

Logistics | India

IPO | 09 August 2023

TVS Supply Chain Solutions

Global Supply Chain Solutions Provider

About the Company

TVS Supply Chain Solutions (TVSCS), part of the TVS mobility group is one of the fastest growing integrated supply chain solutions provider managing large and complex supply chains across multiple industries in India and select global markets through customized tech-enabled solutions. TVSCS provide solutions and services to meet the customers' supply chain management and logistics requirements spanning the entire value chain from sourcing to consumption and include sourcing and procurement, transportation, in-plant logistics, aftermarket fulfillment, ocean and air freight forwarding, spare parts logistics and engineering support. TVSCS global customers included 72 'Fortune Global 500 2022' companies, while Indian customers included 25 'Fortune Global 500 2022' companies.

Strong Diversified Revenue Segment Adapting Technology, Process and Domain Capabilities

TVSCS offers its services in two segments namely integrated supply chain solutions (ISCS); and network solutions (NS). The company's client list includes companies in the Automotive, Defence, Engineering, FMCG, Rail, FMCG, Utilities, E-commerce, and Healthcare industry. They have developed long-term relationships with a number of their clients, which has provided resilience to their revenue and profitability and some of their customers spans out for 7-15 years average..

Superior Growth Ahead

TVSCS operate at the forefront of a rapidly expanding logistics industry in India that is expected to grow to US\$385 billion by Fiscal 2027 at a CAGR of 13% from US\$205 billion in Fiscal 2022 according to the Redseer Report. Growth will be primarily driven by strong underlying economic growth led by domestic manufacturing, consumer spending, urbanization, favorable regulatory environment, digital economy and improvements in India's transportation infrastructure as well as Government initiatives such as 'Make in India', production linked incentives (PLI) schemes and government tenders for domestically manufactured goods and the continued geographical diversification by global companies of their logistics needs to reduce dependence on China.

The global 3PL market is a highly fragmented, underpenetrated market with abundant growth potential. In 2021, 3PLs accounted for US\$1.37 trillion (or 12.2%) of total global logistics cost at US\$11.3 trillion which was up from 10% in pre-pandemic 2019. The top 50 global 3PLs with 2021 revenues ranging from US\$2.7 billion to US\$40.8 billion, only account for just over a third of the global 3PL market. This provides ample room for 3PLs such as TVS Supply Chain Solutions to continue to grow and scale the ranks in global supply chain management and aims to become among the top 50 players globally in the next few years.

TVSCS provide specialized solutions to reduce complexity in our customers supply chains by using technology, data analytics and execution experience building tailor-made solutions. It applies technology to each key part of the supply chain to enable three key advantages to existing traditional supply chains: flexibility, intelligence, and efficiency.

Financials in Brief

On the financial front, TVSCS reported a total income of Rs6933.6 Crs, Rs9249.7 Crs and Rs10235.3 Crs for FY21, FY22 and FY23 respectively. It reported ebitda of Rs 442.3 Crs, Rs667.1 Crs and Rs706.6 Crs for the aforementioned periods respectively. For FY23, TVSCS has recorded EPS of Rs.1 recovering to profitability from the loss it reported in the previous years.

Our View

TVSCS operates an asset light business model and operates through leases with its network partners and clients. It has a long and consistent track record of successful integration of 20 acquisitions supplementing their operations to support capabilities and customer acquisition. The margin trend is improving y-o-y and expected to smoothen further as the company is focusing on C3 framework – Customer, Capability and Country with outsourcing trend and presence in high growth sectors. **The issue is priced at 10.5 times based on its NAV of 18.89 as of 31 Mar 2023 and with good legacy parentage, tech enabled and process driven solution company and retirement of debt from IPO proceeds to improve net margins, we recommend a SUBSCRIBE to the issue for long term rewards.**

SUBSCRIBE 

IPO Details

Price Band (Rs)	187-197
Face Value (Rs)	1
Issue Open/Closing Date	10-Aug-23/14-Aug-23
Fresh Issues (mn)	30.46
OFS (mn)	14.21
Total Issue (mn)	44.67
Minimum Bid Qty. (Nos)	76
Issue Size (Rs bn)*	8.80
QIB / HNI / Retail	75%/15%/10%
Implied Market Cap (Rs bn)*	87.5

*At higher band

Object of the Issue

- ▶ Repayment of outstanding borrowings
- ▶ General Corporate Purposes

Strengths

- ▶ Reputed business group and experienced management team.
- ▶ A truly global multinational providing supply chain solution in various continents of the world.
- ▶ Diversified revenue base across industries.
- ▶ Long term renewal relationship with customers.
- ▶ Logistics industry to grow at 13% CAGR over the next few years.

Key Risk

- ▶ 70% of revenues are from global operations, slowdown in global trade could impact revenues
- ▶ Unorganised and competitive industry
- ▶ Foreign exchange rate fluctuations could hamper margins.

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	46.7	43.4
Others	53.4	56.6

Key Financials

(Rs Cr)	FY21	FY22	FY23
Revenue	6,934	9,250	10,235
EBITDA	442	667	707
EBITDA Margin (%)	6.4	7.2	6.9
PAT	(76.3)	(45.8)	41.8
PAT Margin (%)	(1.1)	(0.5)	0.4
EPS (Rs)	(2.3)	(1.4)	1.0
RocE (%)	(4.6)	6.7	7.6
RoE (%)	(15.2)	(6.9)	5.5
NAV per share	14.9	21.0	18.9
Net Worth	491	714	724
Gross Debt	1,548	1,764	1,989

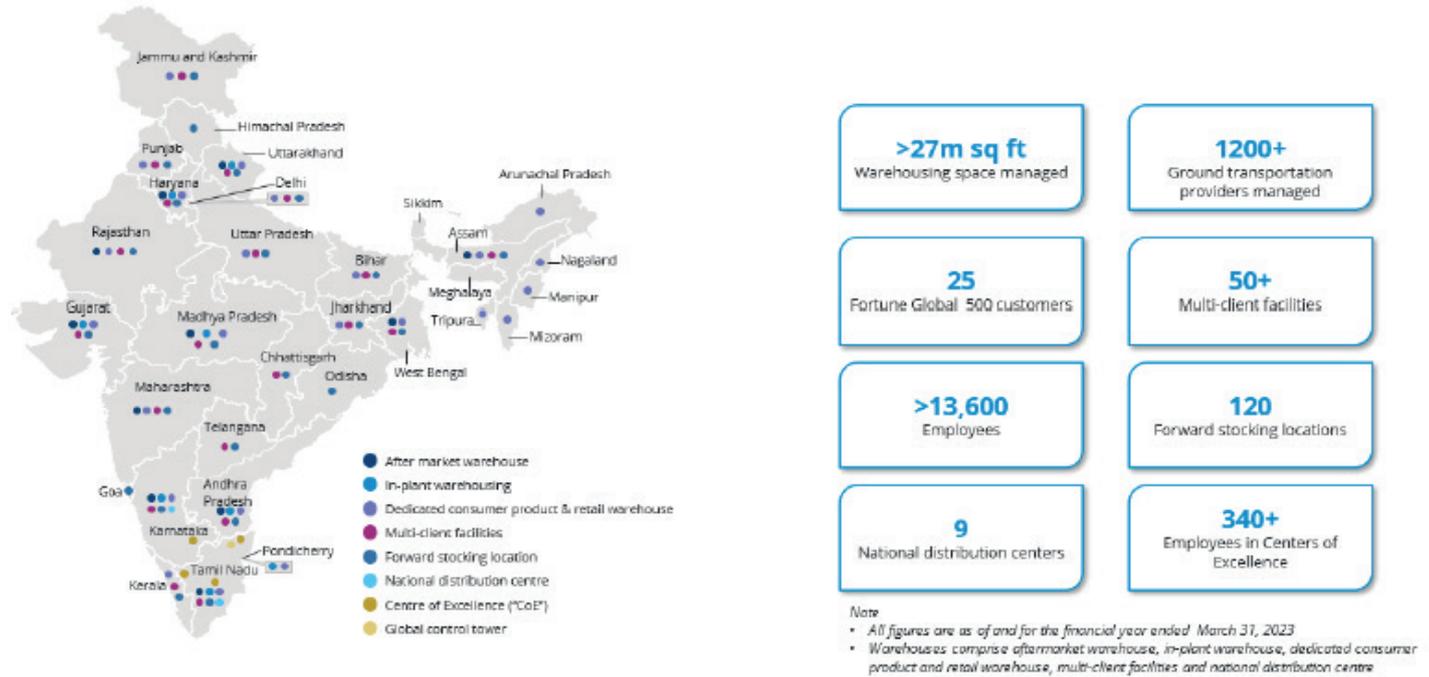
Source: RHP, Note: * "based on FY23 annualized nos"

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Exhibit 1: Snapshot of our presence and scale in India



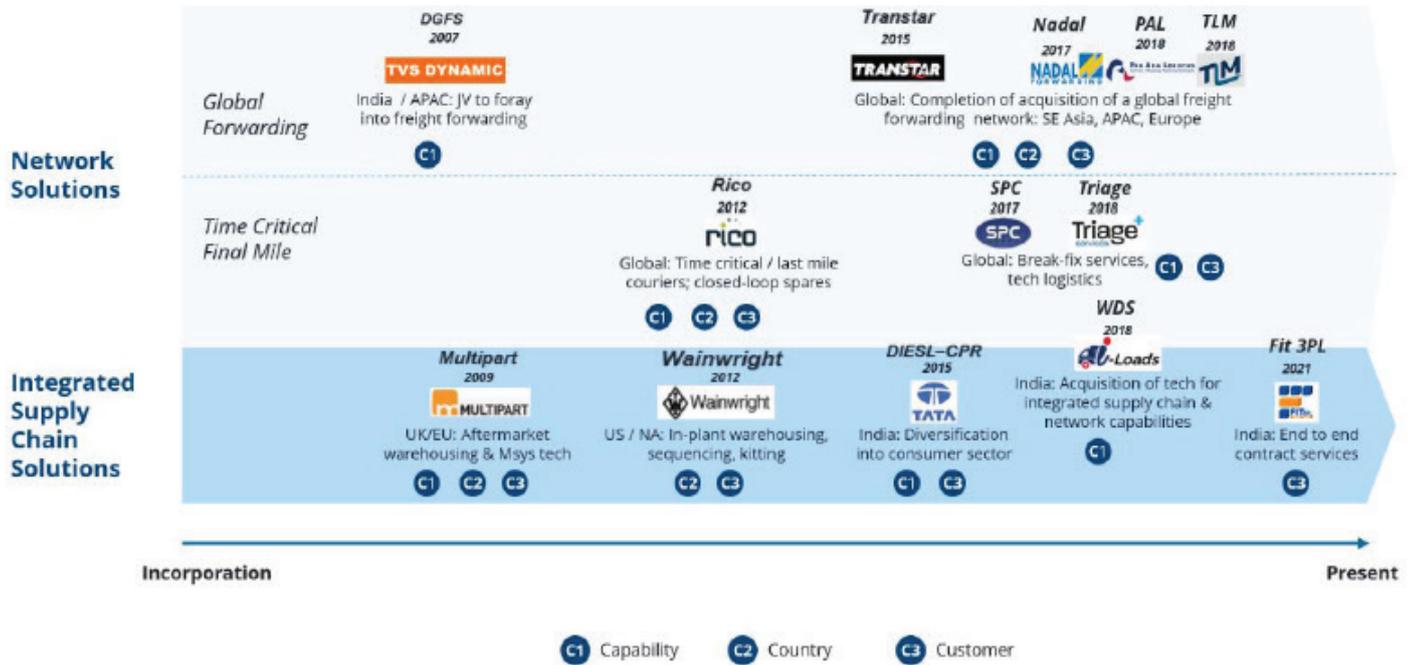
Source: RHP

Exhibit 2: Snapshot of our global presence and scale



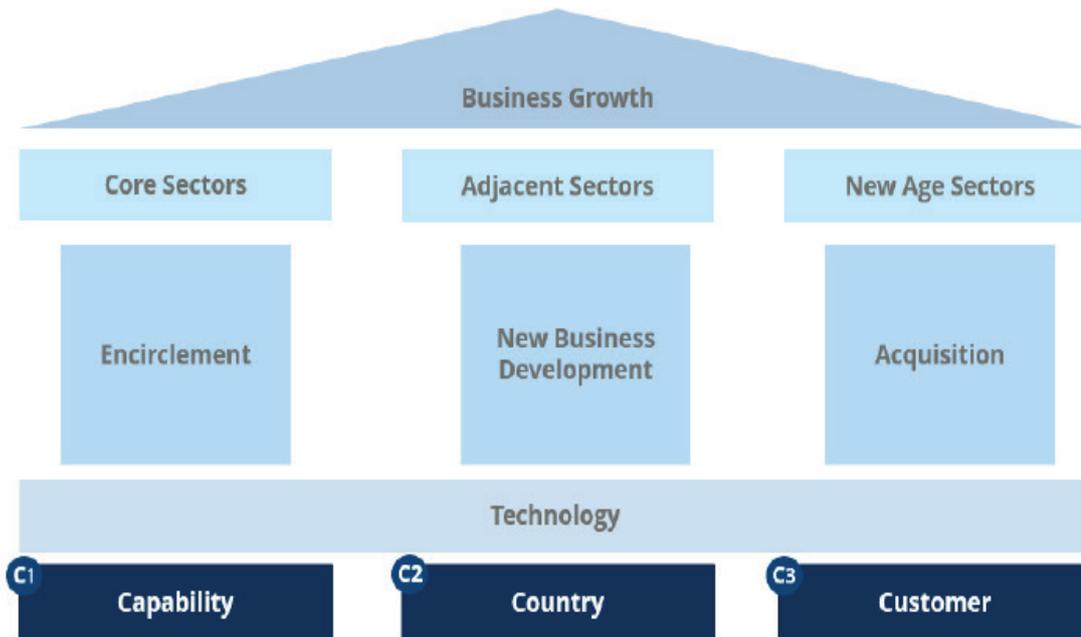
Source: RHP

Exhibit 3: Key acquisitions along with the 'Cs' (i.e. Customer, Country and Capability) acquired



Source: RHP

Exhibit 4: 'C3 Framework'

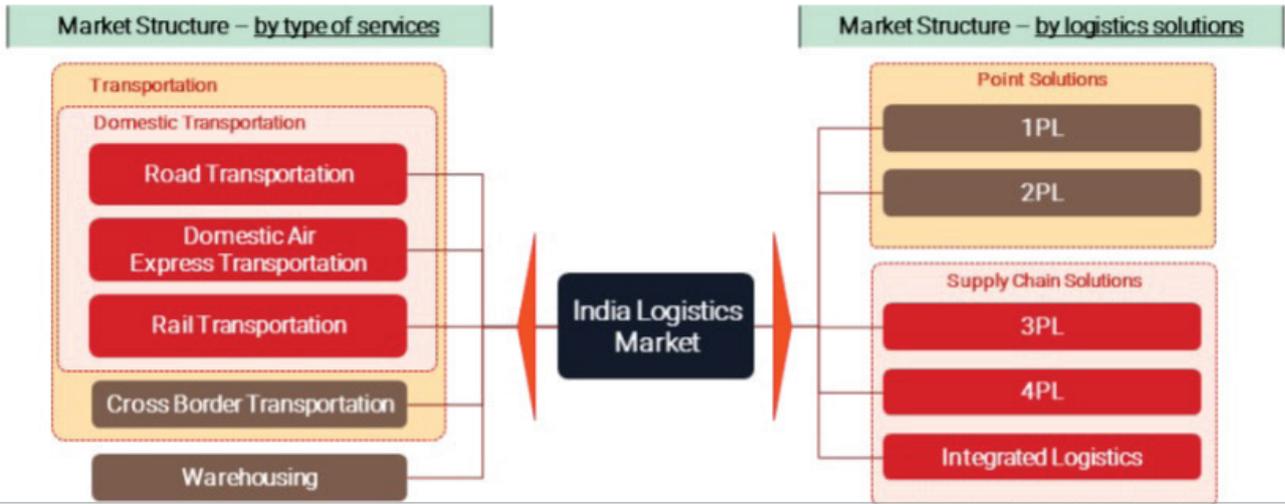


Source: RHP

Exhibit 5: Structure of Indian Logistics Market

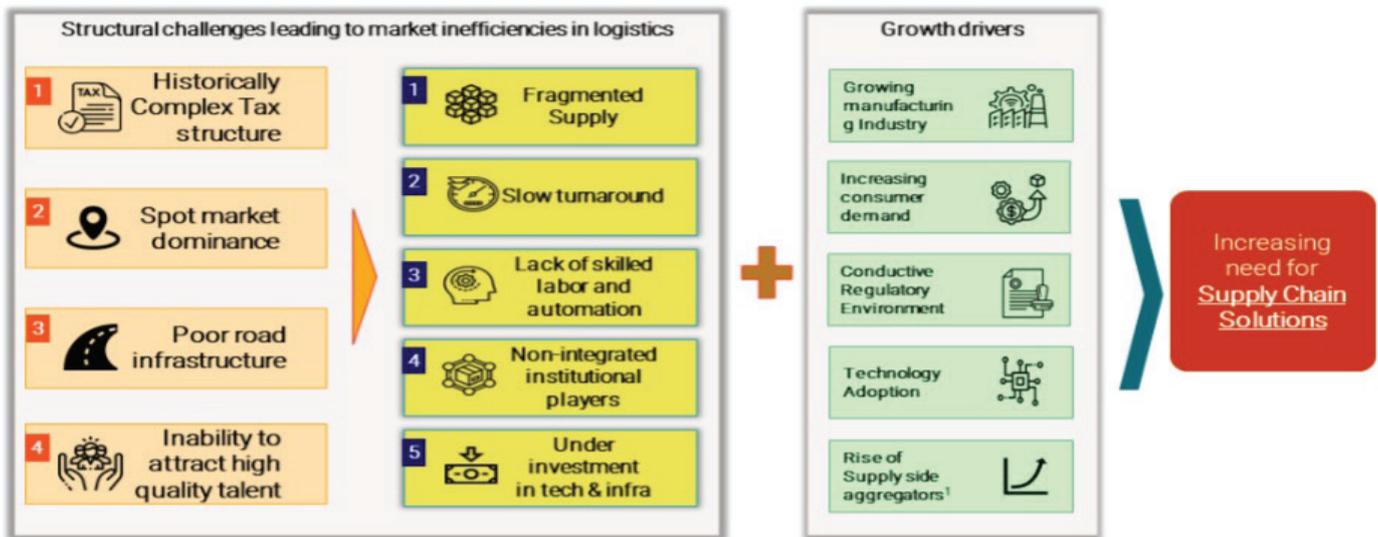
Indian logistics market structure – By type of service offerings

Indian logistics market structure – By type of logistics solution



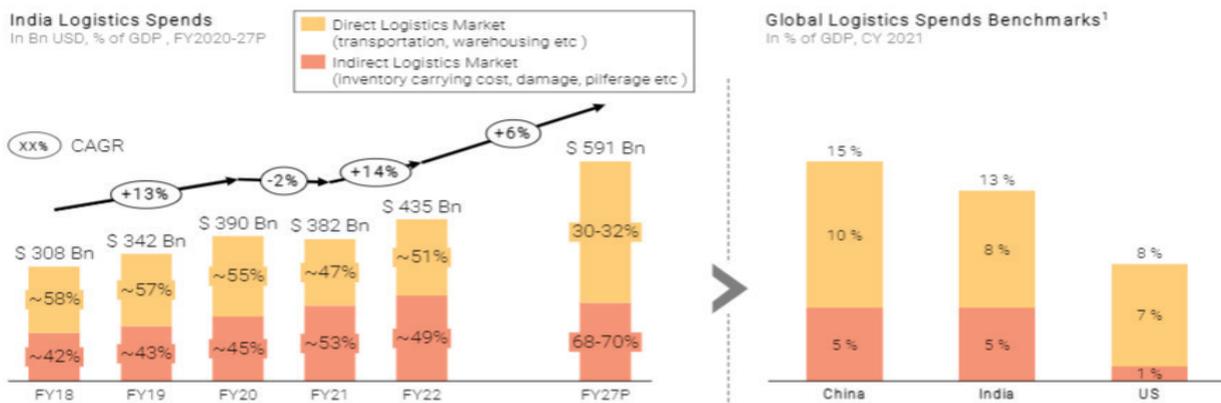
Source: RHP, RedSeer Research, RedSeer Analysis

Exhibit 6: Indian Logistics Market Characteristics and Growth Drivers



Source: RHP, RedSeer Research

Exhibit 7: Logistics market is large and projected to grow sustainably for next five year



Source: RHP, Chamber of Commerce - India, Report on Logistics, India Economics Survey 2017-18, 2019-20, 2021-22, RedSeer Estimates

Exhibit 8: Total Logistics Spends - India, China and the US (CY2018-2026P, in Bn USD)



Source: RHP, RedSeer Research, RedSeer Analysis

Exhibit 9: Direct Logistics Spends in India (FY2020-2027P)



Source: RHP, RedSeer Research and RedSeer Estimates

Exhibit 10: Supply Solutions (SCS) Market

Market size and growth rate, US\$ Bn, In %



Source: RHP, RedSeer Analysis, RedSeer Research

Exhibit 11: Supply Chain Solutions Market - Key Industry Segements

Industry	Market size –FY22 (US\$ Bn)	% logistics spend	% logistics spend on SCS	SCS Market - FY22 (US\$ Bn)	SCS market - FY27 (US\$ Bn)	CAGR FY2022-2027P
Automotive	~137	4.7-5.2%	35-45%	2.9-3.4	6.2-6.7	15-17%
Industrial	~229	4.2-4.7%	10-15%	1.0-1.5	3.8-4.3	25-27%
Consumer Goods ¹	~128	5.3-5.8%	14-18%	1.1-1.6	2.6-3.1	18-20%
Organised B & M retail	~80	2.5-3.0%	15-20%	0.2-0.7	1.4-1.9	30-35%
eCommerce	~56	4.7-5.2%	~100%	2.4-2.9	8-8.5	25-27%
Textile & apparel	~90	3.9-4.4%	15-20%	0.2-0.7	2.0-2.5	38-40%
IT, Telecom and BPM	~175	1.9-2.4%	15-20%	0.4-0.9	0.8-1.3	11-13%
Healthcare	~54	2.7-3.2%	22-27%	0.1-0.6	0.3-0.8	19-21%
Others ²	~295	3.5-5%	4-5%	0.3-0.8	0.7-1.2	12-14%
Total SCS Market				₹10.1-10.6	₹27-29	22-24%
Total (ex. ecommerce)				7.5-7.7	20-21	20-22%

Supply Chain Solutions market from non-eCommerce industries is projected to grow from \$7.5-7.7Bn to \$20-21Bn (increase of \$13-14 Bn) by Fiscal 2027

Source: RHP, RedSeer Analysis, RedSeer Research

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