

Future Lifestyle Fashions Limited (Revised)

November 28, 2018

Ratings

Facilities/Instruments	Volume (Rs. Cr)	Rating	Remark
Long-term Bank Facilities- Fund Based – Term Loan	475.00	CARE AA-; Positive (Double A Minus; Outlook: Positive)	Rating Reaffirmed and Outlook revised from 'Stable'
Long-term Bank Facilities- Fund Based – Cash Credit	550.00	CARE AA-; Positive (Double A Minus; Outlook: Positive)	Rating Reaffirmed and Outlook revised from 'Stable'
Short-term Bank Facilities- Non-Fund Based	475.00	CARE A1+ (A One Plus)	Reaffirmed
Short-term Bank Facilities – WCDL	-	-	Withdrawn
Total	1,500.00 (Rs. One thousand five hundred crore only)		
Long-term Instruments – Non-Convertible Debenture	350.00	CARE AA-; Positive (Double A Minus; Outlook: Positive)	Rating Reaffirmed and Outlook revised from 'Stable'
Long-term Instruments – Proposed Non-Convertible Debenture	150.00	CARE AA-; Positive (Double A Minus; Outlook: Positive)	Rating Reaffirmed and Outlook revised from 'Stable'
Short-term Instruments – Commercial Paper*	140.00	CARE A1+ (A One Plus)	Reaffirmed

Details of instruments/facilities in Annexure-1
**carved out of the sanctioned working capital limits of the company*
Detailed Rationale & Key Rating Drivers

The ratings of Future Lifestyle Fashions Ltd. (FLFL) derive strength from the vast experience of the promoters (Future Group) in the retail industry, established pan-India presence of various operationally profitable formats, healthy same store sales growth trend and established portfolio of own and licensed brands.

The aforesaid rating strengths are however tempered by moderate return on capital employed, high operating cycle coupled, susceptibility to economic cycles and increasing competition in the fashion retail industry.

The ability of FLFL to manage the cash flows while effecting capex for expansion of stores and improvement of debt service metrics are the key rating sensitivities. Furthermore, going forward any aggressive debt funded expansion could severely impact the credit profile of the company which could have a negative impact on the rating.

Outlook Positive

The positive outlook factors in expected improvement in credit profile of FLFL on back of strong sales growth and increased contribution from private labels. The outlook may be revised to stable in case of lower than expected cash accruals, increase in working capital intensity or weakening of debt credit metrics.

Detailed description of the key rating drivers**Key Rating Strengths****Experienced promoters**

FLFL is part of the Future Group, which is one of the largest retailers in India. The promoters of FLFL are involved in the management of the business, defining and monitoring the business strategy for the company, and have been successful in building and scaling up in both value retail and fashion retail. Furthermore, the promoters are supported by a strong management team, having significant experience in the retail industry.

Established pan-India presence of various operationally profitable formats resulting in double digit same store sales growth trend

As on March 31, 2018, FLFL distribution network includes 332 stores having a retail space of 5.70 million sq. ft. (372 stores spread over 5.4 million sq. ft. as on March 31, 2017).

FLFL's fashion retail business is led by two major retail chains – Central and Brand Factory having around 103 outlets encompassing 5.50 million square feet of retail space (5.40 msf as on Mar 31, 2017). These outlets contribute nearly 93% of the total retail sales for FY18 (85% in FY17) and covers around 95% of the total retail space (92% as on Mar 31, 2017). FLFL sells the premium apparel segment through Central while the low priced apparels are sold through Brand Factory. Central alone contributes 60% of the total sales in FY18 (59% in FY17) and covers 65% of the total retail space (64% in FY17). The company further operates EBOs and is also into distribution business wherein it is selling its brands from other MBOs (Multi Brand Outlets) falling outside Future Group Retail network. The company is gradually closing 'Planet Sports' and 'I am In' formats, which are no longer relevant under the company's realigned operating plan. The key formats 'Central' and 'Brand Factory' are the major contributors to the EBDITA of the company.

Established and diversified lifestyle fashion brand portfolio

FLFL is associated with various brands in apparel, footwear, accessories, home fashion and luggage via three formats: (i) Own/ Private Brands, (ii) Licensed Brands held directly by FLFL and (iii) Investments in various companies holding Brand licenses. FLFL / Investee Company pays royalty for obtaining the licenses of various brands. The licenses are for an average period of 10 years with an average lock-in period of 3 years.

During FY17, FLFL has transferred majority of the investments held by it in various investee companies to "FLFL Lifestyle Brands Ltd. (FLBL)" (FLFL currently holds 49% in FLBL) and has raised Rs. 450 crore.

Comfortable debt coverage metrics; however, cash flow management and debt service indicators sensitive to future capex plans

The company's debt coverage metrics remained comfortable in FY18. PBILDT interest coverage has improved from 2.65x for FY17 to 4.39x for FY18 due to reduction in interest cost along with improved profitability.

The performance of existing and new stores impacting revenue and profitability of FLFL will remain key rating sensitivity. FLFL expects to incur capex in the range of Rs. 250 crore per annum over the next two-three years towards store additions.

Key Rating Weaknesses

High Working Capital Cycle and moderate RoCE

FLFL has low receivables period like other retailers, however the inventory days are higher on account of bought out stock arrangement for its private brands which leads to higher working capital requirement. Also, the retailing of private brands coupled with the distribution business leads to an extended inventory requirement. The company has a relatively high working capital cycle. The average working capital utilization for the past 12 months ending July 2018 still remained moderate.

Though the revenue increased in FY18, FLFL's PBILDT margin remained moderate on account of higher sales on discounts. The margins were also lower on account of higher sales mix percentage from 'Brand Factory' in the overall value of sales. The footfalls in the stores of FLFL have increased by 8% in FY18 as compared with FY17. RoCE has remained moderate, though increasing over the years. Going forward RoCE is expected to improve on account of increase in sales and higher contribution from private brands.

Increasing competition in the industry

FLFL continues to face intense competition from other premium retailers like Shoppers Stop, Pantaloons, Lifestyle etc and it is also vulnerable to changes in fashion trends, consumer spending habits as well as economic cycles. Notwithstanding, FLFL continues to remain a key player in the organised retail segment in the country.

Susceptibility to economic cycles

Fashion retailing is susceptible to economic downturn on account of discretionary nature of spending. FLFL revenue and profitability is also susceptible to economic down turn.

Liquidity

The company has a relatively high working capital cycle. However, the company's liquidity is supported by moderate fund based working capital utilisation which was around 42% for past 12 months ended Aug 2018.

Analytical approach: Future Lifestyle Fashions Ltd. along with Future Speciality Retail Limited's (subsidiary of FLFL) financials are considered for analysis due to strong operational integration. Lee cooper brand was transferred to a separate subsidiary (Future Speciality Retail Limited) in FY18; hence, the approach has been changed from standalone to consolidated.

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology - Wholesale Trading](#)

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

[Policy on Withdrawal of ratings](#)

About the Company

Future Lifestyle Fashions Limited (FLFL; CIN no.:L52100MH2012PLC231654) 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. FLFL has two major business divisions: fashion retailing and investments in fashion companies. 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. During FY17, FLFL has transferred majority of the investments held by it in various investee companies to "FLFL Lifestyle Brands Ltd. (FLBL)" (FLFL currently holds 49% in FLBL) and has raised Rs.450 crores. Further, the company has transferred 'Lee Cooper' business into a step down subsidiary "Future Speciality Retail Limited" and has raised Rs.250 crore from strategic investor for 26% stake.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	3881.35	4520.43
PBILDT	326.45	453.38
PAT	76.11	126.09
Overall gearing (times)	0.56	0.52
Interest coverage (times)	2.65	4.39

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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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-Term Loan	-	-	Jan 2025	475.00	CARE AA-; Positive
Fund-based - LT-Cash Credit	-	-	-	550.00	CARE AA-; Positive
Non-fund-based - ST-Working Capital Limits	-	-	-	475.00	CARE A1+
Fund-based - ST-Term loan	-	-	-	0.00	Withdrawn
Non-Convertible Debentures	09-11-2017	8.75	09-11-2022	350.00	CARE AA-; Positive
Proposed Non-Convertible Debentures	-	-	-	150.00	CARE AA-; Positive
Commercial Paper (Carved out)	-	-	7 days to 1 year	140.00	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-Term Loan	LT	475.00	CARE AA-; Positive	-	1)CARE AA-; Stable (11-Jul-17)	1)CARE A+ (11-Nov-16)	1)CARE A+ (01-Oct-15)
2.	Fund-based - LT-Cash Credit	LT	550.00	CARE AA-; Positive	-	1)CARE AA-; Stable (11-Jul-17)	1)CARE A+ (11-Nov-16)	1)CARE A+ (01-Oct-15)
3.	Non-fund-based - ST-Working Capital Limits	ST	475.00	CARE A1+	-	1)CARE A1+ (11-Jul-17)	1)CARE A1+ (11-Nov-16)	1)CARE A1 (01-Oct-15)
4.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (11-Jul-17)	1)CARE A+ (11-Nov-16)	1)CARE A+ (01-Oct-15)
5.	Commercial Paper-Commercial Paper (Carved out)	ST	140.00	CARE A1+	-	1)CARE A1+ (11-Jul-17)	1)CARE A1+ (11-Nov-16)	1)CARE A1 (01-Oct-15)
6.	Debentures-Non Convertible Debentures	LT	-	-	-	1)Withdrawn (11-Jul-17)	1)CARE A+ (11-Nov-16)	1)CARE A+ (01-Oct-15)
7.	Debentures-Non Convertible Debentures	LT	500.00	CARE AA-; Positive	-	1)CARE AA-; Stable (11-Jul-17)	-	-
8.	Fund-based - ST-Term loan	ST	-	-	-	1)CARE A1+ (11-Jul-17)	-	-

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