

Future Enterprises Limited

April 20, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Non-Convertible Debenture Issue	800.00 (Rs. Eight hundred crore only)	CARE D (Single D)	Revised from CARE C (Single C) rating removed from credit watch with developing implications

Details of instruments/facilities in Annexure-1

Other Rated Facilities and Instruments

Facilities	Amount (Rs. crore)	Rating
Long-term Bank Facilities – Term Loan	550.00	CARE C (CWD) (Single C) (Under Credit watch with Developing Implications)
Long-term fund based bank facilities – CC	625.00	
Short-term Bank Facilities – LC/BG	602.00	CARE A4 (CWD) (A Four) (Under Credit Watch with Developing Implications)
Total Facilities	1,777.00 (Rs. One Thousand Seven Hundred Seventy-Seven Crore Only)	
Non-Convertible Debenture Issue	100.00	CARE C (CWD) (Single C) (Under Credit watch with Developing Implications)
Non-Convertible Debenture Issue	1,824.00	CARE D (Single D)
Fixed Deposit Programme	700.00	CARE C (FD) (CWD) [Single C (Fixed Deposit)] (Under Credit watch with Developing Implications)

Detailed Rationale & Key Rating Drivers

The revision of ratings assigned to the instruments of Future Enterprises Limited (FEL) is on account of default in servicing of interest due on April 17, 2021 on its Non-convertible Debentures bearing ISIN INE623B07685 and INE623B07693. Furthermore, as per the company due to ongoing poor liquidity position it will not be in a position to service interest on NCD bearing ISIN INE623B07701 due on April 24, 2021 and hence CARE has also revised the rating of the said NCD to 'CARE D' as it is likely to be in default soon.

The other issues raised by CARE in its press release dated March 31, 2021, viz., continued poor liquidity position leading to reduced cash accruals on account of impact of COVID19, slower than anticipated recovery of business of key customers Future Retail Limited and Future Lifestyle Fashions Limited (FLFL) and ongoing defaults (FLFL) continue to constrain the ratings.

FEL 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.

FEL applied for the One Time Restructuring (OTR) facility vide its letter dated September 27, 2020 to all its lenders, under RBI guidelines issued on August 6, 2020. Further FEL 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 factor in high promoter pledge and falling market capitalisation significantly impacting financial flexibility, dependence on group companies for revenue and high working capital cycle. The rating continues to derive strength from experienced promoter group.

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

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.

Key Rating Sensitivities

Positive Factors

- Improvement in company's liquidity profile resulting from equity infusion/divestment of investments/improved credit profile of its key customer, FRL
- Regularisation of ongoing defaults and default free track record of three months

Negative Factors

- Rejection of OTR application or delays in implementation

Detailed description of the key rating drivers (As per PR dated March 31, 2021)

Key Rating Weakness

Weakened financial flexibility; considerable promoters' stake pledged: As on December 31, 2020, the promoters of FEL have pledged 99.26% of their 34.83% 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.

Continued subdued operational performance for 9MFY21 due to lingering effect of COVID19 pandemic: The quarterly performance continues to remain weak in Q3FY21 on account of lingering effect of the COVID19 pandemic on the economy. FEL has witnessed significant shrinkage in volumes from FRL and FLFL despite the government easing restrictions. Although, the financials have improved on a sequential basis, fixed costs and interest has been eroding the profitability and networth of the company. FEL has reported cash losses for 9MFY21. Pickup in business from FRL and FLFL leading to company posting profits remains a key rating factor.

Continued weakening of credit profile and liquidity of both customers: FEL provides infrastructure support to group companies and logistical support through its subsidiary Future Supply Chain Solutions Limited. The company also designs, manufactures garments for in-house brands and engages in trading for various group companies. Sale of goods and services to its group companies has shown an increasing trend. FEL is completely reliant on FRL and FLFL for its sales. Due to the COVID19 pandemic, the retail sector has been one of the most adversely affected sectors. The downward revision in credit profile of FRL and FLFL primarily factors in continued liquidity stretch on account of reduced cash accruals and unavailability of additional working capital limits from lenders along with decline in market capitalization, leading to default (FLFL). Liquidity and operating cash flow of FEL has consequently been impacted in view of the foregoing. CARE takes cognizance of the fact that FRL and FLFL both are currently undergoing restructuring and a resolution plan.

Disproportionately High Working Capital Cycle: FEL had elongated gross working capital cycle of 258 in FY20 which deteriorated from 176 days in FY19. The company sources and manufactures on behalf of group companies and goods are kept at various retail outlets across the country thereby leading to high inventory period. The company receives payment after 6-7 weeks from sale of goods. Due to the lockdown imposed to contain COVID19 pandemic towards the end of March 2020, the company could not liquidate its inventory and realise its existing debtors thereby leading to disproportionately elongated operating cycle. Furthermore, with the extension of lockdown till May 2020 led to significant deterioration in FEL's key customers' liquidity profile leading to a disproportionately high working capital cycle.

Ongoing default: Due to ongoing stress on the company's liquidity position the company defaulted on its debt obligations towards Several Non-Convertible debentures (NCD) and Commercial Papers (CP) issued 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.

Key Rating Strengths

Experienced Promoters & Management: FEL 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 a strong management team having significant experience in retail industry.

Divestment of investments to improve cash flows: FEL is looking to divest its investments across various businesses. The divestment includes stake sale in insurance and logistics business. The divestment is expected to improve the company's cash flows and the proceeds will be used towards debt reduction.

Importance to Future group in terms of sourcing and manufacturing fashion products: FEL sources and manufactures goods for Future group which is sold to the customer through FRL and FLFL's retail outlets. FEL continues to an integral part of Future group's fashion business as both FRL and FLFL, in FY20, sourced 23% and 12% of its products respectively from FEL.

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 Position: Poor

The company's liquidity profile has been severely impacted on account of lockdown measures and weakened credit profile of its key customer, FRL. FRL and FLFL both are facing severe liquidity stress. The inability of FEL to realise its debtors during COVID19 pandemic and shut down of operations during Q1FY21 led to cash crunch, increase in debtor days and subsequently default on its debt service obligations. There have been substantial delays in receipt from group entities and subsequent receipts have not been significant.

Analytical approach: Standalone

Applicable Criteria

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

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

[Financials Ratio-Non Financial Sector](#)

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

About the Company

Erstwhile Future Retail Ltd. has now been renamed as Future Enterprises Ltd. (FEL) and houses the physical assets (store formats of erstwhile FRL and Bharti Retail Limited including all the infrastructure assets situated in the stores) apart from strategic investments in various companies. The company is also in the business of manufacturing and trading of men's wear, women's wear and kid's wear in denim segment. Consequent to de-merger, the long term debt (comprising bank term loans and NCDs of erstwhile FRL) now resides in the books of FEL. FEL is also the holding company for future group's various other businesses

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	4590	4070
PBILDT	1357	1176
PAT	24	-325
Overall gearing (times)	1.81	2.15
Interest coverage (times)	2.33	1.83

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-Convertible Debentures	INE623B07685	17-Apr-18	9.75%	17-Apr-23	120.00	CARE D
	INE623B07693	17-Apr-18	9.75%	17-Apr-24	180.00	CARE D
	INE623B07701	24-Apr-18	10.00%	24-Apr-24	500.00	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	-	-	-	-	1)Withdrawn (26-Mar-20) 2)CARE AA-(CWN) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (03-Oct-18)
2.	Fund-based - LT-Term Loan	LT	550.00	CARE C (CWD)	-	1)CARE C (CWD) (31-Mar-21) 2)CARE C (CWD) (07-Jan-21) 3)CARE C (CWD) (24-Dec-20) 4)CARE C (CWD) (08-Sep-20) 5)CARE C (19-Aug-20) 6)CARE BB (CWD) (31-Jul-20) 7)CARE BBB+ (CWN) (13-May-20)	1)CARE A (CWN) (26-Mar-20) 2)CARE AA-(CWN) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (03-Oct-18)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (26-Mar-20) 2)CARE AA-(CWN) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (03-Oct-18)
4.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (26-Mar-20) 2)CARE AA-(CWN) (23-Oct-19) 3)CARE AA-;	1)CARE AA-; Stable (03-Oct-18)

							Negative (23-Jul-19)	
5.	Debentures-Non Convertible Debentures	LT	325.00	CARE D	-	1)CARE D (31-Mar-21) 2)CARE D (07-Jan-21) 3)CARE C (CWD) (24-Dec-20) 4)CARE C (CWD) (08-Sep-20) 5)CARE C (19-Aug-20) 6)CARE BB (CWD) (31-Jul-20) 7)CARE BBB+ (CWN) (13-May-20)	1)CARE A (CWN) (26-Mar-20) 2)CARE AA-(CWN) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (03-Oct-18)
6.	Fund-based - LT- Working Capital Limits	LT	625.00	CARE C (CWD)	-	1)CARE C (CWD) (31-Mar-21) 2)CARE C (CWD) (07-Jan-21) 3)CARE C (CWD) (24-Dec-20) 4)CARE C (CWD) (08-Sep-20) 5)CARE C (19-Aug-20) 6)CARE BB (CWD) (31-Jul-20) 7)CARE BBB+ (CWN) (13-May-20)	1)CARE A (CWN) (26-Mar-20) 2)CARE AA-(CWN) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (03-Oct-18)
7.	Non-fund-based - ST-BG/LC	ST	602.00	CARE A4 (CWD)	-	1)CARE A4 (CWD) (31-Mar-21) 2)CARE A4 (CWD) (07-Jan-21) 3)CARE A4 (CWD) (24-Dec-20) 4)CARE A4 (CWD) (08-Sep-20) 5)CARE A4 (19-Aug-20) 6)CARE A4 (CWD) (31-Jul-20) 7)CARE A3+ (CWN) (13-May-20)	1)CARE A1 (CWN) (26-Mar-20) 2)CARE A1+ (CWN) (23-Oct-19) 3)CARE A1+ (23-Jul-19)	1)CARE A1+ (03-Oct-18)

8.	Debentures-Non Convertible Debentures	LT	100.00	CARE C (CWD)	-	1)CARE C (CWD) (31-Mar-21) 2)CARE C (CWD) (07-Jan-21) 3)CARE C (CWD) (24-Dec-20) 4)CARE C (CWD) (08-Sep-20) 5)CARE C (19-Aug-20) 6)CARE BB (CWD) (31-Jul-20) 7)CARE BBB+ (CWN) (13-May-20)	1)CARE A (CWN) (26-Mar-20) 2)CARE AA-(CWN) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (03-Oct-18)
9.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (26-Mar-20) 2)CARE AA-(CWN) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (03-Oct-18)
10.	Debentures-Non Convertible Debentures	LT	358.00	CARE D	-	1)CARE C (CWD) (31-Mar-21) 2)CARE C (CWD) (07-Jan-21) 3)CARE C (CWD) (24-Dec-20) 4)CARE C (CWD) (08-Sep-20) 5)CARE C (19-Aug-20) 6)CARE BB (CWD) (31-Jul-20) 7)CARE BBB+ (CWN) (13-May-20)	1)CARE A (CWN) (26-Mar-20) 2)CARE AA-(CWN) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (03-Oct-18)
11.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (26-Mar-20) 2)CARE A1+ (CWN) (23-Oct-19) 3)CARE A1+ (23-Jul-19)	1)CARE A1+ (18-Jan-19) 2)CARE A1+ (03-Oct-18)
12.	Fund-based - ST-Term loan	ST	-	-	-	-	1)Withdrawn (26-Mar-20) 2)CARE A1+ (CWN)	1)CARE A1+ (03-Oct-18)

							(23-Oct-19) 3)CARE A1+ (23-Jul-19)	
13.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (26-Mar-20) 2)CARE A1+ (CWN) (23-Oct-19) 3)CARE A1+ (23-Jul-19)	1)CARE A1+ (18-Jan-19) 2)CARE A1+ (03-Oct- 18)
14.	Commercial Paper	ST	-	-	-	1)Withdrawn (13-May-20)	1)CARE A1 (CWN) (26-Mar-20) 2)CARE A1+ (CWN) (23-Oct-19) 3)CARE A1+ (23-Jul-19)	1)CARE A1+ (18-Jan-19) 2)CARE A1+ (03-Oct- 18)
15.	Debentures-Non Convertible Debentures	LT	50.00	CARE D	-	1)CARE C (CWD) (31-Mar-21) 2)CARE C (CWD) (07-Jan-21) 3)CARE C (CWD) (24-Dec-20) 4)CARE C (CWD) (08-Sep-20) 5)CARE C (19-Aug-20) 6)CARE BB (CWD) (31-Jul-20) 7)CARE BBB+ (CWN) (13-May-20)	1)CARE A (CWN) (26-Mar-20) 2)CARE AA- (CWN) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA- ; Stable (03-Oct- 18) 2)CARE AA- ; Stable (20-Sep- 18)
16.	Fixed Deposit	LT	700.00	CARE C (FD) (CWD)	-	1)CARE C (FD) (CWD) (31-Mar-21) 2)CARE C (FD) (CWD) (07-Jan-21) 3)CARE C (FD) (CWD) (24-Dec-20) 4)CARE C (FD) (CWD) (08-Sep-20) 5)CARE C (FD) (19-Aug-20) 6)CARE BB (FD) (CWD) (31-Jul-20) 7)CARE BBB+ (FD) (CWN)	1)CARE A (FD) (CWN) (26-Mar-20) 2)CARE AA- (FD) (CWN) (23-Oct-19) 3)CARE AA- (FD); Negative (23-Jul-19)	1)CARE AA- (FD); Stable (02-Nov- 18)

						(13-May-20)		
17.	Debentures-Non Convertible Debentures	LT	300.00	CARE D	-	1)CARE C (CWD) (31-Mar-21) 2)CARE C (CWD) (07-Jan-21) 3)CARE C (CWD) (24-Dec-20) 4)CARE C (CWD) (08-Sep-20) 5)CARE C (19-Aug-20) 6)CARE BB (CWD) (31-Jul-20) 7)CARE BBB+ (CWN) (13-May-20)	-	-
18.	Debentures-Non Convertible Debentures	LT	265.00	CARE D	-	1)CARE D (31-Mar-21) 2)CARE D (07-Jan-21) 3)CARE D (24-Dec-20) 4)CARE D (08-Sep-20) 5)CARE D (19-Aug-20)	-	-
19.	Debentures-Non Convertible Debentures	LT	327.00	CARE D	-	1)CARE D (31-Mar-21) 2)CARE D (07-Jan-21) 3)CARE D (24-Dec-20) 4)CARE D (23-Sep-20)	-	-
20.	Debentures-Non Convertible Debentures	LT	332.00	CARE D	-	1)CARE D (31-Mar-21) 2)CARE D (07-Jan-21) 3)CARE D (24-Dec-20) 4)CARE D (30-Sep-20)	-	-
21.	Debentures-Non Convertible Debentures	LT	150.00	CARE D	-	1)CARE D (31-Mar-21) 2)CARE D (07-Jan-21) 3)CARE D (24-Dec-20)	-	-
22.	Debentures-Non	LT	425.00	CARE D	-	1)CARE D	-	-

	Convertible Debentures					(31-Mar-21) 2)CARE D (07-Jan-21)		
23.	Debentures-Non Convertible Debentures	LT	92.00	CARE D	-	1)CARE C (CWD) (31-Mar-21) 2)CARE C (CWD) (07-Jan-21) 3)CARE C (CWD) (24-Dec-20) 4)CARE C (CWD) (08-Sep-20) 5)CARE C (19-Aug-20) 6)CARE BB (CWD) (31-Jul-20) 7)CARE BBB+ (CWN) (13-May-20)	1)CARE A (CWN) (26-Mar-20) 2)CARE AA- (CWN) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA- ; Stable (03-Oct-18)

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Debentures-Non Convertible Debentures	Complex

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.

Contact us

Media Contact

Mradul Mishra

Contact no.: 022-68374424

Email ID: mradul.mishra@careratings.com

Analyst Contact

Mr. Soumya Dasgupta

Contact no.: 9004691428

Email ID: soumy.dasgupta@careratings.com

Relationship Contact

Name: Ankur Sachdeva

Contact no.: 022-67543495

Email ID: ankur.sachdeva@careratings.com

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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