

Future Consumer

BSE SENSEX	S&P CNX
35,012	10,553
Bloomberg	FCOIN IN
Equity Shares (m)	1,902
M.Cap.(INRb)/(USD\$b)	84.3 / 1.2
52-Week Range (INR)	79 / 35
1, 6, 12 Rel. Per (%)	18/-22/-31
Avg Val, INRm	317
Free float (%)	54.2

CMP: INR44
TP: INR63(+43%)
Buy

Good growth across categories; Maintain Buy

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	0.0	1.4
EPS (INR)	-0.2	0.0	0.8
EPS Gr. (%)	-53.2	-94.8	-8,821.7
BV/Sh. (INR)	6.0	6.0	6.9
RoE (%)	-3.3	-0.2	13.0
RoCE (%)	2.2	5.1	11.7
P/E (x)	-236.5	-4,576.0	52.5
EV/Sales (x)	2.6	2.0	1.4

Estimate change

TP change

Rating change


- **Future Consumer's (FCL)** net sales grew 34.6% YoY to INR10.1b (est. INR9.8b) in 2QFY19. EBITDA was up 98.8% YoY to INR254m (est. INR234m). Adj. Loss for the quarter stood at INR30m v/s loss of INR88m in base quarter (est. loss of INR12m).
- **Segmental:** Centre of Plate (52% of sales) grew 31%. Fruits and Vegetable portfolio (22% of sales) grew 50%. Processed foods (8% of sales) and home and personal care (7% of sales) portfolio grew 31% and 59%, respectively.
- **Consol. gross margin was down (-60bp YoY to 13.2% v/s est. 14%)** while standalone business gross margins were up 60bp YoY to 13.5%. Decrease in other expenses as a percentage of sales (-30bp YoY) and lower staff cost as a percentage of sales (-110bp YoY) led to EBITDA margin expansion of 80bp YoY to 2.5% (est. 2.4%). Standalone business EBITDA margin was up 90bp YoY to 3.3%.
- **Valuation & View:** We expect 2HFY19 to see 32.8% revenue growth and also believe this pace will continue for the next few years (revenue CAGR of 35.9% over FY18-20 and 35.2% over FY18-22), given the tremendous growth opportunity. As the company is likely to be profitable at the consolidated net level only in the second half of FY19, we believe 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 1.7x (~70% discount to EV/sales of our coverage staple universe). This results in a target price of INR63, implying ~43% upside from current levels. Maintain Buy. As soon as the company demonstrates profitability at the net level, we will move our valuation on P/E basis.

Consolidated - Quarterly Earning Model

Y/E March	(INR Million)											
	FY18				FY19				FY18	FY19E	FY19	Variance
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Sales	6,626	7,510	7,845	8,075	8,409	10,111	10,670	10,850	30,050	40,040	9,757	3.6
YoY Change (%)	41.9	33.2	42.2	51.4	26.9	34.6	36.0	34.4	42.0	33.2	30.0	
Gross Profit	922	1,038	1,081	1,042	1,182	1,336	1,483	1,524	4,076	5,526	1,366	
Margins (%)	13.9	13.8	13.8	12.9	14.1	13.2	13.9	14.0	13.6	13.8	14.0	
EBITDA	86	128	165	168	201	254	299	346	541	1,100	234	8.6
YoY Change (%)	949.1	318.3	418.0	543.0	133.4	98.8	80.9	106.5	458.9	103.3	83.6	
Margins (%)	1.3	1.7	2.1	2.1	2.4	2.5	2.8	3.2	1.8	2.7	2.4	
Depreciation	90	113	106	146	123	127	132	136	455	518	131	
Interest	128	122	137	140	159	172	173	174	527	678	158	
Other Income	58	52	46	163	83	85	85	84	325	336	87	
PBT	-74	-55	-31	44	2	40	79	120	-115	241	33	21.6
Tax	0	0	0	-25	0	10	6	1	-25	17	2	
Rate (%)	0.0	0.0	0.0	-56.4	0.0	25.8	7.0	0.8	21.7	7.0	7.0	
Minority Interest & Profit/Loss of Asso. Cos.	28	33	16	110	61	60	60	59	216	240	43	
Adj PAT	-102	-88	-47	-41	-59	-30	13	60	-306	-16	-12	148.1
YoY Change (%)	-51.0	-45.6	-66.5	-59.6	-41.8	-65.9	-128.2	-247.0	Loss	LP	-86.3	
Margins (%)	-1.5	-1.2	-0.6	-0.5	-0.7	-0.3	0.1	0.6	-1.0	0.0	-0.1	

E: MOSL Estimates

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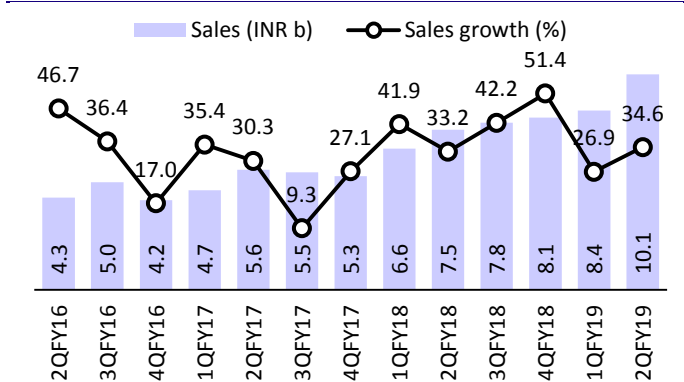
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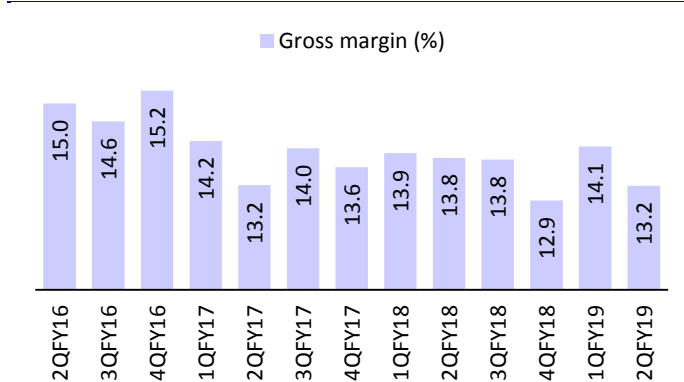
Key quarterly charts

Exhibit 1: Consol. net sales grew 34.6% YoY in 2QFY19 to INR 10.1b



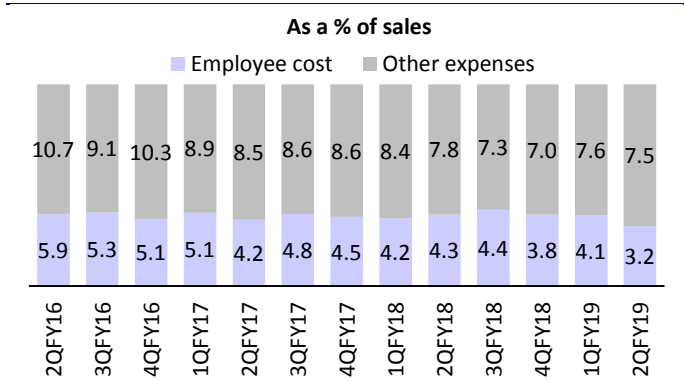
Source: Company, MOSL

Exhibit 2: Consol. gross margin was down 60bp YoY to 13.1% in 2QFY19



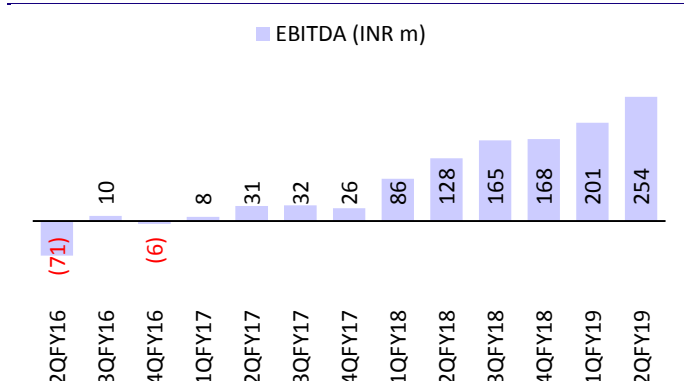
Source: Company, MOSL

Exhibit 3: As a % of sales, employee cost down 110bp YoY and other expenses down 30bp YoY in 2QFY19



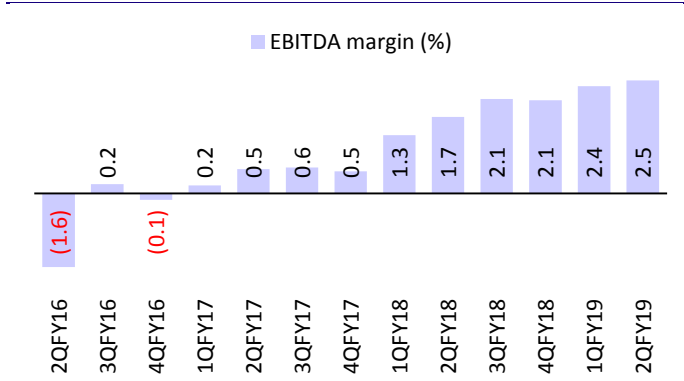
Source: Company, MOSL

Exhibit 4: EBITDA grew 98.8% YoY to INR254m in 2QFY19 v/s INR128m in base quarter



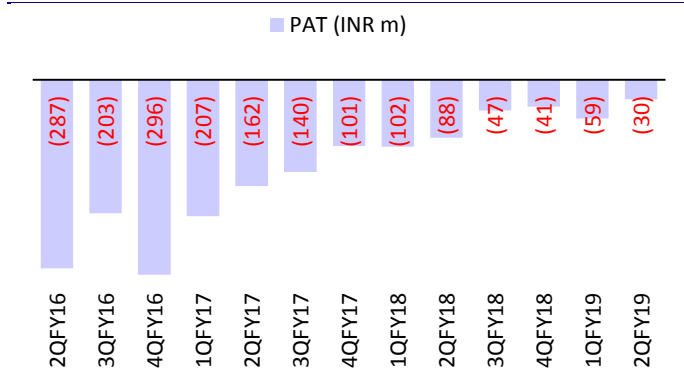
Source: Company, MOSL

Exhibit 5: EBITDA margin expansion of 80bp YoY (+10bp QoQ) to 2.5% in 2QFY19



Source: Company, MOSL

Exhibit 6: Consol. Loss at PAT level reduced to INR30m in 2QFY19 v/s loss of INR88m in base quarter



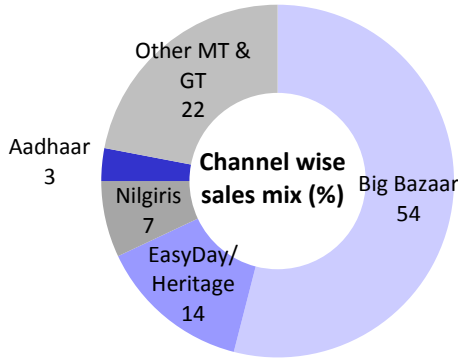
Source: Company, MOSL

Exhibit 7: FCL's portfolio of brands



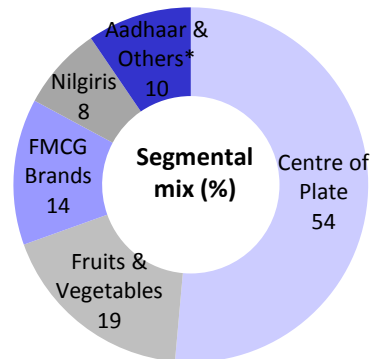
Source: Company, MOSL

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

General Trade : ~114,800	Modern Trade: ~3,390	Online

Source: Company, MOSL

Valuation & View

- We expect 2HFY19 to see 32.8% revenue growth and also believe this pace will continue for the next few years (revenue CAGR of 35.9% over FY18-20 and 35.2% over FY18-22), given the tremendous growth opportunity.
- As the company is likely to be profitable at the consolidated net level only in the second half of FY19, we believe 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 1.7x (~70% discount to EV/sales of our coverage staple universe). This results in a target price of INR63, implying ~43% upside from current levels. Maintain Buy. As soon as the company demonstrates profitability at the net level, we will move our valuation on P/E basis.

Exhibit 11: Changes in model results in 2.5%/1.4/0.9%/0.8% cut in FY19/FY20/ FY21/FY22 EBITDA

INR (m)	Old				New				Change (%)			
	FY19E	FY20E	FY21E	FY22E	FY19E	FY20E	FY21E	FY22E	FY19E	FY20E	FY21E	FY22E
Revenue	40,040	55,530	75,732	100,397	40,040	55,530	75,732	100,397	0.0	0.0	0.0	0.0
EBITDA	1,129	2,648	4,833	7,760	1,100	2,611	4,789	7,699	(2.5)	(1.4)	(0.9)	(0.8)
Adj. PAT	124	1,466	3,446	6,250	(16)	1,381	3,352	6,142	(112.8)	(5.8)	(2.7)	(1.7)

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	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	5,526	8,829	13,253	18,774
Margin (%)	13.1	15.0	13.6	13.6	13.8	15.9	17.5	18.7
EBITDA	-646	-164	97	541	1,100	2,611	4,789	7,699
Change (%)	-24.4	-74.6	-159.1	459.0	103.3	137.4	83.4	60.8
Margin (%)	-4.9	-1.0	0.5	1.8	2.7	4.7	6.3	7.7
Depreciation	475	284	326	455	518	579	644	719
EBIT	-1,120	-447	-229	86	582	2,032	4,144	6,980
Int. and Finance Charges	319	702	449	527	678	624	600	375
Other Income	352	273	250	325	336	500	682	904
PBT after EO Exp.	-1,088	-876	-427	-115	241	1,908	4,226	7,509
Total Tax	6	-2	9	-25	17	286	634	1,126
Tax Rate (%)	-0.5	0.2	-2.1	21.7	7.0	15.0	15.0	15.0
Reported PAT	-1,028	-1,076	-654	-306	-16	1,381	3,352	6,142
Adjusted PAT	-1,028	-1,076	-654	-306	-16	1,381	3,352	6,142
Change (%)	1,381.1	4.7	-39.2	-53.2	LP	-8,821.7	142.7	83.2
Margin (%)	-7.8	-6.3	-3.1	-1.0	0.0	2.5	4.4	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	-1,476	-95	3,258	9,400
Net Worth	7,696	5,545	8,885	9,953	9,937	11,318	14,671	20,813
Minority Interest	338	122	78	42	42	42	42	42
Total Loans	6,734	5,391	4,714	6,177	7,377	8,027	6,777	2,477
Deferred Tax Liabilities	0	433	440	410	410	410	410	410
Capital Employed	14,768	11,491	14,117	16,582	17,766	19,797	21,900	23,742
Gross Block	5,577	6,767	7,769	8,834	9,990	11,081	12,350	13,803
Less: Accum. Deprn.	2,178	570	1,005	1,416	1,933	2,513	3,157	3,877
Net Fixed Assets	3,399	6,197	6,764	7,419	8,057	8,568	9,192	9,927
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	739	648	880	926
Total Investments	1,116	861	404	430	330	330	330	330
Curr. Assets, Loans&Adv.	5,965	4,220	7,178	10,001	12,350	16,091	20,153	25,454
Inventory	1,115	1,101	1,757	2,242	2,880	3,770	4,859	6,095
Account Receivables	1,546	1,650	3,242	4,930	6,033	8,215	10,789	13,753
Cash and Bank Balance	433	170	475	448	233	219	264	285
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	5,387	7,517	10,332	14,572
Account Payables	1,298	1,085	1,912	2,672	3,521	4,929	6,803	8,889
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	6,963	8,574	9,821	10,882
Appl. of Funds	14,768	11,491	14,117	16,582	17,766	19,797	21,900	23,742

E: MOSL Estimates

Financials and Valuations

								(INR m)
Ratios								
Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E
Basic (INR)								
EPS	-0.6	-0.7	-0.4	-0.2	0.0	0.8	2.0	3.7
Cash EPS	-0.3	-0.5	-0.2	0.1	0.3	1.2	2.4	4.2
BV/Share	4.7	3.4	5.4	6.0	6.0	6.9	8.9	12.6
Valuation (x)								
P/E	-70.5	-67.3	-110.8	-236.5	-4,576.0	52.5	21.6	11.8
P/BV	9.4	13.1	8.2	7.3	7.3	6.4	4.9	3.5
EV/Sales	6.0	4.6	3.6	2.6	2.0	1.4	1.0	0.7
EV/EBITDA	-122.0	-474.1	792.5	144.5	72.4	30.7	16.5	9.7
Return Ratios (%)								
RoE	-13.1	-16.3	-9.1	-3.3	-0.2	13.0	25.8	34.6
RoCE	-6.6	-1.4	0.2	2.2	5.1	11.7	20.1	30.0
RoIC	-11.0	-3.9	-2.1	0.5	3.4	9.8	18.1	27.8
Working Capital Ratios								
Fixed Asset Turnover (x)	2.4	2.5	2.7	3.4	4.0	5.0	6.1	7.3
Asset Turnover (x)	0.9	1.5	1.5	1.8	2.3	2.8	3.5	4.2
Inventory (Days)	31	24	30	27	26	25	23	22
Debtor (Days)	43	35	56	60	55	54	52	50
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	2.1	2.0	1.7
Interest Cover Ratio	-3.5	-0.6	-0.5	0.2	0.9	3.3	6.9	18.6
Net Debt/Equity	0.7	0.8	0.4	0.5	0.7	0.7	0.4	0.1

								(INR m)
Y/E March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E
Consolidated - Cash Flow Statement								
OP/(Loss) before Tax	-1,088	-1,110	-646	-331	241	1,908	4,226	7,509
Depreciation	490	284	326	455	518	579	644	719
Interest & Finance Charges	37	519	308	399	341	124	-82	-529
Direct Taxes Paid	-64	-32	124	-77	-17	-286	-634	-1,126
(Inc)/Dec in WC	-1,872	847	-1,235	-1,600	-817	-1,624	-1,202	-1,040
CF from Operations	-2,497	508	-1,123	-1,155	267	701	2,952	5,532
Others	66	287	311	217	0	0	0	0
CF from Operating incl EO	-2,431	795	-812	-938	267	701	2,952	5,532
(Inc)/Dec in FA	-592	-685	-1,236	-846	-1,200	-1,000	-1,500	-1,500
Free Cash Flow	-3,023	110	-2,048	-1,783	-933	-299	1,452	4,032
(Pur)/Sale of Investments	-2,721	802	169	-113	100	0	0	0
Others	1,440	269	-400	-292	336	500	682	904
CF from Investments	-1,873	385	-1,467	-1,250	-764	-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	1,200	650	-1,250	-4,300
Interest Paid	-320	-607	-394	-447	-678	-624	-600	-375
Others	0	0	-130	503	-240	-240	-240	-240
CF from Fin. Activity	4,627	-1,443	2,584	2,168	282	-214	-2,090	-4,915
Inc/Dec of Cash	323	-263	305	-21	-215	-13	44	21
Opening Balance	110	433	170	468	448	233	219	264
Closing Balance	433	170	475	448	233	219	264	285

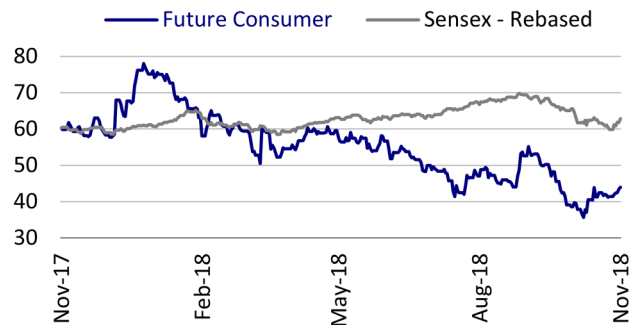
E: MOSL Estimates

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 (%)

	Sep-18	Jun-18	Sep-17
Promoter	45.8	44.5	48.8
DII	1.8	1.4	1.0
FII	16.5	16.6	19.0
Others	35.9	37.5	31.3

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	3.0

Source: Capitaline

Exhibit 4: Top management

Name	Designation
G N Bajpai	Chairman & Independent Director
Kishore Biyani	Vice Chairman
AshniBiyani	Managing Director
Manoj Gagvani	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Frederic De Mevius	Adhiraj Harish
Krishan Kant Rathi	Vibha Rishi
NarendraBbaheti	Manoj Gagvani

*Independent

Exhibit 6: Auditors

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

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	0.0	0.2	-100.0
FY20	0.8	0.7	11.4

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

*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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