Future Consumer Limited

May 15, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities (Fund-based)	266	**CARE A- (Single A Minus) (Credit watch with negative implications**	**Revised from CARE A (Single A) Continues to be on credit watch with negative implications**
Short-term Bank Facilities (Fund-based)	70	**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 Bank Facility (Non-fund-based)	25	**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**
Long/Short-term Bank Facilities (Fund-based)	109	**CARE A-/CARE A2+ (Single A Minus/A Two Plus) (Credit watch with negative implications)**	**Revised from CARE A/CARE A1 (Single A/A One) Continues to be on credit watch with negative implications**
Long-term Bank Facility (Term Loan)	45.50	**CARE A- (Single A Minus) (Credit watch with negative implications**	**Revised from CARE A (Single A) Continues to be on credit watch with negative implications**
Total	**515.50 (Rs. Five hundred and fifteen crore and fifty lakhs only)**		
Short term instruments-Commercial Paper	100	**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**
Long term instruments: Non-convertible debentures (NCD)	20	**CARE A- (Single A Minus) (Credit watch with negative implications**	**Revised from CARE A (Single A) Continues to be on credit watch with negative implications**

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 Consumer Limited (FCL) and continued to keep the ratings under 'Credit Watch with Negative Implications'.

The revision of ratings assigned to the bank facilities and instruments of FCL primarily factors in continuous weakening of business and financial risk profile of its key customer 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

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

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.

FCL has significant financial and operational linkages with FRL which is its largest customer accounting for almost 80% of its sales in FY19. The impact of the coronavirus crisis on FRL and overall on the Indian retail sector is thus expected to have a cascading effect on FCL in terms of shrinkage in business volumes and operating cashflow. CARE Ratings believes that a significant reduction in operating cash flows during the year could further stress the liquidity position of FCL.

Since FCL is essentially in the business of food, staples and essentials which are exempt from the lockdown, the business impact is expected to be not very drastic as compared to other sectors. However, factors such as subsequent extensions of lockdown, economic slowdown, disruption in supply chain and logistics, exodus of migrant workers, change in consumer behavior with preference towards online purchases with the intention to avoid crowded spaces such as retail outlets, continue to undermine the business prospects and thus the credit profile of FCL. To reduce dependency on Future group for business prospects, FCL has been diversifying its sales across new retailers as well as formats – it recently commenced sales to Amazon where revenues generated through its online channels have been gaining traction. FCL has also has been adopting several cost saving measures and implementing more efficient collection policies to keep debtors in check and safeguard its liquidity.

The rating action also continues to factor in 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 ratings continue to derive strength from a stable operational performance in FY19, 9MFY20 and stable capital structure due to equity raising. Further, the ratings continue to derive strength from the experienced promoter group of FCL in retail sector as well as its presence across the fast moving consumer goods (FMCG) value chain – from sourcing and processing, to branding and distribution in rural and urban markets. The ratings also factor in the established private label FMCG brands of the company.

The rating strengths are tempered by low profitability, intense competition from organised and unorganised sector players, uncertainty on account of the coronavirus crisis and weakened financial flexibility of the parent group. CARE notes that some of the newly set-up subsidiaries/JV's of FCL are gradually commencing operations. However, given the current pandemic situation, adverse external factors and the fact that credit profile of some these entities are contingent upon FCL, CARE believes that FCL may have to continue rendering financial support to these subsidiaries/JV's, albeit to a lesser extent. FCL has also sought a moratorium on payments from its lenders as part of the COVID19 - Regulatory Package announced by the RBI on March 27, 2020.

The ratings continue to remain on credit watch. CARE 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

- Strong and resilient recovery in operations and cash flows across the Future Group post coronavirus crises could 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 to 8%-10%.

Negative

- Further decline in the credit profile of the group due to the impact of coronavirus crisis or otherwise
- Weaker than anticipated recovery in operations of FCL post lockdown

Detailed description of the key rating drivers

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.

Capitalization of balance sheet leading to net debt reduction
FCL had raised around Rs. 300 crore equity in FY20 which is being utilised towards repayment of debt, development and expansion of manufacturing and processing operations for food and home & personal care products, expansion of its rural distribution network and working capital requirement. Total outstanding borrowings of FCL (Standalone) has come down from Rs. 735 crore as on March 31, 2019 to Rs. 648 crore as on September 30, 2019. Further, the company is exploring fund raising options through equity/equity linked instruments to further trim the existing debt.

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. FCL constantly expands its product portfolio and has recently entered the dairy product segment and organic food segments with strategic tie-up from overseas brands. FCL distributes the Private Brands majorly to FRL (as per the requirement placed) which retails them through Big Bazaar and Food Bazaar networks. Big Bazaar is one of the largest value store chain in the country. Moreover, the company also sells through small stores format of Future group (Easy day and Heritage). FCL operates under an asset light business model, wherein warehouses are on long term lease basis and company invests in equipment/infrastructure required for the warehouse management. The warehouses help manage the supply chain activities of the private brands in the proximity areas. FCL also has an integrated food park in Tumkur, equipped to manufacture a wide range of FMCG products.

Demonstrated track record of stable operations
FCL's TOI has improved by 24% from FY18 to FY19. Increase in revenue in FY19 is mainly due to increase in income from private brands of the company which generates relatively better margin, and expansion of the distribution channel translating into higher sales volumes. PBILDT margin also improved from 4.16% in FY18 to 5.28% in FY19. FCL has now shifted its focus on expanding margins and achieving higher profitability with higher contribution of value -added products. During 9MFY20, FCL reported Total Operating Income of Rs. 2337.70 crore and PBILDT of Rs. 122.30 crore. FCL also carried out some rationalization of their product portfolio by focusing on core brands and categories and discontinuing those products not delivering desired revenue/return. FCL announced its online distribution tie-up with e-retailer giant Amazon for its portfolio of brands which is expected to increase share of sales outside Future group.

Key Rating Weaknesses
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. However, essentials continue to be readily available, despite facing challenges on account of supply chain, logistics, restrictions on movements and exodus of migrant labourers and non-essentials have started selling in green zones. The larger cities of the country which contribute to higher volume of sales continue to remain in the Red Zone. Relaxation of the lockdown measures will be dependent upon directives from the government and extent of spread of coronavirus. CARE notes that the monthly sales of FCL for April 2020 has declined to significantly compared to the monthly sales before the pandemic set in. However, CARE believes that the dip in April 2020 is transient primarily on account of disruption in operations and is expected to improve in the short term with some relaxations permitted, constant demand and government's continued focus on making essentials readily available.

Significant exposure in subsidiaries/Joint ventures
FCL has been supporting its subsidiaries/JV's by providing loans as well as making investments/providing corporate guarantee to their debt for supporting their expansion plans. As on March 31, 2019, FCL on a standalone basis had investments of Rs. 706.20 crore (P.Y. Rs. 670.54 crore) in its various subsidiaries/JVs. These companies are engaged into procurement, trading, manufacturing, etc of FMCG goods. Total investments as on September 30, 2019 was Rs. 712.27 crore. Losses were incurred mainly due to expenses in subsidiaries/JVs which were yet to commence commercial operations. The management has always been constantly monitoring all their business verticals and taking steps to identify and address key weaknesses. CARE notes that some of the newly set-up subsidiaries/JV's of FCL are gradually commencing operations. However, given the current

pandemic situation, adverse external factors and the fact that credit profile of some these entities are contingent upon FCL, CARE believes that FCL may have to continue rendering financial support to these subsidiaries/JV's albeit to a lesser extent.

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. CARE Ratings notes that given the greater awareness of hygiene during the current crises, consumer preferences could shift towards packaged and branded products leading to potentially higher revenues for the large organised players such as FCL.

Weakening of credit profile of key customer
FCL has significant financial and operational linkages with FRL which is its largest customer accounting for almost 80% of its sales in FY19. As per the management, the revenue dependence on FRL has declined significantly in FY20, 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 FCL in terms of shrinkage in business volume and operating cashflow. Despite disruptions, FCL management has been undertaking prompt efforts to improve collections will keep working capital in check.

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. The group has applied to the bankers for enhancement in working capital limits and COVID19 emergency lines to alleviate present liquidity concerns. Some banks have already released the additional working capital limits. The group is also considering monetization of assets to trim debt. With respect to near-term debt repayment obligations upto H1FY21, FCL has to repay Rs. 20 crore towards redemption of NCD and Rs. 3 crore towards term loan installment. As on date company has Rs. 20 crore of free cash and cash equivalents.

Analytical approach: Standalone financials of FCL are considered with 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
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

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. As on March 31, 2019, the company has a portfolio of more than 27 brands across 70 key product categories.

Brief Financials (Rs. crore) (Standalone)	FY18 (A)	FY19 (A)	9MFY20 (UA)
Total operating income	2468.30	3048.77	2337.70
PBILDT	102.57	161.06	122.30
PAT	32.35	60.53	40.60
Overall gearing (times)	0.49	0.62	-*
Interest coverage (times)	2.25	2.44	1.86

A: Audited; UA: Unaudited;
**Debt as on December 31, 2019 not available*

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 A- / CARE A2+ (Under Credit watch with Negative Implications)
Fund-based - LT-Cash Credit	-	-	-	266.00	CARE A- (Under Credit watch with Negative Implications)
Fund-based - ST-Term loan	-	-	-	70.00	CARE A2+ (Under Credit watch with Negative Implications)
Non-fund-based - ST-BG/LC	-	-		25.00	CARE A2+ (Under Credit watch with Negative Implications)
Fund-based - LT-Term Loan	-	-	Feb-25	45.50	CARE A- (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures INE220J07055		9.95-11%	Sep-20	20.00	CARE A- (Under Credit watch with Negative Implications)
Commercial Paper	-	-	-	100.00	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/ ST-Bills discounting/ Bills purchasing	LT/ST	109.00	CARE A- / CARE A2+ (Under Credit watch with Negative Implications)	-	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) 3)CARE A; Stable / CARE A1 (19-Apr-18)	1)CARE A; Stable / CARE A1 (04-Oct-17)
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 A- (Under Credit watch with Negative Implications)	-	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 A2+ (Under Credit watch with Negative Implications)	-	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 A2+ (Under Credit watch with Negative Implications)	-	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	100.00	CARE A2+ (Under Credit watch with Negative Implications)	-	1)CARE A1 (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE A1 (20-Sep-19)	1)CARE A1 (03-Oct-18)	1)CARE A1 (04-Oct-17) 2)CARE A1 (10-Jul-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
7.	Fund-based - LT-Term Loan	LT	45.50	CARE A- (Under Credit watch with Negative Implications)	-	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 A- (Under Credit watch with Negative Implications)	-	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)

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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