

Future Consumer Ltd.

February 11, 2019

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities (Fund-based)	260.00 (enhanced from Rs.250 crore)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities (Fund-based)	70.00	CARE A1 (A One)	Reaffirmed
Short-term Bank Facility (Non-fund-based)	25.00	CARE A1 (A One)	Reaffirmed
Long/Short-term Bank Facilities (Fund-based)	95.00 (enhanced from Rs.65 crore)	CARE A; Stable/ CARE A1 (Single A; Outlook: Stable / A One)	Reaffirmed
Long-term Bank Facility (Term Loan)	50.00	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Total	500.00 (Rs. Five hundred crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the various facilities of Future Consumer Ltd. (FCL, erstwhile Future Consumer Enterprise Ltd.) takes into account satisfactory liquidity position resulting from stable operating cycle and improvement in operational performance in FY18. 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, and intense competition from organised and unorganised sector players.

The ability of the company to improve capital structure through equity infusion 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

Integrated presence across the FMCG value chain: 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.

Experienced promoter group: FCL is part of the Future Group, which is one of the largest retailers in India with Future Enterprises Ltd. 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.

Wide marketing and distribution network and optimized supply chain management: Apart from the convenience stores-KB's Fair Price and Big Apple, 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 with 285 stores encompassing 12.1 million sq. ft. of retail space as at the end of June 2018. Moreover, the company sells through small stores format of Future group (Easy day and Heritage) which has store count of 749 store and retail space of 1.7 million sq. ft. as on June 30, 2018. Moreover, in FY17, FCL has tied up with Star Bazaar for selling its products (outright sale) through its channel.

Key Rating Weaknesses

Moderation in capital structure: The debt has increased from Rs.339.92 crore as of March 31, 2017 to Rs.544.86 crore as of March 31, 2018 primarily to support its subsidiaries and JVs leading to moderation in coverage indicators and increase in overall gearing from 0.34x as on March 31st 2017 to 0.49x as on March 31st 2018.

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

Improvement in operational performance, however low margins: During FY18, the total revenue increased from Rs.1677.07 crore in FY17 to Rs.2468.30 crore in FY18. FCL registered a profit of Rs.102.57 crore at PBILDT level in FY18 as compared to EBITDA of Rs.60.25 crore in FY17 on a standalone basis. The PBILDT margin improved mainly due to increased composition of high margin private labels and stabilisation of operations. The company also earned a PAT of Rs.32.35 crore against Rs.7.78 crore in FY17 on account of higher PBILDT.

However, the working capital cycle of the company marginally also increased from 51 days in FY17 to 55 days in FY18 mainly on account of rise in collection days. The average working capital related bank limits utilisation for the last 12 months ending June 2018 stood at 58%.

At the consolidated level, around 82% of the total revenue in FY18 comes from FCL (standalone). The losses at PAT level decreased from Rs.65.44 crore in FY17 to Rs.30.64 crore in FY18 mainly due to improvement in performance of FCL (Standalone).

Significant Exposure in subsidiaries: FCL has been supporting group companies by providing loans as well as making investments in them. As on March 31, 2018, FCL had investments of Rs.670.54 crore (previous year Rs.636.03 crore) in its various subsidiaries/Joint Ventures/Associates and group companies and had given loans and advances of Rs.329.49 crore (previous year Rs. 241.42 crore) to related parties (mainly group companies, subsidiaries). All the subsidiaries are engaged into procurement, trading, manufacturing, etc of FMCG goods. The loans extended to group companies are interest bearing (around 12-12.50% p.a.).

Intense competition from organised and unorganised sector players: Indian FMCG market is characterized by a large number of organised and unorganised players with duplicate products being rampant. 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.

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

Liquidity Analysis: The working capital cycle of the company increased from 51 days in FY17 to 55 days in FY18. The company grants one month of credit period to its debtors (around 80% of the sales are made to FRL) and enjoys one month credit period from its suppliers. The company generally maintains one month's inventory.

Applicable Criteria

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

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

[Policy on Withdrawal of ratings](#)

[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, and personal hygiene and home care products of private label brands of the future group (mainly Premium Harvest, Golden Harvest, Ektaa, Clean mate, Caremate, Tasty Treat and Fresh & Pure) and other brands like Sunkist and Sach, primarily through Future group formats in urban and rural areas. As on March 31, 2018, the company has a portfolio of 27 brands across various categories.

Brief Financials (Rs. crore) (Standalone)	FY17 (A)	FY18 (A)
Total operating income	1677.07	2468.30
PBILDT	60.25	102.57
PAT (including OCI)	7.78	32.35
Overall gearing (times)	0.34	0.49
Interest coverage (times)	1.63	2.25

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

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	95.00	CARE A; Stable / CARE A1
Fund-based - LT-Cash Credit	-	-	-	260.00	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	-	-	-	50.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT/ST-Bills discounting/ Bills purchasing	LT/ST	95.00	CARE A; Stable / CARE A1	1)CARE A; Stable / CARE A1 (03-Oct-18) 2)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)	1)CARE A- / CARE A1 (06-Apr-15)
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)	1)CARE A- (06-Apr-15)
3.	Fund-based - LT-Cash Credit	LT	260.00	CARE A; Stable	1)CARE A; Stable (03-Oct-18) 2)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 (03-Oct-18) 2)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)	-

							16)	
5.	Non-fund-based - ST-BG/LC	ST	25.00	CARE A1	1)CARE A1 (03-Oct-18) 2)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 (03-Oct-18) 2)CARE A; Stable (19-Apr-18)	1)CARE A; Stable (04-Oct-17)	1)CARE A; Stable (28-Dec-16)	-
8.	Debentures-Non Convertible Debentures	LT	100.00	CARE A; Stable	1)CARE A; Stable (03-Oct-18)	1)CARE A; Stable (04-Oct-17)	1)CARE A; Stable (20-Mar-17)	-

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