

Press Release

Future Enterprises Limited (FEL)

February 26, 2020

Ratings

Sr. No.	Instrument/Facility	Amount (INR Crore)	Rating Assigned
1	Commercial Paper (Short Term)	500.00*	IVR A1+ (IVR A One Plus)

* This includes proposed Commercial Paper of INR 215 Crore.

Details of facilities are in Annexure 1

Rating Rationale

The rating derives strength from experienced promoters, stable operating profitability and strategic and periodical monetization of investments. The rating however is constrained by foreign currency exposure risk, moderate capital structure and high competition.

Key Rating Sensitivities:

- **Upward Rating Factor** - Improvement in entity's operations & cash flows and improvement in overall gearing of the Company may lead to a positive rating action.
- **Downward Rating Factor** - Deterioration in capital structure & overall gearing and a further increase in promoters' pledged shares may lead to a negative rating action.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters

The Promoters have all the relevant experience and collectively contribute to the overall functioning & monitoring of the business activities in the Company.

Stable operating profitability

Over a period of last 3 years ended FY19, the Company's (FEL) consolidated total income from operations increased from INR ~4485 Crore in FY17 to INR ~5103 Crore in FY18, growth by 14% & then rose by 17% to INR ~5983 Crore in FY19. The EBITDA margin has remained healthy & was within the range of 22-24%. (EBITDA - INR 1175 Crore in FY18 & INR 1464 Crore in FY19).

Strategic and periodical monetization of investments & sale of assets

The Company has investment in entities having potential to increase valuation in future, as stated below as at 31st March, 2019:

Future Supply Chain Solutions Ltd. (Stake-51.22%), Future Generali Life (Stake-31.48%), Non-Life (Stake-49.92%), Work Store Ltd. (formerly known as Staples Future Office Product Limited) (Stake-61.67%), Goldmohur and Apollo Mills (Stake-39%).

The Company will benefit from the strategic monetization of these held-for-sale investments. The Company has already taken Board Approval for divesting its non-core retail investments. The management has strategic plan to divest these investments, which would result in maximizing return on investments.

In January 2020, Future Retail Limited (FRL) has mobilized long term funds by issuance of off shore USD Bonds to the extent of INR 3500 Crore. The long term funds so mobilized will be used to buy the Fixed Assets from Future Enterprises Limited (FEL). Consequently, FEL will receive around INR 3500 Crore from asset sales which will be used for repaying the long term liabilities to the extent of INR 3000-3200 Crore. Against this, the Company has already prepaid liabilities to the extent of INR 2100 Crore till January, 2020 and as informed by the Company, further prepayment will happen in due course. After selling of Fixed Assets, FEL's lease rental income from FRL will reduce in proportion to the assets sold.

Key Rating Weaknesses

Foreign currency exposure risk

The Company is exposed to exchange fluctuation risk for its purchase from overseas suppliers in various foreign currencies. The Company follows established risk management policies including the use of derivatives like foreign exchange forward contracts to hedge exposures to foreign currency risk.

Moderate Capital structure

The overall gearing ratio of the Company (FEL) on consolidated basis, stood at 1.42x as at FY18 & deteriorated to 1.57x as at FY19. The Total outside liabilities to Tangible Net Worth of the Company stood at 1.83x as at FY18 & 2.05x as at FY19.

High competition

Increasing competition from online players could impact overall performance & demand for Company's products & offerings. Competition from online delivery players such as bigbasket.com., grofers.com etc., remains a key threat.

Analytical Approach & Applicable Criteria:

- Consolidated
- Rating Methodology for trading companies
- Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The Company has been earning a comfortable level of GCA for the last few years. The company maintains moderate cash and bank balance to meet its liquidity requirements. The utilization of working capital limits remained at 70% during the 12 months ended January 31, 2020. Overall the liquidity position of the company is expected to be Adequate.

About the Company (FEL)

Future Enterprises Limited (FEL) is engaged in the business of Manufacturing, Trading & Distribution activity and Leasing of retail infrastructure assets. While Future Retail Limited caters to the front end with its multiple formats, forming the backbone and linking the retail arm with its infrastructure is Future Enterprises Limited (FEL). FEL develops, owns and leases the retail infrastructure for the Group. The company also holds the Group's investments in subsidiaries and joint ventures including insurance, textile manufacturing, supply chain and logistics.

38.31% of the total equity shareholding of FEL was encumbered as on 31st March, 2019. As informed by the Management, pledge of FEL shares is provided as additional security for loan taken by other promoter entity. There are no share pledge based borrowings in the books of Central Department Stores Pvt. Ltd. (Promoter entity of FEL) & also they confirm that shares of FEL (held by Promoters) have not been pledged for any of the borrowings of FEL.

About Future Retail Limited (FRL)

FRL has pan India presence over 1388 stores in major cities in India with total retail space of approx. 16.05 million Sq. ft as of 31st December, 2019. FRL operates major formats like Big Bazaar, Hypercity, fbb, Foodhall, easyday, Heritage and E-zone.

Out of total sales of FEL; 80% sales are to FRL. FEL also undertakes leasing of retail infrastructure assets to FRL.

FEL and FRL had also provided cross Corporate Guarantee (CG) for the sanctioned debt at the time of scheme of arrangement with Bharti Retail Limited in both the companies. However, as informed by the Company, the Bankers are in the process of releasing Corporate Guarantees in both companies. Some of the lenders in FRL & FEL have released each other's CG, remaining are in process of releasing CG.

About Future Group

Future Group is a leading player in Indian Retail Space and operates over 23 million square feet of retail space in over 414 cities and towns across India as on 31st December, 2019. Headquartered in Mumbai, the Group employs over 60,000 people and has Companies which are listed on the Indian stock exchanges. The Group follows a multi-format retail strategy that captures almost the entire consumption basket of Indian customers.

Financials [FEL - Consolidated]

	INR in Crore	
For the year ended / As on	31-Mar-18 (A)	31-Mar-19 (A)
Total Operating Income	5103.09	5983.14
EBITDA	1175.04	1464.41
PAT	39.74	175.44
Total Debt	5772.03	6717.43
Tangible Net Worth	4050.63	4287.44
EBIDTA Margin (%)	23.03	24.48
PAT Margin (%)	0.75	2.89
Overall Gearing ratio (x)	1.42	1.57

Classification as per Infomerics' standards

Details of Non Co-operation with any other CRA: N.A.

Any other information: N.A.

Rating History for last three years:

Name of Instrument/ Facility	Current Rating (Year: 2019-20)			Rating History for the past 3 years		
	Type	Amount outstanding (INR Crore)	Rating	Rating assigned in 2018-19	Rating assigned in 2017-18	Rating assigned in 2016-17
Commercial Paper	Short Term	500.00*	IVR A1+/ Stable Outlook	--	--	--

* This includes proposed Commercial Paper of INR 215 Crore.

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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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.

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Annexure 1: Details of Facilities

Sr. No.	Commercial Paper	Issue Amount	Issue Date	Maturity Date	Days	Rating Assigned
1	Existing	175.00	08-Nov-19	06-May-20	180	IVR A1+
2	Existing	5.00	04-Dec-19	03-Mar-20	90	IVR A1+
3	Existing	5.00	29-Nov-19	27-Feb-20	90	IVR A1+
4	Existing	100.00	28-Jan-20	27-Apr-20	90	IVR A1+
5	Proposed	215.00				IVR A1+
	Total	500.00				

Annexure 2: List of Subsidiaries, Associates & Joint Ventures considered for consolidated analysis as at 31st March, 2019

A. Subsidiary Companies

- i.) Bluerock eServices Private Limited
- ii.) Future E-Commerce Infrastructure Limited
- iii.) Future Media (India) Limited
- iv.) Future Merchandising and Sourcing Pte. Ltd.
- v.) Future Supply Chain Solutions Limited (FSCSL) (Subsidiary of RTPL w.e.f. December 24, 2018)
- vi.) Futurebazaar India Limited
- vii.) Office Shop Private Limited (100% Subsidiary of Work Store Limited)
- viii.) Ritvika Trading Private Limited (RTPL) (w.e.f. November 19, 2018)
- ix.) Vulcan Express Private Limited (100% Subsidiary of FSCSL)
- x.) Work Store Limited

B. Associate Company

- i.) Leanbox Logistics Solutions Private Limited (Associate of FSCSL)

C. Joint Venture Companies

- i.) Apollo Design Apparel Parks Limited
- ii.) Future Generali India Insurance Company Limited
- iii.) Future Generali India Life Insurance Company Limited
- iv.) Goldmohur Design and Apparel Park Limited
- v.) Shendra Advisory Services Private Limited
- vi.) Sprint Advisory Services Private Limited