

Future Lifestyle Fashions Limited (Revised)

April 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long-term Bank Facilities – Term Loan	323.65 (reduced from 514.39)	CARE C (CWN) (Single C) (Under Credit Watch with Negative Implications)	Continues to be on Credit watch with Negative Implications
Long-term fund based bank facilities – CC	550.00		
Short-term Bank Facilities – LC/BG	475.00	CARE A4 (CWN) (A Four) (Under Credit Watch with Negative Implications)	
Total Facilities	1,348.65 (Rs. One Thousand Three Hundred Forty-Eight Crore and Sixty-Five Lakh Only)		
Non-convertible Debenture Issue	350.00 (Rs. Three Hundred Fifty Crore Only)	CARE D (Single D)	Reaffirmed
Proposed Non-convertible Debenture Issue	-	-	Withdrawn

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

CARE has withdrawn the rating assigned to the proposed NCD issue of Future Lifestyle Fashions Limited (FLFL) with immediate effect, as the company has not raised any funds towards the aforementioned proposed NCD issue rated by us.

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 factor in ongoing default on its Non-convertible Debentures (NCD) bearing ISIN INE452007047.

FLFL had availed both phases of moratorium from lenders as part of the COVID19 - Regulatory Package announced by the RBI on March 27, 2020. Non-recognition of default in this case is as per the guidance provided by the SEBI circular SEBI/HO/MIRSD/CRADT/CIR/P/2020/53 dated March 30, 2020.

FLFL applied for the One Time Restructuring (OTR) facility vide its letter dated September 17, 2020 to all its lenders, under RBI guidelines issued on August 6, 2020. Further FLFL did not made debt repayments that were due on September 30, 2020 to its lenders as the OTR process has been initiated. Since the application for OTR has been made before the due date, CARE has not treated the same as default in line with the criteria issued on 'Analytical treatment for one-time restructuring due to COVID-19 related stress', issued on September 29, 2020. The successful implementation of restructuring remains a key rating monitorable.

The ratings also continues 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 ratings continue to be on credit watch with negative implications on account of the company's announced scheme of arrangement with FEL and OTR application. CARE will continue to monitor the progress on said scheme of arrangement and OTR application and will resolve the watch once clarity emerges on the same.

Rating Sensitivity Factors
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
- Regularising ongoing default

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

Negative Factors

- Rejection of OTR application or delays in implementation

Detailed description of the key rating drivers**Key Rating Weaknesses****Deterioration of operational performance and debt coverage metrics due to COVID-19 lockdown**

During FY20/9MFY21, the operational performance was impacted due to outbreak of COVID-19 and subsequent lockdown imposed in the nation. The company, in FY20, reported net loss of Rs. 53 crore on total income of Rs. 6,362 crore as against net profit of Rs. 189 crore on a total income of Rs. 5,755 crore in FY19. Whereas the company has reported a net loss of Rs. 784 crore on total revenue of Rs. 1484 crore in 9MFY21.

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, 2020, the capital structure has deteriorated to 1.68x as against 0.64x as on March 31, 2019 on account of net losses, increase in debt and adoption of IndAS 116. Similarly debt coverage metrics such as interest coverage ratio and total debt to GCA have also deteriorated to 3.45x and 11.65 respectively. For 9MFY21, interest coverage stood at -0.26x as against 4.12x for 9MFY20.

Significant shares pledged/encumbered by the promoter

As on December 31, 2020, the promoters of FLFL have pledged 99.51% 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 in market capitalisation and in absence of any additional cover provided by the promoters, significant amount of pledged shares have been invoked. Subsequently, the promoters' stake in FLFL has reduced to 20.39% as on December 31, 2020 as against 45.86% as on December 31, 2019.

Ongoing default

Non-Convertible debentures (NCD) issued by the company (ISIN INE452O07047) on November 9, 2017 carried Put and Call option at the end of 3rd and 4th year from issue. Two investors exercised the Put option. FLFL had requested the investors to extend the date of payment of annual interest and principal which was agreed by one of the Debenture holders. The other investors rejected the deferment proposal. Due to ongoing stress on liquidity position the company could not service principal payment of Rs. 100 crore and interest payment of Rs. 30.93 crore on its NCDs aggregating to Rs.350.00 crore and subsequently defaulted in November 2020, and the same has not been regularised.

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 December 31, 2020, FLFL distribution network includes 333 stores having a retail space of 7.5 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 during last week of FY20, inventories couldn't be liquidated leading to rise in inventory days to 154 in FY20.

Industry Outlook

The lockdown that started from March onwards continued for almost 2 months with rules and regulations for retail stores differing as per the respective state governments and municipalities. This constrained the activities of retail stores at various locations.

Besides, the retail industry will face difficulty in making payments to operational creditors and getting an extension from them amid the Covid-19 situation. However, companies with deep pocket promoters would be expected to tide over the liquidity crisis better.

Also purchases at retail stores are expected to be impacted on account of restriction in movement, social distancing and reduction in purchasing power of consumers. Thus, non-essential items like apparels, consumer durables, personal products etc. are expected to be impacted more than essential items. This subdued consumption, in turn, will affect sales of the retail industry during the year FY21.

In addition to this, the retail industry will face challenges in terms of inventories that have become out dated, liquidity issues which will impact working capital needs, cash flows etc.

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 had availed moratorium on payments as per RBI package and has also applied to lenders for One Time Restructuring (OTR) facility under RBI guidelines issued on August 6, 2020.

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 – III.

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

[Rating Methodology – Organized Retail Companies](#)

[Financials Ratio-Non Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology: Consolidation](#)

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 December 31, 2020 operate 333 stores having a retail space of 7.5 million sq. ft.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	5755	6339
PBILDT	620	1112
PAT	189	-53
Overall gearing (times)	0.71	1.89
Interest coverage (times)	3.98	3.19

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

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	-	-	Jan-2025	323.65	CARE C (CWN)
Fund-based - LT-Cash Credit	-	-	-	550.00	CARE C (CWN)
Non-fund-based - ST-Working Capital Limits	-	-	-	475.00	CARE A4 (CWN)
Debentures-Non Convertible Debentures INE452O07047	10-Nov-17	8.75	9-Nov-22	350.00	CARE D
Proposed-Non Convertible Debentures	-	-	-	-	Withdrawn

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	323.65	CARE C (CWN)	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)	1)CARE AA-; Stable (11-Jul-17)
2.	Fund-based - LT-Cash Credit	LT	550.00	CARE C (CWN)	1)CARE C (CWN) (11-Nov-20) 2)CARE BB (CWN) (15-Oct-20) 3)CARE BBB (CWD) (13-Aug-20)	1)CARE AA-; Positive (24-Dec-19)	1)CARE AA-; Positive (12-Dec-18)	1)CARE AA-; Stable (11-Jul-17)

					4)CARE A+; Negative (12-May-20) 5)CARE AA-; Negative (17-Apr-20)			
3.	Non-fund-based - ST-Working Capital Limits	ST	475.00	CARE A4 (CWN)	1)CARE A4 (CWN) (11-Nov-20) 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)	1)CARE A1+ (24-Dec-19)	1)CARE A1+ (12-Dec-18)	1)CARE A1+ (11-Jul-17)
4.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (11-Jul-17)
5.	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)	1)CARE A1+ (11-Jul-17)
6.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (11-Jul-17)
7.	Debentures-Non Convertible Debentures	LT	-	-	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)	1)CARE AA-; Stable (11-Jul-17)
8.	Fund-based - ST-Term loan	ST	-	-	-	-	1)Withdrawn (12-Dec-18)	1)CARE A1+ (11-Jul-17)
9.	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)	-
10.	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)	-	-
11.	Debentures-Non Convertible	LT	350.00	CARE D	1)CARE D (11-Nov-20)	-	-	-

	Debentures						
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Annexure-3: Name of the companies consolidated with FLFL

Name of the Company	Relationship	Principal Activities	Ownership (%)
			March 31, 2020
Future Trendz Limited	Subsidiary	Fashion Retail and investment in fashion Brand(s)	100.00
Future Speciality Retail Limited	Subsidiary	Fashion Retail	100.00
FLFL Business Services Limited	Subsidiary	Fashion Retail and related services	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: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Complex
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	Simple
4	Non-fund-based - ST-Working Capital Limits	Simple

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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