

Future Consumer



Company of the "Future"

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Future Consumer

BSE Sensex
33,918

S&P CNX
10,421

CMP: INR51

TP: INR76 (+50%)

Buy



Stock Info

Bloomberg	FCON IN
Equity Shares (m)	1,834.7
52-Week Range (INR)	79/27
1, 6, 12 Rel. Per (%)	-21/-29/52
M.Cap. (INR b)	92.7
M.Cap. (USD b)	1.4
12M Avg Val (INR M)	389.0
Free float (%)	56.9

Financial Snapshot (INR b)

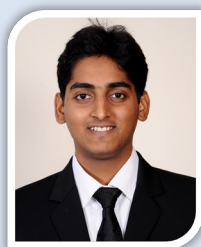
Y/E Mar	2018E	2019E	2020E
Sales	29.7	42.6	59.9
EBITDA	0.6	1.4	3.1
NP	-0.2	0.5	1.9
EPS (Rs)	-0.1	0.3	1.1
EPS Growth (%)	Loss	LP	276.5
BV/Share (Rs)	6.0	6.3	7.4
P/E (x)	Loss	167.7	44.5
P/BV (x)	8.4	8.0	6.8
EV/EBITDA (x)	157.2	64.1	29.0
EV/Sales (x)	3.0	2.1	1.5
RoE (%)	-1.8	4.9	16.6
RoCE (%)	3.3	7.3	13.9

Shareholding pattern %

	Dec-17	Sep-17	Dec-16
Promoter	43.1	48.8	43.4
DII	1.1	1.0	0.9
FII	20.5	19.0	19.6
Others	35.3	31.3	36.1

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[Please click here for Video Link](#)

Company of the "Future"

Long runway of growth justifies expensive near-term valuations

- Future Consumer (FCL) is an integrated consumer company having a portfolio of brands in categories such as staples, fruits & vegetables, processed foods, home care and personal care. It has a distribution network largely dependent on organized retailers and an overall footprint of ~80,000 stores.
- We believe that FCL is the best play on the huge window of opportunity (presented by a combination of macro factors and company-led initiatives) for brands using modern retail methods of distribution.
- In addition, FCL appears best placed among Future Group companies from a revenue, profit and RoCE perspective, given the group's focus on retail expansion to drive growth in its burgeoning brands portfolio.
- Improving mix and operating leverage are expected to drive significant margin expansion over the next five years.
- We initiate coverage on FCL with a Buy rating. As the company is likely to be profitable at the consolidated net level only in FY19, we believe near-term P/E multiples are always likely to appear extremely expensive on a one-year forward basis. We, thus, value FCL on EV/sales basis, assigning a multiple of 2.2x (60% discount to EV/sales of coverage consumer universe). This results in a target price of INR76, implying ~50% upside. As soon as FCL demonstrates profitability at the net level, we will move our valuation on P/E basis.
- We believe FCL offers a rapidly compounding and potentially high RoCE play on the massive growth opportunity in the Indian FMCG sector and particularly for brands focused on modern retail segment. Our detailed analysis (see page 21) on potential investment returns from a three-year perspective suggests a healthy three-year CAGR return of 24%.

Humungous growth opportunity in branded FMCG

We see huge opportunity in the Indian branded FMCG space. From USD65b in 2015, the category is expected to grow in size to reach USD220-240b by 2025, implying 13-14% CAGR, according to a joint study by BCG and CII. With the category itself likely to grow by ~3.5x over this 10-year period, we expect significant pockets of higher and even spectacular growth among its constituents.

Seismic shift toward modern trade – an added advantage

Modern trade, which constitutes ~12% of FMCG sector sales in India, has been witnessing tremendous growth over the past year, led by a multitude of factors like customer convenience, a wider variety of products on offer, rapidly evolving business models, and an increasing trend toward cashless transactions. Reforms like demonetization and Goods & Services Tax (GST), too, have also taken away the edge that wholesale-led general trade had earlier, due to the need to adhere to stricter compliance norms. We believe all this augurs well for businesses operating under the modern retail and modern wholesale (cash and carry businesses) models.

A promising play with better eventual RoCE prospects

FCL – a separately listed brands business of the Future Group – is a promising play on (a) rapidly expanding store footprint of the Future Group (the largest pan-India retailer in India), which has set a target at the end of FY17 to open 10,000 EasyDay stores by 2022 (611 stores as on 31st December 2017) and 350 Big Bazaar stores over the next 3-5 years (257 stores as on 31st December 2017) and (b) increasing proportion of FCL's brands in Future Retail stores to ~60% from ~20% now. Moreover, we believe that the group's focus on retail expansion is part of its strategy to boost sales of its growing brands portfolio. Importantly, placing the interests of FCL at par with Future Retail will not only enable quick ramp-up of group revenues, but also ensure higher profitability and RoCEs, aiding cash flows.

Brands business already growing at a rapid pace

Around 95% of FCL's sales are derived from the brands portfolio. Over the past three years (FY14-17), while the overall FMCG sector has seen muted CAGR of 5%, FCL has reported sales CAGR of 37%. Notably, sales growth has been even higher at 39% YoY in YTD FY18. While it can be argued that base was low a few years ago, we note that FCL's absolute sales of INR21b (~USD327m) in FY17 were in line with mid-tier FMCG companies. In our view, sales could increase further to ~INR29.5b (USD458m) in FY18, higher than mid-size FMCG companies like Emami (our estimate: INR25.7b or USD396m). The expected outperformance, going forward, will be driven by its burgeoning brands portfolio, increasing scale of key brands, massive captive growth opportunity within the existing store network in terms of salience, and the rapidly expanding store network. Brands like *Golden Harvest*, *Nilgiris*, *Fresh & Pure*, *Tasty Treat* and *Clean Mate* are already fairly large, and others like *Karmiq*, *Sangi's Kitchen* and *Desi Atta Company* are growing at a rapid pace.

Improving mix and higher scale to drive profitability and return ratios

Branded staples and fruits & vegetables – which form the bulk of its overall portfolio and are relatively low-margin categories – should see healthy growth, but overall margin expansion will be driven by the high-margin processed food and HPC products. We expect overall sales CAGR of 39% over FY18-22, particularly led by 60% CAGR in the high-margin categories. In the traditional FMCG channels, distribution costs account for ~20% of sales and advertising costs too contribute around 10-15%. However, as a proportion of sales, these costs are much lower for brands of FCL (as it has a largely captive customer base within Future Retail stores). This lowers the impact of higher net working capital for FCL (likely to be positive 35 days even after an improvement by FY22; in comparison it is negative or in low-single-digit for most FMCG peers). This apart, superior operating cash flows emanating from rapid growth and mix improvements will help repay debt (net debt of INR3.76b with a net debt-equity ratio of 0.4x as on FY17) and drive huge improvement in RoCE for FCL.

Valuation and view

Favorable macro factors and initiatives by the company and the parent Future Group make FCL a highly attractive investment candidate. Opportunities are immense, and FCL is at the forefront to maintain or even accelerate its already impressive growth rate. Sales – which are already higher than those of mid-tier FMCG companies – should continue growing at a rapid pace for the years to come, driven by the tremendous opportunity for brands using modern retail methods of distribution.

We believe that FCL's value – with its strong revenue, earnings and RoCE prospects – is becoming far more attractive at the group level. Sales growth has been rapid (37% CAGR over FY14-17), and in fact, on an uptrend, despite continual high base, while the EBITDA margin has improved from -10.4% in FY14 to enter the positive territory in FY17; it is improving on a sequential basis in YTD FY18 as well. By FY19, we expect FCL to turn profitable at the net consolidated level. We forecast sales of INR82b in FY21 and INR111b in FY22, still far lower than the company's 'Vision 2021' target of INR200b. This poses an upside risk to our forecast.

We expect the momentum in revenue growth to continue, at least over the coming few years, because of the tremendous growth opportunity. We forecast revenue CAGR of 41.5% over FY17-20 and 39% over FY17-FY22. As the company is likely to be profitable at the consolidated net level only in FY19, we believe near-term P/E multiples are always likely to appear extremely expensive on a one-year forward basis. We, thus, value the company on an EV/sales basis, assigning a multiple of 2.2x (60% discount to EV/sales of our coverage consumer universe). This results in a target price of INR76, implying ~50% upside from current levels. We, thus, initiate coverage on FCL with a Buy rating. As soon as the company demonstrates profitability at the net level, we will move our valuation on P/E basis.

Businesses like these with humungous growth opportunity at the EPS level over the longer term have to be seen from a three-year investment perspective, in our view. Assuming 23x FY22E EPS on a P/E basis (which we believe is fair for a business with far higher revenue and earnings growth potential compared to peers) and RoCEs of ~32% by FY22, we get a target price of INR97, implying a share price CAGR of ~24%.

Branded modern trade-centric FMCG company

Growing rapidly via distribution network and portfolio expansion

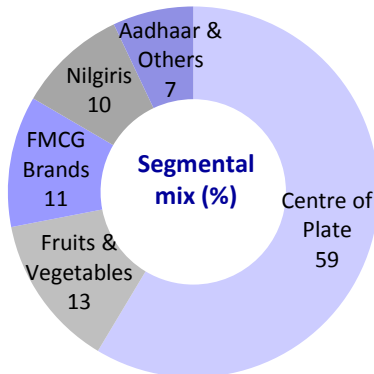
- The company is unique in that it is a modern retail-centric company with presence across multiple categories.
- Humungous growth opportunity in the branded FMCG space, along with a shift toward modern retail, is a major positive for FCL.
- Revenue growth is supported by its growing distribution network and significantly higher share of its products in the network.
- Improving mix and operating leverage are expected to drive significant margin expansion.
- FCL is expected to turn PAT positive at the consolidated level by FY19 (in just five years of operations).

FMCG company with a difference

FCL has transformed itself from being an investment arm of Future Group to becoming a fully integrated business in the FMCG space. In FY14, the company changed its name from Future Ventures India (non-banking finance company and an investment arm) to Future Consumer Enterprise Limited (retail and consumer packaged goods company), and subsequently, to Future Consumer Limited in FY17 after entering into a franchisee agreement with Future Retail (FRL) to operate the convenience store network of ‘KB’s Fair Price’, ‘KB’s Conveniently Yours’ and ‘Big Apple’. Resultantly, FCL now focuses only on sourcing, manufacturing, branding and distributing food and FMCG products.

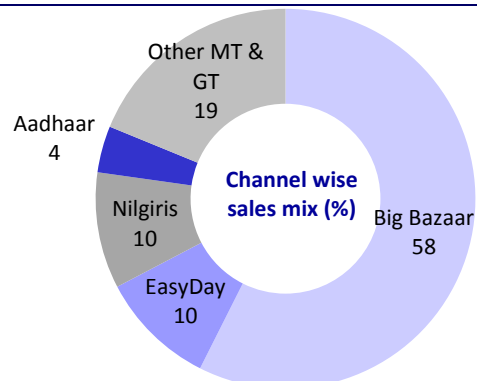
The Indian FMCG industry has grown at a slower pace over the past three years relative to the last decade. Our consumer coverage universe posted 5.2% sales CAGR over FY14-17 (including Ind-AS accounting impact on sales), largely led by volume growth. On the other hand, FCL posted 37% sales CAGR over FY14-17, albeit off a low base, largely led by distribution expansion, newer category forays and new product launches.

Exhibit 1: Centre of plate forms major part of the portfolio



Source: Company, MOSL

Exhibit 2: Future Retail forms major part of channel mix

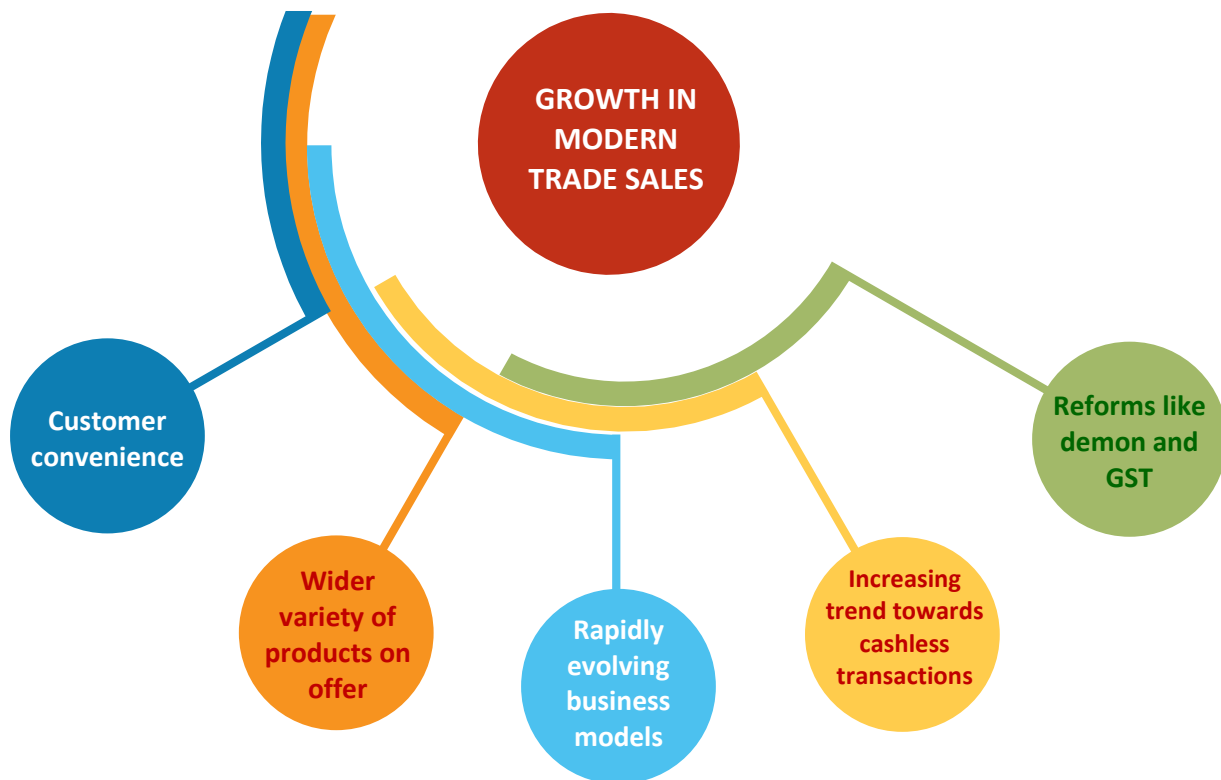


Source: Company, MOSL

What distinguishes FCL from a traditional FMCG company is its distribution structure. The company primarily relies on modern retail for its distribution (~93% of sales), while the proportion of modern trade for other FMCG companies has been

around 10-12% over the past many years. The FCMG industry depends heavily on the traditional wholesale channel for distribution due to its robustness, reach and profitability. However, the network, albeit strong, suffers from numerous drawbacks. First, it operates at multiple layers – distributors, stockists, carrying and forwarding agents (CFA), wholesalers & retailers – making it costly and very time consuming for a new brand to ride on it, as each layer adds to the costs substantially. Second, its consumer touch point (retailer) is the neighborhood kirana store, which can barely stock ~500 SKUs and also lacks capacity to display diverse range of products and also facilities like coolers.

Exhibit 3: Humungous growth opportunity with seismic shift towards modern trade (currently only 12% of FMCG sector sales)



Source: Company, MOSL

On the other hand, distribution through modern trade not only gives FCL an opportunity to display its brands in the huge shelf space, but also helps the company to connect with consumers by way of promotional activities. The company also gets real time data of what consumers are buying, helping understand consumer needs and behavior in a better way.

FCL's brands business accounts for ~95% of its overall revenues (as on 9MFY18), with Food Park, and Aadhaar & Others form the remaining 5%. It has 21 foods & beverages brands (of which 13 are in-house brands) and 9 home & personal care brands (of which 3 are in-house brands).

Exhibit 4: Wide portfolio of Food and FMCG brands



Source: Company, MOSL

Exhibit 5: Food & Beverage brands

S.no	Brand	In-house/Licensed/Acquired/JV	Owned by
1	Tasty Treat	Licensed	Future Brands Ltd
2	Sangi's kitchen	In-house (Manufactured by JV)	Sublime Foods Pvt Ltd
3	Nilgiris	Acquired	The Nilgiri Dairy Farm Private Limited ("NDFPL")
4	Sunkist	Licensed	Sunkist Grower Inc.
5	Veg Affair	In-house	Future Consumer Ltd
6	Desi Atta	In-house	Future Consumer Ltd
7	Karmiq	In-house	Future Consumer Ltd
8	Eatin	JV	Hain Celestial
9	Ektaa	In-house	Future Consumer Ltd
10	Mother Earth	Licensed	Industree Crafts Private Limited (ICPL)
11	Terra	JV	Hain Celestial
12	Poof!	In-house (Manufactured by JV)	Future Consumer Ltd
13	Gruezi	JV	Chocolate Frey AG
14	Golden Harvest	In-house	Future Consumer Ltd
15	Golden Harvest Prime	In-house	Future Consumer Ltd
16	Fresh & Pure	In-house	Future Consumer Ltd
17	Kosh	In-house	Future Consumer Ltd
18	Bloom	In-house	Future Consumer Ltd
19	Soo Fresh	In-house	Future Consumer Ltd
20	Mera Swad	In-house	Future Consumer Ltd
21	Baker Street	Licensed	Sarjena Foods Private Limited

Source: Company, MOSL

Exhibit 6: Home & Personal care brands

S.no	Brand	In-house/Licensed/Acquired/JV	Owned by
1	Kara	Acquired	Consumer Product Division of Grasim Industries (KARA)
2	TS	In-house	Future Consumer Ltd
3	Think Skin	In-house	Future Consumer Ltd
4	Swiss Tempelle	Licensed	Mibelle Future Consumer Products A.G.
5	Clean Mate	Licensed	Future Brands Ltd
6	Puretta	Acquired	Consumer Product Division of Grasim Industries (KARA)
7	Prim	Acquired	Consumer Product Division of Grasim Industries (KARA)
8	Sach	Licensed	Sachin Tendulkar
9	Pratha	In-house	Future Consumer Ltd

Source: Company, MOSL

FCL started the FMCG journey with staples under the brand name ‘Golden Harvest’. It then diversified into home & personal care (HPC) and processed foods. The company classifies its business into (i) Center of Plate (includes the staples portfolio; ~54% of the branded business as on YTD FY18), (ii) Fruits & Vegetable (~19%), (iii) Home & Personal care (~15%), (iv) Nilgiris (~8%) and (v) Aadhaar & Others (~4%).

Going forward, staples, processed foods and home & personal care will remain FCL’s top categories to drive sales. We expect a CAGR (FY18-FY22) of 34% in Center of Plate, 46% in Fruits & Vegetables, 60% in FMCG brands and 18% in Nilgiris. It is to be noted that brand-wise sales were only reported by the company for YTD FY18.

Exhibit 7: Staples and Processed foods form huge chunk of the branded business (FY17)



Source: Company, MOSL

The company has established strong sourcing capabilities to cater to demand for agri-commodities, and also has capacities to manufacture products directly or through subsidiaries, joint ventures and associate companies.

Integrated Food Park Private Limited (IFPPL), a subsidiary of FCL, has, in partnership with Ministry of Food Processing Industries, Government of India, set up an India

Food Park based out of Tumkur. The food park is in the business of sourcing, warehousing, sorting, manufacturing and packaging. Products such as wafer biscuits, dips & condiments, frozen snacks and vegetables are manufactured at the India Food Park. This best-in-class facility enables FCL to foray into newer categories much faster. The food park accommodates several food manufacturing companies (including subsidiaries, joint ventures and associate companies of FCL), where IFPPL facilitates them to work through a single-window system.

Exhibit 8: India Food Park, Tumkur – integrated food processing infrastructure



Source: Company, MOSL

Exhibit 9: Back-end infrastructure to support the huge product portfolio

Sourcing Strengths	Dairy & Bakery Facilities
<ul style="list-style-type: none"> ❖ Created fully integrated agri-commodity sourcing capabilities <ul style="list-style-type: none"> - Sourcing capacity of 1.5 lakh tonnes agri-produce - 71 sourcing hubs across the country and APMC licenses in 26 states - Warehousing facilities at 34 locations - 11 processing centers - includes mechanized processing centers - Other centers are for cleaning / sorting / grading 	<ul style="list-style-type: none"> ❖ One manufacturing facility each for dairy and bakery near Bangalore ❖ Daily milk handling capacity of 1.8lac ltr per day ❖ Installed capacities for dairy for wide range of products like milk, butter, different variants of cheese, curd etc ❖ "Dedicated" Chilling Center at Muthur ❖ Planning strategic tie ups with other dairy players in Northern & Western markets ❖ Dairy business procures 54,000 litres of milk everyday from a network of over 5,000 farmers and 200 milk traders in Tamil Nadu and Karnataka ❖ Monthly installed capacities of 450 tonnes of bread, 100 tonnes of cake among other products
Other Facilities	
<div style="display: flex; align-items: center;"> <div style="flex: 1;"> <ul style="list-style-type: none"> ❖ Oats Facility in Sri Lanka <ul style="list-style-type: none"> - Launched an Oats manufacturing facility - Enables to capture Oats segment in India with a wide variety of products - Other Facilities in Southern India (as part of Food Park) <ul style="list-style-type: none"> - Facility for Frozen Vegetables & Frozen Snacks - Sauces and Dips facility for brand Sangi's Kitchen - Contract Manufacturing <ul style="list-style-type: none"> - Working with leading Food & FMCG manufacturers across segments - Working with dairy players in North to cater to Delhi market </div> <div style="flex: 1; text-align: right;"> </div> </div>	

Source: Company, MOSL

Huge opportunity in branded FMCG with visible shift toward modern retail

We see huge opportunity in the Indian branded FMCG space. From USD65b in 2015, the category is expected to grow in size to reach USD220-240m by 2025, implying 13-14% CAGR, according to a joint study by BCG and CII. With the category itself expected to grow by around 3.5x over this 10-year period, we expect significant pockets of higher and even spectacular growth among its constituents.

Exhibit 10: Size of pie in key categories

Sub-category	Competitors for Future Consumer in the category	Market size (INR b)	Market size (USD b)
Dairy	Amul, Mother Dairy, Hatsun agro, Heritage, Parag milk foods, Prabhat dairy	990.0	15.5
Personal care	HUL, P&G, ITC, GCPL, Marico	632.3	9.9
Household cleaning products	HUL, Reckitt Benckiser, P&G, GCPL	302.4	4.7
Baked products	Britannia, Parle, ITC, Unibic	300.0	4.7
Snacks	Pepsico, Balaji, Prataap snacks, ITC	170.0	2.7
Tea	HUL, Tata Global Beverages, Wagh Bakri Group, Marvel group	145.0	2.3
Edible oil	Marico, Patanjali, Ruchi Soya Industries, Agro Tech Foods	105.0	1.6
Juice	Dabur, Pepsico, ITC, Paper Boat	101.0	1.6
Confectionary	ITC, Mondelez, Nestle, Mars	82.0	1.3
Packaged wheat flour	ITC, Shakti Bhog, Pillsbury, Nature fresh	75.0	1.2
Pasta and noodles	Nestle, HUL, ITC, Capital Foods, Nissin	40.0	0.6
Coffee	HUL, Nestle, Tata Coffee	37.0	0.6
Spreads	HUL, Fun Foods, Mapro, Hersheys, Ferrero India, Agro Tech Foods	13.5	0.2
Wipes	Johnson & Johnson, Unicharm India, Himalaya Drug company	0.3	0.0

Source: Industry sources, MOSL

Modern trade, which constitutes ~12% of FMCG sector sales in India, has been witnessing tremendous growth over the past year, led by a multitude of factors like customer convenience, a wider variety of products on offer, rapidly evolving business models, and an increasing trend toward cashless transactions. Reforms like demonetization and GST, too, have also taken away the edge that wholesale-led general trade had earlier, due to the need to adhere to stricter compliance norms. We believe all this augurs well for businesses operating under the modern retail and modern wholesale (cash and carry businesses) models.

Exhibit 11: Rapidly growing store network over the years

Store count	FY11	FY12	FY13	FY14	FY15	FY16	FY17
EasyDay	NA	NA	NA	NA	200	320	538
Big Bazaar	148	161	161	164	196	228	235
Heritage Foods	75	73	67	74	92	110	136
DMART	45	55	62	75	89	110	131
Spencer	210	182	131	128	122	118	124
Hypercity	9	12	12	15	16	17	19

Source: Company, MOSL

Massive revenue growth potential via distribution expansion and higher share of FCL’s products in the network

FCL is a modern trade-centric FMCG company and is present across leading organized retailers. Future Retail’s (FRL) 1,043 modern trade stores (mainly Big Bazaar and EasyDay) contributed ~70% of revenue for FCL as of FY17. Its overall footprint stands at ~80k stores, of which 64,100 general trade stores only sell Kara, Kosh and Tasty Treat (recently started) products.

Exhibit 12: Future Group stores account for ~70% of FCL’s sales

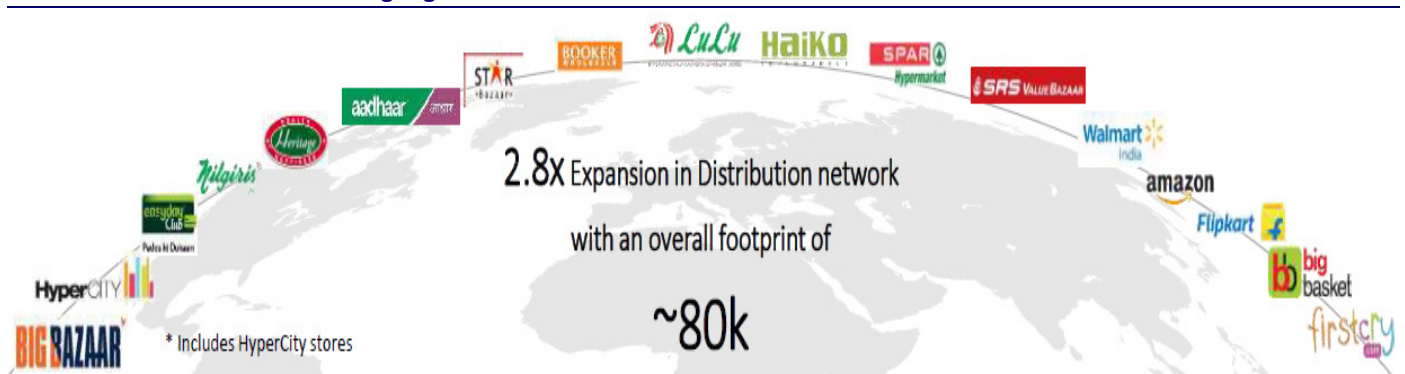
Reach	3QFY18
Future group stores	1,149
Other modern trade	214
Rajasthan FPS	5,395
General trade	73,000
Overall footprint	79,758

Source: Company, MOSL

Future Group has an ambition of opening 10,000 EasyDay stores by 2022 (611 stores as on 31st Dec’17) and 350 Big Bazaar stores in the next 3-5 years (259 stores as on 31st Dec’17). The 10,000 EasyDay small-format stores will run on a membership-driven model. FRL has also acquired Heritage stores in south India, which will complement the existing small-format EasyDay stores in north India.

FCL also owns Nilgiris, a south-based retail chain (franchised to FRL). With ~170 franchised stores, Nilgiris has a strong presence in Tamil Nadu (100 stores) and Karnataka (70 stores). FCL is now working toward transforming the stores and product portfolio to cater to young customers and also has aggressive plans for Nilgiris. It aims to take the store count to 1,000 over the next three years.

Exhibit 13: Presence across leading organized retailers



Source: Company, MOSL

Exhibit 14: Mix of large format and small format stores of Future Group

Source: Company, MOSL

“We have a clear stated ambition at the group level where 70% of the food that we wish to sell will be our own products, from our own brands at large.” -
Ashni Biyani, Future Consumer

In Aug’15, FCL had signed an MoU with Rajasthan Food and Civil Supplies Corporation to facelift the Rajasthan fair price shops (FPS) into new modern retail format under the Annapurna Bhandar Yojana. Of the 25,542 FPS in Rajasthan, FCL now reaches 5,395 shops (as on 3QFY18). The company is also working on creating a wholesale 2.0 model under Aadhaar to spread its reach further by catering to the kirana stores.

Going forward, only selected products are expected to be sold through the general trade channel, and the main focus of the company will be to leverage the store expansion target of Future Group. Future Group also has the vision to increase the proportion of FCL’s brands in Future Retail stores to ~60% from ~20% now. The group’s ambitious strategy alone would help propel FCL’s growth at least over the next five years.

Operating margin to expand ~150bp every year over FY18-22

FCL operated at a gross margin of 13.9% in FY17. There is a huge scope of gross margin expansion through mix improvement, led by higher salience of the FMCG brands business (processed foods, and home & personal care business; ~11% of overall sales).

Exhibit 15: Key brands (biggest revenue contributors and fastest growing) for FCL as on FY17



Source: Company, MOSL

Centre of plate (branded staples) contributed ~58% of FCL's revenue as of FY17, but its gross margins are low compared to processed foods and home & personal care. Within the center of plate portfolio, Golden Harvest is the biggest contributor to sales. In Golden Harvest, products are sold in bulk and branded format. Premium branded staples are sold under Golden Harvest Prime brand. Margin profile within the Golden Harvest brand has improved and is expected to expand further as the portion of bulk format reduces. Introduction of other premium brands like Kosh, Ektaa, Desi Atta Company and Karmiq will only help improve the gross margin profile of the branded staples portfolio, as the current contribution of these newer brands is very low. We expect center of plate portfolio CAGR of ~35% over FY18-22, with 300-400bp improvement in the gross margin.

Exhibit 16: FCL's center of plate portfolio

Key Brands	Category	Sub-category
Centre of plate		
GOLDEN HARVEST	Food & Beverages	Bulk and branded staples
GOLDEN HARVEST PRIME	Food & Beverages	Branded staples
KARMIQ	Food & Beverages	Tea
		Edible oils
		Dry fruits
FRESH & PURE	Food & Beverages	Tea
		Coffee
		Edible oil
DESI ATTA COMPANY	Food & Beverages	Staples
EKTAA	Food & Beverages	Staples and snacks
KOSH!	Food & Beverages	Oats and wheat flour

Source: Company, MOSL

FCL sells fruits & vegetables under the brands Soo Fresh and Bloom, which contributed ~13% of revenues as of FY17. We note that this business has undergone the maximum change with respect to supply chain and wastage reduction. While we

expect fruits & vegetables to grow at a much faster CAGR of ~46% over FY18-22, we do not see any material gross margin improvement from the same as it is a low-margin business.

Exhibit 17: FCL's fruits & vegetables portfolio

Key Brands	Category	Sub-category
Fruits & Vegetables		
SOO FRESH	Food & Beverages	Branded fruits and vegetables
bloom	Food & Beverages	Branded fruit and vegetable

Source: Company, MOSL

The FMCG brands business (processed foods and home & personal care) includes key brands like Tasty Treat, Clean Mate, Care Mate, Kara, Veg Affaire, Sunkist and Sangi's Kitchen. This business is expected to deliver the highest growth (~60% CAGR over FY18-22), taking its contribution to ~24% of overall sales compared to ~11% as of FY17. FMCG brands business also has the maximum leverage on margin expansion along with growth.

Exhibit 18: FCL's FMCG brands (processed foods and home & personal care) portfolio

Key Brands	Category	Sub-category
FMCG brands		
Tasty Treat	Food & Beverages	Snacks
		Sauces
		Juice
		Pasta and noodles
		Soup
Clean Mate	Home & Personal Care	Household cleaning products
KOSH!	Food & Beverages	Instant oats
		Broken oats
Caremate	Home & Personal Care	Toilet care
Sunkist	Food & Beverages	Juice
Kara	Home & Personal Care	Wipes
Veg affaire	Food & Beverages	Processed Fruit and Vegetable
Sangi's Kitchen	Food & Beverages	Sauces
		Spreads
TS	Home & Personal Care	Grooming accessories
Puretta	Home & Personal Care	Baby care products
Pratha	Home & Personal Care	Incense sticks
Think skin	Home & Personal Care	Shower Products
Swiss Tempelle	Home & Personal Care	Skin Care
POOO!	Food & Beverages	Wafer biscuit
Mother earth	Food & Beverages	Organic food
GRÜEZI	Food & Beverages	Confectionary
BAKER STREET	Food & Beverages	Baked products
TERRA	Food & Beverages	Kettle chips
Prim	Home & Personal Care	Home care wipes
Sach	Home & Personal Care	Personal care
MERA SWAD	Food & Beverages	Mouth freshener

Source: Company, MOSL

FCL is also looking to transform Nilgiris (it had acquired this business three years ago). Nilgiris has brought in (i) synergies by strengthening Future Group's convenience stores through the franchisee route and (ii) brands & manufacturing capabilities in the dairy, bakery and grocery categories. The company has ambitious plans for Nilgiris; it intends to take the store count to 380 by end-FY18 and to 1,000 over the next three years. The business is expected to turn profitable at the EBITDA level through an improvement in capacity utilization of the dairy & bakery business and higher sales of value-added products like cookies and pizza.

Exhibit 19: FCL's Nilgiris portfolio

Key Brands	Category	Sub-category
Nilgiris		
Nilgiris	Food & Beverages	Dairy
		Baked products

Source: Company, MOSL

Exhibit 20: Segmental sales mix to drive margins going forward

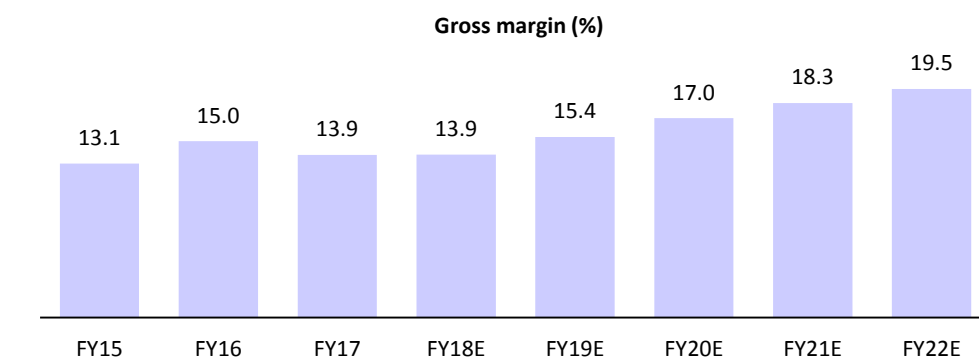
%	FY18E	FY19E	FY20E	FY21E	FY22E
Consolidated sales growth	40.7	43.6	40.9	37.7	34.5
Centre of Plate	32.1	40.0	36.6	32.9	28.3
Fruits & Vegetables	100.0	60.0	50.0	40.0	35.0
FMCG Brands	68.8	64.6	61.4	58.0	55.0
Nilgiris	15.0	15.0	15.0	20.0	20.0
Aadhaar & Others*	(10.0)	5.0	5.0	5.0	5.0
Consolidated sales mix	100	100	100	100	100
Centre of Plate	55	54	52	50	48
Fruits & Vegetables	19	21	23	23	23
FMCG Brands	14	16	18	21	24
Nilgiris	8	6	5	4	4
Aadhaar & Others*	5	3	2	2	1

*Adjusted for intercompany

Source: Company, MOSL

We believe that the company's efforts on shifting the mix of the portfolio toward FMCG brands (processed foods and HPC business) and premiumizing the center of plate portfolio will lead to a stable improvement in the gross margin. We have built in 560bp expansion in the gross margin over FY17-22, with 310bp expansion happening by FY20 itself.

Exhibit 21: Consolidated gross margins to expand 560bp over FY17-22, primarily led by mix improvement



Source: Company, MOSL

As FCL gains scale, we expect to see savings in other operating expenses, led by better absorption of fixed costs to sales because of the tremendous pace of sales growth.

Exhibit 22: Employee costs to come down by 70bp over FY17-22

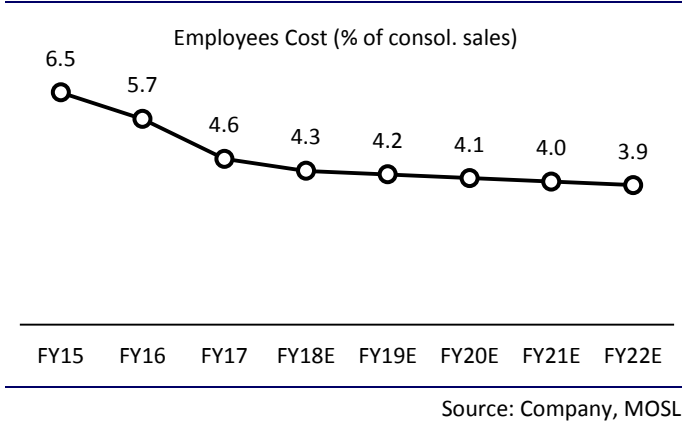
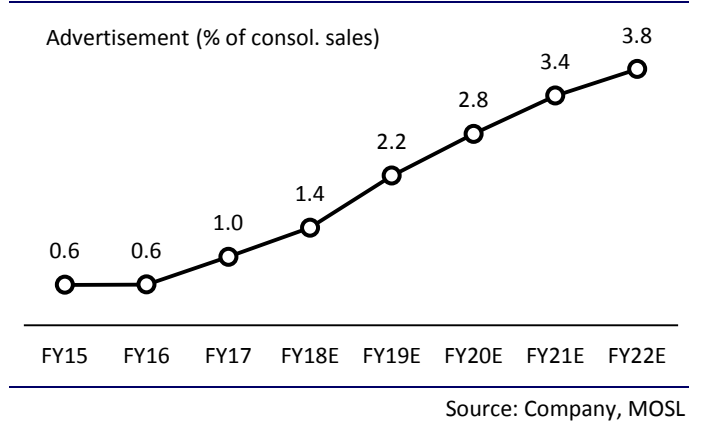


Exhibit 23: Advertisement expenses to increase by 280bp over FY17-22



Savings in key operating costs will be utilized for brand building. We believe that advertisement expenses will increase from 1% of sales in FY17 to 3.8% by FY22. Thus, we expect sharp consolidated EBITDA margin expansion of 750bp, from current level of 0.5% to 7.9% by FY22.

Exhibit 24: Consolidated EBITDA margins to expand 750bp over FY17-22

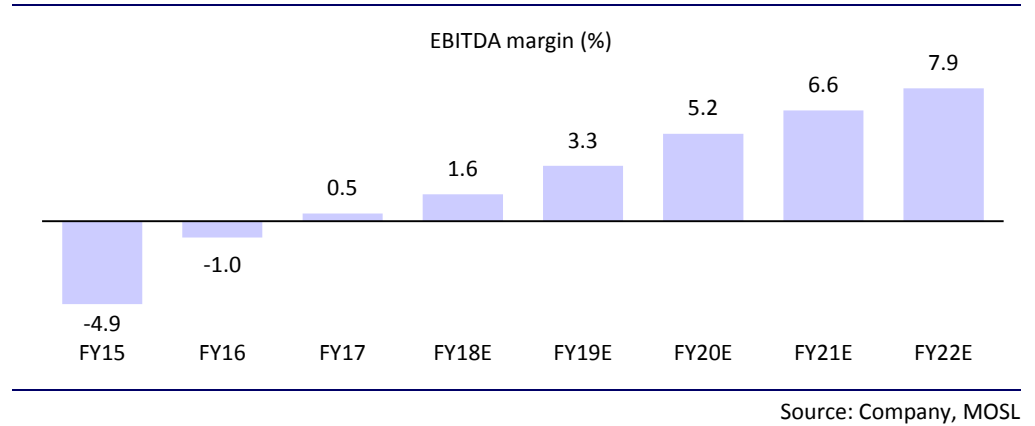
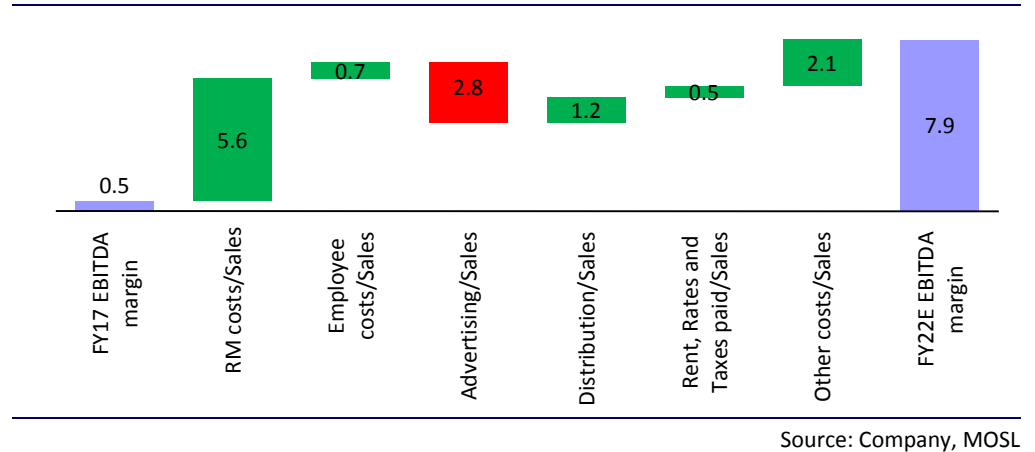


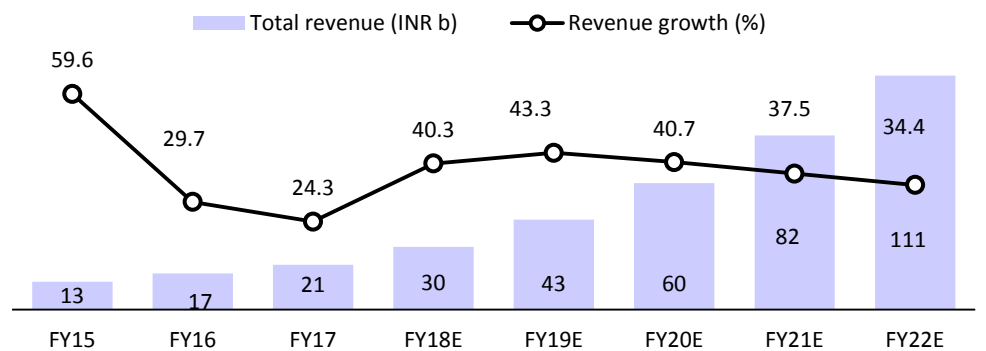
Exhibit 25: Consolidated EBITDA margin movement over FY17-22



Revenue to be 5x by FY22; margins set to expand sharply
RoCE to see huge improvement

FCL delivered strong revenue CAGR of 37% over FY14-17, led by its staples portfolio and introduction of branded FMCG products. Going forward, distribution expansion by Future Retail through EasyDay format stores and the company’s own initiative of launching newer products are expected to drive ~39% CAGR in the top line over FY17-22, quintupling revenues over this period.

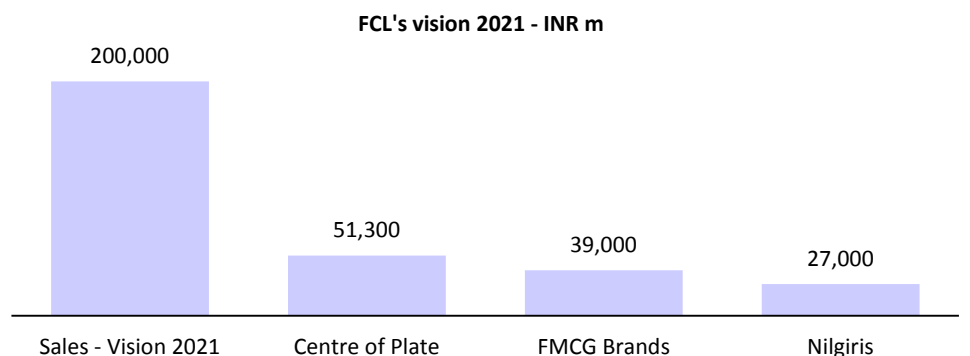
Exhibit 26: Consolidated revenues to grow at a CAGR of 39.3% over FY17-22



Source: Company, MOSL

As part of Vision 2021 plan (released in Mar’16), FCL had set an ambitious revenue target of INR200b for 2021, implying 63.5% CAGR over FY16-21, with center of plate contributing INR51.3b and FMCG brands (processed foods and HPC business) contributing INR39b. While the vision is admirable and might even be achievable, we estimate revenue of ~INR82b by FY21, with center of plate contributing ~INR41b and FMCG brands contributing ~INR17b by FY21. We see upside risk to our estimates if (i) Future Group is able to achieve its store expansion plans and (ii) FCL increases the proportion of its brands in Future Retail’s network.

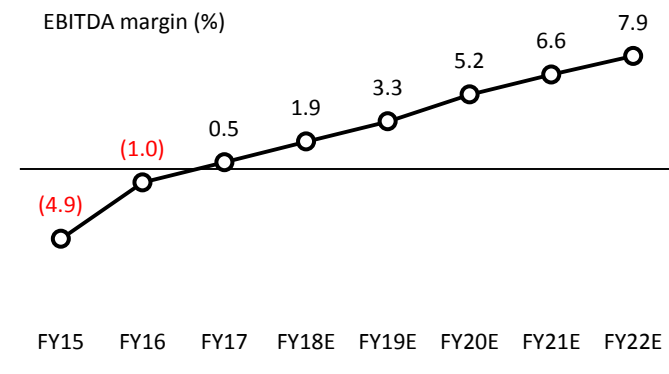
Exhibit 27: FCL’s Vision 2021 – as on March’16



Source: Company, MOSL

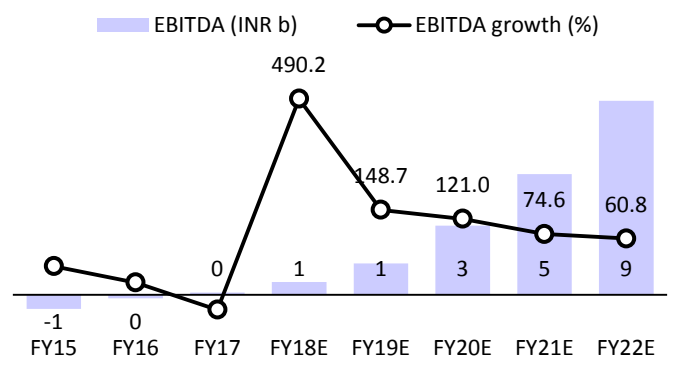
In our view, significant revenue growth, an improving mix and savings in key operating costs (led by scale of operations) are expected to lead to EBITDA CAGR of 146.5% over FY17-22.

Exhibit 28: Sharp operating margin expansion will lead to...



Source: Company, MOSL

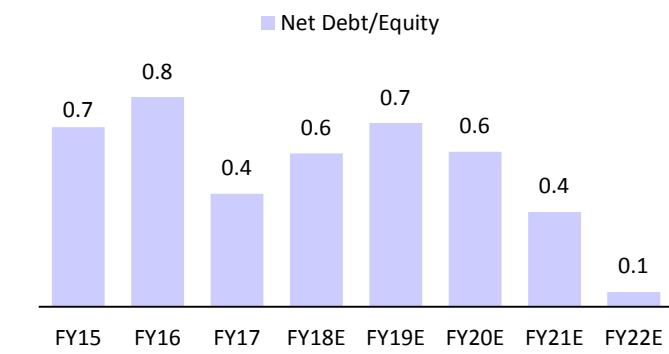
Exhibit 29: ...EBITDA CAGR of 146.5% over FY17-22



Source: Company, MOSL

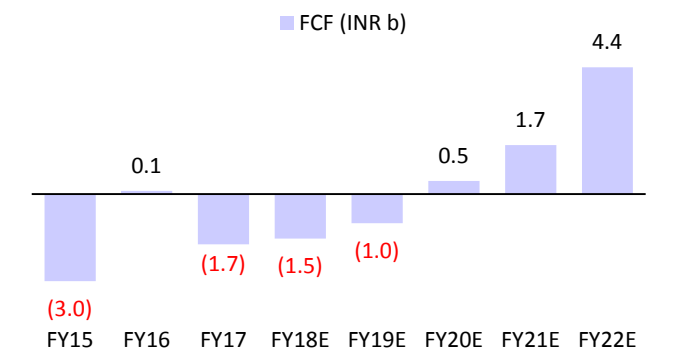
We expect gross debt to come down substantially only in FY22 to INR1.6b (net debt at INR1.3b) from the current level of INR4.7b (net debt at INR3.8b), as cash profit starts building up. Capex is estimated at ~INR800m in FY18 and INR1-1.5b going forward. Tax rate is expected to be at MAT for half of FY19 and then FY20 onward. Free cash flows are expected to start coming FY20 onward.

Exhibit 30: Net debt/equity to reduce drastically as cash profits start building up



Source: Company, MOSL

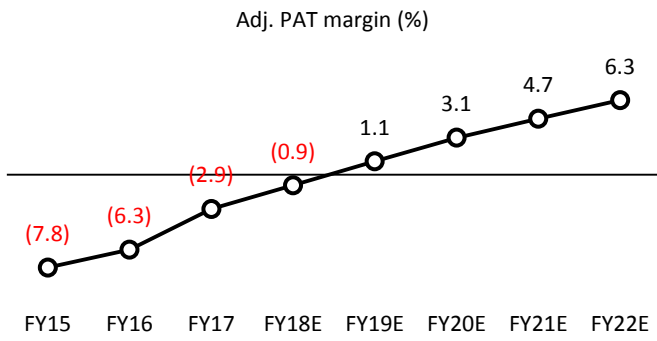
Exhibit 31: FCF to be generated post FY20



Source: Company, MOSL

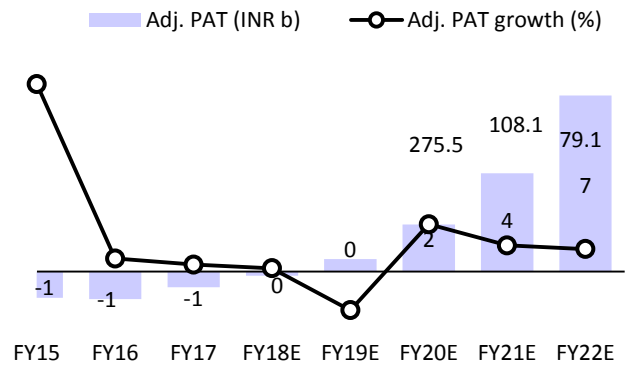
Over the years, a major portion of capital employed has got into commercial operations phase. We believe that this will start yielding results as the scale of operations increases further. The company has already become EBITDA-positive and is expected to become profitable at PAT level by FY19. FCL incurred a loss of INR610m on adj. PAT basis as of FY17. PAT is expected to touch INR7b, with net margin of 6.3% by FY22.

Exhibit 32: Adj. PAT margin to expand to 6.3% by FY22



Source: Company, MOSL

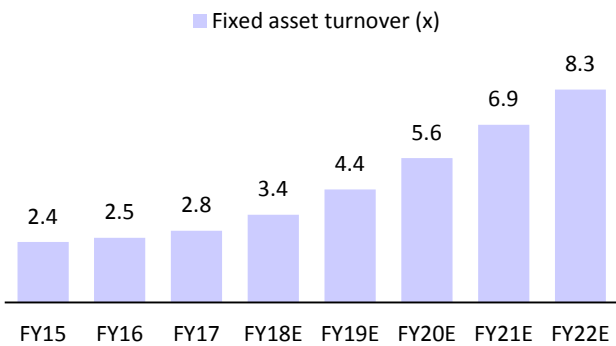
Exhibit 33: Adj. PAT to turn positive by FY19 and touch INR7b by FY22



Source: Company, MOSL

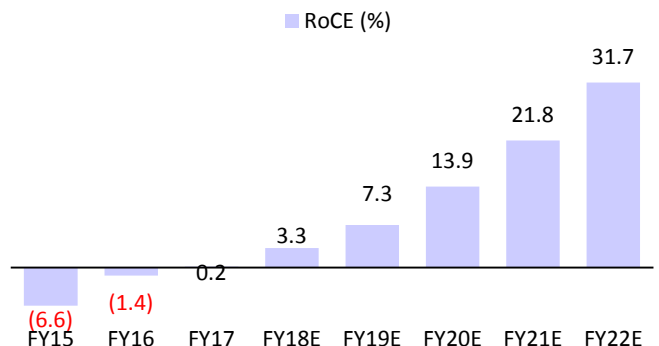
We expect fixed asset turnover to improve significantly from 2.8x to 8.3x by FY22, with RoCEs reaching 32%.

Exhibit 34: Fixed asset turns to improve significantly



Source: Company, MOSL

Exhibit 35: RoCE to touch 32% by FY22



Source: Company, MOSL

Inventory days for FCL will remain higher than that for a conventional FMCG company dependent on the retail channel. Going forward, the company's inventory level forecasting abilities will only get better, as it analyzes buying trends and patterns from a wider sample of Future Retail customers. We see a slight reduction in inventory days from 25 in FY17 to 19 by FY22. Also, we do not see any major change in payable and receivable days from FY17 levels. Overall, the net working capital cycle will see an improvement of two days over the next three years, coming down from 41 days to 39 days and subsequently reaching 35 days by FY22.

Exhibit 36: Networking cycle to improve by six days over FY17-22

Cash conversion cycle (on avg. basis)	FY15	FY16	FY17	FY18E	FY19E	FY20E	FY21E	FY22E
Inventory days	30	24	25	26	24	22	20	19
Debtor days	37	34	42	47	46	44	44	44
Creditor days	34	26	26	28	27	27	28	28
Cash conversion cycle	33	32	41	45	42	39	36	35

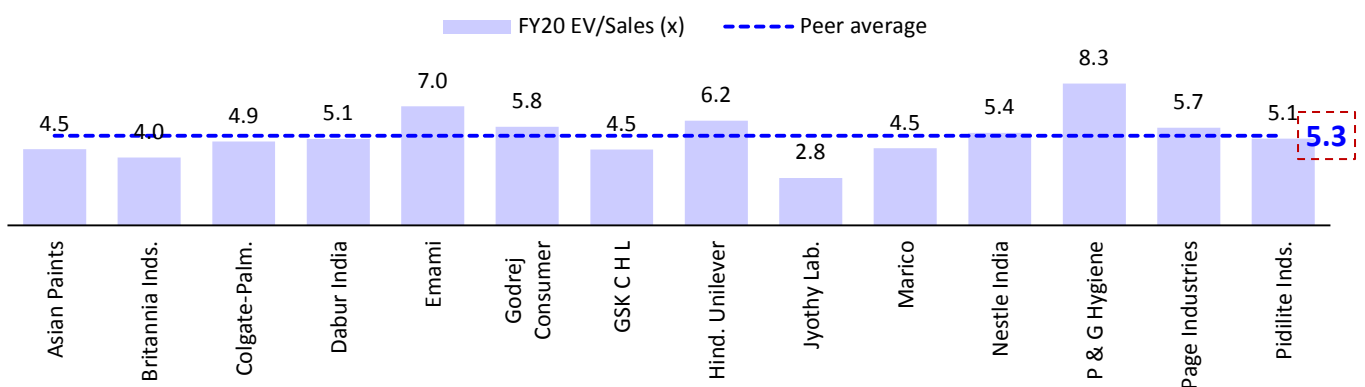
Source: Company, MOSL

Initiating coverage with Buy

Attractive opportunity from a three-year perspective as well

- Favorable macro factors and initiatives by the company and the parent Future Group make FCL a highly attractive investment candidate. Opportunities are immense, and FCL is at the forefront to maintain or even accelerate its already impressive growth rate. Sales – which are already higher than those of mid-tier FMCG companies – should continue growing at a rapid pace for the years to come, driven by the tremendous opportunity for brands using modern retail distribution.
- We believe that FCL's value – with its strong revenue, earnings and RoCE prospects – is becoming far more attractive at the group level. Sales growth has been rapid (37% CAGR over FY14-17), and in fact, on an uptrend, despite continual high base, while the EBITDA margin has improved from -10.4% in FY14 to enter the positive territory in FY17; it is improving on a sequential basis in YTD FY18 as well. By FY19, we expect FCL to turn profitable at the net consolidated level. We forecast sales of INR82b in FY21 and INR111b in FY22, still far lower than the company's 'Vision 2021' target of INR200b. This poses an upside risk to our forecast.
- We expect the momentum in revenue growth to continue, at least over the coming few years, because of the tremendous growth opportunity. We forecast revenue CAGR of 41.5% over FY17-20 and 39% over FY17-FY22. As the company is likely to be profitable at the consolidated net level only in FY19, we believe near-term P/E multiples are always likely to appear extremely expensive on a one-year forward basis. We, thus, value the company on an EV/sales basis, assigning a multiple of 2.2x (60% discount to EV/sales of our coverage consumer universe). This results in a target price of INR76, implying ~50% upside from current levels. We, thus, initiate coverage on FCL with a Buy rating. As soon as the company demonstrates profitability at the net level, we will move our valuation on P/E basis.

Exhibit 37: We value FCL at 2.2x EV/Sales (60% discount to 5.3x consumer coverage EV/Sales for FY20)



Source: Company, MOSL

- Businesses like these with humungous growth opportunity at the EPS level over the longer term have to be seen from a three-year investment perspective, in our view. Assuming 30x FY22E EPS on a P/E basis (which we believe is fair for a business with far higher revenue and earnings growth potential compared to peers) and RoCEs of ~32% by FY22, we get a target price of INR97, implying a share price CAGR of ~24%.

Exhibit 38: Detailed analysis suggests healthy three year CAGR return of 24%

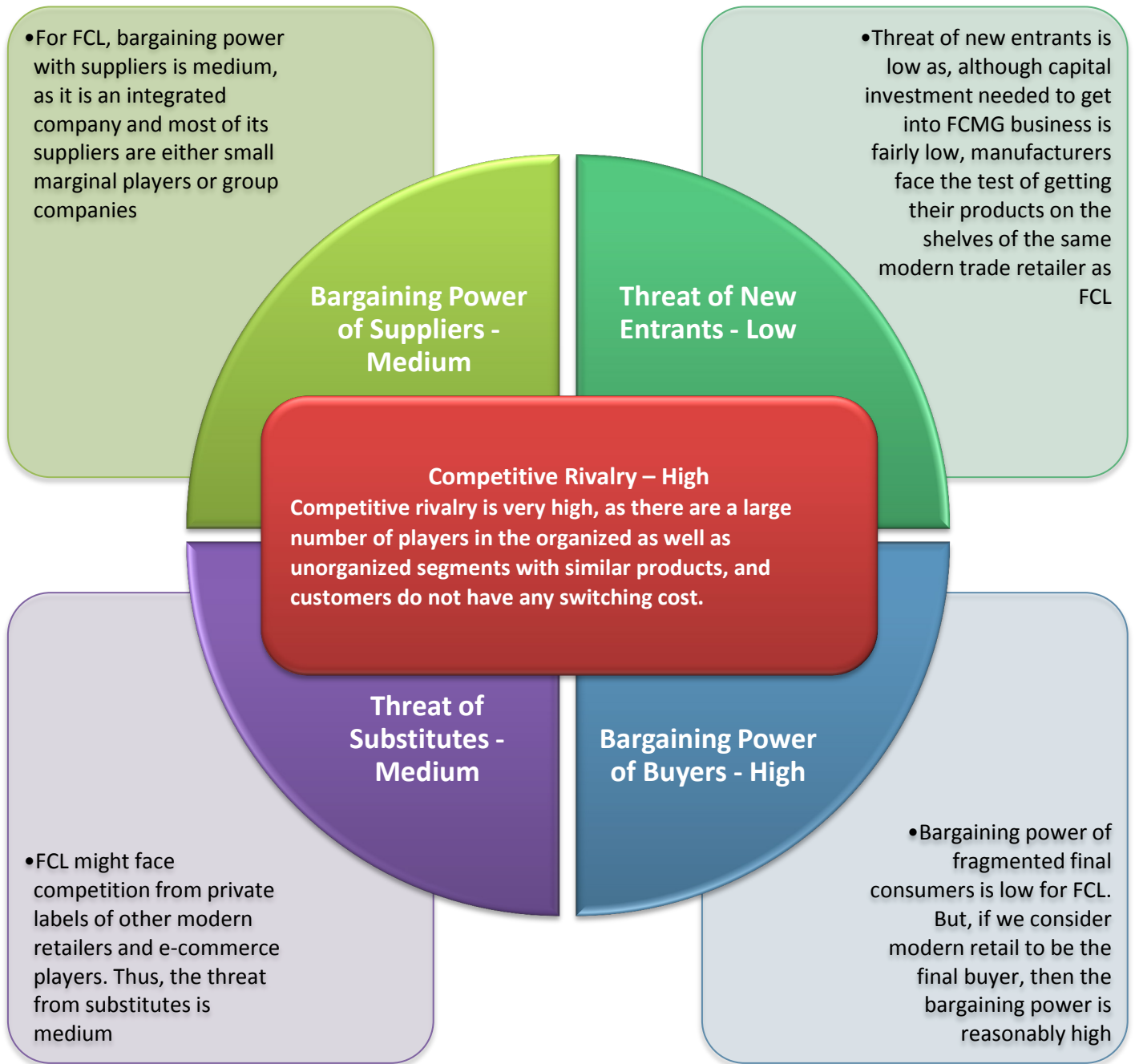
INR m	FY18E	FY19E	FY20E	FY21E	FY22E
Sales	29,705	42,579	59,928	82,431	110,825
EBITDA	568	1,412	3,121	5,450	8,764
EBITDA margin (%)	1.9	3.3	5.2	6.6	7.9
Adj. PAT	-165	496	1,867	3,889	6,966
Net margin (%)	Loss	1.2	3.1	4.7	6.3
EPS	(0.1)	0.3	1.1	2.4	4.2
P/E multiple (x)					23
Target price (INR)					97
Three year CAGR return (%)					24%

Source: Company, MOSL

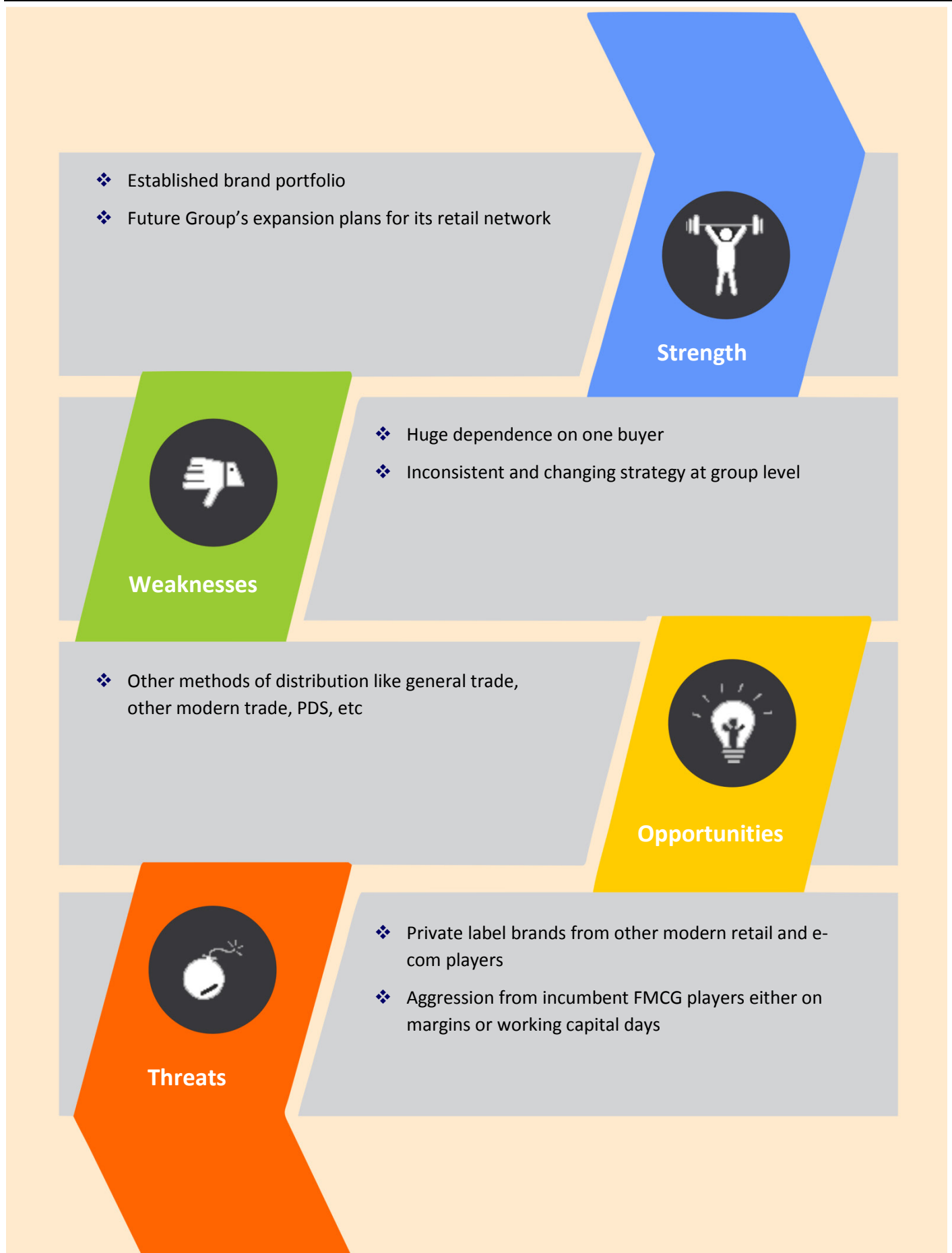
Risks

- **Future Group's poor capital allocation:** Future Group has made poor capital allocation decisions in the past. Continuation of the same can pose a risk to FCL's prospects.
- **Change in strategy at group level:** FCL is highly dependent on Future Retail's store expansion plans. If the pace of store openings slows down for any reason, it will have a direct impact on FCL's revenues.
- **Higher-than-anticipated increase in debt:** FCL will need debt in its growth phase to meet its working capital needs. The company's return ratios may get impacted if it decides to acquire a business or brand that is non-core in nature through debt.
- **Upside risk to revenue estimate if FCL meets its vision target:** There exists an upside risk to our revenue estimates if the company is able to meet its ambitious but admirable target of 2021.

Porter's five forces framework analysis for FCL



SWOT analysis



Annexure

About company

Future Consumer (FCL) is an integrated consumer company having a portfolio of brands in categories such as staples, fruits & vegetables, processed foods, home care and personal care. It has a distribution network largely dependent on organized retailers and an overall footprint of ~80,000 stores. It has robust presence in sourcing of agri-commodities and fresh produce backed by manufacturing capabilities.

Exhibit 39: Revenue split as on 9MFY18

INR m	1QFY18	2QFY18	3QFY18	9MFY18
Consolidated sales	6,578	7,457	7,795	21,830
Centre of Plate	3,421	4,027	4,365	11,813
Golden Harvest	2,018	2,698	2,968	7,684
Golden Harvest Prime	103	81	87	270
Karmiq	68	81	87	236
Others	1,231	1,168	1,222	3,621
Fruits & Vegetables	1,316	1,491	1,403	4,210
FMCG Brands	921	1,119	1,169	3,209
Tasty Treat	276	280	257	813
Clean Mate	147	190	175	513
Care Mate	101	89	129	319
Kara	83	56	58	197
Others	313	503	550	1,366
Nilgiris	526	522	624	1,672
Aadhaar & Others*	395	298	234	927
Other operating income	45	48	45	138
Total revenue	6,623	7,505	7,840	21,968

Contribution (%)	1QFY18	2QFY18	3QFY18	9MFY18
Consolidated sales	100	100	100	100
Centre of Plate	52	54	56	54
Golden Harvest	31	36	38	35
Golden Harvest Prime	2	1	1	1
Karmiq	1	1	1	1
Others	19	16	16	17
Fruits & Vegetables	20	20	18	19
FMCG Brands	14	15	15	15
Tasty Treat	4	4	3	4
Clean Mate	2	3	2	2
Care Mate	2	1	2	1
Kara	1	1	1	1
Others	5	7	7	6
Nilgiris	8	7	8	8
Aadhaar & Others*	6	4	3	4

Source: Company, MOSL

Exhibit 40: Pricing of Future consumer products compared to other brands

Company	Brand	Product	Sku (grams)	MRP (Jan'18)	Price /kg	Prem/ (Disc) to FCL (%)
Wheat flour						
Future Consumer Ltd	Golden Harvest	Golden Harvest Chakki Fresh Atta	1,000	37	37	0
ITC India Ltd	Aashirvaad	Aashirvaad Whole Wheat Atta	1,000	46	46	24.3
Patanjali Ayurved Ltd	Patanjali	Patanjali Whole Wheat Atta	10,000	310	31	-16.2
Standard rice						
Future Consumer Ltd	Golden Harvest	Gh Lazeez Basmati Rice	1,000	72	72	0
Lt Foods Ltd	Dawat	Dawat Basmati Rice Devaayg	1,000	93	93	29.2
Krbl Limited	India Gate	India Gate Basmati Rozana	1,000	90	90	25
Tea						
Future Consumer Ltd	Fresh & Pure	F&P Ctc Tea Family	500	169	338	0
Tata Global Beverages Ltd	Agni	Agni Ctc Tea Leaves	1,000	200	200	-40.8
Girnar Foods & Beverages Pvt Li	Girnar	Girnar Ctc Tea Royal Cup	1,000	419	419	24
Hindustan Unilever Ltd	Red Label	Red Label Ctc Tea	1,000	410	410	21.3
Gujarat Tea Process & Packers	Waghbakri	Waghbakri Ctc Tea Leaf	500	225	450	33.1
Coffee						
Future Consumer Ltd	Fresh & Pure	F&P Coffee 100% Instant	100	202	2,020	0
Hindustan Unilever Ltd	Bru	Bru Coffee Instant	50	87	1,740	-13.9
Nestle India Ltd	Nescafe	Nescafe Coffee Classic	50	142	2,840	40.6
Sunflower oil						
Future Consumer Ltd	Fresh & Pure	Fresh & Pure Sunflower Oil	1,000	75	75	0
Cargill India Pvt Ltd	Gemini	Gemini Sunflower Oil	1,000	94	94	25.3
Liberty Oil Mills Litmited	Sunday	Sunday Sunflower Oil	1,000	82	82	9.3
Ketchup						
Future Consumer Ltd	Tasty Treat	Tasty treat Tomato Ketchup	1,000	121	121	0
Hindustan Unilever Ltd	Kissan	Kissan Ketchup Fresh Tomato	1,000	125	125	3.3
Nestle India Ltd	Maggi	Maggi Ketchup Tomato	1,000	147	147	21.5
Namkeens						
Future Consumer Ltd	Tasty Treat	Tasty treat Namkeen Aloo Bhujia	1,000	209	209	0
Haldiram Foods International L	Haldiram	Haldiram Namk Aloo Bhujia	350	80	229	9.4
Fritolays	Kurkure	Kurkure Namk Aloo Bhujia	165	35	212	1.5
Parle Products Pvt Ltd	Parle	Parle Namkeen Aloo Bhujia	360	84	233	11.6
Instant pasta						
Future Consumer Ltd	Tasty Treat	Tasty treat Instant Pasta Masala	210	67	319	0
Nestle India Ltd	Maggi	Maggi Instant Pasta Pazta Macaroni Cheese	70	24	343	7.5
Itc India Ltd	Sunfeast	Sunfeast Instant Pasta Yippee Masala	70	24	343	7.5
Toilet cleaners						
Future Consumer Ltd	Cleanmate	Cleanmate Toilet Cleaner	500	70	140	0
Reckitt Benckiser India Ltd	Harpic	Harpic Toilet Cleaner Power	500	76	152	8.6
HUL	Domex	Domex Toilet Cleaner	500	74	148	5.7
Body wash						
Future Consumer Ltd	Swiss Tempelle	Swiss Tempelle Bw Lotus&Fs Oil Shower Gel	250	192	768	0
Hindustan Unilever Ltd	Dove	Dove Bodywash Gentle Exfoliating	190	92	484	-37
Itc India Ltd	Fiama Di Wills	Fiama Dw Shower Gel Blakcurrent &Berry	250	198	792	3.1
Nivea India Pvt Ltd	Nivea	Nivea Shower Gel Lemon&Oil	250	189	756	-1.6
Colgate Palmolive India Ltd	Palmolive	Palmolive Shwrgel Absolute Relaxing	250	174	696	-9.4
Oats						
Future Consumer Ltd	Kosh	Kosh Oats chinese chili Pp	40	15	375	0
Capital Foods	Chings	Chings Oats Snacky Manchow	25	10	400	6.7
Fritolays	Quaker	Quaker Oats Masala	40	15	375	0
Marico India Ltd	Saffola	Saffola Oats Masala classic	39	15	385	2.6
Soaps (compared to FCL's lower priced bodywash)						
Future Consumer Ltd	Think Skin	Think Skin Body Wash aqua	250	69	276	0
Reckitt Benckiser India Ltd	Dettol	Dettol Soap cool	125	47	376	36.2
HUL	Liril	Liril Soap Lemon	125	51	408	47.8
Godrej Consumer Products Ltd	Godrej	Godrej Soap Shikaka	100	35	350	26.8
Jyothy laboratories	Margo	Margo original neem	100	28	280	1.4
Patanjali	Patanjali	Patanjali Mogra bar	75	25	333	20.8

Exhibit 41: Details of Board of Directors

Name	Designation	Description
G.N Bajpai	Chairman	❖ He holds a master's degree in commerce and has previously been the chairman of SEBI. Mr. Bajpai has been on the board since February 20, 2008.
Kishore Biyani	Vice Chairman	❖ He is the founder and group CEO of future group, with over 25 years of experience in the retail business.
Ashni Biyani	Whole time director	❖ She has graduated as a textile designer from Srishti school of art and design. She has been on the board of Future Consumer Limited since 15th November, 2014.
Narendra Baheti	Executive director	❖ He is a commerce graduate and M.A in economics; he has been associated with future group since the inception of the 1st Big Bazaar in 2002. He has been on the board of directors since 30th August 2016.
Vibha Rishi	Independent Director	❖ She has been associated with Future Group as Group strategy and consumer director. She has previously worked with Tata tea and PepsiCo.
Adhiraj Harish	Independent Director	❖ He is a member of the council for fair business practices and the International Fiscal Association (IFA). He is a lawyer by profession and has been practicing as an associate at D.M Harish & Co, since 2011.
Frederic de Mevius	Independent Director	❖ He holds a BA degree in finance and economics; he has previously worked as an investment banker in London. He is currently the managing director of Virinvest S.A.
Manoj Saraf	Independent Director	❖ He holds an MBA from Cornell university and has been a part of the private equity team of Black River Advisors since 2008.

Source: Company, MOSL

Exhibit 42: Latest shareholding pattern

Particulars	No of Shares	% of holding
Foreign (Promoter & Group)	0	0.0
Indian (Promoter & Group)	825,312,807	43.1
Bodies Corporate	825,146,019	43.1
Individuals / Hindu Undivided Family	166,788	0.0
Total of Promoter	825,312,807	43.1
Non Promoter (Institution)	401,515,677	21.0
Foreign Institutional Investors	381,075,469	19.9
Financial Institutions / Banks	4,968,335	0.3
Mutual Funds / UTI	15,471,873	0.8
Non Promoter (Non-Institution)	674,783,045	35.3
Foreign Corporate Bodies	149,657,099	7.8
NRIs/Foreign Individuals/Foreign Nationals	13,578,295	0.7
Bodies Corporate	230,674,391	12.1
Clearing Members	17,370,095	0.9
Directors & their Relatives & Friends	5,075,105	0.3
Employees	3,954,759	0.2
Hindu Undivided Families	9,834,547	0.5
Individuals holding nominal share capital in excess of INR 1 lakh	130,075,630	6.8
Individuals holding nominal share capital up to INR 1 lakh	114,403,624	6.0
Trust & Foundation	159,500	0.0
Total Non-Promoter	1,076,298,722	56.3
Total Promoter & Non Promoter	1,901,611,529	99.4
Custodians (Against Depository Receipts)	11,672,134	0.6
Grand Total	1,913,283,663	100.0

Source: Company, MOSL

Financials and valuations

Consolidated - Income Statement								(INR Million)
Y/E March	FY15	FY16	FY17	FY18E	FY19E	FY20E	FY21E	FY22E
Total Income from Operations	13,126	17,030	21,166	29,705	42,579	59,928	82,431	110,825
Change (%)	59.6	29.7	24.3	40.3	43.3	40.7	37.5	34.4
Raw Materials	11,403	14,467	18,231	25,576	36,022	49,741	67,346	89,214
Gross Profit	1,724	2,562	2,935	4,129	6,557	10,188	15,085	21,611
Margin (%)	13.1	15.0	13.9	13.9	15.4	17.0	18.3	19.5
Total Expenditure	13,772	17,194	21,070	29,138	41,167	56,807	76,981	102,061
EBITDA	-646	-164	96	568	1,412	3,121	5,450	8,764
Change (%)	-24.4	-74.6	-158.7	490.2	148.7	121.0	74.6	60.8
Margin (%)	-4.9	-1.0	0.5	1.9	3.3	5.2	6.6	7.9
Depreciation	475	284	326	370	417	462	513	574
EBIT	-1,120	-447	-230	198	995	2,660	4,937	8,190
Int. and Finance Charges	319	702	448	486	615	678	611	344
Other Income	352	273	250	297	341	419	453	554
PBT after EO Exp.	-1,088	-876	-428	9	720	2,401	4,780	8,400
Total Tax	6	-2	9	0	50	360	717	1,260
Tax Rate (%)	-0.5	0.2	-2.1	0.0	7.0	15.0	15.0	15.0
Minority Interest	-66	202	174	174	174	174	174	174
Reported PAT	-1,028	-1,076	-610	-165	496	1,867	3,889	6,966
Adjusted PAT	-1,028	-1,076	-610	-165	496	1,867	3,889	6,966
Change (%)	1,381.1	4.7	-43.3	-72.9	LP	276.5	108.3	79.1
Margin (%)	-7.8	-6.3	-2.9	-0.6	1.2	3.1	4.7	6.3

Consolidated - Balance Sheet								(INR Million)
Y/E March	FY15	FY16	FY17	FY18E	FY19E	FY20E	FY21E	FY22E
Equity Share Capital	9,943	9,876	9,884	11,008	11,008	11,008	11,008	11,008
Total Reserves	-2,247	-4,331	-999	-1,164	-668	1,200	5,089	12,055
Net Worth	7,696	5,545	8,885	9,845	10,341	12,208	16,097	23,064
Minority Interest	338	122	78	78	78	78	78	78
Total Loans	6,734	5,391	4,714	6,214	7,614	7,614	6,114	1,614
Deferred Tax Liabilities	0	433	440	440	440	440	440	440
Capital Employed	14,768	11,491	14,117	16,577	18,473	20,340	22,729	25,196
Gross Block	5,577	6,767	7,580	8,696	9,659	10,651	11,900	13,350
Less: Accum. Deprn.	2,178	570	888	1,258	1,675	2,137	2,649	3,223
Net Fixed Assets	3,399	6,197	6,692	7,438	7,984	8,515	9,251	10,127
Goodwill on Consolidation	5,483	1,677	1,677	1,677	1,677	1,677	1,677	1,677
Capital WIP	505	368	895	579	616	623	875	925
Total Investments	1,116	861	475	375	275	175	75	0
Curr. Assets, Loans&Adv.	5,965	4,220	7,178	10,398	13,445	17,179	21,723	26,945
Inventory	1,115	1,101	1,757	2,395	3,158	4,047	5,062	6,431
Account Receivables	1,546	1,650	3,242	4,476	6,183	8,374	11,518	15,181
Cash and Bank Balance	433	170	475	175	215	342	316	337
Loans and Advances	2,872	1,299	1,703	3,351	3,890	4,416	4,828	4,996
Curr. Liability & Prov.	1,700	1,831	2,800	3,890	5,525	7,829	10,872	14,479
Account Payables	1,298	1,085	1,904	2,633	3,722	5,292	7,382	9,787
Other Current Liabilities	293	655	744	1,043	1,496	2,105	2,896	3,893
Provisions	109	91	153	214	307	432	594	799
Net Current Assets	4,265	2,389	4,378	6,507	7,921	9,350	10,851	12,467
Appl. of Funds	14,768	11,491	14,117	16,577	18,473	20,340	22,729	25,196

E: MOSL Estimates

Financials and valuations

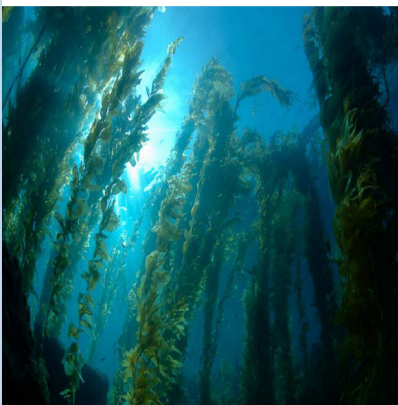
Ratios		(INR Million)						
Y/E March	FY15	FY16	FY17	FY18E	FY19E	FY20E	FY21E	FY22E
Basic (INR)								
EPS	-0.6	-0.7	-0.4	-0.1	0.3	1.1	2.4	4.2
Cash EPS	-0.3	-0.5	-0.2	0.1	0.6	1.4	2.7	4.6
BV/Share	4.7	3.4	5.4	6.0	6.3	7.4	9.8	14.0
Valuation (x)								
P/E	Loss	Loss	Loss	Loss	167.7	44.5	21.4	11.9
Cash P/E	Loss	Loss	Loss	406.3	91.1	35.7	18.9	11.0
P/BV	10.8	15.0	9.4	8.4	8.0	6.8	5.2	3.6
EV/Sales	6.8	5.2	4.1	3.0	2.1	1.5	1.1	0.8
EV/EBITDA	-138.6	-539.4	908.8	157.2	64.1	29.0	16.3	9.6
Return Ratios (%)								
RoE	-13.1	-16.3	-8.5	-1.8	4.9	16.6	27.5	35.6
RoCE	-6.6	-1.4	0.2	3.3	7.3	13.9	21.8	31.7
RoIC	-11.0	-3.9	-2.1	1.4	5.6	12.4	20.6	30.7
Working Capital Ratios								
Fixed Asset Turnover (x)	2.4	2.5	2.8	3.4	4.4	5.6	6.9	8.3
Asset Turnover (x)	0.9	1.5	1.5	1.8	2.3	2.9	3.6	4.4
Inventory (Days)	31	24	30	29	27	25	22	21
Debtor (Days)	43	35	56	55	53	51	51	50
Creditor (Days)	36	23	33	32	32	32	33	32
Leverage Ratio (x)								
Current Ratio	3.5	2.3	2.6	2.7	2.4	2.2	2.0	1.9
Interest Cover Ratio	-3.5	-0.6	-0.5	0.4	1.6	3.9	8.1	23.8
Net Debt/Equity	0.7	0.8	0.4	0.6	0.7	0.6	0.4	0.1

Consolidated - Cash Flow Statement		(INR Million)						
Y/E March	FY15	FY16	FY17	FY18E	FY19E	FY20E	FY21E	FY22E
OP/(Loss) before Tax	-1,088	-1,110	-654	9	720	2,401	4,780	8,400
Depreciation	490	284	326	370	417	462	513	574
Interest & Finance Charges	37	519	308	189	275	258	158	-210
Direct Taxes Paid	-64	-32	124	0	-50	-360	-717	-1,260
(Inc)/Dec in WC	-1,872	847	-1,235	-2,430	-1,374	-1,302	-1,528	-1,594
CF from Operations	-2,497	508	-1,132	-1,862	-12	1,459	3,204	5,910
Others	66	287	320	0	0	0	0	0
CF from Operating incl EO	-2,431	795	-812	-1,862	-12	1,459	3,204	5,910
(Inc)/Dec in FA	-592	-685	-935	-800	-1,000	-1,000	-1,500	-1,500
Free Cash Flow	-3,023	110	-1,746	-2,662	-1,012	459	1,704	4,410
(Pur)/Sale of Investments	-2,721	802	265	100	100	100	100	75
Others	1,440	269	-797	297	341	419	453	554
CF from Investments	-1,873	385	-1,467	-403	-559	-481	-947	-871
Issue of Shares	80	2	4,380	1,125	0	0	0	0
Inc/(Dec) in Debt	4,867	-838	-1,403	1,500	1,400	0	-1,500	-4,500
Interest Paid	-320	-607	-394	-486	-615	-678	-611	-344
Others	0	0	0	-174	-174	-174	-174	-174
CF from Fin. Activity	4,627	-1,443	2,584	1,965	611	-851	-2,285	-5,018
Inc/Dec of Cash	323	-263	305	-300	40	127	-27	21
Opening Balance	110	433	170	475	175	215	342	316
Closing Balance	433	170	475	175	215	342	316	337

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MOTILAL OSWAL Initiating Coverage | 7 March 2017
Sector: Logistics
Aegis Logistics



The Giant Kelp

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MOTILAL OSWAL Initiating Coverage | 23 February 2018
Sector: Agrochemicals
UPL



Reaping growth

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Sector: Healthcare
Laurus Labs

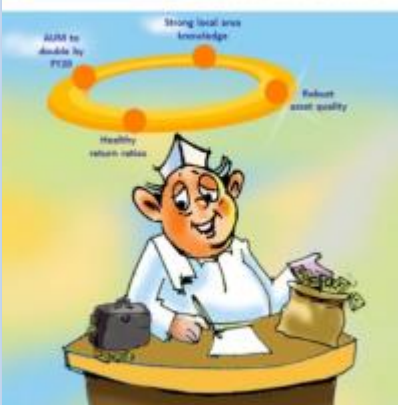


Angling for growth

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MOTILAL OSWAL Initiating Coverage | 11 January 2018
Sector: Financials
MAS Financial Services



Grassroots financier

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MOTILAL OSWAL Initiating Coverage | 8 January 2018
Sector: Financials
AU Small Finance Bank




First Among Equals

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MOTILAL OSWAL Initiating Coverage | 28 December 2017
Sector: Automobile
Motherson Sumi



Magical times ahead!

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Sector: Real Estate
Oberoi Realty




Island of prosperity

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MOTILAL OSWAL Initiating Coverage | 27 December 2017
Sector: Automobile
Mahindra CIE




All set for growth phase

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MOTILAL OSWAL Initiating Coverage | 22 December 2017
Sector: Utilities
NHPC



Come on in, the water's fine

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BUY
SELL
NEUTRAL
UNDER REVIEW
NOT RATED

Expected return (over 12-month)

>=15%
< - 10%
> - 10 % to 15%
Rating may undergo a change
We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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