

# Future Retail

BSE SENSEX  
36,701

S&P CNX  
10,829

**CMP: INR390 TP: INR550 (+41%)**
**Buy**

## FUTURE RETAIL

Bloomberg	FRETAIL IN
Equity Shares (m)	502
M.Cap.(INRb)/(USDb)	196 / 2.7
52-Week Range (INR)	593 / 375
1, 6, 12 Rel. Per (%)	-5/-11/-21
12M Avg Val (INR M)	312
Free float (%)	53.0

### Financials & Valuations(INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	201.6	231.8	257.0
EBITDA	10.4	29.1	32.5
PAT	7.3	7.8	8.3
EPS (INR)	14.6	15.6	16.6
Gr. (%)	19.1	7.0	6.2
BV/Sh (INR)	76.7	92.4	109.0
RoE (%)	21.1	18.5	16.5
RoCE (%)	17.7	23.4	21.5
P/E (x)	26.7	25.0	23.5
P/BV (x)	5.1	4.2	3.6
EV/EBITDA (x)	21.1	7.1	6.0

## Amazon to acquire 3.65% stake

- E-commerce giant Amazon has agreed to make an investment to acquire a 49% stake in Future Coupons (FCL), which holds a 7.3% stake (39.6m shares) in Future Retail (FRL). This implies that Amazon would gain a 3.5% beneficial stake in FRL.
- It did not disclose the deal value; however, we estimate it to be at a significant premium to INR505 – the price at which FRL issued warrants to FCL in Feb'19. This potentially values the deal at ~INR15b.
- Amazon has an option to buy the complete promoter stake, which can be exercised between the third and tenth year under certain circumstances.
- The e-commerce behemoth holds right of first refusal (ROFR) for additional stake and has placed restriction for any incremental share transfer in FRL.
- Amazon investment could clean up related-party holdings/transactions with Future Enterprise (FEL) to the tune of INR40b.
- The stock trades at ~12x EV/EBITDA (pre-Ind-AS 116 basis) on a one-year forward basis, much below peers.
- Amazon's 3.65% stake remains insignificant, but we believe that the call option to buy more and a board observer seat through Future Coupons should allay minority investor concerns in FRL.

## Amazon has further options to buy up to 100% in FCL

- **Amazon to acquire 49% stake in FCL:** FRL announced that Amazon plans to acquire a 49% stake in Future Coupons (FCL), the promoter group entity which holds a 7.3% stake (39.6m shares) in the company. This implies that Amazon would gain a 3.5% beneficial stake in FRL. It did not disclose the deal value; however, we estimate it to be at a significant premium to INR505 – the price at which FRL issued warrants to FCL in Feb'19. This potentially values the deal at ~INR15b.
- **Option to buy complete promoter stake:** Amazon has the call option to buy up to 100% of the promoter stake, which can be exercised between the third and tenth under certain circumstances.
- **Amazon holds ROFR for additional stake:** The promoter group has restriction to any incremental share transfers, while Amazon has the right of first refusal (ROFR) for any additional stake promoter sale with certain conditions.

### Background to the transaction structure

- **In Feb'19, FRL issued warrants to promoter at INR505 valued at INR20b:** In Feb'19, FRL issued 39.6m shares (7.3% stake) through warrants to FCL, a promoter group entity, at INR505/share, valuing it at INR20b. Of this, 25% (i.e. INR5b) is already paid. Amazon has now bought a 49% stake in FCL, potentially at much higher price than INR505, possibly funding the rest of the warrant money of INR15b.
- **Warrant issue to buy back assets from FEL, reduce lease rental obligations:** The purpose of the warrant issue of INR20b was done to accumulate INR40b required to pay the promoter group company, Future Enterprise Ltd (FEL), in order to buy back its fit-out assets of Big Bazaar currently sitting in the books of FEL. This would allow FRL to improve its EBITDA margin by ~400bp and also clean up the related-party holdings. Post the transaction, the company's RoCE would decline but still be at 13%.
- **Amazon through FCL has right to board, promoter stake sale:** On 12<sup>th</sup> Aug'19, FRL issued a press release highlighting the rights incorporated for Future Coupons. This includes (a) appointment of an observer to the board, (b) restriction on promoter stake sale or share pledge, asset sale, etc. and (c) right in further share issuance to maintain the shareholding. Thus, Amazon – with 49% holding in Future Coupons – would have a right in deciding promoter/management control of FRL.

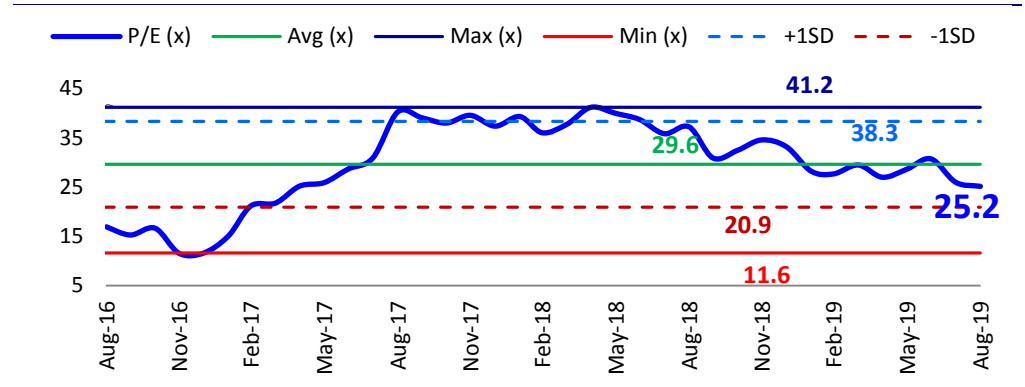
### Valuation and view

- **Additional funds required for asset buyback:** FRL still needs to clarify on additional funds raise required to buy back assets from FEL. However, given the investment from Amazon, additional funds could be made available.
- **Amazon investment could clean up related-party holdings/transactions:** FRL has multiple related-party holdings/transactions with FEL and Future Consumer Ltd, which remains a concern for minority shareholders. However, given the investment done by Amazon and potential say in board matters, we expect clean-up in FRL's holding structures, which could allay minority investor concerns. The stock trades at ~12x EV/EBITDA (pre-Ind-AS 116) on a one-year forward basis, much below peers.
- **Amazon's 3.65% stake remains insignificant, but may expand:** Amazon's effective stake of 3.65% remains miniscule in the overall scheme of things. We, thus, expect Amazon to increase its stake over time to have a higher say in the company. However, it is yet unclear what could be Amazon's strategic focus regarding the investment in the brick-and-mortar business. It also has a 5% stake in Shoppers Stop since nearly two years, where the strategic intent has been limited.
- The stock trades at 24x FY21E EPS and an EV of 6x FY21E EBITDA. We ascribe 9x EV/EBITDA on FY21E, arriving at a target price of INR550. Maintain **Buy**.

**Exhibit 1: Valuation based on FY21E EBITDA**

	Methodology	Driver (INR b)	Multiple (x)	Fair Value (INR b)	Value/share (INR)
EBITDA	FY21 EV/EBITDA	33	9	287	572
Less Net debt				11	22
<b>Total Value</b>				<b>276</b>	<b>550</b>
Shares o/s (m)				502	
CMP (INR)					390
<b>Upside (%)</b>					<b>41</b>

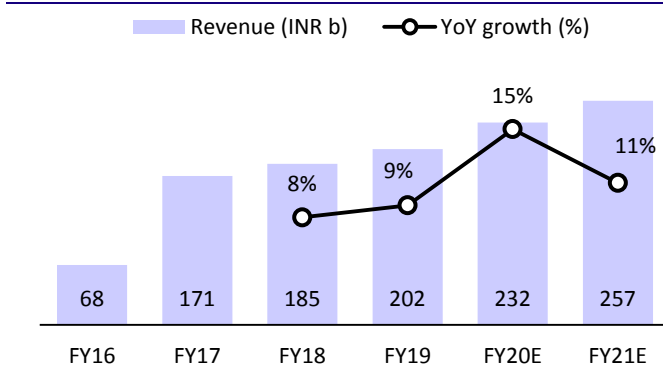
Source: MOFSL, Company

**Exhibit 2: FRETAIL — One-year forward P/E band**

Source: MOSL, Company

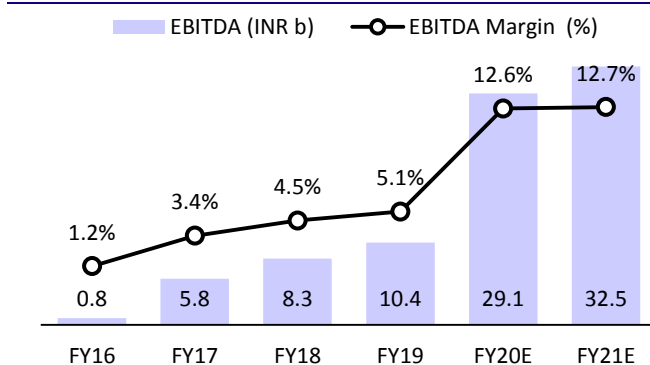
## Story in charts

**Exhibit 3: Expect healthy S/A revenue CAGR (FY19-21) of 13%**



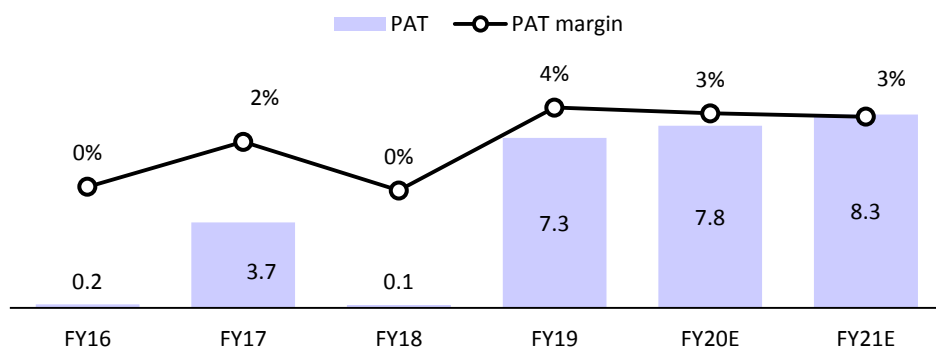
Source: MOFSL, Company

**Exhibit 4: EBITDA margin expands due to Ind-AS 116**



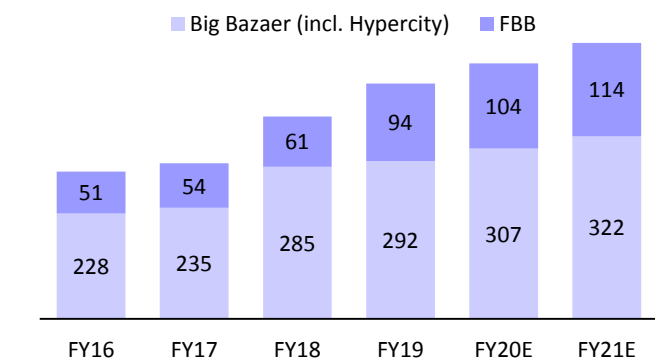
Source: MOFSL, Company

**Exhibit 5: PAT margin to remain stable (INR b)**



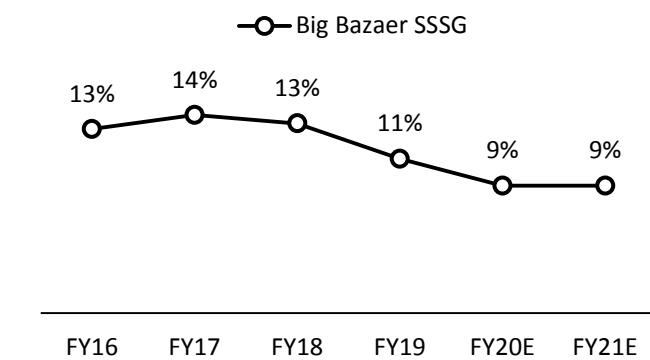
Source: MOFSL, Company

**Exhibit 6: Expect healthy store additions in BB/FBB**



Source: MOFSL, Company

**Exhibit 7: Expect healthy 9% SSSG for Big Bazaar (%)**



Source: MOFSL, Company

Exhibit 8: Expect aggressive store adds

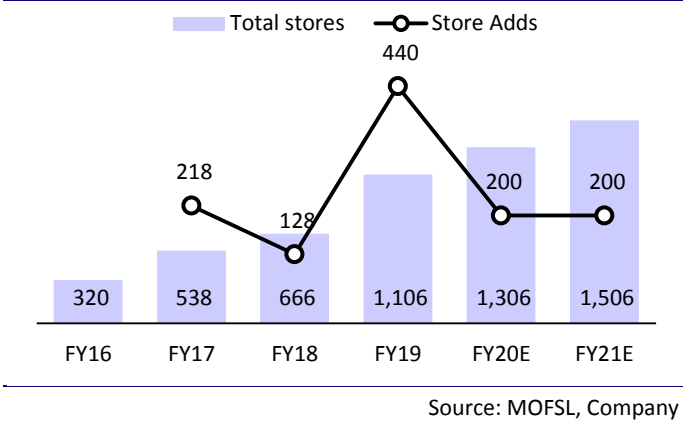
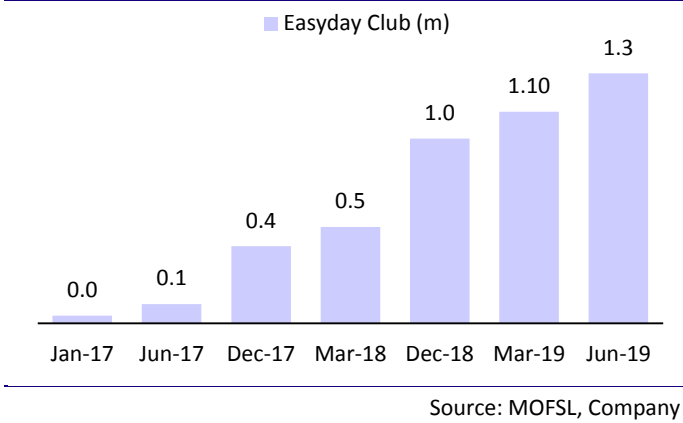


Exhibit 9: Easyday club membership on an uptrend



## Financials and valuations

Standalone - Income Statement						(INR M)
Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Total Income from Operations</b>	<b>68,451</b>	<b>1,70,751</b>	<b>1,84,780</b>	<b>201,649</b>	<b>2,31,824</b>	<b>2,56,978</b>
Change (%)	262.1	149.4	8.2	9.1	15.0	10.9
Raw Materials	50,651	1,28,344	1,37,407	147,811	1,69,348	1,87,851
Employees Cost	3,285	8,034	9,300	10,744	12,287	13,491
Rent expenses	6,043	13,595	14,053	14,874	1,126	1,245
Other Expenses	7,638	14,965	15,697	17,851	19,937	21,843
<b>Total Expenditure</b>	<b>67,618</b>	<b>1,64,938</b>	<b>1,76,457</b>	<b>191,280</b>	<b>2,02,697</b>	<b>2,24,430</b>
% of Sales	98.8	96.6	95.5	94.9	87.4	87.3
<b>EBITDA</b>	<b>834</b>	<b>5,813</b>	<b>8,323</b>	<b>10,369</b>	<b>29,127</b>	<b>32,548</b>
Margin (%)	1.2	3.4	4.5	5.1	12.6	12.7
Depreciation	368	326	534	1,006	10,013	10,853
<b>EBIT</b>	<b>466</b>	<b>5,487</b>	<b>7,789</b>	<b>9,363</b>	<b>19,114</b>	<b>21,695</b>
Int. and Finance Charges	498	2,042	1,754	2,240	9,616	10,099
Other Income	182	238	117	205	307	307
<b>PBT bef. EO Exp.</b>	<b>151</b>	<b>3,683</b>	<b>6,152</b>	<b>7,328</b>	<b>9,805</b>	<b>11,903</b>
EO Items	0	0	-6,039	0	0	0
<b>PBT after EO Exp.</b>	<b>151</b>	<b>3,683</b>	<b>113</b>	<b>7,328</b>	<b>9,805</b>	<b>11,903</b>
Total Tax	0	0	0	0	1,961	3,571
Tax Rate (%)	0.0	0.0	0.0	0.0	20.0	30.0
<b>Reported PAT</b>	<b>151</b>	<b>3,683</b>	<b>113</b>	<b>7,328</b>	<b>7,844</b>	<b>8,332</b>
<b>Adjusted PAT</b>	<b>151</b>	<b>3,683</b>	<b>6,152</b>	<b>7,328</b>	<b>7,844</b>	<b>8,332</b>
Change (%)	-104.0	2,340.6	67.0	19.1	7.0	6.2
Margin (%)	0.2	2.2	3.3	3.6	3.4	3.2

Standalone - Balance Sheet						(INR M)
Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E
Equity Share Capital	87	944	1,004	1,005	1,005	1,005
Total Reserves	18,653	24,593	29,959	37,514	45,359	53,691
<b>Net Worth</b>	<b>18,740</b>	<b>25,537</b>	<b>30,963</b>	<b>38,520</b>	<b>46,364</b>	<b>54,696</b>
Total Loans	11,224	12,441	12,864	25,540	22,540	19,540
Deferred Tax Liabilities	0	0	0	0	0	0
<b>Capital Employed</b>	<b>29,964</b>	<b>37,978</b>	<b>43,827</b>	<b>64,059</b>	<b>68,904</b>	<b>74,236</b>
Gross Block	2,791	6,045	11,227	16,454	19,956	23,456
Less: Accum. Deprn.	181	507	1,041	2,047	12,060	22,913
<b>Net Fixed Assets</b>	<b>2,609</b>	<b>5,538</b>	<b>10,186</b>	<b>14,407</b>	<b>7,895</b>	<b>542</b>
Capital WIP	0	119	336	1,902	1,902	1,902
<b>Total Investments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,040</b>	<b>1,040</b>	<b>1,040</b>
<b>Curr. Assets, Loans &amp; Adv.</b>	<b>53,245</b>	<b>63,719</b>	<b>71,423</b>	<b>87,927</b>	<b>1,05,416</b>	<b>1,23,249</b>
Inventory	32,972	37,352	44,174	50,656	55,676	59,186
Account Receivables	1,149	2,281	2,701	3,165	3,176	3,520
Cash and Bank Balance	895	1,560	1,832	2,528	10,250	20,288
Loans and Advances	18,229	22,526	22,716	31,578	36,315	40,255
<b>Curr. Liability &amp; Prov.</b>	<b>25,891</b>	<b>31,397</b>	<b>38,118</b>	<b>41,218</b>	<b>47,349</b>	<b>52,496</b>
Account Payables	22,085	27,800	34,242	29,373	34,797	38,599
Other Current Liabilities	3,737	3,541	3,836	11,767	12,470	13,807
Provisions	69	57	40	77	82	90
<b>Net Current Assets</b>	<b>27,354</b>	<b>32,322</b>	<b>33,305</b>	<b>46,709</b>	<b>58,068</b>	<b>70,752</b>
<b>Appl. of Funds</b>	<b>29,964</b>	<b>37,978</b>	<b>43,827</b>	<b>64,059</b>	<b>68,904</b>	<b>74,235</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Basic (INR)</b>						
<b>EPS</b>	<b>0.3</b>	<b>7.3</b>	<b>12.3</b>	<b>14.6</b>	<b>15.6</b>	<b>16.6</b>
Cash EPS	1.0	8.0	13.3	16.6	35.6	38.2
BV/Share	37.3	50.9	61.7	76.7	92.4	109.0
DPS	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0
<b>Valuation (x)</b>						
P/E			35.8	30.0	25.0	23.5
Cash P/E			32.9	26.4	11.0	10.2
P/BV			7.1	5.7	4.2	3.6
EV/Sales			1.3	1.2	0.9	0.8
EV/EBITDA			27.8	23.5	7.1	6.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	-0.8	2.2	4.5	-17.7	39.9	45.5
<b>Return Ratios (%)</b>						
RoE	1.9	16.6	21.8	21.1	18.5	16.5
RoCE	4.2	16.9	19.3	17.7	23.4	21.5
RoIC	3.2	16.8	20.0	18.7	26.8	28.5
<b>Working Capital Ratios</b>						
Fixed Asset Turnover (x)	24.5	28.2	16.5	12.3	11.6	11.0
Asset Turnover (x)	2.3	4.5	4.2	3.1	3.4	3.5
Inventory (Days)	176	80	87	92	88	84
Debtor (Days)	6	5	5	6	5	5
Creditor (Days)	118	59	68	53	55	55
<b>Leverage Ratio (x)</b>						
Current Ratio	2.1	2.0	1.9	2.1	2.2	2.3
Interest Cover Ratio	0.9	2.7	4.4	4.2	2.0	2.1
Net Debt/Equity	0.6	0.4	0.4	0.6	0.2	0.0

### Standalone - Cash Flow Statement

(INR M)

Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E
OP/(Loss) before Tax	151	3,683	113	7,328	9,805	11,903
Depreciation	368	326	534	1,006	10,013	10,853
Interest & Finance Charges	498	2,042	1,754	2,240	9,616	10,099
Direct Taxes Paid	-46	-81	-154	0	-1,961	-3,571
(Inc)/Dec in WC	1,680	-3,998	-2,265	-12,708	-3,636	-2,647
<b>CF from Operations</b>	<b>2,650</b>	<b>1,973</b>	<b>-18</b>	<b>-2,134</b>	<b>23,837</b>	<b>26,637</b>
Others	-30	-3	6,023	24	-307	-307
<b>CF from Operating incl EO</b>	<b>2,620</b>	<b>1,970</b>	<b>6,006</b>	<b>-2,110</b>	<b>23,530</b>	<b>26,330</b>
(Inc)/Dec in FA	-3,032	-870	-3,759	-6,795	-3,500	-3,500
<b>Free Cash Flow</b>	<b>-412</b>	<b>1,100</b>	<b>2,247</b>	<b>-8,905</b>	<b>20,030</b>	<b>22,830</b>
(Pur)/Sale of Investments	0	0	-1,039	-1,040	0	0
Others	1,337	450	644	601	703	703
<b>CF from Investments</b>	<b>-1,695</b>	<b>-421</b>	<b>-4,153</b>	<b>-7,233</b>	<b>-2,797</b>	<b>-2,797</b>
Issue of Shares	1,881	64	1,484	1	0	0
Inc/(Dec) in Debt	-1,497	1,094	-1,035	12,675	-3,000	-3,000
Interest Paid	-498	-2,042	-1,754	-2,240	-9,616	-10,099
Dividend Paid	0	0	0	0	0	0
Others	0	0	0	0	0	0
<b>CF from Fin. Activity</b>	<b>-113</b>	<b>-884</b>	<b>-1,305</b>	<b>10,437</b>	<b>-12,616</b>	<b>-13,099</b>
<b>Inc/Dec of Cash</b>	<b>812</b>	<b>666</b>	<b>548</b>	<b>1,093</b>	<b>8,117</b>	<b>10,434</b>
Opening Balance	83	895	1,285	1,436	2,133	9,854
<b>Closing Balance</b>	<b>895</b>	<b>1,560</b>	<b>1,832</b>	<b>2,528</b>	<b>10,250</b>	<b>20,288</b>

## 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

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No

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