

## Future Supply Chain Solutions Limited

### November 18, 2020

#### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	147.00	CARE BB- (Under Credit watch with Negative Implications) (Double B Minus) (Under Credit watch with Negative Implications )	Revised from CARE BB+ (Double B Plus);Revision in credit watch from Developing Implications to Negative Implications
Short Term Bank Facilities	22.00	CARE A4 (Under Credit watch with Negative Implications) (A Four) (Under Credit watch with Negative Implications )	Revised from CARE A4+ (A Four Plus);Revision in credit watch from Developing Implications to Negative Implications
<b>Total Bank Facilities</b>	<b>169.00</b> <b>(Rs. One Hundred Sixty-Nine Crore Only)</b>		
Non Convertible Debentures	199.00	CARE BB- (Under Credit watch with Negative Implications) (Double B Minus) (Under Credit watch with Negative Implications )	Revised from CARE BB+ (Double B Plus);Revision in credit watch from Developing Implications to Negative Implications
<b>Total Long Term Instruments</b>	<b>199.00</b> <b>(Rs. One Hundred Ninety-Nine Crore Only)</b>		

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 negative Implications' from 'Credit watch with developing Implications'.

The revision of ratings assigned to the bank facilities and instruments of FSC primarily factors in continuing weakness in operational performance of the company in Q2FY21 due to lingering effect of Corona virus (covid19) pandemic. The pandemic has caused a major economic slowdown since its onset. The timelines for substantial recovery in FSC's performance, going forward are also expected to be slower than anticipated earlier. Further there has been a considerable weakening of the financial risk profile of FSC's key customer which is also the flagship entity of the Future Group i.e. Future Retail Limited (FRL) [rated CARE B /CARE A4 (Credit watch with negative implications)].

Prior to onset of the pandemic, FRL which is also one of India's largest retailers had been facing liquidity issues, significant increase in debt levels, significant decline in market capitalization which along with high promoter pledge impacting its financial flexibility. The pandemic resulted in a detrimental impact on the retail sector and consequently affected FRL's business prospects unfavourably. In addition to significant shrinkage of business volumes to FSC from Future group companies, there have been substantial delay in debtors realization from Future group companies which have consequently impacted the working capital cycle and operating cashflow of FSC. Subsequent collections have also not been very significant, prompting FSC to pursue for more profitable business opportunities with customers outside Future Group. Strategic alliance of FSC with Nippon Group has enabled it to source reputed clientele. Subsequent to 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 to Q1FY21, and operational challenges such as manpower, transportation have also been eased to a considerable extent.

<sup>1</sup> Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

FSC had sought moratorium from lenders as part of the COVID19 - Regulatory Package announced by the RBI which ended on August 31, 2020. Subsequently, FSC has applied for the One Time Restructuring (OTR) facility to all its lenders, under RBI guidelines issued on August 6, 2020. FSC's management has informed that the OTR invocation has been approved by the bankers and execution of Inter Creditor Agreement (ICA) would be the next crucial step.

The ratings of FSC continue to remain tempered by the significant exposure to FRL, deterioration in market capitalization and liquidity of the Future Group companies, considerable promoters' stake being pledged and slowdown in the macro-economic scenario due to the coronavirus pandemic, albeit recent economic indicators being reflective of a gradual recovery. 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.

CARE also notes the scheme of arrangement<sup>2</sup> whereby FSC, FRL along with certain other Future Group companies will merge with Future Enterprises Limited (FEL). Post-merger, the retail & wholesale undertaking from FEL will be transferred and vested as a going concern on a slump sale basis to Reliance Retail and Fashion Lifestyle Limited a wholly owned subsidiary of Reliance Retail Ventures Limited. Going forward, upon the proposed transaction being effective, it is understood that FSC as an entity shall stand dissolved. CARE shall continue to monitor the developments pertaining to FSC until occurrence of such event. CARE has also taken cognizance of Amazon's claim at Singapore International Arbitration Centre (SIAC) claiming violation of contractual rights by the Future Group relating to sale of business to Reliance and the subsequent interim order passed by the Emergency Arbitrator in favour of Amazon. CARE will continue to monitor the development on this front.

**Revision in credit watch:** Reduced business volumes, cash generating capacity and slow realization of debtors has further impacted the company's liquidity profile. Resultantly, CARE has revised the credit watch from 'Credit Watch with Developing Implications' to 'Credit Watch with Negative Implications'. CARE will continue to monitor the progress on Reliance deal, OTR application and the company's liquidity profile. CARE will resolve the watch once clarity emerges on the same.

#### **Key Rating Sensitivities**

##### **Positive factors**

- Improvement in business volumes, profitability and liquidity position of the company
- Significant reduction in promoter pledge across the group

##### **Negative factors**

- Delays in implementation of OTR or any other adverse events stalling the proposed deal with Reliance
- Any significant writing off debtors or impairment of assets

#### **Detailed description of the key rating drivers**

##### **Key Rating Weaknesses**

##### ***Subdued performance due to lingering effect of corona virus pandemic***

The quarterly performance which remained weak in Q1FY21 has continued to remain so on account of lingering effect of the corona virus pandemic on the economy. FSC has witnessed significant shrinkage in the business volumes from Future group. Although business volume has increased marginally q-o-q, fixed costs and other operating costs eroded the profitability. FSC reported a loss of Rs. 124.15 crore for H1FY21 in comparison to a loss of Rs. 63.88 crore for FY20. Since unlock phase, operational challenges have reduced substantially. CARE estimates that with new business coming from external customers and gradual uptick in economy, the losses are expected to come down in the upcoming quarters.

##### ***Continued 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 business coming from companies outside Future group. Due to the coronavirus pandemic, the retail sector has been one of the most adversely affected sectors. The downward revision in credit profile of FRL primarily factors in continued liquidity stretch on account of reduced cash accruals and unavailability of additional working capital limits from lenders along with decline in market capitalization. The OTR application of FRL is also under consideration by their lenders. Liquidity and operating cashflow of FSC has also consequently been impacted in view of the foregoing.

<sup>2</sup> Refer CARE's credit update on FSC dated September 8, 2020 on the following link: [PR- Future Supply Chain Solutions Limited](#)

### ***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**

#### ***Experienced promoter and 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

#### ***Importance to Future group in terms of providing a robust supply chain infrastructure in place***

The Future group's warehousing and logistic requirements are managed by FSC and hence it is critical to the operations of the group. The inventory management module operates on state of art ERP system. The sophisticated inventory management tools allows the group entities to monitor, manage and control the inventory levels. This helps the company to manage the flow of inventory efficiently. The major group entities such as FRL & FLFL has mother warehouses at various locations in each zone which feeds the regional warehouse which in turn provides services to the stores across all the locations.

#### **Liquidity**

*Stretched:* The liquidity of FSC also remains stretched on account of reduced cash accruals and slow realization of debtors from its customers especially FRL, which is the key customer. There have been substantial delays in receipt from group entities and subsequent receipts have not been significant. Total outstanding trade receivables as on September 30 stood at Rs. 838.69 crore on a total HY income of Rs. 212.31 crore as compared to outstanding trade receivables of Rs. 815.27 crore as on March 31, 2020 on a total income of Rs. 1160.58 crore for FY20. Total outstanding receivables as on September 30, 2020 includes related party receivables amounting to Rs. 700.53 crore. FSC management has provided for loss allowance amounting to Rs. 19.82 crore upto Sept 30, 2020. In view of stretched liquidity FSC has also received extension from its debenture holders to pay that annual coupon on February 1, 2021 which was originally due on September 26, 2020. Further the company does not have sufficient cushion in the form of free cash or liquid investments to meet any exigency.

#### **Analytical approach**

Standalone; Previously Consolidated approach was being followed with below entity being considered. However since business operations have been discontinued in the below mentioned entity, hence Standalone approach is being followed.

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

#### **Applicable Criteria**

[Analytical Treatment for one-time restructuring \(OTR\) due to COVID-19 related stress](#)

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

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

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

[Rating Methodology - Service Sector Companies](#)

[Criteria for Short Term Instruments](#)

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

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

### 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 March 31, 2020, FSC operations are run through 74 distribution centres across India, covering 8.20 million ft<sup>2</sup> of warehouse space across India.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (Abridged)	H1FY21 (UA)
Total operating income	1118.38	1160.58	212.31
PBILDT	154.16	273.67	10.79
PAT	65.15	(63.88)	(124.16)
Overall gearing (times)	0.35	0.57	0.48
Interest coverage (times)	9.59	3.38	0.22

A-Audited; UA: Unaudited

Note: Financial numbers for FY20 & subsequent periods are not comparable to prior periods due to adoption of IND AS 116 starting Q1 FY20

**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 Negative Implications)
Non-fund-based - ST-BG/LC	-	-	-	22.00	CARE A4 (Under Credit watch with Negative Implications)
Term Loan-Long Term	-	-	March 2024	50.00	CARE BB- (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures (ISIN-INE935Q07012 & INE935Q07020)	September 2018	10.15% p.a.	September 2022	199.00	CARE BB- (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 BB- (Under Credit watch with Negative Implications)	1)CARE BB+ (Under Credit watch with Developing Implications) (29-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 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 Negative Implications)	1)CARE A4+ (Under Credit watch with Developing Implications) (29-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+ (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 Negative Implications)	1)CARE BB+ (Under Credit watch with Developing Implications) (29-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 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 Negative Implications)	1)CARE BB+ (Under Credit watch with Developing Implications) (29-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 AA-; Stable (29-Aug-19)	1)CARE AA-; Stable (20-Sep-18)	-

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
5.	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	1)Withdrawn (04-Sep-20) 2)CARE A4+ (Under Credit watch with Developing Implications) (29-Jul-20) 3)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	-	-	1)Withdrawn (04-Sep-20) 2)CARE A4+ (Under Credit watch with Developing Implications) (29-Jul-20) 3)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)	-

**Annexure-3:** Detailed explanation of covenants of the rated instruments/facilities:

Sr. No.	Particulars	Detailed explanation (Benchmark for annual testing of financial covenants)
1.	Debt Service Coverage Ratio	3.60x
2.	Interest Coverage Ratio	15.66x
3.	Fixed Asset Coverage Ratio	16.60x
4.	Debt/PBILD	1.33x

**Annexure 4:** Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Non-fund-based - ST-BG/LC	Simple
4.	Term Loan-Long Term	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](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.

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#### **About CARE Ratings:**

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