

Future Lifestyle Fashions Ltd. (Revise)

July 11, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities (Term Loan)	420.20	CARE AA-; Stable [Double A Minus; Outlook: Stable]	Revised from CARE A+ (Single A Plus)
Long-term Bank Facilities (Cash Credit)	750.00		
Short Term Bank Facilities (WCDL)	100.00	CARE A1+ [A One Plus]	Assigned
Short-term Bank Facilities (Non-Fund Based)	775.00		Reaffirmed
Total Facilities	2045.20		
Commercial Paper *	190.00	CARE A1+ [A One Plus]	Reaffirmed
Long Term Non-Convertible Debentures	500.00	CARE AA-; Stable [Double A Minus; Outlook: Stable]	Assigned
Long Term Non-Convertible Debentures	-	-	Withdrawn
Long Term Non-Convertible Debentures	-	-	Withdrawn
Total Instruments	690.00		

* carved out of the sanctioned working capital limits of the company

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long term rating of Future Lifestyle Fashions Ltd. (FLFL) takes into account the reduction in debt through value unlocking of key brands including 'Lee Cooper' and other 'Investee Brands'. The ratings assigned to the bank facilities and debt instruments continue to derive strength from the vast experience of the promoters (Future Group) in the retail industry, established pan-India presence of various operationally profitable formats, improvement in same store sales growth trend and established private brands.

The aforesaid rating strengths are however tempered by moderation in operating margins, low return on capital employed, high operating cycle coupled with increasing competition in the fashion retail industry.

The ability of FLFL to manage the cash flows while effecting capex for expansion of stores and improvement of debt service metrics are the key rating sensitivities. Furthermore, going forward any aggressive debt funded expansion could severely impact the credit profile of the company which could have a negative impact on the rating.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

FLFL is part of the Future Group, which is one of the largest retailers in India. The promoters of FLFL are involved in the management of the business, defining and monitoring the business strategy for the company, and have been successful in building and scaling up in both value retail and fashion retail. Furthermore, the promoters are supported by a strong management team, having significant experience in the retail industry.

Established pan-India presence of various operationally profitable formats resulting in improvement in same store sales growth trend

As on March 31, 2017, FLFL distribution network includes 372 stores having a retail space of 5.40 million sq. ft. (369 stores spread over 4.97 million sq. ft. as on March 31, 2016).

FLFL's fashion retail business is led by four major retail chains - Central, Brand Factory Planet Sports and aLL having around 191 outlets (181 as on Mar 31, 2016) encompassing 5.17 million square feet of retail space (4.70 msf as on Mar

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

31, 2016). These outlets contribute nearly 89% of the total retail sales for FY17 (84% in FY16) and covers around 96% of the total retail space (95% as on Mar 31, 2016). Central alone contributes 59% of the total sales in FY17 (58% in FY16) and covers 65% of the total retail space (64% in FY16). The company further operates EBOs and is also into distribution business wherein it is selling its brands from other MBOs (Multi Brand Outlets) falling outside Future Group Retail network. The company is gradually closing 'Planet Sports' and 'I am In' formats, which are no longer relevant under the company's realigned operating plan. The key formats 'Central' and 'Brand Factory' are the major contributors to the EBDITA of the company.

Established and diversified lifestyle fashion brand portfolio

FLFL is associated with various brands in apparel, footwear, accessories, home fashion and luggage via three formats: (i) Own/ Private Brands, (ii) Licensed Brands held directly by FLFL and (iii) Investments in various companies holding Brand licenses. FLFL / Investee Company pays royalty for obtaining the licenses of various brands. The licenses are for an average period of 10 years with an average lock-in period of 3 years.

In FY17, the company demerged 'Lee Cooper' business into a step down subsidiary and raised Rs 250 crores from strategic investors by diluting 26% stake, which was primarily used for the prepayment of existing debt of the company.

During FY17, FLFL has transferred majority of the investments held by it in various investee companies to "FLFL Lifestyle Brands Ltd. (FLBL)" (FLFL currently holds 49% in FLBL) and has raised Rs.450 crore, used for de-leveraging the balance-sheet of the company.

Comfortable debt coverage metrics; however, cash flow management and debt service indicators sensitive to future capex plans

During FY17, the company has reduced its debt from Rs.1,140 crores in FY16 to Rs.682 crores in FY17 which was funded out of divestments and internal accruals of the company. The overall gearing improved to 0.63x as on Mar 31, 2017 from 0.91x as on Mar 31, 2016. PBILDT interest coverage has improved from 2.60x for FY16 to 3.31x for FY17 due to reduction in interest cost along with improved profitability.

During FY18, the company is also planning to refinance the high cost debt by raising Non-Convertible Debentures of Rs.500 crore. However, cash flow management in light of future capex plans remains a rating sensitivity. FLFL expects to incur capex in the range of Rs.200 crore per annum over the next two-three years towards store additions.

Key Rating Weaknesses

Moderation in margins over the last 3 years

Though the revenue increased in FY17, FLFL's PBILDT margin declined marginally from 10.63% in FY16 to 9.99% in FY17 on account of higher sales on discounts in order to counter the impact of demonetization. The margins were also lower on account of higher sales mix percentage from 'Brand Factory' in the overall value of sales.

The footfalls in the stores of FLFL have increased by 8% in FY17 as compared with FY16. Also, the average transaction size and average selling price have also improved in FY17.

Furthermore, FLFL earns higher margin on sales of owned or licensee brands by 2-3% than other sales. FLFL brands contributed 40% of total sales in FY17 (38% in FY16) on account of growth witnessed in flagship brands like Lee Cooper, John Miller, Jealous21, Scullers and Indigo Nation.

High Working Capital Cycle

FLFL has low receivables period like other retailers, however the inventory days are higher on account of bought out stock arrangement for its private brands which leads to higher working capital requirement. Also, the retailing of private brands coupled with the distribution business leads to an extended inventory requirement. The company has a relatively high working capital cycle. However the same has improved in 2017 over the preceding year. The average working capital utilization for the past 12 months ending April 2017 still remained moderate.

Increasing competition in the industry

FLFL continues to face intense competition from other premium retailers like Shoppers Stop, Pantaloons, etc and it is also vulnerable to changes in fashion trends, consumer spending habits as well as economic cycles. Notwithstanding, FLFL continues to remain a key player in the organised retail segment in the country.

Analytical approach: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology - Wholesale Trading](#)

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

[Policy on Withdrawal of ratings](#)

About the Company

Future Lifestyle Fashions Limited (FLFL; CIN no.:L52100MH2012PLC231654) is a part of the Future Group (one of India's largest retailers). FLFL is in the business of managing the lifestyle fashion segment of the Future Group. FLFL has two major business divisions: fashion retailing and investments in fashion companies. It has a portfolio of fashion brands that cover a range of fashion categories including formal menswear, casual wear, active or sportswear, women's ethnic wear, women's denim wear, women's casual wear, footwear and accessories and are present across various price points. During FY17, FLFL has transferred majority of the investments held by it in various investee companies to "FLFL Lifestyle Brands Ltd. (FLBL)" (FLFL currently holds 49% in FLBL) and has raised Rs.450 crores. Further, the company has transferred 'Lee Cooper' business into a step down subsidiary "Future Speciality Retail Limited" and has raised Rs.250 crore from strategic investor by diluting 26% stake. The proceeds received from divestment and demerger were used for repayment of debts and for funding capital expenditure.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	3304	3881
PBILDT	351	388
PAT	29	46
Overall gearing (times)	0.91	0.63
Interest coverage (times)	2.60	3.31

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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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	-	-	FY25	420.20	CARE AA-; Stable
Fund-based - LT-Cash Credit	-	-	-	750.00	CARE AA-; Stable
Non-fund-based - ST-Working Capital Limits	-	-	-	775.00	CARE A1+
Fund-based - ST-Term loan (Proposed)	-	-	-	100.00	CARE A1+
Commercial Paper-Commercial Paper (Carved out)	-	-	-	190.00	CARE A1+
Debentures-Non Convertible Debentures (Proposed)	-	-	-	500.00	CARE AA-; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	420.20	CARE AA-; Stable	-	1)CARE A+ (11-Nov-16)	1)CARE A+ (01-Oct-15)	1)CARE A+ (03-Sep-14)
2.	Fund-based - LT-Cash Credit	LT	750.00	CARE AA-; Stable	-	1)CARE A+ (11-Nov-16)	1)CARE A+ (01-Oct-15)	1)CARE A+ (03-Sep-14)
3.	Non-fund-based - ST-Working Capital Limits	ST	775.00	CARE A1+	-	1)CARE A1+ (11-Nov-16)	1)CARE A1 (01-Oct-15)	1)CARE A1 (03-Sep-14)
4.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE A+ (11-Nov-16)	1)CARE A+ (01-Oct-15)	1)CARE A+ (03-Sep-14)
5.	Commercial Paper-Commercial Paper (Carved out)	ST	190.00	CARE A1+	-	1)CARE A1+ (11-Nov-16)	1)CARE A1 (01-Oct-15)	1)CARE A1 (03-Sep-14)
6.	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE A+ (11-Nov-16)	1)CARE A+ (01-Oct-15)	1)CARE A+ (03-Sep-14)
7.	Fund-based - ST-Term loan	ST	100.00	CARE A1+	-	-	-	-
8.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA-; Stable	-	-	-	-

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