



**Tiger Logistics (India) Ltd (BSE Code: 536264) – Alpha/Alpha + stock
report for Nov'17**

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Company Snapshot (24th Nov'17)

Rating – Positive – 3% weightage; this is not an investment advice (refer rating interpretation).

CMP – 183.45 (BSE)

Dividend yield – 0.00%

BSE Code – 536264

Market capitalization – Rs 194.00 cr.

Total Equity shares – 1.06 cr.

Face Value – Rs 10.00

52 Weeks High/Low – Rs 304.00/151.70

Particulars (in cr.)	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17
Income from operations	90.45	105.11	122.14	147.48	245.82	253.44	298.05
Gross profit	9.57	11.94	13.48	16.93	23.11	29.74	39.49
Gross profit margin (%)	10.58%	11.36%	11.04%	11.48%	9.40%	11.73%	13.25%
Op expenses as % of revenue	-5.62%	-6.52%	-6.83%	-7.32%	-5.19%	-6.76%	-7.61%
Operating Profit	4.49	5.09	5.14	6.13	10.34	12.62	16.80
Operating profit margin (%)	4.96%	4.84%	4.21%	4.16%	4.21%	4.98%	5.64%
Other Income							
Interest income and other income	0.18	0.18	0.59	0.67	0.61	0.23	0.21
Exchange rate difference						0.43	
Finance charge	-0.22	-0.18	-0.07	0	-0.14	-0.32	-0.53
Depreciation	-0.78	-0.83	-0.78	-0.78	-1.02	-0.74	-0.54
Profit Before tax (PBT)	3.67	4.26	4.88	6.02	9.79	12.22	15.94
Profit After tax (PAT)	2.40	2.82	3.39	3.90	5.78	7.29	10.29

Introduction

Tiger Logistics (India) Limited was founded on 23rd May, 2000 in New Delhi by Mr. Harpreet Singh Malhotra, who is also the Managing Director of the company. At the time of its inception, Tiger Logistics operated as a customs house agent with 8 employees and today it has grown into an end-to-end third party logistics (3PL) solutions provider with a work force of more than 300 experienced professionals.

The company's business covers international freight forwarding, transportation and activities related to custom house agency (CHA). Tiger specializes in International Logistics i.e. handling import and export of Cargos and Projects. It has a strong base of around 50 agents and partners all over the world. Its competitive edge lays in its asset light model and providing one-stop solution to customers for International Trades.

We like the fact that Tiger Logistics is a young company founded by first generation entrepreneur with focus on asset light model. Over the years the company has reported decent growth in operations with more or less debt free balance sheet on net basis.

We also believe that asset light 3PL service providers will have huge role to play in future with companies focusing on core operations and outsourcing their logistics requirements to 3PL service providers.

Though company doesn't pay any dividend at the moment, we derive some comfort from the fact that promoters own 73% stake in the company. Lastly, for a high growth company in a high growth sector, we believe the valuations are reasonable around 18.25 times trailing twelve months earnings and around 16 times FY 19 (E) earnings.

Understanding Business and Company

Before going into details about Tiger Logistics, let's look at some terms related to the industry:

3PL service provider – A 3PL service provider is a one stop shop for logistics end-users. The CRISIL Report has defined a 3PL company as an end-to-end supply chain management provider who is able to provide supply chain design and consulting, access to multi-modal transportation as well as infrastructure services such as warehousing, cold storage, CFS/ICD among others, and relevant value added services including, repackaging, reverse logistics among others.

A 3PL service provider represents a single vendor for all logistics requirements including supply chain design and consultancy and value added services, as compared to a 2PL company.

Freight forwarding – International trade across the world happens through shipping lines and airlines, with shipping lines accounting for majority of the trade volume.

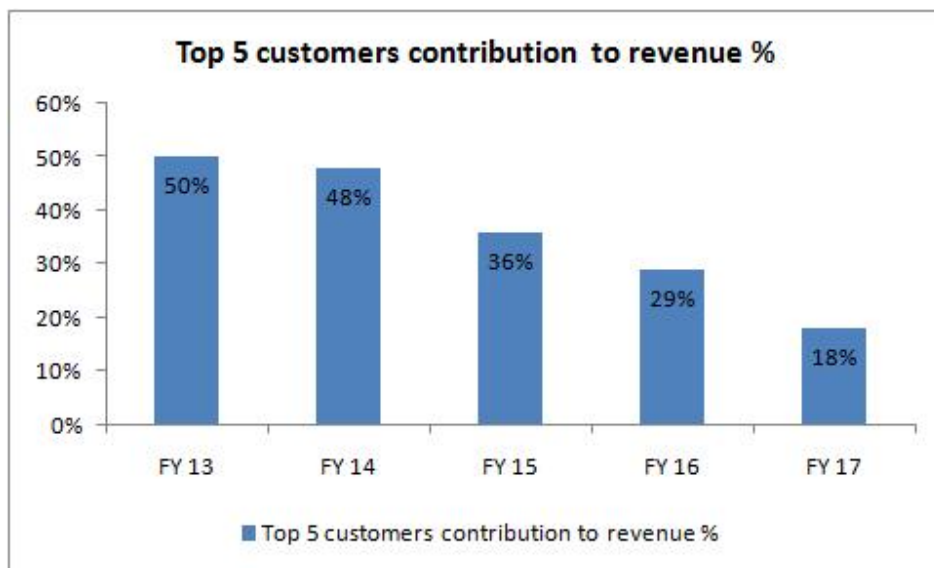
Freight forwarders organize storage and shipping of merchandise on behalf of consignors. They act as an intermediary between consignors and various transportation services such as cargo ships, trucks and airlines. They have business arrangements with various carriers, which help shippers in planning the best routes and mode of transport for their shipments depending on the nature of the cargo and the timeline. Freight forwarders also provide integrated services that include container handling, clearing and forwarding, transportation, warehousing and customs house agency activities.

Customs House Agent – Customs House Agent (CHA) is licensed to act as an agent for transaction of any business relating to the entry or departure of conveyances or the import or export of goods at a customs station. CHAs maintain detailed, itemized and up-to-date accounts.

Coming back to Tiger logistics, it started as a CHA in 2000 and over the years has evolved into a multi-vertical global logistics solution provider. Today, the company carves out tailored solutions based on customer's needs and manages their end to end logistics requirement including Transportation (in India/abroad), Custom clearance and freight forwarding (through Air/Ocean).

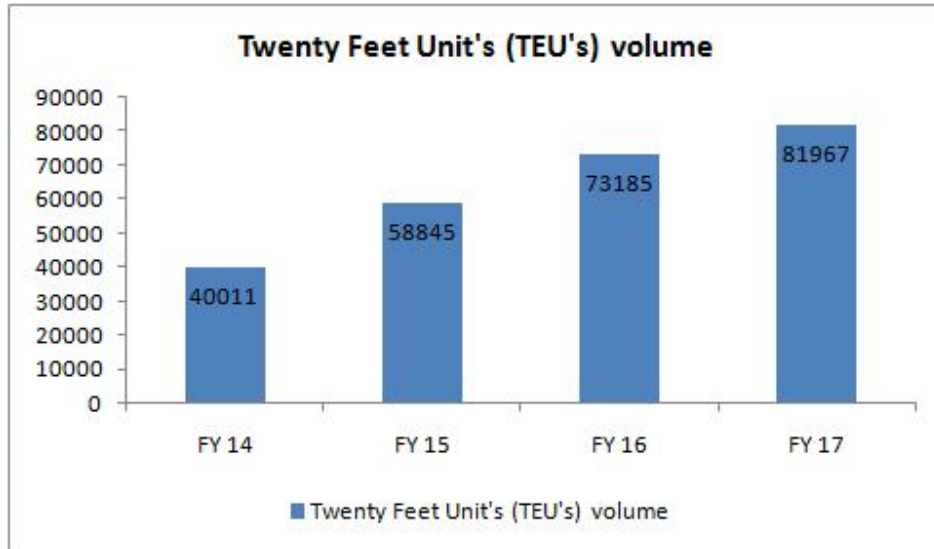
The company provides services by tying up with air-carriers, shipping lines, international agencies, CONCOR (Railways) and fleet operators. Thus, the company operates business primarily on the basis of an “asset-light” model which enables it to offer a variety of flexible, scalable, solutions and services based on client’s requirements and handle complexities that are unique to the Indian logistics industry. This business model also allows it to manage any fluctuations in demand more efficiently and minimize any adverse effects resulting from cyclical movements.

The company’s main focus as of now is on exports and serves industry verticals such as Projects & Heavy lifts, Yarn & Textiles, Commodities, Consumer Durables & Others, Cold Chain Logistics, Automotive and Defence logistics. The company services multiple clients across multiple industries and boasts of some well known names like LG, LLOYD, HERO Motocorp, TVS, Bajaj, Honda, DRDO, ABB, BHEL, etc.



Source: Tiger Logistics Investor Presentation

Over the years the company’s dependence on Top 5 customers has reduced from 50% in FY 13 to 18% in FY 17. As far as volumes (TEUs – Twenty Feet Unit’s) are concerned, the company has registered 27% CAGR in TEUs since FY 14. It is important to note here that revenue growth may not necessarily follow volume growth as freight rates can change substantially year on year and any increase/decrease in freight rates is to be passed on to customers.



Source: Tiger Logistics Investor Presentation

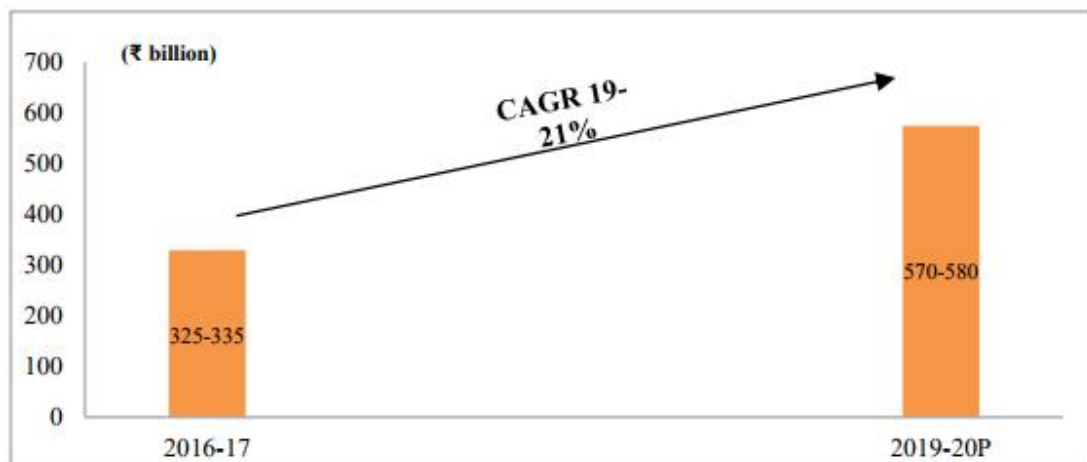
As per the management, while Project and Defence logistics are the higher margin segments, logistics for commodities contribute lower margins. As far as Defence logistics is concerned, it's a new segment for the company and has opened up after the new government came to power in 2014.

Tiger currently operates as a FCL (full container load) operator in India; however with the implementation of GST the management is considering leveraging existing network & infrastructure to enter Domestic Logistics segment and be part of the LCL (less than container load) Segment in India as well.

3PL Industry outlook

In view of the diversity in geographic conditions, consumer habits, and infrastructure across India, Indian companies need to enhance the efficiency of their supply chain operations. A 3PL capable of offering end-to-end services may then become a single vendor for complete outsourcing by companies who choose to focus on their core activities of production, sale and marketing, while all logistics services can be provided by a 3PL.

The CRISIL Report has estimated the 3PL market in India at Rs 325-335 billion in FY 17, which is expected to grow at a CAGR of 19-21% to reach Rs 570-580 billion by FY 20.



Source: Mahindra Logistics Prospectus

CRISIL expects the share of 3PL in the overall logistics market to increase from approximately 5.00% in FY 17 to approximately 7.00% by FY 20.

Key drivers for growth of 3PL services in India

GST implementation to drive 3PL growth – The unified tax has replaced most indirect taxes, including the excise duty and service tax at the central level and VAT and local levies at the state level. Tax optimization-based warehouse locations will no longer be relevant and a realignment of warehouses will reduce logistics costs, which will facilitate growth of the 3PL industry in India.

Focus on core business results in increased outsourcing trend – Demand volatility, necessity to control costs and the increasing need to focus on core competencies are driving more and more companies to look for outsourcing options. By outsourcing logistics services, companies can focus on their core competencies and can save on capital investments, and thus, reduce financial risks. By using 3PL services, companies can reduce their asset base and deploy the capital for other productive purposes.

Increased flexibility and scalability – Due to their scale of operations, large, organized 3PL service providers are better positioned to offer higher flexibility and scalability of solutions to their clients as compared to their smaller, unorganized counterparts.

Value added services – Large organized 3PL service providers who typically provide value added services such as packing, kitting, labelling, in-factory logistics, inventory and order management, dedicated help desks, IT-enabled warehouse and transport management systems, among others are better positioned to cater to these requirements than the smaller unorganized service providers, thus improving their growth prospects in the long run.

Promoters/Management

Mr. Harpreet Singh Malhotra is the Chairman & Managing Director of Tiger Logistics. He is a Commerce graduate from Delhi University and an alumnus of IIFT, New Delhi. Before starting Tiger Logistics, he was associated with Hero Motocorp.

Mr. Malhotra’s grandfather was an Army officer while his father was a Navy officer.

In running the operations, Mr. Malhotra is supported by his wife Mrs. Benu Malhotra who is also the CFO of the company.

On the basis of our readings of IPO draft prospectus and Annual reports, we haven’t come across any major corporate governance issues or any other major red flags; however the two concerns that we have are that there seems to be overdependence on Mr. Harpreet Singh Malhotra and the second is that salary for Mr. Malhotra has been raised substantially.

Shareholding pattern (as reported on BSE)

	Sep'17	Jun'17	Mar'17
Promoter and Promoter Group	73.00%	73.00%	73.00%
India	73.00%	73.00%	73.00%
Foreign			
Public	27.00%	27.00%	27.00%
Total	1,05,72,500	1,05,72,500	1,05,72,500

In small/mid cap companies, it's important as an investor that the promoters hold reasonably high stake and in the case of Tiger, promoters hold 73% stake in the company; which is only a tad below the maximum permissible limit of 75%.

What we further like about the company is that promoters seem to value equity and their holding in the company. Barring FY 14, when the company came out with an IPO, the promoters haven't diluted equity in the last 8-9 years.

As on 30th Sep'17, the major shareholders of the company and their stakes are as below:

Name of the shareholder	Category	% stake in Tiger Logistics
Promoters and PAC	Promoters	73.00%
Rupendra Periwal	Public	2.08%

Tiger Logistics (India) – Performance Snapshot

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Profit After tax (PAT)	2.40	2.82	3.39	3.90	5.78	7.29	10.29

Source: Tiger Logistics ARs

As mentioned above, Tiger Logistics operates on an asset light business model, wherein it doesn't own all the assets but rather ties up with air-carriers, shipping lines, international agencies, fleet operators, etc to carve out tailored solutions based on customer's needs and manage their end-to-end logistics requirement.

As a result of the above strategy, the company focuses primarily on partnering with the right vendors and expand its branch network so as to be able to serve the customers in the most efficient manner and in larger number of geographies.

With the above backdrop, Tiger has been able to maintain steady growth in operations while maintaining a very lean balance sheet in terms of capital assets and more or less debt free operations on net basis; however the business is working capital intensive with majority of it being in the form of trade receivables.

As can be seen from the above performance snapshot, over the last 5 years the company has reported 23% CAGR in sales from Rs 105.11 crore in FY 12 to Rs 298.05 crore in FY 17. The EBITDA margins of the company have also seen some improvement from around 4.5-4.7% to around current levels of 5-5.5%. With no major change in Depreciation and finance cost, the company has reported 30% CAGR in PBT from Rs 4.26 crore in FY 12 to Rs 15.94 crore in FY 17.

While 3PL business is characterized by low fixed capital intensity, it is also a low-margin business; however in terms of margins Tiger has been performing relatively better than its much larger listed peer Mahindra Logistics. With very strong capital turnover and relatively better margins, tiger has consistently been reporting 20% + Return on Avg. Equity (ROAE).

Important Numbers	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17
ROAE (%)	26.88%	24.44%	23.15%	17.86%	20.33%	21.98%	24.52%
Cash Flows from operations	-0.88	2.03	4.7	-5.32	-11.47	6.01	1.52
Net Working capital	4.21	4.54	6.04	15.5	29.06	33.96	45.27
Working capital as % of sales	4.65%	4.32%	4.95%	10.51%	11.82%	13.40%	15.19%
Net Debt	-0.64	-2.06	-5.52	-7.79	4.11	-0.76	1.92
Debt to Equity ratio	0.19	0.09	0.01	0.00	0.30	0.17	0.14

Source: Tiger Logistics ARs

One aspect though where the company has been lacking is managing receivables. Since FY 13, the receivable days have increased from 64 to 101 at the end of FY 17, while the payable days have remained same at around 45-46; thus the net working capital cycle has increased from 18 days to 55 days. Out of last 9 years, the company has reported negative cash flows from operations in only 3 years and the provisions and write-offs on account of bad debts have also been low; however we would still like to see the company bring down its receivables and net working capital to lower levels, because otherwise its balance sheet and growth in operations will be impacted.

Valuations

At around current price of 183-184 the market capitalization of the company is Rs 194 crore and the enterprise value is also around 196 crore.

For FY 17 the company recorded net profit of Rs 10.29 crore and EBIT of Rs 16.25 crore. For trailing twelve months the company has recorded net profit of 10.63 crore and on simply extrapolating by a conservative 18%, the company is likely to close FY 19 with a net profit of around Rs 12.15 crore.

As we know from the above sections that Tiger Logistics is almost a debt free company growing at around 20% + on YOY basis and consistently recording 20% + ROAE; we therefore believe that from the high growth perspective the valuations of the company are reasonable at around 18.25 times trailing twelve months earnings and around 16 times FY 19 (E) earnings.

While for a very small cap company, comparison with a Mahindra group company may not be apt; however just for the sake of information, the recently listed Mahindra Logistics is quoting around 60 times earnings. The business model for both Tiger Logistics and Mahindra Logistics is same and even the margin profiles are same with Tiger reporting slightly better margins; however Mahindra Logistics scores much better in terms of overall working capital management.

Risks & Concerns

As the company doesn't own any assets and is dependent on other operators, any laxity or deficiency in service levels from any of the operators can result in loss of reputation and business for the company.

Trade receivables have increased at a much faster pace than the overall business and as a result the working capital requirements have also increased. Payment defaults or further increase in receivables can strain the profitability and the balance sheet of the company.

Last but not the least, companies in automotive segment (like Mahindra Logistics) setting up their own logistics unit could result in loss of business for Tiger Logistics.

Disclosure: I don't have any investment in Tiger Logistics and have not traded in the stock in the last 30 days.

Best Regards,

Ekansh Mittal

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Positive – Expected return of ~15% + on annualized basis in medium to long term for investment recommendations and in short term for Special situations

Neutral – Expected Absolute return in the range of +/- 15%

Negative – Expected Absolute return of over -15%

Coverage closure – No further update on the stock

% weightage – allocation in the subject stock with respect to equity investments

Short term – Less than 1 year

Medium term – Greater than 1 year and less than 3 years

Long term – Greater than 3 years

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Details of Associates: Not Applicable

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