

Future Enterprises Limited

July 23, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities – Term Loan	1,518.72	CARE AA-; Negative (Double A Minus; Outlook: Negative)	Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)
Long-term fund based bank facilities – CC	625.00		
Short-term Bank Facilities – Term Loan	50.00	CARE A1+ (A One Plus)	Reaffirmed
Short-term non-fund based facilities – LC/BG	602.00		
Total	2,795.72 (Rs. Two thousand seven hundred ninety five crore and; seventy two lakh only)		
Non-Convertible Debenture Issue	4,481.50	CARE AA-; Negative (Double A Minus; Outlook: Negative)	Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)
Commercial Paper Issue*	150.00	CARE A1+ (A One Plus)	Reaffirmed
Commercial Paper Issue^	150.00		
Commercial Paper Issue	350.00		
Fixed Deposit Programme	700.00	CARE AA- (FD); Negative [Double A Minus (Fixed Deposit); Outlook: Negative]	Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)

*Carved out of working capital limits

^As per undertaking submitted by FEL to CARE, the outstanding CP including working capital borrowings will not exceed lower of the sanctioned working capital limits or drawing power at any point of time.

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the long-term bank facilities and instruments of Future Enterprises Limited (FEL) takes into consideration the significant experience of promoters and management team combined with management focus on on-going divestments across non-core businesses. CARE has considered combined financials of Future Retail Limited (FRL) and FEL for analysis; given the strong operational synergies between the two companies [referred as FEL (combined)]. The ratings also derive strength from FRL's proven track record with a leading position in the organized retail business in India, pan-India presence across multiple formats and stable operational performance.

The rating strengths are however tempered by significant increase in debt levels as on March 31, 2019 to fund the renovation/capex, increase in working capital requirement and strategic acquisitions by company, which are higher than anticipated by CARE.

Further the ratings also factor the intense competition in retail industry.

The ability of FEL (combined) to further improve capital structure by reducing debt, improve profitability margins in the competitive industry scenario, manage its working capital requirements efficiently amidst growing scale of operations, improve debt coverage parameters and divest investments as envisaged are the key rating sensitivities. The rating is also sensitive to elevated levels of debt in absence any commensurate infusion of equity.

CARE has noted the recent arrest of Chief Financial Officer of FEL by the Directorate of Revenue Intelligence on charge of evasion of customs duty on imports emanating from Bangladesh.

¹Complete definitions of the ratings assigned are available at www.careratings.com and other CARE publications.

Outlook: Negative

CARE has revised the outlook to 'Negative' from 'Stable'. The 'Negative' outlook is on account of elevated levels of debt leading to higher associated costs and increase in pledged shares at promoter level, thereby reducing the financial flexibility. The outlook may be revised to 'Stable' in case of reduction in debt levels, improvement in financial flexibility and the ability of the company to generate returns as envisaged.

Detailed description of the key rating drivers**Key Rating Strengths**

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 experience in retail.

Leadership position in organised retail: FRL is one of the leading retailers in India and occupies total retail space of 16.1msf as at the end of Mar 2019. During the year, FRL acquired Hypercity Retail India Ltd. Further, FRL has also acquired M/s Travel News Services (India) Private Ltd. (TNSI) and retail business undertaking under the brand name "Foodworld" from M/s Foodworld Supermarkets Private Limited in Q1FY19. FRL has demerged its hometown segment and has rationalised Ezone segment in FY18. Aggregately, the Future group has pan India presence in value retailing (Big Bazaar, Easyday, Heritage), lifestyle (Central, FBB, Brand Factory, Planet Sports) & home retailing (HomeTown, Ezone) and across various price points. Further, 7-Eleven, the world's largest convenience store chain, has signed a master franchise agreement with Future Retail that will open and manage the brand's stores in India.

Management focus on divestments of non-core businesses: FEL through direct ownership holds 7.77% and 25.51% equity stake in Future Generali India Life Insurance Company Limited (life insurance business) and Future Generali India Insurance Company Limited (general insurance business) respectively. Future Generali India Life Insurance co. Ltd. continues to make losses and made a loss of Rs. 189.04 crore in FY19 while Future Generali India Insurance Company Limited made a profit of Rs. 118.84 crore in FY19. Along with this, FEL also holds stake in Future Supply Chain Solutions Limited (51.22%), Work Store Limited (61.67%), Apollo Design Apparel Parks Ltd. (39%) and Goldmohur Design Apparel Parks Ltd. (39%). FEL plans to divest its holdings in these companies over next 3-4 years.

Stable Operational Performance: The footfalls increased to more than 350 million in FY19 as compared to 340 million in FY18. The large format stores contributed 85% to the total revenues.

During FY19, FEL (Combined) registered PBILDT and PAT of Rs. 2,406 crore and Rs. 757 crore respectively on total operating income of Rs. 20,886 crore. The increase in revenues was primarily driven by opening of new stores and overall same store sales growth of 6.8%.

Key Rating Weaknesses

Moderate Capital structure and debt coverage indicators: The overall gearing of FEL (Combined) and total debt to gross cash accruals as on March 31, 2019 was 1.17x and 5.58x as compared to 1.10x and 5.20x respectively as on March 31, 2018. The gearing level deteriorated in FY19 mainly due to increase in debt to fund capex plans and acquisitions. The company is looking at certain strategic initiative to reduce debt; timeline and adequacy of the same will remain a monitor able.

Increase in pledged shares: The increase in shares pledged by promoters in FEL and FRL coupled with decline in market capitalisation has led to reduced financial flexibility. The ability of the company reduce the quantum of pledged shares within the envisaged timelines is a key rating monitorable.

Charge of custom duty evasion: DRI has charged FEL on evasion of customs duty from goods originating from Bangladesh as per South Asian Free Trade Area (SAFTA) rules, 2006 and also arrested its CFO under these charges. The amount claimed by DRI tantamount to Rs. 14.58 crore pertaining to imports from Bangladesh in FY18. FEL continues to import goods from Bangladesh and hasn't received any claim from the customs duty for period FY19. CARE does not expect any significant impact on the company's operations on account of this liability.

High Working Capital Cycle: FEL (combined) has low receivables period like other retailers, however the inventory days are higher on account of bought out stock arrangement for its inventory which leads to higher working capital requirement.

Intensifying competition: Increasing competition from both brick and mortar and online players could impact overall SSSG of FRL. Competition from online delivery players, such as, bigbasket.com. grofers.com, etc., remains a key threat. Also, change in FDI norms can lead to further competition.

Liquidity Position: FEL (Combined) as on May 31, 2019, has a cash & cash equivalents of Rs. 394.28 crore. Average fund based utilisation of FRL for 12 months ending has been around 63% for 12 months ending May-19.

Analytical approach: Combined Financials of FEL and FRL have been considered for analysis; given the strong operational synergies. Further, FEL and FRL also provided cross corporate guarantee for all the sanctioned debt in both the companies as of May 01, 2016.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Rating Methodology-Manufacturing Companies](#)

[Rating Methodology: Retail](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Erstwhile Future Retail Limited is the flagship company of the Future Group (one of India's largest retailers) and is engaged mainly in home & electronics retailing and value retailing.

Post the merger with Bharti Retail Limited (BRL), erstwhile FRL had split its operations into retail and infrastructure (with effect from October 31, 2015) and had formed two separate entities in the following manner:

- Infrastructure, Investment and distribution operations:** Erstwhile Future Retail Ltd. was renamed as Future Enterprises Ltd. (FEL, rated CARE AA-/A1+; Outlook: Negative for its various facilities. It houses the physical assets (store formats of erstwhile FRL and BRL including all the infrastructure assets situated in the stores) apart from strategic investments in various companies. Also, the company is engaged in manufacturing and trading of denim garments.
- Retail operations:** Erstwhile Future Retail Ltd.'s (rated CARE AA-/A1+; Outlook: Negative) retail operations was consolidated with Bharti Group's Retail operations and was renamed as Future Retail Limited (FRL).

FEL and FRL (Combined)

Brief Financials (Rs. crore)	FY18 (UA)	FY19 (UA)
Total operating income	19547	20886
PBILDT	1938	2406
PAT	-1	757
Overall gearing (times)	1.10	1.17
Interest coverage (times)	2.60	3.00

UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	June 2025	1518.72	CARE AA-; Negative
Fund-based - LT-Working Capital Limits	-	-	-	625.00	CARE AA-; Negative
Non-fund-based - ST-BG/LC	-	-	-	602.00	CARE A1+
Fund-based - ST-Term loan	-	-	Proposed	50.00	CARE A1+
Debentures-Non Convertible Debentures	September 20, 2018	10%	Proposed	200.00	CARE AA-; Negative
Debentures-Non Convertible Debentures	February 16, 2017	9.60%	March 27, 2023	949.00	CARE AA-; Negative
Debentures-Non Convertible Debentures	September 20, 2018	10%	Proposed	550.00	CARE AA-; Negative
Debentures-Non Convertible Debentures	December 30, 2016	9.25%	April 2025	950.00	CARE AA-; Negative
Debentures-Non Convertible Debentures	April 23, 2015	10-10%-10.25%	April 30, 2021	285.00	CARE AA-; Negative
Debentures-Non Convertible Debentures	April 06, 2015	10.25%	April 06, 2020	200.00	CARE AA-; Negative
Debentures-Non Convertible Debentures	August 24, 2015	10.10-10.25%	July 01, 2022	1347.50	CARE AA-; Negative
Fixed Deposit	-	-	-	700.00	CARE AA- (FD); Negative
Commercial Paper	-	-	7 days to 364 days	150.00	CARE A1+
Commercial Paper	-	-	7 days to 364 days	350.00	CARE A1+
Commercial Paper	-	-	7 days to 364 days	150.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (11-Aug-16)
2.	Non-fund-based - ST-BG/LC	ST	-	-	-	-	-	1)Withdrawn (11-Aug-16)

3.	Fund-based - LT-Term Loan	LT	961.06	CARE AA-; Negative	-	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (24-Jan-18) 2)CARE AA-; Stable (17-Aug-17)	1)CARE AA-; Stable (21-Feb-17) 2)CARE AA- (03-Oct-16) 3)CARE AA- (24-Aug-16) 4)CARE AA- (11-Aug-16)
4.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (17-Aug-17)	1)CARE AA-; Stable (21-Feb-17) 2)CARE AA- (03-Oct-16) 3)CARE AA- (11-Aug-16)
5.	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (11-Aug-16)
6.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (24-Aug-16)
7.	Fund-based - LT-Term Loan	LT	557.66	CARE AA-; Negative	-	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (24-Jan-18) 2)CARE AA-; Stable (17-Aug-17)	1)CARE AA-; Stable (21-Feb-17) 2)CARE AA- (03-Oct-16) 3)CARE AA- (24-Aug-16) 4)CARE AA- (11-Aug-16)
8.	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (11-Aug-16)
9.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (17-Aug-17)	1)CARE AA-; Stable (21-Feb-17) 2)CARE AA- (03-Oct-16) 3)CARE AA- (11-Aug-16)
10.	Debentures-Non Convertible Debentures	LT	285.00	CARE AA-; Negative	-	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (17-Aug-17)	1)CARE AA-; Stable (21-Feb-17) 2)CARE AA- (03-Oct-16) 3)CARE AA- (11-Aug-16)
11.	Debentures-Non Convertible Debentures	LT	200.00	CARE AA-; Negative	-	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (17-Aug-17)	1)CARE AA-; Stable (21-Feb-17) 2)CARE AA- (03-Oct-16)

								3)CARE AA- (11-Aug-16)
12.	Debentures-Non Convertible Debentures	LT	1347.50	CARE AA-; Negative	-	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (17-Aug-17)	1)CARE AA-; Stable (21-Feb-17) 2)CARE AA- (03-Oct-16) 3)CARE AA- (12-Jul-16)
13.	Fund-based - LT- Working Capital Limits	LT	625.00	CARE AA-; Negative	-	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (24-Jan-18) 2)CARE AA-; Stable (17-Aug-17)	1)CARE AA-; Stable (21-Feb-17) 2)CARE AA- (03-Oct-16) 3)CARE AA- (24-Aug-16)
14.	Non-fund-based - ST- BG/LC	ST	602.00	CARE A1+	-	1)CARE A1+ (03-Oct-18)	1)CARE A1+ (24-Jan-18) 2)CARE A1+ (17-Aug-17)	1)CARE A1+ (21-Feb-17) 2)CARE A1+ (03-Oct-16) 3)CARE A1+ (24-Aug-16)
15.	Debentures-Non Convertible Debentures	LT	949.00	CARE AA-; Negative	-	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (17-Aug-17)	1)CARE AA-; Stable (21-Feb-17) 2)CARE AA- (03-Oct-16)
16.	Debentures-Non Convertible Debentures	LT	550.00	CARE AA-; Negative	-	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (17-Aug-17)	1)CARE AA-; Stable (30-Mar-17)
17.	Debentures-Non Convertible Debentures	LT	950.00	CARE AA-; Negative	-	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (17-Aug-17)	1)CARE AA-; Stable (30-Mar-17)
18.	Commercial Paper	ST	150.00	CARE A1+	-	1)CARE A1+ (18-Jan-19) 2)CARE A1+ (03-Oct-18)	1)CARE A1+ (05-Mar-18) 2)CARE A1+ (24-Jan-18) 3)CARE A1+ (17-Aug-17) 4)CARE A1+ (20-Apr-17)	-
19.	Fund-based - ST-Term loan	ST	50.00	CARE A1+	-	1)CARE A1+ (03-Oct-18)	1)CARE A1+ (24-Jan-18)	-
20.	Commercial Paper	ST	150.00	CARE A1+	-	1)CARE A1+ (18-Jan-19) 2)CARE A1+ (03-Oct-18)	1)CARE A1+ (05-Mar-18) 2)CARE A1+ (24-Jan-18)	-
21.	Commercial Paper	ST	350.00	CARE A1+	-	1)CARE A1+	1)CARE A1+	-

						(18-Jan-19) 2)CARE A1+ (03-Oct-18)	(05-Mar-18)	
22.	Debentures-Non Convertible Debentures	LT	200.00	CARE AA-; Negative	-	1)CARE AA-; Stable (03-Oct-18) 2)CARE AA-; Stable (20-Sep-18)	-	-
23.	Fixed Deposit	LT	700.00	CARE AA- (FD); Negative	-	1)CARE AA- (FD); Stable (02-Nov-18)	-	-

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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