Future Consumer Limited

July 27, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities (Fund-based)	266	**CARE BB (Double B) (Credit watch with developing implications)**	**Revised from CARE A- (Single A) Continues to be on credit watch with developing implications**
Short-term Bank Facilities (Fund-based)	70	**CARE A4 (A Four) (Credit watch with developing implications)**	**Revised from CARE A2+ (A Two Plus) Continues to be on credit watch with developing implications**
Short-term Bank Facility (Non-fund-based)	25	**CARE A4 (A Four) (Credit watch with developing implications)**	**Revised from CARE A2+ (A Two Plus) Continues to be on credit watch with developing implications**
Long/Short-term Bank Facilities (Fund-based)	109	**CARE BB/CARE A4 (Double B/A Four) (Credit watch with developing implications)**	**Revised from CARE A-/ CARE A2+ (Single A Minus/A Two Plus) Continues to be on credit watch with developing implications**
Long-term Bank Facility (Term Loan)	45.50	**CARE BB (Double B) (Credit watch with developing implications)**	**Revised from CARE A- (Single A) Continues to be on credit watch with developing implications**
Total	**515.50 (Rs. Five hundred and fifteen crore and fifty lakhs only)**		
Short term instruments-Commercial Paper (CP)	100	**CARE A4 (A Four) (Credit watch with developing implications)**	**Revised from CARE A2+ (A Two Plus) Continues to be on credit watch with developing implications**
Long term instruments: Non-convertible debentures (NCD)	20	**CARE BB (Double B) (Credit watch with developing implications)**	**Revised from CARE A- (Single A) Continues to be on credit watch with developing 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 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 FCL 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 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, failing which it shall be constituted as an 'Event of Default.' According to the management, FRL shall be releasing the payment within the grace period, which is

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

contingent upon release of enhanced limits from bankers. 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 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.

FCL has significant financial, operational and management linkages with FRL which is its largest customer accounting for almost 80% of its sales annually. The pandemic has led to a general slowdown in the economy impacting the cash cycle and increased likelihood of delay of collection. The impact of the coronavirus crisis on FRL and overall on the Indian retail sector is thus expected to result in shrinkage in business volumes and operating cash flow which could further stress the liquidity position of FCL. The rating revision of FCL also factors in losses reported during FY20. These were on account of the company providing expected credit loss (ECL) on debtors which have a likelihood of delay in collection along with impairment losses on two of its significant business investments. The sales mix tilted towards essentials in Q4FY20, which compelled FCL to carry out rationalization of several slow moving SKU's. Liquidation of near expiry SKU's in processed food and Home and Personal Care (HPC) segment impacted the margins. In order to trim/repay existing debt, the group overall has been exploring fund raising opportunities such as equity infusion and monetization of non-core assets.

The impact of pandemic has started disrupting the business operations of FCL severely towards the end of Q4FY20, leading to challenges in sourcing, manpower, supply chain and distribution impacted by state closures due to lockdown. Over 290 stores including franchisees/retail outlets were closed on account of lockdown.

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. The ratings also factor in intense competition from organised and unorganised sector players in the FMCG industry, 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 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 ratings have been placed on credit watch with developing implications on account of disruption in operations due to the coronavirus pandemic which could further impact the business and financial risk profile. The group is also in discussion with investors for equity infusion. CARE shall also be continuously monitoring the coronavirus crisis and its impact on the business of FCL 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

- Strong and resilient recovery in operations and cash flows across the Future Group. Commensurate infusion of equity/monetization of assets to trim existing debt could also 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 Weaknesses

Weakening of credit profile and liquidity of key customer, prompting company to provide for Expected Credit Loss

FCL has significant financial and operational linkages with FRL which is its largest customer accounting for almost 80% of its sales annually. 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 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, failing which it shall 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.

Moderation in performance on account of coronavirus pandemic

The 21-day nation-wide lockdown which was initially announced on March 25, 2020 has subsequently been extended phase-wise in order to contain the spread of the highly infectious coronavirus. However there has been some relaxation of lockdown in some regions (dependent upon directives from the local government and extent of spread of the virus) in an endeavor to kick start the economy. CARE notes that the monthly sales of FCL are yet to reach pre-pandemic levels. However, CARE believes that the dip is transient primarily on account of disruption in operations and is expected to improve in the short term with additional relaxations permitted, steadily improving demand and government's continued focus on making essentials readily available.

Loss reported in FY20 on account of provisioning and impairment loss on investments

Due to the coronavirus pandemic, FCL's sales mix has tilted towards essentials. During Q4FY20, the company carried out rationalisation and liquidation of 800 SKU's which were slow moving. Liquidation of near expiry SKU's in processed food and Home and Personal Care segment impacted the margins. The impact of pandemic started disrupting the business operations of FCL severely towards the end of Q4FY20 leading to disruptions in sourcing, supply chain and distribution impacted by state closures due to lockdown. Over 290 stores including franchisees/retail outlets were closed on account of lockdown. On account of challenging business scenario, company has provided for expected credit loss (ECL) of Rs.79 crore in receivables for FY20. This factors those debtors only where there is a likelihood of delay although historically the company has not witnessed any significant write-offs. These debts are majorly outstanding from its key customer FRL which is currently facing liquidity issues. FCL has also booked impairment loss of Rs. 276 crore on certain investments in its subsidiaires i.e. Aadhaar Wholesale Trading and Distribution Limited and The Nilgiri Dairy Farm Private Limited. In Nilgiris, FCL closed unprofitable business and franchisees and in Aadhar wholesale, it exited geographies which were impacting profitability.

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. Due to impairment, total value of investments in subsidiaries has come down to Rs. 480 crore as on March 31, 2020 from Rs. 706 crore as on March 31, 2019. These companies are engaged into procurement, trading, manufacturing, etc of FMCG goods. 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.

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.

Equity infusion in FY20 and reduction in debt
FCL had raised around Rs. 300 crore equity in FY20 which had been 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) had come down from Rs. 735 crore as on March 31, 2019 to Rs. 514 crore as on March 31, 2020. 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 remained stable during FY20 albeit a fall witnessed in Q4FY20 mainly on account of the coronavirus pandemic. 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.

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. 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 March 31, 2020 company had cash and cash equivalents of Rs. 29.83 crore.

Analytical approach: Standalone financials of FCL are considered while 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
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 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.

Brief Financials (Rs. crore) (Standalone)	FY19 (A)	FY20 (Abridged)
Total operating income	3048.77	3026.10
PBILDT	161.06	146.70*
PAT	60.53	-305.70
Overall gearing (times)	0.62	0.47
Interest coverage (times)	2.44	2.67

A: Audited; UA: Unaudited;
**before Expected Credit Loss*

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 BB/CARE A4 (Double B/A Four) (Credit watch with developing implications)
Fund-based - LT-Cash Credit	-	-	-	266.00	CARE BB (Double B) (Credit watch with developing implications)
Fund-based - ST-Term loan	-	-	-	70.00	CARE A4 (A Four) (Credit watch with developing implications)
Non-fund-based - ST-BG/LC	-	-		25.00	CARE A4 (A Four) (Credit watch with developing implications)
Fund-based - LT-Term Loan	-	-	Feb-25	45.50	CARE BB (Double B) (Credit watch with developing implications)
Debentures-Non Convertible Debentures (INE220J07113)	Sep-17	9.95%	Sep-20	20.00	CARE BB (Double B) (Credit watch with developing implications)
Commercial Paper	-	-	-	100.00	CARE A4 (A Four) (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/ ST-Bills discounting/ Bills purchasing	LT/ST	109.00	CARE BB/CARE A4 (Double B/A Four) (Credit watch with developing implications)	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 BB (Double B) (Credit watch with developing implications)	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 A4 (A Four) (Credit watch with developing implications)	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 A4 (A Four) (Credit watch with developing implications)	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 A4 (A Four) (Credit watch with	CARE A2+ (Under Credit watch with	1)CARE A1 (Under Credit watch with	1)CARE A1 (03-Oct-18)	1)CARE A1 (04-Oct-17) 2)CARE A1

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)	Negative Implications) (26-Mar-20) 2)CARE A1 (20-Sep-19)		(10-Jul-17)
7.	Fund-based - LT-Term Loan	LT	45.50	CARE BB (Double B) (Credit watch with developing implications)	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 BB (Double B) (Credit watch with developing implications)	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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