



# Future Retail Limited (FRL)

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Consolidation and Realignment of Retail Operations of FRL with Bharti Retail

- May 2015



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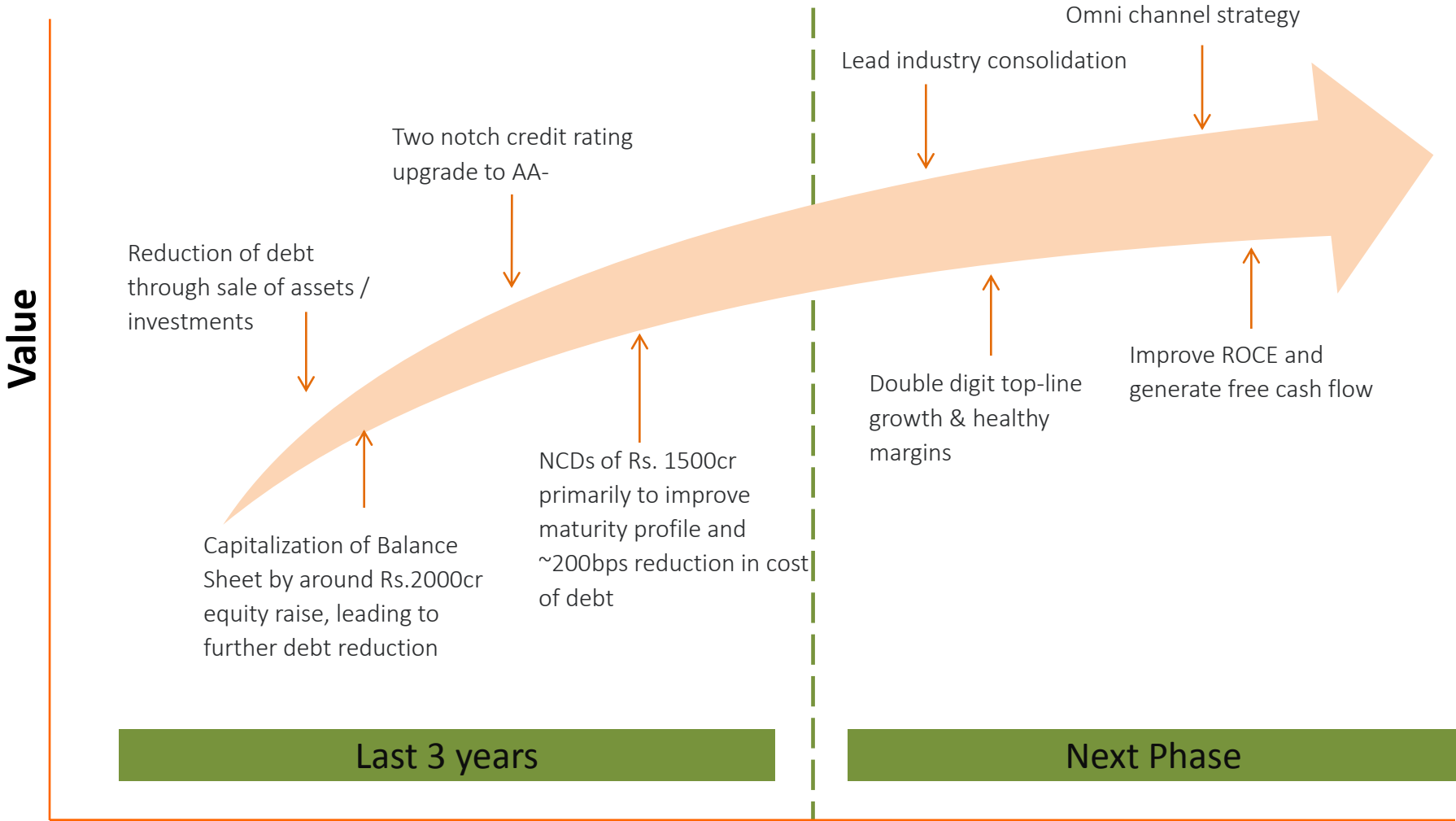
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1.

# FRL – Last 3 Years and Journey Ahead



Emergence of a financially robust balance sheet leading to creation of a strong platform for next level growth & drive industry consolidation



2.

## Overview of Transaction

# Future Retail's Transformational Step



1. Future Group is well placed as the foremost retailer and a consolidator in Indian retail market
2. Future Retail, the Group's Hypermarket & Home Retail arm has announced two steps to transform its operations
  - 1) Consolidating Bharti Group's Retail operations in an all- stock deal
  - 2) Segregating the Retail business from its Infrastructure
3. Transaction has a sound industry logic and has the potential to drive significant value creation
  - Create a pure play Retail organization that accrues value for all stakeholders
  - Scale benefits and optimization of the cost structure
  - Strong geographic and format fit
  - Creation of an "Infra Company" with strong annuity cash flow, part from having access to upside from key Investments being held
  - Access to new avenues of capital

# Transaction Overview



1  
FRL's Retail  
business

*Merges with*

BRL's Retail  
Business

*To create*

Future Retail  
Limited\*:  
Combined Retail  
Operations

2  
BRL's Retail  
infrastructure

*Merges with*

FRL's Retail  
Infrastructure  
and Non-core  
Assets

*To create*

Future  
Enterprises  
Limited\*:  
Combined Retail  
Infrastructure &  
Non-core Assets

FRL: Future Retail Limited

BRL: Bharti Retail Limited

\* Indicative to illustrate thought process



## Creation of Two Independent Entities with Mirror Shareholding

Retail Company

Infrastructure Company

Business Operations

Value & Home formats of FRL along with Bharti's Easy Day

Infrastructure & back end along with investments held for sale

BRL Entitlement\*

All stock deal BRL to get ~9% in the Retail company

All stock deal Bharti to get ~9% in the Infrastructure company

Returns

Bharti to share upside on proceeds from shares sold in this entity

Bharti to share upside on proceeds from shares sold in this entity

\* BRL will also hold 250cr OCDs aggregated in both entities





3.

## Combining Bharti Retail's Operations

# Bharti Retail – Background



Present in Compact  
Hypermarket and  
Supermarket formats  
with over  
**200** Stores

- Bharti Retail (BRL) started operations in 2008, with the first Easyday store launched in Ludhiana and Easyday Market in Jalandhar
- Operates across Punjab, Haryana, Uttar Pradesh, Uttarakhand, Madhya Pradesh, Rajasthan, Himachal Pradesh, Chhattisgarh, NCR Delhi, Jammu and Kashmir, Maharashtra and Karnataka
- In 2013, Bharti and Walmart had ended its nearly six-year-old partnership in wholesale operations and had decided to operate independently



# Strategic Rationale



Consolidation is imminent in the retail industry



Results in the creation of a retail entity with strong pan India presence, complementary capabilities and wide range of offerings



Strategic vision alignment and combined size will enhance entity's potential and synergies

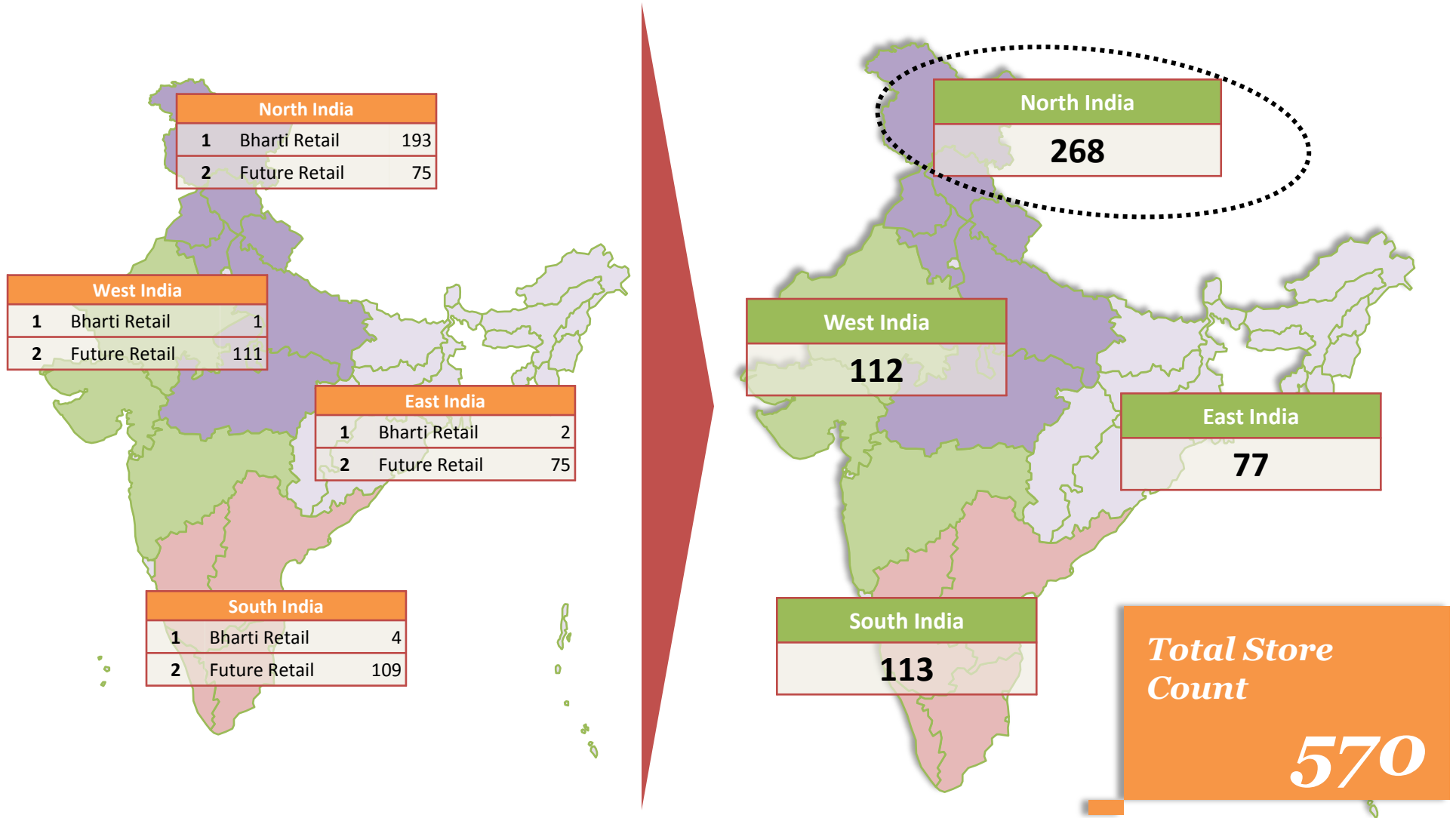


Augments financial performance and presents more opportunities for faster, systematic growth

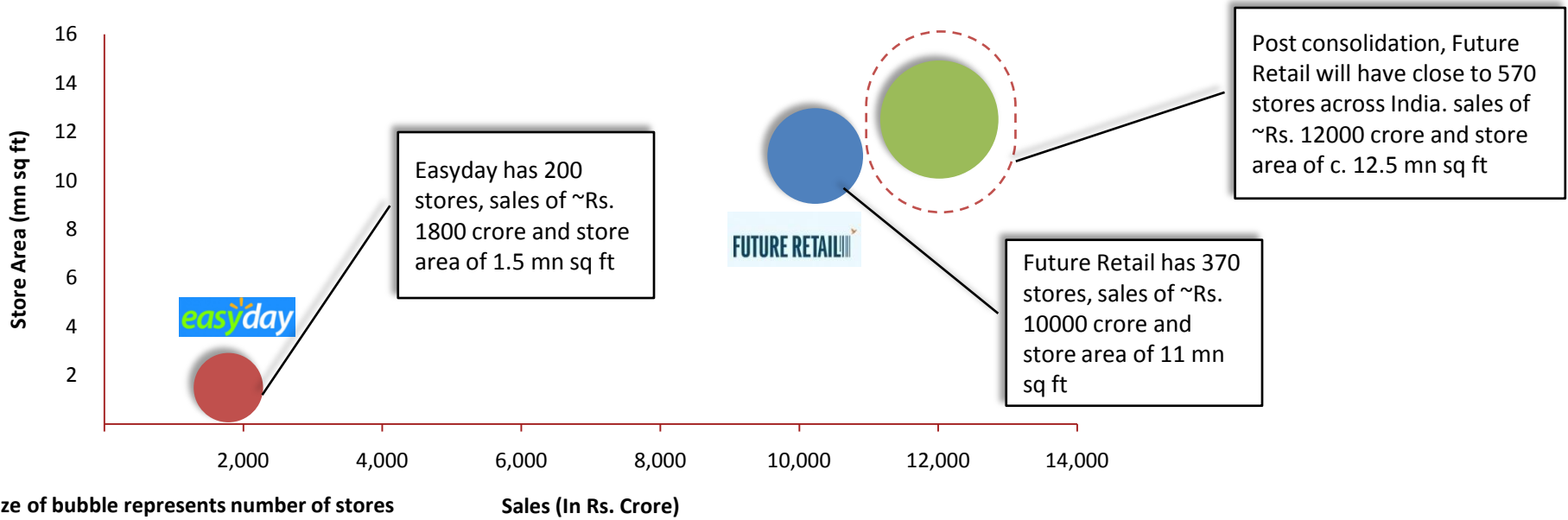


Helps realize potential for value unlocking from investments

# Future Retail's Pan -India Dominance Gets Further Strength in North India



# Combined Operations Have Immediate Uptick in Scale



# Opportunities for Synergy



## Product

- ▶ Future Retail can expand its high margin, fashion merchandise in new outlets
- ▶ Future Group can increase distribution and sales of own FMCG products through consolidated network of stores

## Sourcing

- ▶ Future Retail can source goods from suppliers at lower rates
- ▶ Distribution to various outlets across the country can be done cheaper

## Organisational

- ▶ Shared functions (IT, Human Resources) etc will result in lower costs for the Company

## Financial

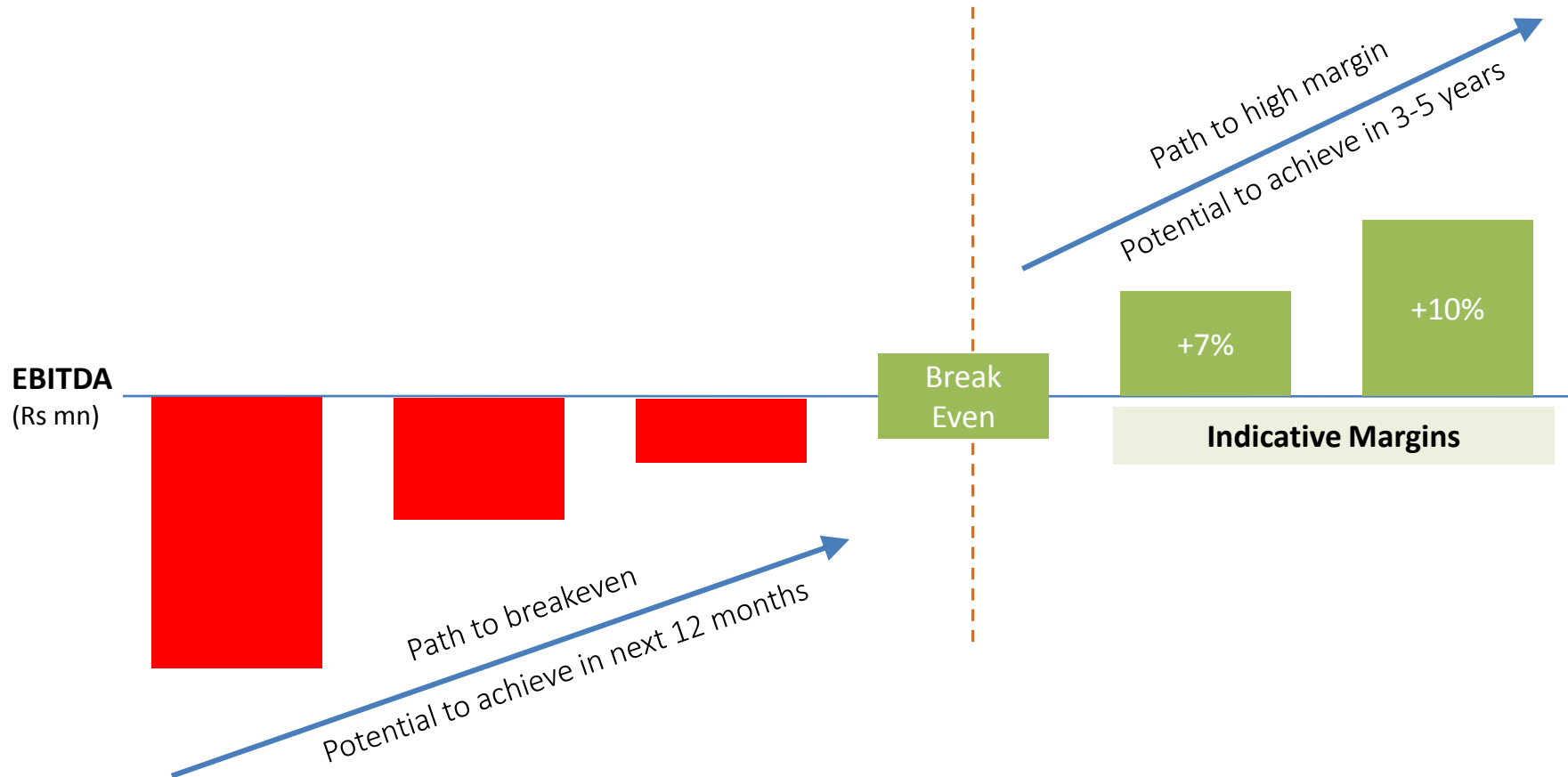
- ▶ Potential to avail lower interest rates for borrowing

# Enhances Financial Performance and Growth Prospects



1. Increased sales – due to wider presence and opportunity to sell high margin products
2. Improved EBITDA – due to cost optimization, corporate overhead realignment and stronger procurement & distribution capabilities
3. Lower cost of borrowing – due to improvement in credit profile, ability to structure debt and raise lower cost funds
4. Large amount of tax benefits – due to carry forward losses from Bharti Retail

# EasyDay's Path to Profitability – Potential Roadmap



1. Potential to optimize cost
2. Further reduction in EBITDA losses by Gross Margin expansion by change in product mix
3. Further potential to optimize cost by integrating operations
4. Focus on own brands in fashion & food expected to expand Gross Margin up to ~25%





3.

Segregating the Retail business from the Non-Core business

# What is Future Retail Today?



## FUTURE RETAIL

Rs. Cr (FY 13-14 15M)	Revenue	EBITDA
<b>FRL Standalone</b>	<b>11,577</b>	<b>1,068</b>
Subsidiaries & Others	2,320	183
<b>FRL Consolidated</b>	<b>13,897</b>	<b>1,251</b>

### Retail Business



### Investments with significant potential for monetization

- Future Supply Chain – Partnership with Hong Kong based Li & Fung
- Future Generali Life Insurance – Joint venture with Italy based Generali
- Future Generali General – Joint venture with Italy based Generali
- Staples – Partnership with US based office stationery company
- Goldmohur & Apollo Mills – Joint venture with National Textile Corporation
- Future Consumer Enterprise (~9% stake) – Farm to fork food & FMCG company
- Future Lifestyle Fashions (~16% stake) – Leading integrated fashion company

#### Already accomplished stake sale:

- Capital First – Divested in favor of Warburg Pincus and other investors
- Future Generali Life (Divested ~22% stake)

(1): Adjusted for Economic Interest & Inter Company transactions

# Retail Business Today Has Embedded Infra Business In It



## FRL - Retail Business



### Retail Activity

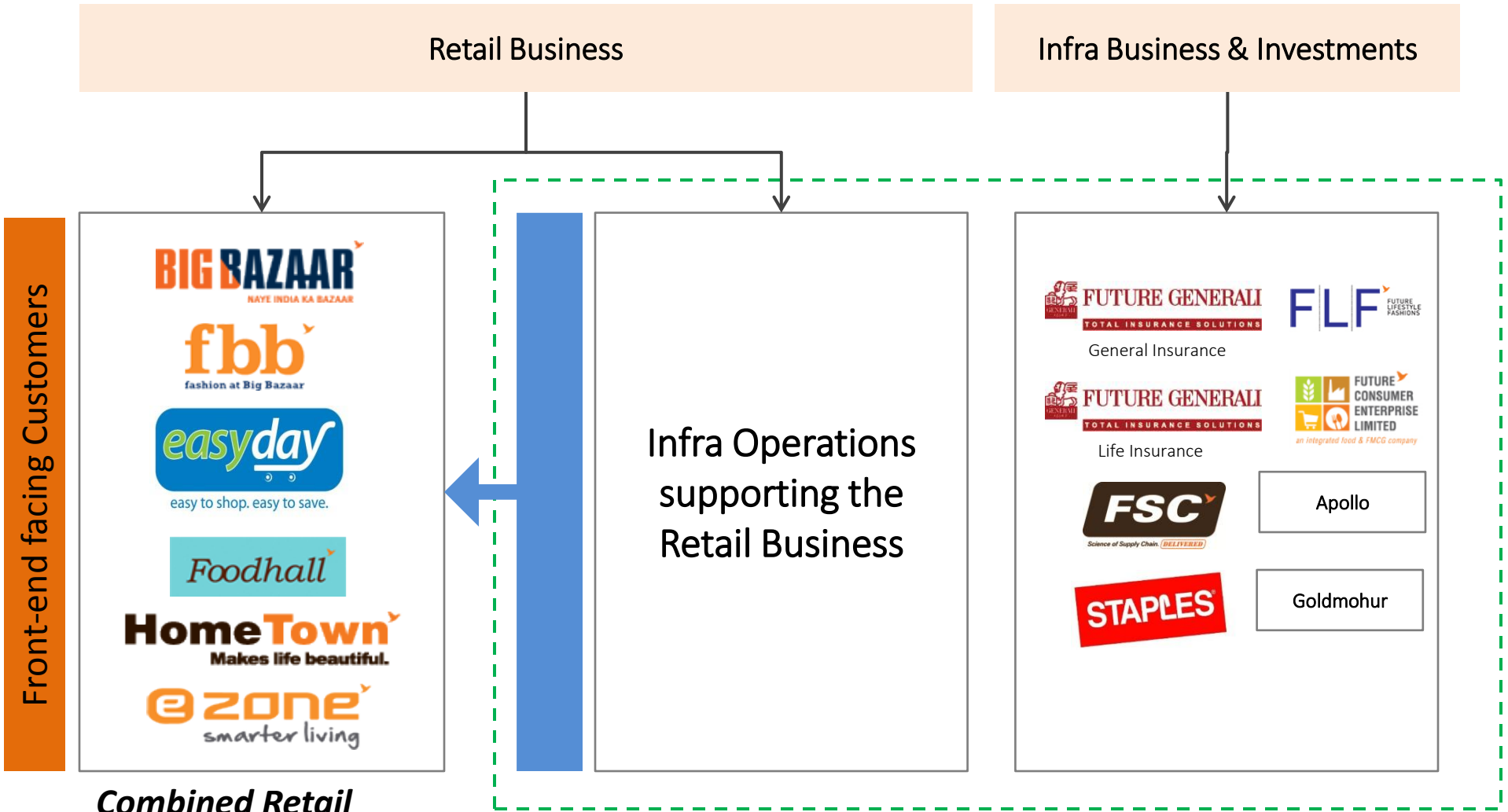
- Category/Product assortment
- Visual merchandise
- Marketing and Sales Promotion
- Operations at Store
- Operations at Corporate\*
  - Procurement decisions
  - IT decisions
  - Real estate/Leasing decisions

### Infra Activity

- In-store furniture / fixtures / fittings / electrical etc
- IT infrastructure
- Fashion manufacturing and procurement
- Strategic investments held in various companies

\* Decisions on make or buy (outsourcing)

# What Do We Propose To Do?



**Combined Retail Operations to form Future Retail Limited\***

**BRL's Retail Infrastructure to merge with FRL's infrastructure & investments to create Future Enterprises Limited\***

\* Indicative name to understand thought process

# All Stock Deal with Bharti Retail with and Upside Sharing

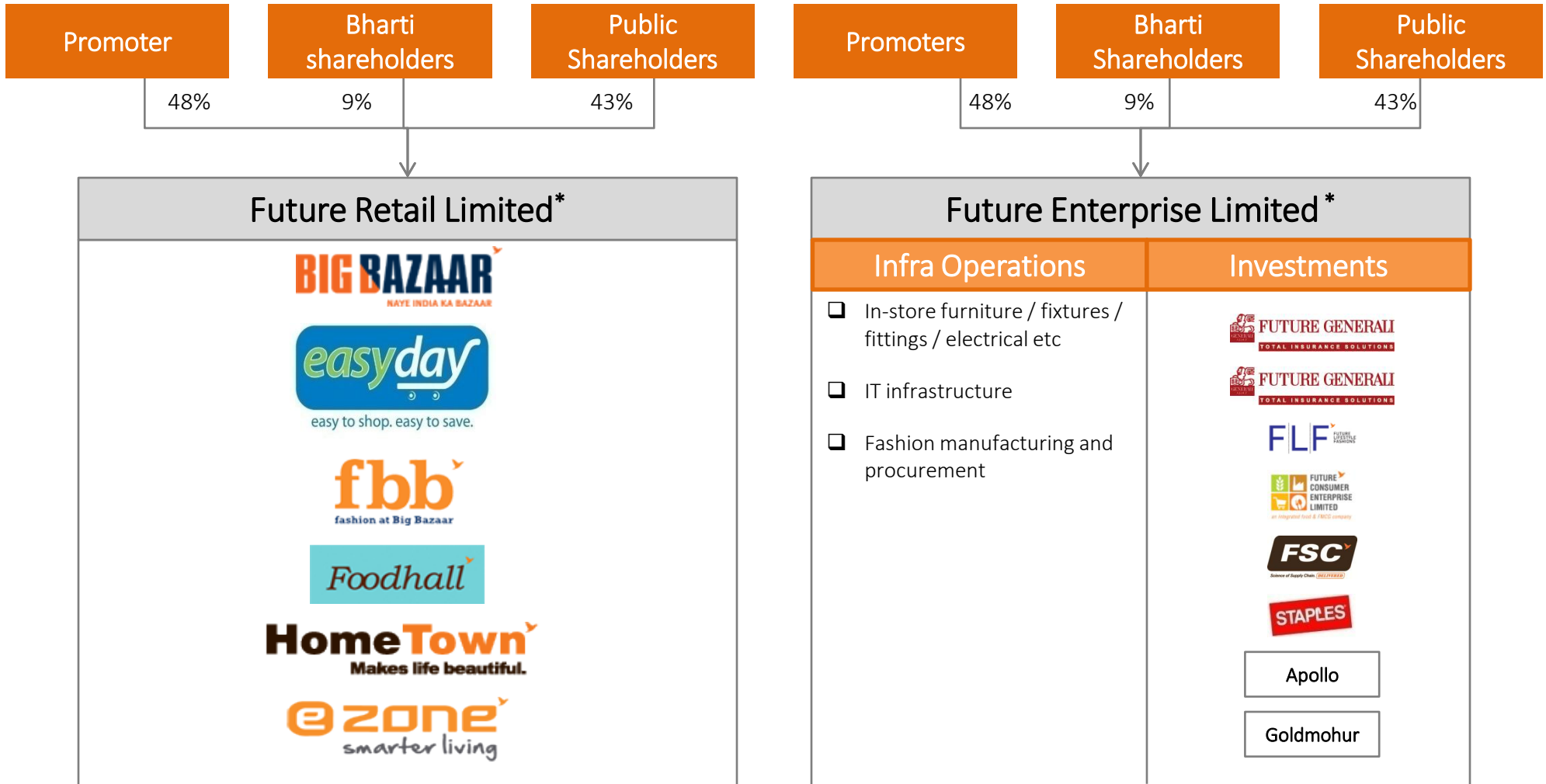


BRL / FRL shareholders to receive shares in the ratio of 1:1

As a result BRL shareholders to have ~9% stake in each of the Retail and Infrastructure Company

BRL to share the upside on sale of holding in each of the company with the respective companies

# Creation of Two Independent Listed Companies



\* Indicative name to illustrate thought process

# Future Retail Limited\* - Resultant Shareholding



## Future Retail Limited\* - Retail Business

Category	BRL		FRL		New entity	
	# of shares	% stake	# of shares	% stake	# of shares	% stake
Promoters (incl DVR Warrants)			22,44,40,593	52.43%	22,44,40,593	47.59%
FII			6,48,22,166	15.14%	6,48,22,166	13.75%
DII			1,20,28,963	2.81%	1,20,28,963	2.55%
BRL Shareholders	4,34,78,261	100.00%	0	0.00%	4,34,78,261	9.22%
Others			12,68,18,794	29.62%	12,68,18,794	26.89%
<b>Total Shareholding</b>	<b>4,34,78,261</b>	<b>100.00%</b>	<b>42,81,10,516</b>	<b>100.00%</b>	<b>47,15,88,777</b>	<b>100.00%</b>



FRL shareholders to be allotted shares in BRL (to be renamed Future Retail Limited\*) based on a swap ratio of 1:1

**Operations:**  
*Pure Play Retail*

**Source of Revenue:**  
*Sale of products through own outlets*

FRL: Future Retail Limited

BRL: Bharti Retail Limited

Note: Based on Fully Diluted Shares

Does not include impact of OCD

•Indicative name

# Future Enterprise Limited \* - Resultant Shareholding



## Future Enterprise Limited \* - Retail Infrastructure

Category (Equity + DVR)	FRL		BRL		Combined Entity	
	# of shares	% stake	# of shares	% stake	# of shares	% stake
Promoters (incl DVR Warrants)	22,44,40,593	52.43%			22,44,40,593	47.59%
FII	6,48,22,166	15.14%			6,48,22,166	13.75%
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BRL shareholders to be allotted shares in Future Enterprise Limited\* based on a swap ratio of 1:1

### Operations:

*Leasing and maintenance of infrastructure and in-store assets, and manufacturing*

### Source of Revenue:

*Lease rentals, manufacturing of apparel, investment income*

FRL: Future Retail Limited

BRL: Bharti Retail Limited

Note: Based on Fully Diluted Shares

Does not include impact of OCD

•Indicative name



# Upside Sharing Arrangement with BRL



BRL shareholders along with the OCD holders have agreed to share with the respective companies an upside on the realization out of the shares of the two companies

Sale Proceeds	Sharing Ratio
<ul style="list-style-type: none"><li>950crs – 1450crs</li></ul>	<ul style="list-style-type: none"><li>50% of amount above 950crs</li></ul>
<ul style="list-style-type: none"><li>1450crs – 1950crs</li></ul>	<ul style="list-style-type: none"><li>60% of the amount above 1450crs</li></ul>
<ul style="list-style-type: none"><li>1950&lt;</li></ul>	<ul style="list-style-type: none"><li>75% of the amount above 1950crs</li></ul>



## 4. Conclusion

# Why We Want To Do This?



## Retail Company

1. Focus and achieving potential scalability
2. Entity focuses purely on operating Retail businesses and delivering higher shareholder value
3. Split will potentially bring down significant debt
  - a) Largely working capital debt would remain in the entity
  - b) EBIT though would remain same or more (depreciation would be replaced by lease rental for usage of fixed assets)
4. Does not incur significant capex for stores. It would all be largely leased out
5. Entity will operate with a leaner balance sheet resulting in higher ROCE
6. Expected to be a free cash flow company from first year of operations

## Infra Company + Investments

1. With the multiplication of the retail sector happening through both “physical” & “digital”, the Infra Company can go beyond Future Group and serve a larger customer base
  - a. Earlier, Future Supply Chain (FSC) has successfully broadened its customer base with Future Group now being ~40% only. This transition has happened over 3-5 years.
3. Easier access to lower cost foreign funds / ECBs that will help lower cost of existing debt
4. Unlocking value and realizing its full potential (specially in the Infra Company)
5. Leading Telco’s have successfully done it through separating out customer connect from infrastructure

# FRL & FEL\* – Drivers of Key Financials



	FRL (Retail Company)	FEL (Retail Infrastructure Company)
Revenue	Retail Sales through formats	<ol style="list-style-type: none"> <li>1. Lease rentals</li> <li>2. Manufacturing of apparel</li> <li>3. Dividend from Investments plus proceeds from monetization</li> </ol>
Assets	Primarily working capital	<ol style="list-style-type: none"> <li>1. Fixed Assets</li> <li>2. Investments</li> </ol>
Allocation of Debt	~20% (Working Capital Loans)	~80% (Long Term Debt)
Impact on EBIT & PAT	Positive	Positive
Impact on Capital Employed	Immediate Significant Reduction	<ol style="list-style-type: none"> <li>1. Asset addition, as and when new store capacity is needed</li> <li>2. Reduction in Investments; as and when monetization happens</li> </ol>

FRL: Future Retail Limited

BRL: Bharti Retail Limited

Note: Based on Fully Diluted Shares

\* Name of the both the companies are indicative



Namaste!