

Future Consumer Limited

September 20, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities (Fund-based)	266 (enhanced from Rs.260 crore)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities (Fund-based)	70	CARE A1 (A One)	Reaffirmed
Short-term Bank Facility (Non- fund-based)	25	CARE A1 (A One)	Reaffirmed
Long/Short-term Bank Facilities (Fund-based)	109 (enhanced from Rs. 95 crore)	CARE A; Stable/ CARE A1 (Single A; Outlook: Stable / A One)	Reaffirmed
Long-term Bank Facility (Term Loan)	50	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Total	520 (Rs. Five hundred and twenty crore only)		
Short term instruments- Commercial Paper	100	CARE A1 (A One)	Reaffirmed
Long term instruments: Non-convertible debentures	40	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the facilities of Future Consumer Ltd. (FCL, erstwhile Future Consumer Enterprise Ltd.) takes into account improvement in operational performance in FY19, Q1FY20 and liquidity position resulting from a stable operating cycle. FCL has raised funds in the form of equity linked instruments in Q1FY20 which shall largely be used towards reduction of existing debt, working capital requirements and financial support for operations, debt servicing required for its subsidiaries/JV's, some of which are in nascent stage of operations. The support required towards the subsidiaries is expected to be met out of the equity proceeds. 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 however tempered by low profitability, losses in some of the subsidiaries and funding support from FCL for the same and intense competition from organised and unorganised sector players. The ability of the company to improve capital structure and achieve its revenues with improvement in margins as envisaged remains critical from credit perspective.

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.

Equity infusion in Q1FY20 resulting in reduction in borrowings

FCL has raised around Rs. 300 crore equity in Q1FY20 which has 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) has come down from Rs. 735 crore as on March 31, 2019 to Rs. 569 crore as on June 30, 2019. According to the management, some of the subsidiaries/JVs' of FCL are currently in nascent stage which are expected to be operational within the next 1-2 years until which financial support will be necessarily required from FCL. The fund requirement towards the same is expected to be met out of the equity proceeds.

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

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 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.

Improvement in operational performance

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 increase in distribution channel translating into higher sales volumes. PBILDT margin also improved from 4.16% in FY18 to 5.28% in FY19. Improvement in margins has been achieved through contribution from high margin products and stabilization of operations in some product categories. The company also earned a PAT of Rs. 60.53 crore in FY19 vis-à-vis Rs. 32.35 crore in FY18 on account of higher PBILDT. At the consolidated level, around 80% of the total revenue in FY19 comes from FCL (standalone). The losses at PAT level decreased from Rs.30.64 crore in FY18 to Rs. 7.18 crore in FY19 mainly due to improvement in performance of FCL (Standalone).

Key Rating Weaknesses

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 in them for 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. Losses were incurred mainly due to expenses in subsidiaries/JVs which were yet to commence operations. Further, two of FCL's larger subsidiaries – "Aadhaar Wholesale Trading and Distribution Limited" & "The Nilgiri Dairy Farm Private Limited" have also been incurring losses and hence requiring support from FCL. The management is constantly monitoring all their business verticals and taking steps to identify key weaknesses and addressing them by controlling the costs and turnaround their operations.

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. As a result, they are better positioned to command a higher price as well as quality edge over the competitors. Overall, the FMCG market remains highly fragmented with widespread use of unbranded and unpacked products. Additionally, the company's products are also affected by the general economic environment along with inflation at both wholesale and retail level.

Liquidity Analysis

The working capital cycle of FCL increased from 55 days in FY18 to 61 days in FY19 mainly due to increase in collection period. FCL grants around one month of credit period to its debtors (around 82% of the sales are made to FRL) and enjoys one month credit period from its suppliers. The company generally maintains one month's inventory. Average maximum working capital utilization was moderately high at 84% during 12 months ended August, 2019 albeit percentage utilization has come down post infusion of equity in Q1FY20. Adequate liquidity is characterized by sufficient cushion in GCA of Rs. 76.60 crore for FY19 vis-à-vis obligation of Rs. 37.03 crore in FY20, out of which Rs. 15 crore (NCD redemption due) has already been paid till September 20, 2019. Free cash balance of Rs. 9.13 crore was maintained as on March 31, 2019 (P.Y. Rs. 27.41 crore).

Analytical approach: Standalone financials of FCL are considered with factoring in all the support provided to subsidiaries and JVs.

Applicable Criteria

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

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

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

[Rating Methodology - Wholesale Trading](#)

[Financial ratios – Non-Financial Sector](#)
[Criteria for Short Term Instruments](#)

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)
Total operating income	2468.30	3048.77
PBILDT	102.57	161.06
PAT	32.35	60.53
Overall gearing (times)	0.49	0.62
Interest coverage (times)	2.25	2.44

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/ ST-Bills discounting/ Bills purchasing	-	-	-	109.00	CARE A; Stable / CARE A1
Fund-based - LT-Cash Credit	-	-	-	266.00	CARE A; Stable
Fund-based - ST-Term loan	-	-	-	70.00	CARE A1
Non-fund-based - ST-BG/LC	-	-	-	25.00	CARE A1
Fund-based - LT-Term Loan	-	-	Feb-25	50.00	CARE A; Stable
Debentures-Non Convertible Debentures	March 16, 2017	9.95-11%	Sep-20	40.00	CARE A; Stable
Commercial Paper	-	-	-	100.00	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/ ST-Bills discounting/ Bills purchasing	LT/ST	109.00	CARE A; Stable / CARE A1	-	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)	1)CARE A; Stable / CARE A1 (28-Dec-16) 2)CARE A / CARE A1 (19-Jul-16) 3)CARE A- / CARE A1 (12-Apr-16)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (03-Oct-18)	1)CARE A; Stable (04-Oct-17)	1)CARE A; Stable (28-Dec-16) 2)CARE A (19-Jul-16) 3)CARE A- (12-Apr-16)
3.	Fund-based - LT-Cash Credit	LT	266.00	CARE A; Stable	-	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)	1)CARE A; Stable (28-Dec-16) 2)CARE A (19-Jul-16) 3)CARE A- (12-Apr-16)
4.	Fund-based - ST-Term loan	ST	70.00	CARE A1	-	1)CARE A1 (11-Feb-19) 2)CARE A1 (03-Oct-18) 3)CARE A1 (19-Apr-18)	1)CARE A1 (04-Oct-17)	1)CARE A1 (28-Dec-16) 2)CARE A1 (19-Jul-16) 3)CARE A1 (12-Apr-16)
5.	Non-fund-based - ST-BG/LC	ST	25.00	CARE A1	-	1)CARE A1 (11-Feb-19) 2)CARE A1 (03-Oct-18) 3)CARE A1 (19-Apr-18)	1)CARE A1 (04-Oct-17)	1)CARE A1 (28-Dec-16) 2)CARE A1 (19-Jul-16) 3)CARE A1 (12-Apr-16)
6.	Commercial Paper	ST	100.00	CARE A1	-	1)CARE A1 (03-Oct-18)	1)CARE A1 (04-Oct-17) 2)CARE A1 (10-Jul-17)	-
7.	Fund-based - LT-Term Loan	LT	50.00	CARE A; Stable	-	1)CARE A; Stable (11-Feb-19) 2)CARE A; Stable (03-Oct-18) 3)CARE A; Stable	1)CARE A; Stable (04-Oct-17)	1)CARE A; Stable (28-Dec-16)

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
						(19-Apr-18)		
8.	Debentures-Non Convertible Debentures	LT	40.00	CARE A; Stable	-	1)CARE A; Stable (03-Oct-18)	1)CARE A; Stable (04-Oct-17)	1)CARE A; Stable (20-Mar-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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