

Future Lifestyle Fashions Limited

February 03, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	867.98 (Reduced from 873.65)	CARE C (CWD) (Single C) (Under Credit watch with Developing Implications)	Revision in credit watch from Negative Implications to Developing Implications
Short Term Bank Facilities	475.00	CARE A4 (CWD) (A Four) (Under Credit watch with Developing Implications)	Revision in credit watch from Negative Implications to Developing Implications
Total Bank Facilities	1,342.98 (Rs. One Thousand Three Hundred Forty-Two Crore and Ninety-Eight Lakhs Only)		
Non-Convertible Debentures	350.00	CARE D (Single D)	Reaffirmed
Total Long-Term Instruments	350.00 (Rs. Three Hundred Fifty Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and instruments of Future Lifestyle Fashions Limited (FLFL) primarily factors in continued poor liquidity position leading to reduced cash accruals on account of impact of COVID19. The ratings also continue to be tempered by susceptibility to economic cycles and increasing competition in the fashion retail industry. The ratings also factor in stretched liquidity position of the Future Group which has impacted the financial flexibility of the company.

The rating continues to derive strength from experienced promoters, pan India presence and established and diversified portfolio of brands.

The credit watch is revised from negative implications to credit watch with developing implications on account of successful implementation of One-time restructuring (OTR) w.e.f. April 30, 2021. The credit watch with developing implications in on account of the company's announced scheme of arrangement with FEL. CARE will continue to monitor the said scheme of arrangement and will resolve the watch once clarity emerges on the same.

Rating Sensitivities

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

Positive factors

- Improvement in credit profile of FLFL post end of pandemic on back of strong sales growth and increased contribution from private brands.
- Improvement in capital structure through equity infusion/monetisation of brands leading to overall gearing (post adoption of IndAS116) below 1.00x

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

- Delay in equity investment as envisaged

Detailed description of the key rating drivers

Key Rating Weakness

Significant deterioration in operational performance in FY21; uptick seen in H1FY22

During FY21, the operational performance was impacted due to outbreak of COVID-19 and subsequent lockdown imposed in the nation. The company, in FY21, reported net loss of Rs.933.35 crore on total income of Rs.2297.04 crore as against net loss of Rs.53.04 crore on a total income of Rs.6339.36 crore in FY20. During H1FY22, there is uptick in revenue to Rs.1152.03 crore, however the company continues to report net loss of Rs.573.17 crore.

FLFL's financial risk profile has weakened on account of disruption in operations caused by temporary shutdown of operations on the back of COVID19 pandemic. As on March 31, 2021, the capital structure has deteriorated to 5.48x as against 1.89x as on March 31, 2020 on account of net losses leading to erosion of network. Similarly debt coverage metrics such as interest coverage ratio have also deteriorated to 0.16x. For H1FY22, interest coverage stood at -0.38x as against -0.75x for H1FY21.

Significant shares pledged/encumbered by the promoter

As on December 31, 2021, the promoters of FLFL have pledged 100% of their 20.39% stake in the company. Falling market capitalisation coupled with rising debt has led to significant deterioration of debt to market-capitalisation. Considerable reduction

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

in market capitalisation and in absence of any additional cover provided by the promoters, significant amount of pledged shares have been invoked.

Deterioration in credit profile of Future Group

The share price of various Future Group entities has witnessed a steep decline. The weakening of market capitalization has impacted the financial flexibility of the group.

Intensifying competition

FLFL faces intense competition from other brick and mortar retailers like Lifestyle International, Shoppers Stop Limited, Aditya Birla Fashion, Trent Limited etc. The company also faces competition from online retailers like Amazon, Flipkart, Myntra. Heightened competition from both brick and mortar and online players could impact overall SSSG of FLFL. However, with its diverse offering with presence in premium and discount formats would support FLFL over the medium term.

Key Rating Strengths Experienced promoters

FLFL is part of the Future Group, which is one of the largest retailers in India. Mr Kishore Biyani, founder of Future group is Managing Director of FLFL. 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

As on March 31, 2021, FLFL distribution network includes 332 stores having a retail space of 7.6 million sq. ft. FLFL's fashion retail business is led by two major retail chains – Central and Brand Factory. FLFL sells the premium apparel segment through Central while the low priced apparels are sold through Brand Factory. 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 key formats 'Central' and 'Brand Factory' are the major contributors to the topline and bottomline 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. These brands are sold through Central and Brand Factory as well as through EBOs and MBOs.

FLFL's investments in nurturing such brands offer it opportunities to unlock value over a period of time. During FY20 the company had bought back investment by PE player in 'Future Speciality Retail Limited' at ~Rs.350 crore.

The company is expected to benefit from the focus on brands along with increase in retail space in the medium term.

Robust supply chain infrastructure in place

FLFL has a robust supply chain infrastructure in place which helps in achieving better operational efficiencies. The inventory management system enables it to offer and display correct merchandise assortments in the right mix, style, colour and fashion at various price points on the shelves as per the regional taste and preference. 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. 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. However, on account of temporary closure of stores, inventories couldn't be liquidated on time leading to rise in inventory days to 369 in FY21.

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: Poor

The liquidity profile of the company continues to remain poor on account of slower than anticipated recovery post easing of lockdown restrictions on account of COVID19, weakened credit profile and unavailability of external funding has significantly hampered the company's ability to generate adequate cash flows. The company's working capital limits remain fully utilised. FLFL has implemented OTR plan w.e.f. April 30, 2021.

Analytical approach: Consolidated financials of FLFL along with its subsidiaries and joint ventures are considered for analysis due to strong operational linkages.

The list of entities consolidated is provided in Annexure – 3.

Applicable Criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

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

[Policy On Curing Period](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Retail](#)

About the Company

Future Lifestyle Fashions Limited (FLFL) 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. 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. The company as on March 31, 2021 operate 332 stores having a retail space of 7.6 million sq. ft.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	30-09-2021 (Prov.)
Total operating income	6339.36	2297.04	1152.03
PBILDT	1111.97	57.93	-65.86
PAT	-53.04	-933.35	-573.17
Overall gearing (times)	1.89	5.48	NA
Interest coverage (times)	3.19	0.16	-0.38

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-4

Complexity level of various instruments rated for this company: Annexure 5

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-Term Loan	-	-	-	-	317.98	CARE C (CWD)
Fund-based - LT-Cash Credit	-	-	-	-	550.00	CARE C (CWD)
Non-fund-based - ST-Working Capital Limits	-	-	-	-	475.00	CARE A4 (CWD)
Debentures-Non-Convertible Debentures	INE452007054	November 10, 2017	8.70	November 09, 2024	350.00	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-Term Loan	LT	317.98	CARE C (CWD)	1)CARE C (CWN) (05-Apr-21)	1)CARE C (CWN) (11-Nov-20) 2)CARE BB (CWN) (15-Oct-20) 3)CARE BBB (CWD) (13-Aug-20) 4)CARE A+; Negative (12-May-20) 5)CARE AA-; Negative (17-Apr-20)	1)CARE AA-; Positive (24-Dec-19)	1)CARE AA-; Positive (12-Dec-18)
2	Fund-based - LT-Cash Credit	LT	550.00	CARE C (CWD)	1)CARE C (CWN) (05-Apr-21)	1)CARE C (CWN) (11-Nov-20) 2)CARE BB (CWN) (15-Oct-20) 3)CARE BBB (CWD) (13-Aug-20) 4)CARE A+; Negative (12-May-20) 5)CARE AA-; Negative (17-Apr-20)	1)CARE AA-; Positive (24-Dec-19)	1)CARE AA-; Positive (12-Dec-18)
3	Non-fund-based - ST-Working Capital Limits	ST	475.00	CARE A4 (CWD)	1)CARE A4 (CWN) (05-Apr-21)	1)CARE A4 (CWN) (11-Nov-20)	1)CARE A1+ (24-Dec-19)	1)CARE A1+ (12-Dec-18)

						2)CARE A4 (CWN) (15-Oct-20) 3)CARE A3 (CWD) (13-Aug-20) 4)CARE A1 (12-May-20) 5)CARE A1+ (17-Apr-20)		
4	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	1)Withdrawn (06-Aug-20) 2)CARE A1 (12-May-20) 3)CARE A1+ (17-Apr-20)	1)CARE A1+ (24-Dec-19)	1)CARE A1+ (12-Dec-18)
5	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (05-Apr-21)	1)CARE C (CWN) (11-Nov-20) 2)CARE BB (CWN) (15-Oct-20) 3)CARE BBB (CWD) (13-Aug-20) 4)CARE A+; Negative (12-May-20) 5)CARE AA-; Negative (17-Apr-20)	1)CARE AA-; Positive (24-Dec-19)	1)CARE AA-; Positive (12-Dec-18)
6	Fund-based - ST-Term loan	ST	-	-	-	-	-	1)Withdrawn (12-Dec-18)
7	Commercial Paper	ST	-	-	-	1)Withdrawn (06-Aug-20) 2)CARE A2+ (12-May-20) 3)CARE A1+ (17-Apr-20)	1)CARE A1+ (24-Dec-19) 2)CARE A1+ (23-Aug-19)	1)CARE A1+ (12-Dec-18)
8	Commercial Paper	ST	-	-	-	1)Withdrawn (06-Aug-20) 2)CARE A2+ (12-May-20) 3)CARE A1+ (17-Apr-20)	1)CARE A1+ (24-Dec-19) 2)CARE A1+ (23-Aug-19)	-
9	Debentures-Non Convertible Debentures	LT	350.00	CARE D	1)CARE D (05-Apr-21)	1)CARE D (11-Nov-20)	-	-

* Long Term / Short Term

Annexure-3: Name of the companies consolidated with FLFL

Name of the Company	Relationship	Principal Activities	Ownership (%)
			March 31, 2021
Future Trendz Limited	Subsidiary	Fashion Retail and investment in fashion Brand(s)	100.00
Future Speciality Retail Limited	Subsidiary	Fashion Retail	100.00
FLFL Travel Retail Bhubaneswar Private Limited	Joint Venture	Developing, marketing and managing retail outlets / space at Air Ports	51.00
FLFL Travel Retail Guwahati Private Limited	Joint Venture	Developing, marketing and managing retail outlets / space at Air Ports	51.00
FLFL Travel Retail West Private Limited	Joint Venture	Developing, marketing and managing retail outlets / space at Air Ports	51.00
FLFL Travel Retail Lucknow Private Limited	Joint Venture	Developing, marketing and managing retail outlets / space at Air Ports	51.00
FLFL Lifestyle Brands Limited	Joint Venture	Fashion Retail and investment in fashion Brands	49.02
Clarks Future Footwear Private Limited	Joint Venture	Fashion Retail	1.00
Holii Accessories Private Limited	Joint Venture	Fashion Retail	1.00

Annexure-4: Detailed explanation of covenants of the rated instrument / facilities - NA**Annexure 5: 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	Fund-based - LT-Term Loan	Simple
4	Non-fund-based - ST-Working Capital Limits	Simple

Annexure 6: 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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