

Future Ventures India Limited

Issue Opens	Issue Closes
25 th Apr'11	28 th Apr'11

Future Ventures India Ltd (FVIL) is a part of a Future Group led by Mr. Kishore Biyani established 15 years back. Its primary business is to create, acquire, invest in and operate innovative and emerging businesses in growing "consumption-led" sectors which are fashion, FMCG, Food processing, Home products, Rural distribution and vocational education in India. Previously it was known as Subikshith Finance, following the acquisition by Pantaloons Retail Ltd it changed its name to what they are today. Started with a revenue of Rs 50 crore it has grown to 399.70 crore in FY'10. Its business model is acquiring interest and managerial control in companies, rather than operating such companies directly, which provides them with an opportunity of participating in growth of consumption-led sectors with mitigated exposure to attendant operational risks.

An Overview

FVIL was incorporated on July 10, 1996 with a plan to operate all over India. At present it has a portfolio of near about 150 products in its several ventures. In the Fashion industry the company has stake in the following organizations like AND Designs India Limited and Biba Apparels Private Limited a women's apparel business, Holii Accessories Private limited, a joint venture with Hidesign India Private Limited which is a manufacturer and retailer of fashion accessories such as leather handbags and wallets, Indus-League Clothing Limited, a designer, manufacturer and retailer of ready-made garments, Celio Future Fashions Limited, a joint venture with a global brand of men's apparel and accessories (based in France), Lee Cooper (India) Private Limited, a manufacturer and retailer of Lee Cooper-branded products etc . Company has created several brands and looking for more value added products in future.

Coming to the home products, company also has 52.5% stake in Indus Tree Crafts Private Limited, a social entrepreneurship which distributes hand crafted furniture and home accessories under the brand —Mother Earth.

In food processing company wants to open a food park near Chennai and it also has stake of 40.8% in Capital Foods Exports Private Limited, a Food processing company having development and manufacturing capabilities in various processed food products. In the FMCG sector the company has stake of 100% and 90% in Future Consumer Enterprises Limited and Future Consumer Products Limited respectively. It also has 70% stake in Aadhaar Retailing Limited, a rural and semi-urban retailer of agricultural. By 2018 the company expects for an increment of its revenue by CAGR 11% backed by a huge growth in the FMCG sector. The company is also planning to increase its stake in Biba from 17.31.to 28% in the near future as the company is expecting a growth of 9% in women apparel till 2014.It also sees the growth in men's wear and kids and is ready to pump in more money in its business.

The structure of the ventures has been put up at the end of the report.

Recommendation

Invest 

Issue Summary

Price Band (Rs)	10	11
Bid Lot	600 shares	
Face Value	Rs.10	
Total no of shares to be raised	68 cr	75 cr

Pre-issue share capital	Rs 826.24 cr	
Post-issue share capital	Rs 1574.2 cr	Rs 1576.2 cr
Issue Size	Rs 750 cr	
Post Issue Market Cap	Rs 1731.62 cr	
P/E on FY10*	N.A	

*EPS is negative in FY10 consolidated

Shareholding Pattern

Net Issue	No. of Shares	%
QIB's	<= 34.09 crs	50%
Non Institutional	>=10.227 crs	15%
Retail	>= 23.86 crs	35%
Employees	n.a	n.a
Total	#68	100%

calculated on higher band

Objects of the Issue

- To create, build, invest in or acquire, and operate Business Ventures
- To meet the general corporate expenses.

Investment Positives

- **Investments to enhance efficiencies driven by international and domestic players in apparel-** According to Technopak more and more international brands and retailers are looking at India as their next destination. The international brands retailers bring with them superior technology and economies of scale across the supply chain. Domestic players are also looking to upgrade their existing systems. As a result, the productivity and efficiencies of domestic players will improve along with skill up gradation. In the same way Future Group is making investments with a view to sustain its potential growth in the Indian market and also looking at partnerships with global majors for improving supply chain scales and efficiencies.
- **Synergy with the Future Group –** The Future Group is a leading Indian business group promoted by Kishore Biyani, which focuses on consumption-led businesses, has successfully demonstrated the ability to identify, incubate and grow various consumption-led businesses in India like PRIL, FCH, Future Media, Future Brands, Future Supply Chain and Future Bazaar and **FVIL** expects to derive benefits from their strategic relationship with it. The company intends to utilize the Future Group's management teams' deep insight for understanding India's consumption-led sectors in evaluating and monitoring our Business Ventures. In addition, company also expects to have access to the industry contacts and the network of various Future Group entities to aid us in sourcing additional business opportunities. Company also have the option of nominating professionals from PRIL to the boards of our Business Ventures to manage and monitor them in a more comprehensive manner.
- **Food and Food Processing –** Indian Food Industry is estimated to be ~ \$ 250bn in 2011. Food and Food products constitute ~ 40% of urban household spend and 50% of rural household spent. India, with a population of more than 1.1 billion, is one of the largest consumer markets in the world. Food consumption in India is expected to grow to 300 billion in dollar terms by 2015 from 200 billion in 2007. Government's high priority to the sector coupled with a growing consumption-led demand is leading to a fast pace growth in the sector. Ministry of food processing in their Vision 2015 document has estimated the size of the processed food sector to grow three fold, processing level of perishable to increase from 6% to 20%, value addition to increase from 20% to 35% and India's share in global food trade to increase from 1.5% to 3%. There fore investment in this sector will enhance the growth and the revenue will keep on coming.
- **Changing Demographics and rising disposable incomes–** This is the most important demand booster for the processed food in India. The proportion of the —productive age group (15-59 years) is nearly 80 percent in India . This age group's propensity and ability to spend on quality processed food is higher. Higher incomes as more Indians join to middle class and upper class also impact the demand of processed food positively.

Book Running Lead Managers

- ENAM Securities Pvt. Ltd
- Kotak Mahindra Capital Company Limited
- JM Financial Consultants Pvt. Ltd

The Co identifies growing companies and makes investments in them

Its business has potential for sustainability as the investment is done looking at the growth prospects of the invested businesses.

Since the food business has a huge market the revenue that can be generated will cover up the expenses and help to grow.

By 2018 the company expects a revenue growth of CAGR 11% backed by a huge growth in the FMCG sector.

Demographical changes with a rising disposable income, along with the changed urbanisation style seek more and more investment to tap the market.

- **Urbanisation and change of style with functional food** - Changing lifestyle and increasing spend for snack-on-the-go is 2 responsible for a USD 3 billion and growing snack market . Haldiram’s, Frito Lays, ITC are quick to capture this market with products such as Masala Peanuts, Chips, Bhujia and Chaats. Functional Foods, Fresh or Processed Foods that claim to provide health benefits apart from serving the basic function of nutrition, are on the fast-growth path in India. Fabindia Organics, Organic Food retail outlets like 24 Letter Mantra and Godrej Agrovet’s Nature Basket have big plans in this segment.
- **Organized Retail and Food Retail** - Organised retail comprises of less than 5 percent of the total retail market in India, but is growing at over 20 percent. So investment in food retailing, which constitutes 14 percent of the organised retailing, is also expected to benefit from the growth of organised retail and the demand for processed foods is expected to rise.

The slowdown of the economic scenario of the country can have a huge effect on the performance of this kind of business as we saw in 2008 recession.

Concerns

- **The developing Indian market** – The financial markets in India are still at a nascent stage of development in respect of complex financial instruments. Currently, structured instruments and products are not widely used in the Indian financial markets, and as a result we may not have access to various financial instruments and strategies that could potentially reduce the risk.
- **Conflicts in decion making-** Various entities within the Future Group have overlapping business objectives and potential conflicts may arise with respect to decisions regarding how to allocate business opportunities among those entities.
- **Indeterminable Valuation** - A significant part of the assets is expected to consist of illiquid investments, the fair value of which is not readily determinable. Subject to limited exceptions. It is required by the accounting policies under Indian GAAP to record the book value of FVIL's investments, and it is highly likely that financial statements will not reflect the fair market value of their investments.
- **Declined value of equity share** – The company is exposed to the risks of the Indian financial sector which in turn may be affected by financial difficulties and other problems faced by Indian financial institutions. Certain Indian financial institutions have experienced difficulties during recent years, particularly in managing risks associated with their portfolios and matching the duration of their assets and liabilities, and some co-operative banks have also faced serious financial and liquidity crises in the past. Any major difficulty or instability experienced by the Indian financial sector could create adverse market perception, which in turn could adversely affect the price of the company's Equity Shares.

The developing market can lead to anywhere however the value that will be generated out of the stakes acquired from the businesses will sail the venture through positive cash flow.

Peers Comparison

There are no listed companies with similar business in India, hence this comparison is not possible.

Financials

Consolidated Profit and Loss Account (Rs in cr)

Particulars	FY 08	FY 09	FY 10	Dec 10
Sales	0.055	120.170	123.890	371.340
Other Income	5.100	0.420	29.780	11.620
Total Income	5.150	130.640	177.910	399.702
COGS	0.064	125.230	124.170	283.010
Employee cost	0.820	20.370	24.080	35.350
Interest and financial charges	0.120	2.200	10.420	17.470
Other exp.	8.207	26.980	30.280	67.570
Total expenditure	9.250	181.800	197.580	421.450
Profit/loss before prior period	(4.096)	(51.150)	(19.670)	(21.750)
Net profit/loss bef. tax	(4.096)	(51.470)	(19.670)	(21.750)
Tax	1.450	4.130	1.660	1.1380
Net profit/loss before adjustment	(22.880)	(51.600)	(21.340)	(22.880)
Net adjustment	(0.604)	(0.7490)	1.740	(0.604)
Restated net profit/loss	(23.490)	(56.350)	(19.600)	(23.490)
EPS (Pre Issue) (in Rs.)	(0.980)	(1.460)	(0.270)	(0.280)
EPS (Post Issue) (in Rs.)				(0.150)

Our View

Future Group is backed up with years of experience in the Indian Organised Retail space and being a pioneer on the retail front, its leadership potential is well established. FVIL expects to have a direct access to the expertise of the Future Group's management team. FVIL also claims that its investments are preceded by proper screening and evaluation.

With growth in economy, income levels as well consumption levels are increasing and expected to remain robust in future too. Food and Fashion seems to be the area of focus for the company though it is open to enter into other growth sectors in future. At consolidated level with its 6 subsidiaries and 7 ventures, the Co at present has negative profits. Though the same has been improving and its negative EPS has been brought down in FY10 to Rs -0.27 from Rs -1.46 in FY09, yet there is no clarity on when in future these ventures will start yielding better profits.

Apart from this as the Co. is directly affected by consumption levels in the economy; therefore Co. will be negatively affected by rising interest rates, shooting inflation and adverse economical situation in India and rest of the world.

Therefore we have a neutral view on this IPO.

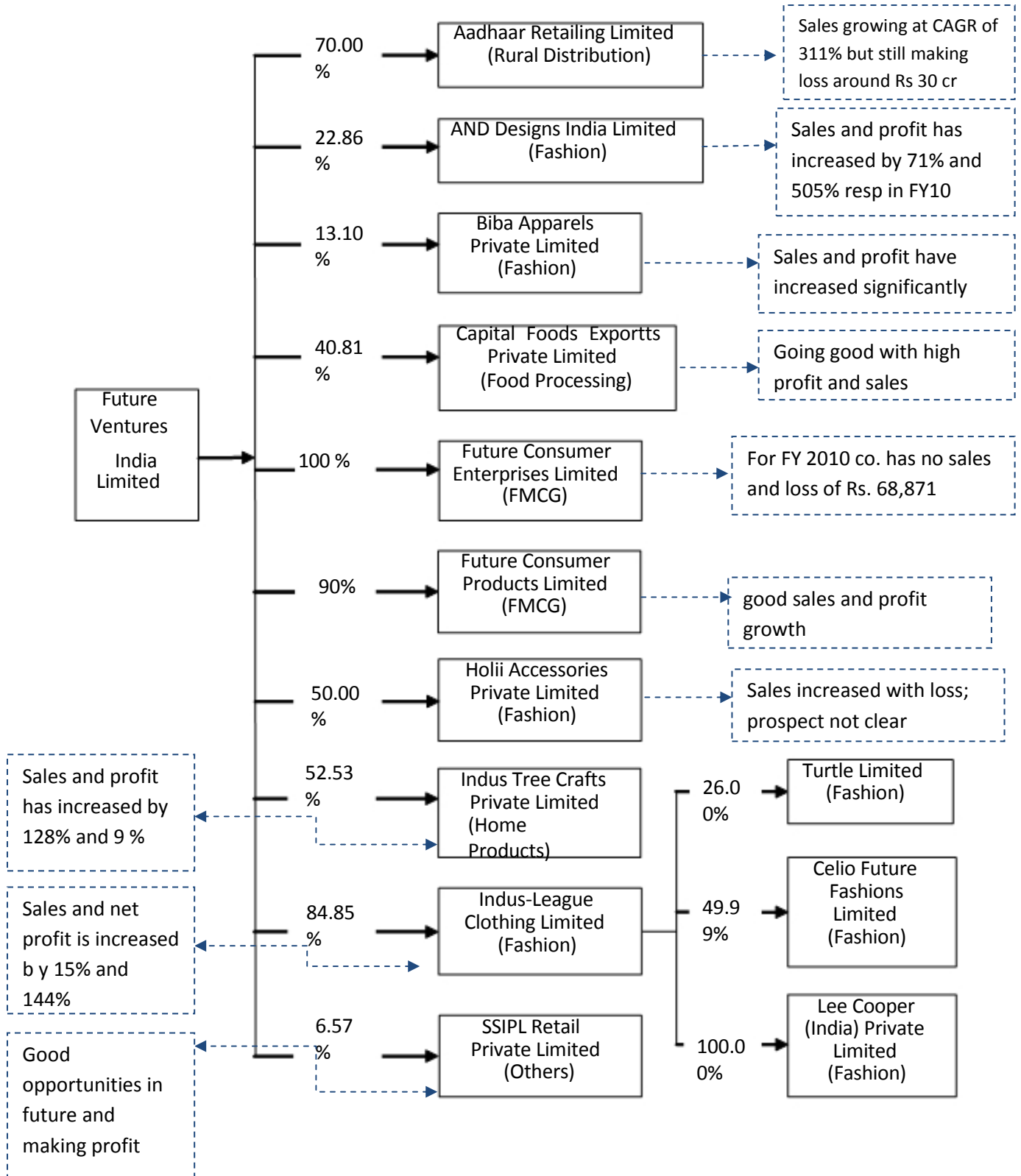
The growth story of India remains promising, but consumption pattern may go through cycles.

The Co is yet to make profits from its ventures and there is no clarity when it can do that.

We remain neutral on this IPO.

Business Ventures

The companies in which Future Ventures India Ltd has stakes are shown in the following diagram:



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Risk Factors:

Mutual Funds and all securities investments are subject to market risks and there is no assurance or guarantee that the Fund's objectives will be achieved. As with any investment in securities, the NAVs of the units issued under the schemes can go up or down depending upon the factors and forces affecting the securities market. Past performance of the sponsor/Mutual Fund does not guarantee the future performance of the schemes of the Mutual Fund. The names of the schemes do not in any manner indicate either the quality of the schemes, its future prospects or its returns. The NAV of the schemes may be affected by settlement periods and transfer procedures. Trading volumes may restrict the liquidity of the scheme's investments. Before investing, please read the Offer Document for details and risk factors.

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