

Future Supply Chain Solutions Limited

July 29, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities- Cash Credit	97.00	CARE BB+ (Double B Plus) (Credit watch with developing implications)	Revised from CARE A- (Single A Minus) Continues to be on credit watch with developing implications
Long-term Bank Facilities- Term Loan	50.00	CARE BB+ (Single A Minus) (Credit watch with developing implications)	Revised from CARE A- (Single A Minus) Continues to be on credit watch with developing implications
Short term Bank Facilities- Non Fund Based	22.00	CARE A4+ (A Four Plus) (Credit watch with developing implications)	Revised from CARE A2+ (A Two Plus) Continues to be on credit watch with developing implications
Total	169.00 (Rupees One hundred sixty nine crore only)		
Short-term Instrument - Proposed Commercial Paper Issue (CP)*	50.00	CARE A4+ (A Four Plus) (Credit watch with developing implications)	Revised from CARE A2+ (A Two Plus) Continues to be on credit watch with developing implications
Non-Convertible Debentures	199.00	CARE BB+ (Double B Plus) (Credit watch with developing implications)	Revised from CARE A- (Single A Minus) Continues to be on credit watch with developing 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 has placed the ratings under 'Credit Watch with Developing Implications' from 'Credit watch with Negative Implications'.

The revision of ratings assigned to the bank facilities and instruments of FSC primarily factors in further weakening of the liquidity position of its key customer which is also the flagship entity of the Future Group i.e. Future Retail Limited (FRL) [rated CARE BB+ /CARE A4+ (Credit watch with developing implications)]. FRL has missed its interest payment on USD bonds of 500 million due on July 22, 2020 and is required to make the payment within a 30-day grace period, before it can be constituted as an 'Event of Default.' According to the management, FRL shall be releasing the payment within the grace period, and is in discussion with bankers for release of enhanced limits from bankers or equity infusion from investors.

FRL is engaged mainly in home & electronics retailing and value retailing. FRL operates Big Bazaar, Easy Day, Foodhall among other format retail stores. Due to the coronavirus pandemic, the retail sector has been one of the most adversely affected sectors as all the malls/retail outlets have been shut following the lockdown imposed by the Government and its subsequent

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

extensions to control the spread of the virus. CARE expects the recovery in retail sector to be slow in view of the subsequent extensions of nationwide lockdown, albeit with partial restrictions being permitted. The likely reduction in spend by the customers towards non-essential items and inhibitions to visit crowded malls are unfavourable factors to any expected recovery in this sector.

FSC has significant financial and operational linkages with FRL, which is the largest customers for FSC accounting for ~50% of its annual sales in FY20. Exposure of FSC's revenues to the Future Group is to the extent of 65% although FSC is constantly endeavoring to diversify its client profile and reduce dependency on Future group post its strategic alliance with Nippon group, Japan. The impact of the coronavirus crisis on FRL as well as on retail sector across India is thus expected to result in shrinkage in business volume and operating cash flow to FSC.

The ratings continue to remain tempered by the weakness in the macro-economic scenario and disruptions due to the coronavirus pandemic, significant exposure to FRL, deterioration in market capitalization and liquidity of the Future Group companies and considerable promoters' stake being pledged. The company's liquidity continues to remain stretched on account of lockdown measures with working capital limits being utilized almost fully. Weakening of FRL's liquidity also increases the likelihood of delay in collection, thereby further impacting FSC's cash cycle. Stretched liquidity position has also necessitated FSC to avail moratorium under RBI's Covid19 Relief package.

CARE also notes that subsequent to partial relaxations of lockdown permitted by the Government to revive the economy, currently the warehouses of FSC have been operating at a higher capacity in comparison, when the lockdown measures were even stricter. Challenges on account of logistics, manpower availability have also reduced comparatively. However, low demand for discretionary products such as apparel, footwear etc. resulting in sluggish movement of goods, undermine FSC's revival in business growth in the near future.

The rating of FSC draws support from 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 have been placed on credit watch with developing implications on account of ongoing discussions with investors for equity infusion. CARE shall also be continuously monitoring its outcome on the business of FSC and the group's ability to raise funds to trim/repay existing debt. 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 could be positive for the rating.
- Significant improvement in the gearing of the company to <0.50x can be positive for the ratings. This is largely contingent upon commensurate equity of infusion as internal accruals are expected to be much lower on account of the pandemic.
- Significant reduction in promoter pledge across the group

Negative factors

- Further decline in the credit profile and tightening of liquidity position of the group/ company from current level would be unfavorable for the ratings.

Detailed description of the key rating drivers

Key Rating Weaknesses

Further weakening of credit profile and liquidity of key customer

FSC has significant financial and operational linkages with Future group (FRL being one of the largest customers) which accounts to ~65% of the total sales annually, albeit dependency on the group is expected to come down further. 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 since March 2020. FRL has been facing adverse liquidity issues and has missed interest payment on USD bonds of 500 million due on July 22, 2020 and is required to make the payment within a 30-day grace period, before it can be constituted as an 'Event of Default.' According to the management, FRL shall be releasing the payment within the grace period, which is contingent upon release of enhanced limits from bankers.

Uncertainty in business prospects due to coronavirus pandemic continues; operational issues alleviated slowly

Low consumer demand and lesser propensity to spend on discretionary products which have been triggered by the onset of the coronavirus pandemic has had a detrimental impact on the retail sector, which indirectly undermines the business prospects of FSC in the near future. Pursuant to partial relaxations of lockdown, the warehouses of FSC are operating at a higher capacity than before, when the lockdown measures were even stricter. Challenges on account of logistics, manpower availability have also reduced in comparison.

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.

Key Rating Strengths

Strong promoter group and experienced management

FSC is a part of Future Group (FG), with the flagship company of group as 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

Capital structure although moderated continues to be comfortable

FSC's Overall Gearing remained comfortable at 0.40x as on March 31, 2019. However, after the 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.

Liquidity: Stretched

Weakening in liquidity of key customer could also increase the likelihood of delay in collection and impact FSC's cash cycle. 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 very 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 each 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

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

[CARE's methodology for Short-term Instruments](#)

[Rating Outlook and Credit watch](#)

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

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

Criteria for Short Term Instruments

Rating Methodology: Factoring Linkages in Ratings

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 ft² of warehouse space across India with an average capacity utilisation at 93%.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	9MFY20
Total operating income	937.80	1228.42	894.90
PBILDT	96.69	126.88	186.50*
PAT	30.47	61.53	8.90
Overall gearing (times)	0.07	0.40	0.72
Interest coverage (times)	6.04	7.11	.*

A-Audited

*Financial numbers of 9MFY20 are not comparable to prior periods due to adoption of Ind-AS 116 (Accounting of leases) starting Q1FY20

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 BB+ (Under Credit watch with Developing Implications)
Non-fund-based - ST-BG/LC	-	-	-	22.00	CARE A4+ (Under Credit watch with Developing Implications)
Term Loan-Long Term	-	-	Mar-2024	50.00	CARE BB+ (Under Credit watch with Developing Implications)
Debentures-Non Convertible Debentures (INE935Q07012) (INE935Q07020)	Sept-2018	10.15%	Sep-2022	199.00	CARE BB+ (Under Credit watch with Developing Implications)
Commercial Paper-Commercial Paper (Carved out)	-	-	-	10.00	CARE A4+ (Under Credit watch with Developing Implications)
Commercial Paper-Commercial Paper (Carved out)	-	-	-	40.00	CARE A4+ (Under Credit watch with Developing 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 BB+ (Under Credit watch with Developing Implications)	1)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 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 A4+ (Under Credit watch with Developing Implications)	1)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+ (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 BB+ (Under Credit watch with Developing Implications)	1)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 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)
4.	Debentures-Non Convertible Debentures	LT	199.00	CARE BB+ (Under Credit watch with Developing Implications)	1)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 AA-; Stable (29-Aug-19)	1)CARE AA-; Stable (20-Sep-18)	-
5.	Commercial Paper-Commercial Paper (Carved out)	ST	10.00	CARE A4+ (Under Credit watch with Developing Implications)	1)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+ (29-Aug-19)	1)CARE A1+ (14-Mar-19)	-
6.	Commercial Paper-Commercial Paper (Carved out)	ST	40.00	CARE A4+ (Under Credit watch with	1)CARE A2+ (Under Credit watch with	1)CARE A1 (Under Credit watch with	1)CARE A1+ (14-Mar-19)	-

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
				Developing Implications)	Negative Implications) (15-May-20)	Negative Implications) (26-Mar-20) 2) CARE A1+ (29-Aug-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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