

Future Consumer

BSE SENSEX 37,888 S&P CNX 11,450

CMP: INR47 TP: INR69(+48%)

Buy

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Bloomberg	FCOIN IN
Equity Shares (m)	1,902
M.Cap.(INRb)/(USD\$b)	89.2 / 1.3
52-Week Range (INR)	79 / 37
1, 6, 12 Rel. Per (%)	-10/-39/-6
12M Avg Val (INR M)	460
Free float (%)	56.4

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	30.1	40.0	55.5
EBITDA	0.5	1.1	2.6
NP	-0.3	0.1	1.5
EPS (INR)	-0.2	0.1	0.9
EPS Gr. (%)	-53.2	-140.5	1,080.9
BV/Sh. (INR)	6.0	6.1	7.0
RoE (%)	-3.3	1.2	13.6
RoCE (%)	2.2	5.4	11.9
P/E (x)	-250.5	618.2	52.4
EV/Sales (x)	2.7	2.1	1.5

Estimate change



TP change



Rating change



A miss on sales and margin, expect growth to pick up

- **Future Consumer's (FCL) reported net sales grew 26.9% YoY to INR8.4b** (est. of INR9.4b) in 1QFY19. EBITDA increased 133.4% YoY to INR201m (est. of INR255m). The company reported a loss of INR61m (est. of a profit of INR74m), which narrowed from a loss of INR102m in 1QFY18.
- **Segmental performance:** Centre of Plate portfolio grew by just 19% in 1QFY19. Deflationary environment in Pulses portfolio is expected to have impacted realization. Fruits & Vegetables portfolio grew by 67% YoY, Processed foods portfolio grew by 33% YoY, and Home & personal care portfolio grew by 40% YoY.
- **Gross margin expanded 10bp YoY (+110bp QoQ) to 14%** (est. of 15.4%). Lower other expenses (-110bp YoY) and staff cost (-10bp YoY) led to EBITDA margin expansion of 110bp YoY (+30bp QoQ) to 2.4% (est. of 2.7%).
- **Higher depreciation and interest restricted earnings flow-through to PBT.**
- **Valuation and view:** We expect revenue growth to pick up for the remainder of the year, with the momentum continuing thereafter for a few years, given the tremendous growth opportunity. We expect revenue CAGR of 35.9% over FY18-20 and 35.2% over FY18-22. As FCL is likely to be profitable at the consolidated net level only in FY19, we believe that the near-term P/E multiples are always likely to appear extremely expensive on a one-year forward basis. We, thus, value the company on an EV/sales basis, assigning a multiple of 2x (~60% discount to EV/sales of our coverage staple universe). This results in a target price of INR69, implying ~48% upside from current levels. Maintain **Buy**. As soon as the company demonstrates profitability at the net level, we will move our valuation on a P/E basis.

Consolidated - Quarterly Earning Model

Y/E March	FY18				FY19				FY18	FY19E	FY19	Variance
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		1QE	(%)	
Sales	6,626	7,505	7,845	8,075	8,406	10,282	10,591	10,760	30,050	40,040	9,404	-10.6
YoY Change (%)	41.9	33.1	42.2	51.4	26.9	37.0	35.0	33.3	42.0	33.2	42.0	
Gross Profit	922	1,036	1,081	1,042	1,179	1,470	1,546	1,610	4,076	5,806	1,448	
Margins (%)	13.9	13.8	13.8	12.9	14.0	14.3	14.6	15.0	13.6	14.5	15.4	
EBITDA	86	128	165	168	201	278	312	338	541	1,129	255	-21.3
YoY Change (%)	949.1	316.7	418.0	543.0	133.4	117.7	89.2	101.6	458.9	108.6	198.0	
Margins (%)	1.3	1.7	2.1	2.1	2.4	2.7	3.0	3.1	1.8	2.8	2.7	
Depreciation	90	113	106	146	123	131	125	137	455	515	93	
Interest	128	121	137	140	159	158	164	145	527	626	128	
Other Income	58	52	46	163	83	87	92	98	325	360	61	
PBT	-74	-55	-31	44	2	77	116	154	-115	349	95	-97.9
Tax	0	0	0	-25	0	5	8	11	-25	24	7	
Rate (%)	0.0	0.0	0.0	-56.4	0.0	7.0	7.0	7.1	21.7	7.0	7.0	
Minority Interest & Profit/Loss of Asso. Cos.	28	33	16	110	63	43	50	45	216	200	15	
Reported PAT	-102	-88	-47	-41	-61	28	58	98	-306	124	74	
Adj PAT	-102	-88	-47	-41	-61	28	58	98	-306	124	74	-182.0
YoY Change (%)	-51.0	-45.6	-66.5	-59.6	-40.3	-132.1	-224.3	-340.4	Loss	LP	-183.2	
Margins (%)	-1.5	-1.2	-0.6	-0.5	-0.7	0.3	0.6	0.9	-1.0	0.3	0.8	

E: MOSL Estimates

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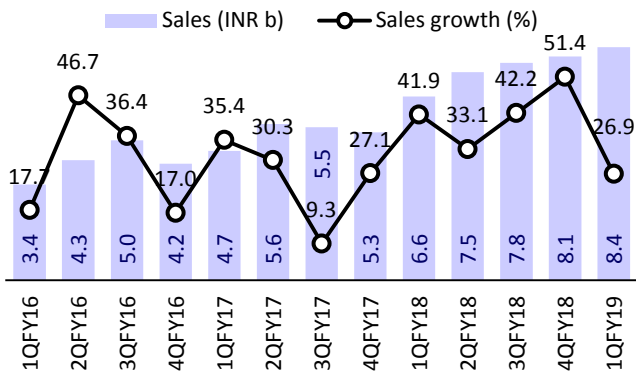
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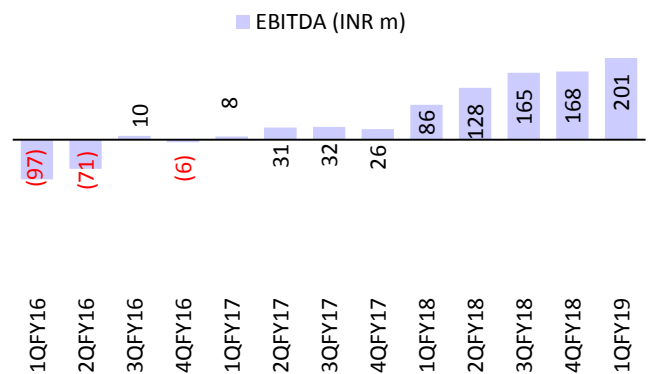
Key quarterly charts

Exhibit 1: Sales grew 26.9% YoY to INR 8.4b in 1QFY19



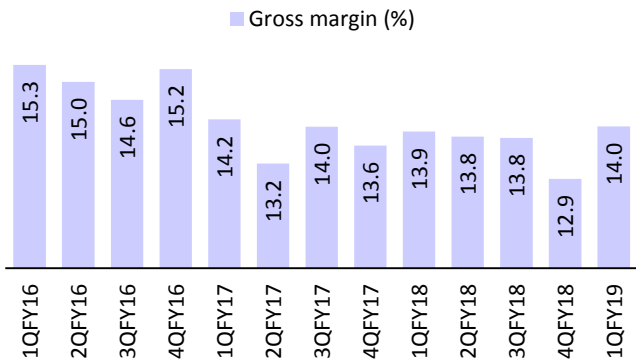
Source: Company, MOSL

Exhibit 2: EBITDA grew 133.4% YoY to INR201m in 1QFY19



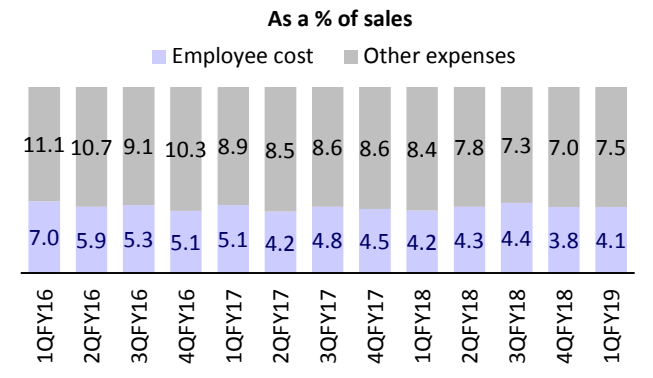
Source: Company, MOSL

Exhibit 3: Gross margin expanded 10bp YoY (+110bp QoQ) to 14% in 1QFY19



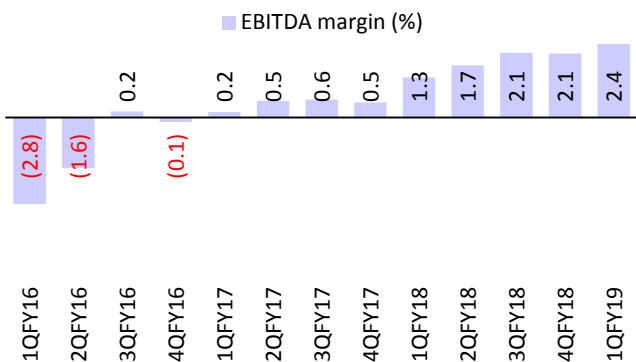
Source: Company, MOSL

Exhibit 4: Employee cost down 10bp YoY and other expenses down 90bp YoY in 1QFY19



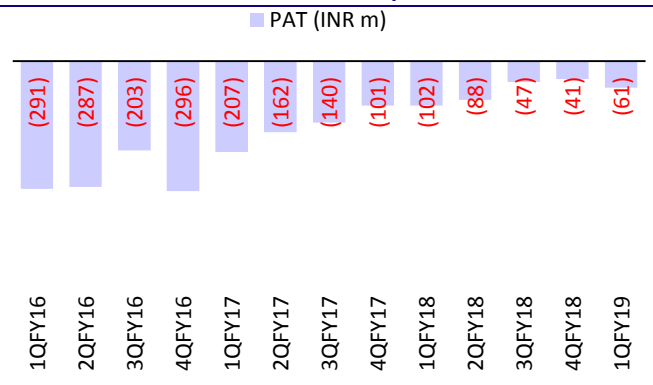
Source: Company, MOSL

Exhibit 5: Leading to EBITDA margin expansion of 110bp YoY (+30bp QoQ) to 2.4% in 1QFY19



Source: Company, MOSL

Exhibit 6: Loss at PAT level reduced to INR61m in 1QFY19 from a loss of INR102m in the base quarter



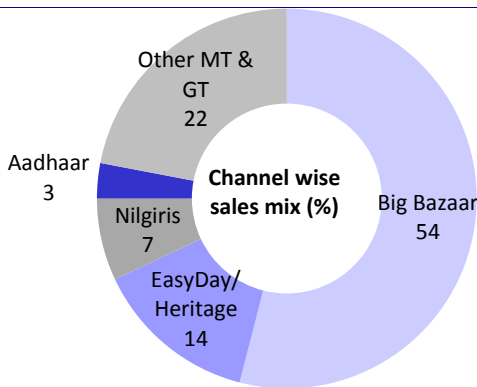
Source: Company, MOSL

Exhibit 7: FCL portfolio of brands



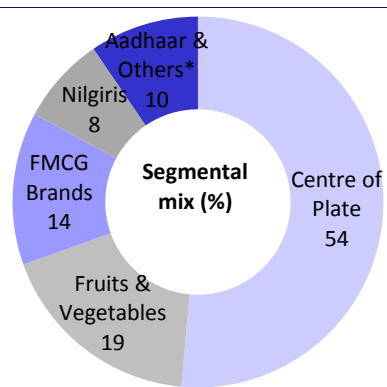
Source: Company, MOSL

Exhibit 8: FCL FY18 channel mix



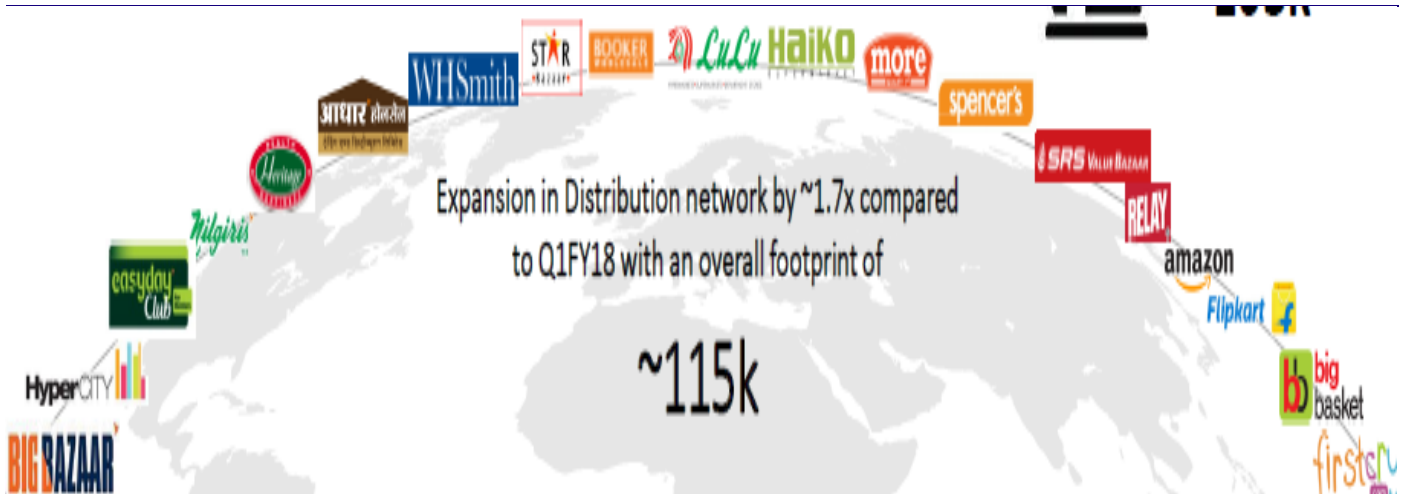
Source: Company, MOSL

Exhibit 9: FCL FY18 consolidated sales mix



Source: Company, MOSL

Exhibit 10: Presence across leading organized retailers; Future group stores reach now stands at ~1,300



Source: Company, MOSL

Valuation and view

- We expect revenue growth to pick up for the remainder of the year, with the momentum continuing thereafter for a few years, given the tremendous growth opportunity. We expect revenue CAGR of 35.9% over FY18-20 and 35.2% over FY18-22.
- As FCL is likely to be profitable at the consolidated net level only in FY19, we believe that the near-term P/E multiples are always likely to appear extremely expensive on a one-year forward basis.
- We, thus, value the company on an EV/sales basis, assigning a multiple of 2x (~60% discount to EV/sales of our coverage staple universe). This results in a target price of INR69, implying ~48% upside from current levels. Maintain **Buy**. As soon as the company demonstrates profitability at the net level, we will move our valuation on a P/E basis.

Exhibit 11: Miss on sales and margins in 1QFY19 results in 17%/12% cut in FY19/20 EBITDA

INR (m)	Old				New				Change (%)			
	FY19E	FY20E	FY21E	FY22E	FY19E	FY20E	FY21E	FY22E	FY19E	FY20E	FY21E	FY22E
Revenue	42,832	59,883	82,241	109,774	40,040	55,530	75,732	100,397	(6.5)	(7.3)	(7.9)	(8.5)
EBITDA	1,358	3,019	5,349	8,511	1,129	2,648	4,833	7,760	(16.9)	(12.3)	(9.6)	(8.8)
Adj. PAT	464	1,784	3,801	6,739	124	1,466	3,446	6,250	(73.2)	(17.8)	(9.3)	(7.3)

Source: Company, MOSL

Financials and Valuations

Consolidated - Income Statement

(INR Million)

Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E
Total Income from Operations	13,126	17,030	21,158	30,050	40,040	55,530	75,732	100,397
Change (%)	59.6	29.7	24.2	42.0	33.2	38.7	36.4	32.6
Gross Profit	1,724	2,562	2,886	4,076	5,806	9,107	13,632	19,276
Margin (%)	13.1	15.0	13.6	13.6	14.5	16.4	18.0	19.2
Total Expenditure	13,772	17,194	21,062	29,509	38,911	52,882	70,899	92,638
EBITDA	-646	-164	97	541	1,129	2,648	4,833	7,760
Change (%)	-24.4	-74.6	-159.1	459.0	108.6	134.6	82.5	60.5
Margin (%)	-4.9	-1.0	0.5	1.8	2.8	4.8	6.4	7.7
Depreciation	475	284	326	455	515	572	634	708
EBIT	-1,120	-447	-229	86	614	2,076	4,199	7,051
Int. and Finance Charges	319	702	449	527	626	616	591	367
Other Income	352	273	250	325	360	500	682	904
PBT after EO Exp.	-1,088	-876	-427	-115	349	1,960	4,289	7,588
Total Tax	6	-2	9	-25	24	294	643	1,138
Tax Rate (%)	-0.5	0.2	-2.1	21.7	7.0	15.0	15.0	15.0
Minority Interest	-66	202	218	216	200	200	200	200
Reported PAT	-1,028	-1,076	-654	-306	124	1,466	3,446	6,250
Adjusted PAT	-1,028	-1,076	-654	-306	124	1,466	3,446	6,250
Margin (%)	-7.8	-6.3	-3.1	-1.0	0.3	2.6	4.6	6.2

Consolidated - Balance Sheet

(INR Million)

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	-1,336	130	3,576	9,826
Net Worth	7,696	5,545	8,885	9,953	10,077	11,543	14,989	21,239
Minority Interest	338	122	78	42	42	42	42	42
Total Loans	6,734	5,391	4,714	6,177	7,277	7,927	6,677	2,377
Deferred Tax Liabilities	0	433	440	410	410	410	410	410
Capital Employed	14,768	11,491	14,117	16,582	17,806	19,922	22,118	24,068
Net Fixed Assets	3,399	6,197	6,764	7,419	7,959	8,399	9,017	9,759
Goodwill on Consolidation	5,483	1,677	1,677	1,677	1,677	1,677	1,677	1,677
Capital WIP	505	368	895	695	639	628	876	925
Total Investments	1,116	861	404	430	330	330	330	330
Curr. Assets, Loans&Adv.	5,965	4,220	7,178	10,001	12,584	16,402	20,546	25,943
Inventory	1,115	1,101	1,757	2,242	2,878	3,767	4,856	6,091
Account Receivables	1,546	1,650	3,242	4,930	6,253	8,520	11,204	14,303
Cash and Bank Balance	433	170	475	448	250	229	245	227
Loans and Advances	2,872	1,299	1,703	2,382	3,203	3,887	4,241	5,321
Curr. Liability & Prov.	1,700	1,831	2,800	3,640	5,384	7,514	10,328	14,566
Account Payables	1,298	1,085	1,912	2,672	3,518	4,926	6,798	8,883
Other Current Liabilities	293	655	735	769	1,602	2,221	3,029	5,020
Provisions	109	91	153	198	264	367	500	663
Net Current Assets	4,265	2,389	4,378	6,361	7,200	8,889	10,219	11,377
Appl. of Funds	14,768	11,491	14,117	16,582	17,806	19,922	22,118	24,068

E: MOSL Estimates

Financials and Valuations

Ratios					(INR Million)			
Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E
Basic (INR)								
EPS	-0.6	-0.7	-0.4	-0.2	0.1	0.9	2.1	3.8
Cash EPS	-0.3	-0.5	-0.2	0.1	0.4	1.2	2.5	4.2
BV/Share	4.7	3.4	5.4	6.0	6.1	7.0	9.1	12.9
Valuation (x)								
P/E	-74.7	-71.3	-117.3	-250.5	618.2	52.4	22.3	12.3
Cash P/E	-138.8	-96.8	-233.8	517.4	120.1	37.7	18.8	11.0
P/BV	10.0	13.8	8.6	7.7	7.6	6.7	5.1	3.6
EV/Sales	6.3	4.8	3.8	2.7	2.1	1.5	1.1	0.8
EV/EBITDA	-128.7	-500.2	836.8	152.5	74.2	31.9	17.2	10.2
Return Ratios (%)								
RoE	-13.1	-16.3	-9.1	-3.3	1.2	13.6	26.0	34.5
RoCE	-6.6	-1.4	0.2	2.2	5.4	11.9	20.2	29.9
RoIC	-11.0	-3.9	-2.1	0.5	3.6	10.0	18.1	27.7
Working Capital Ratios								
Fixed Asset Turnover (x)	2.4	2.5	2.7	3.4	4.0	5.1	6.2	7.4
Asset Turnover (x)	0.9	1.5	1.5	1.8	2.2	2.8	3.4	4.2
Inventory (Days)	31	24	30	27	26	25	23	22
Debtor (Days)	43	35	56	60	57	56	54	52
Creditor (Days)	36	23	33	32	32	32	33	32
Leverage Ratio (x)								
Current Ratio	3.5	2.3	2.6	2.7	2.3	2.2	2.0	1.8
Net Debt/Equity	0.7	0.8	0.4	0.5	0.7	0.6	0.4	0.1

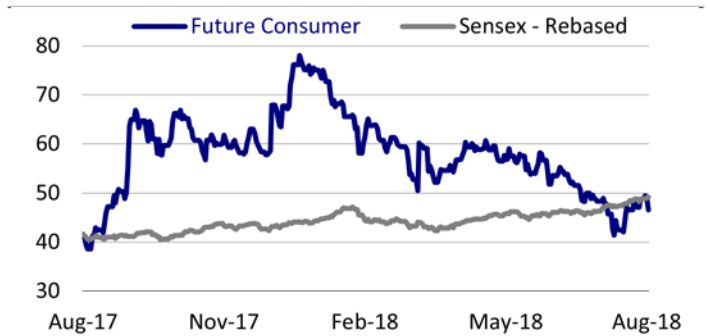
Consolidated - Cash Flow Statement					(INR Million)			
Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E
OP/(Loss) before Tax	-1,088	-1,110	-646	-331	349	1,960	4,289	7,588
Depreciation	490	284	326	455	515	572	634	708
Interest & Finance Charges	37	519	308	399	265	116	-90	-537
Direct Taxes Paid	-64	-32	124	-77	-24	-294	-643	-1,138
(Inc)/Dec in WC	-1,872	847	-1,235	-1,600	-1,037	-1,709	-1,314	-1,176
CF from Operations	-2,497	508	-1,123	-1,155	68	645	2,876	5,445
Others	66	287	311	217	0	0	0	0
CF from Operating incl EO	-2,431	795	-812	-938	68	645	2,876	5,445
(Inc)/Dec in FA	-592	-685	-1,236	-846	-1,000	-1,000	-1,500	-1,500
Free Cash Flow	-3,023	110	-2,048	-1,783	-932	-355	1,376	3,945
(Pur)/Sale of Investments	-2,721	802	169	-113	100	0	0	0
Others	1,440	269	-400	-292	360	500	682	904
CF from Investments	-1,873	385	-1,467	-1,250	-540	-500	-818	-596
Issue of Shares	80	2	4,380	115	0	0	0	0
Inc/(Dec) in Debt	4,867	-838	-1,273	1,997	1,100	650	-1,250	-4,300
Interest Paid	-320	-607	-394	-447	-626	-616	-591	-367
Others	0	0	-130	503	-200	-200	-200	-200
CF from Fin. Activity	4,627	-1,443	2,584	2,168	274	-166	-2,041	-4,867
Inc/Dec of Cash	323	-263	305	-21	-197	-21	16	-18
Opening Balance	110	433	170	468	448	250	229	245
Closing Balance	433	170	475	448	250	229	245	227

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. The company has around 27 brands in over 65 categories; FCL is continuously working on expanding its portfolio. Future Consumer also has agri-sourcing operations in India.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Jun-18	Mar-18	Jun-17
Promoter	44.5	43.7	47.9
DII	1.4	1.0	1.0
FII	16.6	20.5	19.6
Others	37.5	34.9	31.5

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Black River Food 2 Pte. Ltd	7.8
Verlinvest SA	7.3
Arisaig India Fund Limited	7.0
Bennett, Coleman And Company Limited	4.8
International Finance Corporation	3.1

Source: Capitaline

Exhibit 4: Top management

Name	Designation
G N Bajpai	Chairman & Independent Director
Kishore Biyani	Vice Chairman
Ashni Biyani	Managing Director
Deepak Malik	Nominee
Manoj Gagvani	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Frederic de Mevius	Adhiraj Harish
Krishan Kant Rathi	Vibha Rishi
Narendra Baheti	

*Independent

Exhibit 6: Auditors

Name	Type
S R B C & Co LLP	Statutory
Sanjay Dholakia & Associates	Secretarial Audit

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	0.1	0.3	-60.0
FY20	0.9	0.9	0.0

Source: Bloomberg

Explanation of Investment Rating

Investment Rating

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

*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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