

Future Retail (FRETAIL IN)

Rating: SELL | CMP: Rs113 | TP: NA

September 7, 2020

Q4FY20 Result Update

Key Financials - Standalone

Y/e Mar	FY17	FY18	FY19	FY20
Sales (Rs. bn)	170.8	184.8	201.6	201.2
EBITDA (Rs. bn)	5.8	8.3	10.4	19.8
Margin (%)	3.4	4.5	5.1	9.9
PAT (Rs. bn)	3.7	6.2	7.3	0.3
EPS (Rs.)	7.8	12.3	14.6	0.6
Gr. (%)	125.2	57.0	19.0	(95.6)
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	16.6	21.8	21.1	0.8
RoCE (%)	16.9	19.3	17.7	10.6
EV/Sales (x)	0.4	0.4	0.4	0.7
EV/EBITDA (x)	11.0	8.1	7.7	7.3
PE (x)	14.4	9.2	7.7	175.3
P/BV (x)	2.1	1.8	1.5	1.4

Key Data

FRTL.BO | FRETAIL IN

52-W High / Low	Rs.415 / Rs.61
Sensex / Nifty	38,357 / 11,334
Market Cap	Rs.61bn/ \$ 834m
Shares Outstanding	542m
3M Avg. Daily Value	Rs.2446.83m

Shareholding Pattern (%)

Promoter's	48.02
Foreign	13.90
Domestic Institution	14.20
Public & Others	23.88
Promoter Pledge (Rs bn)	68.22

Stock Performance (%)

	1M	6M	12M
Absolute	2.9	(63.1)	(72.5)
Relative	1.1	(63.0)	(73.7)

Amnish Aggarwal

amnishaggarwal@plindia.com | 91-22-66322233

Charmi Mehta

charmimehta@plindia.com | 91-22-66322256

Heet Vora

heetvora@plindia.com | 91-22-66322381

No More a retail play, Coverage Dropped

Quick Pointers:

- FRL 4Q nos indicate sharp decline in margins and loss of Rs4.7bn
- FRL is exiting retail business post- merger with FEL, so no more a play on structural organized retail story in India

Post declaration of Future Group deal with Reliance Retail, we had given a call of sell on rallies ([link to note](#)). FRL shareholders in this deal will get shares of FEL which will have businesses like Consumer brands, Apparel Manufacturing, Food park, Stake in Insurance ventures etc. we believe massive equity dilution in FEL (Rs12.26bn shares) and little profitability, makes the risk reward unfavorable. We believe FRL is no more a play on structural growth story of organised retail in India. we recommend exit from FRL and drop coverage on the stock.

FEL business scalability a long drawn affair

- Fonterra JV for Dairy products, Hain Future natural products JV
- Anchor Food professional services for HORECA and Pizza chains
- 110 Acres of food park at Tumkur, Karnataka
- Integrated Garment Designing, Manufacturing and Sourcing capabilities
- Apparel Parks with NTC
- FMCG sales to grow at 25% CAGR and Apparel Mfg. by 20% CAGR.
- FEL plans to unlock value from Insurance JV and real estate in apparel parks.

The scalability will be gradual and it will take considerable time for FEL to provide meaningful sales and profit numbers.

Exhibit 1: FEL Business Post Merger

(Rs mn)	FY19			FY20		
	FMCG	Apparel Mfg	Total	FMCG	Apparel Mfg	Total
Sales	38810	38230	77040	40400	33310	73710
EBIDTA	1220	3440	4660	1260	3070	4330
Margins	3.1%	9.0%	6.0%	3.1%	9.2%	5.9%

Source: Company, PL

Exhibit 2: Balance Sheet Parameters of FEL

Key Parameters	Rsbm
Networth	32.9
Debt	23.2
Net Block	10.5
Investments	40
Current Assets	5.6

Source: Company, PL

Exhibit 3: Net sales declined 17.6%, margins declined 580bps

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Net Sales	44,454	53,966	-17.6	51,297	201,183	201,649	-0.2
Gross Profit	8,426	14,445	-41.7	14,739	52,029	53,838	-3.4
<i>% of NS</i>	<i>19.0</i>	<i>26.8</i>		<i>28.7</i>	<i>25.9</i>	<i>26.7</i>	
Other Expenses	8,622	11,538	-25.3	7,776	32,186	43,469	-26.0
<i>% of NS</i>	<i>19.4</i>	<i>21.4</i>		<i>15.2</i>	<i>16.0</i>	<i>21.6</i>	
EBITDA	-196	2,907	-106.7	6,963	19,843	10,369	91.4
<i>Margins %</i>	<i>-0.4</i>	<i>5.4</i>		<i>13.6</i>	<i>9.9</i>	<i>5.1</i>	
Depreciation	2,689	324	729.8	2,715	10,409	1,006	934.8
Interest	2,215	612	261.7	2,689	9,932	2,240	343.4
Other Income	395	62	542.0	148	836	205	308.4
PBT	-4,706	2,032	-331.6	1,707	338	7,328	-95.4
Adjusted PAT	-4,706	2,032	-331.6	1,707	338	7,328	-95.4

Source: Company, PL

FRL Net Sales down 17.6%: Net Sales decreased 17.6% to Rs44.5bn. Gross margins at 19% contracted 780bps YoY and 980bps QoQ. EBITDA Loss (excl. IndAS 116 impact) stood at Rs 3.12bn as against EBITDA of Rs 2.9bn in Q4FY19, margins contracted 12.4 percentage points to -7%. Loss (excl. IndAS 116 impact) stood at Rs 5.51bn as against PAT of Rs 2.03bn in Q4FY19.

Scheme of arrangement unlikely to provide a major benefit to Future Group shareholders

- Future Group shareholders will get shares in FEL which will be holding company and will have FMCG and apparel manufacturing business.
- At CMP of various future group companies and Future Enterprises, shareholders will get shares at significant built in prices. However, given that the number of shares will increase to 12.26bn and the company has EBITDA of just Rs4.33bn, post-merger returns are not certain. Although entry of Reliance Group is positive, given small stake they will have in FEL, any significant re-rating looks unlikely.
- We expect correction in FEL stock price from current levels as post-merger most of the prized retail assets are being sold on a slump sales basis.

Exhibit 4: FEL share capital to expand, Listed companies at huge discount to FEL

Company Name	FEL Exchange /10 Shares	Shares (mn)	Post-Merger Shares (mn)	CMP (Rs)	Cost/FEL Share	Return @CMP 20.2
FRL	101	542	5476	135	13.4	51.1%
Future Consumer	9	1921	1729	11.5	12.8	58.1%
FLFL	116	202	2341	145	12.5	61.6%
FMNL	18	57	103	26.7	14.8	36.4%
FSCS	131	44	575	151	11.5	75.2%
Issue to RRFL			680			
RRFL Warrants			906			
Existing Capital			455			
Post issue Capital			12265			

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY17	FY18	FY19	FY20
Net Revenues	1,70,751	1,84,780	2,01,649	2,01,183
YoY gr. (%)	149.4	8.2	9.1	(0.2)
Cost of Goods Sold	1,28,344	1,37,407	1,47,811	1,49,154
Gross Profit	42,407	47,373	53,838	52,029
Margin (%)	24.8	25.6	26.7	25.9
Employee Cost	8,034	9,300	10,744	9,502
Other Expenses	14,965	15,697	17,851	21,585
EBITDA	5,813	8,323	10,369	19,843
YoY gr. (%)	597.2	43.2	24.6	91.4
Margin (%)	3.4	4.5	5.1	9.9
Depreciation and Amortization	326	534	1,006	10,409
EBIT	5,487	7,789	9,363	9,434
Margin (%)	3.2	4.2	4.6	4.7
Net Interest	2,042	1,754	2,240	9,932
Other Income	238	117	205	836
Profit Before Tax	3,683	6,152	7,328	338
Margin (%)	2.2	3.3	3.6	0.2
Total Tax	-	-	-	-
Effective tax rate (%)	-	-	-	-
Profit after tax	3,683	6,152	7,328	338
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	3,683	6,152	7,328	338
YoY gr. (%)	2,342.5	67.0	19.1	(95.4)
Margin (%)	2.2	3.3	3.6	0.2
Extra Ord. Income / (Exp)	(27)	(6,039)	-	-
Reported PAT	3,656	113	7,328	338
YoY gr. (%)	2,324.7	(96.9)	6,379.3	(95.4)
Margin (%)	2.1	0.1	3.6	0.2
Other Comprehensive Income	-	20	58	(2,244)
Total Comprehensive Income	3,656	133	7,386	(1,906)
Equity Shares O/s (m)	472	502	503	527
EPS (Rs)	7.8	12.3	14.6	0.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY17	FY18	FY19	FY20
Non-Current Assets				
Gross Block	6,083	11,265	16,488	24,161
Tangibles	950	5,036	9,384	16,308
Intangibles	5,134	6,229	7,104	7,854
Acc: Dep / Amortization	546	1,080	2,080	3,677
Tangibles	-	150	758	1,899
Intangibles	546	930	1,322	1,777
Net fixed assets	5,538	10,186	14,408	17,169
Tangibles	950	4,886	8,626	11,916
Intangibles	4,588	5,299	5,782	5,253
Capital Work In Progress	119	336	1,902	40,961
Goodwill	-	-	-	-
Non-Current Investments	2,673	2,738	4,995	5,620
Net Deferred tax assets	-	-	-	-
Other Non-Current Assets	832	1,327	2,751	32,423
Current Assets				
Investments	276	396	479	609
Inventories	37,352	44,174	50,656	52,329
Trade receivables	2,281	2,701	3,165	6,880
Cash & Bank Balance	1,285	1,436	2,049	873
Other Current Assets	4,617	5,586	9,471	16,500
Total Assets	69,375	81,945	1,05,277	2,12,795
Equity				
Equity Share Capital	944	1,004	1,005	1,055
Other Equity	24,593	29,958	37,514	41,734
Total Network	25,537	30,963	38,519	42,789
Non-Current Liabilities				
Long Term borrowings	8	2,233	3,753	43,628
Provisions	455	523	578	727
Other non current liabilities	1,442	1,185	1,370	17,113
Current Liabilities				
ST Debt / Current of LT Debt	12,433	10,631	21,787	43,999
Trade payables	27,800	34,242	35,897	54,906
Other current liabilities	1,701	2,168	3,373	9,634
Total Equity & Liabilities	69,375	81,945	1,05,277	2,12,795

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY17	FY18	FY19	FY20
PBT	3,683	6,152	7,328	338
Add. Depreciation	326	534	1,006	10,409
Add. Interest	2,042	1,754	2,240	9,932
Less Financial Other Income	238	117	205	836
Add. Other	(113)	(108)	(177)	(15,241)
Op. profit before WC changes	5,937	8,332	10,397	5,438
Net Changes-WC	(4,231)	(768)	(11,574)	(11,307)
Direct tax	-	-	-	-
Net cash from Op. activities	1,707	7,564	(1,177)	(5,869)
Capital expenditures	(3,373)	(5,399)	(6,794)	(52,229)
Interest / Dividend Income	113	108	177	836
Others	(347)	(65)	(2,256)	-
Net Cash from Inv. activities	(3,607)	(5,356)	(8,874)	(51,393)
Issue of share cap. / premium	3,114	(726)	229	3,931
Debt changes	1,217	423	12,676	62,087
Dividend paid	-	-	-	-
Interest paid	(2,042)	(1,754)	(2,240)	(9,932)
Others	-	-	-	-
Net cash from Fin. activities	2,289	(2,057)	10,664	56,086
Net change in cash	390	151	613	(1,176)
Free Cash Flow	(1,666)	2,165	(7,972)	(58,098)

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	51,494	53,939	51,297	44,454
YoY gr. (%)	13.5	9.4	(3.2)	(17.6)
Raw Material Expenses	37,267	39,301	36,558	36,028
Gross Profit	14,226	14,638	14,739	8,426
Margin (%)	27.6	27.1	28.7	19.0
EBITDA	6,328	6,748	6,963	(196)
YoY gr. (%)	186.6	172.5	150.6	(106.7)
Margin (%)	12.3	12.5	13.6	(0.4)
Depreciation / Depletion	2,397	2,608	2,715	2,689
EBIT	3,931	4,140	4,249	(2,886)
Margin (%)	7.6	7.7	8.3	(6.5)
Net Interest	2,394	2,633	2,689	2,215
Other Income	88	205	148	395
Profit before Tax	1,625	1,712	1,707	(4,706)
Margin (%)	3.2	3.2	3.3	(10.6)
Total Tax	-	-	-	-
Effective tax rate (%)	-	-	-	-
Profit after Tax	1,625	1,712	1,707	(4,706)
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,625	1,712	1,707	(4,706)
YoY gr. (%)	6.1	(2.2)	(15.2)	(331.6)
Margin (%)	3.2	3.2	3.3	(10.6)
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,625	1,712	1,707	(4,706)
YoY gr. (%)	6.1	(2.2)	(15.2)	(331.6)
Margin (%)	3.2	3.2	3.3	(10.6)
Other Comprehensive Income	-	-	-	(2,244)
Total Comprehensive Income	1,625	1,712	1,707	(6,951)
Avg. Shares O/s (m)	1,004	1,004	1,004	1,055
EPS (Rs)	1.6	1.7	1.7	(4.5)

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY17	FY18	FY19	FY20
Per Share(Rs)				
EPS	7.8	12.3	14.6	0.6
CEPS	8.5	13.3	16.6	20.4
BVPS	54.1	61.7	76.6	81.1
FCF	(3.5)	4.3	(15.9)	(110.2)
DPS	-	-	-	-
Return Ratio(%)				
RoCE	16.9	19.3	17.7	10.6
ROIC	8.4	10.2	9.8	9.3
RoE	16.6	21.8	21.1	0.8
Balance Sheet				
Net Debt : Equity (x)	0.4	0.4	0.6	2.0
Net Working Capital (Days)	25	25	32	8
Valuation(x)				
PER	14.4	9.2	7.7	175.3
P/B	2.1	1.8	1.5	1.4
P/CEPS	13.2	8.4	6.8	5.5
EV/EBITDA	11.0	8.1	7.7	7.3
EV/Sales	0.4	0.4	0.4	0.7
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	03-Jan-20	Under Review -		332
2	14-Nov-19	Under Review -		345
3	03-Oct-19	BUY	477	381

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,829	1,717
2	Avenue Supermarts	Hold	2,055	2,163
3	Bajaj Electricals	BUY	500	436
4	Britannia Industries	BUY	4,316	3,785
5	Colgate Palmolive	Reduce	1,344	1,448
6	Crompton Greaves Consumer Electricals	BUY	288	247
7	Dabur India	Hold	469	494
8	Emami	BUY	419	257
9	Future Retail	Under Review	-	332
10	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
11	Havells India	Reduce	524	595
12	Hindustan Unilever	Hold	2,304	2,249
13	ITC	BUY	262	200
14	Jubilant FoodWorks	Hold	2,255	2,251
15	Kansai Nerolac Paints	BUY	501	443
16	Marico	Hold	355	350
17	Nestle India	Reduce	14,089	17,095
18	Pidilite Industries	Hold	1,415	1,378
19	Titan Company	Hold	1,057	1,108
20	Voltas	Accumulate	660	629

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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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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