

July 12, 2018

Company Report

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	BUY		BUY	
Target Price	682		682	
Sales (Rs. m)	2,30,585	2,66,964	2,17,183	2,57,848
% Chng.			6.2	3.5
EBITDA (Rs. m)	11,023	14,015	10,936	13,934
% Chng.			0.8	0.6
EPS (Rs.)	18.3	22.7	21.2	19.0
% Chng.			(13.7)	19.5

Key Financials

	FY17	FY18	FY19E	FY20E
Sales (Rs. bn)	170.8	184.8	230.6	267.0
EBITDA (Rs. bn)	5.8	8.3	11.0	14.0
Margin (%)	3.4	4.5	4.8	5.2
PAT (Rs. bn)	3.7	6.2	9.2	11.4
EPS (Rs.)	7.8	12.3	18.3	22.7
Gr. (%)	125.1	57.0	49.5	24.1
DPS (Rs.)	-	-	1.5	3.0
Yield (%)	-	-	0.3	0.5
RoE (%)	16.6	21.8	26.2	25.9
RoCE (%)	16.9	19.5	22.6	25.7
EV/Sales (x)	1.6	1.6	1.2	1.1
EV/EBITDA (x)	47.4	35.1	26.1	20.0
PE (x)	71.9	45.8	30.6	24.7
P/BV (x)	10.4	9.1	7.2	5.8

Key Data

FRTL.BO | FRETAIL IN

52-W High / Low	Rs.659 / Rs.380
Sensex / Nifty	36,266 / 10,948
Market Cap	Rs.282bn / \$ 4,097m
Shares Outstanding	503m
3M Avg. Daily Value	Rs.1355.77m

Shareholding Pattern (%)

Promoter's	46.56
Foreign	17.24
Domestic Institution	5.52
Public & Others	30.68
Promoter Pledge (Rs bn)	

Stock Performance (%)

	1M	6M	12M
Absolute	(2.8)	(3.2)	42.0
Relative	(4.9)	(7.9)	24.3

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Gaining strength from industry Consolidation

Key Points

- FRL's acquired HyperCity, WH Smith and Foodworld
- HyperCity and Easyday EBIDTA turnaround likely in FY19
- FRL to turn net cash positive by FY20, trades at 50% discount to D'Mart

We are incorporating HyperCity merger in our estimates and cut PBT estimates by 11.3% and 8.7% for FY19 and FY20 due to higher interest and depreciation, lower other income and EBIDTA turnaround happening by 1HFY19 only. HyperCity merger has consolidated FRL's position in Hypermart format and will strengthen Big Bazaar Gen NXT brand which has premium positioning. Big Bazaar has sustained double digit SSG (7 quarters) and stands to gain from strong positioning in value fashion segment and increased focus on general merchandise. Easy Day will gain more scale with acquisition of WH Smith and Food World with likely turnaround in FY19. We estimate 36.8% PAT CAGR and value the stock at 30x FY20 EPS (zero tax rate due to accumulated losses of HyperCity). Retain BUY.

- HyperCity merged; turnaround by 1HFY19:** HyperCity merger has been completed and stores have been rebranded as Big Bazaar Gen NXT. Turnaround plan hinges upon 1) increase in share of apparel from 16% to 35% in next 2 years 2) no head office costs (Rs550mn) 3) savings in packing costs by 50-100bps 4) 100bps decline in selling and distribution costs and 5) exit from furniture and non-private label durables. We expect HyperCity to achieve EBIDTA turnaround by 1HFY19 and be margin accretive by 4QFY19.
- Big Bazaar to focus on Apparel and general merchandise:** Big Bazaar focus remains on improving the inventory turns from current 3.2 to 4.2 (2.6, 2years back). While women wear and children wear have seen strong traction, Men's wear has been a drag and has corrective actions. We estimate inventory reduction from 80.5 days in FY18 to 72.8 days in FY20.
- Easyday turnaround likely by FY19, Savings Club key driver:** Easyday savings club is likely to be a game changer with Rs35000/member spend and 3x increase in members to 0.5mn during FY18. Heritage fresh integration, addition of Kolkata and Ahmedabad clusters, fast scale up in Ludhiana cluster, acquisition of WH Smith and Foodworld will enable EBIDTA turnaround in FY19. We estimate sales of Rs37bn and EBIDTA of Rs568mn by FY20.
- FRL likely to turn debt free by FY20:** We cut FY19 EPS by 13.6% and increase FY20 EPS by 19.7% factoring in higher interest, depreciation, lower other income and lower tax. We expect FRL to be FCF positive from FY18 and net cash positive from FY20 (excluding Rs13.5bn gains on stake held by Bharti Group and Heritage). We expect ROE and ROCE to improve to 25.9% and 25.7% by FY20 from 21.8% and 19.5% in FY18. FRL trades at 34x FY20 EPS on marginal tax rate (24.7x at actual tax rate) which is at 50% discount to D'Mart (69x FY20 EPS of Rs22.7).

Acquisition of HyperCity does not have upside sharing clause like Bharti Retail and Heritage

Higher fashion sales, no head office costs, lower packing and S&D costs are key to HyperCity turnaround

HyperCity is likely to turnaround by 2HFY19 and be margin accretive in another 15-18 months

HyperCity breakeven likely by 1HFY19

FRL has acquired 100% stake in HyperCity (51% holding by *Shoppers Stop* and ~49% by CL Raheja Group) with an Enterprise value (EV) of Rs9bn. It has allotted 9.31mn shares of Rs2 each at Rs537/share and Rs1.12bn in cash. In addition, it has assumed HyperCity retail's debt of Rs2.85bn. The shares have 1-year lock in without upside sharing clause. Raheja owned store (4) leases have been extended by nine years on earlier terms and conditions. HyperCity had 19 stores, retail space of 1.34mn sq. ft, sales of Rs10.8bn (sales/ft of Rs8889) and LTL sales growth of 4%. HyperCity Retail has been merged with FRL from Dec2017, and provide tax gains from carry forward losses of Rs5.2bn.

HyperCity undertaking renovation and cost cutting

FRL has rebranded HyperCity stores as Big Bazaar GEN NXT as these stores had premium positioning, higher throughput and rich assortment mix than Big Bazaar. Noida store has been closed while 4 stores have seen reduction in size. However, FRL will retain HyperCity brand for 3 stores in Mumbai, given their distinct positioning, high throughput and strong brand association with the consumers.

- HyperCity will have FBB stores as FRL derives 30% sales from fashion segment as against just 16% for HyperCity.
- HyperCity had **head office costs of Rs550mn** which will not be required, post integration with FRL.
- HyperCity's **Packing cost** at 2.5% of sales can come down by 50-100bps
- **Selling and Distribution costs** are 2.5% which can be reduced by 1% post integration with FRL's supply chain, distribution and marketing
- HyperCity stores will **exit from heavy furniture** and focus on softer furnishings and general merchandise which offers higher inventory turns and profitability
- The durables and white goods section will have mostly private labels on the line of *Big Bazaar GEN NXT*

HyperCity to turn margin accretive in 15-18 months

HyperCity had a breakeven at store level but reported EBIDTA loss of Rs493mn in FY17 due to head office costs of approx. Rs550mn. HyperCity has reported sales of Rs1.88bn and EBIDTA loss of Rs380mn (Rs950mn and EBIDTA loss of Rs40mn in Dec 18) in 4QFY18 as most of stores were under renovation.

Gross margins are likely to improve by 400bps due to higher sales of apparel and lower costs due to economies of scale. The operations are likely to become EBIDTA positive once the renovation and restructuring gets over. HyperCity is expected to achieve EBIDTA margins of 4-5% and be margin accretive in 15-18months. However, profit impact will be limited initially, given debt of Rs2.85bn, working capital of Rs1.2bn and depreciation as HyperCity store infrastructure is owned by FRL.

Exhibit 1: HyperCity: sales Rs10.8bn, EBITDA Rs-493mn

Y/e March	FY13	FY14	FY15	FY16	FY17
Net Sales	7,509	8,462	9,039	9,346	10,771
Gross Profit	1,566	1,817	2,035	2,098	2,442
<i>Gross Margin (%)</i>	<i>20.9</i>	<i>21.5</i>	<i>22.5</i>	<i>22.4</i>	<i>22.7</i>
Store EBITDA	42	78	315	206	64
<i>% to sales</i>	<i>0.6</i>	<i>0.9</i>	<i>3.5</i>	<i>2.2</i>	<i>0.6</i>
Company EBITDA	-337	-470	-77	-221	-493
<i>% to sales</i>	<i>-4.5</i>	<i>-5.6</i>	<i>-0.9</i>	<i>-2.4</i>	<i>-4.6</i>
PAT	-877	-1099	-751	-874	-1199
<i>% to sales</i>	<i>-11.7</i>	<i>-13.0</i>	<i>-8.3</i>	<i>-9.4</i>	<i>-11.1</i>

Operating metrics

LTL sales growth (%)	5	4	0	1	4
Stores	13	15	15	16	19
Area (m. sq.ft)	1.2	1.2	1.2	1.3	1.3
Sales/sq.ft	6,078	6,874	7,447	7,945	8,889
Fashion mix	8.6	12.1	14.6	15.9	16.4
Inventory Turns	6.5	5.7	6.4	5.6	5.5
Cost of Retail %	25.3	27.0	23.4	24.8	27.2

Source: Company, PL

Exhibit 2: EBIDTA Positive at store level

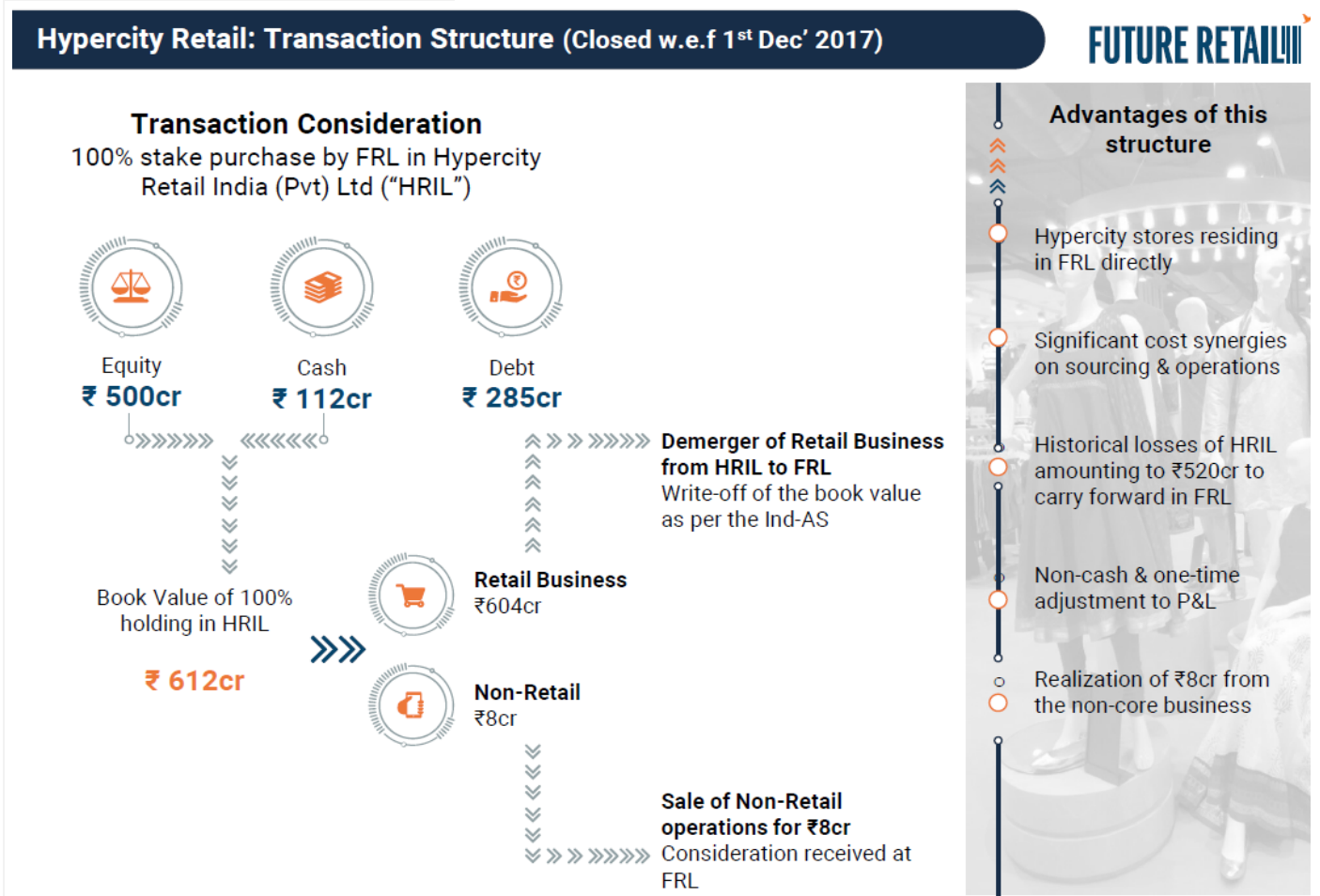
Y/e March	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18
Net Sales	2,525	2,737	3,041	2,468	2,726
Gross Profit	590	623	689	541	645
<i>Gross Margin (%)</i>	<i>23.3</i>	<i>22.8</i>	<i>22.7</i>	<i>21.9</i>	<i>23.7</i>
Store EBITDA	22	19	54	-38	69
<i>% to sales</i>	<i>0.9</i>	<i>0.7</i>	<i>1.8</i>	<i>-1.5</i>	<i>2.5</i>
Company EBITDA	-91	-109	-90	-203	-62
<i>% to sales</i>	<i>-3.6</i>	<i>-4.0</i>	<i>-3.0</i>	<i>-8.2</i>	<i>-2.3</i>
PAT	-257	-276	-271	-395	-266
<i>% to sales</i>	<i>-10.2</i>	<i>-10.1</i>	<i>-8.9</i>	<i>-16.0</i>	<i>-9.8</i>

Operating metrics

LTL sales growth (%)	-1	3	3	6	2
Stores	19	19	18	19	19
Area (m. sq.ft)	1.4	1.4	1.3	1.3	1.3
Sales/sq.ft	2,066	2,213	2,431	2,030	2,235
Fashion mix	17.3	16.1	17.9	16.4	16.8
Cost of Retail %	26.9	26.8	25.6	30.1	26.0

Source: Company, PL

Exhibit 3: FRL will get tax break given Rs5.2bn accumulated losses of HyperCity



Source: Company, PL

Big Bazaar – Fashion and general merchandise, the key focus areas

Fashion segment is targeting an increase in Inventory turns from 3.2 to 4.2 over next 3 years, Men's wear is the key segment to watch out for

Increase in Import duty on Footwear and General merchandise items can be near term drag

FRL is increasing focus on Fashion and general merchandise to improve profitability and inventory turns. Fashion segment contributes 33% of company sales and 30% for Big Bazaar and has superior margin profile. Opening of FBB in HyperCity stores and annual addition of 10 standalone FBB stores augurs well for the margin profile for FRL. FRL is taking following initiatives which will further improve the returns from the apparel business and general merchandise.

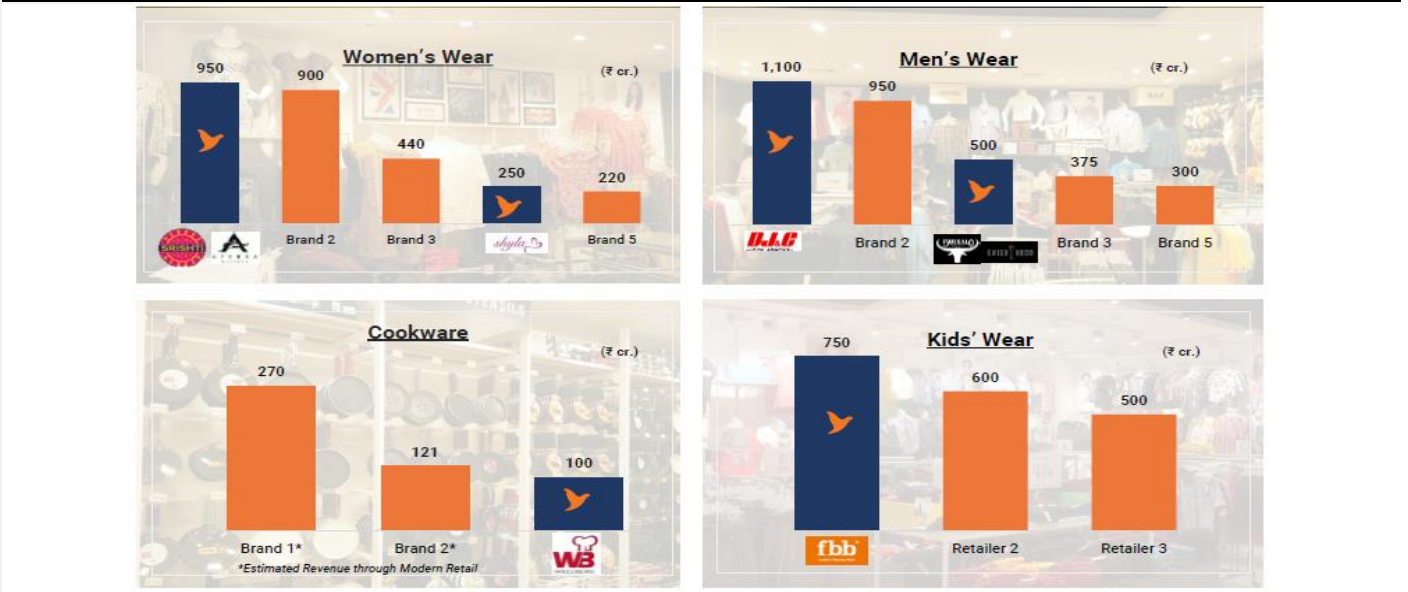
- Fashion segment has cut prices and lowered discounts to increase sale of full priced items. This reduces bunching up of sales and improved inventory management. Fashion business has seen increase in inventory turns from 2.4 to 3.2, FRL is targeting inventory turns of 4.2 in the coming 2-3 years.
- FRL has been able to improve product sourcing as decline in exports demand has given access to some of biggest vendors in apparel and accessories. This has improved quality at competitive prices and enabled strong sales.
- FRL has been able to create strong positioning in women and kids wear with some segments like sleepwear having ITO of 6x. FRL has cut prices of Men's Jeans from Rs1299 to Rs899 as it has <2 ITO in this segment.
- Increase in import duty on footwear, dining and other General merchandise items is a near term concern, however FRL is focusing on product consistency and availability. It had tied up with Walberg for kitchen items and general merchandise, the brand is now being made in India.

Exhibit 4: FRL: Retains focus on value fashion to tap mass market and compete with unorganized players



Source: Company, PL

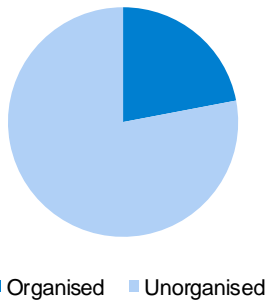
Exhibit 5: FRL's brands have leading position among organized retail in key segments



Source: Company, PL

Exhibit 6: 78% of apparel market is unorganized

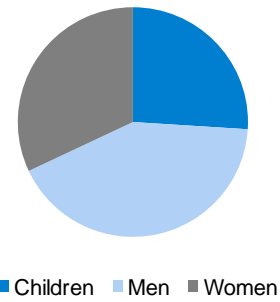
Indian Apparel Market (USD 55bn)



Source: Company, PL

Exhibit 7: Men segment is most organized, children least

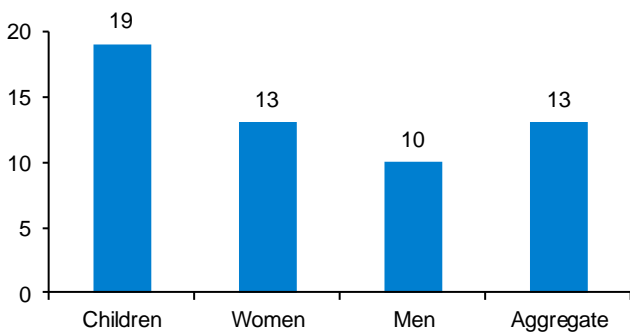
Indian Apparel Market (USD 55bn)



Source: Company, PL

Exhibit 8: Children/women wear is high growth segment

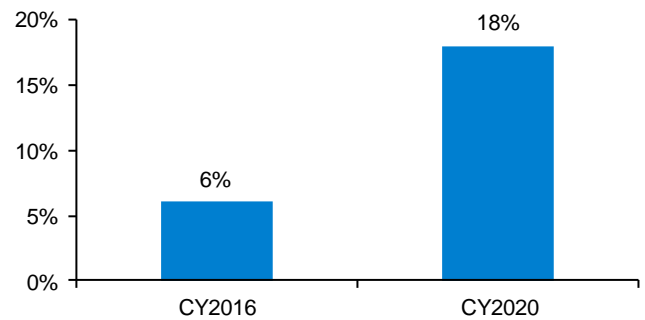
Segmental Growth Rate (%)



Source: Company, PL

Exhibit 9: Share of Ecom in apparel likely to jump sharply

E Com Share



Source: Company, PL

Easyday Savings Club to enable FY19 turnaround



Convenience store format has several casualties in India led by Subhiksha in the past decade. However, the format has sustained its evolution amidst changing consumer expectations and huge impact of technology and e-tailing in the past few years. FRL has been at the epitome of consolidating itself in the convenience store format since past few years. FRL has mainly built this format from acquisition of 185 stores from Bharti retail, 119 stores from Future consumer on franchisee basis and 136 stores of heritage fresh. It has also added 128 stores in FY18 taking the total to 666 stores.

Exhibit 10: Small Store format built on acquisitions

Retailer	Format	Brand	Stores	Sales (Rs bn)
Bharti Retail	Hypermart	Easyday	15	18
	Convenience Stores	Easyday	185	
Heritage Retail	Convenience Stores	Heritage Fresh	136	7.6
FCEL	Convenience Stores (franchised to FRL)	KB's, Aadhar, Big Apple	119	4.5

Source: Company, PL

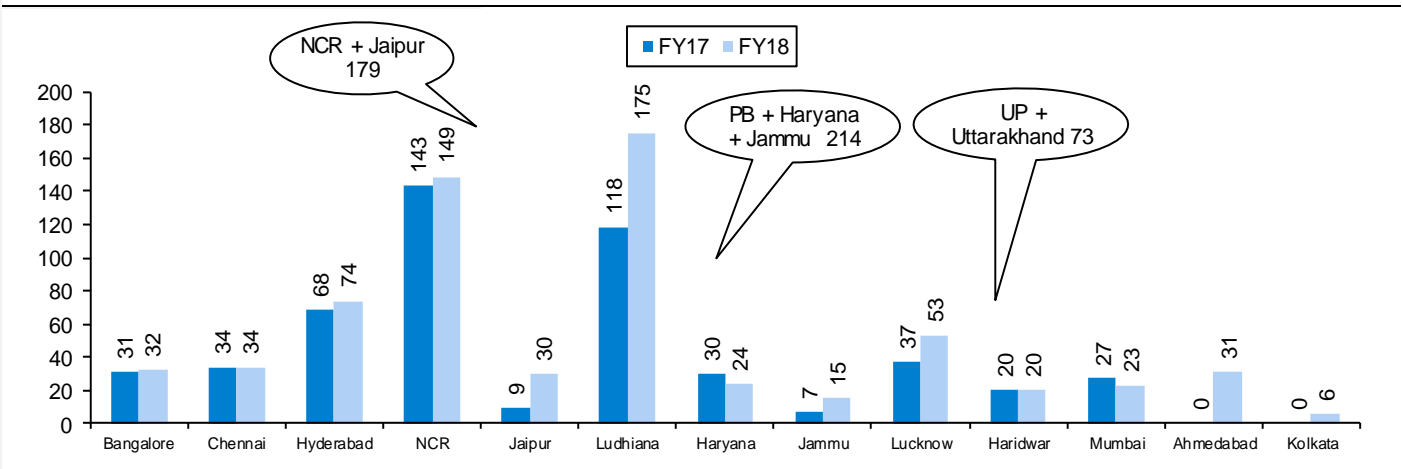
FRL continuously evolving the small store format

FRL has made Easyday as the mother brand for the convenience store format. FRL is following a cluster based approach to gain from integration with supply chain of Big Bazaar. It is undertaking Easyday savings club, a major customer loyalty program to crack his format.

- Assortment:** FRL is focusing on ~3500 SKU's in comparison to 4000-5000 earlier. 70% of the assortment is uniform across stores and rest has regional and local variations to enable higher inventory turns. Throughput per store has seen an increase of 35-40% in the past 2 years. Easy day has 70-75% sales from Food with 15-17% Gross Margins and 25-30% from nonfood with 18-20% gross margins, thus giving 16-17% aggregate gross margins.



Exhibit 11: FRL created Ahmedabad and Kolkata clusters and consolidated Ludhiana and Lucknow clusters in FY18



Source: Company, Industry

Easyday has opened two new Clusters of Ahmedabad and Kolkata during FY17

- Cluster based approach sustained:** FRL is sticking to cluster (150-200km area) based approach in the small store format with each cluster having potential of ~200stores. Cluster based approach enables better sweating of

Easyday savings club has 0.5mn members and it plans to have 10mn members by 2021

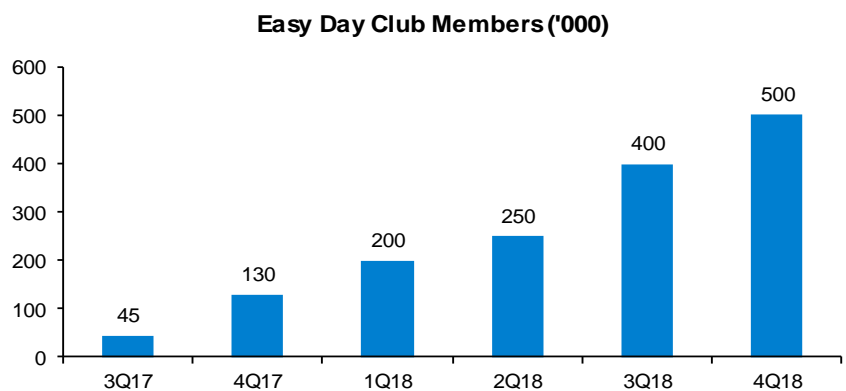
Savings club members account for ~35-40% of sales and have potential of Rs35000/member/year

resources and infrastructure and improves profitability. FRL had 11 clusters mainly in north and south India till 2017, it has recently entered East India with Kolkata cluster and Ahmedabad in west India where its presence earlier was restricted to Greater Mumbai only.

- **Supply chain integration with Big Bazaar:** FRL is following a hub and spoke model for the convenience store format. Big Bazaar stores will act as hubs and Easyday/ Heritage stores will act as spokes. It has integrated the supply chain, backend and sourcing for Easyday with Big Bazaar so that the small format stores can get the benefit of huge scale of Big Bazaar and its long standing relationship with suppliers in the food and grocery segment.
- **Loyalty program:** FRL started an attractive loyalty program which is currently in operation in 544 Easyday stores with an intent to retain customers and sustain the growth momentum.
 - The membership cost is Rs999. It provides 10% discount on products except Milk, Oil, ghee and Patanjali products up to a total value of Rs50000/year
 - Easyday offers promotions like free movie tickets, Live on FM to improve brand salience and consumer affinity.
 - It currently has 910members/store (810 in 3QFY18) and is targeting 2000 members/ store
 - Loyalty members have 50% higher sales/ individual than non-members. Savings club members account for ~35-40% of total sales currently.
 - Easyday has 3-4 visits by members/month with Rs900 spend per visit which gives annual potential of Rs35000/member.

FRL is looking at integrating the small store format with advanced digital mapping, home delivery and convenient solutions to increase wallet share from members.

Exhibit 12: Saving Club Members have grown by 25% in 4Q18, 3x in FY18



Source: Company, PL

FRL has opened Kolkata and Ahmedabad as new clusters and undertook fast expansion of Ludhiana and Lucknow clusters in FY18

Small format is likely to turnaround by FY19 and achieve 1.5% margins by 2020

WH Smith will qualify FRL to expand in huge potential area of Airport and Metro Retailing

1200 stores by 2020, EBIDTA breakeven likely in FY2019

FRL has been focusing on creating the right assortment, cutting costs, closing unviable stores, establishing consumer loyalty programs and integrating the supply chain in convenience store format. FRL has seen sharp ramp up in Ludhiana and Lucknow clusters with 57 and 16 store additions. In addition, it has started Ahmedabad and Kolkata as new clusters in FY18 with 31 and 6 stores. FRL closed FY18 with 666 stores and has acquired ~90 stores of WH Smith and 38 stores of Food World subsequently.

We estimate that FRL would be adding 200 and 250 stores organically in FY19 and FY20 thus taking the total to ~1200+.

- We est Easyday EBIDTA loss of at Rs238mn in FY18 (1.5% of sales). Economies of scale and Easyday savings club will enable turnaround in FY19. We expect EBIDTA margins to increase to 1.5% by FY20.
- Convenience store format currently has inventory turns of 9 while Heritage retail had inventory turns of ~12. FRL is targeting inventory turns of 12 in the coming 5 years, we estimate increase in turns to 9.7 by FY20.

Exhibit 13: Small Store format to turnaround by FY19

Easyday (Rs mn)	FY17E	FY18E	FY19E	FY20E	FY21E
Stores	402	666	984	1234	1484
Area (sq. ft)	890000	1500000	2130000	2555000	2980000
Sales	14854	23784	27722	37834	48176
Sales/Ft	19260	17141	16113	16919	18103
Sales/ft Gr %	7.0	-11.0	-6.0	5.0	7.0
Gross Margins %	15.0	15.5	16.0	16.0	16.0
Gross Profit	2228	3686	4436	6053	7708
EBIDTA Margin %	-1.0%	-1.0%	0.5%	1.5%	2.5%
EBIDTA	-149	-238	139	568	1204
Cost of Retail	2377	3924	4297	5486	6504
Cost of Retail %	16.0	16.5	15.5	14.5	13.5
Inventory Turns	9.1	9.5	9.5	9.7	9.8

Source: Company, PL

Consolidates small format with WH Smith and Food World Acquisitions

FRL has acquired **TNSI retail** and its subsidiary Welcome Retail for Rs1bn. TNSI has rights to WH Smith brand and operates around 90 stores in India. It had sales of Rs1.3bn and marginal loss in FY17.

- TNSI operates more than 40 stores at Delhi metro, more than 25 stores at various Airports and around 15 stores in campuses of large educational institutions. It has 10-year license to operate leases at Airports and Metro.
- WH Smith stores primarily sell books, magazines, RTE food/ beverages, Chocolates, Greetings/ Stationary, Sweets, Juices, Music CD, Toys, games, personal care, travel accessories etc.

Foodworld will enable FRL to consolidate small store format in South India

Incremental gains from GST will be driven by higher efficiencies over the coming couple of years

- FRL plans to launch its food, general merchandise, kitchenware and apparel at these stores. These will act as online-offline peach head on a hub and spoke model

The acquisition of WH Smith makes FRL eligible to bid and enter large number of new Metro stations and Airports being set up in the country. Ability to launch its private labels at these places and integrate its supply chain will enable TNSI retail to grow faster and be profitable with 12-18 months.

FRL has also acquired **Food World** chain of small format stores for Rs408mn which operates 38 stores with an area of 110,000 sq. ft in south India. It has sales of Rs1.3bn and Rs1.2bn in FY17 and FY18 and had EBIDTA margins of 2.5%. Food accounts for 80% of sales while HPC and General merchandise accounts for 20% of sales. The business which is originally set up as a part of Spencer's will add to strength of FRL in small store format.

WH Smith provides a long term opportunity to increase presence in Airports and Metros while Food World will increase presence in south India.

GST; initial benefits already derived

GST has been beneficial for the organized retail in general and value fashion retailers in particular. GST has created a unified market for goods and services and will ensure seamless movement thus cutting costs of doing business. FRL has seen 110bps EBIDTA margin expansion in FY18 partly led by:

- Full set off in service tax on lease rentals, mall maintenance etc.
- Abolition of octroi and various check posts have reduced the lead time/transport time
- Lower aggregate GST rates on apparel which are 33% of company sales. Apparel with MRP less than Rs1000 has just 5% GST with input tax credit and 12% for MRP>Rs1000. We note that FBB and Big Bazaar have 70% sales of apparel which is priced at less than Rs1000.

Most of the consumer industries including FMCG industry have supply chain system in line with the earlier taxation structure. The industry is in the process of making changes in its supply chain, the benefits of which would be realized over the coming 2-3 years. However incremental gains from GST are likely to be limited and back ended from now on.

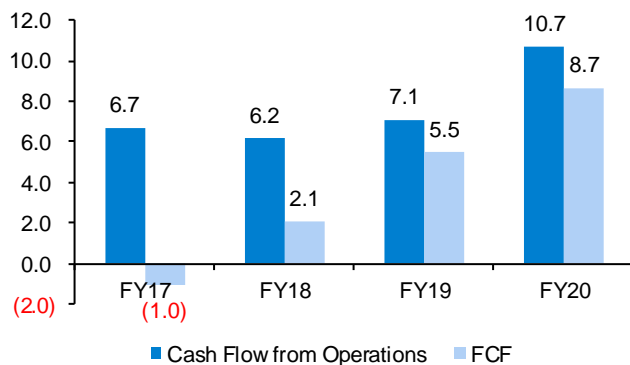
Financials improving, watch out for FEL investments monetization

FRL's balance sheet is gaining strength due to strong cash flows, decline in inventory days and limited capex post infrastructure hive off to FEL (Future Enterprises). We expect FRL to turn debt free by FY20. FRL is sitting on gains of Rs14bn from upside sharing clause on shares of FRL allotted to Bharti Group and Heritage Foods. It will receive Rs5.7bn from recent sale of 6% stake by Bharti Group to Premji invest, which will considerably bolster its balance sheet.

Strong cash flows to make FRL debt free by FY20

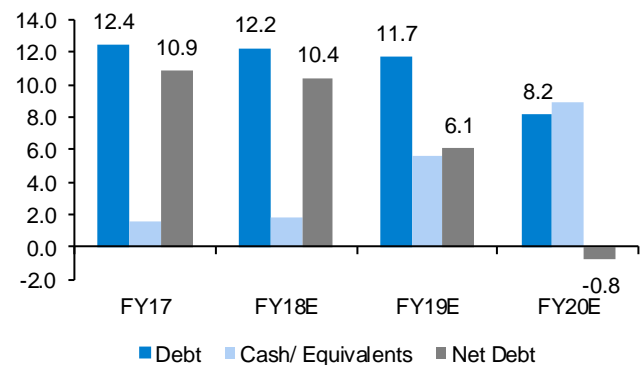
FRL is expected to generate cash flow from operations of Rs7bn in FY19 and Rs10.7bn in FY20. We estimate that FRL will generate FCF of Rs14.2bn over the next two years. FRL has debt of Rs12.5bn (including HyperCity debt of Rs2.8bn), we estimate that FRL will turn net cash positive by FY20. This does not take into account any incremental acquisitions and Rs5.7bn gains from sale of shares by Bharti Group. This however is subject to assumption that FEL will continue to invest in store infrastructure. We estimate FRL to be net cash positive with Rs0.8bn in FY20 which should increase to Rs6.6bn in FY21 and Rs15bn in FY22.

Exhibit 14: FRL to generate FCF of Rs14.2bn by FY20



Source: Company, PL

Exhibit 15: FRL to turn net cash positive by FY20



Source: Company, PL

FRL: Potential gains of Rs13.5bn from stake sale by Bharti and Heritage; Rs5.7bn likely in FY19

FRL has upside clause built in stake sale by Bharti and Heritage group in future. They have 43.47mn and 17.87mn shares in FRL. We estimate that upside in the stakes when sold is estimated at Rs13.5bn at FRL's price of Rs561/share. Bharti Group has recently sold off 30.3mn shares to Premji Invest for Rs17bn which is likely to accrue gains of Rs5.75bn to FRL. we believe that this cash inflow (manner unknown) will flow in current year and will considerably strengthen the balance sheet of FRL.

Exhibit 16: FRL has gains of Rs13.5bn on stake held by Bharti and Heritage

Bharti Enterprises Stake			
No of shares	CMP	Market Value (bn)	Total Gain
43478261	561	24.4	9.2
Sale Consideration (Rsbn)	9.5-14.5	14.5-19.5	>19.5
Cut Off	9.5	14.5	19.5
Share	50%	60%	75%
FRL Share (bn)	2.5	3.0	3.7
Heritage Group			
No of shares	CMP	Market Value (bn)	Total Gain (bn)
17847420	561	10.0	
Sale Consideration (Rsbn)	4.0-5.0	> 5.0	
Cut Off	4.0	5.0	
Share	50%	75%	
FRL Share	0.5	3.8	4.3

Source: Company, PL

FEL deleveraging to ally investor concerns

FEL has debt of Rs56.6bn in FY18 as against Rs49.5bn in FY17

FEL (Future Enterprises) had debt of Rs49.5bn in FY17 which has increased to Rs56.6bn in FY18. It had received deposits of Rs5.0bn and Rs5.6bn for store infrastructure from FRL in FY17. In addition, it received a lease rent of Rs6.7bn from FRL for store infrastructure in FY17 and Rs7.6bn in FY18. FRL has also given advances of Rs4.5bn and extended corporate guarantee for FEL.

FEL is gradually looking at reduction in its debt level as FEL needs to invest approx. Rs3bn every year in store infrastructure to support the expansion plans of FRL. Although FEL received Rs7.6bn in lease rental for store infrastructure in FY18 it had interest burden of Rs5.7bn in FY18 (Rs5.1bn in FY17). FEL is looking at unlocking value from its investments and gradual repayment of debt:

FEL has holdings worth Rs22bn in listed entities of Future Supply chain solutions and Future Consumer

- FEL raised Rs1.3bn from offer of sale in IPO of Future Supply chain solutions. It has 51.22% stake post IPO which has a market value of Rs14.4bn. Further dilution of stake for debt reduction can't be ruled out.
- FEL has 150mn equity shares in Future Consumer Enterprise which have market value of ~Rs7.5bn
- FEL has direct and indirect stake of 27% in Future Generali Life Insurance and 50% stake in Future Generali General Insurance. Future Generali insurance had reported profit of Rs420mn in FY17 while life business is in loss. It has entered into agreement whereby Generali will increase its stake in both life and non-life ventures from 25.5% to 49% at a cost of 120mn Euro (~Rs9.5bn). we estimate that FEL will have a stake of 3.5% in Life insurance and 26.5% in non-life insurance which will be monetized at a later date.
- FEL has minority stakes in Apollo Design Apparel parks and Goldmohur Design Apparel parks, with book value investments of Rs1.7bn. These companies have high value saleable real estate in the heart of central Mumbai. Any plan to monetize real estate in these JV's can unlock significant value for FEL in coming years.

FEL will gain from ~Rs9.6bn stake sale in Life and non-life insurance ventures to Generali

Operating matrix shows sustained improvement

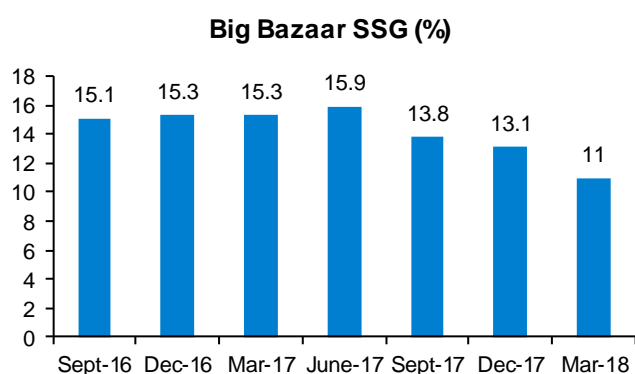
FRL is showing sustained improvement in operating parameters from past several quarters. Sales/ft has shown double digit growth except for 4Q when HyperCity stores renovation impacted the reported numbers. Flagship Big Bazaar has shown double digit SSG. Gross profit/ft/month has improved from Rs255 in April 16 to Rs305 in Dec17 and was at Rs285 in March18. EBIDTA margin has increased from ~3.2-3.5% levels to current levels of ~4.5%. Cost of retail has declined by 150bps from 22.2% to 20.7%, 4Q being an exception due to HyperCity merger. Adj PAT has increased from Rs706mn in 1Q17 to Rs1.83bn in 3Q18 and Rs1.4bn in 4Q18.

Exhibit 17: Staples deflation has impacted sales/ft in 2HFY18, HyperCity merger has lowered cost of retail in 4QFY18

Quarterly Operating Matrix	Apr-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Operating Area (Mn sq. Ft)	12.9	13.1	13.1	13.2	13.8	13.5	13.6	13.0	14.5
Sales/ Ft (Rs)	2732	3043	3162	3279	3156	3490	3326	3619	3166
Growth %	13.3	26.2	25.2	17.4	15.5	14.7	5.2	10.4	0.3
Gross Profit (Rs mn)	9842	10004	10374	10858	11172	11766	11571	11864	12341
Gross profit/ft/month	255	255	265	275	271	291	285	305	285
Change (%)	10.0	9.9	11.5	6.8	6.0	14.1	7.5	11.0	5.2
Gross Margin %	27.5	25.1	24.7	24.6	24.9	25.0	25.7	25.3	27.0
Change (%)	-1.0	-3.4	-2.9	-2.7	-2.2	-0.1	0.9	0.7	2.1
EBIDTA Margin %	3.4	2.9	3.1	3.5	4.0	4.5	4.7	4.6	4.4
Cost of retail %	24.1	22.2	21.7	21.0	20.9	20.6	21.0	20.7	22.6
EBIDTA	1220	1168	1282	1558	1805	2096	2111	2149	2015
Interest	214	449	528	554	511	535	497	232	464
Adj PAT	1049	706	736	1010	1231	1479	1532	1831	1402
EPS	2.1	1.4	1.5	2.0	2.5	2.9	3.1	3.6	2.8

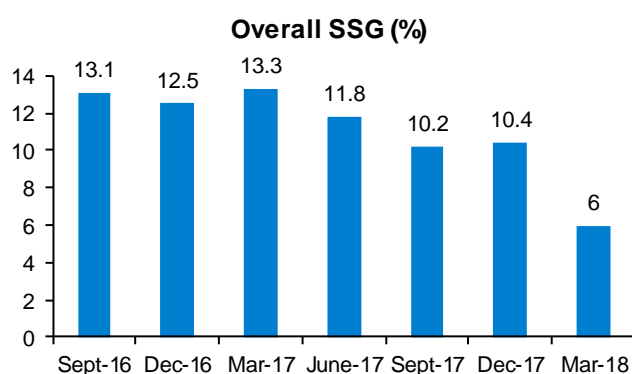
Source: Company, PL

Exhibit 18: Double digit SSG sustained



Source: Company, PL

Exhibit 19: HyperCity renovation impacts SSG



Source: Company, PL

HyperCity, WH Smith and Food World add to area addition

- FRL has demerged Home Town into a separate company Praxis Home retail which has brought together offline and online home retail business of the group under one roof. It has also transferred debt of Rs1.5bn to that company. FRL will not add Ezone as a separate electronics and white goods store and electronics retail will only be a part of Big Bazaar only

- *Big Bazaar* will lead area addition with ~20 stores/year and will have ~80% of the total retail space.
- *Small store format led by Easyday* is likely to add 250 stores each year. However, acquisitions can take this number higher. We note that FRL has acquired WH Smith and Foodworld, which has added another 128 stores in the past 6 months.
- Small format stores led by Easyday will increase its share of area from 10% to 15% while FBB will be less than 5% of area.

Exhibit 20: HyperCity acquisition to boost area under Big Bazaar, Food world and W H Smith in Small format

Stores	FY16	FY17	FY18	FY19	FY20
Big Bazaar	218	235	285	305	325
Easy Day	307	402	666	984	1234
Food Bazaar	6	7	10	11	12
FBB	51	54	61	71	81
Home Town	43	37	37	-	-
E Zone	84	30	13	-	-
Area (mn sq. Ft)	12.8	13.4	14.4	15.6	16.7
Area Addition	1.5	0.6	1.0	1.2	1.1
Growth %	13.7	4.5	7.7	8.3	7.2
Big Bazaar	9.7	10.2	12.1	12.7	13.3
Easy Day	0.70	0.89	1.50	2.13	2.56
Food Bazaar/ Foodhall	0.08	0.09	0.11	0.11	0.12
FBB	0.50	0.55	0.60	0.68	0.75
Home Town	1.32	1.37	-	-	-
E Zone	0.50	0.30	0.11	-	-

Source: Company, PL

Big Bazaar/FBB key profit driver

- We estimate 19% sales CAGR for *Big Bazaar* over FY18-20 led by 7% increase in sales/ft and integration of HyperCity stores (18 old and 2 new). We estimate 19% sales CAGR for FBB due to new store additions and 7% increase in sales/ft. *Easyday* sales will grow at 26.5% CAGR led by 70% increase in store which includes gains from WH Smith and Foodworld acquisitions.
- FRL's profitability remains centered around Big Bazaar and FBB. *Easyday* turnaround has been delayed and it is likely in FY19 only. We estimate positive EBIDTA of Rs139mn and 568mn in FY19 and FY20. Contribution of *Easyday* to total EBITDA will increase to 4% by 2020
- *Big Bazaar* and *FBB* continue to gain scale and efficiencies. We estimate 60bps margin expansion for these segments over FY18-20 post sharp GST and efficiency led gains in FY18, however limited gains look likely in FY19 due to HyperCity integration.

Exhibit 21: Big Bazaar/ Easyday to dominate sales mix

YE March	FY17	FY18	FY19	FY20
Sales (Rs mn)	170744	184779	225397	260958
Big Bazaar	138450	150438	188464	213511
FBB	4483	5157	6038	7305
Home retail	11525	3869	1190	0
Easyday/ Foodhall	16286	25315	29705	40142
Sales Growth (%)				
Big Bazaar	25.8	8.7	25.3	13.3
FBB	4.8	15.0	17.1	21.0
Home retail		-66.4	-69.2	-
Easyday/ Foodhall		55.4	17.3	35.1
Sales Mix (%)				
Big Bazaar	81.1	81.4	83.6	81.8
FBB	2.6	2.8	2.7	2.8
Home retail	6.7	2.1	0.5	0.0
Easyday/ Foodhall	9.5	13.7	13.2	15.4

Source: Company, PL

Exhibit 22: Big Bazaar and FBB will remain corner stone of profitability

Rs Mn	FY17E	FY18E	FY19E	FY20E
EBITDA	5813	8323	11023	14015
Home Retailing	115	39	12	-
Margins %	1.0%	1.0%	1.0%	-
Easyday	-149	-238	139	568
Margins %	-1.0%	-1.0%	0.5%	1.5%
Big Bazaar/FBB	5846	8522	10872	13447
Margins %	4.1%	5.5%	5.6%	6.1%
EBITDA Contribution				
Home Retailing	2.0	0.5	0.1	0.0
Easyday	-2.6	-2.9	1.3	4.0
Big Bazaar/FBB	100.6	102.4	98.6	96.0

Source: Company, PL

PBT cut 9-11% on HyperCity merger; accumulated losses to boost FY20 EPS

Acquisitions led by HyperCity will impact PBT due to Rs2.8bn debt, depreciation and expenses on renovation

We are incorporating HyperCity merger in our estimates from Nov2017 onwards. HyperCity acquisition will impact profits in near term as it entails 1) Rs1.55bn cash payment 2) taking over Rs2.85bn debt of HyperCity 3) renovation of HyperCity stores on lines of Big Bazaar Gen NXT and 4) time taken to stabilize and turnaround operations. Thus higher interest, depreciation and lower other income will result in 8.7% and 11.3% lower PBT in FY19 and FY20. We believe FRL will remain under zero tax in FY19 and will have ~10% tax rate in FY20 as against earlier estimates of 33% tax in FY20. FY19 reported EPS will decline by 13.6% than earlier estimates, while FY20 EPS will be higher by 19.7% on lower tax outgo on accumulated losses of Hyper City. (EPS at 33% tax rate would decline by 13.4% in FY19 and 11.5% in FY20 than earlier estimates). We expect FRL to be FCF positive from FY18 and net cash positive from FY20.

Exhibit 23: PBT cut due to acquisitions, Accumulated losses to benefit

Particular (Rs mn)	FY19E			FY20E		
	Earlier	New	% Change	Earlier	New	% Change
Area	14.1	15.6	10.8	15.4	16.7	8.6
Net Sales	2,17,183	2,30,585	6.2	2,57,848	2,66,964	3.5
Sales Growth (%)	15.3	25.0	970	18.7	16.1	(260)
EBITDA	10,936	11,023	0.8	13,934	14,015	0.6
EBITDA Margin (%)	5.0	4.8		5.4	5.2	
Interest	765	1,439	88.1	585	1,195	104.2
Depreciation	478	625	30.8	513	688	34.0
Other Income	675	240	(64.5)	1,062	550	(48.2)
Profit before Tax	10,368	9,199	(11.3)	13,898	12,683	(8.7)
Tax	0.0	0.0		4,586	1,268.3	(72.3)
PAT	10,368	9,199	(11.3)	9,312	11,415	22.6
PAT Growth (%)	48.9	49.7	80	-10.2	24.5	
EPS (Rs)	21.2	18.3	(13.6)	19.0	22.7	19.5

Source: Company, PL

FRL: 'BUY' with 12-month target of Rs682, 22% upside

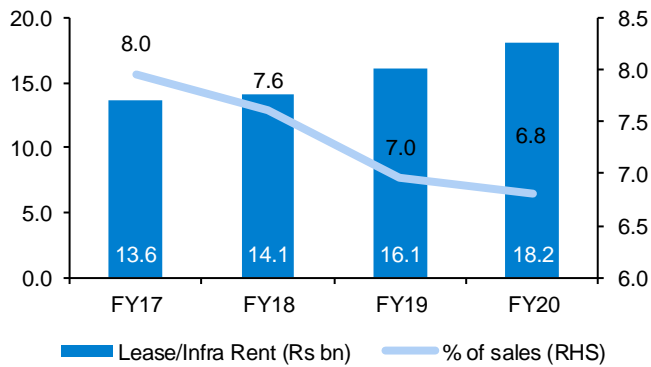
FRL trades at 25x FY20 EPS which is at 60% discount to *D'Mart* which is trading at 69x FY20 EPS of Rs22.7. As *D'Mart* pays tax at marginal rate, applying the same to FRL will make FRL trading at 34x FY20, still 50% discount to *D'Mart*. *D'Mart* trades at EV/Sales of 3.9x in comparison to 1.1 for FRL.

FRL has upside of Rs13.5bn build in *BRL* and *Heritage* holding in the company. We estimate that FRL would be net cash positive from FY20 without factoring in any gains from inflow from *Bharti Group* or *Heritage*.

We note that global retail chains in the Hypermart and Supermarket segment are trading at 0.3-0.7x EV/sale with growth rates significantly inferior to Indian companies. We estimate 36.8% PAT CAGR over FY18-20 with reported EPS of Rs22.7 in FY20. We value the stock at 30x FY20 EPS of Rs22.7 and arrive at price target of Rs682, a 22% upside for next 12 months. Retain BUY.

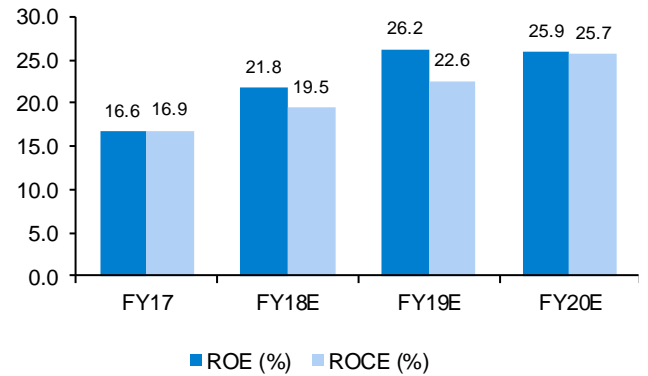
FRL trades at 34x FY20 EPS on marginal tax as against *D'Mart* which trades at 69x FY20

Exhibit 24: Sustained SSG growth to reduce lease/infra rent



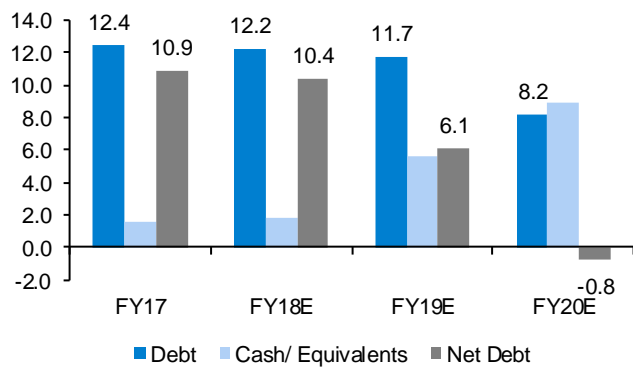
Source: Company, PL

Exhibit 25: ROE and ROCE to improve steadily



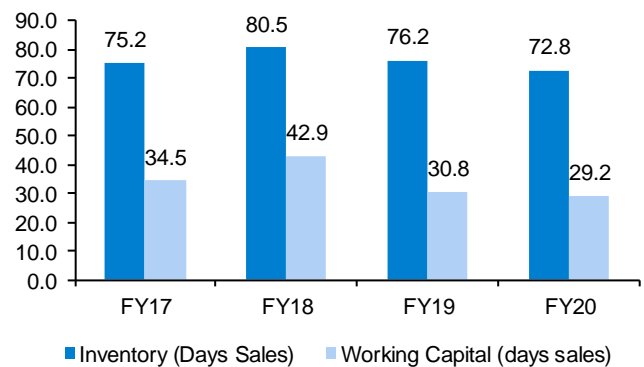
Source: Company, PL

Exhibit 26: FRL to turn Net cash positive by FY20



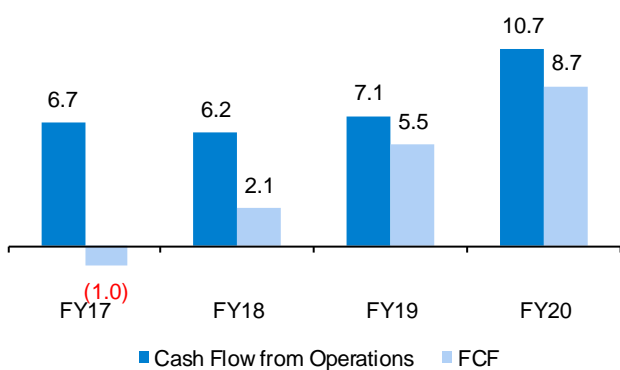
Source: Company, PL

Exhibit 27: Working capital to decline to <30 days sales



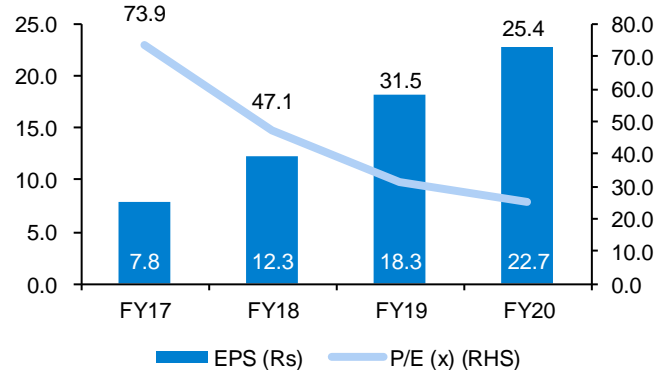
Source: Company, PL

Exhibit 28: FCF to jump 4x by FY20

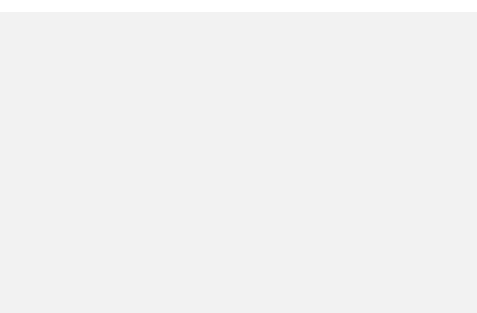


Source: Company, PL

Exhibit 29: FRL trades at 25.4x FY20 EPS



Source: Company, PL



Annexure

FRL Restructuring Phases

Exit non-core investments (Part I)

FRL (formerly Pantaloon Retail India) has undertaken extensive restructuring to exit the non-core operations. The initiative gave cash inflow of Rs7.8bn from stake sales and transfer of Rs28bn of debt, thus, reducing the total core retail debt by Rs35bn.

Capital First: FRL had ~52% stake in *Capital First* (earlier *Future Capital Holdings*); it has sold 42% stake to Warburg for an inflow of Rs4.3bn. FRL also exited the balance ~8% stake in the company for Rs1.13bn. This resulted in the exit of the company from the consumer finance and related businesses.

Future Generali Life Insurance: FRL held 49% stake in the company - 24% directly and 25% through an SPV. FRL has divested 22.5% of its direct stake in the company for an inflow of Rs3.37bn to IITL (Industrial Investment Trust).

Pantaloons Fashion and Retail: FRL demerged its departmental store chain "Pantaloons" into a new company *Pantaloon Fashion and Retail*, in which, *AB Nuvo* acquired a majority stake. FRL shareholders have been allotted shares with a swap ratio of 1:5 and debt of Rs8bn (Rs16bn including the FCD) has been transferred to this company. Under the scheme of arrangement, only the store format and a few private label brands of format have been transferred to the new entity.

Creation of FRL and FLFL (Part II)

- PRIL created two separate entities, FRL and FLFL
- FRL has the *Big Bazaar*, *FBB*, *Home Town* and *Ezone* business
- FLFL will have Central, Brand factory and branded business of Future Ventures through Indus League Clothing and various JVs

PRIL was renamed as FRL and PRIL and FVIL came together to create separate entities in value retailing, fashion and foods. FRL carved out FLFL by transfer of *Central*, *Brand Factory*, *Planet Sports* and *ALL* format and transfer of business of Indus Lease Clothing and its subsidiaries and stakes in various ventures. The new entity had a portfolio of 24 brands and stakes in several fashion segment ventures. FLFL had an area of 4m sq.ft of retail space and 200 stores and 1000 multi-brand outlets. A debt of Rs12.3bn was transferred to this entity.

Under the scheme of arrangement shareholders of FRL have received 1 share of FLFL for every 3 shares of FRL with a face value of Rs2. PRIL shareholders will hold 50% stake (75m shares) of the new entity and FVIL shareholders will get 30% (55m shares), while FRL will hold 20% stake (32.5m shares). In addition, FRL and FLFL will continue to have investments in various JVs and balance stake in other investments.

FVIL (Future Consumer Enterprises) will have KB's (earlier part of FVRL) and stakes in capital foods and food parks etc. The face value was reduced to Rs6, as fashion segment and investments are transferred to FLFL.

64 Big Bazaar and 51 Food Bazaar stores closed: FRL closed 64 Big Bazaar and 51 Food Bazaar stores in past 5 years. Big Bazaar has seen net addition of 75 stores in past 5 years including 12 stores from BRL acquisition. Most of the standalone Food Bazaar stores have been converted into FBB which has 54 stores currently. FRL has renovated ~145 Big Bazaar stores since June 2011.

Higher focus on apparel and Gen merchandise: Big Bazaar had revamped apparel business as FBB with change in focus from value to fashion. This has seen an increase in share of apparel in sales rising to more than 30% from 23% two years back. It has also exited saris, dress materials and gold jewellery. Footwear has seen an upgrade in quality offerings. Home segment in Big Bazaar has exited furniture like wardrobes, sofa and beds etc. The focus segments are storage containers, bed sheets, crockery, cutlery and carpets. Big Bazaar has reduced the number of SKUs from more than 50000 to 30000 with an exit from slow-moving items.

More than 111 Ezone stores closed since 2011: Ezone has undergone multiple rounds of restructuring. It got confined to 5 cities and more than 30 stores were closed in 2012 and 2013. Ezone aggressively expanded to 97 stores in new format and also undertook store optimization, exit from slow moving items and increase in space efficiency. Electronics segment exited from higher inventory risk items like washing machines, LCD and air conditioners and changed focus to kitchen and small home appliances. Ezone stores will not have independent existence and most of these have been integrated and housed in Big Bazaar.

Home segment in Big Bazaar changed focus on segments like storage containers, bed sheets, crockery, cutlery, carpet, luggage, and kitchen and home appliances. Although the items are slow-moving, they offer reasonable margins and complete the offerings from the consumer standpoint. This segment also exited heavy furniture due to logistics and product-related issues with the category. The business will focus on segments like soft furnishings, kitchen and 'grab-and-go' furniture.

BRL Acquisition and FEL Demerger (Part III)

FRL undertook demerger of its Infrastructure/ Investments and acquisition of retail business of Bharti Group. BRL operated over 200 stores under the brand *Easyday* in the convenience stores and Hypermart format. It had sales of Rs23bn and loss of Rs3.14bn for 15-month period ended March 2014. Bharti Group holds 9.2% stake in FRL and FEL post this deal. The entire realignment had two phases as under:

- **Retail Business:** Retail operations of FRL (Future retail) which has stores under *Big Bazaar*, *Food Bazaar*, *FBB*, *Home Town* and *Ezone* brands, were demerged into BRL. The entity was renamed as FRL. This entity now operates front end retail business. Retail business includes leasing of store properties, product sourcing, visual merchandising, marketing, sales and store operations.

- **Infrastructure and Investments:** *BRL* has transferred its retail infrastructure into Future Enterprises with retail infrastructure and investments as its core business. Infrastructure activity involves setting up in store furniture, fixtures, fittings, electrical, IT infrastructure, private label apparel manufacturing and various investments. It has investments in *Future Generali Life*, *Future Generali General insurance*, *Future Supply Chain Solutions*, *Future Consumer Ent*, *FLFL*, *Apollo* and *Goldmohur Mills*.
- Bharti Group (shares plus OFCD) will share the proceeds with FRL and FEL for sale of their stake in these companies. The minimum threshold value for stake sale is Rs9.5bn
 - The sharing would be 50% of incremental if the sales proceeds are more than Rs9.5bn but less than Rs14.5bn
 - 60% sharing of incremental if the sale proceeds are between Rs14.5bn and Rs19.5bn
 - 75% of the proceeds to be shared if stake sales fetches above Rs19.5bn

FRL creates asset-light retail business

- FRL has created an asset-light model as all the backend and store infrastructure is part of Future Enterprises. FRL will take the store on lease, FEL will create the infrastructure and fixtures for an annual lease charge and FRL will keep inventory, staff and run the stores.
- FRL retained *Easyday* brand for convenience stores, while *Easyday* markets were rebranded as *Big Bazaar*. BRL had four *Easyday* markets at same locations as *Big Bazaar*, these were converted into other formats of Future Group.

Financials

Income Statement (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Net Revenues	1,70,751	1,84,780	2,30,585	2,66,964
YoY gr. (%)	149.4	8.2	24.8	15.8
Cost of Goods Sold	1,28,344	1,37,407	1,72,960	2,00,101
Gross Profit	42,407	47,373	57,626	66,863
Margin (%)	24.8	25.6	25.0	25.0
Employee Cost	8,034	9,300	11,529	13,081
Other Expenses	14,965	15,697	19,011	21,602
EBITDA	5,813	8,323	11,023	14,015
YoY gr. (%)	597.2	43.2	32.4	27.1
Margin (%)	3.4	4.5	4.8	5.2
Depreciation and Amortization	326	534	625	688
EBIT	5,487	7,789	10,398	13,327
Margin (%)	3.2	4.2	4.5	5.0
Net Interest	2,042	1,754	1,439	1,195
Other Income	238	117	240	550
Profit Before Tax	3,683	6,152	9,199	12,683
Margin (%)	2.2	3.3	4.0	4.8
Total Tax	-	-	-	1,268
Effective tax rate (%)	-	-	-	10.0
Profit after tax	3,683	6,152	9,199	11,415
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	3,683	6,152	9,199	11,415
YoY gr. (%)	2,342.2	67.0	49.5	24.1
Margin (%)	2.2	3.3	4.0	4.3
Extra Ord. Income / (Exp)	(27)	(6,039)	-	-
Reported PAT	3,656	113	9,199	11,415
YoY gr. (%)	2,324.3	(96.9)	8,049.8	24.1
Margin (%)	2.1	0.1	4.0	4.3
Other Comprehensive Income	-	20	-	-
Total Comprehensive Income	3,656	132	9,199	11,415
Equity Shares O/s (m)	472	502	502	502
EPS (Rs)	7.8	12.3	18.3	22.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Non-Current Assets				
Gross Block	6,083	11,265	12,084	13,204
Tangibles	950	5,227	5,443	6,232
Intangibles	5,134	6,039	6,641	6,973
Acc: Dep / Amortization	546	1,080	1,705	2,393
Tangibles	-	340	667	1,041
Intangibles	546	739	1,038	1,352
Net fixed assets	5,538	10,185	10,379	10,811
Tangibles	950	4,886	4,776	5,191
Intangibles	4,588	5,299	5,602	5,621
Capital Work In Progress	119	336	128	138
Goodwill	-	-	-	-
Non-Current Investments	2,673	2,738	2,673	2,673
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	832	1,327	1,614	1,869
Current Assets				
Investments	276	396	3,881	7,249
Inventories	37,352	44,174	47,085	52,073
Trade receivables	2,281	2,701	3,159	3,657
Cash & Bank Balance	1,285	1,436	1,794	1,730
Other Current Assets	4,617	5,586	6,687	7,608
Total Assets	69,375	81,945	91,843	1,03,587
Equity				
Equity Share Capital	944	1,004	1,004	1,004
Other Equity	24,593	29,959	38,249	47,849
Total Network	25,537	30,963	39,254	48,853
Non-Current Liabilities				
Long Term borrowings	8	2,233	20	20
Provisions	455	523	652	800
Other non current liabilities	1,442	1,185	1,244	1,306
Current Liabilities				
ST Debt / Current of LT Debt	12,433	10,014	11,711	8,162
Trade payables	27,800	34,242	35,457	40,520
Other current liabilities	1,701	2,785	3,505	3,924
Total Equity & Liabilities	69,375	81,945	91,843	1,03,587

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
PBT	3,683	6,152	9,199	12,683
Add. Depreciation	326	534	625	688
Add. Interest	2,042	1,754	1,439	1,195
Less Financial Other Income	238	117	240	550
Add. Other	(113)	(72)	(193)	(501)
Op. profit before WC changes	5,937	8,368	11,070	14,065
Net Changes-WC	(4,231)	(151)	(7,497)	(5,671)
Direct tax	-	-	-	(1,268)
Net cash from Op. activities	1,707	8,217	3,573	7,125
Capital expenditures	(3,373)	(5,399)	(611)	(1,130)
Interest / Dividend Income	113	72	193	501
Others	(347)	(65)	65	-
Net Cash from Inv. activities	(3,607)	(5,392)	(353)	(629)
Issue of share cap. / premium	3,114	(725)	0	-
Debt changes	1,217	(194)	(516)	(3,549)
Dividend paid	-	-	(908)	(1,815)
Interest paid	(2,042)	(1,754)	(1,439)	(1,195)
Others	-	-	-	-
Net cash from Fin. activities	2,289	(2,673)	(2,863)	(6,559)
Net change in cash	390	152	357	(63)
Free Cash Flow	(1,666)	2,818	2,962	5,995

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Net Revenue	45,063	46,934	45,747	50,813
YoY gr. (%)	7.5	6.2	2.0	8.0
Raw Material Expenses	33,492	35,070	33,406	37,602
Gross Profit	11,571	11,864	12,341	13,211
Margin (%)	25.7	25.3	27.0	26.0
EBITDA	2,111	2,149	2,015	2,337
YoY gr. (%)	0.7	1.8	(6.2)	16.0
Margin (%)	4.7	4.6	4.4	4.6
Depreciation / Depletion	112	112	180	195
EBIT	2,000	2,037	1,835	2,142
Margin (%)	4.4	4.3	4.0	4.2
Net Interest	497	232	464	450
Other Income	29	27	31	30
Profit before Tax	1,532	1,831	1,402	1,722
Margin (%)	3.4	3.9	3.1	3.4
Total Tax	-	-	-	-
Effective tax rate (%)	-	-	-	-
Profit after Tax	1,532	1,831	1,402	1,722
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,532	1,831	(4,636)	1,722
YoY gr. (%)	108.0	81.2	(476.8)	16.5
Margin (%)	3.4	3.9	(10.1)	3.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,532	1,831	(4,636)	1,722
YoY gr. (%)	108.0	81.2	(476.8)	16.5
Margin (%)	3.4	3.9	(10.1)	3.4
Other Comprehensive Income	-	-	20	-
Total Comprehensive Income	1,532	1,831	(4,617)	1,722
Avg. Shares O/s (m)	1,004	1,004	1,004	1,004
EPS (Rs)	1.5	1.8	(4.6)	1.7

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY17	FY18	FY19E	FY20E
Per Share(Rs)				
EPS	7.8	12.3	18.3	22.7
CEPS	8.5	13.3	19.6	24.1
BVPS	54.1	61.7	78.2	97.3
FCF	(3.5)	5.6	5.9	11.9
DPS	-	-	2	3
Return Ratio(%)				
RoCE	16.9	19.5	22.6	25.7
ROIC	8.4	10.2	12.0	13.5
RoE	16.6	21.8	26.2	25.9
Balance Sheet				
Net Debt : Equity (x)	0.4	0.3	0.2	0.0
Net Working Capital (Days)	25	25	23	21
Valuation(x)				
PER	71.9	45.8	30.6	24.7
P/B	10.4	9.1	7.2	5.8
P/CEPS	8.4	13.2	19.4	23.9
EV/EBITDA	47.4	35.1	26.1	20.0
EV/Sales	1.6	1.6	1.2	1.1
Dividend Yield (%)	-	-	0.3	0.5

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY17	FY18	FY19E	FY20E
No. of Stores (Nos.)				
Big Bazar	285	305	325	345
FBB	54	61	71	81
Easyday	402	666	984	1,234
Area (mn sq. ft.)				
Big Bazar	10.2	12.1	12.7	13.3
FBB	0.5	0.6	0.7	0.8
Easyday	0.9	1.5	2.1	2.6
Sales (Rs m)				
Big Bazar	1,39,882	1,51,970	1,90,447	2,15,819
FBB	4,483	5,157	6,038	7,305
Easyday	14,854	23,784	27,722	37,834
EBITDA (Rs m)				
Big Bazar / FBB	5,846	8,522	10,872	13,447
Easyday	(149)	(238)	139	568
Cost of Retail (%)				
	21.4	21.1	20.2	19.8

Source: Company Data, PL Research

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Hold	1278	1292
2	Avenue Supermarts	Reduce	1197	1522
3	Britannia Industries	Accumulate	6170	6217
4	Colgate Palmolive	Reduce	1075	1151
5	Dabur India	Hold	377	385
6	Emami	Accumulate	577	523
7	Future Retail	BUY	682	567
8	GlaxoSmithKline Consumer Healthcare	Hold	6800	6390
9	Hindustan Unilever	Accumulate	1627	1644
10	ITC	BUY	346	265
11	Jubilant FoodWorks	Hold	1435	1432
12	Kansai Nerolac Paints	Accumulate	526	480
13	Marico	Hold	313	341
14	Nestle India	UR	8893	9785
15	Pidilite Industries	Accumulate	1175	1064
16	Titan Company	BUY	1114	893
17	Tribhovandas Bhimji Zaveri	Accumulate	120	85

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Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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