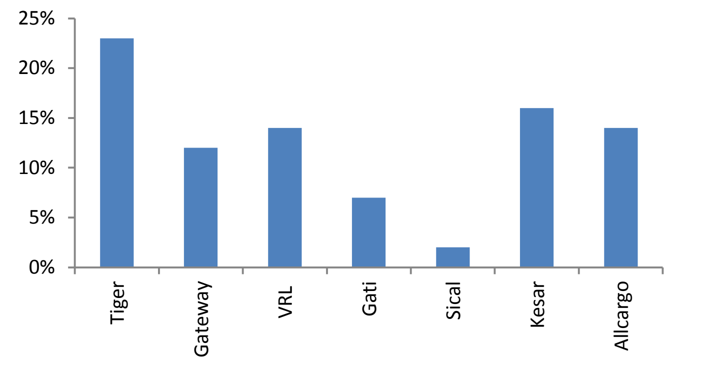
Source: Company / SSL Research

Past performance

Past performance of the company instills a sense of confidence & belief about the future prospects of company. Company's top line has grown at a CAGR of 23% in last 5 years, whereas company's operating profits have grown at a CAGR of 24% during same period which highlights its margin improvement efforts. This growth is far above industry average for the same period. The growth in top line is driven by growth in volumes. However, realization per TEU's has declined due to competitive scenario.

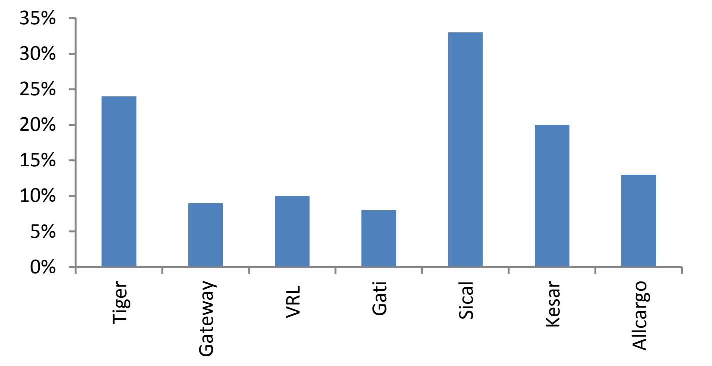
Peer comparison:

Sales Growth (Last 5 year CAGR)



Source: Company / SSL Research

Operating profit (Last 5 year CAGR)



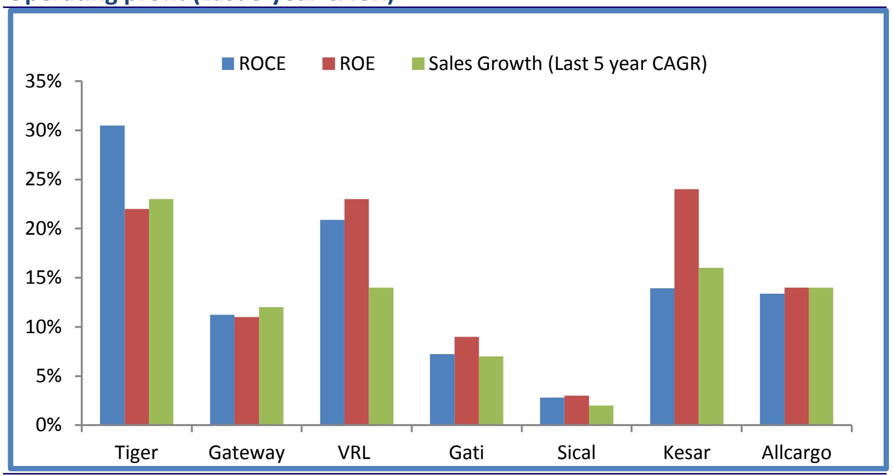
Source: Company / SSL Research

Particulars	Tiger	Gateway	VRL	Gati	Sical	Kesar	Allcargo
Market cap (Rs Cr)	227.8	2753.0	2839.0	1238.9	1458.9	211.0	4146.0
Sales Growth (Last 5 year CAGR)	23%	12%	14%	7%	2%	16%	14%
Operating profit (Last 5 year CAGR)	24%	9%	10%	8%	33%	20%	13%
PAT (Last 5year CAGR)	25%	2%	14%	20%	15%	25%	11%
ROCE	31%	11%	21%	7%	3%	14%	13%
ROE	22%	11%	23%	9%	3%	24%	14%
Debt/Equity	0.3	0.2	0.8	0.9	1.8	1.6	0.3
EV/EBITDA	12.1	12.0	13.1	9.7	12.7	11.4	7.6
P/E (TTM)	25.0	44.0	36.2	34.5	44.8	13.5	17.4

Source: Company / SSL Research

As compared to its peers, Tiger has outperformed in terms of revenue and PAT growth. Tiger has a competitive ROCE and ROE. It has high growth potential, majorly because of its higher focus on international logistics and its potential business growth from import logistic. Growth for Kesar Terminal, we believe, may be capped at lower bands as to grow exponentially it will requires huge capex to build terminals. The company has been growing at a CAGR of 23% over the last five years and has been recently awarded as the "Fastest Growing Logistics Company of the year" for Gujarat region organized by EXIM India.

Operating profit (Last 5 year CAGR)



Source: Company / SSL Research

Key Assumptions

- Roll out of GST & impact of GST has not been considered for forecast.
- Working capital cycle is assumed to remain at current levels.
- Tax rate is considered at 35% as no tax benefit is there and no major contingent claim is left.
- It is assumed that company shall remain asset light, thus no major asset purchase is considered.
- No assumption of any inorganic growth is considered which could be the plan of company's expansion.
- No assumptions of company entering in PCL which could be the plan of company's expansion.
- No major Economic change which will adversely impact the company.

Risk & other downsides

- Fragmented and unorganized sector which has huge inefficiencies and stunts seamless operations.
- Company operates in the 3PL space with asset light model which increases its dependency on other logistic player for operational support hence increasing the company’s operational risk. Company could possibly face competition from its own vendor, if the vendor decides to do backward integration, which will reduce company’s bargaining power.
- Company largely deals in international logistic and therefore faces risk of change in foreign regulation & policy.
- There is no entry barrier in the industry, which could increase number of players thus reducing market share of company keeping market base constant.
- Because of recent demonetization there has been effect on demand which can create temporary slowdown in overall economic activities & long term impact that is yet unknown. This could lead to slowdown of industry for an unexpected period.
- Company’s cost are to a large extent correlated with infrastructure of the country and any delay in infra projects and non-conducive infrastructure can impact the cost structure of the business and negatively impact company’s margins.
- Raising working capital & debtors collection days could be risk to the thesis. Inability of company to manage its debtor days, or in worse case inability to recover the amount, will affect bottom line directly & even could lead to rise in legal expenses thus eventually impacting bottom-line.

Valuation:

The standard of value used for this report is fair value and range of valuations are estimated by utilizing Ben Graham formula for arriving at target price as well as relative valuation methodology of Price to Earnings ratio and Enterprise Value to EBITDA.

The basis of information is projected financial statement:

Methods for valuation are as follows:

Ben Graham Formula = (EPS*(Average P/E+2*growth)*yield on High grade bond)/Bond yield on G.sec

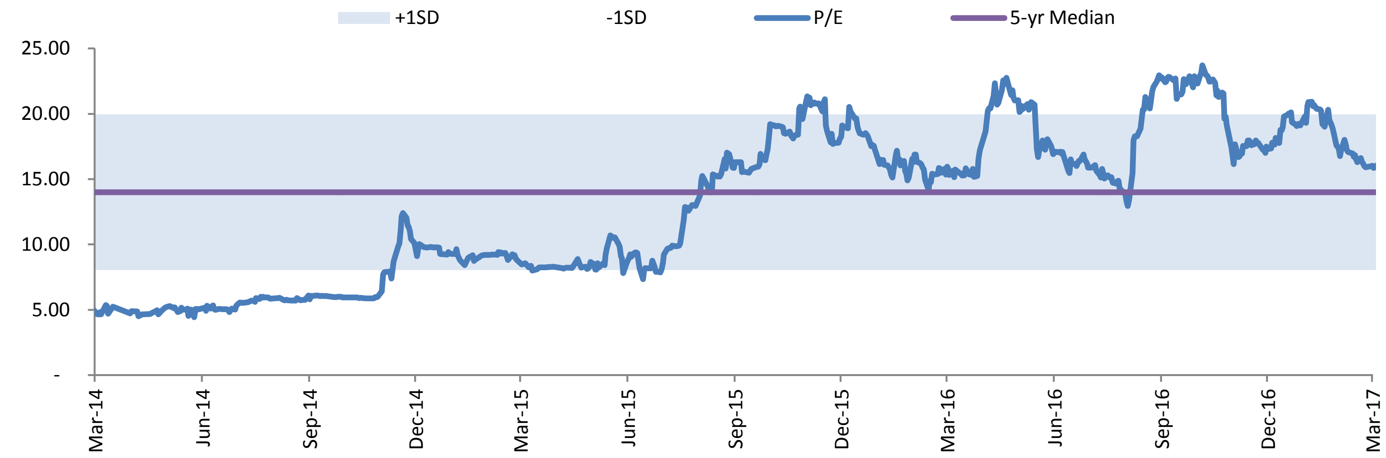
The above formula gives price target of Rs 257 with EPS of that of FY18, average P/E of 17 & average growth for industry taken to be 13 as economy is expected to grow around 7-8% by FY20. Yield on high grade corporate bond is taken to be 7.0% whereas yield on G.sec bond is to be taken as 6.7%.

Price to Earnings multiple: Considering Company's past growth record, achievements history, overall business model & expansion plan we propose a fair P/E of 20. Average P/E for growth companies is around 23. We prefer to be little conservative for company to report its further quarter's number. However we do not expect any contraction in P/E below the expected level. P/E multiple of 20 along with EPS of FY18 gives price target of Rs 285.

EV/EBITDA: With EV/EBITDA multiple of 12 which is lower than average EV/EBITDA multiple of industry which is around 15. The target price of company based on FY18 EBITDA comes to around 292. We believe this figure to be conservative.

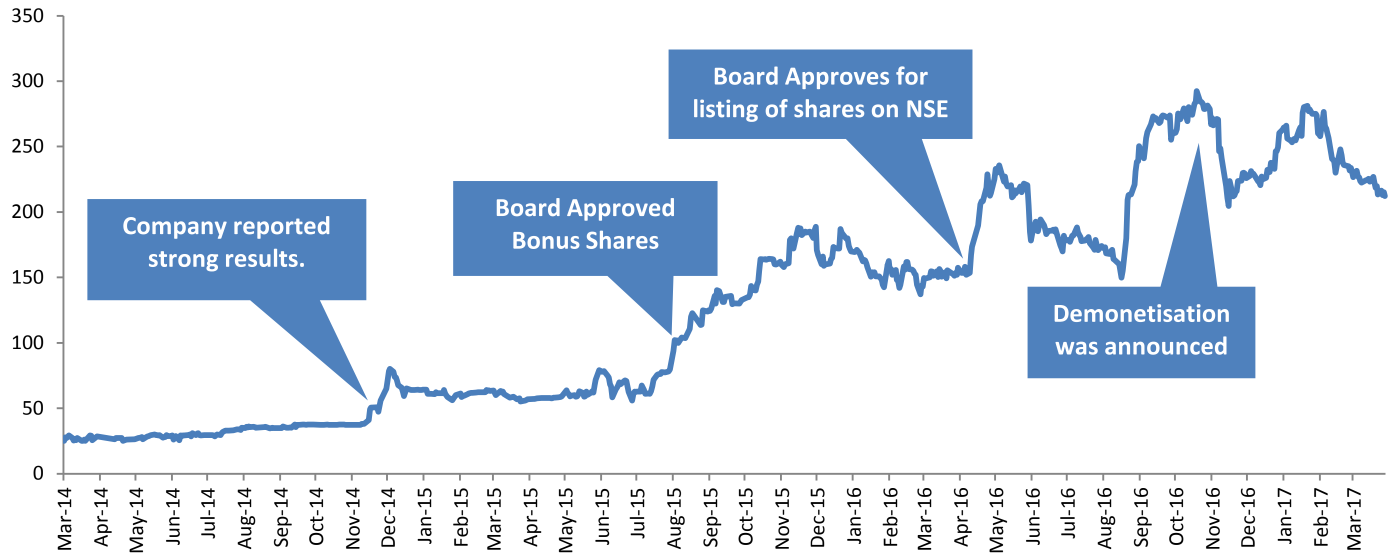
The average of above 3 methods gives a target price of Rs 275 which is around 27% up from CMP.

1 year Rolling Forward P/E Chart



Source: Company / SSL Research

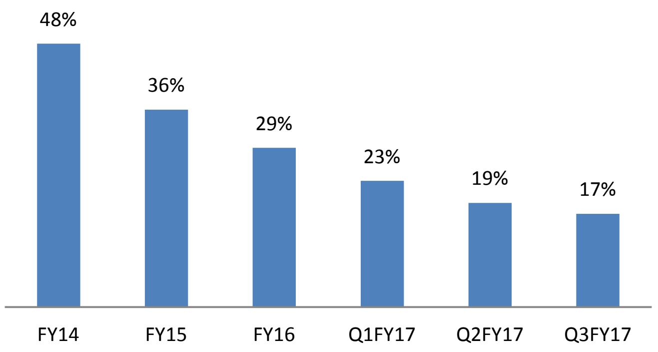
Stock Price Chart



Source: Company / SSL Research

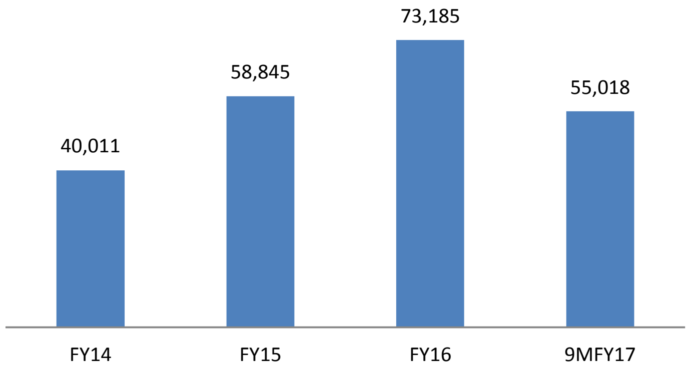
Financial Charts

Top 5 Customers contribution to revenue



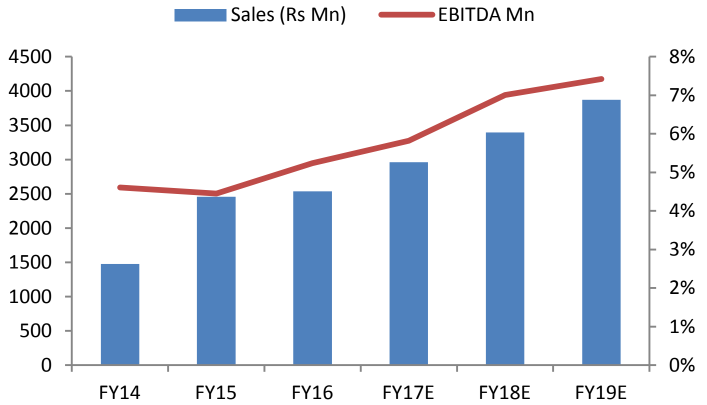
Source: Company / SSL Research

Twenty Feet Unit's (TEU's) volume



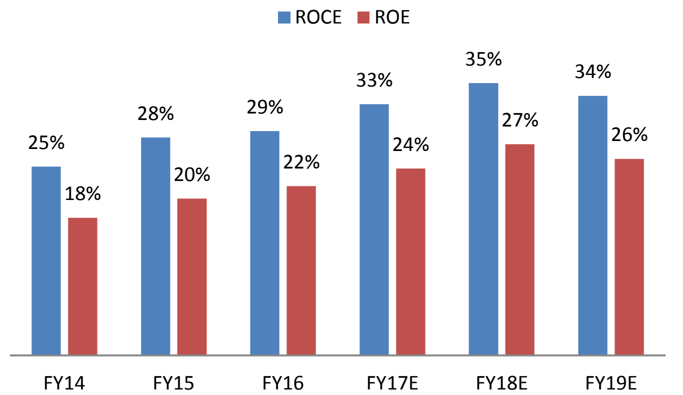
Source: Company / SSL Research

Sales top line Growth



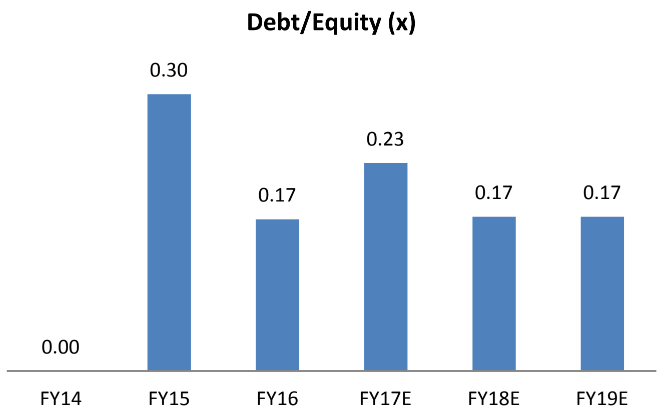
Source: Company / SSL Research

Return Ratios



Source: Company / SSL Research

Comfortable Leverage Position



Source: Company / SSL Research

Financial Statements

Income Statement

Figures in Mn.

Particulars	FY15	FY16	FY17E	FY18E	FY19E
Revenue from operations	2,458.2	2,534.4	2,960.4	3,395.5	3,870.8
% Change	67%	3%	17%	15%	14%
Other Income	6.1	6.6	3.0	3.0	3.0
Total Income	**2,464.3**	**2,541.0**	**2,963.4**	**3,398.5**	**3,873.8**
Less: Expenditure					
Freight, Document charges paid	2,227.1	2,237.0	2,576.8	2,920.1	3,309.6
Employee Benefit Exp	79.8	108.1	153.0	166.3	196.4
Other Expn	47.9	63.2	61.3	74.1	80.5
EBITDA	109.5	132.7	172.3	237.9	287.4
EBITDA Margin (%)	4.5	5.2	5.8	7.0	7.4
Depreciation	10.2	7.5	4.6	3.3	2.5
EBIT	99.3	125.2	167.8	234.6	284.8
Finance Cost	1.4	3.2	4.2	3.2	4.10
PBT & before exceptional item	97.9	122.0	163.6	231.5	280.8
Exceptional item	13.4	-			
PBT	84.5	122.0	163.6	231.5	280.8
Total Tax	26.6	49.1	58.5	81.0	98.3
PAT	57.9	72.9	105.1	150.5	182.5
PAT Margin (%)	2.4	2.9	3.6	4.4	4.7
Nos. of shares O/S	10.6	10.6	10.6	10.6	10.6
EPS	5.5	6.9	9.9	14.2	17.3
% Change	48.3	26.1	44.1	43.2	21.3

Balance Sheet

Figures in Mn.

Particulars	FY15	FY16	FY17E	FY18E	FY19E
Liabilities					
Share capital	42.3	105.7	105.7	105.7	105.7
Reserves & Surplus	252.9	262.5	367.5	518.0	700.5
Networth	295.2	368.2	473.2	623.7	806.2
Total Debt	89.8	61.4	108.2	105.8	136.7
Long-term provisions	7.0	9.3	10.6	10.6	10.6
Total Non-Current Liabilities	96.8	70.7	118.8	116.4	147.3
Trade payables	216.1	292.7	336.0	384.0	453.4
Other current liabilities	62.4	39.6	44.7	44.7	44.7
Short-term provisions	10.0	18.3	16.8	16.8	16.8
Total Current Liabilities	288.5	350.6	397.5	445.5	514.8
Total Liabilities	**680.5**	**789.5**	**989.5**	**1,185.6**	**1,468.4**
Fixed Assets	29.5	31.7	39.6	36.3	33.8
Non Current Assets	5.5	7.7	8.4	8.4	8.4
Non-current investments	0.5	0.5	0.5	0.5	0.5
Deferred tax assets (net)	2.7	4.0	4.6	4.6	4.6
Long-term loans and advances	2.3	3.3	3.2	3.2	3.2
Total Current Assets	645.4	750.16	941.5	1,140.8	1,426.1
Trade receivables	568.3	672.0	747.4	791.5	902.2
Cash & Bank balance	48.8	69.7	185.3	340.5	515.1
Short-term loans and adv.	22.9	1.7	-	-	-
Other Current Asset	5.4	7.2	8.8	8.8	8.8
Total Assets	**680.5**	**789.5**	**989.5**	**1,185.6**	**1,468.4**

Source: SSL Research

Ratios

Particulars	FY15	FY16	FY17E	FY18E	FY19E
% Growth					
Topline	67%	3%	17%	15%	14%
EBIDTA	69%	22%	34%	39%	21%
Net profit	60%	28%	54%	44%	22%
Per Share Value					
EPS (Rs)	5.5	6.9	9.9	14.2	17.3
CEPS (Rs)	6.4	7.6	10.4	14.5	17.5
BV (Rs)	27.9	34.8	44.8	59.0	76.3
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Valuations					
P/E (x)	39.5	31.3	21.5	15.2	12.5
P/CEPS (x)	33.6	28.4	20.6	14.8	12.3
P/Bv (x)	7.7	6.2	4.8	3.7	2.8
Mkt Cap / Sales	0.9	0.9	0.8	0.7	0.6
EV / Sales (x)	0.9	0.9	0.7	0.6	0.5
EV/EBIDTA (x)	21.0	17.1	12.8	8.6	6.6
Profitability / Returns / Liquidity					
OPM %	4.0%	4.9%	5.7%	6.9%	7.4%
NPM %	2.4%	2.9%	3.5%	4.4%	4.7%
ROCE	30.0%	30.5%	32.8%	35.5%	33.8%
ROE	20.3%	22.0%	24.3%	27.4%	25.5%
Receiviables (Days)	64.9	89.3	92.1	85.0	85.0
Payable (Days)	29.8	41.5	52.1	48.0	50.0
D/E (x)	0.3	0.3	0.2	0.2	0.2

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