Future Consumer Limited

July 10, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Commercial Paper	100.00	**CARE A1 (A One)**	**Assigned**
Total Facilities	**100.00 (Rupees One hundred crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the Commercial Paper issue of Future Consumer Ltd. (FCL, erstwhile Future Consumer Enterprise Ltd.) takes into account satisfactory liquidity position resulting from stable operating cycle, successful raising of equity of Rs.450.60 crore in FY17 and improvement in operational performance in FY17 on account of hiving off of loss making convenience store business in Feb 2016. 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, and intense competition from organised and unorganised sector players.

The ability of the company to achieve its revenues with improvement in margins and gearing levels as envisaged remains critical from credit perspective.

Detailed description of the key rating drivers

Key Rating Strengths

Successful equity infusion leading to improvement in capital structure

The overall gearing improved from 0.71x as on March 31, 2016 to 0.42x as on March 31, 2017 primarily due to repayment of debt. In December 2015, the board of FCL proposed to raise equity of USD55mn (Rs. 366.85 crore) through equity linked instruments. The said transaction was through:

a) issuance of CCD of USD 45mn @Rs.22.73 per share to Proterra Investment Partners (PIP).
b) issuance of USD10 mn of equity through warrants exercisable after 18 months from allotment date to Promoter and /or Promoter Group entities.

The promoters have already infused Rs.16.75 crore in FY16, the balance Rs.50.25 crore is expected to be infused in FY18. The money from PIP (Rs. 299.85 crore) came in April 2016, following which the company prepaid debt of around Rs.163.31 crore which has led to further improvement in coverage indicators. The balance funds has been utilised for funding various expansion plans and business initiatives of the company.

Further, in May 2016, FCL proposed to raise equity of USD20mn (Rs.134.00 crore) through equity linked instruments. The said transaction shall be through:

a) issuance of CCD of USD 20mn @Rs.22.73 per share to International Finance Corporation (IFC)
b) Issuance of 100 equity shares @Rs.22.73 per share to IFC.

The funds raised has been used to fund the various expansion plans and business initiatives of the company and to strengthen the balance sheet of FCL.

The ability of the company to further reduce relaiance on debt and reduce the overall gearing as envisaged remains a key rating sensitivity.

Integrated presence across the FMCG value chain

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 and Convenience Stores (KB Fair Price and Big Apple).

Experienced promoter group

FCL is part of the Future Group, which is one of the largest retailers in India with Future Enterprises Ltd. being the flagship company of the group. The promoters of FCL are involved in the management of business and in defining and

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

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.

Wide marketing and distribution network and optimized supply chain management
Apart from the convenience stores- KB's Fair Price and Big Apple, 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 with 235 stores encompassing 10.18 million sq. ft. of retail space as at the end of March 2017. Easyday on the other hand is primarily engaged in merchandising of food products with store count of 538 stores respectively as at the end of March 2017. Moreover, in FY17, FCL has tied up with Star Bazaar for selling its products (outright sale) through its channel.

Key Rating Weaknesses
Improvement in operational performance , however low margins
Total revenue of FCL increased from Rs.1,368.33 crore in FY16 to Rs.1,679.44 crore in FY17. FCL registered a profit of Rs.62.19 crore at PBILDT level in FY17 as compared to profit of Rs.21.45 crore in FY16 on a standalone basis. The PBILDT margin improved mainly due to increased composition of high margin private labels and focus on more value added products, stabilisation of operations and reduction in distribution cost and transfer of loss making convenience stores segment to FEL from February 2016 onwards. The company also generated PAT of Rs.7.78 crore on account of substantial reduction in interest cost and depreciation.However, the working capital cycle of the company marginally also increased from 42 days in FY16 to 51 days in FY17 mainly on account of rise in collection days. The average working capital related bank limits utilisation for the last 12 months ending May 2017 stood at 56%.

At the consolidated level, around 75% of the total revenue in FY17 comes from FCL (standalone). The losses at PAT level deccreased from Rs.124.99 crore in FY16 to Rs.61.00 crore in FY17 mainly due to reduction in losses incurred by FCL (Standalone).

Intense competition from organised and unorganised sector players
Indian FMCG market is characterized by a large number of organised and unorganised players with duplicate products being rampant. 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.

Analytical approach:
Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology - Wholesale Trading
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments

About the Company
Future Consumes Limited (FCL, erstwhile Future Consumer Enterprise Ltd) is a part of the Future Group and distributes private label FMCG brands of the Future group (mainly *Clean Mate*, *Care Mate*, *Tasty Treat* and *Fresh & Pure*) and other brands like Sunkist and Sach, primarily through Future Group formats in urban and rural areas. Till January 31, 2016, FCL also used to operate retail formats (Aadhar, KB's Fairprice and Big Apple), however the same have been transferred to Future Retail Ltd. (FRL) with effect from February 01, 2016.
Earlier the company was engaged in Non-Banking Financial Company (NBFC) activities and has already surrendered its NBFC Certificate of Registration to the Reserve Bank of India (RBI) during May 2013. The confirmation by RBI has also been received in August 2015.
On January 30, 2015, the High Court approved the amalgamation of Future Agrovet Ltd. with its holding company FCL with effect from April 01, 2014. FAL was primarily engaged in agro-retail operations by way of sourcing of various agro commodities for Future Group entities.

During FY17 (refers to the period April 1 to March 31), FCL registered a PAT of Rs.7.78 crore on total operating income of Rs.1679.44 crore on a standalone basis. On a consolidated basis, the company posted net loss of Rs.61.00 crore on a total operating income of Rs.2140.88 crore during FY17.

Brief Financials (Rs. crore) (Standlaone)	FY16 (A)	FY17 (Provisional)
Total operating income	1368.33	1679.44
PBILDT	21.45	62.19
PAT	-63.55	7.78
Overall gearing (times)	0.71	0.42
Interest coverage (times)	0.41	1.68

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA
Rating History for last three years: Please refer Annexure-2

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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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
Commercial Paper	-	-	-	100.00	CARE A1

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT/ ST-Bills discounting/ Bills purchasing	LT/ST	40.00	CARE A; Stable / CARE A1	-	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)	1)CARE A- / CARE A1 (06-Apr-15)	-
2.	Debentures-Non Convertible Debentures	LT	100.00	CARE A; Stable	-	1)CARE A; Stable (28-Dec-16) 2)CARE A (19-Jul-16) 3)CARE A- (12-Apr-16)	1)CARE A- (06-Apr-15)	-
3.	Fund-based - LT-Cash Credit	LT	240.00	CARE A; Stable	-	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	20.00	CARE A1	-	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	40.00	CARE A1	-	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	-	-	-	-
7.	Fund-based - LT-Term Loan	LT	27.00	CARE A; Stable	-	1)CARE A; Stable (28-Dec-16)	-	-
8.	Debentures-Non Convertible Debentures	LT	100.00	CARE A; Stable	-	1)CARE A; Stable (20-Mar-17)	-	-

CARE Ratings Professional Risk Opinion

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CIN - L67190MH1993PLC071691