

Future Lifestyle Fashions Limited

September 08, 2020

Credit Update on Future Lifestyle Fashions Limited (FLFL)

On August 29, 2020, the board of Directors of FLFL considered and approved the amalgamation of the company along with other transferor companies with Future Enterprises Limited (FEL). The proposed amalgamation would be carried out vide a Composite Scheme of Arrangement between FLFL along with other transferor companies with FEL (transferee company) and their respective Shareholders and Creditors. Shareholders of FLFL holding 10 fully paid up equity share of Rs. 2 each shares will get 116 fully paid up equity shares of Rs. 2 each of FEL. As per the company the said Scheme would be subject to requisite approvals of the National Company Law Tribunal, BSE Limited, National Stock Exchange of India Limited, Securities and Exchange Board of India, Competition Commission of India and other statutory/regulatory authorities, including those from the shareholders and creditors of the transferor companies and transferee company and applicable contractual approvals. Total sale consideration is Rs.24,713 crore.

Post the amalgamation of FLFL along with other transferor companies with FEL;

- Logistics & Warehousing undertaking from FEL will be transferred and vested as a going concern on a slump sale basis to Reliance Retail Ventures Limited (RRVL, rated CARE A1+) for a consideration of Rs. 25.22 crore.
- Retail & Wholesale undertaking from FEL will be transferred and vested as a going concern on a slump sale basis to Reliance Retail and Fashion Lifestyle Limited (RRFLL), a wholly owned subsidiary of RRVL (RRVL WOS) for a consideration of Rs. 5,628.33 crore.
- FEL has further approved as part of the same Scheme, issue of 67,98,86,685 equity shares (6.09% stake) at an issue price of Rs. 17.65 per share aggregating to Rs. 1,200 crore on preferential basis to RRFLL.
- FEL has further approved as part of the same Scheme, issue of 90,65,15,580 warrants (7.05% stake, if converted into equity) convertible into equity shares at a price of Rs. 17.65 per share aggregating to Rs. 1,600 crore to RRFLL on a preferential basis, subject to receipt of initial application amount of 25% of the issue price. Each warrant is convertible into one equity share and the conversion can be exercised at any time during the period of 18 months from the date of allotment of warrants, as the case may be, on such other terms and conditions as applicable.

The ratings of CARE BBB/CARE A3 assigned to the bank facilities and instruments of FLFL continue to remain under Credit Watch with developing implications. CARE envisages that FLFL in the near to medium term will continue to face liquidity pressure on the company on account of weakened business and financial profile due to subsequent extensions of lockdown in the wake of COVID19 outbreak. On account of extended lockdown the cash flows of the company would be inadequate to service debt repayments of Rs. ~280 crore (excluding NCD of Rs.350 crore with Put/Call option in Nov. 2020) in FY21 and would require additional funding to timely service its debt as the moratorium allowed by Reserve Bank of India on debt servicing ended on August 31, 2020. CARE believes that the announcement of scheme will aid in release of additional working capital limits by its consortium banks. CARE will continue to monitor the situation and will resolve the watch once the exact implication of the situation on credit profile of FLFL is clear.

Please refer following link for the press release published on August 13, 2020.

[PR - Future Lifestyle Fashions Limited](#)

Analytical approach

Consolidated financials of FLFL along with its subsidiaries and joint ventures are considered for analysis due to strong operational linkages. The list of entities consolidated is provided in Annexure – 2.

Applicable Criteria

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

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

[Rating Methodology: Organised Retail Companies](#)

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

[Criteria for Short Term Instruments](#)

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

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

About Future Lifestyle fashions Limited

Future Lifestyle Fashions Limited (FLFL) is a part of the Future Group (one of India's largest retailers). FLFL is in the business of managing the lifestyle fashion segment of the Future Group. It has a portfolio of fashion brands that cover a range of fashion categories including formal menswear, casual wear, active or sportswear, women's ethnic wear, women's denim wear, women's

casual wear, footwear and accessories and are present across various price points. The company as on March 31, 2020 operate 348 stores having a retail space of 7.7 million sq. ft.

Liquidity Position: Stretched

Temporary closure of operations as directed by the governing authorities on the back of COVID19 outbreak has significantly hampered the company's ability to generate cash flows. FLFL has applied to the lenders for additional limits, COVID emergency lines and interchangeability of limits from non-fund based to fund based, which is under process. The liquidity profile of the company is stretched on account of reduced cash flows and short term financial liabilities and term loan repayments of Rs. ~280 crore (scheduled repayments prior to availing moratorium) due in FY21. In addition, NCD of Rs 350 crore falling due on November 09, 2022 carries Put/Call Option in FY21 and FY22. The company plans to refinance this NCD. The lenders had approved the moratorium on payments as per the RBI package. However, as the moratorium on debt servicing allowed by RBI ended on August 31, 2020, timely release of additional bank limits and fund infusion from existing investors remains critical for meeting the short term repayment obligations. CARE expects need based financial support from PE investors.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-1

Annexure-1: 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	514.39	CARE BBB (Under Credit watch with Developing Implications)	1)CARE BBB (Under Credit watch with Developing Implications) (13-Aug-20) 2)CARE A+; Negative (12-May-20) 3)CARE AA-; Negative (17-Apr-20)	1)CARE AA-; Positive (24-Dec-19)	1)CARE AA-; Positive (12-Dec-18)	1)CARE AA-; Stable (11-Jul-17)
2.	Fund-based - LT-Cash Credit	LT	550.00	CARE BBB (Under Credit watch with Developing Implications)	1)CARE BBB (Under Credit watch with Developing Implications) (13-Aug-20) 2)CARE A+; Negative (12-May-20) 3)CARE AA-; Negative (17-Apr-20)	1)CARE AA-; Positive (24-Dec-19)	1)CARE AA-; Positive (12-Dec-18)	1)CARE AA-; Stable (11-Jul-17)
3.	Non-fund-based - ST-Working Capital Limits	ST	475.00	CARE A3 (Under Credit watch with Developing Implications)	1)CARE A3 (Under Credit watch with Developing Implications) (13-Aug-20)	1)CARE A1+ (24-Dec-19)	1)CARE A1+ (12-Dec-18)	1)CARE A1+ (11-Jul-17)

					2)CARE A1 (12-May-20) 3)CARE A1+ (17-Apr-20)			
4.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (11-Jul-17)
5.	Commercial Paper- Commercial Paper (Carved out)	ST	-	-	1)Withdrawn (06-Aug-20) 2)CARE A1 (12-May-20) 3)CARE A1+ (17-Apr-20)	1)CARE A1+ (24-Dec- 19)	1)CARE A1+ (12-Dec-18)	1)CARE A1+ (11-Jul-17)
6.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (11-Jul-17)
7.	Debentures-Non Convertible Debentures	LT	500.00	CARE BBB (Under Credit watch with Developing Implications)	1)CARE BBB (Under Credit watch with Developing Implications) (13-Aug-20) 2)CARE A+; Negative (12-May-20) 3)CARE AA-; Negative (17-Apr-20)	1)CARE AA-; Positive (24-Dec- 19)	1)CARE AA-; Positive (12-Dec-18)	1)CARE AA-; Stable (11-Jul-17)
8.	Fund-based - ST-Term loan	ST	-	-	-	-	1)Withdrawn (12-Dec-18)	1)CARE A1+ (11-Jul-17)
9.	Commercial Paper	ST	-	-	1)Withdrawn (06-Aug-20) 2)CARE A2+ (12-May-20) 3)CARE A1+ (17-Apr-20)	1)CARE A1+ (24-Dec- 19) 2)CARE A1+ (23-Aug- 19)	1)CARE A1+ (12-Dec-18)	-
10.	Commercial Paper	ST	-	-	1)Withdrawn (06-Aug-20) 2)CARE A2+ (12-May-20) 3)CARE A1+ (17-Apr-20)	1)CARE A1+ (24-Dec- 19) 2)CARE A1+ (23-Aug- 19)	-	-

Annexure-2: Name of the companies consolidated with FLFL

Name of the Company	Relationship	Ownership as on March 31, 2019
Future Trendz Limited	Subsidiary	100.00%
Future Speciality Retail Limited	Subsidiary	99.96%
FLFL Business Services Limited	Subsidiary	100.00%
FLFL Travel Retail Bhubaneswar Private Limited	Joint Venture	51.00%
FLFL Travel Retail Guwahati Private Limited	Joint Venture	51.00%
FLFL Travel Retail West Private Limited	Joint Venture	51.00%
FLFL Travel Retail Lucknow Private Limited	Joint Venture	51.00%
FLFL Lifestyle Brands Limited	Joint Venture	49.02%
Clarks Future Footwear Private Limited	Joint Venture	1.00%
Holii Accessories Private Limited	Joint Venture	1.00%

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
2.	Fund-based - LT-Cash Credit	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Non-fund-based - ST-Working Capital Limits	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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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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