

# Future Capital Holdings Ltd

Subscribe

January 10, 2008

## Issue details

Issue opens	Jan. 11, 2008
Issue closes	Jan. 16, 2008
Price band (Rs)	700-765
Face value (Rs)	10
Issue size ('000 nos)	6,422
Issue size (Rs mn)	4,495-4,913
Issue type	100% Book building
Minimum bid	8 shares
Maximum bid - Retail	128 shares
Industry	Finance - Investment

## Shareholding pattern

	Pre (%)	Post (%)
Promoters	82.9	74.5
Promoters group	1.1	1.0
Others	16.0	14.4
Public	0.0	10.1

## Share reservation

	(%)
QIB	60.0
Non institutional	10.0
Retail	30.0

## Company management

Kishore Biyani	CM
Sameer Sain	MD, CEO
N Shridhar	CFO
Venkatesh Srinivasan	COO
R J Doshi	CS

## Issue managers

Lead manger	Kotak, Enam, JM Fin, UBS
Registrar	Intime Spectrum
Listing	NSE, BSE

Future Capital Holdings Limited (FCHL) is the financial services arm of the Future Group that focuses on consumption-led businesses in India. It was established in the year 2005 and is promoted by Pantaloon Retail India Ltd (PRIL, the flagship company of the Future Group), Mr.Kishore Biyani (CEO and MD of PRIL) and Mr.Sameer Sain (a former MD of Goldman Sachs International). Its three primary lines of business are investment advisory and asset management, retail financial services and research. Och-Ziff, an international hedge fund, with over US\$28bn in assets, has invested in the company.

## Investment summary

- Well-known and established brand in retail.
- Advisory to private equity players.
- Extensive research on macro economy.
- Unique and differentiated business model.

## Objects of the issue

Particulars	(Rs mn)
Augment capital base to meet future capital requirements for expansion of retail financial services business.	4,913
General corporate expenses	x
Issue Expense	x
<b>Total</b>	<b>4,913+X</b>

Source: Company RHP

## FCHL set to tap opportunities in Indian retail consumption-led sectors

FCHL, with its expertise in retail sector, offers advisory service and manages the assets of private equity players and real estate funds. With the current shift in the consumption pattern of Indians towards organized retail, FCHL is set to seize the opportunities of the growing demand of consumer and personal loans at the nascent stage. Hence we recommend investors to subscribe to the issue.

## Financial highlights

Period to (Rs mn)	FY07 (12)	H1FY08 (6)
Revenues	390	312
Operating profit	82	(64)
OPM (%)	21.1	(20.6)
PAT	35	(124)
EPS (Rs)	0.6 <sup>#</sup>	(2.0) <sup>#</sup>
BV per share (Rs)	15.1 <sup>#</sup>	38.3 <sup>#</sup>
ROCE (%)	5.5	(6.4)
RONW (%)	3.7	(15.4)

Source: Company RHP, India Infoline Research <sup>#</sup>based on post-IPO equity Consolidated results, H1 FY08 figures are not annualized

## Analyst

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## Investment rationale

### Advisory to private equity players

In its investment advisory role, it advises Indivision Capital Management (ICM), the investment manager of US\$425mn (approximately Rs16.7bn) Indivision Fund. This fund is focused on investments primarily in sectors which benefit from growth in domestic consumption. FCHL has advised ICM on multiple investments (ranging from US\$10mn to US\$30mn) in the retail and consumption-led sectors in companies such as Lilliput, VLCC, BEB and Sula Wines.

### Strong background of Indian retail sector

One of the pioneering groups to participate in the early stage of India's retail story, Future group has over a decade experience and has developed understanding of the retail and consumption-led sectors. FCHL launched Future Money in June 2007, which offers financial products and services to individuals. Currently, it has a presence in 26 cities through 95 outlets across India. Its two main retail financial services products are consumption loans and personal loans. It also intends to distribute life and non-life insurance products in near future.

### Strong research division covering macro factors

Company's research business, Future Capital Research (FCR), conducts and publishes research on macro-economic trends in India. It has also developed proprietary indices to highlight trends in consumer behaviour. Its reports are also utilized by its advisory division. In their recent publication 'XX Factor: The Impact of Working Women on India's Growth, Incomes and Consumption', it analyzed the recent rise in women's participation in the work force and the impact of this phenomenon on growth and consumption trends. Other publication included 'Is Urban Growth Good for Rural India?' studying the urban demand could be an important engine, which would help to drive a shift from farm to non-farm employment in rural India. Its in-house research business would help FCHL to invest in the right segment and right locations.

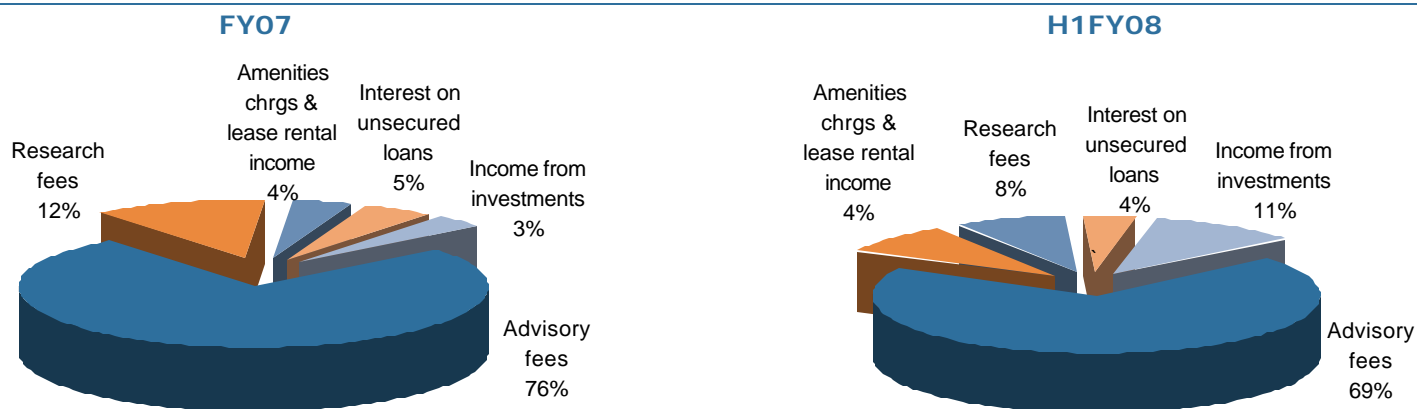
### Dual role of advisory and managing real estate fund

Currently, FCHL is the investment manager of the Rs3.5bn Kshitij Fund and also advisor to the investment managers of Rs13.7bn Horizon Fund and Rs7.8bn Indus Fund. It has also recently entered into a joint venture to create expertise in warehousing logistics. Their real estate investment activities are in two separate areas of retail/mixed use and hotels.

## Risks and concerns

- Posted a net loss of Rs124mn in H1FY08.
- Any downturn in Indian retail and consumption-led sectors would affect their business.

## Revenue Mix



Source: Company RHP

## Company background

FCH is the financial services arm of the Future Group, which is a business group focusing on consumption-led businesses in India and is also one of India's leading organized multi-format retailers. It was established in the year 2005 and is promoted by Pantaloon Retail India Ltd (PRIL) (the flagship company of the Future Group), Mr. Kishore Biyani (CEO and MD of PRIL) and Mr. Sameer Sain (a former MD of Goldman Sachs International). Och-Ziff, an international hedge fund, has invested in FCHL in June 2007. FCHL has three primary lines of business; investment advisory services, retail financial services and research.

### Investment Advisory Services

It provides private equity and real estate investment advisory services to onshore and offshore clients. These investment advisory services include investment analysis, research and recommendations.

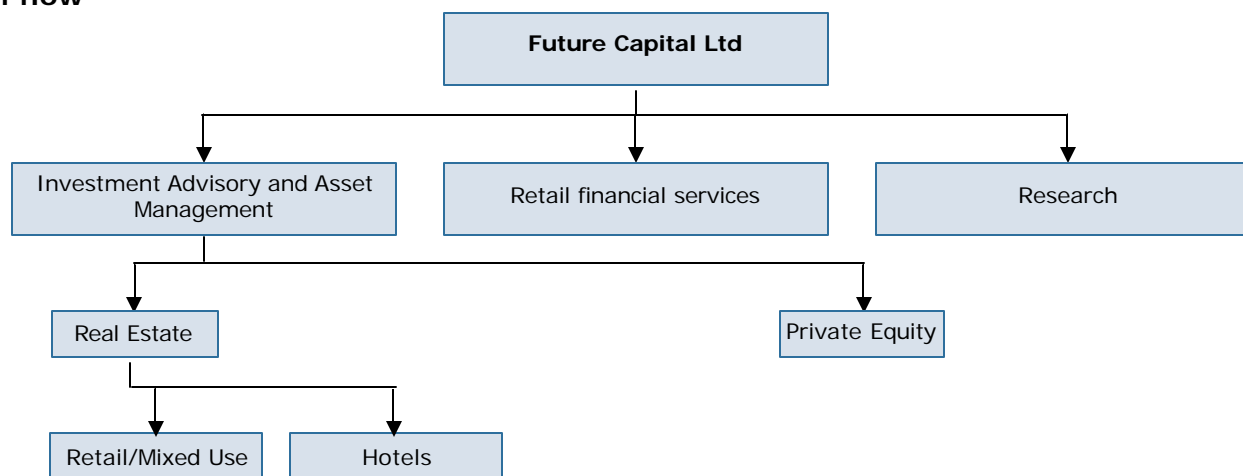
### Retail Financial Services

Its retail financial services 'Future Money', as a retailer offers financial products and services in India. It holds rights to provide financial products and services through the retail outlets which are owned, controlled or managed by PRIL and its subsidiaries. Its primary credit products currently include consumption loans, which are loans to finance the purchase of durables, furniture and other consumer goods, and personal loans.

### Research

Future Capital Research conducts and publishes economic research on India with the objective of enhancing value creation across other businesses.

### Organization flow



Source: Company RHP

### Financial analysis

In FY07, revenues were at Rs390mn and PAT was at Rs35mn. Its operating margin stood at 21.1% and PAT margin at 9.0%. Income from operations consisted principally of advisory fees and research fees in FY07 and accounted for 87.4% of total income from operations. Though FCHL has achieved 80% of its FY07 revenue in H1FY08, it has posted a net loss of Rs124mn due to high operational cost.

### Recommendation

With its three main businesses lines which include investment advisory services, consumer finance and research, FCHL is set to capitalize the opportunity prevailing in the retail financial services sector. Future Money, which was launched in June 2007, distributes financial products including consumption and personal loans. It intends to commence distribution of credit cards and insurance products. Though FCH is at its early stage, its promoters have the experience of shaping such business models into a success story. Hence investors can apply for listing gains as well as for the long term.

### Peer group comparison

There are no comparable listed companies with the same business model.

## Financial snapshot

### Income statement

Period to March (Rs mn)	FY07 (12)	H1 FY08 (6)
Net Sales	390	312
Operating expenses	(308)	(376)
Operating profit	82	(64)
Other Income	0	1
PBIDT	82	(64)
Interest	(25)	(36)
Depreciation	(8)	(13)
Profit before tax (PBT)	49	(113)
Taxes	(1)	(10)
Minority Interest	(13)	(2)
Profit after tax (PAT)	35	(124)

### Balance sheet

Period to March (Rs mn)	FY07 (12)	H1 FY08 (6)
<b>Sources</b>		
Share capital	555	568
Reserves	510	1,853
Networth	1,065	2,421
Loan Funds	555	554
Deferred tax	(8)	(13)
Minority Interest	18	2
<b>Total</b>	<b>1,630</b>	<b>2,965</b>
<b>Uses</b>		
Gross block	808	862
Goodwill	76	76
Less: Accd depreciation	(9)	(21)
Net block	875	916
Capital WIP	8	22
Total fixed assets	883	939
Investments	535	1,308
Total current assets	364	1,360
Total current liabilities	(153)	(643)
Net working capital	211	718
<b>Total</b>	<b>1,630</b>	<b>2,965</b>

### Key ratios

Period to March	FY07 (12)	H1 FY08 (6)
<b>Per share ratio (Rs)</b>		
EPS	0.6 <sup>#</sup>	(2.0) <sup>#</sup>
Div per share	0	0
Book value per share	16.8 <sup>#</sup>	38.3 <sup>#</sup>
<b>Valuation ratios (x)</b>		
P/E at upper band	1,383.6	NA
P/E at lower band	1,266.0	NA
P/BV at upper band	45.4	20.0
P/BV at lower band	41.6	18.3
<b>Profitability ratios (%)</b>		
OPM	21.1	(20.6)
PAT	9.0	(39.8)
ROCE	5.1	(6.4)
RONW	3.3	(15.4)
<b>Liquidity ratios (x)</b>		
Current ratio	2.4	2.1
<b>Leverage ratios (x)</b>		
Debt/Total equity	0.5	0.2
<b>Component ratios (%)</b>		
Personnel exp	47.0	66.2
Administration exp	31.8	54.4
Financial exp	6.4	11.7
<i>#based on post-IPO equity H1 FY08 figures are not annualized</i>		
<b>Cash flow statement</b>		
Period to March (Rs mn)	FY07 (12)	H1 FY08 (6)
Operating cash flow	40	(100)
Add/Less wrking cap changes	(137)	152
Net operating cash flow	(97)	51
Investing cash flow	(1,064)	(83)
Financing cash flow	1,562	1,453
Net +/- in Cash	400	1,422
Cash at start of the year	-	400
Cash at end of the year	400	1,822

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