

Future Consumer

BSE SENSEX	S&P CNX
34,651	10,537
Bloomberg	FCON IN
Equity Shares (m)	1,902.1
M.Cap.(INRb)/(USDb)	106.2 / 1.6
52-Week Range (INR)	79 / 29
1, 6, 12 Rel. Per (%)	-6/-10/64
Avg Val, INRm	433.0
Free float (%)	56.9

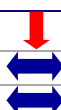
Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	30.1	42.8	59.9
EBITDA	0.5	1.4	3.0
NP	-0.3	0.5	1.8
EPS (INR)	-0.2	0.3	1.1
EPS Gr. (%)	-57.4	-278.5	284.7
BV/Sh. (INR)	6.0	6.3	7.4
RoE (%)	-2.8	4.6	15.8
RoCE (%)	2.2	7.0	13.6
P/E (x)	-354.1	198.3	51.6
EV/Sales (x)	3.2	2.3	1.6

Estimate change

TP change

Rating change



CMP: INR56

TP: INR76(+36%)

Buy

Long runway of growth justifies expensive near-term valuations

- **Future Consumer's (FCL)** net sales grew 51.3% YoY to INR8b (est. of INR7.7b) in 4QFY18. EBITDA rose 521% YoY to INR162m (est. of INR190m). The company reported a loss of INR36m (est. of profit of INR58m).
- **Gross margin contracted 80bp YoY to 12.8%** (est. of 14.1%), mostly due to faster growth in the lower-margin fruits & vegetables business. Operating leverage due to strong sales growth led to a decrease in other expenses (-160bp YoY to 7% of sales) and staff costs (-70bp YoY to 3.8% of sales). Thus, EBITDA margin expanded 150bp YoY to 2% (est. of 2.5%).
- **FY18 performance:** Sales and EBITDA grew 42% and 458.9%, respectively. FCON's loss reduced to INR260m in FY18 from INR610m in FY17. Gross margin was flat, while EBITDA margin expanded 130bp YoY to 1.8%.
- **Valuation view:** We expect revenue growth momentum to continue, at least for the next few years, given the tremendous growth opportunity. We estimate revenue CAGR of 41.2% over FY18-20 and 38.2% over FY18-22. As FCON is likely to be profitable at the consolidated net level only in FY19, we believe near-term P/E multiples are always likely to appear extremely expensive on a one-year forward basis. We, thus, value FCON on an EV/sales basis, assigning a multiple of 2.2x (60% discount to EV/sales of our coverage consumer universe). This results in a TP of INR76, implying ~36% upside from current levels. Maintain **Buy**. As soon as the company demonstrates profitability at the net level, we will move our valuation to P/E basis.

Consolidated - Quarterly Earning Model

Y/E March	FY17				FY18				FY17	FY18	FY18	Variance (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	
Sales	4,671	5,637	5,516	5,334	6,623	7,505	7,845	8,069	21,158	30,050	7,737	4.3
YoY Change (%)	35.4	30.3	9.3	27.1	41.8	33.1	42.2	51.3	24.3	42.0	45.0	
Gross Profit	662	746	773	726	924	1,036	1,081	1,036	2,886	4,076	1,093	
Margins (%)	14.2	13.2	14.0	13.6	13.9	13.8	13.8	12.8	13.6	13.6	14.1	
Total Expenditure	4,663	5,607	5,484	5,308	6,537	7,378	7,680	7,908	21,062	29,509	7,547	
EBITDA	8	31	32	26	86	128	165	162	97	541	190	-14.7
YoY Change (%)	-108.5	-143.0	212.6	-520.5	945.1	316.7	418.0	521.0	LP	458.9	633.1	
Margins (%)	0.2	0.5	0.6	0.5	1.3	1.7	2.1	2.0	0.5	1.8	2.5	
Depreciation	77	90	89	70	90	113	106	146	326	455	61	
Interest	134	106	121	88	128	121	137	140	449	527	101	
Other Income	52	54	65	80	58	52	46	169	250	325	141	
PBT	-151	-112	-113	-52	-74	-55	-31	45	-427	-115	168	-73.5
Tax	7	0	0	2	0	0	0	-25	9	-25	0	
Rate (%)	-4.8	0.0	0.0	-3.2	0.0	0.0	0.0	-56.1	-2.1	21.7	0.0	
Minority Interest & Profit/Loss of Asso. Cos.	49	50	27	47	15	33	16	106	174	170	110	
Reported PAT	-207	-162	-140	-101	-89	-88	-47	-36	-610	-260	58	
Adj PAT	-207	-162	-140	-101	-89	-88	-47	-36	-610	-260	58	-162.1
YoY Change (%)	-28.7	-43.5	-31.0	-66.0	-57.2	-45.6	-66.5	-64.0	Loss	Loss	-158.0	
Margins (%)	-4.4	-2.9	-2.5	-1.9	-1.3	-1.2	-0.6	-0.4	-2.9	-0.9	0.8	

E: MOSL Estimates

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

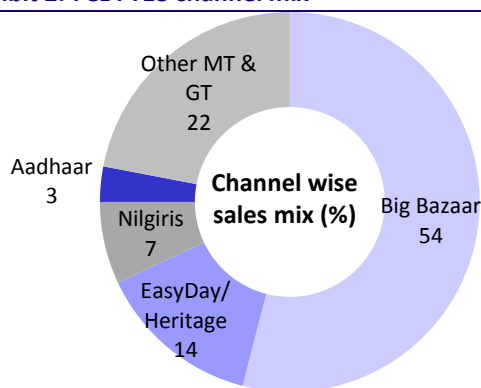
Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Exhibit 1: FCL portfolio of brands

Food and Beverages (93%)	Centre of Plate	GOLDEN HARVEST	KOSHI	100% PURE	GOLDEN HARVEST PRIME	KARMIQ	EKTAA	DESI ATTA	mother earth	Shubhra
	Dairy and Bakery	Nilgiris								
	Processed Foods	Tasty Treat	POOF!	Sunkist	S	veg affaire	BAKER STREET			
HPC (7%)	Personal Care	kara	Swiss Tempelle	thinkskin	TS	puretta				
	Home Care	Clean Mate	care mate	prim	prathali	MYSST				

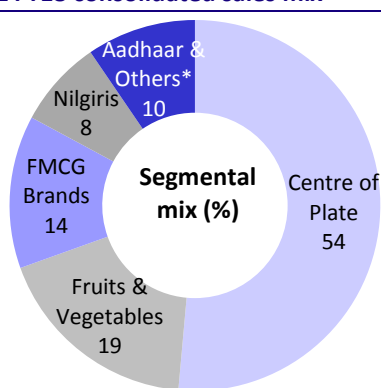
Source: Company, MOSL

Exhibit 2: FCL FY18 channel mix



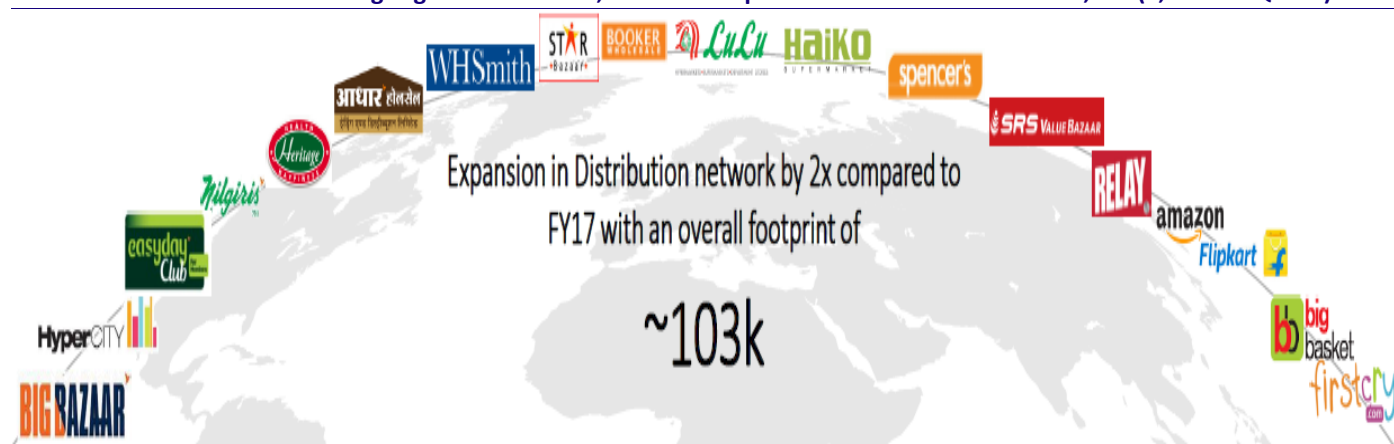
Source: Company, MOSL

Exhibit 3: FCL FY18 consolidated sales mix



Source: Company, MOSL

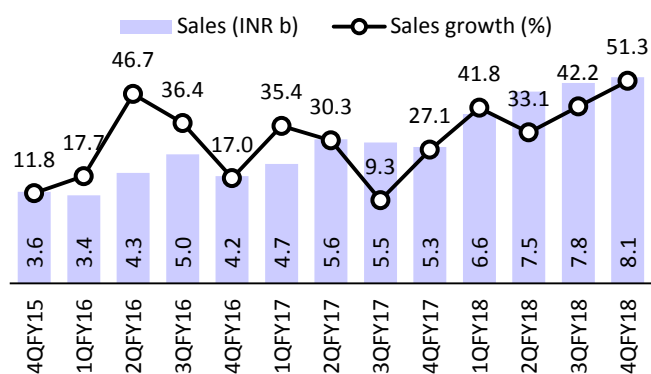
Exhibit 4: Presence across leading organized retailers; Future Group store reach now stands at ~1,300 (1,149 in 3QFY18)



Source: Company, MOSL

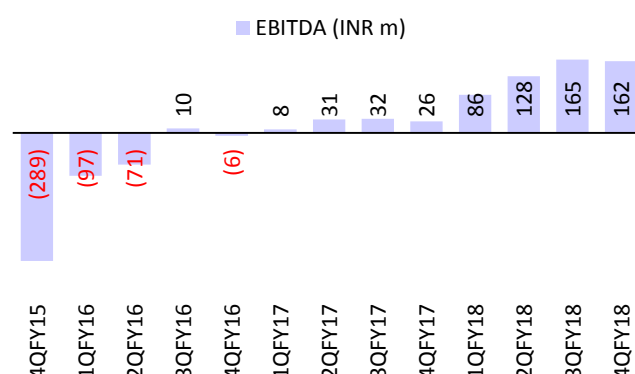
Key quarterly charts

Exhibit 5: Sales grew 51.3% YoY to INR 8.1b in 4QFY18



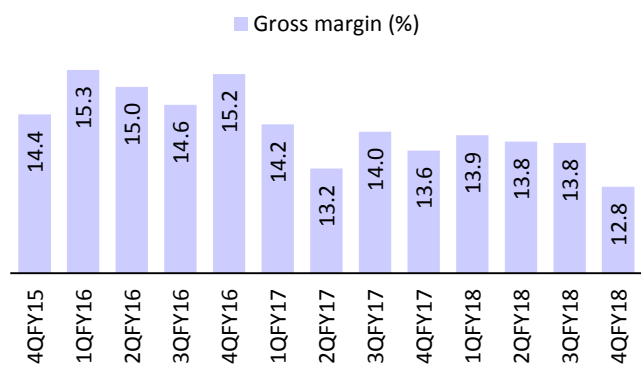
Source: Company, MOSL

Exhibit 6: EBITDA grew 521% YoY to INR162m in 4QFY18



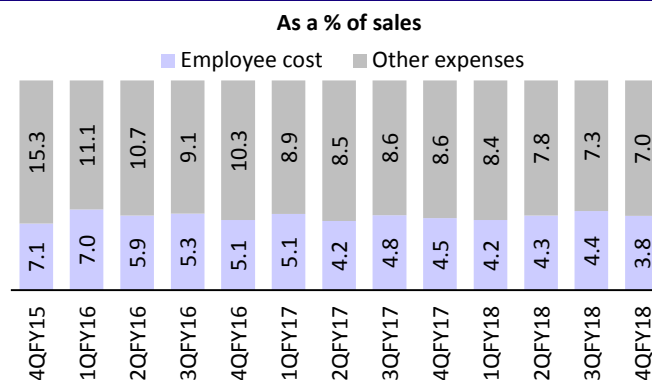
Source: Company, MOSL

Exhibit 7: Gross margin contracted 80bp to 12.8% in 4QFY18



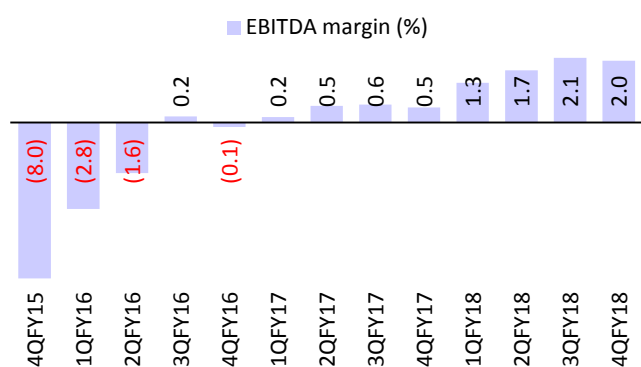
Source: Company, MOSL

Exhibit 8: Employee cost down 70bp YoY and other expenses down 130bp YoY in 4QFY18...



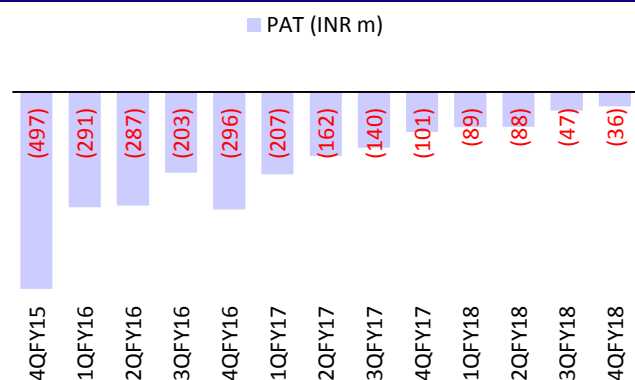
Source: Company, MOSL

Exhibit 9: ...leading to EBITDA margin expansion of 150bp YoY to 2% in 4QFY18



Source: Company, MOSL

Exhibit 10: Loss at PAT level reduced to INR36m in 4QFY18



Source: Company, MOSL

Valuation & View

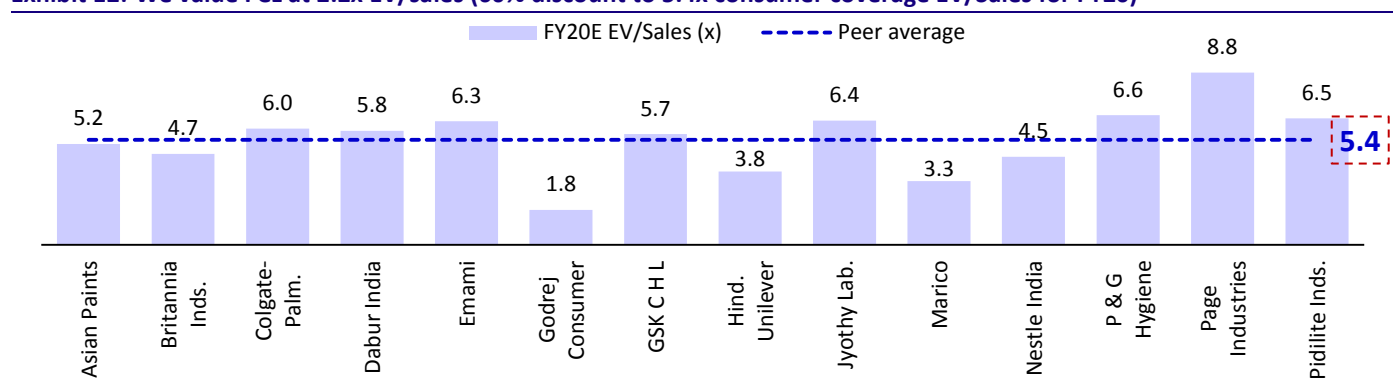
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- We, thus, value FCON on an EV/sales basis, assigning a multiple of 2.2x (60% discount to EV/sales of our coverage consumer universe). This results in a TP of INR76, implying ~36% upside from current levels. Maintain **Buy**.
- As soon as the company demonstrates profitability at the net level, we will move our valuation to P/E basis.

Exhibit 11: Downward revision in gross margins has resulted in 6.5%/4.4% cut in FY19/20E EPS

	Old				New				Change (%)			
INR (m)	FY19E	FY20E	FY21E	FY22E	FY19E	FY20E	FY21E	FY22E	FY19E	FY20E	FY21E	FY22E
Revenue	42,579	59,928	82,431	110,825	42,832	59,883	82,241	109,774	0.6	(0.1)	(0.2)	(0.9)
EBITDA	1,412	3,121	5,450	8,764	1,358	3,019	5,349	8,511	(3.8)	(3.3)	(1.8)	(2.9)
Adj. PAT	496	1,867	3,889	6,966	464	1,784	3,801	6,739	(6.5)	(4.4)	(2.3)	(3.3)

Source: Company, MOSL

Exhibit 12: We value FCL at 2.2x EV/sales (60% discount to 5.4x consumer coverage EV/Sales for FY20)



Source: Company, MOSL

Exhibit 13: Valuation Matrix

Company	Reco	CMP	Target Price		Mkt Cap		EPS Growth YoY (%)			P/E (x)			RoE (%) Div. (%)	
		(INR)	(INR)	Upside (%)	INR B	USD B	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY17
Consumer														
Asian Paints	Neutral	1,286	1,280	0	1,247	18.3	1.9	21.1	19.0	60.8	50.2	42.2	25.3	0.7
Britannia Inds.	Buy	5,596	6,400	14	663	9.7	13.5	28.4	24.0	66.9	52.1	42.0	32.9	0.4
Colgate-Palm.	Buy	1,223	1,420	16	328	4.8	18.0	16.5	18.5	48.8	41.9	35.4	48.7	0.8
Dabur India	Buy	375	435	16	656	9.6	7.2	16.0	15.5	48.2	41.6	36.0	25.9	0.6
Emami	Buy	1,023	1,390	36	231	3.4	-8.5	21.9	20.4	42.2	34.6	28.7	29.2	0.9
Future Consumer	Buy	56	76	36	100	1.5	Loss	LP	284.7	NM	198.3	51.6	-2.8	0.0
Godrej Cons.	Neutral	1,077	1,155	7	735	10.8	11.7	14.9	15.9	51.0	44.4	38.3	24.9	0.5
GlaxoSmith C H L	Neutral	5,945	6,255	5	249	3.7	6.6	12.8	14.8	35.7	31.6	27.6	21.2	1.2
Hind. Unilever	Buy	1,576	1,805	15	3,417	50.2	24.7	18.3	22.3	64.4	54.4	44.5	78.1	1.1
ITC	Neutral	279	295	6	3,427	50.4	9.5	8.8	13.4	30.3	27.9	24.6	22.3	2.1
Jyothy Lab.	Neutral	431	425	-1	80	1.2	-26.7	32.7	19.4	52.3	39.5	33.1	13.4	1.4
Marico	Neutral	314	350	11	399	5.9	2.0	18.3	18.2	49.0	41.4	35.0	34.0	1.3
Nestle India	Neutral	9,616	9,535	-1	914	13.4	13.2	35.2	10.4	68.7	50.8	46.0	40.3	0.7
P & G Hygiene	Neutral	9,220	9,065	-2	299	4.4	-1.2	23.4	15.8	70.2	56.9	49.1	57.0	3.5
Page Industries	Buy	23,393	27,490	18	256	3.8	24.5	39.9	32.2	78.7	56.3	42.5	39.9	0.4
Pidilite Inds.	Buy	1,118	1,115	0	561	8.2	5.4	17.0	14.9	63.4	54.2	47.2	24.2	0.4
United Breweries	Buy	1,171	1,450	24	302	4.4	62.0	23.9	31.2	83.2	67.2	51.2	14.9	0.1
United Spirits	Neutral	3,230	3,510	9	453	6.7	22.1	74.3	38.1	99.0	56.8	41.1	17.2	0.0
Retail														
Jubilant Food.	Neutral	2,514	2,450	-3	166	2.4	180.6	39.1	31.4	84.5	60.8	46.2	20.3	0.1
PC Jeweller	Buy	191	520	172	65	1.0	44.4	26.6	27.6	12.4	9.8	7.7	16.9	0.5
Titan Company	Buy	915	1,125	23	814	12.0	39.5	28.8	26.1	72.6	56.4	44.7	23.9	0.4

Source: Company, MOSL

Financials and Valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E
Total Income from Operations	13,126	17,030	21,158	30,050	42,832	59,883	82,241	109,774
Change (%)	59.6	29.7	24.2	42.0	42.5	39.8	37.3	33.5
Gross Profit	1,724	2,562	2,886	4,076	6,425	9,941	14,803	21,077
Margin (%)	13.1	15.0	13.6	13.6	15.0	16.6	18.0	19.2
EBITDA	-646	-164	97	541	1,358	3,019	5,349	8,511
Change (%)	-24.4	-74.6	-159.1	458.9	151.1	122.2	77.2	59.1
Margin (%)	-4.9	-1.0	0.5	1.8	3.2	5.0	6.5	7.8
Depreciation	475	284	326	455	472	525	582	651
EBIT	-1,120	-447	-229	86	886	2,494	4,767	7,859
Int. and Finance Charges	319	702	449	527	548	615	548	281
Other Income	352	273	250	325	343	419	452	549
PBT after EO Exp.	-1,088	-876	-427	-115	681	2,299	4,671	8,127
Total Tax	6	-2	9	-25	48	345	701	1,219
Tax Rate (%)	-0.5	0.2	-2.1	21.7	7.0	15.0	15.0	15.0
Minority Interest	-66	202	174	170	170	170	170	170
Adjusted PAT	-1,028	-1,076	-610	-260	464	1,784	3,801	6,739
Change (%)	1,381.1	4.7	-43.3	-57.4	LP	284.7	113.0	77.3
Margin (%)	-7.8	-6.3	-2.9	-0.9	1.1	3.0	4.6	6.1

Consolidated - Balance Sheet

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E
Equity Share Capital	9,943	9,876	9,884	11,413	11,413	11,413	11,413	11,413
Total Reserves	-2,247	-4,331	-999	-1,460	-996	788	4,589	11,328
Net Worth	7,696	5,545	8,885	9,953	10,416	12,201	16,002	22,741
Minority Interest	338	122	78	42	42	42	42	42
Total Loans	6,734	5,391	4,714	5,405	6,905	6,905	5,405	905
Deferred Tax Liabilities	0	433	440	410	410	410	410	410
Capital Employed	14,768	11,491	14,117	15,810	17,774	19,559	21,860	24,098
Gross Block	5,577	6,767	7,580	8,728	9,784	10,795	12,047	13,498
Less: Accum. Deprn.	2,178	570	888	1,343	1,815	2,339	2,922	3,573
Net Fixed Assets	3,399	6,197	6,692	7,386	7,969	8,456	9,126	9,925
Goodwill on Consolidation	5,483	1,677	1,677	1,639	1,639	1,639	1,639	1,639
Capital WIP	505	368	895	695	639	628	876	925
Total Investments	1,116	861	475	501	401	301	201	126
Curr. Assets, Loans&Adv.	5,965	4,220	7,178	10,001	13,755	17,858	22,921	28,574
Inventory	1,115	1,101	1,757	2,242	3,068	4,051	5,267	6,658
Account Receivables	1,546	1,650	3,242	4,929	6,792	9,188	12,618	15,639
Cash and Bank Balance	433	170	475	448	469	428	431	459
Loans and Advances	2,872	1,299	1,703	2,382	3,427	4,192	4,606	5,818
Curr. Liability & Prov.	1,700	1,831	2,800	4,411	6,630	9,323	12,903	17,091
Account Payables	1,298	1,085	1,904	2,391	3,750	5,297	7,373	9,710
Other Current Liabilities	293	655	744	1,822	2,597	3,631	4,987	6,656
Provisions	109	91	153	198	283	395	543	725
Net Current Assets	4,265	2,389	4,378	5,590	7,126	8,535	10,018	11,483
Appl. of Funds	14,768	11,491	14,117	15,810	17,774	19,558	21,860	24,098

E: MOSL Estimates

Financials and Valuations

Ratios	(INR m)							
Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E
Basic (INR)								
EPS	-0.6	-0.7	-0.4	-0.2	0.3	1.1	2.3	4.1
Cash EPS	-0.3	-0.5	-0.2	0.1	0.6	1.4	2.7	4.5
BV/Share	4.7	3.4	5.4	6.0	6.3	7.4	9.7	13.8
Valuation (x)								
P/E	-89.5	-85.5	-150.8	-354.1	198.3	51.6	24.2	13.7
Cash P/E	-166.3	-116.0	-324.0	471.9	98.3	39.8	21.0	12.4
P/BV	12.0	16.6	10.4	9.2	8.8	7.5	5.7	4.0
EV/Sales	7.5	5.7	4.5	3.2	2.3	1.6	1.2	0.8
EV/EBITDA	-152.3	-593.2	994.2	179.2	72.5	32.6	18.1	10.9
Return Ratios (%)								
RoE	-13.1	-16.3	-8.5	-2.8	4.6	15.8	27.0	34.8
RoCE	-6.6	-1.4	0.2	2.2	7.0	13.6	21.9	31.7
RoIC	-11.0	-3.9	-2.1	0.5	5.4	12.3	21.0	31.1
Working Capital Ratios								
Fixed Asset Turnover (x)	2.4	2.5	2.8	3.4	4.4	5.5	6.8	8.1
Asset Turnover (x)	0.9	1.5	1.5	1.9	2.4	3.1	3.8	4.6
Inventory (Days)	31	24	30	27	26	25	23	22
Debtor (Days)	43	35	56	60	58	56	56	52
Creditor (Days)	36	23	33	29	32	32	33	32
Leverage Ratio (x)								
Current Ratio	3.5	2.3	2.6	2.3	2.1	1.9	1.8	1.7
Interest Cover Ratio	-3.5	-0.6	-0.5	0.2	1.6	4.1	8.7	28.0
Net Debt/Equity	0.7	0.8	0.4	0.4	0.6	0.5	0.3	0.0

Consolidated - Cash Flow Statement	(INR m)							
Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E
OP/(Loss) before Tax	-1,088	-1,110	-654	-115	681	2,299	4,671	8,127
Depreciation	490	284	326	455	472	525	582	651
Interest & Finance Charges	37	519	308	201	205	195	95	-268
Direct Taxes Paid	-64	-32	124	25	-48	-345	-701	-1,219
(Inc)/Dec in WC	-1,872	847	-1,235	-1,240	-1,514	-1,450	-1,480	-1,437
CF from Operations	-2,497	508	-1,132	-674	-204	1,224	3,168	5,854
Others	66	287	320	0	0	0	0	0
CF from Operating incl EO	-2,431	795	-812	-674	-204	1,224	3,168	5,854
(Inc)/Dec in FA	-592	-685	-935	-910	-1,000	-1,000	-1,500	-1,500
Free Cash Flow	-3,023	110	-1,746	-1,584	-1,204	224	1,668	4,354
(Pur)/Sale of Investments	-2,721	802	265	-26	100	100	100	75
Others	1,440	269	-797	325	343	419	452	549
CF from Investments	-1,873	385	-1,467	-611	-557	-481	-948	-876
Issue of Shares	80	2	4,380	1,529	0	0	0	0
Inc/(Dec) in Debt	4,867	-838	-1,403	691	1,500	0	-1,500	-4,500
Interest Paid	-320	-607	-394	-527	-548	-615	-548	-281
CF from Fin. Activity	4,627	-1,443	2,584	1,256	783	-784	-2,217	-4,950
Inc/Dec of Cash	323	-263	305	-28	22	-41	3	28
Opening Balance	110	433	170	475	447	469	428	431
Closing Balance	433	170	475	447	469	428	431	459

Corporate profile

Company description

Future Consumer Limited operates as a food company. The Company focuses on branding, marketing, sourcing, manufacturing, and distribution of basic foods, ready to eat meals, snacks, beverages, and personal hygiene and home care products. Future Consumer also has agri-sourcing operations in India.

Exhibit 1: Sensex rebased

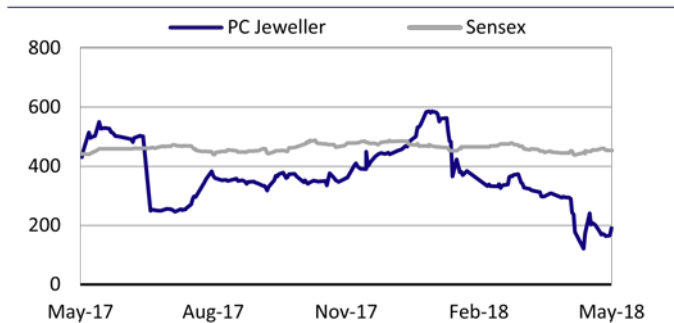


Exhibit 2: Shareholding pattern (%)

	Mar-18	Dec-17	Mar-17
Promoter	43.7	43.1	47.9
DII	1.0	1.1	0.9
FII	20.5	20.5	19.7
Others	34.9	35.3	31.5

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
IDRIA LIMITED	4.6
DVI FUND MAURITIUS LTD	3.9
LIFE INSURANCE CORPORATION OF INDIA	2.2
STICHTING DEPOSITARY APG EMERGING MARKETS EQUITY POOL	1.7
MAWER GLOBAL SMALL CAP FUND	1.2

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Padam Chand Gupta	Chairman
Balram Garg	Managing Director
Ramesh Kumar Sharma	Executive Director & COO
Vijay Panwar	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Krishan Kumar Khurana	Manohar Lal Singla
Miyar Ramanath Nayak	Muneesh Chawla

*Independent

Exhibit 6: Auditors

Name	Type
Randhir Singh Sharma	Secretarial Audit
Sharad Jain Associates	Statutory
VGJ & Associates	Internal
Walker Chandiok & Co LLP	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	0.3	0.3	13.6
FY20	1.1	1.0	10.9

Source: Bloomberg

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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