

Future Retail (FRETAIL IN)

Rating: BUY | CMP: Rs529 | TP: Rs604

November 14, 2018

Q2FY19 Result Update

■ Change in Estimates | Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	BUY		BUY	
Target Price	604		613	
Sales (Rs. m)	200,117	231,670	200,117	231,670
% Chng.	-	-	-	-
EBITDA (Rs. m)	10,682	13,021	10,682	13,021
% Chng.	-	-	-	-
EPS (Rs.)	17.2	20.7	17.2	20.7
% Chng.	-	-	-	-

Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. bn)	184.8	200.4	232.9	269.5
EBITDA (Rs. bn)	8.3	10.7	13.0	15.6
Margin (%)	4.5	5.3	5.6	5.8
PAT (Rs. bn)	6.2	8.6	10.4	9.8
EPS (Rs.)	12.3	17.2	20.7	19.5
Gr. (%)	57.0	40.0	20.8	(5.8)
DPS (Rs.)	-	1.5	3.0	3.5
Yield (%)	-	0.3	0.6	0.7
RoE (%)	21.8	24.8	24.2	19.2
RoCE (%)	19.3	21.7	23.8	25.4
EV/Sales (x)	1.5	1.3	1.1	0.9
EV/EBITDA (x)	33.2	25.0	20.1	16.4
PE (x)	43.1	30.8	25.5	27.1
P/BV (x)	8.6	6.9	5.6	4.8

Key Data **FRTL.BO | FRETAIL IN**

52-W High / Low	Rs.659 / Rs.423
Sensex / Nifty	35,142 / 10,576
Market Cap	Rs.266bn/ \$ 3,674m
Shares Outstanding	503m
3M Avg. Daily Value	Rs.865.77m

Shareholding Pattern (%)

Promoter's	46.56
Foreign	16.56
Domestic Institution	13.34
Public & Others	23.54
Promoter Pledge (Rs bn)	56.76

Stock Performance (%)

	1M	6M	12M
Absolute	19.1	(8.3)	8.9
Relative	17.7	(7.3)	2.1

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Consolidating post acquisition phase

Quick Pointers:

- Big Bazaar SSG at 9.4%, Up ~12% excluding deflation in staples; FRL SSG up 5.9% only as Easy Day SSG up 3% in 2Q
- Sales in Festive season (from 5th Oct to 5th Nov) grew by 18% YoY.
- HyperCity sales at Rs2.3bn, renovation completed, 2Q loss at Rs150mn

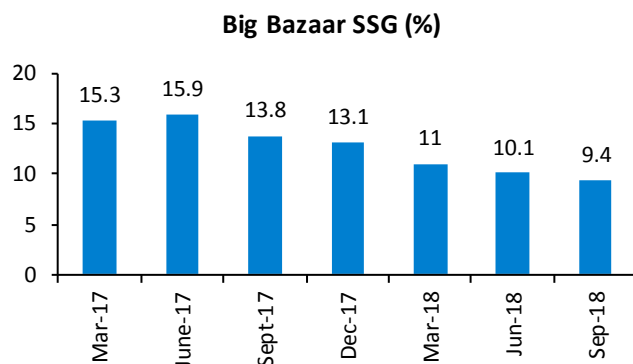
FRL has shown encouraging 2Q with Big Bazaar SSG at 9.4% (13th quarter of almost double digit SSG), lower EBIDTA loss in Hypercity at 6.7% (11.3% in 1Q) and 3% SSG in Easyday (-15% in 1Q19). Hypercity stores have started gained traction post renovation and more space to fashion segment. Outlook seems bright as festival season sales are up 18% and Hypercity is likley to turnaround by 4QFY19. FRL's balance sheet has strengthened as it has received Rs4.5bn from the proceeds of stake sale by Bharti Group as interest free loans. FRL is slowly integrating spate of acquisitions done over the past couple of years and is likley to focus more on organic growth and consolidation in coming periods. We estimate 18.3% PAT CAGR (33.8% PBT CAGR) over FY18-21 and value the stock at Rs604 based on 30xSept FY20EPS (Earlier Rs.613 on 30xJuneFY20 EPS, due to higehr tax rate in FY21). Buy

- Big Bazaar SSG at 9.4%, Overall 5.9%:** Net Sales increased 9.4% to Rs49.29bn. Underlying sales after adjusting for Ezone rationalization and Hometown demerger increased 16%. Big Bazaar SSG 9.4% (9.7% in 1H) and 5.9% for FRL (4.7% in 1H). Excluding food deflation. Big bazaar SSG would have been ~12%. Sales in Festive season (from 5th Oct to 5th Nov) grew by 18% YoY. Gross margins expand 100bps to 26.7%, however it was down 70bps QoQ. EBIDTA increased 17.3% to Rs 2.48bn as margins expanded 30bps. Cost of retail increased 60bps YoY (declined 100bps QoQ) at 21.6% as staff costs, and other expenses increased by 40bps and 30bps each. Adj. PAT increased 14.3% to Rs 1.75bn as other income increased by 105% despite depreciation also increasing by 106%. Net Block has increased due to increase in own capex on small store openings. Investments in balance sheet reflect acquisition of WH Smith stores. FRL has received Rs4.5bn (reflected as interest free debt) from Bharti as per the Easyday acquisition clause.
- Store Openings:** FRL has added 7 FBB and 123 Easy Day stores (including WH Smith stores). In 2Q, opened 10 Big Bazaar stores and closed 1 store. 9 smaller food bazaar stores in Hyderabad were converted to Heritage stores.
- Hypercity sales at Rs2.3bn (Rs 2bn in1Q19) and EBIDTA loss at Rs150mn (Rs220mn in 1Q19). Currently EBIDTA margins is at -6.7% (-11.3% in 1Q19) and the company maintains the guidance of 5% margins by 4Q19.**
- EasyDay SSG up 3%** (negative 15% in 1Q19 and negative 5% in 4Q18). Momentum in EasyDay continues as members increased more than 2.5x YoY to 0.8mn.

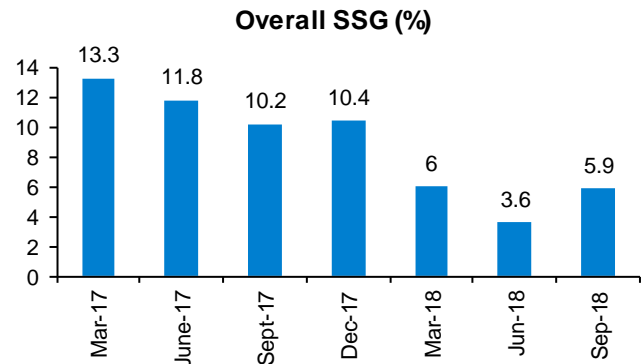
Exhibit 1: Underlying sales 16% post GST impact, E Zone rationalization, margins at 5%

Y/e March	Q2FY19	Q2FY18	YoY gr. (%)	Q1FY19	1HFY19	1HFY18	YoY gr. (%)
Net Sales	49,285	45,063	9.4	45,387	94,672	92,112	2.8
Gross Profit	13,142	11,571	13.6	12,446	25,589	23,338	9.6
<i>% of NS</i>	<i>26.7</i>	<i>25.7</i>		<i>27.4</i>	<i>27.0</i>	<i>25.3</i>	
Rent Including lease	3,674	3,372	9.0	3,647	7,321	7,052	3.8
<i>% of NS</i>	<i>7.5</i>	<i>7.5</i>		<i>8.0</i>	<i>7.7</i>	<i>7.7</i>	
Other Expenses	6,993	6,088	14.9	6,591	13,584	12,078	12.5
<i>% of NS</i>	<i>14.2</i>	<i>13.5</i>		<i>14.5</i>	<i>14.3</i>	<i>13.1</i>	
EBITDA	2,476	2,111	17.3	2,208	4,684	4,207	11.3
<i>Margins %</i>	<i>5.0</i>	<i>4.7</i>		<i>4.9</i>	<i>4.9</i>	<i>4.6</i>	
Depreciation	230	112	105.7	199	428	219	95.3
Interest	554	497	11.5	511	1,065	1,031	3.2
Other Income	59	29	105.6	32	91	54	69.6
PBT	1,751	1,532	14.3	1,531	3,282	3,010	9.0
Adjusted PAT	1,751	1,532	14.3	1,531	3,282	3,010	9.0

Source: Company, PL

Exhibit 2: Big Bazaar up 9.4% in 2Q


Source: Company, PL

Exhibit 3: FRL SSG up by 5.9%


Source: Company, PL

Exhibit 4: Quarterly Operating Matrix: Sales/ft growth declined 4.4%, Cost of retail declined 100bps QoQ

Y/e March	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Operating Area	13.5	13.6	13.0	14.5	14.7	15.5
Sales/ Ft (Rs)	3490	3326	3619	3166	3083	3180
Growth %	14.7	5.2	10.4	0.3	-11.7	-4.4
Gross Profit (Rs mn)	11766	11571	11864	12341	12446	13142
Gross profit/ft/month	291	285	305	285	282	283
Change (%)	14.1	7.5	11.0	5.2	-3.1	-0.7
Gross Margin %	25.0	25.7	25.3	27.0	27.4	26.7
EBIDTA Margin %	4.5	4.7	4.6	4.4	4.9	5.0
Cost of retail %	20.6	21.0	20.7	22.6	22.6	21.6

Source: Company, PL

Exhibit 5: FRL has opened 7 FBB stores and 123 Easy day stores

Key Retail Metrics	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Retail Space (m sq.ft.)					
Big Bazaar	10.6	10.7	12.1	12.1	12.4
FBB	0.6	0.6	0.6	0.7	0.8
E Zone	0.2	0.2	0.1	0.1	0.1
Easyday	1.3	1.4	1.5	1.7	2.1
Foodhall	0.1	0.1	0.1	0.1	0.1
Total	13.6	13.0	14.5	14.7	15.5
Store Count (x)					
Big Bazaar	257	259	285	285	284
FBB	57	59	61	67	74
E Zone	19	17	13	12	9
Easyday	537	611	666	749	959
Foodhall	7	9	10	10	10
Net Store Addition (x)					
Big Bazaar	4	2	26	0	-1
FBB	3	2	2	6	7
E Zone	0	-2	-4	-1	-3
Easyday	14	74	55	83	210
Foodhall	0	2	1	0	0
Net Addition QoQ (m sq.ft.)					
Big Bazaar	0.1	0.1	1.5	0.0	0.3
FBB	0.0	0.0	0.0	0.1	0.1
E Zone	0.0	0.0	-0.1	0.0	0.0
Easyday	0.0	0.2	0.1	0.2	0.4
Foodhall	0.0	0.0	0.0	0.0	0.0

Source: Company, PL

Exhibit 6: Easyday club continues to gain traction with >2.5x growth



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Net Revenues	184,780	200,418	232,891	269,458
YoY gr. (%)	8.2	8.5	16.2	15.7
Cost of Goods Sold	137,407	146,141	169,963	197,008
Gross Profit	47,373	54,277	62,928	72,450
Margin (%)	25.6	27.1	27.0	26.9
Employee Cost	9,300	10,322	11,877	13,742
Other Expenses	15,697	17,019	19,811	22,831
EBITDA	8,323	10,669	12,975	15,630
YoY gr. (%)	43.2	28.2	21.6	20.5
Margin (%)	4.5	5.3	5.6	5.8
Depreciation and Amortization	534	866	981	1,055
EBIT	7,789	9,803	11,994	14,575
Margin (%)	4.2	4.9	5.1	5.4
Net Interest	1,754	1,593	1,443	1,531
Other Income	117	411	1,086	1,635
Profit Before Tax	6,152	8,621	11,637	14,679
Margin (%)	3.3	4.3	5.0	5.4
Total Tax	-	-	1,222	4,874
Effective tax rate (%)	-	-	10.5	33.2
Profit after tax	6,152	8,621	10,415	9,806
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	6,152	8,621	10,415	9,806
YoY gr. (%)	67.0	40.1	20.8	(5.8)
Margin (%)	3.3	4.3	4.5	3.6
Extra Ord. Income / (Exp)	(6,039)	-	-	-
Reported PAT	113	8,621	10,415	9,806
YoY gr. (%)	(96.9)	7,522.7	20.8	(5.8)
Margin (%)	0.1	4.3	4.5	3.6
Other Comprehensive Income	20	-	-	-
Total Comprehensive Income	133	8,621	10,415	9,806
Equity Shares O/s (m)	502	503	503	503
EPS (Rs)	12.3	17.2	20.7	19.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Non-Current Assets				
Gross Block	11,265	12,094	13,224	14,171
Tangibles	5,036	5,253	6,041	6,629
Intangibles	6,229	6,841	7,183	7,542
Acc: Dep / Amortization	1,080	1,946	2,927	3,982
Tangibles	150	588	1,117	1,697
Intangibles	930	1,358	1,810	2,285
Net fixed assets	10,186	10,148	10,297	10,189
Tangibles	4,886	4,664	4,924	4,932
Intangibles	5,299	5,483	5,373	5,257
Capital Work In Progress	336	128	138	143
Goodwill	-	-	-	-
Non-Current Investments	2,738	2,738	2,738	2,738
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	1,327	1,403	1,630	1,886
Current Assets				
Investments	396	8,544	15,380	20,730
Inventories	44,174	40,504	44,817	50,354
Trade receivables	2,701	2,745	3,190	3,691
Cash & Bank Balance	1,436	1,537	1,755	1,993
Other Current Assets	5,586	6,013	6,987	8,084
Total Assets	81,945	88,346	103,021	117,478
Equity				
Equity Share Capital	1,004	1,005	1,005	1,005
Other Equity	29,959	37,672	46,270	53,956
Total Network	30,963	38,677	47,275	54,961
Non-Current Liabilities				
Long Term borrowings	2,233	20	20	20
Provisions	523	639	786	967
Other non current liabilities	1,185	1,244	1,306	1,372
Current Liabilities				
ST Debt / Current of LT Debt	10,631	11,617	12,390	13,082
Trade payables	34,242	33,905	38,752	44,327
Other current liabilities	2,168	2,245	2,492	2,748
Total Equity & Liabilities	81,945	88,346	103,021	117,478

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	6,152	8,621	11,637	14,679
Add. Depreciation	534	866	981	1,055
Add. Interest	1,754	1,593	1,443	1,531
Less Financial Other Income	117	411	1,086	1,635
Add. Other	(108)	(402)	(1,077)	(1,625)
Op. profit before WC changes	8,332	10,678	12,984	15,640
Net Changes-WC	(768)	(6,631)	(8,995)	(8,243)
Direct tax	-	-	(1,222)	(4,874)
Net cash from Op. activities	7,564	4,047	2,767	2,524
Capital expenditures	(5,399)	(620)	(1,140)	(952)
Interest / Dividend Income	108	402	1,077	1,625
Others	(65)	0	-	-
Net Cash from Invt. activities	(5,356)	(218)	(64)	673
Issue of share cap. / premium	(726)	1	-	-
Debt changes	423	(1,227)	774	692
Dividend paid	-	(908)	(1,817)	(2,119)
Interest paid	(1,754)	(1,593)	(1,443)	(1,531)
Others	-	-	-	-
Net cash from Fin. activities	(2,057)	(3,727)	(2,486)	(2,958)
Net change in cash	151	102	217	239
Free Cash Flow	2,165	3,427	1,627	1,572

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Net Revenue	46,934	45,747	45,387	49,285
YoY gr. (%)	6.2	2.0	(3.5)	9.4
Raw Material Expenses	35,070	33,406	32,941	36,143
Gross Profit	11,864	12,341	12,446	13,142
Margin (%)	25.3	27.0	27.4	26.7
EBITDA	2,149	2,015	2,208	2,476
YoY gr. (%)	1.8	(6.2)	9.6	12.1
Margin (%)	4.6	4.4	4.9	5.0
Depreciation / Depletion	112	180	199	230
EBIT	2,037	1,835	2,010	2,246
Margin (%)	4.3	4.0	4.4	4.6
Net Interest	232	464	511	554
Other Income	27	31	32	59
Profit before Tax	1,831	1,402	1,531	1,751
Margin (%)	3.9	3.1	3.4	3.6
Total Tax	-	-	-	-
Effective tax rate (%)	-	-	-	-
Profit after Tax	1,831	1,402	1,531	1,751
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,831	(4,636)	1,531	1,751
YoY gr. (%)	81.2	(476.8)	3.6	14.3
Margin (%)	3.9	(10.1)	3.4	3.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,831	(4,636)	1,531	1,751
YoY gr. (%)	81.2	(476.8)	3.6	14.3
Margin (%)	3.9	(10.1)	3.4	3.6
Other Comprehensive Income	-	20	-	-
Total Comprehensive Income	1,831	(4,617)	1,531	1,751
Avg. Shares O/s (m)	1,004	1,004	1,004	1,004
EPS (Rs)	1.8	(4.6)	1.5	1.7

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19E	FY20E	FY21E
Per Share(Rs)				
EPS	12.3	17.2	20.7	19.5
CEPS	13.3	18.9	22.7	21.6
BVPS	61.7	77.0	94.1	109.4
FCF	4.3	6.8	3.2	3.1
DPS	-	1.5	3.0	3.5
Return Ratio(%)				
RoCE	19.3	21.7	23.8	25.4
ROIC	10.2	12.1	12.6	13.3
RoE	21.8	24.8	24.2	19.2
Balance Sheet				
Net Debt : Equity (x)	0.4	0.0	(0.1)	(0.2)
Net Working Capital (Days)	25	17	15	13
Valuation(x)				
PER	43.1	30.8	25.5	27.1
P/B	8.6	6.9	5.6	4.8
P/CEPS	13.3	18.9	22.7	21.6
EV/EBITDA	33.2	25.0	20.1	16.4
EV/Sales	1.5	1.3	1.1	0.9
Dividend Yield (%)	-	0.3	0.6	0.7

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY18	FY19E	FY20E	FY21E
No. of Stores (Nos.)				
Big Bazar	305	325	345	365
FBB	61	71	81	91
Easyday	666	984	1,234	1,484
Area (mn sq. ft.)				
Big Bazar	12.1	12.7	13.3	13.9
FBB	0.6	0.7	0.8	0.8
Easyday	1.5	2.1	2.6	3.0
Sales (Rs m)				
Big Bazar	151,794	161,999	183,926	208,922
FBB	5,157	5,981	7,102	8,492
Easyday	23,784	26,838	36,627	45,985
EBITDA (Rs m)				
Big Bazar / FBB	8,522	10,523	12,425	14,481
Easyday	(238)	134	549	1,150
Cost of Retail (%)	21.1	21.8	21.4	21.1

Source: Company Data, PL Research

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Jan-18	BUY	566	566
2	6-Feb-18	BUY	631	521
3	13-Apr-18	BUY	627	608
4	10-Jul-18	BUY	682	567
5	12-Jul-18	BUY	682	561
6	10-Aug-18	BUY	613	518
7	1-Oct-18	BUY	613	466
8	5-Oct-18	BUY	613	443

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,300	1,138
2	Avenue Supermarts	Reduce	1,286	1,412
3	Britannia Industries	Accumulate	6,298	5,813
4	Colgate Palmolive	Hold	1,157	1,102
5	Crompton Greaves Consumer Electricals	BUY	276	195
6	Dabur India	Hold	427	385
7	Emami	Accumulate	521	402
8	Future Retail	BUY	613	443
9	GlaxoSmithKline Consumer Healthcare	Hold	8,520	7,119
10	Hindustan Unilever	Hold	1,703	1,570
11	ITC	BUY	364	281
12	Jubilant FoodWorks	Accumulate	1,395	1,193
13	Kansai Nerolac Paints	Accumulate	474	387
14	Marico	BUY	377	320
15	Nestle India	Accumulate	11,129	9,569
16	Pidilite Industries	Accumulate	1,121	959
17	Titan Company	BUY	1,115	848
18	Voltas	Accumulate	658	540

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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