

Future Consumer Limited
 September 8, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities (Fund-based CC)	266	CARE C (Single C)	Revised from CARE BB (Double B) rating removed from credit watch with developing implications
Short-term Bank Facilities (Fund-based)	70	CARE A4 (A Four)	Reaffirmed (rating removed from credit watch with developing implications)
Short-term Bank Facility (Non-fund-based)	25	CARE A4 (A Four)	Reaffirmed (rating removed from credit watch with developing implications)
Long/Short-term Bank Facilities (Fund-based)	109	CARE C/CARE A4 (Single C/A Four)	Revised from CARE BB/ CARE A4 (Double B/A Four) (Rating removed from credit watch with developing implications)
Long-term Bank Facility (Term Loan)	45.50	CARE C (Single C)	Revised from CARE BB (Double B) rating removed from credit watch with developing implications
Total	515.50 (Rs. Five hundred and fifteen crore and fifty lakhs only)		
Long term instruments: Non-convertible debentures (NCD)	20	CARE D (Single D)	Revised from CARE BB (Double B) rating removed from credit watch with developing implications

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision of ratings assigned to the Long-Term Instruments of Future Consumer Limited (FCL) is on account of delay in servicing of its interest and principal due on September 5, 2020 on its Non-Convertible Debentures (NCD's) bearing ISIN INE220J07113. The default is primarily on account of poor liquidity position due to subsequent lockdowns in the wake of corona virus pandemic (Covid19). The pandemic has led to a general slowdown in the economy impacting the cash cycle and increased likelihood of delay of collection of receivables.

The other issues raised by CARE in its press release dated July 27, 2020, i.e. weakened credit profile of its key customer – Future Retail Limited (FRL), weakening of company's operational performance, decline in overall market capitalization of Future Group due to high promoter pledge thereby impacting financial flexibility, dependence on group companies for revenue and high working capital cycle continue to constrain the ratings.

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

Consequently, the ratings for other bank facilities have also been revised as there is a very high risk of default regarding timely servicing of financial obligations on its own capability. The ratings have now been removed from credit watch.

The ratings factor in the experienced promoter group of FCL in retail sector as well as its presence across the fast moving consumer goods (FMCG) value chain. CARE notes that the Future Group has entered into an agreement with Reliance Group for asset/stake sale. An update about the upcoming transaction is provided in our Press Release (Credit Update) dated September 8, 2020. Early consummation of the transaction (subject to receipt of regulatory approvals) is critical towards alleviation of Future Group's current liquidity issues. The timeliness of consummation of the aforementioned transaction remains key rating monitorable. Going forward, upon the proposed transaction being effective, it is understood that FCL as an entity shall stand dissolved. CARE shall continue to monitor the developments pertaining to FCL until occurrence of such event.

Key Rating Sensitivities

Positive

- Strong and resilient recovery in operations and cash flows across the Future Group. Commensurate infusion of equity/monetization of assets to trim existing debt could also be positive for the rating.
- Stronger-than-anticipated business performance due to fast ramp-up of operations and cost optimization measures leading to improvement of PBILDT margin

Negative

- Delay in external financing support could increase the probability of default for other bank facilities/instruments.

Detailed description of the key rating drivers

Key Rating Weaknesses

Weakening of credit profile and liquidity of key customer

FCL has significant financial and operational linkages with FRL which is its largest customer accounting for almost 80% of its sales annually. Due to the coronavirus pandemic, the retail sector has been one of the most adversely affected following the lockdown imposed by the Government and its subsequent extensions. With relaxations permitted, FRL's sales are expected to improve, however CARE estimates the recovery to be slower than expected. The monthly sales of FRL and FCL are yet to reach pre-pandemic levels.

Loss reported in FY20 on account of provisioning and impairment loss on investments

On account of challenging business scenario exacerbated by coronavirus pandemic, FCL has provided for expected credit loss (ECL) of Rs.79 crore in receivables for FY20. This factors those debtors where there is a likelihood of delay although historically the company has not witnessed any significant write-offs. These debts are majorly outstanding from its key customer FRL which is currently facing liquidity issues. FCL has also booked impairment loss of Rs. 276 crore on certain investments in its subsidiaries i.e. Aadhaar Wholesale Trading and Distribution Limited and The Nilgiri Dairy Farm Private Limited, whose business prospects are also being impacted.

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 who enjoy strong brand equity in the market while also commanding the highest market share. Overall, the FMCG market remains highly fragmented with widespread use of unbranded and unpacked products.

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.

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.

Liquidity: Poor

The company's liquidity has been severely impacted on account of lockdown measures. The company has applied to the lenders for moratorium as per RBI package. The group has applied to the bankers for enhancement in working capital limits and COVID19 emergency lines to alleviate present liquidity concerns.

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

Entities for which financial support is factored

Integrated food park Ltd.

Aussee Oats India Limited

MNS Food Private Ltd.

Sublime Food Private Ltd.

The Nilgiri Dairy Farm Private Limited

Hain Future Natural Products Pvt Ltd

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

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

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

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

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.

Brief Financials (Rs. crore) (Standalone)	FY19 (A)	FY20 (Abridged)
Total operating income	3048.77	3026.10
PBILDT	161.06	146.70*
PAT	60.53	-305.70
Overall gearing (times)	0.62	0.47
Interest coverage (times)	2.44	2.67

A: Audited; UA: Unaudited;

*before Expected Credit Loss

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 C / CARE A4
Fund-based - LT-Cash Credit	-	-	-	266.00	CARE C
Fund-based - ST-Term loan	-	-	-	70.00	CARE A4
Non-fund-based - ST-BG/LC	-	-	-	25.00	CARE A4
Fund-based - LT-Term Loan	-	-	Feb-25	45.50	CARE C
Debentures-Non Convertible Debentures INE220J07113	Sep 2017	9.95%	Sep 5, 2020	20.00	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 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/ ST-Bills discounting/ Bills purchasing	LT/ST	109.00	CARE C / CARE A4	1)CARE BB / CARE A4 (Under Credit watch with Developing Implications) (27-Jul-20) 2)CARE A- / CARE A2+ (Under Credit watch with	1)CARE A / CARE A1 (26-Mar-20) 2)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)	1)CARE A; Stable / CARE A1 (04-Oct-17)

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
					Negative Implications) (15-May-20)		3)CARE A; Stable / CARE A1 (19-Apr-18)	
2.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (03-Oct-18)	1)CARE A; Stable (04-Oct-17)
3.	Fund-based - LT-Cash Credit	LT	266.00	CARE C	1)CARE BB (Under Credit watch with Developing Implications) (27-Jul-20) 2)CARE A- (Under Credit watch with Negative Implications) (15-May-20)	1)CARE A (Under Credit watch with Negative Implications) (26-Mar-20) 2)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)
4.	Fund-based - ST-Term loan	ST	70.00	CARE A4	1)CARE A4 (Under Credit watch with Developing Implications) (27-Jul-20) 2)CARE A2+ (Under Credit watch with Negative Implications) (15-May-20)	1)CARE A1 (Under Credit watch with Negative Implications) (26-Mar-20) 2)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)
5.	Non-fund-based - ST-BG/LC	ST	25.00	CARE A4	1)CARE A4 (Under Credit watch with Developing Implications) (27-Jul-20) 2)CARE A2+ (Under Credit watch with Negative Implications) (15-May-20)	1)CARE A1 (Under Credit watch with Negative Implications) (26-Mar-20) 2)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)
6.	Commercial Paper	ST	-	-	1)Withdrawn (04-Sep-20)	1)CARE A1 (Under Credit	1)CARE A1 (03-Oct-18)	1)CARE A1

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
					2)CARE A4 (Under Credit watch with Developing Implications) (27-Jul-20) 3)CARE A2+ (Under Credit watch with Negative Implications) (15-May-20)	watch with Negative Implications) (26-Mar-20) 2)CARE A1 (20-Sep-19)		(04-Oct-17) 2)CARE A1 (10-Jul-17)
7.	Fund-based - LT-Term Loan	LT	45.50	CARE C	1)CARE BB (Under Credit watch with Developing Implications) (27-Jul-20) 2)CARE A- (Under Credit watch with Negative Implications) (15-May-20)	1)CARE A (Under Credit watch with Negative Implications) (26-Mar-20) 2)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)
8.	Debentures-Non Convertible Debentures	LT	20.00	CARE D	1)CARE BB (Under Credit watch with Developing Implications) (27-Jul-20) 2)CARE A- (Under Credit watch with Negative Implications) (15-May-20)	1)CARE A (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE A; Stable (20-Sep-19)	1)CARE A; Stable (03-Oct-18)	1)CARE A; Stable (04-Oct-17)

Annexure 3: Note on Complexity of the instrument

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Fund-based - LT/ ST-Bills discounting/ Bills purchasing	Simple
5.	Fund-based - ST-Term loan	Simple
6.	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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