Press Release

Acute Retail Infra Private Ltd [ARIPL]

September 21, 2020

Ratings

Sl. No.	Instrument / Facility	Amount (INR Crores)	Rating	Rating Action
1	Long Term Facility - Fund Based – Term Loan#	76.05	IVR B+ / Credit Watch with Negative Implications (IVR Single B Plus Credit Watch with Negative Implications)	IVR BBB+ / Credit Watch with Negative Implications (IVR Triple B Plus Credit Watch with Negative Implications)

#Rating Fully backed by Master Lease Agreement (MLA) with Future Retail Ltd (FRL)

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the rating reflects the weakening in the credit profile of Future Retail Limited on which ARIPL has significant reliance for its income. There are financial and operational linkages between ARIPL and FRL and additionally FRL has given an unconditional undertaking that it shall continue to make payment of monthly lease rentals to ARIPL until the term loan of ARIPL is repaid in full irrespective of usage of the assets leased by ARIPL to FRL

The business and financial risk profile of FRL has been impacted on account of lockdown of its retail outlets in the wake of COVID-19 outbreak, and delays in release of sanctioned bank limits. The poor liquidity also resulted in FRL missing interest payment on its offshore bonds worth $500 million due on July 22, 2020 and was required to make the payment within a 30-day grace period, before it could be construed as an ‘Event of Default’. The company subsequently made good the interest payment within the said 30-day grace period.

The rating continues to be on Credit Watch with Negative Implications on account of poor liquidity of its key customer FRL and uncertainty about availability of adequate cash flows after moratorium period for debt repayment.

Also, on 29th August 2020, Future Group announced a major reorganisation of its businesses in which the key group companies including Future Retail, Future Lifestyle Fashions, Future Consumer, Future Supply Chains and Future Market Networks will merge into Future Enterprises Limited (FEL).Future Enterprises will subsequently sell by way of a slump sale the retail and wholesale business that includes key formats such as Big Bazaar, fbb, Foodhall, Easyday, Nilgiris, Central and Brand Factory to Reliance Retail and Fashion Lifestyle Limited (RRFLL), a wholly owned subsidiary of Reliance Retail Ventures Limited (RRVL). It will also sell the logistics and warehouse business to RRVL by way of a slump sale. RRFLL and RRVL will take over certain borrowings and current liabilities related to the business and discharge the balance consideration by way of cash.

After this transaction, FEL will retain the manufacturing and distribution of FMCG goods and integrated fashion sourcing and manufacturing business and its insurance JVs with Generali and JVs with NTC Mills. RRFLL, as a part of the transaction, will also invest (i) a sum of Rs 1200 crores in the preferential issue of equity shares of FEL for a 6.09% stake, and (ii) Rs. 400 crores in warrants convertible into equity shares, which when converted upon payment of balance 75% consideration will result in RRFLL acquiring a further 7.05% stake.
This will be achieved by way of a composite scheme and will require the requisite regulatory approvals and consent of shareholders and lenders.

However, the current rating continues to derive strength from the escrow of lease rental, Master lease agreement with the client. The rating however is constrained by customer concentration risk and moderate capital structure & volatile operating income.

Key Rating Sensitivities:

Upward rating factors:

- Maintaining profitability through sustained lease rental income from the lessee
- Timely servicing of debt

Downward rating factors

- Any decline in projected cash flows and/or increase in expenses
- Any delays or defaults in rental income from lessee leading to default in repayment of dues would warrant a review in rating

Key Rating Strengths

Escrow of lease rentals

There is a Tripartite Agreement between Acute Retail Infra Private Limited (ARIPL), its clients Future Retail Limited (FRL) and the IDBI Trusteeship Services Limited for escrowing the lease rental income coming from its client. The entire cash generated from the lease rentals collected from FRL would be deposited in the Escrow Account. Excess cash after servicing the interest and repayment due for the next period will be transferred to Borrower's account. It also has a personal guarantee from Mr. Kishore Biyani & Mr. Rakesh Biyani who are promoters of Future Group.

Master Lease Agreement with the clients

There exist a Master Lease Agreement (MLA) between ARIPL and its clients FRL. The agreement clause states that the client's payment obligations are absolute and unconditional irrespective of the operation / non-operation of the equipment and that they shall continue to pay the rent in accordance with the lease rental schedule throughout the agreed term irrespective of whether the retail outlet is operating or not.

Key Rating Weaknesses

Customer Concentration Risk

The customer concentration risk is high for the ARIPL as it currently caters only to Future Retail Limited. It shows a very high dependence of company earnings on from only one entity

Moderate Capital Structure and Volatile Operating Income

Although the escrow mechanism and Master lease agreement protects the company from any stress related to the debt repayment obligations but the capital structure looked stressed with the TOL/TNW ratio stood at a high value of 9.18x for FY19 post-merger as compared to 6.30x in FY18. The operating income is fluctuating owing to the volatility in income from the other trading business of the company.

Analytical Approach & Applicable Criteria

Standalone

Rating Methodology for Structured Debt Transaction (Non – Securitisation Transaction)

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Poor

The key tenant of ARIPL i.e. FRL has been facing severe liquidity issues and cash flow mismatch due to shutdown of the company's mall and retail operations due to the nation-wide lockdown imposed to restrict the spread of COVID-19. This has also resulted in significant decline in its revenues during this period. FRL has availed the moratorium from lenders as per the RBI package and also requested the lenders to release the peak limits and COVID emergency limits to support the working capital requirement. ARIPL has also availed moratorium from lenders as per the RBI package which was valid till August 31st, 2020. The timely release of working capital limits by FRL's lenders shall remain critical for meeting the timely servicing of the debt. Infomerics will be closely monitoring the developments with respect to capital infusion from strategic investors and support from banks.

About the Company

Acute Retail Infra Pvt. Ltd. (ARIPL) was incorporated in March 2005 under the companies act, 1956. ARIPL has been formed to focus on retail business and engaged or intend to engage in the business of acquiring and dealing in the residuary interest in all types and kinds of properties, equipment's and assets, renting out or letting on hire of all kinds of equipment, properties, assets, appliances, apparatus, gadgets and related peripherals

Financials

(INR crore)

For the year ended / As on	31-Mar-18 (Audited)	31-Mar-19 (Audited)
Total Operating Income	45.09	83.91
EBITDA	-0.50	38.98
PAT	-12.06	2.04
Total Debt	160.88	118.21
Tangible Net Worth	47.89	50.40
EBIDTA Margin (%)	-1.10	46.45
PAT Margin (%)	-26.28	2.43
Overall Gearing ratio (x)	3.36	2.35

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)				Rating History for the past 3 years		
		Type	Amount outstanding (INR crore)	Assigned Rating		Date(s) & Rating(s) assigned in 19-20	Date(s) & Rating(s) assigned in 18-19	Date(s) & Rating(s) assigned in 17-18
1.	Long Term Bank Facilities – Term Loan#	Long Term	76.05	IVR B+/Credit Watch with Negative Implications	IVR BBB+/Credit Watch with Negative Implications (PR Dated: August 08, 2020)	IVR A+/Stable Outlook (PR Dated: December 12, 2019)	-	-

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Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com
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Name and Contact Details of the Rating Team:

Name: Himani Singhal
Tel: (022) 62396023
Email: hsinghal@infomerics.com

Name: Amit Bhuwania
Tel: (022) 62396023
Email: abhuwania@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Sr. No	Name of Facility	Date of Issuance	Coupon Rate/IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
1	Long Term Loan	--	--	March-21	26.51	IVR B+/ Credit watch with negative implications
2	Long Term Loan	--	--	March-23	49.54	IVR B+/ Credit watch with negative implications
Total					**76.05**	