

Rating: BUY | CMP: Rs412 | TP: Rs512

July 31, 2019

Q1FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	BUY		BUY	
Target Price	512		554	
Sales (Rs. m)	232,382	264,954	236,434	269,542
% Chng.	(1.7)	(1.7)		
EBITDA (Rs. m)	28,328	32,168	13,511	20,053
% Chng.	109.7	60.4		
EPS (Rs.)	17.5	17.1	18.6	18.5
% Chng.	(5.8)	(7.7)		

Key Financials - Standalone

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. bn)	184.8	201.6	232.4	265.0
EBITDA (Rs. bn)	8.3	10.4	28.3	32.2
Margin (%)	4.5	5.1	12.2	12.1
PAT (Rs. bn)	6.2	7.3	8.8	9.2
EPS (Rs.)	12.3	14.6	17.5	17.1
Gr. (%)	57.0	19.0	20.1	(2.6)
DPS (Rs.)	-	-	-	1.5
Yield (%)	-	-	-	0.4
RoE (%)	21.8	21.1	20.5	15.0
RoCE (%)	19.3	17.7	28.0	26.1
EV/Sales (x)	1.2	1.1	0.9	0.9
EV/EBITDA (x)	26.2	22.2	7.6	7.2
PE (x)	33.7	28.3	23.6	24.2
P/BV (x)	6.7	5.4	4.4	3.0

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

52-W High / Low	Rs.594 / Rs.398
Sensex / Nifty	37,481 / 11,118
Market Cap	Rs.207bn/ \$ 3,012m
Shares Outstanding	503m
3M Avg. Daily Value	Rs.253.9m

Shareholding Pattern (%)

Promoter's	46.56
Foreign	17.60
Domestic Institution	12.10
Public & Others	23.74
Promoter Pledge (Rs bn)	53.60

Stock Performance (%)

	1M	6M	12M
Absolute	(15.0)	(4.0)	(22.9)
Relative	(10.6)	(7.2)	(22.6)

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Small stores power growth; FEL infra purchase on track

Quick Pointers:

- FRL and Big Bazaar SSG at 8.4% and 8.1%. Small store format SSG at 11.3%
- 25% of warrant amount (Rs5bn) received out of Rs20bn promotor infusion to acquire store Infrastructure from FEL 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 our EPS estimate of FY20 and FY21 by 5.8% and 7.7% respectively of which 4.5% is due to impact of IndAS 116. FRL has sustained growth momentum in the challenging environment mainly led by small format stores which grew sales by 50% YoY with 11.3% SSG in 1Q led by improved and efficient product assortments and higher product availability despite non-performance in the sothern market. We remain positive on FRL led by 1) strong growth momentum in small format stores with reduction of losses to -2% in 1Q from 3.5% in 4Q (expected breakeven in exit of FY20) and 3) expected improvement in cash flows post acquisition of store infra from FEL.

FRL has received 25% of the warrant amount in 1Q and it aims to use this equity infusion and upside from stake sale by Bharti and Heritage (~Rs10.5bn, Rs6bn already received) to acquire store infrastructure from FEL by 3QFY21. This will increase EPS by 10% from FY21 but dilute ROE by 100-150bps.

We estimate PAT growth of 20.1% in FY20 and flattish in FY21 due to tax impact (33.7% PBT CAGR) over FY19-21 and value the stock at Rs512 based on 30x FY21EPS. Maintain BUY.

Big bazaar SSG up 8.1%: Net Sales increased 13.5% to Rs51.1bn. Big Bazaar SSG at 8.1% and 8.3% for FRL. Small store format SSG at 11.3%. Gross margins at 27.6% expanded 20bps YoY and 90bps QoQ. EBITDA (excl. IndAS 116 impact) increased 20% to Rs 2.65bn as margins expanded 30bps. Adjusted Cost of retail declined 80bps YoY (increased 110bps QoQ) at 22.5% as actual rentals declined by 40bps despite increase in other expenses by 40bps. Adj. PAT (excl. IndAS 116 impact) increased by 11% to Rs 1.7bn as other income increased by 172.5% despite increase in adj. depreciation and adj. interest by 33.6% and 78.9% respectively. FRL has received amount for 25% of the Initial warrants issued.

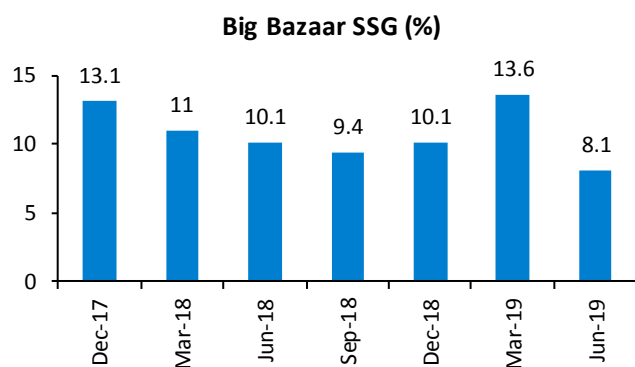
Store Openings on track: FRL has added 2 FBB and 44 net Easy Day stores (including WH Smith stores). 1 Big Bazaar stores were added and 1 Foodhall store was closed in the quarter. FRL aims to open ~20 Big bazaar stores, ~15 FBB stores and ~225 EasyDay stores in FY20.

EasyDay sales growing 50% YoY: EasyDay club membership is gaining traction with members increasing more than 2x YoY to 1.3mn with average annual spend of Rs30000. EBITDA in 1Q was at -2% (-3.5% in 4Q19) mainly due to non-performance in southern markets. EasyDay is expected to breakeven at FY20 exit.

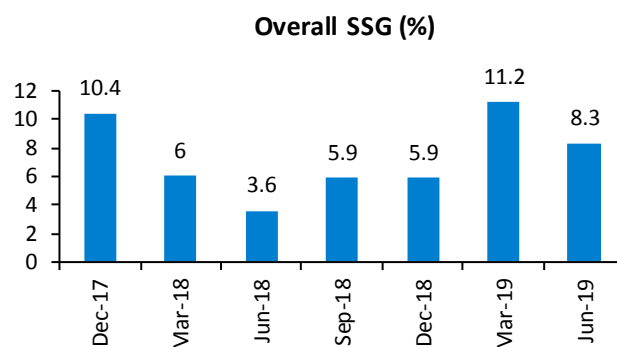
Exhibit 1: Net sales grew 13.5% led by robust growth in small store formats

Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY18	YoY gr. (%)
Net Sales	51,494	45,387	13.5	53,966	232,382	201,649	15.2
Gross Profit	14,226	12,446	14.3	14,445	62,639	53,838	16.3
% of NS	27.6	27.4		26.8	27.0	26.7	
Other Expenses	7,898	10,238	(22.9)	11,538	34,311	43,469	(21.1)
% of NS	15.3	22.6		21.4	14.8	21.6	
EBITDA	6,328	2,208	186.6	2,907	28,328	10,369	173.2
Margins %	12.3	4.9		5.4	12.2	5.1	
Depreciation	2,397	199	1107.0	324	9,968	1,006	891.0
Interest	2,394	511	368.6	612	9,886	2,240	341.4
Other Income	88	32	172.4	62	325	205	59.0
PBT	1,625	1,531	6.1	2,032	8,799	7,328	20.1
Adjusted PAT	1,625	1,531	6.1	2,032	8,799	7,328	20.1

Source: Company, PL

Exhibit 2: Big Bazaar up 8.1% in 1Q


Source: Company, PL

Exhibit 3: FRL SSG up by 8.4% in 1Q


Source: Company, PL

Exhibit 4: Quarterly Operating Matrix: Sales/ft grew 2.6%; Cost of retail declined 110bps QoQ

Y/e March	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19*
Operating Area	14.5	14.7	15.5	15.9	16.2	16.3
Sales/ Ft (Rs)	3166	3083	3180	3334	3331	3165
Growth %	0.3	-11.7	-4.4	-7.9	5.2	2.6
Gross Profit (Rs mn)	12341	12446	13142	13804	14445	14226
Gross profit/ft/month	285	282	283	289	297	291
Change (%)	5.2	-3.1	-0.7	-5.1	4.4	3.4
Gross Margin %	27.0	27.4	26.7	26.0	26.8	27.6
EBIDTA Margin %	4.4	4.9	5.0	5.2	5.4	5.1
Cost of retail %	22.6	22.6	21.6	20.8	21.4	22.5

Source: Company, PL * June 2019 numbers are without considering impact of IND AS 116

Exhibit 5: FRL has opened 2 FBB stores and 44 Easy day stores in 1Q

Key Retail Metrics	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Retail Space (m sq.ft.)					
Big Bazaar	12.1	12.4	12.5	12.5	12.5
FBB	0.7	0.8	0.9	1.0	1.0
E Zone	0.1	0.1	0.1	0.1	0.1
Easyday	1.7	2.1	2.3	2.5	2.5
Foodhall	0.1	0.1	0.1	0.1	0.1
Total	14.7	15.5	15.9	16.2	16.27
Store Count (x)					
Big Bazaar	285	284	286	292	293
FBB	67	74	89	94	96
E Zone	12	9	8	7	7
Easyday	749	959	1050	1106	1150
Foodhall	10	10	11	12	11
Net Store Addition (x)					
Big Bazaar	0	-1	2	6	1
FBB	6	7	15	5	2
E Zone	-1	-3	-1	-1	0
Easyday	83	210	91	56	44
Foodhall	0	0	1	1	-1

Source: Company, PL

Exhibit 6: Focus on small format stores by increasing EasyDay club membership



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	184,780	201,649	232,382	264,954
YoY gr. (%)	8.2	9.1	15.2	14.0
Cost of Goods Sold	137,407	147,811	169,742	193,368
Gross Profit	47,373	53,838	62,639	71,586
Margin (%)	25.6	26.7	27.0	27.0
Employee Cost	9,300	10,744	12,549	14,440
Other Expenses	15,697	17,851	20,663	23,816
EBITDA	8,323	10,369	28,328	32,168
YoY gr. (%)	43.2	24.6	173.2	13.6
Margin (%)	4.5	5.1	12.2	12.1
Depreciation and Amortization	534	1,006	9,968	10,981
EBIT	7,789	9,363	18,360	21,187
Margin (%)	4.2	4.6	7.9	8.0
Net Interest	1,754	2,240	9,886	8,817
Other Income	117	205	325	472
Profit Before Tax	6,152	7,328	8,799	12,842
Margin (%)	3.3	3.6	3.8	4.8
Total Tax	-	-	-	3,596
Effective tax rate (%)	-	-	-	28.0
Profit after tax	6,152	7,328	8,799	9,246
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	6,152	7,328	8,799	9,246
YoY gr. (%)	67.0	19.1	20.1	5.1
Margin (%)	3.3	3.6	3.8	3.5
Extra Ord. Income / (Exp)	(6,039)	-	-	-
Reported PAT	113	7,328	8,799	9,246
YoY gr. (%)	(96.9)	6,379.4	20.1	5.1
Margin (%)	0.1	3.6	3.8	3.5
Other Comprehensive Income	20	58	-	-
Total Comprehensive Income	133	7,386	8,799	9,246
Equity Shares O/s (m)	502	503	503	542
EPS (Rs)	12.3	14.6	17.5	17.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	11,265	17,065	24,912	53,085
Tangibles	5,036	9,836	16,933	44,356
Intangibles	6,229	7,229	7,979	8,729
Acc: Dep / Amortization	1,080	2,657	4,242	7,783
Tangibles	150	1,210	2,395	5,500
Intangibles	930	1,448	1,847	2,283
Net fixed assets	10,186	14,408	20,671	45,303
Tangibles	4,886	8,626	14,538	38,856
Intangibles	5,299	5,782	6,133	6,446
Capital Work In Progress	336	1,902	1,424	1,224
Goodwill	-	-	-	-
Non-Current Investments	2,738	4,995	4,837	4,705
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	1,327	2,751	2,905	2,650
Current Assets				
Investments	396	479	10,715	9,711
Inventories	44,174	50,656	46,211	51,687
Trade receivables	2,701	3,165	3,502	3,847
Cash & Bank Balance	1,436	2,049	2,037	2,178
Other Current Assets	5,586	9,471	9,760	10,068
Total Assets	81,945	105,277	118,589	149,276
Equity				
Equity Share Capital	1,004	1,005	1,005	1,084
Other Equity	29,959	37,514	46,314	74,500
Total Network	30,963	38,520	47,319	75,585
Non-Current Liabilities				
Long Term borrowings	2,233	3,753	20	20
Provisions	523	578	645	719
Other non current liabilities	1,185	1,370	1,404	1,439
Current Liabilities				
ST Debt / Current of LT Debt	10,631	21,787	21,934	21,084
Trade payables	34,242	29,373	39,041	43,508
Other current liabilities	2,168	9,897	8,226	6,730
Total Equity & Liabilities	81,945	105,277	118,589	149,085

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	6,152	7,328	8,799	12,842
Add. Depreciation	534	1,006	9,968	10,981
Add. Interest	1,754	2,240	9,886	8,817
Less Financial Other Income	117	205	325	472
Add. Other	(108)	(55)	(168)	(306)
Op. profit before WC changes	8,332	10,519	28,486	32,334
Net Changes-WC	(768)	(11,574)	402	(3,168)
Direct tax	-	-	-	(3,596)
Net cash from Op. activities	7,564	(1,055)	28,887	25,570
Capital expenditures	(5,399)	(6,794)	(15,752)	(35,413)
Interest / Dividend Income	108	55	168	306
Others	(65)	(2,256)	157	133
Net Cash from Inv. activities	(5,356)	(8,996)	(15,427)	(34,974)
Issue of share cap. / premium	(726)	229	-	20,000
Debt changes	423	12,676	(3,586)	(849)
Dividend paid	-	-	-	(980)
Interest paid	(1,754)	(2,240)	(9,886)	(8,817)
Others	-	-	-	-
Net cash from Fin. activities	(2,057)	10,665	(13,472)	9,354
Net change in cash	151	613	(12)	(50)
Free Cash Flow	2,165	(7,850)	13,135	(9,843)

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Net Revenue	49,285	53,011	53,966	51,494
YoY gr. (%)	9.4	12.9	18.0	13.5
Raw Material Expenses	36,143	39,206	39,521	37,267
Gross Profit	13,142	13,804	14,445	14,226
Margin (%)	26.7	26.0	26.8	27.6
EBITDA	2,476	2,778	2,907	6,328
YoY gr. (%)	17.3	29.3	44.3	186.6
Margin (%)	5.0	5.2	5.4	12.3
Depreciation / Depletion	230	253	324	2,397
EBIT	2,246	2,525	2,583	3,931
Margin (%)	4.6	4.8	4.8	7.6
Net Interest	554	563	612	2,394
Other Income	59	52	62	88
Profit before Tax	1,751	2,014	2,032	1,625
Margin (%)	3.6	3.8	3.8	3.2
Total Tax	-	-	-	-
Effective tax rate (%)	-	-	-	-
Profit after Tax	1,751	2,014	2,032	1,625
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,751	2,014	2,032	1,625
YoY gr. (%)	14.3	10.0	(143.8)	6.1
Margin (%)	3.6	3.8	3.8	3.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,751	2,014	2,032	1,625
YoY gr. (%)	14.3	10.0	(143.8)	6.1
Margin (%)	3.6	3.8	3.8	3.2
Other Comprehensive Income	-	-	58	-
Total Comprehensive Income	1,751	2,014	2,090	1,625
Avg. Shares O/s (m)	1,004	1,004	1,004	1,004
EPS (Rs)	1.7	2.0	2.0	1.6

Source: Company Data, PL Research

Key Financial Metrics

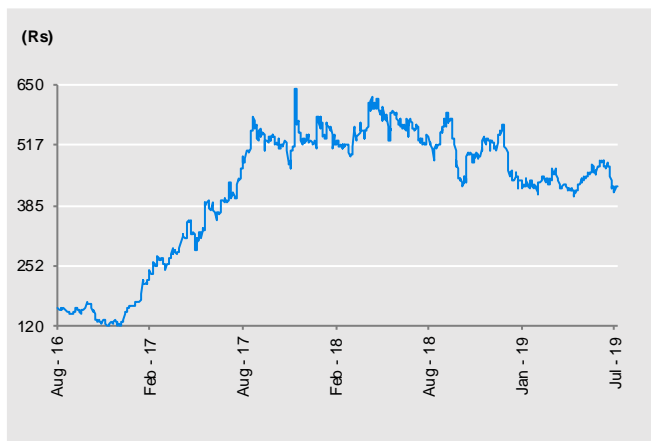
Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	12.3	14.6	17.5	17.1
CEPS	13.3	16.6	37.3	37.3
BVPS	61.7	76.6	94.1	139.4
FCF	4.3	(15.6)	26.1	(18.2)
DPS	-	-	-	1.5
Return Ratio(%)				
RoCE	19.3	17.7	28.0	26.1
ROIC	10.2	9.8	23.9	21.5
RoE	21.8	21.1	20.5	15.0
Balance Sheet				
Net Debt : Equity (x)	0.4	0.6	0.2	0.1
Net Working Capital (Days)	25	44	17	17
Valuation(x)				
PER	33.7	28.3	23.6	24.2
P/B	6.7	5.4	4.4	3.0
P/CEPS	31.0	24.9	11.0	11.1
EV/EBITDA	26.2	22.2	7.6	7.2
EV/Sales	1.2	1.1	0.9	0.9
Dividend Yield (%)	-	-	-	0.4

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
No. of Stores (Nos.)				
Big Bazar	285	292	310	330
FBB	61	94	102	110
Easyday	666	1,106	1,331	1,581
Area (mn sq. ft.)				
Big Bazar	12.1	12.5	13.0	13.7
FBB	0.6	1.0	1.1	1.1
Easyday	1.5	2.5	2.8	3.2
Sales (Rs m)				
Big Bazar	151,794	161,070	176,976	200,012
FBB	5,157	6,993	10,255	11,401
Easyday	23,784	27,298	40,595	48,346
EBITDA (Rs m)				
Big Bazar / FBB	8,522	10,215	27,719	30,960
Easyday	(238)	136	609	1,209
Cost of Retail (%)	21	22	15	15

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jul-19	BUY	554	471
2	5-Apr-19	BUY	554	446
3	4-Feb-19	BUY	576	448
4	7-Jan-19	BUY	604	459
5	14-Nov-18	BUY	604	529
6	5-Oct-18	BUY	613	443
7	1-Oct-18	BUY	613	466
8	10-Aug-18	BUY	613	518

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,522	1,479
2	Avenue Supermarts	Hold	1,338	1,359
3	Britannia Industries	Accumulate	3,145	2,841
4	Colgate Palmolive	Hold	1,208	1,204
5	Crompton Greaves Consumer Electricals	BUY	297	225
6	Dabur India	Hold	437	420
7	Emami	Accumulate	382	301
8	Future Retail	BUY	554	471
9	GlaxoSmithKline Consumer Healthcare	Hold	7,744	7,805
10	Hindustan Unilever	Accumulate	1,816	1,690
11	ITC	BUY	369	278
12	Jubilant FoodWorks	BUY	1,459	1,153
13	Kansai Nerolac Paints	Accumulate	479	434
14	Marico	Hold	351	374
15	Nestle India	Accumulate	10,656	11,884
16	Pidilite Industries	Accumulate	1,184	1,227
17	Titan Company	BUY	1,267	1,290
18	Voltas	Accumulate	584	635

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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