Future Supply Chain Solutions Limited

May 15, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities-CC	97.00	**CARE A- (Single A Minus) (Credit watch with negative implications)**	**Revised from CARE A+ (Single A Plus) Continues to be on credit watch with negative implications**
Long-term Bank Facilities-Term Loan	50.00	**CARE A- (Single A Minus) (Credit watch with negative implications)**	**Revised from CARE A+ (Single A Plus) Continues to be on credit watch with negative implications**
Short term Bank Facilities- Non Fund Based	22.00	**CARE A2+ (A Two Plus) (Credit watch with negative implications**	**Revised from CARE A1 (A One) Continues to be on credit watch with negative implications**
Total	**169.00 (Rupees One hundred sixty nine crore only)**		
Short-term Instrument - Proposed Commercial Paper Issue *	10.00	**CARE A2+ (A Two Plus) (Credit watch with negative implications**	**Revised from CARE A1 (A One) Continues to be on credit watch with negative implications**
Short-term Instrument - Proposed Commercial Paper Issue *	40.00	**CARE A2+ (A Two Plus) (Credit watch with negative implications**	**Revised from CARE A1 (A One) Continues to be on credit watch with negative implications**
Non-Convertible Debentures	199.00	**CARE A- (Single A Minus) (Credit watch with negative implications)**	**Revised from CARE A+ (Single A Plus) Continues to be on credit watch with negative implications**

**carved out of working capital limits;*
Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has revised the Long Term and Short Term ratings assigned to the bank facilities/instruments of Future Supply Chain Solutions Limited (FSC) and continued to keep the ratings under 'Credit Watch with Negative Implications'.

The revision of ratings assigned to the bank facilities and instruments of FSC primarily factors in continuous weakening of business and financial risk profile of one of its largest customers which is also the flagship entity of the Future Group i.e. Future Retail Limited (FRL) [rated CARE A- (Credit Watch with negative implications) /CARE A2+ (Credit watch with negative implications)] [2]. FRL is engaged mainly in home & electronics retailing and value retailing. FRL operates Big Bazaar, Easy Day, Foodhall among other format stores. Due to the coronavirus pandemic, the retail sector has been one of the most adversely affected sectors as all the malls/retail outlets which house various retailers (for staples as well as for products associated with discretionary spending, such as consumer durables, fashion goods and garments) have been shut following the lockdown imposed by the Government and its subsequent extensions. CARE expects the recovery in retail sector to be slow and gradual on account of subsequent extensions of nationwide lockdown and given the likely reduction in discretionary spend by the customers towards non-essential items.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*
[2] *Vide CARE's Press Release dated May 13, 2020*

FSC has significant financial and operational linkages with Future group. FRL is one of the primary customers for FSC accounting for almost 65% of its sales in FY19. However the exposure to FRL has reduced to 50% (as per the company) subsequently due to conscious decision taken by the company to diversify its client profile. The impact of the coronavirus crisis on FRL as well as on retail sector across India is thus expected to have a cascading effect on FSC in terms of shrinkage in business volume and operating cash flow since FRL still continues to remain as its primary customer. CARE Ratings believes that a significant reduction in operating cash flows during the year could stress the liquidity position of FSC.

CARE also notes that on account of disruptions due to the pandemic FSC'S warehouses/supply chain operations are running at limited capacity with only those catering to food products, staples and essential commodities functioning as they are exempt from the lockdown. Other challenges resulting from the pandemic such as economic slowdown, restriction in movement of vehicles and lack of availability of labour due to migrant exodus undermine FSC's business prospects. The rating action also factors the decline of overall market capitalization of the Future group, thereby impacting financial flexibility and making it more challenging to raise further capital. CARE also notes that the non-essential businesses of other Future Group companies are also under pressure due to the ongoing coronavirus crisis.

The rating of FSC draws support from strong parentage of Future Group which is headed by Mr. Kishore Biyani, vastly experienced management, wide spread logistical network, operational synergies with group companies, potential benefits and opportunity to further expand its footprint in the global logistics business due to its new association with a reputed global logistics player Nippon Express, Japan.

The ratings are tempered by the client concentration risk with significant dependence on Future Group, deterioration in market capitalization of the Future Group companies and weakness in the macro-economic scenario and other disruptions due to the coronavirus pandemic. Despite infusion of equity by Nippon Express, Japan, CARE expects the debt protection metrics in the near future to be less comfortable than previous estimates which is attributable to increase in debt and expected reduction in cash accruals. The company's liquidity has also been severely impacted on account of lockdown measures with working capital limits being utilized almost fully.

CARE continues to maintain the ratings under credit watch and 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.

Key Rating Sensitivities

Positive factors

- Strong and resilient recovery in operations and cash flows across the Future Group post coronavirus crises could be positive for the rating.
- Significant improvement in the gearing of the company to <0.50x can be positive for the ratings.

Negative factors

- Further decline in the credit profile of the group due to the impact of coronavirus crisis
- Decline in revenue by 20% and lower than envisaged cash accruals with DSCR of less than 1.5x

Detailed description of the key rating drivers

Key Rating Strengths

Strong promoter group and experienced management

FSC is a part of Future Group (FG), with the flagship company of group 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 an experienced & qualified management team.

Strategic association with Nippon Express, Japan

In December 2019, Nippon Express (South Asia & Oceania) Pte. Ltd— a subsidiary of Nippon Express, Japan acquired 22% stake in FSC through a mix of primary and secondary issuance. The capital will be used to fund FSC's near-term growth plans. Through this partnership, Nippon Express and FSC are expected to derive significant synergies given their complementary skill sets and services offering, and gain a deeper foothold in the large and growing Indian logistics sector. The investment would allow Nippon Express and FSC to expand and explore logistics requirement across sectors in the Indian market. The deal would also help FSC access Nippon Express' Japanese and MNC clients for exploring new business opportunities in India, especially for third-party and express logistics operations

Stable operating performance; exited from loss making last mile delivery business

The company has been able to increase its scale of operations largely by increasing its ground level presence by way of adding new distribution centres. Also, the company's efforts towards adding new services have led to overall growth of the company. The total operating income of FSC has increased by 31% from FY18 to FY19 led by improving revenue contribution both from group companies (65% in FY19, which has now come down to 50%) and addition of new customers outside the future group in sectors such as tyres, lubricants etc. FSC also had a subsidiary named Vulcan Express Private Limited (VEPL), which was in the last mile delivery business. The operations were found unviable due to extremely low pricing model and competition in the segment and hence this subsidiary was divested at a loss leading to FSC reporting a PAT loss of Rs. 42.10 crore in Q3FY20 (Standalone). In the nine months ended December 31, 2019, FSC reported operating revenues of Rs. 894.90 crore and PBILDT of Rs. 186.50 crore

Capital structure although moderated continues to be comfortable

In FY18 the company had converted its CCDs into equity leading to significant reduction in debt and improvement in coverage indicators. Debt coverage indicators had consequently improved significantly in FY18. However in FY19, the total debt outstanding has increased from Rs. 32.96 crore as on March 31, 2018 to Rs. 217.81 crore as on March 31, 2019 mainly due to issue of NCD of Rs. 199 crore and also due increase in working capital requirements. NCDs were raised for working capital, general corporate purposes and capex (warehouse infrastructure/equipment) for the company. Debt coverage indicators have also consequently undergone moderation with overall gearing increasing from 0.07x as on March 31, 2018 to 0.40x as on March 31, 2019. After loan of Rs. 225 crore was availed and equity infusion from Nippon Express was done, the overall gearing has increased to 0.72x as on December 31, 2019. In view of lower than envisaged profitability and cash accruals due to ongoing coronavirus crisis, the capital structure is expected to moderate further. The rating shall remain sensitive to elevated levels of debt in absence any commensurate infusion of equity.

Key Rating Weaknesses

Weakening of credit profile of key customer

FSC has significant financial and operational linkages with Future group (FRL being one of the largest customers) which accounted to 65% of the total sales in FY19 which has now come down to 50%. As per the management, the revenue dependence on Future group has been declining due to diversification, although it continues to account for the bulk of sales. 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. FRL has currently been able to sell only lower margin essential items which has resulted in substantial decline in its monthly sales in March and April 2020. The impact of the coronavirus crisis on FRL and on Indian retail sector is thus expected to have a cascading effect on FSC in terms of shrinkage in business volume and operating cashflow.

Subsequent extensions of nation-wide lockdown expected to cause a delayed recovery than expected initially

The 21-day nation-wide lockdown which had been announced on March 25, 2020 has subsequently been extended in order to contain the spread of the highly infectious coronavirus. Although there has been minor relaxation of lockdown in some districts in an endeavor to kick start the economy, the majority of the country continues to remain affected and hence under lockdown. The entire country has been divided into red, orange and green zones based upon the severity of the spread, with red being the most impacted and green being the least. On account of disruptions due to the pandemic FSC'S warehouses/supply chain operations are running at limited capacity with only those catering to food products, staples and essential commodities functioning as they are exempt from the lockdown. Other challenges resulting from the pandemic such as economic slowdown, restriction in movement of vehicles and lack of availability of labour due to migrant exodus undermine FSC's business prospects. Relaxation of the lockdown measures will be dependent upon directives from the government and extent of spread of coronavirus.

Increase in borrowings of the company

The borrowings of the company increased as FSC availed a fresh loan Rs. 225 crore in the month of September 2019 to incur the capex requirements with respect to India Food Grid (IFG) which are however progressing slower than what was envisaged due to the ongoing economic slowdown. Increase in borrowings along with reduced profitability and lower than envisaged cash accruals has the potential to further leverage the capital structure of FSC.

Liquidity

Stretched: 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 as an interim relief measure. The group has applied to the bankers for enhancement in working capital limits and COVID19 emergency lines to alleviate present liquidity concerns. The timely release of additional working capital limits remains critical for meeting the short term repayment obligations. The group is also considering monetization of assets to trim debt. Significant reduction in operating cash flows during the year could further stress the liquidity position of FSC. Working capital limits of the entity continue to remain high leaving limited liquidity buffer. In the short term, upto H1FY21, total debt repayment obligations of the company is Rs. 40 crore. Significant debt repayments amounting to Rs. 100 crore towards NCD redemption falls due in September 2021 and September 2022. Total repayment obligations for FY21 along with interest is ~Rs. 120 crore.

Analytical approach:
Consolidated. The below entity has been considered:

Name of Company	Relationship with FSC	% holding by FSC
Leanbox Logistics Solutions Private Limited	Associate	49.36%

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings and Credit Watch
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology - Service Sector Companies

About the Company
Future Supply Chain Solutions Limited (FSC), incorporated in March 2006, is a Future Group company with a focus on providing supply chain solutions (for non-agro products) to its group companies (anchor customers) as well as to outside companies. Future Group has wide presence in retail, consumer finance, insurance, leisure and entertainment, brand development, retail real estate development, retail media and logistics.
FSC provides integrated end-to-end logistics solutions for supply chain management, and offers warehousing and distribution, multi-modal transportation and container freight stations. As of December 31 2019, FSC operations are run through 100+ distribution centres across India, covering 8.01 million ft^2 of warehouse space across India with an average capacity utilisation at 93%.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	937.80	1228.42
PBILDT	96.69	126.88
PAT	30.47	61.53
Overall gearing (times)	0.07	0.40
Interest coverage (times)	6.04	7.11

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
Fund-based - LT-Cash Credit	-	-	-	97.00	CARE A- (Under Credit watch with Negative Implications)
Non-fund-based - ST-BG/LC	-	-	-	22.00	CARE A2+ (Under Credit watch with Negative Implications)
Term Loan-Long Term	-	-	Mar-24	50.00	CARE A- (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures			Sept-22	199.00	CARE A- (Under Credit watch with Negative Implications)
Commercial Paper-Commercial Paper (Carved out)	-	-	-	10.00	CARE A2+ (Under Credit watch with Negative Implications)
Commercial Paper-Commercial Paper (Carved out)	-	-	-	40.00	CARE A2+ (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 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-Cash Credit	LT	97.00	CARE A- (Under Credit watch with Negative Implications)	-	1)CARE A+ (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE AA-; Stable (29-Aug-19)	1)CARE AA-; Stable (14-Mar-19) 2)CARE AA-; Stable (25-Jul-18)	1)CARE A; Stable (29-Aug-17)
2.	Non-fund-based - ST-BG/LC	ST	22.00	CARE A2+ (Under Credit watch with Negative Implications)	-	1)CARE A1 (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE A1+ (29-Aug-19)	1)CARE A1+ (14-Mar-19) 2)CARE A1+ (25-Jul-18)	1)CARE A2+ (29-Aug-17)
3.	Term Loan-Long Term	LT	50.00	CARE A- (Under Credit watch	-	1)CARE A+ (Under Credit	1)CARE AA-; Stable	1)CARE A; Stable

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
				with Negative Implications)		watch with Negative Implications) (26-Mar-20) 2)CARE AA-; Stable (29-Aug-19)	(14-Mar-19) 2)CARE AA-; Stable (25-Jul-18)	(29-Aug-17)
4.	Debentures-Non Convertible Debentures INE935Q07012/ INE935Q07020	LT	199.00	CARE A- (Under Credit watch with Negative Implications)	-	1)CARE A+ (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE AA-; Stable (29-Aug-19)	1)CARE AA-; Stable (20-Sep-18)	-
5.	Commercial Paper-Commercial Paper (Carved out)	ST	10.00	CARE A2+ (Under Credit watch with Negative Implications)	-	1)CARE A1 (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE A1+ (29-Aug-19)	1)CARE A1+ (14-Mar-19)	-
6.	Commercial Paper-Commercial Paper (Carved out)	ST	40.00	CARE A2+ (Under Credit watch with Negative Implications)	-	1)CARE A1 (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE A1+ (29-Aug-19)	1)CARE A1+ (14-Mar-19)	-

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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