



## Press Release

### Future Enterprises Limited [FEL]

September 15, 2020

#### Rating

Sr. No.	Instrument/ Facility	Amount (INR Crore)	Rating Assigned	Rating Action
1	Commercial Paper (Short Term)	500.00*	IVR D (IVR Single D)	Revised from IVR A4 (IVR A Four)

\*This includes proposed Commercial Paper of INR 310 Crore.

#### Details of facilities are in Annexure 1

#### Rating Rationale

The revision in rating reflects default in redemption of Commercial Paper by FEL bearing ISIN INE623B14BA0 due on September 14, 2020.

The previous revision in rating dated August 22, 2020 was due to delay in servicing of interest (amounting to INR 12.65 Crore) by FEL, due on August 17, 2020 on its Non-Convertible Debentures (amounting to INR 265 Crore) bearing ISIN INE623B07487 and INE623B07495.

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



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warrants convertible into equity shares, which when converted upon payment of balance 75% consideration will result in RRFL acquirng 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 other issues as mentioned by Infomerics vide Press Release dated August 8, 2020 were about the recent developments in the group company, operational and financial performance of the company & its group company and the impact of Covid-19 pandemic & subsequent nation-wide lockdown. Future Retail Limited (FRL), the key customer of FEL which is also the flagship entity of the Future Group, had missed its interest payment on USD bonds of 500 million due on July 22, 2020 and was required to make the payment within a 30-day grace period, before it could be constituted as an 'Event of Default.'

Thus, in view of the weakening liquidity position of FEL & FRL, default in redemption of CP due on September 14, 2020, delay in servicing of interest due on August 17, 2020 on NCD by FEL, missing interest payment on it's USD bonds of 500 million due on July 22, 2020 (which was subsequently paid on the last day of the 30 day grace period granted), significant financial and operational linkages between FEL & FRL, overall economic slowdown due to COVID-19 pandemic, the rating has been revised.

However, the rating assigned to the Commercial Paper of Future Enterprises Limited (FEL) continues to derive 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.



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### **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:**

Decline in revenue and/or EBITDA margin leading to decline in debt protection metrics and/or decline in financial performance of the group company

### **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.

##### ***Moderate 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). The income from operations for 9M-FY20 was INR 4582.38 Crore (9M-FY19 - INR 4416.26 Crore), EBITDA was INR 1290.15 Crore (9M-FY19 - INR 1063.29 Crore), however, PAT was only INR 13.76 Crore (9M-FY19 - INR 27.95 Crore).

##### ***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%).



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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.



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### **Analytical Approach & Applicable Criteria:**

- Consolidated
- Rating Methodology for Trading Companies
- Financial Ratios & Interpretation (Non-Financial Sector)
- Default Recognition

### **Liquidity: Poor**

The Company 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, as a result of which it is failing to service its debt obligations timely. The revenues also declined drastically during that period. The company 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. Thus, the overall liquidity position of the company seems to be further weakened and poor. The timely release of working capital limits by its 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 (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



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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.



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### Financials (FEL - Consolidated)

For the year ended / As on	INR in Crore	
	31-Mar-18 Audited	31-Mar-19 Audited
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 the Facility/ Instrument	Current Rating (Year: 2020-21)			Rating History for the past 3 years		
	Type	Amount (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20 (Feb.26, 2020)	Date(s) & Rating(s) assigned in 2018-19
Commercial Paper	Short Term	500.00*	IVR D	IVR A4 (Aug. 22, 2020) IVR A2/ Credit watch with negative implications (Aug. 08, 2020)	IVR A1+	--

*\*This includes proposed Commercial Paper of INR 310 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](http://www.infomerics.com).



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### Name and Contact Details of the Analysts:

Name: Ms. Neha Mehta

Tel: (022) 62396023

Email: [nmehta@infomerics.com](mailto:nmehta@infomerics.com)

Name: Mr. Prakash Kabra

Tel: (022) 62396023

Email: [prakash.kabra@infomerics.com](mailto:prakash.kabra@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.

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

### Annexure 1: Details of Facilities

Sr. No.	Commercial Paper	Issue Amount	Issue Date	Maturity Date	Days	Rating Assigned
1	Existing	90.00	19-Mar-20	14-Sep-20	180	IVR D
2	Existing	100.00	30-Apr-20	23-Oct-20	177	IVR D
3	Proposed	310.00				IVR D
	<b>Total</b>	<b>500.00</b>				





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### **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