

**Future Consumer Limited**  
**March 26, 2020**

**Ratings**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities (Fund-based)	266	<b>CARE A (Single A) (Credit watch with negative implications)</b>	<b>Placed on credit watch with negative implications</b>
Short-term Bank Facilities (Fund-based)	70	<b>CARE A1 (A One) (Credit watch with negative implications)</b>	<b>Placed on credit watch with negative implications</b>
Short-term Bank Facility (Non-fund-based)	25	<b>CARE A1 (A One) (Credit watch with negative implications)</b>	<b>Placed on credit watch with negative implications</b>
Long/Short-term Bank Facilities (Fund-based)	109	<b>CARE A/CARE A1 (Single A/A One) (Credit watch with negative implications)</b>	<b>Placed on credit watch with negative implications</b>
Long-term Bank Facility (Term Loan)	50	<b>CARE A (Single A) (Credit watch with negative implications)</b>	<b>Placed on credit watch with negative implications</b>
<b>Total</b>	<b>520 (Rs. Five hundred and twenty crore only)</b>		
Short term instruments- Commercial Paper	100	<b>CARE A1 (A One) (Credit watch with negative implications)</b>	<b>Placed on credit watch with negative implications</b>
Long term instruments: Non-convertible debentures	40	<b>CARE A (Single A) (Credit watch with negative implications)</b>	<b>Placed on credit watch with negative implications</b>

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

*CARE has placed the ratings assigned to the facilities/ instruments of Future Consumer Limited (FCL) under 'Credit Watch with Negative Implications'.*

*The rating action follows a sharp decline in the share prices of the Future group companies which has impacted the overall financial flexibility of the group and restricted the ability to raise further capital. The rating action was also triggered by the likely adverse impact of the nationwide lockdown for a period of 21 days starting from March 25, 2020. The spread of the coronavirus has picked up pace over the last few weeks in India and in light of this, it was extremely difficult to control the contagion without drastic measures which thereby resulted in Government*

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

*imposing this country wide lockdown for 21 days. CARE also notes that FCL derives significant revenues from Future Group outlets whose business operations are also under immense pressure due to the ongoing coronavirus crisis. FCL is a food company, which supplies food, staples and essentials which are exempt from the lockdown, hence business impact is expected to be not very significant. However, the company is facing challenges in terms of supply chain and intermittent operations of Future group's retail outlets where its products are readily available. The coronavirus crisis has thus created a ripple effect on the entire value chain that supports the business operations of the Future Group of which FCL forms an essential part.*

*CARE shall be continuously monitoring the coronavirus crisis and its impact on the business, financial risk profile and liquidity position of the company during this period. CARE may remove the ratings from watch, and would take a final action on the ratings once clarity emerges on these issues.*

*The ratings continue to derive strength from a stable operational performance in FY19, 9MFY20 and adequate liquidity position resulting from a stable operating cycle. FCL had raised funds in the form of equity linked instruments in Q1FY20 which are being used towards reduction of existing debt, working capital requirements and financial support for operations, debt servicing etc. for its subsidiaries/JV's, some of which are in nascent stage of operations. Further, the ratings continue to derive strength from the experienced promoter group of FCL in retail sector as well as its presence across the fast moving consumer goods (FMCG) value chain – from sourcing and processing, to branding and distribution in rural and urban markets. The ratings also factor in the established private label FMCG brands of the company.*

*The rating strengths are however tempered by low profitability, losses in some of the subsidiaries and funding support needed from FCL for the same, intense competition from organised and unorganised sector players, uncertainty on account of the coronavirus crisis and weakened financial flexibility of the parent group.*

### **Key Rating Sensitivities**

#### **Positive**

- Improvement in profitability along with strengthening of the capital structure across the Future group entities, and improved financial flexibility for the group could impact the rating of FCL favorably.

#### **Negative**

- Further decline in the credit profile of the group due to the impact of coronavirus crisis
- Significant weakening in the profitability and debt coverage indicators below existing level

### **Detailed description of the key rating drivers**

#### **Key Rating Strengths**

##### ***Experienced promoter group***

FCL is part of the Future Group, which is one of the largest retailers in India with Future Retail Ltd (FRL) being the flagship company of the group. The promoters of FCL are involved in the management of business and in defining and monitoring the business strategy for the company and have been successful in building and scaling up of value retail business in the country. Furthermore, the promoters are supported by a strong management team having significant experience in the FMCG and retail industry.

##### ***Capitalization of balance sheet leading to net debt reduction***

FCL has raised around Rs. 300 crore equity in Q1FY20 which is being utilised towards repayment of debt, development and expansion of manufacturing and processing operations for food and home & personal care products, expansion of its rural distribution network and working capital requirement. Total outstanding borrowings of FCL (Standalone) has come down from Rs. 735 crore as on March 31, 2019 to Rs. 648 crore as on September 30, 2019. According to the management, some of the subsidiaries/JVs' of FCL are currently in nascent stage which are expected to be operational within the next 1-2 years until which financial support will be necessarily

required from FCL. The fund requirement towards the same is expected to be met out of the equity proceeds. Further, additional equity infusion of Rs. 50 crore is tied up and expected to be received in the next 1-2 quarters.

***Wide presence across FMCG value chain along with strong marketing, distribution network and optimized supply chain management***

FCL is focused on developing an integrated strategy with presence across the FMCG value chain – from sourcing and processing, to branding and distribution in rural and urban markets. On a standalone basis, FCL has various business verticals viz. Private Brands (through contract manufacturing), fruits and vegetable sourcing, Agri-sourcing and processing. FCL constantly expands its product portfolio and has recently entered the dairy product segment and organic food segments with strategic tie-up from overseas brands. FCL distributes the Private Brands majorly to FRL (as per the requirement placed) which retails them through Big Bazaar and Food Bazaar networks. Big Bazaar is one of the largest value store chain in the country. Moreover, the company also sells through small stores format of Future group (Easy day and Heritage). FCL operates under an asset light business model, wherein warehouses are on long term lease basis and company invests in equipment/infrastructure required for the warehouse management. The warehouses help manage the supply chain activities of the private brands in the proximity areas. FCL also has an integrated food park in Tumkur, equipped to manufacture a wide range of FMCG products.

***Stable operational performance***

FCL's TOI has improved by 24% from FY18 to FY19. Increase in revenue in FY19 is mainly due to increase in income from private brands of the company which generates relatively better margin, and expansion of the distribution channel translating into higher sales volumes. PBILDT margin also improved from 4.16% in FY18 to 5.28% in FY19. FCL has now shifted its focus on expanding margins and achieving higher profitability with higher contribution of value -added products. During 9MFY20, FCL reported Total Operating Income of Rs. 2337.70 crore and PBILDT of Rs. 122.30 crore. FCL also carried out some rationalization of their product portfolio by focusing on core brands and categories and discontinuing those products not delivering desired revenue/return. FCL announced its online distribution tie-up with e-retailer giant Amazon for its portfolio of brands which is expected to increase share of sales outside Future group.

**Key Rating Weaknesses**

***Significant exposure in subsidiaries/Joint ventures***

FCL has been supporting its subsidiaries/JV's by providing loans as well as making investments/providing corporate guarantee to their debt for supporting their expansion plans. As on March 31, 2019, FCL on a standalone basis had investments of Rs. 706.20 crore (P.Y. Rs. 670.54 crore) in its various subsidiaries/JVs. These companies are engaged into procurement, trading, manufacturing, etc of FMCG goods. Total investments as on September 30, 2019 was Rs. 712.27 crore. Losses were incurred mainly due to expenses in subsidiaries/JVs which were yet to commence commercial operations. The management has always been constantly monitoring all their business verticals and taking steps to identify and address key weaknesses. CARE estimates that further support to the extent of Rs. 100 crore to Rs. 150 will continue to be given to these entities in the next 1-2 years till their operations stabilize.

***Intense competition from organised and unorganised sector players***

Indian FMCG market is characterized by a large number of organised and unorganised players. The domestic organised sector comprises of some of the world's biggest giants in this business. As a result, they are better positioned to command a higher price as well as quality edge over the competitors. Overall, the FMCG market remains highly fragmented with widespread use of unbranded and unpacked products. Additionally, the company's products are also affected by the general economic environment along with inflation at both wholesale and retail level.

***Coronavirus crisis and its resultant impact on the overall Future Group***

CARE also notes that FCL derives significant revenues from Future Group outlets whose business operations are also under immense pressure due to the ongoing coronavirus crisis. FCL is a food company, which supplies food, staples and essentials which are exempt from the lockdown, hence business impact is expected to be not very significant. However, the company is facing challenges in terms of supply chain and intermittent operations of Future group's retail outlets where its products are readily available. There has also been a sharp decline in the

share prices of the Future group companies which has impacted the overall financial flexibility of the group and restricted the ability to raise further capital. This is primarily in line with the sharp decline witnessed in prices of most stocks at present, led by the concerns relating to global economic slowdown due to coronavirus outbreak. Thus, the coronavirus crisis has created a ripple effect on the entire value chain that supports the business operations of the Future Group of which FCL forms an essential part.

**Liquidity:** Adequate

The working capital cycle of FCL increased from 55 days in FY18 to 61 days in FY19 mainly due to increase in collection period. FCL grants around one month of credit period to its debtors (around 82% of the sales are made to FRL) and enjoys one month credit period from its suppliers. The company generally maintains one month's inventory. CARE notes that post infusion of equity the utilization of fund-based working capital bank lines has been coming down significantly with an average utilization of 71% during 12 months ended December 31, 2019 thereby leaving some liquidity buffer. From the equity proceeds, ~ Rs. 75 crore is available towards upcoming debt repayments and operational requirements. Debt repayment obligation for FY21 is Rs. 56 crore.

**Analytical approach:** Standalone financials of FCL are considered with factoring in all the support provided to subsidiaries and JVs.

**Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Rating Methodology - Wholesale Trading](#)

**About the Company**

Future Consumer Ltd. (FCL, erstwhile known as Future Consumer Enterprise Ltd.) is a part of the Future Group and operates as a food company. The company's line of business include branding, marketing, sourcing, manufacturing, and distribution of basic foods, ready to eat meals, snacks, beverages, dairy, personal hygiene and home care products of private label brands of the Future Group (such as Premium Harvest, Golden Harvest, Ektaa, Clean mate, Caremate, Tasty Treat, Fresh & Pure, Voom etc.) and other brands like Sunkist and Sach, primarily through Future group formats and outlets in urban and rural areas across India. As on March 31, 2019, the company has a portfolio of more than 27 brands across 70 key product categories.

Brief Financials (Rs. crore) (Standalone)	FY18 (A)	FY19 (A)	9MFY20 (UA)
Total operating income	2468.30	3048.77	2337.70
PBILDT	102.57	161.06	122.30
PAT	32.35	60.53	40.60
Overall gearing (times)	0.49	0.62	-*
Interest coverage (times)	2.25	2.44	1.86

A: Audited; UA: Unaudited;

\*Debt as on December 31, 2019 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

**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/ ST-Bills discounting/ Bills purchasing				109.00	CARE A / CARE A1 (Under Credit watch with Negative Implications)
Fund-based - LT-Cash Credit				266.00	CARE A (Under Credit watch with Negative Implications)
Fund-based - ST-Term loan				70.00	CARE A1 (Under Credit watch with Negative Implications)
Non-fund-based - ST-BG/LC				25.00	CARE A1 (Under Credit watch with Negative Implications)
Fund-based - LT-Term Loan			Feb-25	50.00	CARE A (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures		9.95%-11%	Sep-20	40.00	CARE A (Under Credit watch with Negative Implications)
Commercial Paper	-	-	-	100.00	CARE A1 (Under Credit watch with Negative Implications)

**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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT/ ST-Bills discounting/ Bills purchasing	LT/ST	109.00	CARE A / CARE A1 (Under watch with negative implications)	1)CARE A; Stable / CARE A1 (20-Sep-19)	1)CARE A; Stable / CARE A1 (11-Feb-19) 2)CARE A; Stable / CARE A1 (03-Oct-18) 3)CARE A; Stable / CARE A1 (19-Apr-18)	1)CARE A; Stable / CARE A1 (04-Oct-17)	1)CARE A; Stable / CARE A1 (28-Dec-16) 2)CARE A / CARE A1 (19-Jul-16) 3)CARE A- / CARE A1 (12-Apr-16)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
2.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (03-Oct-18)	1)CARE A; Stable (04-Oct-17)	1)CARE A; Stable (28-Dec-16) 2)CARE A (19-Jul-16) 3)CARE A- (12-Apr-16)
3.	Fund-based - LT-Cash Credit	LT	266.00	CARE A (Under Credit watch with Negative Implications)	1)CARE A; Stable (20-Sep-19)	1)CARE A; Stable (11-Feb-19) 2)CARE A; Stable (03-Oct-18) 3)CARE A; Stable (19-Apr-18)	1)CARE A; Stable (04-Oct-17)	1)CARE A; Stable (28-Dec-16) 2)CARE A (19-Jul-16) 3)CARE A- (12-Apr-16)
4.	Fund-based - ST-Term loan	ST	70.00	CARE A1 (Under Credit watch with Negative Implications)	1)CARE A1 (20-Sep-19)	1)CARE A1 (11-Feb-19) 2)CARE A1 (03-Oct-18) 3)CARE A1 (19-Apr-18)	1)CARE A1 (04-Oct-17)	1)CARE A1 (28-Dec-16) 2)CARE A1 (19-Jul-16) 3)CARE A1 (12-Apr-16)
5.	Non-fund-based - ST-BG/LC	ST	25.00	CARE A1 (Under Credit watch with Negative Implications)	1)CARE A1 (20-Sep-19)	1)CARE A1 (11-Feb-19) 2)CARE A1 (03-Oct-18) 3)CARE A1 (19-Apr-18)	1)CARE A1 (04-Oct-17)	1)CARE A1 (28-Dec-16) 2)CARE A1 (19-Jul-16) 3)CARE A1 (12-Apr-16)
6.	Commercial Paper	ST	100.00	CARE A1 (Under Credit watch with Negative Implications)	1)CARE A1 (20-Sep-19)	1)CARE A1 (03-Oct-18)	1)CARE A1 (04-Oct-17) 2)CARE A1 (10-Jul-17)	-
7.	Fund-based - LT-Term Loan	LT	50.00	CARE A (Under Credit watch with Negative Implications)	1)CARE A; Stable (20-Sep-19)	1)CARE A; Stable (11-Feb-19) 2)CARE A; Stable (03-Oct-18) 3)CARE A; Stable (19-Apr-18)	1)CARE A; Stable (04-Oct-17)	1)CARE A; Stable (28-Dec-16)



Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
8.	Debentures-Non Convertible Debentures	LT	40.00	CARE A (Under Credit watch with Negative Implications)	1)CARE A; Stable (20-Sep-19)	1)CARE A; Stable (03-Oct-18)	1)CARE A; Stable (04-Oct-17)	1)CARE A; Stable (20-Mar-17)

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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##### **About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

##### **Disclaimer**

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