

Future Retail (FRETAIL IN)

Rating: BUY | CMP: Rs448 | TP: Rs576

February 4, 2019

Q3FY19 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	576		604	
Sales (Rs. m)	232,891	269,458	232,891	269,458
% Chng.	-	-	-	-
EBITDA (Rs. m)	12,975	15,630	12,975	15,630
% Chng.	-	-	-	-
EPS (Rs.)	20.0	18.9	20.7	19.5
% Chng.	(3.7)	(3.0)	-	-

Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. bn)	184.8	200.4	232.9	269.5
EBITDA (Rs. bn)	8.3	10.3	13.0	15.6
Margin (%)	4.5	5.2	5.6	5.8
PAT (Rs. bn)	6.2	7.5	10.0	9.5
EPS (Rs.)	12.3	15.0	20.0	18.9
Gr. (%)	57.0	22.1	33.5	(5.2)
DPS (Rs.)	-	1.5	3.0	3.5
Yield (%)	-	0.3	0.7	0.8
RoE (%)	21.8	21.9	24.1	19.2
RoCE (%)	19.3	19.0	22.0	23.7
EV/Sales (x)	1.3	1.1	1.0	0.8
EV/EBITDA (x)	28.4	22.1	17.1	13.9
PE (x)	36.6	29.9	22.4	23.7
P/BV (x)	7.3	6.0	4.9	4.2

Key Data

FRTL.BO | FRETAIL IN

52-W High / Low	Rs.639 / Rs.417	
Sensex / Nifty	36,583 / 10,912	
Market Cap	Rs.225bn / \$ 3,140m	
Shares Outstanding	503m	
3M Avg. Daily Value	Rs.821.84m	

Shareholding Pattern (%)

Promoter's	46.51
Foreign	14.90
Domestic Institution	15.45
Public & Others	23.15
Promoter Pledge (Rs bn)	49.00

Stock Performance (%)

	1M	6M	12M
Absolute	-	(16.4)	(12.6)
Relative	(2.4)	(14.1)	(16.2)

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Rs20bn infusion and FEL infra purchase positive

Quick Pointers:

- Big Bazaar SSG at 10.1%; FRL SSG up 5.9%. HyperCity turned EBITDA positive at 3.6%. Easyday EBITDA loss at -4%
- Promotor to infuse Rs20bn as equity to acquire store Infrastructure from FEL and reduce lease rentals over next 18 months
- Acquisition of store Infrastructure from FEL will improve cash flows and boost EPS by 10%, but it will reduce ROE by ~100-150bps

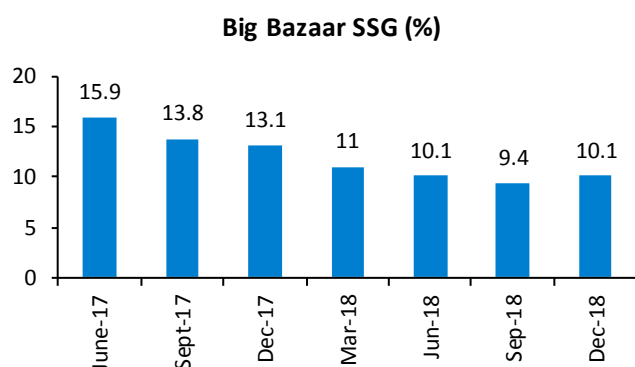
We cut FY19 EPS estimates by 13% and that of FY20 and FY21 by 3-3.5% factoring in higher interest burden and lower other income. 3Q results are encouraging with 1) Big Bazaar SSG at 10.1% (14th quarter of almost double digit SSG), 2) Hypercity turning EBITDA positive at 3.6% (-6.7% in 2Q) and 51% Easyday stores achieving positive EBITDA. FRL aims to use the current equity infusion (Rs20bn, received from sale of stake in Future Generali, Sketchers and FLFL) and upside from stake sale by Bharti and Heritage (~Rs10.5bn, Rs5.25bn already received) to acquire store infrastructure from FEL over next 18 months. While this will abolish the lease rentals (3.7% of sales) by FY21 and increase EPS by 10%, we estimate it to impact ROE by 100-150bps. We estimate 18.3% PAT CAGR (33.8% PBT CAGR) over FY18-21 and value the stock at Rs576 based on 30xDec20EPS (Earlier Rs.604 on 30xSeptFY20 EPS, due to higher tax rate in FY21). Maintain BUY.

- Net Sales increased 12.9% to Rs 53bn. Small Stores sales grew 29% YoY. Big Bazaar SSG grew 10.1% while FRL SSG grew 5.9%. Gross margins expanded 80bps to 26%, however it was down 70bps QoQ. EBITDA increased 29.3% to Rs2.78bn as margins expanded by 70bps to 5.2%. Cost of retail increased 10bps YoY (declined 80bps QoQ) at 20.8% as staff costs and other expenses increased by 20bps each despite decline in rental costs by 30bps. Adj. PAT increased 10% to Rs 2bn as depreciation and interest cost increased by 125% and 142% even as other income increased by 94%.
- Promoters are Infusing Rs20bn at a price of Rs505/share which along with Rs10.5bn inflows expected from Bharti and Heritage (Rs5.25bn received from Bharti) will be used to acquire store infrastructure from FEL over the next 18 months.
- Store Openings:** The company has added 2 Big Bazaar stores, 15 FBB, 91 Easy Day stores (including WH Smith stores) and 1 Foodhall.
- Hypercity** stores has delivered 3.6% EBITDA (-20% in Q4FY18 and -6.7% in 2QFY19). 51% of **Easyday** stores are EBITDA positive, overall EBITDA loss at 4%. Share of fashion in Hypercity stores is 23% and Hypercity margins are likely to reach a level of 7-7.5% over coming 2-3 quarters. Easyday is likely to take another year to achieve full turnaround.

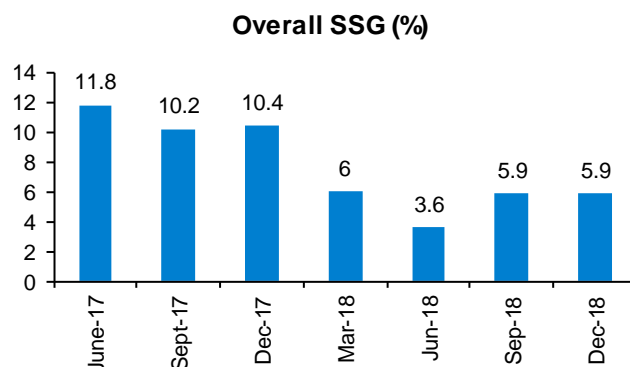
Exhibit 1: Underlying sales grew 12.9%, Adj. PAT grew 10%

Y/e March	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	9MFY19	9MFY18	YoY gr. (%)
Net Sales	53011	46934	12.9	49285	147683	138087	6.9
Gross Profit	13804	11864	16.4	13142	39393	34837	13.1
% of NS	26.0	25.3		26.7	26.7	25.2	
Rent Including lease	3750	3476	7.9	3674	11071	10409	6.4
% of NS	7.1	7.4		7.5	7.5	7.5	
Other Expenses	7276	6239	16.6	6993	20860	18079	15.4
% of NS	13.7	13.3		14.2	14.1	13.1	
EBITDA	2778	2149	29.3	2476	7463	6349	17.5
Margins %	5.2	4.6		5.0	5.1	4.6	
Depreciation	253	112	125.4	230	682	332	105.5
Interest	563	232	142.3	554	1627	1261	29.1
Other Income	52	27	94.4	59	143	81	77.9
PBT	2014	1831	10.0	1751	5297	4837	9.5
Adjusted PAT	2014	1831	10.0	1751	5297	4837	9.5

Source: Company, PL

Exhibit 2: Big Bazaar up 10.1% in 3Q


Source: Company, PL

Exhibit 3: FRL SSG up by 5.9%


Source: Company, PL

Exhibit 4: Quarterly Operating Matrix: Sales/ft growth declined 7.9%, Cost of retail declined 80bps QoQ

Y/e March	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Operating Area	13.6	13.0	14.5	14.7	15.5	15.9
Sales/ Ft (Rs)	3326	3619	3166	3083	3180	3334
Growth %	5.2	10.4	0.3	-11.7	-4.4	-7.9
Gross Profit (Rs mn)	11571	11864	12341	12446	13142	13804
Gross profit/ft/month	285	305	285	282	283	289
Change (%)	7.5	11.0	5.2	-3.1	-0.7	-5.1
Gross Margin %	25.7	25.3	27.0	27.4	26.7	26.0
EBIDTA Margin %	4.7	4.6	4.4	4.9	5.0	5.2
Cost of retail %	21.0	20.7	22.6	22.6	21.6	20.8

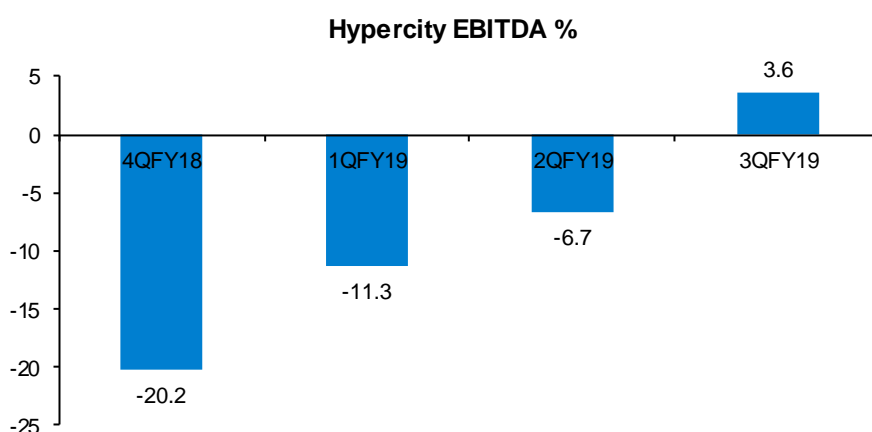
Source: Company, PL

Exhibit 5: FRL has opened 15 FBB stores and 91 Easy day stores

Key Retail Metrics	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Retail Space (m sq.ft.)					
Big Bazaar	10.7	12.1	12.1	12.4	12.5
FBB	0.6	0.6	0.7	0.8	0.9
E Zone	0.2	0.1	0.1	0.1	0.1
Easyday	1.4	1.5	1.7	2.1	2.3
Foodhall	0.1	0.1	0.1	0.1	0.1
Total	13.0	14.5	14.7	15.5	15.9
Store Count (x)					
Big Bazaar	259	285	285	284	286
FBB	59	61	67	74	89
E Zone	17	13	12	9	8
Easyday	611	666	749	959	1050
Foodhall	9	10	10	10	11
Net Store Addition (x)					
Big Bazaar	2	26	0	-1	2
FBB	2	2	6	7	15
E Zone	-2	-4	-1	-3	-1
Easyday	74	55	83	210	91
Foodhall	2	1	0	0	1
Net Addition QoQ (m sq.ft.)					
Big Bazaar	0.1	1.5	0.0	0.3	0.1
FBB	0.0	0.0	0.1	0.1	0.1
E Zone	0.0	-0.1	0.0	0.0	0.0
Easyday	0.2	0.1	0.2	0.4	0.2
Foodhall	0.0	0.0	0.0	0.0	0.0

Source: Company, PL

Exhibit 6: HyperCity has turned EBITDA positive in 3Q19



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	146,781	169,963	197,008
Gross Profit	47,373	53,637	62,928	72,450
Margin (%)	25.6	26.8	27.0	26.9
Employee Cost	9,300	10,322	11,877	13,742
Other Expenses	15,697	16,698	19,811	22,831
EBITDA	8,323	10,349	12,975	15,630
YoY gr. (%)	43.2	24.3	25.4	20.5
Margin (%)	4.5	5.2	5.6	5.8
Depreciation and Amortization	534	879	981	1,055
EBIT	7,789	9,470	11,994	14,575
Margin (%)	4.2	4.7	5.1	5.4
Net Interest	1,754	2,145	2,462	2,550
Other Income	117	194	1,680	2,211
Profit Before Tax	6,152	7,519	11,212	14,236
Margin (%)	3.3	3.8	4.8	5.3
Total Tax	-	-	1,177	4,726
Effective tax rate (%)	-	-	10.5	33.2
Profit after tax	6,152	7,519	10,034	9,510
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	6,152	7,519	10,034	9,510
YoY gr. (%)	67.0	22.2	33.5	(5.2)
Margin (%)	3.3	3.8	4.3	3.5
Extra Ord. Income / (Exp)	(6,039)	-	-	-
Reported PAT	113	7,519	10,034	9,510
YoY gr. (%)	(96.9)	6,548.1	33.5	(5.2)
Margin (%)	0.1	3.8	4.3	3.5
Other Comprehensive Income	20	-	-	-
Total Comprehensive Income	133	7,519	10,034	9,510
Equity Shares O/s (m)	502	503	503	503
EPS (Rs)	12.3	15.0	20.0	18.9

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	1,959	2,940	3,995
Tangibles	150	602	1,130	1,710
Intangibles	930	1,358	1,810	2,285
Net fixed assets	10,186	10,134	10,284	10,175
Tangibles	4,886	4,651	4,911	4,919
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	15,119	22,011	26,899
Inventories	44,174	41,236	44,817	50,354
Trade receivables	2,701	2,910	3,382	3,913
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	95,804	109,830	123,855
Equity				
Equity Share Capital	1,004	1,005	1,005	1,005
Other Equity	29,959	36,569	44,787	52,177
Total Network	30,963	37,574	45,792	53,182
Non-Current Liabilities				
Long Term borrowings	2,233	20	20	20
Provisions	523	581	647	722
Other non current liabilities	1,185	1,215	1,245	1,276
Current Liabilities				
ST Debt / Current of LT Debt	10,631	20,117	20,882	21,579
Trade payables	34,242	34,053	38,752	44,327
Other current liabilities	2,168	2,245	2,492	2,748
Total Equity & Liabilities	81,945	95,804	109,830	123,855

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	6,152	7,519	11,212	14,236
Add. Depreciation	534	879	981	1,055
Add. Interest	1,754	2,145	2,462	2,550
Less Financial Other Income	117	194	1,680	2,211
Add. Other	(108)	(185)	(1,671)	(2,201)
Op. profit before WC changes	8,332	10,358	12,984	15,640
Net Changes-WC	(768)	(14,042)	(8,606)	(7,952)
Direct tax	-	-	(1,177)	(4,726)
Net cash from Op. activities	7,564	(3,684)	3,201	2,962
Capital expenditures	(5,399)	(620)	(1,140)	(952)
Interest / Dividend Income	108	185	1,671	2,201
Others	(65)	0	-	-
Net Cash from Invst. activities	(5,356)	(435)	531	1,249
Issue of share cap. / premium	(726)	1	-	-
Debt changes	423	7,273	766	697
Dividend paid	-	(908)	(1,817)	(2,119)
Interest paid	(1,754)	(2,145)	(2,462)	(2,550)
Others	-	-	-	-
Net cash from Fin. activities	(2,057)	4,220	(3,513)	(3,973)
Net change in cash	151	101	218	238
Free Cash Flow	2,165	(4,304)	2,060	2,010

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Net Revenue	45,747	45,387	49,285	53,011
YoY gr. (%)	2.0	(3.5)	9.4	12.9
Raw Material Expenses	33,406	32,941	36,143	39,206
Gross Profit	12,341	12,446	13,142	13,804
Margin (%)	27.0	27.4	26.7	26.0
EBITDA	2,015	2,208	2,476	2,778
YoY gr. (%)	(6.2)	9.6	12.1	12.2
Margin (%)	4.4	4.9	5.0	5.2
Depreciation / Depletion	180	199	230	253
EBIT	1,835	2,010	2,246	2,525
Margin (%)	4.0	4.4	4.6	4.8
Net Interest	464	511	554	563
Other Income	31	32	59	52
Profit before Tax	1,402	1,531	1,751	2,014
Margin (%)	3.1	3.4	3.6	3.8
Total Tax	-	-	-	-
Effective tax rate (%)	-	-	-	-
Profit after Tax	1,402	1,531	1,751	2,014
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	(4,636)	1,531	1,751	2,014
YoY gr. (%)	(476.8)	3.6	14.3	10.0
Margin (%)	(10.1)	3.4	3.6	3.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	(4,636)	1,531	1,751	2,014
YoY gr. (%)	(476.8)	3.6	14.3	10.0
Margin (%)	(10.1)	3.4	3.6	3.8
Other Comprehensive Income	20	-	-	-
Total Comprehensive Income	(4,617)	1,531	1,751	2,014
Avg. Shares O/s (m)	1,004	1,004	1,004	1,004
EPS (Rs)	(4.6)	1.5	1.7	2.0

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19E	FY20E	FY21E
Per Share(Rs)				
EPS	12.3	15.0	20.0	18.9
CEPS	13.3	16.7	21.9	21.0
BVPS	61.7	74.8	91.1	105.8
FCF	4.3	(8.6)	4.1	4.0
DPS	-	1.5	3.0	3.5
Return Ratio(%)				
RoCE	19.3	19.0	22.0	23.7
ROIC	10.2	10.8	11.8	12.6
RoE	21.8	21.9	24.1	19.2
Balance Sheet				
Net Debt : Equity (x)	0.4	0.1	(0.1)	(0.1)
Net Working Capital (Days)	25	18	15	13
Valuation(x)				
PER	36.6	29.9	22.4	23.7
P/B	7.3	6.0	4.9	4.2
P/CEPS	33.6	26.8	20.4	21.3
EV/EBITDA	28.4	22.1	17.1	13.9
EV/Sales	1.3	1.1	1.0	0.8
Dividend Yield (%)	-	0.3	0.7	0.8

Source: Company Data, PL Research

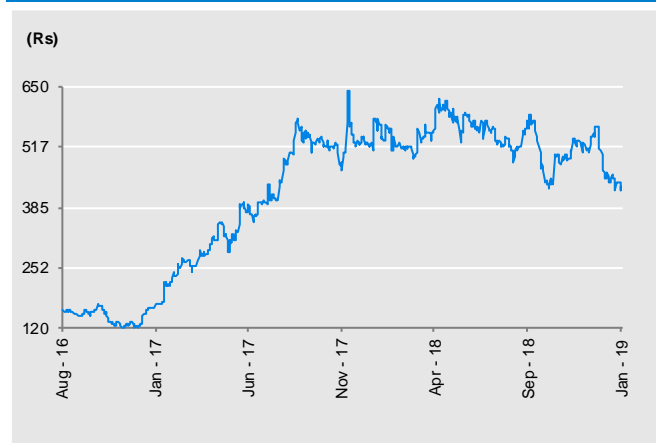
Key Operating Metrics

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	10,203	12,425	14,481
Easyday	(238)	134	549	1,150

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	6-Feb-18	BUY	631	521
2	13-Apr-18	BUY	627	608
3	10-Jul-18	BUY	682	567
4	12-Jul-18	BUY	682	561
5	10-Aug-18	BUY	613	518
6	1-Oct-18	BUY	613	466
7	5-Oct-18	BUY	613	443
8	14-Nov-18	BUY	604	529
9	7-Jan-19	BUY	604	459

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,460	1,407
2	Avenue Supermarts	Reduce	1,270	1,572
3	Britannia Industries	Accumulate	3,231	3,144
4	Colgate Palmolive	Hold	1,245	1,322
5	Crompton Greaves Consumer Electricals	BUY	272	216
6	Dabur India	Hold	456	452
7	Emami	Accumulate	524	411
8	Future Retail	BUY	604	459
9	GlaxoSmithKline Consumer Healthcare	Hold	8,520	7,488
10	Hindustan Unilever	Hold	1,874	1,752
11	ITC	BUY	364	277
12	Jubilant FoodWorks	Accumulate	1,489	1,200
13	Kansai Nerolac Paints	Accumulate	498	430
14	Marico	Accumulate	387	387
15	Nestle India	Accumulate	11,129	10,786
16	Pidilite Industries	Accumulate	1,163	1,109
17	Titan Company	BUY	1,195	992
18	Voltas	Accumulate	658	542

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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