

Dated : 23rd September, 2016

DARK HORSE - FUTURE RETAIL LTD.

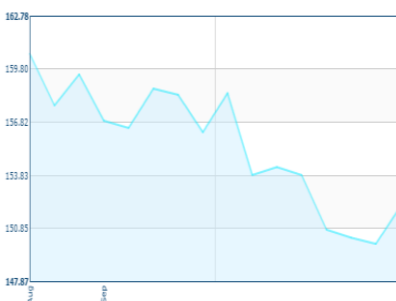
Accumulate	
Price ₹	151
Accumulate	
Upside	NA
Div Yield	NA
Tenure	2-3 Years
Sensex	28773.84
Nifty	8867.25
Group/Index	B

Stock Details	
M.cap (₹ in cr)	7110
Equity (₹ In cr)	94.30
52 wk H/L ₹	163.50/149.90
Face Value ₹	2
NSE code	FRETAIL
BSE code	540064

Key Valuation Ratios	
RONW	-
P/E	-
P/BV	-
EV/EBIDTA	-

Key Financial Data	
EV (₹ in cr)	-
BV (₹ in cr)	-
NW(₹ in cr) Est.	-
EPS (TTM)	-

1 Year Price Chart



Source:- Google

Investment Rationale

Future Retail Company, a pure Retail company, Technology Driven, focused on generating positive cash flows & giving superior return on Capital Employed (ROCE) to its stakeholder.

Company started a Reborn event in June last year to look opportunities for the consumption market & set its objectives :-

- To expand its small store Network.
- Build Omni channel capabilities in the organization.
- Build overall FMCG Business at the group level.

Scheme of Arrangement

The Composite Scheme of Arrangement between Future Enterprises Limited (formerly known as - 'Future Retail Limited') and Future Retail Limited (formerly known as - 'Bharti Retail Limited') and their respective shareholders and creditors ("the scheme") under the provisions of the Companies Act, 1956. The Scheme, provides for demerger of Retail Business. Undertaking of Future Enterprises Limited ("FEL") and vesting into the Company and demerger of Retail Infrastructure Business Undertaking of the Company and vesting into FEL with effect from Appointed Date of October 31, 2015, as defined in the Scheme, has been given effect on May 1, 2016. Pursuant to the Scheme, all the assets and liabilities pertaining to the Retail Business Undertaking of FEL has been demerged and vested into the Company and all the assets and liabilities pertaining to Retail Infrastructure Business Undertaking of the Company has been demerged and vested into FEL.

During the year, Future Retail Limited announced the partnership with Bharti Retail Limited to combine the businesses of the companies bringing together winning **retail brands** such as **Big Bazaar, easy day, fbb, Food Bazaar, Home Town, eZone and Foodhall**. The scheme has been brought into effect on May 1. As part of the Scheme of Arrangement, the front end operations of these retail chains were consolidated within Bharti Retail Limited. Subsequently, name of the Company has been changed to **Future Retail Limited**. Accordingly, the Boards of the two companies have been reconstituted to ensure proper representation of promoters and the professional Board.

Synergies

The Big Bazaar Brand took a leadership position by being among the first to form a partnership with Patanjali Ayurved and offer its entire range of health-positive, ayurvedic FMCG products in categories like food, staples, nutrition, hair care, skin care, dental care and toiletries etc. Company has seen excellent traction in the initial period post launch & becomes the 3rd largest FMCG seller at Future Retail. Company is also in process of launching some products of Sri Sri Ravi Shankar.

Such alliances would help to attract new customers to the stores & at the same time enhancing the companies offerings to existing customers.

⇒ Future Retail has approved of acquisition of online home furnishings and décor business, **FabFurnish**, from Bluerock eServices for ₹ 4.86 per share. FabFurnish is a high margin and profitable business, currently operating at 40-41 % margins. Company plans to operate in **100 cities** eventually, is aiming to enter into more cities via this Brand & to bring in significant capabilities of building a digital business.

With this acquisition company expects be the first company to get into the ₹ 1,000 crore space in this business & expecting EBITDA of close to ₹ 40-50 crore this year.

Partnership with Bajaj Finance Ltd.

Bajaj Finance Limited, the diversified retail lending arm of Bajaj Finserv, announced its unique partnership with Future Group, to enable and empower customers to convert all their purchases from any of the Future Group brands into easy EMIs, thus ushering in a digital era of smart purchase.

The credit facility available to customers on a minimum invoice amount is ₹ 5,000 stretching up to a maximum of ₹ 3 lacs, and the tenure of loan would be three months to 2 years.

With this tie-up, easy EMI finance would cover the complete spectrum of customers' lives - from grocery and household essentials to fashion and accessories, from small appliances to consumer durables, and from furniture to furnishing. This facility is **available across all the stores of Big Bazaar, FBB, Central, Home Town and eZone** & soon, will also be available in Foodhall, Easy day and online platform FabFurnish.com. To enable this smarter purchasing option, both companies have also unveiled a **cobranded EMI Network card**.

Key Performance during the Year- FY 2015-16

218 stores present in 118 cities



Integrating and advancing technology-led innovations in all its consumer interactions will continue to be a key focus for the Company. Even as the Company works towards introducing an **Omni-channel platform** and the concept of **digitally-enabled endless aisles** at its stores, **Big Bazaar** today offers home delivery at multiple locations and a **partnership with Amazon**, now allows customers to order online. Customers also have the option to pay through **Mobikwik** mobile wallets at all Big Bazaar stores and now can avail instant credit for any purchase through a partnership with **Bajaj Finserv**.



183 Mn Footfalls

Big Bazaar is well regarded for creating consumption days that have become the norm for the industry. While signature events like **Sabse Saste Din** and **Mahabachat** during the national holidays of January 26, and August 15, continue to grow, during the year, the Company strengthened another property, **Public Holiday Sale**. Held thrice around May 1, October 2, and December 25, the total eleven days of promotion brought in significant business as well as new customers.

A whole new consumer experience in the form of Big Bazaar GenNxt was introduced in two new, iconic malls - DLF Mall of India in Noida and Infinity Mall, Malad in Mumbai, to cater to the young, working professionals. Smart and experiential, Big Bazaar GenNxt stores feature interactive, digital displays featuring product information, multi-sensory environments and live kitchens, sitdown checkouts, superior customer service and many more features that are designed to win the hearts of a more global, young, aspirational, urban India. Many of these features are also being progressively introduced in a number of new and existing stores.

320 Stores



The Company acquired the franchisee rights of the **KB's store network** and expects to scale these up to around **500 stores** during the forthcoming year. The locations and presence in a large number of small towns across the northern part of the country, compliments very well with the Company's existing network of hypermarket stores. Company focused on seamlessly integrating the operations of these networks with that of the hypermarket business. *The easy day brand enjoys a strong recall in the smaller towns that it is present in and leads the market in price, quality and assortment that it offers its customers.*

49 Mn Footfalls

51 Standalone Stores



Fbb, present within every Big Bazaar Store, added 5 new stores taking its total count to **51 stores**, attracting over **7 million customers** and around **3 million billings**. While an association with Asia's largest music festival, Sunburn has helped the brand gain traction with youngsters in metros and *is set to create new records in sales during the forthcoming year*. **For the forthcoming year, fbb's growth is being catalyzed across four pillars:**

- Introducing fresh and fashion-led merchandize in women's ethnic wear and mens and women's casual wear.
- Drive incremental footfalls through taking a leadership position in denims, men's chinos and through end of season sales.
- Establish price leadership in kids wear, women's sleepwear and in suits and blazers.
- And continuously build new categories like summer looks with dresses, shorts, footwear or introducing Athleisure as a fashion concept or a new products like linens or men's casual shorts.

4 Stores present in 3 Cities



During the year, Foodhall introduced its own collection, **'House of Teas'** that offers almost **70** varieties of teas from across the world, along with a number of accessories and accompaniments like short bread cookies. It revamped its offerings in spices with its own ARQA range. **'Traditions by Foodhall'** is an exclusive range of rice, pulses and other staples that are now being offered by Foodhall. The brand's own gifting range, **Blue Ribbon** has gained immense popularity for festive, corporate and occasion-led gifting. *The brand is also about to launch a compact format, Little Foodhall in Cyber Hub, Gurgaon, along with new stores at WorldMark, Aerocity, Delhi and at VR Bengaluru Mall during the forthcoming year.*

1Mn Footfalls

135 Stores



Home Town caters to aspirational, trendy and knowledgeable new home buyers as well as replacement customers. Home Town added **16 new stores**, including in **12 new cities**, taking its **store count to 43** and number of cities it is present in to **21**. Furniture contributes around **two thirds of sales**, while its exclusive range of Duracucine Modular Kitchens contribute almost **a tenth of the business** and the rest comes from homeware and home improvement products. Home Town also offers Design and Build service providing end-to-end services from interior decoration to execution and implementation. **eZone** the electronics format has a strong digital presence through its websites and apps that are available on all leading mobile operating systems. eZone now has **92 stores in 30 cities**, attracting over **41 million** customers. *Over the years, eZone has evolved into one of the few electronics retailer that is growing and profitable.*







50 Mn Footfalls

Quarter Highlights – Q1 FY17

- ⇒ The company reported standalone income from operations of ₹ 3,980 cr. for the quarter ended June-16'.
- ⇒ The company posted PAT of ₹ 70 cr with PAT Margin at 1.8%.
- ⇒ Gross Profit margin stood at 25.1%.
- ⇒ EBITDA stood at ₹ 122 crores with EBITDA Margin at 3.1% for the Quarter.
- ⇒ Same Store Sales Growth for Value Business was 9.4%, while for Home Business was 4.9 %.
- ⇒ Gross area addition during the quarter ended June-16' was 0.3 mn sq ft space and total area increased to 13 mn sq ft.
- ⇒ fbb introduced sports wear and everyday casual wear brand '**Champion**' in vibrant colours with around 130 options and 38 styles for men, women and kids at a competitive prices including shorts, tracks, crew neck, polo, tank tops , leggings and tees.

New Store Additions during Quarter ended June 16

Format	Date of opening	Sq. Ft.	Location
	Apr-16	26,564	Pune
	Apr-16	23,012	Gaya
	Apr-16	59,491	Hyderabad
	Apr-16	36,365	Indore
	May-16	25,843	Keonjhar
	Jun-16	30,676	Nellore
	Jun-16	17,402	Mumbai
	Apr-16	7,627	Pune
	Apr-16	3,026	Hyderabad
	Apr-16	864	Bangalore
	Jun-16	6,602	Mumbai
	Apr-16	4,218	Gurgaon

easy day

Date of opening	Sq. Ft.	Location
Apr-16	2,625	Muktsar
Apr-16	2,619	Muzaffamagar
Apr-16	2,619	Muzaffamagar 1
Apr-16	2,684	Ramnagar
Apr-16	2,916	Dehradun
Apr-16	2,500	Hoshiarpur
Apr-16	2,585	Gurudaspur
Apr-16	2,400	Barnala
Apr-16	2,470	Tohana
Apr-16	2,637	Rampur
Apr-16	2,418	Dehradun
Apr-16	2,353	Agra
Apr-16	1,624	Naraingarh
Apr-16	1,844	Bazpur
Apr-16	2,500	Dehradun
Apr-16	2,880	Hoshiarpur
Apr-16	2,770	Jind
Apr-16	1,765	Sultanpur
May-16	2,752	Khanna
May-16	2,508	Haridwar
May-16	2,664	Kotdwar
May-16	2,728	Meerut
Jun-16	2,425	Banga
Jun-16	2,500	Quadiyan

Business Outlook

As per BCG Retail 2020 report, Indian retail market is projected to double from **\$600 billion in 2015** to **\$1 trillion by 2020**. The report further attributes rapid growth in retail to income growth, urbanization, nuclearisation of families and attitudinal shifts towards higher consumption levels. During this period, modern trade is expected to grow from **\$60 billion** at present to **\$180 billion** by 2020 growing at twice the pace of the overall retail market.

With a geographically balanced retail store portfolio of 738 stores, spread across various formats, FRL is poised to benefit immensely from this retail growth wave. Further, the Company would be in better position to get maximum benefit by the increased consumer spending, due to its presence in areas of high consumption cities and strategic locations of its various formats.

Company Overview

As India's leading retailer, Future Retail inspires trust through innovative offerings, quality products and affordable prices that help customers achieve a better quality of life every day, serve customers in more than 240 cities across the country through over 11 million square feet of retail space.

Future Retail is the flagship company of Future Group, India's retail pioneer catering to the entire Indian consumption space. Through multiple retail formats, it connects a diverse and passionate community of Indian buyers, sellers and businesses. The collective impact on business is staggering: Over 330 million customers walk into stores each year and choose products and services supplied by over 30,000 small, medium and large entrepreneurs and manufacturers from across India. This number is set to grow.

Company operates multiple retail formats in both the hypermarket, supermarket and home segments of the Indian consumer market including Big Bazaar, Easy day, KB's, fbb, Food Bazaar, Foodhall, Home Town, e Zone

Valuation Conclusion

Company's efforts to optimize productivity per store basis, providing better productivity in terms of increased customer foot fall which would translate into higher velocity of sales, higher ticket size and improved profitability, by reducing overall costs as well as increasing margins earned from upgraded products offering to customers, creation of a consolidated retail entity across food, fashion and home will reap benefits from increased scale and optimization of cost structure going forward.

Focus of the company is now on strengthening its food division after Fashion business became reasonably big. Recently, Future Group is in buyout talks with Heritage Foods (a company which is backed Andhra Pradesh Chief Minister Chandrababu Naidu's family) & with Aditya Birla Retail (ABRL) to buy or merge ABRL's supermarket business. In the last four to five years, the group has acquired companies like Nilgiri, Big Apple and Bharti Retail & has contributed to the group's over 700 stores spread across 13 million square feet space in across 25 cities & is aiming to reach across India through Mergers & Acquisitions. Apart from plans to expand its acquired business, the group is also focusing on developing its own food brands like Golden Harvest, Sunkist and Tasty Treats. The Group is targeting ₹ 1 lakh crore turnover by 2021 from its recent business and acquisitions in the long-run.

Moreover, company's Plan to operate with a much leaner balance sheet resulting into higher ROCE and expected to be a free cash flow company from its first full year of operation, In FY 2016-17, FRL will emerge as a core retail front end company with an enhanced distribution network. Also, company can also look forward to borrow at lower interest rates & reducing overall borrowing costs and all these factors put together are expected to result in margin tailwinds in the years ahead.

Overall, Future retail is a concept based company, therefore the estimates of the company have not been done & we recommend to buy this script for Long term Bet.

Risks & Threats

The state of external environment, including factors like interest rates, inflation, and growth in economic activity and job creation and consumer sentiment continues to be the biggest source of threat as well as opportunity for the Company. Any slowdown in the economic activity in the country, significant job losses or high rates of inflation can severely impact the consumption and therefore growth of the Company. Other external factors, including a steep rise in interest rates or drastic changes in the policy or regulatory environment can pose financial challenge for the Company.

However, the continued steps taken by the Company to deleverage its balance sheet, reducing its reliance on the debt funds, improving its debt maturity profile and thereby reducing stress on its cash flow, improved business efficiency reducing overall operating cost and continuous efforts to increase customer ticket size and capturing new class of customers to increase overall higher spend in various formats of the Company, are aimed at mitigating each of the above discussed external threats.

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