

Future Enterprises Limited

January 18, 2019

Ratings

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Commercial Paper (CP) issue*	150.00	CARE A1+ (A One Plus)	Reaffirmed
Commercial Paper (CP) issue^	150.00	CARE A1+ (A One Plus)	Reaffirmed
Commercial Paper (CP) issue	350.00 (enhanced from 250.00)	CARE A1+ (A One Plus)	Reaffirmed
Total	650.00 (Rupees Six hundred fifty crore only)		

*carved out of the sanctioned working capital limits of the company.

^As per undertaking submitted by FEL to CARE, the outstanding CP including working capital borrowings will not exceed lower of the sanctioned working capital limits or drawing power at any point of time.

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the Commercial Paper Issue of Future Enterprises Ltd. (FEL) takes into consideration the significant experience of promoters and management team combined with management focus on on-going divestments across non-core businesses. CARE has considered combined financials of FEL and Future Retail Limited (FRL) for analysis; given the strong operational synergies between the two companies (referred as FEL (combined)). The ratings also derive strength from FRL's proven track record with a leading position in the organized retail business in India, pan-India presence across multiple formats and stable operational performance. The ratings continue to factor in the support FEL may have to extend to its loss-making subsidiaries/joint ventures, until such time that they are either financially stable or FEL's stake in the same have been sold.

The rating strengths are however tempered by moderate capital structure and moderate debt coverage ratios. Further the ratings also factor the working capital intensive nature of the retail business and intense competition.

The ability of FEL (Combined) to further improve capital structure by reducing debt, improve profitability margins in the competitive industry scenario, manage its working capital requirements efficiently amidst growing scale of operations, improve debt coverage parameters and divest investments as envisaged are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management: The promoters of FEL (combined) have been closely involved in the management of business, and in defining and monitoring the business strategy for the company. Furthermore, the promoters are supported by a strong management team, having significant experience in retail.

Leadership position in organised retail: FRL is one of the leading retailers in India and occupies total retail space of 15.4msf as at the end of Sep 2018. During the year, FRL acquired Hypercity Retail India Ltd. Further, FRL has also acquired M/s Travel News Services (India) Private Ltd. (TNSI) and retail business undertaking under the brand name "Foodworld" from M/s Foodworld Supermarkets Private Limited in Q1FY19. FRL has demerged its hometown segment and has rationalised Ezone segment in FY18. Aggregately, the Future group has pan India presence in value retailing (Big Bazaar, Easyday, Heritage), lifestyle (Central, FBB, Brand Factory, Planet Sports) & home retailing (HomeTown, Ezone) and across various price points.

Management focus on divestments of non-core businesses: FEL effectively holds (through direct & indirect ownership) 27.40% and 49.87% equity stake in Future Generali India Life Insurance Company Limited (life insurance business) and Future Generali India Insurance Company Limited (general insurance business) respectively. Future Generali India Life Insurance co. Ltd. continues to make losses and made a loss of Rs.146.82 crore in FY18 while Future Generali India Insurance Company Limited made a profit of Rs.78.63 crore in FY18. Along with this, FEL also holds stake in Future Supply Chains Solutions Ltd. (FSC; 51.22%), Work Store Limited (WSL;61.67%), Apollo Design Apparel Parks Ltd.(39%) and Goldmohur Design Apparel Parks Ltd.(39%) . During FY18, WSL incurred a loss of Rs.2.24 crore. FEL plans to divest its holdings in these companies over next 3-4 years. FEL had divested 9% stake in FCL in July 2017 for a total consideration of Rs.490 crore. Also, the company divested around 6% stake in FSC in FY18 for a total consideration of Rs.123 crore.

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

Stable Operational Performance: The footfalls increased to 340 million in FY18 as compared to 297 million in FY17. Also, the conversion ratio increased from 48% to 53% in FY18. FRL brands contributed 34-36% of total sales in FY18 (30% in FY17) which earns higher margin by 2-3% than other sales.

During FY18, FEL (Combined) registered PBILDT and PAT of Rs.1938 crore and Rs.-1 crore respectively on total operating income of Rs.19547 crore. The loss at PAT level was mainly due to booking of non-cash loss on account of sale of Hypercity Retail India Ltd. (HRIL). After demerger of retail business of HRIL into FRL, the real estate division of HRIL (valued at around Rs.7.80 crore) was sold by FRL for Rs.8 crore. FRL had made an investment of Rs. 612 Crore in HRIL, against which FRL realized Rs. 8 crore and FRL has booked non-cash write off of investment in HRIL to the extent of Rs. 604 Crore in FY18.

Key Rating Weaknesses

Moderate Capital structure and debt coverage indicators: The overall gearing of FEL (Combined) was 1.40x as on March 31, 2018 and its interest coverage for FY18 was 2.61x as compared to overall gearing of 1.16x as on March 31, 2017 and interest coverage of 2.30x for FY17. The gearing level deteriorated marginally in FY18 mainly due to increase in debt to fund capex plans and acquisitions. Working capital remained moderate for the past 12 months. Further, on account of launch of various private brands (in fashion and food category) and store addition of Easyday and Heritage, the company has invested in the base working capital requirement leading to high working capital levels.

High Working Capital Cycle: FEL (combined) has low receivables period like other retailers, however the inventory days are higher on account of bought out stock arrangement for its inventory which leads to higher working capital requirement.

Intensifying competition: Increasing competition from both brick and mortar and online players could impact overall SSSG of FRL. Competition from online delivery players, such as, bigbasket.com. grofers.com, etc., remains a key threat. Also, change in FDI norms can lead to further competition.

Liquidity Position: Operating Cycle of FRL and FEL combined has been moderate at 45 days in March 2018. Average fund based utilization of FRL for 12 months ending has been around 53% for 12 months ending Nov.18. Average fund based utilization of FEL for 12 months ending has been around 55% for Sep 18.

Analytical approach: Combined Financials of FEL and FRL have been considered for analysis; given the strong operational synergies. Further, FEL and FRL also provided cross corporate guarantee for all the sanctioned debt in both the companies as of May 01, 2016.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[Rating Methodology: Factoring Linkages in Ratings](#)
[Rating Methodology-Manufacturing Companies](#)
[Rating Methodology: Retail](#)
[Financial ratios – Non-Financial Sector](#)

About the Company

Erstwhile Future Retail Ltd. has now been renamed as Future Enterprises Ltd. (FEL) and houses the physical assets (store formats of erstwhile FRL and Bharti Retail Limited including all the infrastructure assets situated in the stores) apart from strategic investments in various companies. The company is also in the business of manufacturing men's wear, women's wear and kid's wear in denim segment. Consequent to de-merger, the long term debt (comprising bank term loans and NCDs of erstwhile FRL) now resides in the books of FEL.

FEL and FRL (Combined)

Brief Financials (Rs. crore)	FY17(UA)	FY18 (UA)
Total operating income	17179	19547
PBILDT	1638	1938
PAT	412	-1
Overall gearing (times)	1.16	1.40
Interest coverage (times)	2.3	2.61

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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
Commercial Paper	-	-	7 days to 1 year	150.00	CARE A1+
Commercial Paper	-	-	7 days to 1 year	150.00	CARE A1+
Commercial Paper	-	-	7 days to 1 year	350.00	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-Cash Credit	LT	-	-	-	-	1)Withdrawn (11-Aug-16)	1)CARE AA- (Under Credit Watch) (13-May-15)
2.	Non-fund-based - ST-BG/LC	ST	-	-	-	-	1)Withdrawn (11-Aug-16)	1)CARE A1+ (Under Credit Watch) (13-May-15)
3.	Fund-based - LT-Term Loan	LT	961.06	CARE AA-; Stable	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (24-Jan-18) 2)CARE AA-; Stable (17-Aug-17)	1)CARE AA-; Stable (21-Feb-17) 2)CARE AA- (03-Oct-16) 3)CARE AA- (24-Aug-16) 4)CARE AA- (11-Aug-16)	1)CARE AA- (Under Credit Watch) (13-May-15)
4.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (17-Aug-17)	1)CARE AA-; Stable (21-Feb-17) 2)CARE AA- (03-Oct-16) 3)CARE AA- (11-Aug-16)	1)CARE AA- (Under Credit Watch) (02-Nov-15) 2)CARE AA- (Under Credit Watch) (13-May-15)
5.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (11-Aug-16)	1)CARE A1+ (Under Credit Watch) (18-Aug-15) 2)CARE A1+ (Under Credit Watch) (13-May-15)
6.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (24-Aug-16)	1)CARE AA- (Under Credit Watch) (02-Nov-15) 2)CARE AA- (Under Credit Watch) (13-May-15) 3)CARE AA- (06-Apr-15)
7.	Fund-based - LT-Term Loan	LT	557.66	CARE AA-; Stable	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (24-Jan-18) 2)CARE AA-; Stable (17-Aug-17)	1)CARE AA-; Stable (21-Feb-17) 2)CARE AA- (03-Oct-16) 3)CARE AA- (24-Aug-16) 4)CARE AA- (11-Aug-16)	1)CARE AA- (Under Credit Watch) (13-May-15)

8.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (11-Aug-16)	1)CARE A1+ (Under Credit Watch) (18-Aug-15) 2)CARE A1+ (Under Credit Watch) (13-May-15)
9.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (17-Aug-17)	1)CARE AA-; Stable (21-Feb-17) 2)CARE AA- (03-Oct-16) 3)CARE AA- (11-Aug-16)	1)CARE AA- (Under Credit Watch) (13-May-15)
10.	Debentures-Non Convertible Debentures	LT	285.00	CARE AA-; Stable	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (17-Aug-17)	1)CARE AA-; Stable (21-Feb-17) 2)CARE AA- (03-Oct-16) 3)CARE AA- (11-Aug-16)	1)CARE AA- (Under Credit Watch) (13-May-15) 2)CARE AA- (06-Apr-15)
11.	Debentures-Non Convertible Debentures	LT	200.00	CARE AA-; Stable	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (17-Aug-17)	1)CARE AA-; Stable (21-Feb-17) 2)CARE AA- (03-Oct-16) 3)CARE AA- (11-Aug-16)	1)CARE AA- (Under Credit Watch) (13-May-15) 2)CARE AA- (06-Apr-15)
12.	Debentures-Non Convertible Debentures	LT	1347.50	CARE AA-; Stable	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (17-Aug-17)	1)CARE AA-; Stable (21-Feb-17) 2)CARE AA- (03-Oct-16) 3)CARE AA- (12-Jul-16)	1)CARE AA- (Under Credit Watch) (18-Aug-15) 2)CARE AA- (Under Credit Watch) (30-Jun-15)
13.	Fund-based - LT-Working Capital Limits	LT	625.00	CARE AA-; Stable	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (24-Jan-18) 2)CARE AA-; Stable (17-Aug-17)	1)CARE AA-; Stable (21-Feb-17) 2)CARE AA- (03-Oct-16) 3)CARE AA- (24-Aug-16)	-
14.	Non-fund-based - ST-BG/LC	ST	602.00	CARE A1+	1)CARE A1+ (03-Oct-18)	1)CARE A1+ (24-Jan-18) 2)CARE A1+ (17-Aug-17)	1)CARE A1+ (21-Feb-17) 2)CARE A1+ (03-Oct-16) 3)CARE A1+ (24-Aug-16)	-
15.	Debentures-Non Convertible Debentures	LT	949.00	CARE AA-; Stable	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (17-Aug-17)	1)CARE AA-; Stable (21-Feb-17) 2)CARE AA- (03-Oct-16)	-

16.	Debentures-Non Convertible Debentures	LT	550.00	CARE AA-; Stable	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (17-Aug-17)	1)CARE AA-; Stable (30-Mar-17)	-
17.	Debentures-Non Convertible Debentures	LT	950.00	CARE AA-; Stable	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (17-Aug-17)	1)CARE AA-; Stable (30-Mar-17)	-
18.	Commercial Paper	ST	150.00	CARE A1+	1)CARE A1+ (03-Oct-18)	1)CARE A1+ (05-Mar-18) 2)CARE A1+ (24-Jan-18) 3)CARE A1+ (17-Aug-17) 4)CARE A1+ (20-Apr-17)	-	-
19.	Fund-based - ST-Term loan	ST	50.00	CARE A1+	1)CARE A1+ (03-Oct-18)	1)CARE A1+ (24-Jan-18)	-	-
20.	Commercial Paper	ST	150.00	CARE A1+	1)CARE A1+ (03-Oct-18)	1)CARE A1+ (05-Mar-18) 2)CARE A1+ (24-Jan-18)	-	-
21.	Commercial Paper	ST	350.00	CARE A1+	1)CARE A1+ (03-Oct-18)	1)CARE A1+ (05-Mar-18)	-	-
22.	Debentures-Non Convertible Debentures	LT	200.00	CARE AA-; Stable	1)CARE AA-; Stable (03-Oct-18) 2)CARE AA-; Stable (20-Sep-18)	-	-	-
23.	Fixed Deposit	LT	700.00	CARE AA-(FD); Stable	1)CARE AA-(FD); Stable (02-Nov-18)	-	-	-

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