Future Retail Limited

March 31, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities – Term Loan	528.00	**CARE B (CWN) (Single B) (Under Credit watch with Negative Implications)**	**Continues to be on Credit watch with Negative Implications**
Long-term fund based bank facilities – CC	3,250.00		
Short-term Bank Facilities – LC/BG	2,500.00	**CARE A4 (CWN) (A Four) (Under Credit Watch with Negative Implications)**	
Total Facilities	**6,278.00 (Rs. Six Thousand Two Hundred Seventy-Eight Crore Only)**		
Non-Convertible Debentures	199.00	**CARE B (CWN) (Single B) (Under Credit watch with Negative Implications)**	**Continues to be on Credit watch with Negative Implications**
Proposed Non-Convertible Debentures	100.00		
Fixed Deposit Programme	-	-	**Withdrawn**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has withdrawn the rating assigned to the proposed FD programme of Future Retai Limited (FRL) with immediate effect, as the company has not raised any funds towards the aforementioned proposed FD programme rated by us.

The ratings assigned to the bank facilities and instruments of FRL primarily factors in continued poor liquidity position leading to reduced cash accruals on account of impact of COVID19 and slower than anticipated recovery of business.

FRL 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.

FRL 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 FRL 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 continue to be tempered due to increase in debt levels, significant decline in market capitalisation which along with high promoter pledge which has impacted the financial flexibility, high working capital cycle and the intense competition in 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 management and pan India presence across multiple formats.

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 the liquidity profile

Negative Factors

- Rejection of OTR application or delays in implementation

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

Detailed description of the key rating drivers

Key Rating Weakness

Deteriorated operational performance on account of COVID19 outbreak

For FY20, the company reported PBILDT and PAT of Rs. 2068 crore and Rs. 34 crore respectively on total operating income of Rs. 20202 crore. The profitability of the company got significantly impacted on account of nationwide lockdown imposed during the last 10 days of March. Further, with most of the stores shut or operating at minimal inventory caused severe disruption in company's operating cycle.

The company for 9MFY21 has reported a net loss of Rs. 2,080 crore on a total income of Rs. 4,425 crore as against net profit of Rs. 504.45 crore on a total income of Rs. 15,717 crore.

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 40-45% in FY20.

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. 5752 crore and Rs. 1747 crore respectively as on March 31, 2020.

Deterioration of debt coverage ratios; accelerated due to COVID19

The overall gearing deteriorated to 2.96x as on March 31, 2020 as against 1.30x as on March 31, 2019 on account of significant increase in debt to acquire lease assets from FEL and higher working capital borrowings, and impact of IndAS 116. Subsequently, total debt to PBILDT and Interest coverage ratios also deteriorated in FY20 to 10.34x and 2.05x as against 5.11x and 3.77x respectively in FY19.

Deterioration in financial flexibility; considerable promoters' stake pledged

As on December 31, 2020, the promoters of FRL have pledged 64.76% of their 28.00% 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 FRL has reduced to 28.00% as on December 31, 2020 as against 47.02% as on December 31, 2019.

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 106 in FY20 from 91 in FY19. 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 84 days in FY20 from 60 days in FY19. Further, on account of inability of the company to generate sales, the creditors have been further stretched in FY21.

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 15.79msf as on Dec 31, 2020. 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. The large scale of operations of Future group provides greater bargaining power with various suppliers & real estate developers.

Acquisition of assets from FEL to be margin accretive; albeit leading to higher debt
Subsequent, to the equity infusion from Amazon, FRL raised USD 500mn (Rs. 3,560 crore) through debt which are to be utilised towards acquisition of retail infrastructure assets up to Rs. 3,600 crore of FEL in one or more tranches and deleverage FEL's balance sheet. During FY19 and FY20, the total lease outflow to FEL was in the range of Rs. 600 -700 crore. Post the completion of the transaction, FRL is expected to save Rs. 550-650 crore on lease rentals annually which will result in reduction of operating costs. On account of COVID19 pandemic, the verification of assets could not be completed in FY20 and was eventually completed in H1FY21.

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 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 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 had applied to the lenders for moratorium as per RBI package, for enhancement/additional working capital limits and release of peak limits. Some banks have already released the additional working capital limits. The company has also applied to lenders for One Time Restructuring (OTR) facility under RBI guidelines issued on August 6, 2020.

Analytical approach: Standalone, factoring the debt of FEL guaranteed by FRL.

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

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 Dec 31, 2020 operates 1,282 stores with retail space of 15.79msf. The company has signed a master franchise agreement with 7-Eleven, the world's largest convenience store chain, that will open and manage the brand stores in India. Future Retail's subsidiary SHME Food Brands will open newer stores as well as convert existing locations to the 7-Eleven brand. The project is currently under pilot stage.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	20183	20152
PBILDT	1142	2189
PAT	733	34
Overall gearing (times)	1.30	2.96
Interest coverage (times)	3.77	2.05

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
Non-fund-based - ST-BG/LC	-	-	-	2500.00	CARE A4 (CWN)
Fund-based - LT-Working Capital Limits	-	-	-	3250.00	CARE B (CWN)
Fund-based - LT-Term Loan	-	-	Aug 2024	528.00	CARE B (CWN)
Debentures-Non Convertible Debentures INE752P07013	03-Jun-19	10.65%	03-Jun-22	100.00	CARE B (CWN)
Debentures-Non Convertible Debentures INE752P07021	03-Jun-19	10.65%	03-Jun-23	99.00	CARE B (CWN)
Proposed-Non Convertible Debentures	-	-	-	100.00	CARE B (CWN)
Fixed Deposit	-	-	-	-	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-Working Capital Limits	LT	3250.00	CARE B (CWN)	1)CARE B (CWN) (29-Oct-20) 2)CARE BB+ (CWD) (27-Jul-20) 3)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)	1)CARE AA-; Stable (12-Oct-17) 2)CARE AA-; Stable (17-Aug-17) 3)CARE AA-; Stable (05-May-17)
2.	Commercial Paper	ST	-	-	1)Withdrawn	1)CARE A1	1)CARE A1+	1)CARE A1+

					(21-Aug-20) 2)CARE A4+ (CWD) (27-Jul-20) 3)CARE A2+ (CWN) (13-May-20)	(CWN) (26-Mar-20) 2)CARE A1+ (23-Oct-19) 3)CARE A1+ (23-Jul-19)	(18-Jan-19) 2)CARE A1+ (03-Oct-18)	(12-Oct-17) 2)CARE A1+ (20-Sep-17) 3)CARE A1+ (17-Aug-17) 4)CARE A1+ (05-May-17)
3.	Non-fund-based - ST-BG/LC	ST	2500.00	CARE A4 (CWN)	1)CARE A4 (CWN) (29-Oct-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+ (03-Oct-18)	1)CARE A1+ (12-Oct-17) 2)CARE A1+ (17-Aug-17) 3)CARE A1+ (05-May-17)
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)	1)CARE A1+ (20-Nov-17) 2)CARE A1+ (12-Oct-17) 3)CARE A1+ (20-Sep-17) 4)CARE A1+ (17-Aug-17) 5)CARE A1+ (05-May-17)
5.	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)	1)CARE A1+ (20-Nov-17) 2)CARE A1+ (12-Oct-17) 3)CARE A1+ (20-Sep-17) 4)CARE A1+ (17-Aug-17) 5)CARE A1+ (05-May-17) 6)CARE A1+ (20-Apr-17)
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)	1)CARE A1+ (20-Nov-17)
7.	Fund-based - LT-Term Loan	LT	528.00	CARE B (CWN)	1)CARE B (CWN) (29-Oct-20)	1)CARE A+ (CWN)	1)CARE AA-; Stable	1)CARE AA-; Stable

					2)CARE BB+ (CWD) (27-Jul-20) 3)CARE A- (CWN) (13-May-20)	(26-Mar-20) 2)CARE AA-; Negative (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	(14-Mar-19) 2)CARE AA-; Stable (03-Oct-18)	(20-Nov-17)
8.	Fixed Deposit	LT	-	-	1)CARE B (FD) (CWN) (29-Oct-20) 2)CARE BB+ (FD) (CWD) (27-Jul-20) 3)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 B (CWN)	1)CARE B (CWN) (29-Oct-20) 2)CARE BB+ (CWD) (27-Jul-20) 3)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 B (CWN)	1)CARE B (CWN) (29-Oct-20) 2)CARE BB+ (CWD) (27-Jul-20) 3)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)	-

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.	Fixed Deposit	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Fund-based - LT-Working Capital Limits	Simple
5.	Non-fund-based - ST-BG/LC	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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About CARE Ratings:

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