Future Retail Limited (Revised)

October 29, 2020

Ratings

Bank Facilities	Amount (Rs. crore)	Rating	Rating Action
Long-term - Term Loan	528.00	**CARE B (Single B) (Under credit watch with negative implications)**	**Revised from CARE BB+ (Double B Plus); Revision in Credit watch from developing implications to negative implications**
Long-term fund based bank facilities – CC	3250.00		
Short-term non-fund based bank facilities – LC/BG	2500.00	**CARE A4 (A Four) (Under credit watch with negative implications)**	**Revised from CARE A4+ (A Four Plus); Revision in Credit watch from developing implications to negative implications**
Total	**6,278.00 (Rs. Six thousand two hundred seventy eight crore only)**		
Non-Convertible Debenture Issue	199.00	**CARE B (Single B) (Under credit watch with negative implications)**	**Revised from CARE BB+ (Double B Plus); Revision in Credit watch from developing implications to negative implications**
Proposed Non-Convertible Debenture Issue	100.00		
Fixed Deposit Programme	700.00	**CARE B (FD) (Single B) (Fixed Deposit) (Credit watch with negative implications)**	**Revised from CARE BB+ (FD) (Double B Plus) (Fixed Deposit); Revision in Credit watch from developing implications to negative implications**

**carved out of working capital limits*
Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision of ratings assigned to the bank facilities and instruments of Future Retail Limited (FRL) primarily factors in continued liquidity stretch on account of reduced cash accruals and unavailability of additional working capital limits from lenders. FRL had sought moratorium from lenders as part of the COVID19 - Regulatory Package announced by the RBI on March 27, 2020, which ended on August 31, 2020. Subsequently, FRL has applied for the One Time Restructuring (OTR) facility vide its letter dated September 27, 2020 to all its lenders, under RBI guidelines issued on August 6, 2020.There are instances of LC devolvement, however, CARE has not treated the same as default in line with the criteria issued on 'Analytical treatment for one-time restructuring due to COVID-19 related stress', issued on September 29, 2020. The OTR application is under consideration with the lenders and the receipt of approval for invocation prior to December 31, 2020 is a key rating monitorable.

The ratings continue to be tempered due to increase in debt levels, significant decline in market capitalisation which along with high promoter pledge is expected to significantly impact financial flexibility, high working capital cycle, refinancing risk and the intense competition in retail industry.

The ratings, however, continues to factor significant experience of promoters in retail industry. 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.

CARE also notes the scheme of arrangement whereby FRL along with certain other Future Group companies will merge with Future Enterprises Limited (FEL).Post merger 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 a wholly owned subsidiary of Reliance Retail Ventures Limited. CARE also notes Amazon's claim at Singapore International Arbitration Centre (SIAC) claiming violation of contractual rights by the Future Group relating to sale of business to Reliance and the subsequent interim order passed by the Emergency Arbitrator in favour of Amazon. CARE will continue to monitor the development on this front.

Reduced cash generating capacity, unavailability of additional banking lines has further weakened the company's liquidity profile. Resultantly, CARE has revised the credit watch from 'Credit Watch with Developing Implications' to 'Credit Watch with Negative Implications'. CARE will continue to monitor the progress on scheme of arrangement with FEL, OTR application and the company's liquidity profile. CARE will resolve the watch once clarity emerges on the same.

Key Rating Sensitivities
Positive Factors

- Improvement in the liquidity profile through release of additional working capital limits

Negative Factors

- Rejection of OTR application or delays in implementation

Detailed description of the key rating drivers
Key Rating Weakness
Increase in reliance on group companies for purchase of goods & services; support to group company in terms of corporate guarantee: FRL's reliance on its group companies has shown an increasing trend from sourcing 8% of its total requirements in FY17 to 32% in FY19.
FRL is reliant on Future Enterprises Limited as it rents its retail assets from the latter (FY19: Lease rental Rs. 694 crore) and for purchasing goods (FY19: Rs. 3,142 crore). The company's warehousing and logistic requirements are managed by Future Supply Chain Solutions Limited (FY19: Rs. 557.88 crore).
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.
Going ahead, with the proposed acquisition of retail assets from FEL, FRL's reliance on FEL is expected to come down and cross corporate guarantees between both the companies will also eventually be withdrawn.

Deterioration of debt coverage ratios; to accelerate due to COVID19: The overall gearing deteriorated to 1.30x as on March 31, 2019 from 1.19x as on March 31, 2018 on account of significant increase in working capital borrowings. Total debt to PBILDT and Interest coverage ratio remained broadly stable to 3.73x and 3.77x as against 3.32x and 3.68x respectively. 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.
Capital structure further deteriorated on account of higher debt raised to acquire lease assets from FEL, opening of new stores and increase in working capital requirements. Debt as on Feb 29, 2020 stood at Rs.7,241 crore (excl. acceptances on LC) as against Rs.2,657 crore as on Mar 31, 2019.
Average working capital utilisation including CP remained high at 83.64% for the past 12 months ending Feb-20.
Total scheduled term loan repayments over the next 2 years aggregate to Rs. 298.30 crore The Company's operations have been disrupted on account of COVID19 and is allowed to sell only essential grocery items which has resulted in weakening in its operating cash flows. Reduced cash flows and significant reliance on debt to fund its working capital requirements and meet its payment obligations, the company's capital structure and debt protection metrics are expected to deteriorate further. The company for Q1FY21 has reported a net loss of Rs. 552.91 crore on a total income of Rs. 1,447.62 crore as against PAT of Rs. 162.50 crore on a total income of Rs. 5,158.16 crore in Q1FY20.

Deterioration in financial flexibility; considerable promoters' stake pledged: During the past year, the company's market capitalisation has declined significantly from Rs. 5,183 crore in July 2020 to Rs. 3,761 crore as on October 28, 2020. Falling market capitalisation coupled with rising debt has led to significant deterioration of debt to market-capitalisation from 0.11x as on March 31, 2018 to 0.19x as on March 31, 2019 to current level of over 2.40.
However, in lieu of significant fall in share price, the promoters had to pledge additional shares taking the total to 74.90% of promoters' stake (as on Jun 30, 2020). One of company's promoters, Future Corporate Resources Private Limited has defaulted in payment of its interest.
Till September 10, 2020, various investors invoked shares aggregating to 4.27 crore pledged shares constituting to 7.87% of total capital and 19.70% of promoter holding. As on October 7, 2020, the total promoter shareholding stood at 33.86%, of which 70.86% has been pledged.
Considerable reduction in market capitalisation and significant proportion of promoter's stake pledged hampers the company's flexibility to raise funds.

High Working Capital Cycle: FRL has low collection period which is inherent in the industry, however the inventory days are higher on account of bought out stock arrangement for its inventory which leads to higher working capital requirement. Inventory days have increased from 79 in FY17 to 85 in FY18 and 91 in FY19. Increase in inventory days and growth in operations has led to an increase in company's fund based average working capital utilisation (including CP) for the past 12 months ending Feb-20 to 83.64% as against 57.99% during the same period last year. The company's cash flow from operations was negative in FY19 and H1FY20.

Intensifying competition: Heightened competition from both brick and mortar and online players could impact overall SSSG of FRL. 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 like FRL, etc.

Key Rating Strengths

Experienced Promoters & Management: The promoters of FRL 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.

Established pan-India presence of various operationally profitable formats: Future group has presence in retail (value, home and electronics retail), insurance (life and non-life through JV with the Generali Group) and retail support services (through various subsidiaries).
FRL is one of the leading retailers in India and occupies total retail space of 16.05msf as on Dec 31, 2019. Aggregately, the Future group has pan India presence in value retailing (Big Bazaar, Food Bazaar, Easyday), lifestyle (Central, Brand Factory) & home retailing (HomeTown, eZone) and across various price points. The large scale of operations of Future group provides greater bargaining power with various suppliers & real estate developers.

Stable Operational Performance; moderation on account of COVID19 outbreak: The footfalls increased to 350 million in FY19 as compared to 340 million in FY18. Also, the conversion ratio increased to 66% in FY19 from 53% in FY18.
During FY19, FRL registered PBILDT and PAT of Rs. 1142 crore and Rs. 733 crore respectively on total operating income of Rs. 20183 crore as against PBILDT and PAT of Rs. 919 crore and Rs. 11 crore respectively on total operating income of Rs. 18492 crore. PBILDT margin improved to 5.66% as against 4.97% in FY18. The improvement in operating profits was on account of better same store sales growth, turnaround of convenience store (Easy Day), demerger of low margin hometown segment and rationalisation of E-Zone stores.
For FY20, the company reported PBILDT and PAT of Rs. 2068 crore and Rs. 34 crore respectively on total operating income of Rs. 20202 crore
Post lifting of lockdown CARE expects recovery to be slow and gradual which is likely to result in moderation in operational as well as financial performance. The company for Q1FY21 has reported a net loss of Rs. 552.91 crore on a total income of Rs. 1,447.62 crore

Divestment of stake in Future Coupons Limited (FCL): A promoter company, FCL, has entered into a share subscription agreement and shareholders' agreement with Amazon.com NV Investment Holdings LLC. Pursuant to these agreements, Amazon has made an equity investment in FCL for acquiring a 49% stake (Rs. ~1,500 crore) comprising both voting and non-voting shares. The funds raised through divestment has been infused in FRL and the same has been used for working capital requirements.

Acquisition of assets from FEL to be margin accretive; albeit leading to higher debt: Subsequent, to the equity infusion from Amazon, FRL raised USD 500mn (Rs. 3,560 crore) through debt which are to be utilised towards acquisition of retail infrastructure assets up to Rs. 4,000 crore of FEL in one or more tranches and deleverage FEL's balance sheet.
During FY19, the total lease outflow to FEL was Rs. 694.23 crore as against Rs. 759.40 crore in FY18. Post the completion of the transaction, FRL is expected to save Rs. 550-650 crore on lease rentals annually which will result in reduction of operating costs.
Raising fresh debt to fund the transaction has led to deterioration of capital structure. However, the ability of the company to achieve the envisaged margin accretion while maintaining the growth and profitability as envisaged remains the key rating monitorable.

Robust supply chain infrastructure in place: The company's inventory management module operates on state of art ERP system that is SAP R3. The sophisticated inventory management tools in the SAP allows the company to monitor, manage and control the inventory levels. This helps the company to manage the flow of inventory efficiently. The sales trends are also regularly monitored to optimise inventory levels.
The company's warehousing and logistic requirements are managed by Future Supply Chain Solutions Limited, which is a part of the Future Group. FRL has mother warehouses at various locations in each zone which feeds the regional warehouse which in turn provides services to the stores across all the locations.

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: Stretched
The company's liquidity has been severely impacted on account of lockdown measures which has hampered company's ability to generate cash flows. The company has applied to the lenders for moratorium as per RBI package, for enhancement/additional working capital limits and release of peak limits. Some banks have already released the additional working capital limits. The timely release of additional working capital limits remains critical for meeting the short term repayment obligations. The company has also applied to lenders for One Time Restructuring (OTR) facility under RBI guidelines issued on August 6, 2020

Analytical approach: Standalone, factoring the debt of FEL guaranteed by FRL.

Applicable Criteria
Analytical Treatment for one-time restructuring (OTR) due to COVID-19 related stress
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 the Company
Future Retail Limited is the flagship company of the Future Group (one of India's leading retailers) and is engaged mainly in home & electronics retailing and value retailing. The company operates Big Bazaar, Easy Day, Foodhall among other format stores.
FRL as on Dec 31, 2019 operates 1,338 stores across 414 cities with retail space of 16.05msf. The company has signed a master franchise agreement with 7-Eleven, the world's largest convenience store chain, that will open and manage the brand stores in India. Future Retail's subsidiary SHME Food Brands will open newer stores as well as convert existing locations to the 7-Eleven brand. The project is currently under pilot stage.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)	FY20 (Abg.)
Total operating income	18492	20183	20202
PBILDT	919	1142	2068
PAT	11	733	34
Overall gearing (times)	1.19	1.30	2.05
Interest coverage (times)	3.66	3.78	2.08

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

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
Non-fund-based - ST-BG/LC	-	-	-	2500.00	CARE A4 (Under Credit watch with Negative Implications)
Fund-based - LT-Working Capital Limits	-	-	-	3250.00	CARE B (Under Credit watch with Negative Implications)
Fund-based - LT-Term Loan	-	-	Aug 2024	528.00	CARE B (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures INE752P07013	03-Jun-19	10.65%	03-Jun-22	100.00	CARE B (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures INE752P07021	03-Jun-19	10.65%	03-Jun-23	99.00	CARE B (Under Credit watch with Negative Implications)
Proposed Debentures-Non Convertible Debentures	-	-	-	100.00	CARE B (Under Credit watch with Negative Implications)
Fixed Deposit	-	-	-	700.00	CARE B (FD) (Under Credit watch with Negative Implications)

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-Working Capital Limits	LT	3250.00	CARE B (Under Credit watch with Negative Implications)	1)CARE BB+ (Under Credit watch with Developing Implications) (27-Jul-20) 2)CARE A- (Under Credit watch with Negative Implications) (13-May-20)	1)CARE A+ (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE AA-; Negative (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (12-Oct-17) 2)CARE AA-; Stable (17-Aug-17) 3)CARE AA-; Stable (05-May-17)
2.	Commercial Paper	ST	-	-	1)Withdrawn (21-Aug-20) 2)CARE A4+ (Under Credit watch with Developing Implications) (27-Jul-20) 3)CARE A2+ (Under Credit watch with Negative Implications) (13-May-20)	1)CARE A1 (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE A1+ (23-Oct-19) 3)CARE A1+ (23-Jul-19)	1)CARE A1+ (18-Jan-19) 2)CARE A1+ (03-Oct-18)	1)CARE A1+ (12-Oct-17) 2)CARE A1+ (20-Sep-17) 3)CARE A1+ (17-Aug-17) 4)CARE

								A1+ (05-May-17)
3.	Non-fund-based - ST-BG/LC	ST	2500.00	CARE A4 (Under Credit watch with Negative Implications)	1)CARE A4+ (Under Credit watch with Developing Implications) (27-Jul-20) 2)CARE A2+ (Under Credit watch with Negative Implications) (13-May-20)	1)CARE A1 (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE A1+ (23-Oct-19) 3)CARE A1+ (23-Jul-19)	1)CARE A1+ (03-Oct-18)	1)CARE A1+ (12-Oct-17) 2)CARE A1+ (17-Aug-17) 3)CARE A1+ (05-May-17)
4.	Commercial Paper	ST	-	-	1)Withdrawn (21-Aug-20) 2)CARE A4+ (Under Credit watch with Developing Implications) (27-Jul-20) 3)CARE A2 (Under Credit watch with Negative Implications) (13-May-20)	1)CARE A1 (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE A1+ (23-Oct-19) 3)CARE A1+ (23-Jul-19)	1)CARE A1+ (18-Jan-19) 2)CARE A1+ (03-Oct-18)	1)CARE A1+ (20-Nov-17) 2)CARE A1+ (12-Oct-17) 3)CARE A1+ (20-Sep-17) 4)CARE A1+ (17-Aug-17) 5)CARE A1+ (05-May-17)
5.	Commercial Paper	ST	-	-	1)Withdrawn (21-Aug-20) 2)CARE A4+ (Under Credit watch with Developing Implications) (27-Jul-20) 3)CARE A2 (Under Credit watch with Negative Implications) (13-May-20)	1)CARE A1 (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE A1+ (23-Oct-19) 3)CARE A1+ (23-Jul-19)	1)CARE A1+ (18-Jan-19) 2)CARE A1+ (03-Oct-18)	1)CARE A1+ (20-Nov-17) 2)CARE A1+ (12-Oct-17) 3)CARE A1+ (20-Sep-17) 4)CARE A1+ (17-Aug-17) 5)CARE A1+ (05-May-17)

								6)CARE A1+ (20-Apr-17)
6.	Commercial Paper	ST	-	-	1)Withdrawn (21-Aug-20) 2)CARE A4+ (Under Credit watch with Developing Implications) (27-Jul-20) 3)CARE A2 (Under Credit watch with Negative Implications) (13-May-20)	1)CARE A1 (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE A1+ (23-Oct-19) 3)CARE A1+ (23-Jul-19)	1)CARE A1+ (18-Jan-19) 2)CARE A1+ (03-Oct-18)	1)CARE A1+ (20-Nov-17)
7.	Fund-based - LT-Term Loan	LT	528.00	CARE B (Under Credit watch with Negative Implications)	1)CARE BB+ (Under Credit watch with Developing Implications) (27-Jul-20) 2)CARE A- (Under Credit watch with Negative Implications) (13-May-20)	1)CARE A+ (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE AA-; Negative (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (14-Mar-19) 2)CARE AA-; Stable (03-Oct-18)	1)CARE AA-; Stable (20-Nov-17)
8.	Fixed Deposit	LT	700.00	CARE B (FD) (Under Credit watch with Negative Implications)	1)CARE BB+ (FD) (Under Credit watch with Developing Implications) (27-Jul-20) 2)CARE A- (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); Negative (23-Oct-19) 3)CARE AA- (FD); Negative (23-Jul-19)	1)CARE AA- (FD); Stable (14-Nov-18)	-
9.	Debentures-Non Convertible Debentures	LT	199.00	CARE B (Under Credit watch with Negative Implications)	1)CARE BB+ (Under Credit watch with Developing Implications) (27-Jul-20) 2)CARE A- (Under Credit watch with Negative Implications) (13-May-20)	1)CARE A+ (Under Credit watch with Negative Implications) (26-Mar-20) 2)CARE AA-; Negative (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)	1)CARE AA-; Stable (14-Mar-19)	-
10.	Debentures-Non Convertible Debentures	LT	100.00	CARE B (Under Credit watch with Negative Implications)	1)CARE BB+ (Under Credit watch with Developing Implications) (27-Jul-20)	1)CARE A+ (Under Credit watch with Negative Implications)	1)CARE AA-; Stable (14-Mar-19)	-

					2)CARE A- (Under Credit watch with Negative Implications) (13-May-20)	(26-Mar-20) 2)CARE AA-; Negative (23-Oct-19) 3)CARE AA-; Negative (23-Jul-19)		

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.	Fixed Deposit	Simple
3.	Fund-based - LT-Term Loan	Simple
4.	Fund-based - LT-Working Capital Limits	Simple
5.	Non-fund-based - ST-BG/LC	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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Disclaimer

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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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