



RATING RATIONALE

20 March 2020

Future Enterprise Limited

Brickwork Ratings Revises/withdraws the ratings for the Non-Convertible Debentures ₹.875 Crores of Future Enterprise Limited

Particulars:

Instrument	Amount (Rs. Crs)	Tenor	Previous Rating* March 2019	Present Rating*
NCD	300.00	Long Term	BWR AA (SO) Stable	BWR AA- Credit Watch with developing implications
	250.00		BWR AA (SO) Stable	
NCD	300.00#		BWR AA (SO) Stable	
NCD	25.00*		BWR AA- Stable	Withdrawal
Total	875.00	Rupees Eight Hundred Seventy Five Crores Only		

*NCD of Rs. 25.00 Crs is yet to be raised, please refer to BWR website www.brickworkratings.com/ for definition of the ratings

#Rs.104 crs have been raised, balance is yet to be raised

RATING ACTION / OUTLOOK

The rating is revised to BWR AA- Credit watch with Developing Implications. In Sep 2019, as per the new SEBI guidelines, there was a change in the rating symbol to Credit Enhancement (CE) or standalone based on the terms of the instrument from Structured Obligation (SO). In this case, the unsupported rating stands at BWR AA-/Credit Watch with Developing Implications as it is implicit support of DSRA creation by the issuer itself which does not qualify for CE rating. However, the same should not be treated as downgrade, it is a change in norms only.

The rating of FEL derives strength from the experienced promoters and management team, strong synergies with Future Group, cash generation reflecting better liquidity and improved coverage ratios. However, the rating is constrained by working capital intensive nature of operations, support to group companies via extending corporate guarantees, and relatively moderate profitability.



The rating is placed on Credit Watch with developing implications on account of proposed asset buyback by Future Retail Limited (FRL) which is expected to change the revenue model of the company and the debt profile as well as the profitability. The Credit watch with developing implication is expected to continue till the final outcome and impact of the same is known.

KEY RATING DRIVERS

Credit strength

- **Experienced promoters and management:**
The promoters of FEL (combined) have been closely involved in the management of business, and in defining and monitoring the business strategy for the company. Furthermore, the promoters are supported by a strong management team, having significant relevant experience.
- **Strong synergies with group companies and Leadership position in organized retail:**
FEL has strong synergies with group companies and provided total back end infrastructure support to the group companies. FEL also design and manufactures garments for various in-house brands of group deriving strong synergies within the group companies. Strong performance and expansion by the group companies may positively impact operating performance of FEL.
- The group has proposed the deal of buy back of assets from FEL to FRL which will result in reduced debt levels in FEL. It is expected that debt of FEL will reduce along with the reduction in fixed assets.
- There are certain corporate guarantees given by FRL to FEL and vice versa. Post the buy back of the asset transaction, all the corporate guarantees will no longer be in existence.
- Revenues increased in FY19 and 9M Dec 19 on account of improvement in performance. Healthy profitability margins with OPM and NPM standing at 24.67% and 2.93 % in FY19 as compared to 23.57% and 0.78 % in FY18.

Credit Risk

- The debt levels have increased in 1H Sep 19 to Rs.6630.26 crs (excluding other financial liability of Rs.942.07 crs) from Rs.6717.42 crs (excluding other financial liability of Rs.624.68 crs) FY March 19 due to higher working capital requirement. However, the



same is expected to reduce due to the buyback of assets

- Intense competition in the industry.
- The promoters have pledged 92% of the promoter equity. The pledge levels have been increasing since the last 3 quarters due to market fluctuations.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

BWR has essentially relied upon audited financial results from FY15 to FY19, Nine months results of FY20 of Future Enterprises Limited (FEL) and publicly available information and information/clarification provided by the Company.

RATING SENSITIVITIES

Going forward, the ability of the company to improve debt protection metrics, improve profitability, effectively manage its working capital requirements, and successfully complete asset buy back transaction would be key rating sensitivities.

Positive: The rating & Outlook will be reviewed after the company is able to successfully complete the transaction of asset buy back (from FEL to Future Retail Limited) proposal while maintaining a prudent capital structure and stable profitability.

Negative: The rating may be downgraded if the asset buy back from FEL to FRL deal does not go through and the debt protection metrics worsens, decline in profitability and other developments.

LIQUIDITY POSITION: Good

The cash and cash equivalents stand at Rs. 167.45 crs in FY19. The current ratio stands at 1.70 in FY19. Moderate coverage ratio with ISCR and DSCR standing at 2.36x and 2.47x respectively in FY19 as compared to 2.08x and 1.85x respectively in FY18. As on Sep 2019, the cash and cash equivalents stand at Rs. 358.51 crs. The current ratio stands at 1.16.

COMPANY PROFILE

Erstwhile Future Retail Ltd. has now been renamed as Future Enterprises Ltd. (FEL) and houses the physical assets (erstwhile FRL and Bharti Retail Limited including all the infrastructure assets) apart from strategic investments in various companies. The company is also in the business of manufacturing men's wear, women's wear and kid's wear in the denim segment. Consequent to de-merger, the long term debt (comprising bank term loans and NCDs of erstwhile FRL) now resides in the books of FEL.

Post demerger FEL has three lines of business, 1) Lease rental, 2) Manufacturing, distribution and trading of fashion garments and 3) Strategic Investments portfolio.

The promoters of FEL, led by Mr. Kishore Biyani have been closely involved in the management of business, and in defining and monitoring the business strategy for the company.



KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY 2018	FY 2019	9M Dec 2018	9M Dec 2019
Result Type		Audited	Audited	Unaudited	Unaudited
Total Operating Income	Rs. in crs	5103.09	5983.14	4416.26	4582.38
EBITDA	Rs. in crs	1202.94	1475.85	1033.50	1249.77
PAT	Rs. in crs	39.74	175.44	36.40	25.27
Tangible Net Worth	Rs. in crs	4047.91	4070.55	-	-
Total Debt: Networth	Times	1.56	1.65	-	-
Current Ratio	Times	1.99	1.70	-	-

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

Key terms of NCD's

For NCD of Rs. 300.00 Cr, Rs.300 crs and Rs.250 crs

The Company has made a proposed NCD issue of Rs. 300.00 Cr, Rs.300 crs and Rs.250 crs with a tenor upto 10 years. The NCD has a bullet repayment at the end of the maturity. The NCD is secured by a first pari passu charge on specific assets of the Company. The Issuer to fund the Interest payment account to the extent of Interest/Coupon amount due on NCDs on T-1 day in case of DSRA in form of Fixed Deposit or T-2 days in case of Bank Guarantee or T-3 days in case of AAA rated bonds (wherein T is the Interest payment date), failing which the DSRA would be invoked).

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY

RATING HISTORY

Sl. No.	Instrument / Facility	Current Rating (Year 2020)			Rating History		
		Type	Amount (Rs Crs)	Rating	March 2019	Feb 2018	Oct 2017
1	NCD	Long Term	25.00	Withdrawal	BWR AA-(Stable)	BWR AA-(Stable)	BWR AA-(Stable)
2	NCD		300.00	BWR AA-Credit Watch with developing implications	BWR AA(SO) (Stable)	BWR AA(SO) (Stable)	NA
3	NCD		250.00		BWR AA(SO) (Stable)	BWR AA(SO) (Stable)	BWR AA(SO) (Stable)
4	NCD		300.00		BWR AA (SO) (Stable)	BWR AA (SO) (Stable)	BWR AA (SO) (Stable)
Rs. 875.00 Cr (Rupees Eight Hundred Seventy Five Crores Only)							

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Status of non-cooperation with previous CRA (if applicable)-Reason and comments: NA
Any other information: NA

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Group support](#)
- [Industry](#)

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Future Enterprise Limited

Annexure I

Sr. No.	Instrument/Facility	ISIN No	Issue Date	Amount (Rs. Crs)	Coupon	Maturity Date
1	NCD	INE623B07404	13-Oct-16	25.00	9.75%	13-Oct-21
2		INE623B07412	13-Oct-16	25.00	9.80%	13-Oct-23
3		INE623B07420	26-Oct-26	20.00	9.75%	26-Oct-21
4		INE623B07438	26-Oct-16	30.00	9.80%	26-Oct-23
5		INE623B07446	5-Dec-16	6.00	9.75%	5-Dec-21
6		INE623B07453	5-Dec-16	29.00	9.80%	5-Dec-23
7		INE623B07461	21-Dec-16	27.00	9.50%	21-Dec-23
8		INE623B07479	21-Dec-16	18.00	9.55%	21-Dec-23
9		INE623B07545	26-Apr-17	45.00	9.28%	26-Apr-24
10		INE623B07552	9-May-17	24.00	9.17%	9-May-22
11		INE623B07560	9-May-17	26.00	9.28%	9-May-24
12		INE623B07578	16-May-17	2.00	9.17%	16-May-22
13		INE623B07586	16-May-17	23.00	9.28%	16-May-24
14		INE623B07594	26-Sep-17	88.00	8.80%	26-Sep-2022

15		INE623B07602	26-Sep-17	75.00	8.91%	26-Sep-2024
16		INE623B07610	13-Oct-17	87.00	8.91%	13-Oct-2024
17		INE623B07644	12-Mar-19	20.00	9.40%	12-Mar-23
18		INE623B07651	12-Mar-19	59.00	9.50%	12-Mar-25
19		INE623B07669	12-Mar-19	25.00	9.50%	12-Mar-25
	Total			654.00		

ANNEXURE II

List of entities consolidated

Name of Entity	% ownership	Extent of consolidation\$	Rationale for consolidation
Bluerock eServices Private Limited	100.00	100.00	Subsidiary
Future E-Commerce Infrastructure Limited	86.71	100.00	Subsidiary
Future Media (India) Limited	93.10	100.00	Subsidiary
Future Merchandising and Sourcing Pte. Ltd.	100.00	100.00	Subsidiary
Future Supply Chain Solutions Limited (FSCSL) (Subsidiary of RTPL w.e.f. December 24, 2018)	51.22	100.00	Step down Subsidiary
Futurebazaar India Limited	100.00	100.00	Subsidiary
Office Shop Private Limited (100% Subsidiary of Work Store Limited)	61.67	100.00	Step Down Subsidiary
Ritvika Trading Private Limited (RTPL) (w.e.f. November 19, 2018)	100.00	100.00	Subsidiary

Vulcan Express Private Limited (100% Subsidiary of FSCSL)	51.22	100.00	Step down Subsidiary
Work Store Limited	67.67	100.00	Subsidiary
Apollo Design Apparel Parks Limited	39.00	39.00	Joint Venture
Future Generali India Insurance Company Limited	25.51	25.51	Joint Venture
Future Generali India Life Insurance Company Limited	7.77	7.77	Joint Venture
Goldmohur Design and Apparel Park Limited	39.00	39.00	Joint Venture
Shendra Advisory Services Private Limited	49.82	49.82	Joint Venture
Sprint Advisory Services Private Limited	49.81	49.81	Joint Venture
Leanbox Logistics Solutions Private Limited (Associate of FSCSL)	25.61	25.61	Associate

\$Out of the extent of consolidation % mentioned above for subsidiaries and step down subsidiaries, there will be a deduction of minority interest to the extent of non holding stake.

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