

Future Enterprises Limited

September 30, 2020

Ratings

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Non-convertible Debenture Issue	332.00 (Rs. Three hundred thirty two crore)	CARE D (Single D)	Revised from CARE C (Single C) rating removed from credit watch with developing implications

Details of instruments/facilities in Annexure-1

Other Rated Facilities and Instruments

Facilities/Instruments	Amount (Rs. crore)	Rating
Long-term - Term Loan	550.00	CARE C (Single C) (Credit Watch with developing implications)
Long-term fund based bank facilities – CC	625.00	
Short-term non-fund based bank facilities – LC/BG	602.00	CARE A4 (A Four) (Credit Watch with developing implications)
Total	1,777.00 (Rs. One thousand seven hundred seventy seven crore only)	
Non-Convertible Debenture Issue	592.00	CARE D (Single D)
Non-Convertible Debenture Issue	1,800.00	CARE C (Single C) (Credit Watch with developing implications)
Fixed Deposit Programme	700.00	CARE C (FD) (Single C) (Fixed Deposit) (Credit Watch with developing implications)

Detailed Rationale & Key Rating Drivers

The revision of ratings assigned to the instruments of Future Enterprises Limited (FEL) is on account of default in servicing of interest due on September 28, 2020 on its Non-convertible Debentures bearing ISIN INE623B07529 and INE623B07537. The default is primarily on account of poor liquidity position due to subsequent lockdowns in the wake of COVID-19 outbreak.

The other issues raised by CARE in its press release dated September 23, 2020, viz. weakened credit profile of its key customer – Future Retail Limited (FRL), delays in release of sanctioned bank limits and default in servicing of its interest on its Non-convertible Debentures bearing ISIN INE623B07503, INE623B07511, INE623B07487 and INE623B07495 continue to constrain the ratings. The ratings also factor in high promoter pledge and falling market capitalisation significantly impacting financial flexibility, dependence on group companies for revenue and high working capital cycle. FEL is in discussion to monetise its investments in insurance business to improve its liquidity position. The timeliness of monetisation remains key rating monitorable.

FEL had announced on August 29, 2020 that Reliance Retail Ventures Limited, a subsidiary of Reliance Industries Limited shall be acquiring the Retail & Wholesale Business and the Logistics & Warehousing Business from the Future Group as going concerns on a slump sale basis for lumpsum aggregate consideration of Rs. 24,713 crore. The scheme is subject to various approvals and the execution of the same remains critical from credit perspective.

FEL has sought a moratorium on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020. CARE has not recognised this instance as a Default as of now, as the same is permitted by the RBI as part of the relief measures. FEL had interest payment on NCD (INE623B07685 and INE623B07693) due on April 17, 2020 which was made April 22, 2020. As per the communication from the investor the company sought moratorium on NCD interest payment and the same was approved by the investor. The company also had a CP (ISIN INE623B14AW6) (Not rated by CARE) payment aggregating to Rs.100 crore due on April 27, 2020 but the same was delayed and made on April 28, 2020. As per the IPA the company had adequate funds in the account but transaction could not be executed due to delays in

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

banking operations caused by COVID19. Non-recognition of default in the above cases is as per the guidance provided by the SEBI circular SEBI/HO/MIRSD/CRADT/CIR/P/2020/53 dated March 30, 2020.

Key Rating Sensitivities

Positive Factors

- Improvement in company's liquidity profile resulting from equity infusion/divestment of investments/improved credit profile of its key customer, FRL

Negative Factors

- NCDs amounting to Rs.1,250 crore have accelerated prepayment clause in case of rating falling below 'AA-'. Exercising the option to recall bonds may result in severe liquidity issues.
- Delays in divestment of stake in subsidiaries/JVs/Associate companies and/or higher debt resulting in a leveraged capital structure over 1.00x (FY21)
- Inability of the company to scale up new verticals of business leading to deterioration of Total Debt/PBILDT over 3.25x

Detailed description of the key rating drivers (As per PR dated September 23, 2020)

Key Rating Weaknesses

Stretched financial flexibility; considerable promoters' stake pledged: The promoters FEL as of Mar 2018 had pledged 11.64 crore shares (56.56% of promoter stake). During the past year, the company's market capitalisation has declined significantly from Rs. 1,760 crore to Rs. 719 crore as on July 29, 2020. Falling market capitalisation coupled with rising debt has led to significant deterioration of debt to market-capitalisation from 3.73x as on March 31, 2018 to 3.86x as on March 31, 2019 to current level of ~8.55x.

However, in lieu of significant fall in share price, the promoters had to pledge additional shares taking the total to 87.40% of promoters' stake (as on Jun 30, 2020). Considerable reduction in market capitalisation and significant proportion of promoter's stake pledged hampers the company's flexibility to raise funds.

Significant dependence on group companies: FEL provides infrastructure support to group companies, logistical support through its subsidiary Future Supply Chain Solutions Limited and also designs, manufactures garments for in-house brands and engages in trading for various group companies. Sale of goods and services to its group companies has shown an increasing trend

FEL is reliant on FRL for a significant portion of its income (Rs. 3,838 crore in FY19). FEL's step-down subsidiary, Future Supply Chain Solutions Limited also provides warehousing and logistic requirements to FRL (FY19: Rs. 557.88 crore).

Going ahead, with the proposed acquisition of retail assets from FEL, lease rentals from FRL are expected to come down by Rs. 550-650 crore. However, apart from the infrastructure support, FEL will continue to provide other services to FRL.

Furthermore, FEL and FRL have also provided cross guarantees on behalf of each other for various borrowings to the tune of Rs. 5750 crore and Rs. 3583 crore respectively as on March 31, 2019. These guarantees between both the companies will eventually be withdrawn post the sale of assets and subsequent debt repayment.

High Working Capital Cycle: FEL has high gross working capital cycle of 176 days in FY19, which has deteriorated from 157 days in FY18. The reason for high operating cycle is on account of high inventory days. The company buys on behalf of group companies and goods are kept at various retail outlets across the country thereby leading to high inventory period of 16-18 weeks. The company receives payment after 6-7 weeks from sale of goods. Increase in inventory days and growth in operations led to an increase in company's fund based average working capital utilisation (including CP) for the past 12 months ending Feb 2020 to 71% as against 63% during the same period last year.

Intensifying competition in retail industry: Heightened competition from both brick and mortar and online players could impact overall SSSG of FEL's customers. Competition from e-commerce players, remains a key threat. Also, change in FDI norms can lead to further competition. Currently, the government has allowed FDI in food processing sector. Apart from this, the government is also contemplating liberalising rules relating to multi-brand retail. This will open up foreign investments which may pose a threat to existing retail players.

Key Rating Strengths

Experienced Promoters & Management: The promoters of FEL have been closely involved in the management of business and in defining & monitoring the business strategy for the company. Mr. Kishore Biyani, the founder and Group CEO of the Future group, is widely recognised as a pioneer of modern retail in India. Furthermore the promoters are supported by a strong management team having significant experience in retail industry.

The company hold stake in various other future group companies with main being in Future Supply Chain Solutions Limited and insurance JV with Future Generali. The company is looking to divest its holdings in various group companies in order to reduce debt.

Sale of assets to improve capital structure; albeit reduction in rental income: Sale of lease assets to FRL at a fair value of Rs. 3,952 crore and subsequent debt repayment will help the company to improve its capital structure. The company's debt level has already come down from Rs. 6,730 crore (excl. acceptances on LC) as on Dec 31, 2019 to Rs. 5,681 crore as on Feb 29, 2020. However, post the outbreak of COVID19, the company hasn't prepaid the balance debt which has led to leverage remaining high. Furthermore, reduced cash flows and significant dependence on banks for working capital requirements will keep the capital structure under pressure. The company has plans to divest stake in its insurance business as well as logistic business which will lead to further improvement in capital structure upon materialisation.

Consequently, with the sale of assets to FRL, FEL lease rental income from FRL is expected to significantly decline by Rs. 550-650 crore p.a.

The ability of the company to successfully improve capital structure remains critical from credit perspective.

New verticals to drive growth: FEL is almost fully dependant on group companies to drive its growth. The company received 92% of total sales from group companies. Post the sale of assets to FRL, FEL's income is expected to decline by Rs. 550-650 crore and subsequently PBILDT and PBILDT margins are also expected to shrink.

Going ahead, even as group companies continue to remain depended on FEL for their designing, manufacturing and trading requirements, the latter is looking to develop incumbent business and reduce dependence on group companies. The company is looking leverage on data collected through its 'Future Pay' app which has over 16mn members. It will also provide a market place to group companies such as FRL and Future Lifestyle Fashions. FEL is also looking to offer financial services & payments solutions through the app.

The ability of the company to scale the businesses and achieve envisaged results within stipulated timelines remain critical for company's credit profile.

Industry Outlook

In view of the COVID19 outbreak and lowering of the discretionary spending by the consumers in these times of economic downturn, the outlook for the Indian players in retail sector is 'Negative' in the short to medium term. The impact on demand, which is expected to remain muted at least for the next three or four quarters, will be more in case of players with presence in non-essential items and luxury segments. However, the expected support from the government in terms of financial stimulus packages and wage support subsidy as well as rental waivers from the mall-owners which would help the retailers to bring down their fixed costs, will reduce the impact on their credit profile to an extent. The retailers with presence in essential commodities continue to have some cash flows to support their fixed costs.

After the control of the spread of the coronavirus and post the lock-down period, the spending as well as shopping patterns of the consumers are expected to change significantly. The consumers are likely to curtail their discretionary spending with reduced income in their hands as well as tendency to preserve cash. Also, more preference is likely towards online channels in order to avoid crowded spaces. In such times, the retailers with presence across the retail segments (grocery, apparel, appliances, accessories) as well as who have an omni-channel strategy with presence in both offline and online channels are expected to have a quicker recovery.

Liquidity Position: Poor

The company's liquidity profile has been severely impacted on account of lockdown measures and weakened credit profile of its key customer, FRL. The company has applied to the lenders for moratorium as per RBI package. The company has also applied to the bankers for enhancement in working capital limits, release of peak limits, interchangeability of limits and COVID19 lines, the same are under different stages of approval. The timely release of additional working capital limits continue to remain critical for meeting the short term repayment obligations. The company is also looking at monetising its investments in insurance and supply chain business which would improve the liquidity, however, the same has been delayed.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

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

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Criteria for Short Term Instruments](#)

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 and trading of men's wear, women's wear and kid's wear in denim segment. FEL is also the holding company for future group's various other businesses

Brief Financials – FEL	FY18 (A)	FY19 (A)
Total operating income	4213	4590
PBILDT	1128	1357
PAT	-12.19	24.02
Overall gearing (times)	1.77	2.15
Interest coverage (times)	1.97	2.33

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
Debentures-Non Convertible Debentures INE623B07529	27-Mar-17	9.60%	27-Mar-22	133.00	CARE D
Debentures-Non Convertible Debentures INE623B07537	27-Mar-17	9.60%	27-Mar-23	199.00	CARE D

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-Term Loan	LT	-	-	-	1)Withdrawn (26-Mar-20) 2)CARE AA-(Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (24-Jan-18) 2)CARE AA-; Stable (17-Aug-17)
2.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (17-Aug-17)
3.	Fund-based - LT-Term Loan	LT	550.00	CARE C (Under Credit watch with Developing	1)CARE C (Under Credit watch with Developing Implications)	1)CARE A (Under Credit watch with Negative	1)CARE AA-; Stable (03-Oct-	1)CARE AA-; Stable (24-Jan-18) 2)CARE AA-;

				Implications)	(08-Sep-20) 2)CARE C (19-Aug-20) 3)CARE BB (Under Credit watch with Developing Implications) (31-Jul-20) 4)CARE BBB+ (Under Credit watch with Negative Implications) (13-May-20)	Implications) (26-Mar-20) 2)CARE AA- (Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	18)	Stable (17-Aug-17)
4.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (17-Aug-17)
5.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (26-Mar-20) 2)CARE AA- (Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (03-Oct- 18)	1)CARE AA-; Stable (17-Aug-17)
6.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (26-Mar-20) 2)CARE AA- (Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (03-Oct- 18)	1)CARE AA-; Stable (17-Aug-17)
7.	Debentures-Non Convertible Debentures	LT	325.00	CARE C (Under Credit watch with Developing Implications)	1)CARE C (Under Credit watch with Developing Implications) (08-Sep-20) 2)CARE C (19-Aug-20) 3)CARE BB (Under Credit watch with Developing Implications) (31-Jul-20) 4)CARE BBB+ (Under Credit watch with Negative Implications) (13-May-20)	1)CARE A (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE AA- (Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (03-Oct- 18)	1)CARE AA-; Stable (17-Aug-17)
8.	Fund-based - LT-	LT	625.00	CARE C (Under	1)CARE C (Under	1)CARE A	1)CARE	1)CARE AA-;

	Working Capital Limits			Credit watch with Developing Implications)	Credit watch with Developing Implications) (08-Sep-20) 2)CARE C (19-Aug-20) 3)CARE BB (Under Credit watch with Developing Implications) (31-Jul-20) 4)CARE BBB+ (Under Credit watch with Negative Implications) (13-May-20)	(Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE AA- (Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	AA-; Stable (03-Oct-18)	Stable (24-Jan-18) 2)CARE AA-; Stable (17-Aug-17)
9.	Non-fund-based - ST-BG/LC	ST	602.00	CARE A4 (Under Credit watch with Developing Implications)	1)CARE A4 (Under Credit watch with Developing Implications) (08-Sep-20) 2)CARE A4 (19-Aug-20) 3)CARE A4 (Under Credit watch with Developing Implications) (31-Jul-20) 4)CARE A3+ (Under Credit watch with Negative Implications) (13-May-20)	1)CARE A1 (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE A1+ (Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE A1+ (23-Jul-19)	1)CARE A1+ (03-Oct-18)	1)CARE A1+ (24-Jan-18) 2)CARE A1+ (17-Aug-17)
10.	Debentures-Non Convertible Debentures	LT	617.00	CARE C (Under Credit watch with Developing Implications)	1)CARE C (Under Credit watch with Developing Implications) (08-Sep-20) 2)CARE C (19-Aug-20) 3)CARE BB (Under Credit watch with Developing Implications) (31-Jul-20) 4)CARE BBB+ (Under Credit watch with Negative Implications) (13-May-20)	1)CARE A (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE AA- (Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (17-Aug-17)
11.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (26-Mar-20) 2)CARE AA- (Under Credit watch with Negative Implications) (23-Oct-19)	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (17-Aug-17)

						3)CARE AA-; Negative (23-Jul-19)		
12.	Debentures-Non Convertible Debentures	LT	358.00	CARE C (Under Credit watch with Developing Implications)	1)CARE C (Under Credit watch with Developing Implications) (08-Sep-20) 2)CARE C (19-Aug-20) 3)CARE BB (Under Credit watch with Developing Implications) (31-Jul-20) 4)CARE BBB+ (Under Credit watch with Negative Implications) (13-May-20)	1)CARE A (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE AA- (Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (03-Oct- 18)	1)CARE AA-; Stable (17-Aug-17)
13.	Commercial Paper	ST	-	-	-	1)Withdrawn (26-Mar-20) 2)CARE A1+ (Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE A1+ (23-Jul-19)	1)CARE A1+ (18-Jan- 19) 2)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)
14.	Fund-based - ST- Term loan	ST	-	-	-	1)Withdrawn (26-Mar-20) 2)CARE A1+ (Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE A1+ (23-Jul-19)	1)CARE A1+ (03-Oct- 18)	1)CARE A1+ (24-Jan-18)
15.	Commercial Paper	ST	-	-	-	1)Withdrawn (26-Mar-20) 2)CARE A1+ (Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE A1+ (23-Jul-19)	1)CARE A1+ (18-Jan- 19) 2)CARE A1+ (03-Oct- 18)	1)CARE A1+ (05-Mar-18) 2)CARE A1+ (24-Jan-18)
16.	Commercial Paper	ST	-	-	1)Withdrawn (13-May-20)	1)CARE A1 (Under Credit watch with Negative	1)CARE A1+ (18-Jan- 19)	1)CARE A1+ (05-Mar-18)

						Implications) (26-Mar-20) 2)CARE A1+ (Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE A1+ (23-Jul-19)	2)CARE A1+ (03-Oct-18)	
17.	Debentures-Non Convertible Debentures	LT	200.00	CARE C (Under Credit watch with Developing Implications)	1)CARE C (Under Credit watch with Developing Implications) (08-Sep-20) 2)CARE C (19-Aug-20) 3)CARE BB (Under Credit watch with Developing Implications) (31-Jul-20) 4)CARE BBB+ (Under Credit watch with Negative Implications) (13-May-20)	1)CARE A (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE AA- (Under Credit watch with Negative Implications) (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (03-Oct-18) 2)CARE AA-; Stable (20-Sep-18)	-
18.	Fixed Deposit	LT	700.00	CARE C (FD) (Under Credit watch with Developing Implications)	1)CARE C (FD) (Under Credit watch with Developing Implications) (08-Sep-20) 2)CARE C (FD) (19-Aug-20) 3)CARE BB (FD) (Under Credit watch with Developing Implications) (31-Jul-20) 4)CARE BBB+ (FD) (Under Credit watch with Negative Implications) (13-May-20)	1)CARE A (FD) (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE AA- (FD) (Under Watch with Negative Implications) (23-Oct-19) 3)CARE AA- (FD); Negative (23-Jul-19)	1)CARE AA- (FD); Stable (02-Nov-18)	-
19.	Debentures-Non Convertible Debentures	LT	300.00	CARE C (Under Credit watch with Developing Implications)	1)CARE C (Under Credit watch with Developing Implications) (08-Sep-20) 2)CARE C (19-Aug-20) 3)CARE BB (Under Credit watch with Developing Implications) (31-Jul-20)	-	-	-

					4)CARE BBB+ (Under Credit watch with Negative Implications) (13-May-20)			
20.	Debentures-Non Convertible Debentures	LT	265.00	CARE D	1)CARE D (08-Sep-20) 2)CARE D (19-Aug-20)	-	-	-
21.	Debentures-Non Convertible Debentures	LT	327.00	CARE D	1)CARE D (23-Sep-20)	-	-	-
22.	Debentures-Non Convertible Debentures	LT	332.00	CARE D	-	-	-	-

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple

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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About CARE Ratings:

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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