

## Future Retail Limited

January 03, 2022

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	3,778.00	CARE D (Single D)	Revised from CARE B (Single B) and removed from Credit watch with Negative Implications
Short Term Bank Facilities	2,500.00	CARE D (Single D)	Revised from CARE A4 (A Four) and removed from Credit watch with Negative Implications
<b>Total Bank Facilities</b>	<b>6,278.00 (Rs. Six Thousand Two Hundred Seventy-Eight Crore Only)</b>		
Non-Convertible Debentures	199.00	CARE D (Single D)	Revised from CARE B (Single B) and removed from Credit watch with Negative Implications
Non-Convertible Debentures (Proposed)	100.00	CARE D (Single D)	Revised from CARE B (Single B) and removed from Credit watch with Negative Implications
<b>Total Long-Term Instruments</b>	<b>299.00 (Rs. Two Hundred Ninety-Nine Crore Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The rating revision of Future Retail Limited (FRL) factors in delay in servicing of principal repayment due on loans on 31<sup>st</sup> December, 2021. Consequently, the ratings for instruments have also been revised.

The One-time restructuring (OTR) plan has been implemented w.e.f. April 26, 2021. The approved plan assumes monetization of certain assets, resulting in de-leveraging of the balance sheet of FRL till December 31, 2021, which the company has not been able to monetise in the due time.

### Rating Sensitivities

#### Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in company's liquidity profile resulting from equity infusion, sale of small store formats
- Regularisation of defaults and default free track record of three months

### Detailed description of the key rating drivers

#### Key Rating Weakness

#### Deteriorated operational performance on account of COVID19 outbreak

For FY21, the company reported PBILDT and PAT of Rs.-366.18 crore and Rs.-3180.04 crore respectively on total operating income of Rs.6426.81 crore. The profitability of the company got significantly impacted on account of nationwide lockdown imposed due to outbreak of Covid-19. Further, with most of the stores shut or operating at minimal inventory caused severe disruption in company's operating cycle.

The company for H1FY22 has reported a net loss of Rs. 2266.91 crore on a total income of Rs.3755.68 crore as against a loss of Rs.1238.59 crore on a total income of Rs.2911.75 crore during H1FY21.

#### Increase in reliance on group companies for purchase of goods & services; support to group company in terms of corporate guarantee

FRL's reliance on its group companies has shown an increasing trend from sourcing 8% of its total requirements in FY17 to 30-45% in FY21.

FRL is reliant on Future Enterprises Limited as it rents its retail assets from the latter and for purchasing goods. The company's warehousing and logistic requirements are managed by Future Supply Chain Solutions Limited and sources consumable goods from Future Consumer Limited.

Furthermore, FEL and FRL have also provided cross guarantees on behalf of each other for various borrowings to the tune of Rs. 5750 crore and Rs. 1515 crore respectively as on March 31, 2021.

#### Deterioration of debt coverage ratios; accelerated due to COVID19

The overall gearing deteriorated to 18.44x as on March 31, 2021 as against 2.96x as on March 31, 2020 on account of significant increase in debt to acquire lease assets from FEL and higher working capital borrowings. Subsequently, total debt to PBILDT and Interest coverage ratios also deteriorated in FY21.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE publications

### **Deterioration in financial flexibility; considerable promoters' stake pledged**

As on September 30, 2021, the promoters of FRL have pledged 50.40% of their 19.86% stake in the company. Falling market capitalisation coupled with rising debt has led to significant deterioration of debt to market-capitalisation. Considerable reduction in market capitalisation and in absence of any additional cover provided by the promoters, significant amount of pledged shares have been invoked.

### **High Working Capital Cycle**

FRL has low collection period which is inherent in the industry, however the inventory days are higher on account of bought out stock arrangement for its inventory which leads to higher working capital requirement. Inventory days have increased to 261 in FY21 from 106 in FY20. The company however, on account of COVID19 outbreak didn't settle its creditors especially the group companies on account of which trade payables increased to 255 days in FY21 from 91 days in FY20.

### **Intensifying competition**

Heightened competition from both brick and mortar and online players could impact overall SSSG of FRL. Competition from e-commerce players, remains a key threat. Also, change in FDI norms can lead to further competition. Currently, the government has allowed FDI in food processing sector. Apart from this, the government is also contemplating liberalising rules relating to multi-brand retail. This will open up foreign investments which may pose a threat to existing retail players like FRL, etc.

### **Key Rating Strengths**

#### **Experienced Promoters & Management**

The promoters of FRL have been closely involved in the management of business and in defining & monitoring the business strategy for the company. Mr. Kishore Biyani, the founder and Group CEO of the Future group, is widely recognised as a pioneer of modern retail in India. Furthermore the promoters are supported by a strong management team having significant experience in retail industry.

#### **Established pan-India presence across formats**

Future group has presence in retail (value, home and electronics retail), insurance (life and non-life through JV with the Generali Group) and retail support services (through various subsidiaries).

FRL is one of the leading retailers in India and occupies total retail space of 15.69msf as on March 31, 2021. Aggregately, the Future group has pan India presence in value retailing (Big Bazaar, Food Bazaar, Easyday), lifestyle (Central, Brand Factory) & home retailing (HomeTown, eZone) and across various price points.

#### **Robust supply chain infrastructure in place**

The company's inventory management module operates on state of art ERP system that is SAP R3. The sophisticated inventory management tools in the SAP allows the company to monitor, manage and control the inventory levels. This helps the company to manage the flow of inventory efficiently. The sales trends are also regularly monitored to optimise inventory levels.

The company's warehousing and logistic requirements are managed by Future Supply Chain Solutions Limited, which is a part of the Future Group. FRL has mother warehouses at various locations in each zone which feeds the regional warehouse which in turn provides services to the stores across all the locations.

### **Industry Outlook**

The retail industry was affected due to the outbreak of Covid-19 followed by the nation-wide lockdown in the last week of March 2020. The closure of retail stores and shopping malls across the country led to a sharp decline in retail sales. While stores selling essential items like food and groceries, medicines were allowed to function, stores selling non-essential items like apparels, consumer durables etc. were completely shut. As the lockdown restrictions were eased in a phased manner, the industry initially grappled with both supply and demand side issues. Even when the shopping complexes and malls were allowed to open from June 2020, footfalls were low as people were cautious of stepping out due to the virus. Also, during times of uncertainty, people become prudent in terms of discretionary spending. Meanwhile, on the supply side, retailers faced logistic challenges. The consumer demand began improving on a quarterly basis from Q2FY21. Further, the vaccination inoculation drive started in January 2021 aided the consumer confidence.

The spread of the virus led to an acceleration in online sales of consumer products as consumer behaviour changed during the lockdown as people avoided physical store visits due to fears of virus contraction. Shopping through online channels not only enabled customers to shop from the comfort and safety of their homes but it also allowed retail players to operate and survive despite restrictions during the period of lockdown and subsequent stages of unlock.

After gradual pick up in revenues in Q3-Q4FY21, the revenues declined in April-May 2021, this decline was primarily due to the state-wise imposition of restrictions from April onwards on account of the recent spike in Covid-19 cases. Restrictions in movement and limited hours of operation for stores created a challenging business environment for retailers. Consumer sentiment was once again adversely impacted, and people became cautious with regards to discretionary expenses. In near future, consumer demand is expected to improve for non-essential items as lockdown restrictions are lifted from June 2021. The recovery in consumer demand is dependent on the spread of the virus and the progress of the vaccination drive in the country. Overall, for FY22, sales are expected to be higher than FY21 levels but is to be noted that the possibility of a third wave of Covid-19 might impact the industry dynamics. The long-term outlook of the industry remains positive on the back increase in disposable income, favourable demographics, brand consciousness, growth of e-commerce amongst other enablers.

**Liquidity Position: Poor**

The company's liquidity has been severely impacted on account of lockdown measures which has hampered company's ability to generate cash flows and continues to remain poor. The company has implemented OTR with effect from April 26, 2021.

**Analytical approach:**

Standalone

**Applicable Criteria**

[Policy on default recognition](#)

[Analytical Treatment of Restructuring - COVID](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Policy On Curing Period](#)

[Rating Outlook and Credit Watch](#)

[Retail](#)

**About the Company**

Future Retail Limited is the flagship company of the Future Group (one of India's leading retailers) and is engaged mainly in home & electronics retailing and value retailing. The company operates Big Bazaar, Easy Day, Foodhall and other small format stores. FRL as on March 31, 2021, operates 1,308 stores with retail space of 15.69msf.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	30-09-2021 (UA)
Total operating income	20,152.43	6,426.81	3755.68
PBILDT	2,189.31	-366.18	-750.78
PAT	33.84	-3,180.04	-2266.91
Overall gearing (times)	2.96	18.44	NA
Interest coverage (times)	2.05	-0.25	NM

A: Audited; NA: Not Available; NM: Not meaningful

**Status of non-cooperation with previous CRA:**

Not Applicable

**Any other information:**

Not Applicable

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

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure 4

**Annexure-1: Details of Instruments / Facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits		-	-	-	3250.00	CARE D
Non-fund-based - ST-BG/LC		-	-	-	2500.00	CARE D
Fund-based - LT-Term Loan		-	-	FY23	528.00	CARE D
Debentures-Non Convertible Debentures	INE752P07047	03-Jun-19	10.65%	31-03-2023	100.00	CARE D
Debentures-Non Convertible Debentures	INE752P07054	03-Jun-19	10.65%	31-03-2024	99.00	CARE D
Debentures-Non Convertible Debentures (Proposed)	-	-	-	-	100.00	CARE D

**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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Working Capital Limits	LT	3250.00	CARE D	-	1)CARE B (CWN) (31-Mar-21) 2)CARE B (CWN) (29-Oct-20) 3)CARE BB+ (CWD) (27-Jul-20) 4)CARE A- (CWN) (13-May-20)	1)CARE A+ (CWN) (26-Mar-20) 2)CARE AA-; Negative (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (03-Oct-18)
2	Commercial Paper	ST	-	-	-	1)Withdrawn (21-Aug-20) 2)CARE A4+ (CWD) (27-Jul-20) 3)CARE A2+ (CWN) (13-May-20)	1)CARE A1 (CWN) (26-Mar-20) 2)CARE A1+ (23-Oct-19) 3)CARE A1+ (23-Jul-19)	1)CARE A1+ (18-Jan-19) 2)CARE A1+ (03-Oct-18)
3	Non-fund-based - ST-BG/LC	ST	2500.00	CARE D	-	1)CARE A4 (CWN) (31-Mar-21) 2)CARE A4 (CWN) (29-Oct-20) 3)CARE A4+ (CWD) (27-Jul-20) 4)CARE A2+ (CWN) (13-May-20)	1)CARE A1 (CWN) (26-Mar-20) 2)CARE A1+ (23-Oct-19) 3)CARE A1+ (23-Jul-19)	1)CARE A1+ (03-Oct-18)
4	Commercial Paper	ST	-	-	-	1)Withdrawn (21-Aug-20) 2)CARE A4+ (CWD) (27-Jul-20) 3)CARE A2 (CWN) (13-May-20)	1)CARE A1 (CWN) (26-Mar-20) 2)CARE A1+ (23-Oct-19) 3)CARE A1+ (23-Jul-19)	1)CARE A1+ (18-Jan-19) 2)CARE A1+ (03-Oct-18)
5	Commercial Paper	ST	-	-	-	1)Withdrawn (21-Aug-20) 2)CARE A4+ (CWD) (27-Jul-20)	1)CARE A1 (CWN) (26-Mar-20) 2)CARE A1+ (23-Oct-19)	1)CARE A1+ (18-Jan-19) 2)CARE A1+ (03-Oct-18)

						3)CARE A2 (CWN) (13-May-20)	3)CARE A1+ (23-Jul-19)	
6	Commercial Paper	ST	-	-	-	1)Withdrawn (21-Aug-20) 2)CARE A4+ (CWD) (27-Jul-20) 3)CARE A2 (CWN) (13-May-20)	1)CARE A1 (CWN) (26-Mar-20) 2)CARE A1+ (23-Oct-19) 3)CARE A1+ (23-Jul-19)	1)CARE A1+ (18-Jan-19) 2)CARE A1+ (03-Oct-18)
7	Fund-based - LT-Term Loan	LT	528.00	CARE D	-	1)CARE B (CWN) (31-Mar-21) 2)CARE B (CWN) (29-Oct-20) 3)CARE BB+ (CWD) (27-Jul-20) 4)CARE A- (CWN) (13-May-20)	1)CARE A+ (CWN) (26-Mar-20) 2)CARE AA-; Negative (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (14-Mar-19) 2)CARE AA-; Stable (03-Oct-18)
8	Fixed Deposit	LT	-	-	-	1)Withdrawn (31-Mar-21) 2)CARE B (FD) (CWN) (29-Oct-20) 3)CARE BB+ (FD) (CWD) (27-Jul-20) 4)CARE A- (FD) (CWN) (13-May-20)	1)CARE A+ (FD) (CWN) (26-Mar-20) 2)CARE AA- (FD); Negative (23-Oct-19) 3)CARE AA- (FD); Negative (23-Jul-19)	1)CARE AA- (FD); Stable (14-Nov-18)
9	Debentures-Non Convertible Debentures	LT	199.00	CARE D	-	1)CARE B (CWN) (31-Mar-21) 2)CARE B (CWN) (29-Oct-20) 3)CARE BB+ (CWD) (27-Jul-20) 4)CARE A- (CWN) (13-May-20)	1)CARE A+ (CWN) (26-Mar-20) 2)CARE AA-; Negative (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (14-Mar-19)
10	Debentures-Non Convertible Debentures	LT	100.00	CARE D	-	1)CARE B (CWN) (31-Mar-21) 2)CARE B (CWN)	1)CARE A+ (CWN) (26-Mar-20) 2)CARE AA-; Negative	1)CARE AA-; Stable (14-Mar-19)

						(29-Oct-20)	(23-Oct-19)	
						3)CARE BB+ (CWD) (27-Jul-20)	3)CARE AA- ; Negative (23-Jul-19)	
						4)CARE A- (CWN) (13-May-20)		

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities :** Not Applicable

**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Debentures-Non Convertible Debentures	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT-Working Capital Limits	Simple
4	Non-fund-based - ST-BG/LC	Simple

**Annexure 5: Bank Lender Details for this Company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

## Contact us

### Media Contact

Name: Mradul Mishra  
Contact no.: +91-22-6754 3573  
Email ID: mradul.mishra@careedge.in

### Analyst Contact

Name: Hitesh Avachat  
Contact no.: 9004860007  
Email ID: hitesh.avachat@careedge.in

### Relationship Contact

Name: Saikat Roy  
Contact no.: +91-98209 98779  
Email ID: saikat.roy@careedge.in

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