Press Release

Syntex Trading and Agency Pvt Ltd (STAPL)

September 21, 2020

Ratings

Sl. No.	Instrument / Facility	Amount (INR Crores)	Rating	Rating Action
1	Long Term Facility - Fund Based – Term Loan	374.20* (reduced from INR463.29 crore)	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 Credit Watch with Negative Implications)#

**Outstanding as on 31.03.20*

#Backed by Master Lease Agreement with Future Retail Ltd (FRL) and Future Lifestyle Fashions Ltd. (FLFL)

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 & Future Lifestyle Fashions Limited (FLFL), on which STAPL has significant reliance for its income. There are financial and operational linkages between STAPL, FRL and FLFL and additionally FRL has given an unconditional undertaking that it shall continue to make payment of monthly lease rentals to STAPL until the term loan of STAPL is repaid in full irrespective of usage of the assets leased by STAPL to FRL & FLFL.

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.

Infomerics will monitor the developments on the deal for periodic review of the rating.

Stock Exchange disclosure link:
https://www.bseindia.com/xml-data/corpfiling/AttachHis/2987d968-af3c-4c63-b954-6ca9c9a2305d.pdf
https://www.bseindia.com/xml-data/corpfiling/AttachHis/a97597ae-b55a-419e-873e-1dfe4802bd1b.pdf

The rating continues to derive strength from experience board of directors, established brand recognition, master lease agreements with clients and escrow of lease rentals. However, the rating strengths are partially offset by increase in leverage and high exposure in group companies as investments, stretched liquidity, customer concentration risk and risk on timely re-payment of loans caused by exposure to clients with tight liquidity and high promoter debt.

Key Rating Sensitivities:

Upward rating factors:

- Timely servicing of debt
- Sustained lease rental income from the lessee

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

Experienced Board of Directors

STAPL is a private limited company incorporated 2016. The company is promoted by Mr. Ajay Gurav and Mr. Parmeshwar Bihani. They possess a considerable amount of experience in the field of setting up and managing the operating lease business. Mr. Parmeshwar Bihani has been instrumental in forming various standard operating procedures for the company and he has set up policies for project procurements which has been of great importance to the company.

Established brand recognition

The Future Group, promoted by Mr. Kishore Biyani who spearheads the Indian conglomerate, known for having a significant presence in the Indian retails and fashion segment. The group consists of The group consists of popular supermarket chains such as Big Bazaar and Food Bazaar, lifestyle stores such as Brand Factory and Central. The group has a notable presence in the fast moving consumer goods and integrated foods sector. Future Retail Limited (FRL) and Future Lifestyles Fashions (FLFL) Limited operating under the Future Group are among the top companies that are listed on the BSE and NSE with respect to assets and market capitalization.

Escrow of lease rentals (Unconditional performance)

There is a Tripartite Agreement between STAPL, its clients FRL & FLFL and the lending banks for escrowing the lease rental income coming from both the client companies. All the monthly interest servicing and repayment of all the instalments is made from the said escrow account. It also has a personal guarantee from Mr. Kishore Biyani & Mr. Vijay Biyani.

Master Lease Agreement with the clients

There exist a Master Lease Agreement (MLA) between STAPL and its clients FRL & FLFL. 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. This MLA cannot be terminated by either parties without the consent of lenders. The MLA also protects STAPL from any upward revision in interest rates with respect to the term loan by making the customer companies to reimburse the same.

Key Rating Weaknesses

Increase in leverage and high exposure in companies as investments

Overall debt in the company has increased to Rs. 591.32 crore as in FY19 from Rs. 472.23 crore in FY18. The overall gearing ratio has also increased to 2.47x in FY19 from 2.01x in FY18. The company has also made a significant amount of investments in companies, most of which are involved in the retail business, their total investment in companies have increased to Rs. 376.87 crore in FY19 from Rs. 163.61 in FY18. Due to Covid-19 and the consequent lockdown imposed in the country, all retail chains have been shut, which has affected their operations significantly, any defaults from these companies would invoke clauses from their debt agreements with lenders having their assets as security, this would have a significant impact on the amount invested in these companies.

Stretched liquidity

The company's liquidity profile is stretched, marked by gross cash accruals of Rs.80.88 crore against an interest and principal outlay of Rs. 112.07 crore in FY19. The current ratio stands at 4.28x and the quick ratio stands at 4.28x, effected largely due to a major decline in debtors from Rs. 26.10 crore in FY18 to Rs. 3.30 crore in FY19, decline in creditors and an increase in current investment in NCDs and shares companies by Rs. 376.87 crore in FY19 as against Rs. 163.61 crore in FY18. The cash balance remains a modest Rs. 7.57 crore in FY19.

Customer concentration risk with high dependence on group companies

The customer concentration risk is high for the company as it currently caters only to Future Retail Limited & Future Lifestyle Fashions Limited. Its shows a very high dependence of company earnings on only two entities.

Risk on timely re-payment of loans caused by exposure to clients with tight liquidity and high promoter debt

The clients of STAPL are Future Retail Ltd and Future Lifestyles Fashions Ltd, both of which are facing operational difficulties caused due to the global economic downturn and the coronavirus pandemic, although the financials of the group was already strained due to investments in fashion and other general merchandise inventory – most of which can only be sold under limited circumstances under the given conditions; only some of FRL's stores have remained open – such as Big Bazaar – only the ones that can provide essential items to the customers, most of these items only earn low margins in comparison to the other inventories. As per reports in the media, the promoters are in talks with potential investors to sell chunks of their stake to shore up liquidity which will lead to some financial flexibility. However, a high amount of debt and uncertainty of cash flows in lessees pose a high amount of risk to the company. Although the future outlook is very bleak for the retail sector as even after the lockdown ends most of the consumers will still opt for online platforms even for essential items as the repercussions of this pandemic will be felt for a long period of time.

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 STAPL 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. STAPL 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

Syntex Trading & Agency Pvt. Ltd. (STAPL) is engaged in business of acquiring and dealing in residuary interest in all types of properties, moveable assets and equipment. It is into renting or letting on hire equipment, appliances and related products to various customers and providing customized rental solutions.

Financials

(INR crore)

For the year ended/ As On	**31-03-2018**	**31-03-2019**
	(Audited)	**(Audited)**
Total Operating Income	784.68	198.60
EBITDA	142.16	117.42
PAT	-10.15	4.31
Total Debt	472.23	591.32
Tangible Networth	234.78	239.11
Ratios		

EBITDA Margin (%)	18.12	59.13
PAT Margin (%)	-1.33	2.17
Overall Gearing Ratio (x)	2.01	2.47

**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	374.20*	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: August 28, 2019)	-	-

**Outstanding as on 31.03.20*

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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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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

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits – Term Loan	--	--	Up to January 2027	374.20*	IVR B+/Credit Watch with Negative Implications#

**Outstanding as on 31.03.20*

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