

August 10, 2018

Q1FY19 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	BUY		BUY	
Target Price	613		682	
Sales (Rs. m)	2,00,117	2,31,670	2,30,585	2,66,964
% Chng.			(13.2)	(13.2)
EBITDA (Rs. m)	10,682	13,021	11,023	14,015
% Chng.			(3.1)	(7.1)
EPS (Rs.)	17.2	20.7	18.3	22.7
% Chng.			(6.2)	(8.8)

Key Financials

	FY17	FY18	FY19E	FY20E
Sales (Rs. bn)	170.8	184.8	200.1	231.7
EBITDA (Rs. bn)	5.8	8.3	10.7	13.0
Margin (%)	3.4	4.5	5.3	5.6
PAT (Rs. bn)	3.7	6.2	8.6	10.4
EPS (Rs.)	7.8	12.3	17.2	20.7
Gr. (%)	125.1	57.0	40.3	20.6
DPS (Rs.)	-	-	1.5	3.0
Yield (%)	-	-	0.3	0.6
RoE (%)	16.6	21.8	24.8	24.2
RoCE (%)	16.9	19.5	21.8	24.2
EV/Sales (x)	1.5	1.5	1.3	1.1
EV/EBITDA (x)	43.9	32.5	24.8	19.8
PE (x)	66.3	42.2	30.1	25.0
P/BV (x)	9.6	8.4	6.7	5.5

Key Data

FRTL.BO | FRETAIL IN

52-W High / Low	Rs.659 / Rs.422
Sensex / Nifty	38,024 / 11,471
Market Cap	Rs.260bn / \$ 3,790m
Shares Outstanding	503m
3M Avg. Daily Value	Rs.1284.64m

Shareholding Pattern (%)

Promoter's	46.56
Foreign	17.60
Domestic Institution	12.10
Public & Others	23.74
Promoter Pledge (Rs bn)	535.97

Stock Performance (%)

	1M	6M	12M
Absolute	(6.1)	(0.5)	17.6
Relative	(11.2)	(11.1)	(1.6)

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SSG disappoints, Acquisitions near term drag

Key Points

- Soft quarter with Big Bazaar SSG at 10.1%, FRL at 3.6%, Staples deflation hits Easyday
- HyperCity sales at Rs2bn, renovation completed in 15 stores, Interest and depreciation up
- EBIDTA margins up 40bps despite headwinds in Easyday and HyperCity

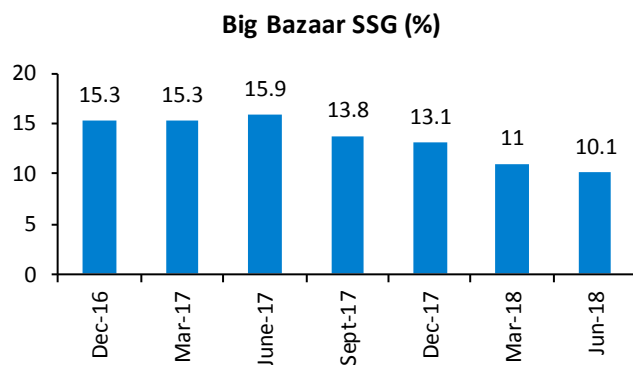
We are cutting FY19 and FY20 EPS estimates of FRL by 6%-9% following lower than expected profits in 1Q due to 1) lower sales due to impact of GST, Ezone and Hometown in base and Hypercity renovation 2) Pressure on small stores SSG due to deflation in foods (35% of revenue) and staples 3) higher than expected depreciation and interest following HyperCity and other acquisitions. Big Bazaar sustained double digit SSG at 10.1% (calculated on gross sales), however it softened 90bps QoQ and 580bps YoY. Easy day (13% of sales) reported higher Gross Margins and addition of 0.12mn members in savings club, losses sustained due to expenses on ramp up. Although we expect Hypercity to turn EBIDTA positive from 2H, PAT contribution will materialise post FY19. We estimate 30.5% PAT CAGR over FY18-20 and value the stock at Rs613 based on 30x June FY20EPS (Earlier Rs.682 on 30xFY20 EPS). Retain Buy.

- Soft sales, margins save the day:** Net sales down 3.5% to Rs45.4bn, underlying sales grew 7.1% (Adj. for Ezone, Hometown and GST Impact). Ezone and Hometown contributed ~Rs2bn and ~Rs1.25bn in 1Q18 v/s the current of only ~Rs0.4bn of Ezone in 1Q19. The sales decline was partially offset by HyperCity revenue of ~Rs2bn. SSG increased by 10.1% for Big Bazaar (Avg. 13.4% in FY18) as GST impact, deflation and high base due to Heritage consolidation in 1Q18 impacted growth. Sales were also impacted by 20-25% deflation in staple and related categories. Gross margins expanded 240bps to 27.4%. EBITDA increased 5.4% to Rs2.21bn as margins expanded by 40bps on scale benefits. Excluding the impact of HyperCity losses and restructuring, EBITDA would have been Rs2.48bn, a 19.2% growth. Cost of retail increased 200bps YoY (Flat QoQ) to 22.6% as staff costs, rent and other expenses increased by 80bps, 20bps and 100bps each. Adj. PAT increased 3.6% to Rs1.53bn on higher interest cost at 511mn and 84% increase in depreciation.
- HyperCity losses at Rs220mn:** Renovations and upgradations for 15 HyperCity stores got completed in Q1, with 3 stores still under renovation. Hypercity contributed to ~Rs2bn to revenue in Q1 and EBITDA loss reduced from Rs380mn in Q4FY18 to Rs220mn in Q1FY19. FRL expects HyperCity to contribute to ~Rs3bn by 3Q19 and achieve 5% EBITDA by end of FY19. **Easyday** contributed ~Rs6.25bn in Q1 with an EBITDA loss of Rs220mn. Easyday savings club members increased to 0.62mn.

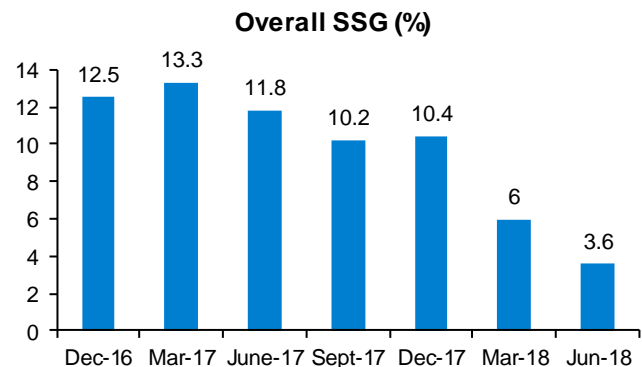
Exhibit 1: Underlying sales ~7.1% post GST impact, E Zone rationalization, margins at 4.9%

Y/e March	Q1FY19	Q1FY18	YoY gr. (%)	Q4FY18	FY19E	FY18	YoY gr. (%)
Net Sales	45387	47049	(3.5)	45747	230585	184780	24.8
Gross Profit	12446	11766	5.8	12341	57626	47373	21.6
<i>% of NS</i>	<i>27.4</i>	<i>25.0</i>		<i>27.0</i>	<i>25.0</i>	<i>25.6</i>	
Rent Including lease	3647	3680	(0.9)	3595	16062	14053	14.3
<i>% of NS</i>	<i>8.0</i>	<i>7.8</i>		<i>7.9</i>	<i>7.0</i>	<i>7.6</i>	
Other Expenses	6591	5990	10.0	6731	30541	24996	22.2
<i>% of NS</i>	<i>14.5</i>	<i>12.7</i>		<i>14.7</i>	<i>13.2</i>	<i>13.5</i>	
EBITDA	2208	2096	5.4	2015	11023	8323	32.4
<i>Margins %</i>	<i>4.9</i>	<i>4.5</i>		<i>4.4</i>	<i>4.8</i>	<i>4.5</i>	
Depreciation	199	108	84.4	180	808	534	51.3
Interest	511	535	(4.5)	464	1439	1754	(18.0)
Other Income	32	25	28.7	31	240	117	105.4
PBT	1531	1479	3.6	1402	9016	6152	46.6
Adjusted PAT	1531	1479	3.6	1402	9016	6152	46.6

Source: Company, PL

Exhibit 2: Big Bazaar maintains double digit SSG


Source: Company, PL

Exhibit 3: FRL SSG up by 3.6% only


Source: Company, PL

Exhibit 4: Quarterly Operating Matrix: Sales/ft growth declined 11.7%, Cost of retail in control

Y/e March	Mar-17	Jun-17	Sept-17	Dec-17	Mar-18	Jun-18
Operating Area	13.8	13.5	13.6	13.0	14.5	14.7
Sales/ Ft (Rs)	3156	3490	3326	3619	3166	3083
Growth %	15.5	14.7	5.2	10.4	0.3	-11.7
Gross Profit (Rs mn)	11172	11766	11571	11864	12341	12446
Gross profit/ft/month	271	291	285	305	285	282
Change (%)	6.0	14.1	7.5	11.0	5.2	-3.1
Gross Margin %	24.9	25.0	25.7	25.3	27.0	27.4
EBIDTA Margin %	4.0	4.5	4.7	4.6	4.4	4.9
Cost of retail %	20.9	20.6	21.0	20.7	22.6	22.6

Source: Company, PL

Exhibit 5: FRL has opened 6 FBB stores and 83 Easy day stores

Key Retail Metrics	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Retail Space (m sq.ft.)					
Big Bazaar	10.5	10.6	10.7	12.1	12.1
FBB	0.6	0.6	0.6	0.6	0.7
E Zone	0.2	0.2	0.2	0.1	0.1
Easyday	1.2	1.3	1.4	1.5	1.7
Foodhall	0.1	0.1	0.1	0.1	0.1
Total	13.5	13.6	13.0	14.5	14.7
Store Count (x)					
Big Bazaar	253	257	259	285	285
FBB	54	57	59	61	67
E Zone	19	19	17	13	12
Easyday	523	537	611	666	749
Foodhall	7	7	9	10	10
Net Store Addition (x)					
Big Bazaar	18	4	2	26	0
FBB	0	3	2	2	6
E Zone	-11	0	-2	-4	-1
Easyday	-15	14	74	55	83
Foodhall	0	0	2	1	0
Net Addition QoQ (m sq.ft.)					
Big Bazaar	0.3	0.1	0.1	1.5	0.0
FBB	0.0	0.0	0.0	0.0	0.1
E Zone	-0.1	0.0	0.0	-0.1	0.0
Easyday	0.4	0.0	0.2	0.1	0.2
Foodhall	0.0	0.0	0.0	0.0	0.0

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Net Revenues	1,70,751	1,84,780	2,00,117	2,31,670
YoY gr. (%)	149.4	8.2	8.3	15.8
Cost of Goods Sold	1,28,344	1,37,407	1,45,889	1,68,970
Gross Profit	42,407	47,373	54,227	62,700
Margin (%)	24.8	25.6	27.1	27.1
Employee Cost	8,034	9,300	10,606	12,047
Other Expenses	14,965	15,697	16,924	19,567
EBITDA	5,813	8,323	10,682	13,021
YoY gr. (%)	597.2	43.2	28.3	21.9
Margin (%)	3.4	4.5	5.3	5.6
Depreciation and Amortization	326	534	808	894
EBIT	5,487	7,789	9,873	12,127
Margin (%)	3.2	4.2	4.9	5.2
Net Interest	2,042	1,754	1,559	1,245
Other Income	238	117	322	692
Profit Before Tax	3,683	6,152	8,637	11,575
Margin (%)	2.2	3.3	4.3	5.0
Total Tax	-	-	-	1,158
Effective tax rate (%)	-	-	-	10.0
Profit after tax	3,683	6,152	8,637	10,418
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	3,683	6,152	8,637	10,418
YoY gr. (%)	2,342.2	67.0	40.4	20.6
Margin (%)	2.2	3.3	4.3	4.5
Extra Ord. Income / (Exp)	(27)	(6,039)	-	-
Reported PAT	3,656	113	8,637	10,418
YoY gr. (%)	2,324.3	(96.9)	7,552.2	20.6
Margin (%)	2.1	0.1	4.3	4.5
Other Comprehensive Income	-	20	-	-
Total Comprehensive Income	3,656	132	8,637	10,418
Equity Shares O/s (m)	472	502	503	503
EPS (Rs)	7.8	12.3	17.2	20.7

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	1,888	2,782
Tangibles	-	340	817	1,362
Intangibles	546	739	1,071	1,420
Net fixed assets	5,538	10,185	10,196	10,422
Tangibles	950	4,886	4,627	4,870
Intangibles	4,588	5,299	5,569	5,552
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	1,401	1,622
Current Assets				
Investments	276	396	5,711	8,570
Inventories	37,352	44,174	40,507	44,740
Trade receivables	2,281	2,701	2,741	3,174
Cash & Bank Balance	1,285	1,436	1,654	1,472
Other Current Assets	4,617	5,586	5,803	6,603
Total Assets	69,375	81,945	85,259	95,191
Equity				
Equity Share Capital	944	1,004	1,005	1,005
Other Equity	24,593	29,959	37,687	46,288
Total Network	25,537	30,963	38,692	47,293
Non-Current Liabilities				
Long Term borrowings	8	2,233	20	20
Provisions	455	523	642	788
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	29,907	34,216
Other current liabilities	1,701	2,785	3,042	3,406
Total Equity & Liabilities	69,375	81,945	85,258	95,191

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
PBT	3,683	6,152	8,637	11,575
Add. Depreciation	326	534	808	894
Add. Interest	2,042	1,754	1,559	1,245
Less Financial Other Income	238	117	322	692
Add. Other	(113)	(72)	(275)	(643)
Op. profit before WC changes	5,937	8,368	10,729	13,071
Net Changes-WC	(4,231)	(151)	(7,258)	(4,998)
Direct tax	-	-	-	(1,158)
Net cash from Op. activities	1,707	8,217	3,471	6,916
Capital expenditures	(3,373)	(5,399)	(611)	(1,130)
Interest / Dividend Income	113	72	275	643
Others	(347)	(65)	65	-
Net Cash from Inv. activities	(3,607)	(5,392)	(271)	(488)
Issue of share cap. / premium	3,114	(725)	0	-
Debt changes	1,217	(194)	(516)	(3,549)
Dividend paid	-	-	(908)	(1,817)
Interest paid	(2,042)	(1,754)	(1,559)	(1,245)
Others	-	-	-	-
Net cash from Fin. activities	2,289	(2,673)	(2,983)	(6,610)
Net change in cash	390	152	217	(182)
Free Cash Flow	(1,666)	2,818	2,860	5,785

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	17.2	20.7
CEPS	8.5	13.3	18.8	22.5
BVPS	54.1	61.7	77.0	94.1
FCF	(3.5)	5.6	5.7	11.5
DPS	-	-	1.5	3.0
Return Ratio(%)				
RoCE	16.9	19.5	21.8	24.2
ROIC	8.4	10.2	12.5	13.7
RoE	16.6	21.8	24.8	24.2
Balance Sheet				
Net Debt : Equity (x)	0.4	0.3	0.1	0.0
Net Working Capital (Days)	25	25	24	22
Valuation(x)				
PER	66.3	42.2	30.1	25.0
P/B	9.6	8.4	6.7	5.5
P/CEPS	8.5	13.3	18.8	22.5
EV/EBITDA	43.9	32.5	24.8	19.8
EV/Sales	1.5	1.5	1.3	1.1
Dividend Yield (%)	-	-	0.3	0.6

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	1,61,999	1,83,591
FBB	4,483	5,157	5,981	7,102
Easyday	14,854	23,784	26,543	35,879
EBITDA (Rs m)				
Big Bazar / FBB	5,846	8,522	10,537	12,483
Easyday	(149)	(238)	133	538
Cost of Retail (%)				
	21.4	21.1	21.8	21.4

Source: Company Data, PL Research

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-17	BUY	549	538
2	09-Oct-17	BUY	549	538
3	07-Nov-17	BUY	566	524
4	10-Jan-18	BUY	566	566
5	06-Feb-18	BUY	631	521
6	13-Apr-18	BUY	627	608
7	10-Jul-18	BUY	682	567
8	12-Jul-18	BUY	682	561

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Hold	1,431	1,468
2	Avenue Supermarts	Reduce	1,285	1,595
3	Britannia Industries	Accumulate	6,568	6,301
4	Colgate Palmolive	Reduce	1,084	1,085
5	Dabur India	Hold	440	432
6	Eicher Motors	Accumulate	30,296	27,439
7	Emami	Accumulate	603	568
8	Future Retail	BUY	682	561
9	GlaxoSmithKline Consumer Healthcare	Hold	7,382	6,662
10	Hindustan Unilever	Hold	1,703	1,751
11	ITC	BUY	346	287
12	Jubilant FoodWorks	Accumulate	1,570	1,400
13	Kansai Nerolac Paints	Accumulate	549	479
14	Marico	Hold	313	341
15	Nestle India	UR	8,893	9,785
16	Pidilite Industries	Accumulate	1,175	1,101
17	Titan Company	BUY	1,114	919
18	Tribhovandas Bhimji Zaveri	Accumulate	120	85

PL's Recommendation Nomenclature (Absolute Performance)

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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