

## Future Supply Chain Solutions Limited

August 29, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities- Fund Based	97.00 (enhanced from 72.00)	CARE AA-; Stable (Double A Minus; Outlook Stable)	Reaffirmed
Long-term Bank Facilities- Term Loan	50.00	CARE AA-; Stable (Double A Minus; Outlook Stable)	Reaffirmed
Short term Bank Facilities- Non Fund Based	22.00 (enhanced from 15.00)	CARE A1+ (A One Plus)	Reaffirmed
<b>Total</b>	<b>169.00</b> <b>(Rupees One hundred sixty nine crore only)</b>		
Short-term Instrument - Proposed Commercial Paper Issue *	10.00 ( reduced from 60.00)^	CARE A1+ (A One Plus)	Reaffirmed
Short-term Instrument - Proposed Commercial Paper Issue *	40.00	CARE A1+ (A One Plus)	Reaffirmed
Non-Convertible Debentures	199.00	CARE AA-; Stable (Double A Minus; Outlook Stable)	Reaffirmed

\*carved out of working capital limits;

^structure changed from Standalone to carved out of working capital limits

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities and instruments of Future Supply Chain Solutions Ltd. (FSC) takes into consideration strong parentage of Future Group, experienced management, wide spread logistical network and operational synergies with group companies. The ratings further continue to derive strength from steady improvement in operating performance exhibited by the company in the last three years (FY17-FY19) comfortable capital structure and debt coverage indicators along with adequate liquidity.

The rating strengths are partly tempered by the company's continued client concentration risk and continuing losses in the acquired 'last mile delivery business' carried out in its subsidiary Vulcan Express Pvt. Ltd (VEPL). However CARE notes that the company is scaling down its last mile delivery business which is expected to improve the overall profitability in medium term. The ability of the company to expand without deteriorating capital structure, carry out the improvement in profitability parameters, manage its working capital requirements efficiently and diversify its customer base remains the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### **Strong promoter group**

FSC is a part of Future Group (FG), with the flagship company of group Future Retail Limited (FRL). As on March 31, 2019, Future group holds around 51% in the equity share capital of FSC. During December 2017, FSC successfully completed the IPO process and got listed on stock exchange wherein Griffin India Partners (SSG Capital Management group) diluted 25.4% stake and promoters diluted 6.2% (Future Enterprises Ltd.) stake in FSC. The company has experienced promoters (both in retailing & sourcing), who have been closely involved in the overall business strategy. Further, the promoters are supported by an experienced & qualified management team.

##### **Improvement in Operational Performance albeit moderate profitability**

The company has been able to increase its scale of operations largely by increasing its 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) and addition of new outside customers across sectors such as tyres, lubricants etc. During Q1FY20, FSC reported total sales of Rs. 298.85 crore. The company had been maintaining healthy profitability margin over the years in the range of 15% upto FY17. However subsequently the company reported dip in profitability margin to mainly due to acquisition of loss making company VEPL which is in last mile delivery business. However, management is considering

<sup>2</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

scaling down this business and going forward profitability is expected to improve in view of the foregoing. In Feb 2019, FSC board approved the first mile & last mile delivery business of FSC to be sold on a slump sale basis to its associate Leanbox Logistics Solutions Private Limited in which FSC holds 50% stake currently.

#### ***Comfortable capital structure and debt coverage indicators albeit moderation***

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. NCD's were raised for working capital, general corporate purposes and capex (warehouse infrastructure/equipment) for the company. Expansion activity was carried out during FY19 and FSC added around 3.08 mn ft<sup>2</sup> of warehouse space thereby taking total warehouse space to 7.66 mn ft<sup>2</sup> as on March 31, 2019. The warehousing space is 8.31 mn ft<sup>2</sup> as on June 30, 2019. FSC's investments are majorly towards warehouse equipment/infrastructure. Debt coverage indicators have also consequently undergone moderation with Overall Gearing increased from 0.07x as on March 31, 2018 to 0.40x as on March 31, 2019. The company have significant debt repayment obligations commencing from FY22. However, the rating shall remain sensitive to elevated levels of debt in absence any commensurate infusion of equity.

#### ***Wide spread logistical network***

The main segments in which FSC operates are warehousing, transportation, logistics etc. FSC has an asset light logistics model as currently the entire warehouses are leased & company only invests in equipment/infrastructure required in warehousing and supply chain management. The warehousing space of 8.31 mn ft<sup>2</sup> as on June 30, 2019 is spread across the country. FSC primarily uses fleet of third party for transportation thus exposing it to risk of timely delivery of goods as well as to risk of higher costs in case of increase in transportation costs. Insurance of the goods transported by FSC is done by the clients with FSC only insuring the fixed assets owned by it in its warehouses. In case of any damages during transportation or storage, FSC does not bear and loss and only provides a Certificate of Fact to its customers and their insurers in order to process the insurance claim. FSC also has capability to address the frozen, chilled and cold warehousing requirements, coupled with the refrigerated container transportation requirements across the country. Further, FSC is in planning to develop India Food Grid (IFG), a network of 38 Integrated Food Distribution Centres (IFDC) across strategic locations within India. The India Food Grid will provide pan-India distribution reach, right from the manufacturing hubs till the points of consumption. This will help improve overall supply chain efficiencies, lead to better inventory management and help increase availability of consumer products at locations where the demand is.

#### ***Operational synergies with the Future group***

FSC is strategically important for the group companies engaged in the retail operations as the entire supply chain is managed by FSC. FSC bills its group companies on the basis of cost plus mark-up basis. Also, there is no minimum off-take agreement signed between FSC and other Future Group companies and Minimum Guarantee clause is enabled to safeguard against underutilization of warehouse space. Further diversification of the clientele outside the FG as well as finalizing a minimum off-take agreement with other FG companies would be important for FSC's growth.

#### **Key Rating Weaknesses**

##### ***Moderate client concentration Risk***

There is a moderate client concentration risk as group companies contributed around 65% to revenue in FY19 (68% in FY18). The company has developed established relationship with several reputed customers across varied industries over the period which includes several leading multi-nationals and domestic companies. Established relationship with the reputed customers help the company in getting repeat orders, which also provides revenue visibility and is expected to drive business going forward. With logistics business prospects further strengthened by increase in revenue contribution from external customers coupled with expected increase in contribution from e-commerce segment, client concentration risk is expected to moderate further, however Future Group shall continue to remain FSC's major customer group.

Further, FSC is strategically important for the group companies engaged in retail operations as the entire supply chain is managed by FSC. Therefore, although FSC has a fair amount of revenue visibility going forward owing to its importance to group companies, profitability margins in the future would also depend on its ability to cater to customers outside the group.

#### ***Liquidity Analysis***

Liquidity comfort is derived from cash balance in current accounts aggregating to Rs. 123.66 crore as on March 31, 2019 (P.Y. Rs. 78.61 crore). The company has generated healthy cash accruals and scheduled debt repayment obligations in FY20 are 'Nil'. Significant debt repayments (i.e. NCD redemption) of Rs. 99 crore and Rs. 100 crore fall due in September 2021 and September 2022 respectively. Average maximum utilization for the last 12 month period ending June 2019 stood at 78% and provides some liquidity back-up.

**Analytical approach:**

Consolidated. The below entities have been considered:

Name of Company	Relationship with FSC	% holding by FSC
Vulcan Express Private Limited	Subsidiary	100%
Leanbox Logistics Solutions Private Limited	Associate	50%

**Applicable Criteria**

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

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

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

[Rating Methodology - Service Sector Companies](#)

[Criteria for Short Term Instruments](#)

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

**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 supply chain management (logistics), warehousing and distribution, multi-modal transportation and container freight stations. The company offers services in Contract Logistics, Express Logistics, Temperature controlled logistics and Last Mile Delivery & Agility Solutions. As of June 30, 2019, FSC operations are run through 100+ distribution centres across India, covering 8.31 million ft<sup>2</sup> 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 AA-; Stable
Non-fund-based - ST-BG/LC	-	-	-	22.00	CARE A1+
Term Loan-Long Term	-	-	Mar-2024	50.00	CARE AA-; Stable
Debentures-Non Convertible Debentures	Sept- 2018	10.15% p.a	Sept-2022	199.00	CARE AA-; Stable
Commercial Paper-Commercial Paper (Carved out)	-	-	-	10.00	CARE A1+
Commercial Paper-Commercial Paper (Carved out)	-	-	-	40.00	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 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-Cash Credit	LT	97.00	CARE AA-; Stable	-	1)CARE AA-; Stable (14-Mar-19) 2)CARE AA-; Stable (25-Jul-18)	1)CARE A; Stable (29-Aug-17)	1)CARE A (03-Nov-16)
2.	Non-fund-based - ST-BG/LC	ST	22.00	CARE A1+	-	1)CARE A1+ (14-Mar-19) 2)CARE A1+ (25-Jul-18)	1)CARE A2+ (29-Aug-17)	1)CARE A2+ (03-Nov-16)
3.	Term Loan-Long Term	LT	50.00	CARE AA-; Stable	-	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 AA-; Stable	-	1)CARE AA-; Stable (20-Sep-18)	-	-
5.	Commercial Paper-Commercial Paper (Carved out)	ST	10.00	CARE A1+	-	1)CARE A1+ (14-Mar-19)	-	-
6.	Commercial Paper-Commercial Paper (Carved out)	ST	40.00	CARE A1+	-	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](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.

## Contact us

### Media Contact

Name- Mradul Mishra  
Contact no: +91-22-6837 4424  
Email ID: [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Name – Arunava Paul  
Contact no.- 022 6754 3667  
Email ID- [arunava.paul@careratings.com](mailto:arunava.paul@careratings.com)

### Business Development Contact

**Ms. Meenal Sikchi**  
Cell: + 91 98190 09839  
E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)

**Mr. Ankur Sachdeva**  
Cell: + 91 98196 98985  
E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

**Ms. Rashmi Narvankar**  
Cell: + 91 99675 70636  
E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)

**Mr. Saikat Roy**  
Cell: + 91 98209 98779  
E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)

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