

Future Supply Chain Solutions Limited

February 03, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	140.53 (Reduced from 147.00)	CARE B (CWN) (Single B) (Under Credit watch with Negative Implications)	Revised from CARE BB- (Double B Minus); Continues to be on Credit watch with Negative Implications
Short Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	140.53 (Rs. One Hundred Forty Core and Fifty-Three Lakhs Only)		
Non-Convertible Debentures	199.00	CARE B (CWN) (Single B) (Under Credit watch with Negative Implications)	Revised from CARE BB- (Double B Minus); Continues to be on Credit watch with Negative Implications
Total Long-Term Instruments	199.00 (Rs. One Hundred Ninety-Nine Core Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the bank facilities and instruments of Future Supply Chain Solutions Limited (FSC) primarily factors in deterioration in credit profile of FSC's key customer which is also the flagship entity of the Future Group i.e. Future Retail Limited (FRL) (rated CARE D). Debtors realization from Future group customers for FSC continue to remain slow leading to significant increase in collection period. The ratings of FSC continue to remain tempered by the significant exposure to FRL, deterioration in market capitalization and liquidity of the Future Group companies, considerable promoters' stake being pledged and slowdown in the macro-economic scenario due to the coronavirus pandemic. The rating of FSC draws strength from experienced management, wide spread logistical network, operational synergies with group companies, potential benefits and opportunity to further expand its footprint in the global logistics business due to its new association with a reputed global logistics player Nippon Express, Japan.

The ratings assigned to the bank facilities of FSC continue to remain on 'Credit Watch with Negative Implications' on account of the company's announced scheme of arrangement with FEL. The One-time restructuring (OTR) plan has also been implemented w.e.f. April 26, 2021. CARE will continue to monitor the scheme of arrangement with FEL and will resolve the watch once clarity emerges on the same.

Rating Sensitivities

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

- Improvement in business volumes, profitability and liquidity position of the company
- Significant reduction in promoter pledge across the group

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any other adverse events stalling the proposed deal with Reliance
- Any significant writing off debtors or impairment of assets

Detailed description of the key rating drivers

Key Rating Weakness

Subdued performance due to lingering effect of corona virus pandemic

The performance has continued to remain weak in H1FY22 so on account of lingering effect of the corona virus pandemic on the economy. Although sales have increased marginally to Rs.306.36 cr in H1FY22 from Rs. 212.31 crore in H1FY21, fixed costs and other operating costs has been eroding the profitability and network of the company. FSC has reported net loss of Rs.69.39 crore in H1FY22. Since unlock phase, operational challenges have reduced substantially compared to lockdown months. CARE notes that to reduce dependency on Future Group, FSC is pursuing new business opportunities with external customers. Pickup in business volumes and reduction in losses remains a key rating factor.

Continued weakening of credit profile and liquidity of key customer

FSC has significant financial and operational linkages with Future group (FRL being one of the largest customers) which accounts to ~65% of the total sales annually, albeit dependency on the group is expected to come down further due to business coming from companies outside Future group. Due to the coronavirus pandemic, the retail sector has been one of the most adversely affected sectors. The downward revision in credit profile of FRL primarily factors in continued liquidity stretch on account of

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

reduced cash accruals and unavailability of additional working capital limits from lenders along with decline in market capitalization leading to default in repayment of its loans.

Key Rating Strengths

Experienced promoter and management

FSC is a part of Future Group (FG), with the flagship company of group as Future Retail Limited (FRL). The group is headed by Mr. Kishore Biyani and has business interest across various sectors such as retail, FMCG, logistics, financial services etc. The promoters are supported by an experienced & qualified management team.

Strategic association with Nippon Express, Japan

In December 2019, Nippon Express (South Asia & Oceania) Pte. Ltd— a subsidiary of Nippon Express, Japan acquired 22% stake in FSC through a mix of primary and secondary issuance. The capital will be used to fund FSC's near-term growth plans. Through this partnership, Nippon Express and FSC are expected to derive significant synergies given their complementary skill sets and services offering, and gain a deeper foothold in the large and growing Indian logistics sector. The investment would allow Nippon Express and FSC to expand and explore logistics requirement across sectors in the Indian market. The deal would also help FSC access Nippon Express' Japanese and MNC clients for exploring new business opportunities in India, especially for third-party and express logistics operations

Importance to Future group in terms of providing a robust supply chain infrastructure in place

The Future group's warehousing and logistic requirements are managed by FSC and hence it is critical to the operations of the group. The inventory management module operates on state of art ERP system. The sophisticated inventory management tools allow the group entities to monitor, manage and control the inventory levels. This helps the company to manage the flow of inventory efficiently. The major group entities such as FRL & FLFL 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.

Liquidity indicator

Stretched: The liquidity of FSC also remains stretched on account of reduced cash accruals and slow realization of debtors from its customers especially FRL, which is the key customer. There have been substantial delays in receipt from group entities and subsequent receipts have not been significant. Total outstanding trade receivables as on September 30 stood at Rs.722.75 crore on a total HY income of Rs.306.36 crore as compared to outstanding trade receivables of Rs.735.88 crore as on March 31, 2021 on a total income of Rs.496.69 crore for FY21. Further the company does not have sufficient cushion in the form of free cash or liquid investments to meet any exigency. In view of stretched liquidity, FSC has also implemented OTR w.e.f April 26, 2021.

Analytical approach

Standalone, factoring linkages to Future Group

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Service Sector Companies](#)

[Policy on Withdrawal of Ratings](#)

About the Company

Future Supply Chain Solutions Limited (FSC), incorporated in March 2006, is a Future Group company with a focus on providing supply chain solutions (for non-agro products) to its group companies (anchor customers) as well as to outside companies. Future Group has wide presence in retail, consumer finance, insurance, leisure and entertainment, brand development, retail real estate development, retail media and logistics. FSC provides integrated end-to-end logistics solutions for supply chain management, and offers warehousing and distribution, multi-modal transportation and container freight stations. As of March 31, 2021, FSC operations are run through 80 distribution centres across India, covering 8.09 million ft² of warehouse space across India.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	30-09-2021 (Prov.)
Total operating income	1157.41	496.69	306.36
PBILDT	272.79	84.16	53.40
PAT	-63.88	-184.36	-69.39
Overall gearing (times)	1.24	1.46	NA
Interest coverage (times)	3.38	0.86	1.24

A: Audited; NA: Not available

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-Cash Credit	-	-	-	-	93.66	CARE B (CWN)
Non-fund-based - ST-BG/LC	-	-	-	-	0.00	Withdrawn
Term Loan-Long Term	-	-	-	-	46.87	CARE B (CWN)
Debentures-Non-Convertible Debentures	INE935Q07046 INE935Q07038	September 20, 2018	10.2%	Sept 30, 2024	199.00	CARE B (CWN)

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-Cash Credit	LT	93.66	CARE B (CWN)	-	1)CARE BB-(CWN) (22-Mar-21) 2)CARE BB-(CWN) (18-Nov-20) 3)CARE BB+(CWD) (29-Jul-20) 4)CARE A-(CWN) (15-May-20)	1)CARE A+(CWN) (26-Mar-20) 2)CARE AA-; Stable (29-Aug-19)	1)CARE AA-; Stable (14-Mar-19) 2)CARE AA-; Stable (25-Jul-18)
2	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A4 (CWN) (22-Mar-21) 2)CARE A4 (CWN) (18-Nov-20) 3)CARE A4+(CWD) (29-Jul-20) 4)CARE A2+(CWN) (15-May-20)	1)CARE A1 (CWN) (26-Mar-20) 2)CARE A1+ (29-Aug-19)	1)CARE A1+ (14-Mar-19) 2)CARE A1+ (25-Jul-18)
3	Term Loan-Long Term	LT	46.87	CARE B (CWN)	-	1)CARE BB-(CWN) (22-Mar-21) 2)CARE BB-(CWN)	1)CARE A+(CWN) (26-Mar-20) 2)CARE AA-; Stable	1)CARE AA-; Stable (14-Mar-19) 2)CARE AA-; Stable

						(18-Nov-20) 3)CARE BB+ (CWD) (29-Jul-20) 4)CARE A- (CWN) (15-May-20)	(29-Aug-19)	(25-Jul-18)
4	Debentures-Non Convertible Debentures	LT	199.00	CARE B (CWN)	-	1)CARE BB- (CWN) (22-Mar-21) 2)CARE BB- (CWN) (18-Nov-20) 3)CARE BB+ (CWD) (29-Jul-20) 4)CARE A- (CWN) (15-May-20)	1)CARE A+ (CWN) (26-Mar-20) 2)CARE AA- ; Stable (29-Aug-19)	1)CARE AA- ; Stable (20-Sep-18)
5	Commercial Paper- Commercial Paper (Carved out)	ST	-	-	-	1)Withdrawn (04-Sep-20) 2)CARE A4+ (CWD) (29-Jul-20) 3)CARE A2+ (CWN) (15-May-20)	1)CARE A1 (CWN) (26-Mar-20) 2)CARE A1+ (29-Aug-19)	1)CARE A1+ (14-Mar-19)
6	Commercial Paper- Commercial Paper (Carved out)	ST	-	-	-	1)Withdrawn (04-Sep-20) 2)CARE A4+ (CWD) (29-Jul-20) 3)CARE A2+ (CWN) (15-May-20)	1)CARE A1 (CWN) (26-Mar-20) 2)CARE A1+ (29-Aug-19)	1)CARE A1+ (14-Mar-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities - NA

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-Cash Credit	Simple
3	Non-fund-based - ST-BG/LC	Simple
4	Term Loan-Long Term	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 Ratings Ltd. 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.

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