

Future Retail Limited

May 05, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities (Fund Based)	2535.50	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities (Non Fund based)	1715.00	CARE A1+ (A One Plus)	Reaffirmed
Total facilities	4250.50 (Rs. Four thousand two hundred fifty crore and fifty lakhs only)		
Commercial Paper (CP) issue*	487.50	CARE A1+ (A One Plus)	Reaffirmed
Commercial Paper^	350.00	CARE A1+ (A One Plus)	Reaffirmed

Details of instruments/facilities in Annexure-1

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

^ 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.

Detailed Rationale & Key Rating Drivers

The rating of Future Retail Limited (FRL) (erstwhile known as Bharti Retail Limited) takes into account 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 FEL (Future Enterprises Ltd.) and FRL 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 and pan-India presence across multiple formats. The ratings continue to factor in the support FEL may have to extend to its loss-making subsidiaries/joint ventures, until such time that they are either financially stable or FEL's stakes in the same have been sold.

The rating strengths are however tempered by moderate capital structure, moderate debt coverage ratios and low profitability exhibited by FEL (combined) in recent years. Further the ratings also factor the working capital intensive nature of the retail business and intense competition. 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.

Recent Development

Future Retail Limited announced the demerger of its Home Retail Business operated through HomeTown stores into Praxis Home Retail Private Ltd.

The proposed demerger would be via Composite Scheme of Arrangement between FRL and Bluerock eService Private Limited (BSPL; owner of the online portal FabFurnish) where the HomeTown segment of FRL and FabFurnish segment of BSPL shall be transferred to Praxis Home Retail Private Ltd. (PHRPL).

In consideration for the demerger of the Home Retail Business of FRL into PHRPL, PHRPL will issue 1 fully paid equity shares of Rs.5 each to the equity shareholders of FRL as on the record date (as may be determined in the scheme) for every 20 fully paid up equity shares of Rs.2 each of FRL. The above scheme is subject to regulatory approvals.

As on December 31, 2016, HomeTown has 37 stores in 21 cities across India. As informed by the management, HomeTown earned EBITDA of Rs.17 crore on a total income of Rs.545 crore in FY17. The net assets to be transferred are around Rs.40 crore with no transfer of debt. CARE does not expect any impact on credit profile of FRL as operations of HomeTown are relatively smaller as compared to business of FRL.

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

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 12.97 mn sq. ft as at the end of March 2016. Aggregately, the Future group has pan India presence in value retailing (Big Bazaar, Food Bazaar, KB's Fairprice, Easyday), lifestyle (Central, Brand Factory, Planet Sports) & home retailing (HomeTown, eZone) and across various price points.

Management focus on divestments of non-core businesses: FEL effectively holds (through direct & indirect ownership) 27.40% and 49.87% 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 Insurance co. Ltd. continues to make losses and made a loss of Rs.5.25 crore in FY16. Along with this, FEL also holds 56% and 9% in Future Supply Chains Solutions Ltd. (FSC) and Future Consumer Enterprise Ltd. (FCEL) respectively. During FY16, FCEL incurred a loss of Rs.63.55 crore as against loss of Rs.93.75 crore in FY15. FEL plans to divest its holdings in these companies over next 3-4 years. FEL has already divested 12.75% stake in FSC for a total consideration of Rs.185 crore in April 2016 leading to a profit of Rs.173 crore. Further, the company has divested its entire stake in FFL at a book value of Rs.334 crore for a total consideration of Rs.375 crore.

Key Rating Weaknesses

Moderate Capital structure and debt coverage indicators: The overall gearing of FEL (Combined) was 1.48x as on March 31, 2016, and its interest coverage for FY16 was 2.13x as compared to overall gearing of erstwhile FRL at 1.23x as on March 31, 2015 and interest coverage for FY15 was 1.75x. The gearing level increased in FY16 mainly due to delay in divestment of strategic investments combined with debt raised for funding capex/renovation of its own and BRL stores. Further, on account of Bharti Retail's Easyday store addition, the Company is in the process of introducing many of its private label brands and fashion category in the easyday store network. Accordingly, the Company has invested in the base working capital requirement for its private label brands and FMCG products being sold out of Easyday leading to high working capital levels.

Revenue & profitability: FEL (Combined) during FY16, registered PBILDT and PAT of Rs.1150 crore and Rs.26 crore respectively on total operating income of Rs.14613 crore. Though the PBILDT margin of FEL (combined) stood at 7.87%, the PAT margin was negligible at 0.18% mainly because of the merger with the loss making BRL.

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. However, the average working capital utilization for the past 12 months ending December 2016 still remained moderate.

Analytical approach:

CARE has considered combined financials of FEL and FRL for analysis; given the strong operational synergies between the two companies (referred as FEL (combined)). Further, FEL and FRL also propose to provide cross corporate guarantee towards entire 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](#)
- [Criteria for Short Term Instruments](#)
- [Rating Methodology: Factoring Linkages in Ratings](#)
- [Rating Methodology - Wholesale Trading](#)
- [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 successful merger with Bharti Retail Ltd., erstwhile FRL has split its operations into retail and infrastructure (with effect from October 31, 2015) and has formed two separate entities in the following manner:

- a) **Infrastructure, Investment and distribution operations:** Erstwhile Future Retail Ltd. has now been renamed as Future Enterprises Ltd.(FEL) and would house 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. Consequent to de-merger, the long term debt (comprising bank term loans and NCDs of erstwhile FRL) would now reside in the books of FEL.

b) **Retail operations:** Erstwhile Future Retail Ltd.'s retail operations have been consolidated with Bharti Group's Retail operations in an all- stock deal. Bharti Retail Ltd. (renamed as Future Retail Ltd.) has taken over the working capital facilities (including Commercial Paper issuance) of erstwhile Future Retail Ltd.

FRL (combined) posted a PAT of Rs.26 crore on a total income of Rs.14613 crore in FY16.

Status of non-cooperation with previous CRA:

NA

Any other information:

NA

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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
Non-fund-based - ST-BG/LC	-	-	-	1715.00	CARE A1+
Fund-based - LT-Working Capital Limits	-	-	-	2535.50	CARE AA-; Stable
Commercial Paper	-	-	-	200.00	CARE A1+
Commercial Paper	-	-	-	487.50	CARE A1+
Commercial Paper	-	-	-	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 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-Working Capital Limits	LT	2535.50	CARE AA-; Stable	-	1) CARE AA-; Stable (21-Feb-17) 2) CARE AA- (23-Aug-16)	-	-
2.	Commercial Paper	ST	487.50	CARE A1+	-	1) CARE A1+ (21-Feb-17) 2) CARE A1+ (23-Aug-16)	-	-
3.	Non-fund-based - ST-BG/LC	ST	1715.00	CARE A1+	-	1) CARE A1+ (21-Feb-17) 2) CARE A1+ (23-Aug-16)	-	-
4.	Commercial Paper	ST	200.00	CARE A1+	-	1) CARE A1+ (21-Feb-17) 2) CARE A1+ (03-Oct-16)	-	-
5.	Commercial Paper	ST	150.00	CARE A1+	1) CARE A1+ (20-Apr-17)	-	-	-

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