

# Future Consumer

<b>BSE SENSEX</b>	<b>S&amp;P CNX</b>
39,110	11,738
Bloomberg	FCON IN
Equity Shares (m)	1,902
M.Cap.(INRb)/(USDb)	81.1 / 1.2
52-Week Range (INR)	59 / 35
1, 6, 12 Rel. Per (%)	-3/-26/-37
12M Avg Val (INR M)	131
Free float (%)	53.7

## Financials & Valuations (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	38.8	51.7	68.2
EBITDA	1.0	2.3	4.1
NP	-0.2	1.0	2.4
EPS (INR)	-0.1	0.6	1.5
EPS Gr. (%)	-9.0	-504.2	155.0
BV/Sh. (INR)	6.0	6.6	8.1
RoE (%)	-2.4	9.2	20.2
RoCE (%)	4.3	10.5	16.7
P/E (x)	-294.2	72.8	28.6
EV/Sales (x)	2.0	1.5	1.1

Estimate change



TP change



Rating change



**CMP: INR42**

**TP: INR57 (+35%)**

**Buy**

## Operating results in line; Gross margin expansion to pick up in FY20

- **4QFY19 net sales grew 27.9% YoY** to INR10.4b (our est. INR10.2b). EBITDA was up 73.7% YoY to INR287m (our est. INR288m). Adj. Loss for the quarter stood at INR103m (our est. loss of INR41m).
- **Consolidated gross margin declined (-80bp YoY to 12.7% v/s our est. 12.9%)**. EBITDA margin expanded 70bp YoY to 2.8% (our est. 2.8%).
- During the year, the holding company reassessed the deferred tax asset on unutilized tax losses based on probability of future taxable income, and recognized net deferred tax asset of INR186.75m during the quarter. Thus, reported PAT stood at INR78m v/s loss of INR36m in base quarter.
- **FY19 consol. performance:** Sales/EBITDA grew 29%/86%. EBITDA margin expanded 80bp YoY to 2.6%.
- **FY19 segmental performance:** Centre of Plate (51% of sales) grew 22% YoY with volume growth of 27%. Deflationary environment in the pulses portfolio is expected to have impacted realization in the segment. Growth in the Fresh business (24% of sales) was 60% YoY. Processed foods (14% of sales) and Home & Personal Care (7% of sales) portfolio grew 14% and 37%, respectively.
- **Valuation & view:** Company delivered 29% revenue growth for FY19; we believe this growth will continue at current or even higher pace for the next few years (we are building revenue CAGR of ~32% over FY19-22), given the tremendous growth opportunity. Gross margin expansion is slower than expected, but company is delivering on operating levels. As the company is expected to be profitable at consolidated net level only in FY20, we believe near-term P/E multiples are likely to appear extremely expensive on a one-year forward basis. Thus, we continue to value the company on an EV/sales basis, assigning a multiple of 1.5x to arrive at a target price of INR57.

## Consolidated - Quarterly Earning Model

Y/E March	FY18				FY19				(INR M)			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY18	FY19	FY19 Variance	
<b>Sales</b>	<b>6,626</b>	<b>7,510</b>	<b>7,847</b>	<b>8,112</b>	<b>8,409</b>	<b>10,111</b>	<b>9,915</b>	<b>10,374</b>	<b>30,075</b>	<b>38,806</b>	<b>10,169</b>	<b>2.0</b>
YoY Change (%)	41.9	33.2	42.3	52.1	26.9	34.6	26.4	27.9	42.1	29.0	25.9	
<b>Gross Profit</b>	<b>922</b>	<b>1,038</b>	<b>1,071</b>	<b>1,097</b>	<b>1,182</b>	<b>1,331</b>	<b>1,314</b>	<b>1,318</b>	<b>4,224</b>	<b>5,246</b>	<b>1,310</b>	
Margins (%)	13.9	13.8	13.7	13.5	14.1	13.2	13.3	12.7	14.0	13.5	12.9	
<b>EBITDA</b>	<b>86</b>	<b>128</b>	<b>166</b>	<b>165</b>	<b>201</b>	<b>251</b>	<b>271</b>	<b>287</b>	<b>543</b>	<b>1,008</b>	<b>288</b>	<b>-0.4</b>
YoY Change (%)	949.1	318.3	420.1	534.2	133.4	96.0	63.4	73.7	460.7	85.7	71.9	
Margins (%)	1.3	1.7	2.1	2.0	2.4	2.5	2.7	2.8	1.8	2.6	2.8	
Depreciation	90	113	106	146	123	127	139	143	455	532	148	
Interest	128	122	136	140	159	172	195	209	526	735	208	
Other Income	58	52	45	165	83	89	69	72	323	314	77	
<b>PBT before EO expense</b>	<b>-74</b>	<b>-55</b>	<b>-31</b>	<b>45</b>	<b>2</b>	<b>40</b>	<b>5</b>	<b>8</b>	<b>-115</b>	<b>55</b>	<b>10</b>	<b>-23.0</b>
Extra-Ord expense	0	0	0	0	0	0	-2	-187	0	-189	0	
Tax	0	0	0	-25	0	10	5	6	-25	21	-13	
MI & Profit/Loss of Asso. Cos.	28	33	16	106	61	60	55	111	170	287	64	
<b>Reported PAT</b>	<b>-102</b>	<b>-88</b>	<b>-47</b>	<b>-36</b>	<b>-59</b>	<b>-30</b>	<b>-52</b>	<b>78</b>	<b>-260</b>	<b>-64</b>	<b>-41</b>	
<b>Adj PAT</b>	<b>-102</b>	<b>-88</b>	<b>-47</b>	<b>-36</b>	<b>-59</b>	<b>-30</b>	<b>-53</b>	<b>-103</b>	<b>-260</b>	<b>-237</b>	<b>-41</b>	
Margins (%)	-1.5	-1.2	-0.6	-0.4	-0.7	-0.3	-0.5	-1.0	-0.9	-0.6	-0.4	

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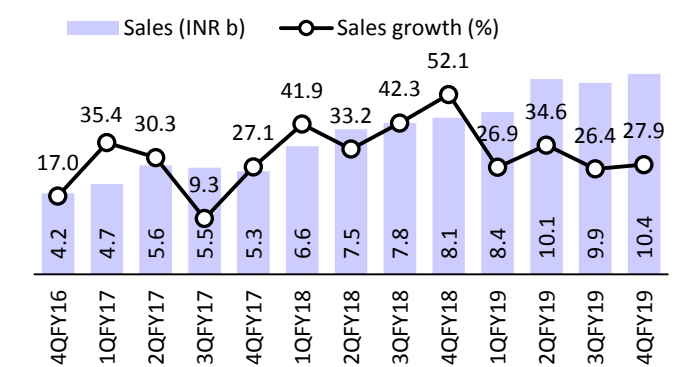
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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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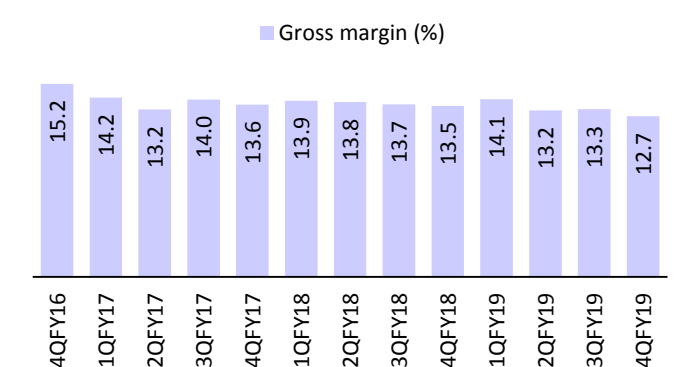
## Key quarterly charts

Exhibit 1: 4QFY19 consol. net sales up 27.9% YoY to INR 10.4b



Source: Company, MOFSL

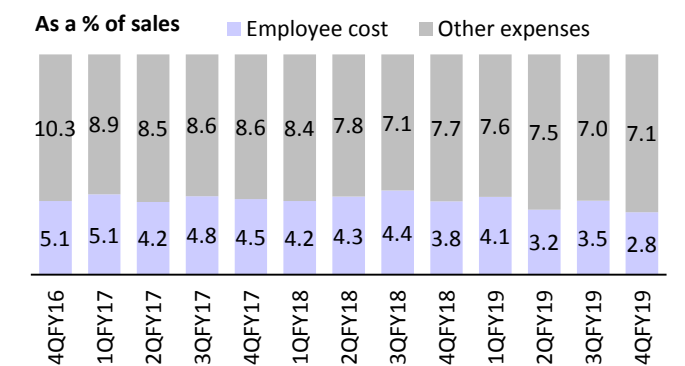
Exhibit 2: 4QFY19 consol. gross margin down 80bp YoY to 12.7%



Source: Company, MOFSL

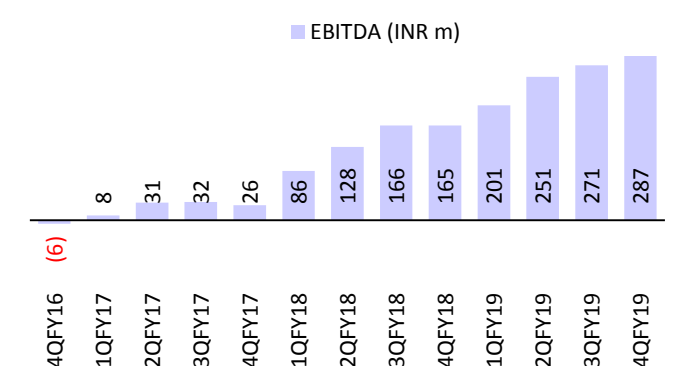
- **Consol. gross margin declined (-80bp YoY to 12.7% v/s our est. 12.9%)** while standalone business gross margins were up 20bp YoY to 13.9%.
- Lower other expenses as % of sales (-50bp YoY) and staff cost as % of sales (-100bp YoY) led to EBITDA margin expansion of 70bp YoY to 2.8% (our est. 2.8%). Standalone business EBITDA margin was up 210bp YoY to 3.8%.

Exhibit 3: As % of sales, employee cost down 100bp YoY and other expenses down 50bp YoY in 4QFY19



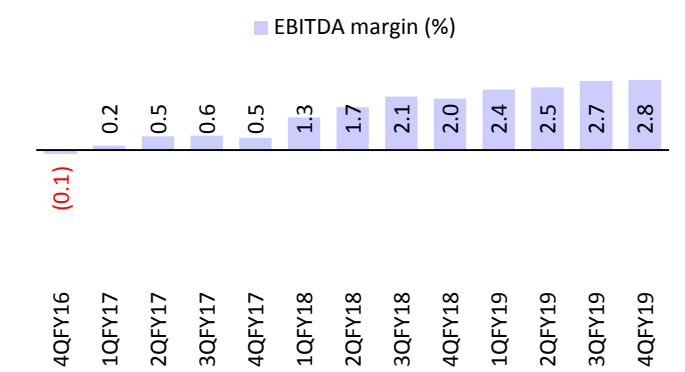
Source: Company, MOFSL

Exhibit 4: EBITDA grew 73.7% YoY to INR287m in 4QFY19 v/s INR165m in the base quarter...



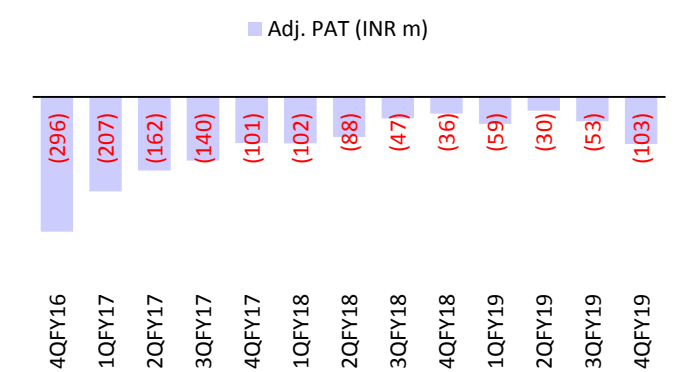
Source: Company, MOFSL

Exhibit 5: ..leading to EBITDA margin expansion of 70bp YoY to 2.8% in 4QFY19



Source: Company, MOFSL

Exhibit 6: Consol. loss at Adj. PAT level increased to INR103m in 4QFY19 v/s loss of INR36m in base quarter



Source: Company, MOFSL

**Valuation and view**

- Company delivered 29% revenue growth for FY19; we believe this growth will continue at current or even higher pace for the next few years (we are building revenue CAGR of ~32% over FY19-22), given the tremendous growth opportunity.
- Gross margin expansion is slower than expected but company is delivering on operating levels.
- As the company is expected to be profitable at the consolidated net level only in FY20, we believe near-term P/E multiples are likely to appear extremely expensive on a one-year forward basis.
- Thus, we continue to value the company on an EV/sales basis, assigning a multiple of 1.5x to arrive at a target price of INR57.

**Exhibit 7: There is no major change at EBITDA level but lower other income (v/s earlier estimates) meant that there is a cut of 15.7%/8.9% in FY20/FY21 at Adj. PAT level**

INR (m)	Old		New		Change (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	51,731	68,743	51,665	68,211	(0.1)	(0.8)
EBITDA	2,279	4,119	2,284	4,065	0.2	(1.3)
Adj. PAT	1,134	2,676	956	2,438	(15.7)	(8.9)

Source: Company, MOFSL

## Financials and valuations

### Consolidated - Income Statement

(INR M)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Total Income from Operations</b>	<b>13,126</b>	<b>17,030</b>	<b>21,158</b>	<b>30,075</b>	<b>38,806</b>	<b>51,665</b>	<b>68,211</b>	<b>89,453</b>
Change (%)	59.6	29.7	24.2	42.1	29.0	33.1	32.0	31.1
<b>Gross Profit</b>	<b>1,724</b>	<b>2,562</b>	<b>2,886</b>	<b>4,224</b>	<b>5,246</b>	<b>7,750</b>	<b>11,255</b>	<b>15,654</b>
Margin (%)	13.1	15.0	13.6	14.0	13.5	15.0	16.5	17.5
<b>EBITDA</b>	<b>-646</b>	<b>-164</b>	<b>97</b>	<b>543</b>	<b>1,008</b>	<b>2,284</b>	<b>4,065</b>	<b>6,491</b>
Change (%)	-24.4	-74.6	-159.1	460.7	85.7	126.7	78.0	59.7
Margin (%)	-4.9	-1.0	0.5	1.8	2.6	4.4	6.0	7.3
Depreciation	475	284	326	455	532	580	627	681
<b>EBIT</b>	<b>-1,120</b>	<b>-447</b>	<b>-229</b>	<b>88</b>	<b>476</b>	<b>1,705</b>	<b>3,438</b>	<b>5,809</b>
Int. and Finance Charges	319	702	449	526	735	759	778	612
Other Income	352	273	250	323	314	413	546	716
<b>PBT bef. EO Exp.</b>	<b>-1,088</b>	<b>-876</b>	<b>-427</b>	<b>-115</b>	<b>55</b>	<b>1,359</b>	<b>3,206</b>	<b>5,913</b>
EO Items	0	0	0	0	189	0	0	0
Total Tax	6	-2	9	-25	21	115	481	887
Tax Rate (%)	-0.5	0.2	-2.1	21.7	8.6	8.5	15.0	15.0
Minority Interest	-66	202	218	170	287	287	287	287
<b>Reported PAT</b>	<b>-1,028</b>	<b>-1,076</b>	<b>-654</b>	<b>-260</b>	<b>-64</b>	<b>956</b>	<b>2,438</b>	<b>4,739</b>
<b>Adjusted PAT</b>	<b>-1,028</b>	<b>-1,076</b>	<b>-654</b>	<b>-260</b>	<b>-237</b>	<b>956</b>	<b>2,438</b>	<b>4,739</b>
Change (%)	1,381.1	4.7	-39.2	-60.3	LP	-504.2	155.0	94.4
Margin (%)	-7.8	-6.3	-3.1	-0.9	-0.6	1.9	3.6	5.3

### Consolidated - Balance Sheet

(INR M)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Equity Share Capital	9,943	9,876	9,884	11,413	11,443	11,443	11,443	11,443
Total Reserves	-2,247	-4,331	-999	-1,460	-1,541	-585	1,853	6,592
<b>Net Worth</b>	<b>7,696</b>	<b>5,545</b>	<b>8,885</b>	<b>9,953</b>	<b>9,902</b>	<b>10,858</b>	<b>13,296</b>	<b>18,035</b>
Minority Interest	338	122	78	42	-24	0	0	0
Total Loans	6,734	5,391	4,714	6,177	7,594	8,394	7,994	4,894
Deferred Tax Liabilities	0	433	440	410	223	223	223	223
<b>Capital Employed</b>	<b>14,768</b>	<b>11,491</b>	<b>14,117</b>	<b>16,582</b>	<b>17,696</b>	<b>19,476</b>	<b>21,514</b>	<b>23,153</b>
Gross Block	5,577	6,767	7,769	8,834	9,978	10,723	11,672	12,662
<b>Net Fixed Assets</b>	<b>3,399</b>	<b>6,197</b>	<b>6,764</b>	<b>7,419</b>	<b>8,031</b>	<b>8,196</b>	<b>8,518</b>	<b>8,826</b>
Goodwill on Consolidation	5,483	1,677	1,677	1,677	1,423	1,423	1,423	1,423
Capital WIP	505	368	895	695	306	561	612	622
<b>Total Investments</b>	<b>1,116</b>	<b>861</b>	<b>404</b>	<b>430</b>	<b>729</b>	<b>802</b>	<b>882</b>	<b>970</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>5,965</b>	<b>4,220</b>	<b>7,178</b>	<b>10,001</b>	<b>12,014</b>	<b>15,428</b>	<b>19,136</b>	<b>23,976</b>
Inventory	1,115	1,101	1,757	2,242	2,468	3,382	4,218	5,228
Account Receivables	1,546	1,650	3,242	4,930	6,747	8,210	10,839	13,724
Cash and Bank Balance	433	170	475	448	684	220	260	283
Loans and Advances	2,872	1,299	1,703	2,382	2,115	3,617	3,820	4,741
<b>Curr. Liability &amp; Prov.</b>	<b>1,700</b>	<b>1,831</b>	<b>2,800</b>	<b>3,640</b>	<b>4,807</b>	<b>6,935</b>	<b>9,058</b>	<b>12,666</b>
Account Payables	1,298	1,085	1,912	2,672	3,003	4,600	5,975	7,728
Other Current Liabilities	293	655	735	769	1,602	2,067	2,728	4,473
Provisions	109	91	153	198	202	269	355	465
<b>Net Current Assets</b>	<b>4,265</b>	<b>2,389</b>	<b>4,378</b>	<b>6,361</b>	<b>7,207</b>	<b>8,493</b>	<b>10,078</b>	<b>11,310</b>
<b>Appl. of Funds</b>	<b>14,768</b>	<b>11,491</b>	<b>14,117</b>	<b>16,582</b>	<b>17,696</b>	<b>19,476</b>	<b>21,513</b>	<b>23,152</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>-0.6</b>	<b>-0.7</b>	<b>-0.4</b>	<b>-0.2</b>	<b>-0.1</b>	<b>0.6</b>	<b>1.5</b>	<b>2.9</b>
BV/Share	4.7	3.4	5.4	6.0	6.0	6.6	8.1	10.9
<b>Valuation (x)</b>								
P/E	-67.7	-64.7	-106.4	-267.8	-294.2	72.8	28.6	14.7
Cash P/E	-125.8	-87.8	-212.0	357.0	235.9	45.3	22.7	12.8
P/BV	9.0	12.6	7.8	7.0	7.0	6.4	5.2	3.9
EV/Sales	5.8	4.4	3.5	2.5	2.0	1.5	1.1	0.8
EV/EBITDA	-117.6	-456.5	762.8	138.8	75.9	34.0	19.0	11.4
<b>Return Ratios (%)</b>								
RoE	-13.1	-16.3	-9.1	-2.8	-2.4	9.2	20.2	30.3
RoCE	-6.6	-1.4	0.2	2.2	4.3	10.5	16.7	25.1
RoIC	-11.0	-3.9	-2.1	0.5	2.8	9.2	15.5	24.1
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	2.4	2.5	2.7	3.4	3.9	4.8	5.8	7.1
Asset Turnover (x)	0.9	1.5	1.5	1.8	2.2	2.7	3.2	3.9
Inventory (Days)	31	24	30	27	23	24	23	21
Debtor (Days)	43	35	56	60	63	58	58	56
Creditor (Days)	36	23	33	32	28	32	32	32
<b>Leverage Ratio (x)</b>								
Current Ratio	3.5	2.3	2.6	2.7	2.5	2.2	2.1	1.9
Net Debt/Equity	0.7	0.8	0.4	0.5	0.6	0.7	0.5	0.2

### Consolidated - Cash Flow Statement

(INR M)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
OP/(Loss) before Tax	-1,088	-1,110	-646	-331	55	1,359	3,206	5,913
Depreciation	490	284	326	455	532	580	627	681
Interest & Finance Charges	37	519	308	399	421	346	233	-103
Direct Taxes Paid	-64	-32	124	-77	-21	-115	-481	-887
(Inc)/Dec in WC	-1,872	847	-1,235	-1,600	-609	-1,750	-1,545	-1,209
<b>CF from Operations</b>	<b>-2,497</b>	<b>508</b>	<b>-1,123</b>	<b>-1,155</b>	<b>378</b>	<b>418</b>	<b>2,040</b>	<b>4,395</b>
Others	66	287	311	217	0	0	0	0
<b>CF from Operating incl EO</b>	<b>-2,431</b>	<b>795</b>	<b>-812</b>	<b>-938</b>	<b>378</b>	<b>418</b>	<b>2,040</b>	<b>4,395</b>
(Inc)/Dec in FA	-592	-685	-1,236	-846	-502	-1,000	-1,000	-1,000
<b>Free Cash Flow</b>	<b>-3,023</b>	<b>110</b>	<b>-2,048</b>	<b>-1,783</b>	<b>-124</b>	<b>-582</b>	<b>1,040</b>	<b>3,395</b>
(Pur)/Sale of Investments	-2,721	802	169	-113	-299	-73	-80	-88
Others	1,440	269	-400	-292	314	413	546	716
<b>CF from Investments</b>	<b>-1,873</b>	<b>385</b>	<b>-1,467</b>	<b>-1,250</b>	<b>-487</b>	<b>-660</b>	<b>-534</b>	<b>-373</b>
Issue of Shares	80	2	4,380	115	30	0	0	0
Inc/(Dec) in Debt	4,867	-838	-1,273	1,997	1,418	800	-400	-3,100
Interest Paid	-320	-607	-394	-447	-735	-759	-778	-612
Others	0	0	-130	503	-287	-287	-287	-287
<b>CF from Fin. Activity</b>	<b>4,627</b>	<b>-1,443</b>	<b>2,584</b>	<b>2,168</b>	<b>426</b>	<b>-246</b>	<b>-1,465</b>	<b>-3,999</b>
<b>Inc/Dec of Cash</b>	<b>323</b>	<b>-263</b>	<b>305</b>	<b>-21</b>	<b>317</b>	<b>-488</b>	<b>40</b>	<b>23</b>
Opening Balance	110	433	170	468	448	764	277	317
<b>Closing Balance</b>	<b>433</b>	<b>170</b>	<b>475</b>	<b>448</b>	<b>764</b>	<b>277</b>	<b>317</b>	<b>340</b>

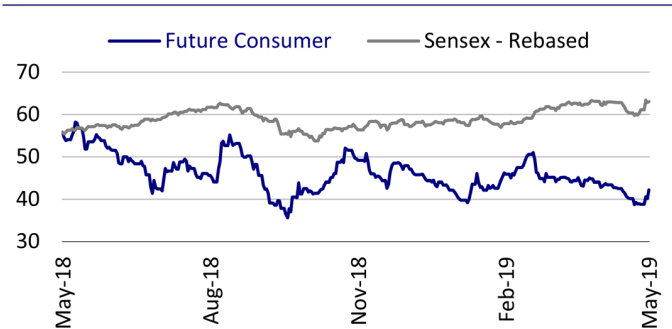
E: MOFSL Estimates

## 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: MOFSL/Bloomberg

### Exhibit 2: Shareholding pattern (%)

	Mar-19	Dec-18	Mar-18
Promoter	46.3	45.7	43.7
DII	2.0	2.1	1.0
FII	17.3	16.6	20.5
Others	34.4	35.6	34.9

Note: FII Includes depository receipts

Source: Capitaline

### Exhibit 3: Top holders

Holder Name	% Holding
Black River Food 2 Pte. Ltd.	7.6
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
Ashni Biyani	Managing Director
Manoj Gagvani	Company Secretary

Source: Capitaline

### Exhibit 5: Directors

Name	Name
Frederic De Mevius	Adhiraj Harish
Krishan Kant Rathi	Deepak Malik
Narendra Baheti	Harminder Sahni

\*Independent

### Exhibit 6: Auditors

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

Source: Capitaline

### Exhibit 7: MOFSL forecast v/s consensus

EPS (INR)	MOFSL forecast	Consensus forecast	Variation (%)
FY20	0.6	0.4	68.5
FY21	1.5	0.9	64.5

Source: Bloomberg



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 is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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