



Rating Rationale

13 April 2020

Future Enterprise Limited

Brickwork Ratings Revises the ratings for the Non-Convertible Debentures ₹.850 Crores of Future Enterprise Limited

Particulars:

Instrument	Amount (Rs. Crs)	Tenor	Previous Rating* Feb 2020	Present Rating*
NCD	300.00	Long Term	BWR AA- Credit Watch with developing implications	BWR A Credit Watch with Negative implications
	250.00			
NCD	300.00#			
Total	850.00	Rupees Eight Hundred Fifty Crores Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

#Rs.104 crs have been raised, and the balance is yet to be raised

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) has downgraded the rating to BWR A Credit Watch With Negative Implications.

The downgrade is on account of the expected deterioration in the debt protection matrix, profitability and liquidity of the company and at the group level, and elevated pledge of promoter-held shares in group companies coupled with decline in market capitalisation. The downgrade also factors in a moderate deterioration in the group's financial flexibility.

The rating is placed on Credit Watch With Negative Implications on account of a disruption in operations due to Covid-19 and the economic slowdown which has impacted the operations of the company and the related group company, namely FRL which has substantial revenue linkages and corporate guarantees for debt of FRL. The operating cash flow and liquidity are expected to be adversely impacted with uncertainty at the company and group level.

KEY RATING DRIVERS

Credit strength

- **Experienced promoters and management:**
The promoters of Future Enterprises Limited (FEL) (combined) have been closely involved in the management of business, and in defining and monitoring the business strategy for the company. Furthermore, the promoters are supported by a strong management team, having significant relevant experience.
- Revenues increased in FY19 and 9M Dec 19 on account of an improvement in performance. Healthy profitability margins were witnessed, with the operating profit margin and net profit margin at 24.67% and 2.93% in FY19, compared with 23.57% and 0.78%, respectively, in FY18.

Credit Risk

- Elevated debt levels in 1H Sep 19 at Rs.6630.26 crs (excluding other financial liability of Rs.942.07 crs). The debt level has since then reduced by Rs.2891 crs on account of payment receipts from FRL. However, the corresponding income on account of sell back of the assets to FRL will also decline and the corporate guarantee against the said debt transfer to FRL continues.
- Intense competition in the industry
- Promoters have pledged 92% of the promoter equity. The pledge levels have been increasing since the last 3 quarters due to market fluctuations. The share price of FEL has declined significantly in the past 6 months requiring pledge of more shares and resulting in deterioration in the financial flexibility.
- **Impact of COVID-19:** Due to the ongoing lockdown on account of COVID-19, the retail stores of the group are partially open and only selling essential items as directed by the government. This has disrupted the supply chain and impacted the operations of the group, thereby affecting the overall financial strength and margins, as well as the liquidity of the group as such the company has availed moratorium as permitted by RBI for the payment of debt from the lenders.



ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

BWR has essentially relied on the audited financial results from FY15 to FY19, nine months results of FY20 of FEL, and publicly available information and information/clarification provided by the company.

RATING SENSITIVITIES

The company's ability to manage its debt and working capital, improve debt protection metrics, profitability and the liquidity at the company and group level would be key rating sensitivities.

Positive: Improvement in debt protection metrics, along with improved profitability and financial profile..

Negative: Deterioration in the financial profile, profitability, debt protection metrics and liquidity.

LIQUIDITY POSITION

As of September 2019, the cash and cash equivalents were at Rs. 358.51 crs. Furthermore, the company received Rs.3560 crs from FRL, which was utilised towards capex of Rs.219 crs, Goods and Service Tax of Rs.450 crs and the balance for debt repayment. Current liquidity position is getting squeezed and there is cash flow mismatch on account of lockdown which is expected to be managed by the release of peak limit and moratorium availed on repayment of debt from the banks.

COMPANY PROFILE

The erstwhile Future Retail Ltd. has been renamed as Future Enterprises Ltd. (FEL) and houses the physical assets (erstwhile FRL and Bharti Retail Limited, including all the infrastructure assets) apart from strategic investments in various companies. The company is also in the business of manufacturing mens wear, womens wear and kids wear in the denim segment. Consequent to the demerger, the long-term debt (consisting of bank term loans and NCDs of erstwhile FRL) was shifted to the books of FEL, which has been partly shifted back. Following the demerger, FEL has three lines of business, namely lease rental; the manufacture, distribution and trading of fashion garments and strategic investments portfolio.

The promoters of FEL, led by Mr. Kishore Biyani, have been closely involved in the management of business, and in defining and monitoring the business strategy for the company.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY 2018	FY 2019	9M Dec 2018	9M Dec 2019
Result Type		Audited	Audited	Unaudited	Unaudited
Total Operating Income	Rs. in crs	5103.09	5983.14	4416.26	4582.38
EBITDA	Rs. in crs	1202.94	1475.85	1033.50	1249.77
PAT	Rs. in crs	39.74	175.44	36.40	25.27
Tangible Net Worth	Rs. in crs	4047.91	4070.55	-	-
Total Debt: Net worth	Times	1.56	1.65	-	-
Current Ratio	Times	1.99	1.70	-	-

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

Key terms of NCD's

For NCD of issue amount of Rs. 300.00 Cr, Rs.300 crs and Rs.250 crs

The company has made a NCD issue of Rs. 300.00 Cr, Rs.300 crs and Rs.250 crs with a tenor upto 10 years. The NCD has a bullet repayment at the end of the maturity. The NCD is secured by a first pari passu charge on the specific assets of the company. The Issuer to fund the Interest payment account to the extent of Interest/Coupon amount due on NCDs on T-1 day in the case of the DSRA in the form of a Fixed Deposit or T-2 days in the case of a Bank Guarantee or T-3 days in the case of AAA-rated bonds (wherein T is the Interest payment date), failing which the DSRA would be invoked). In case of 1st and 2nd NCD issues of Rs.300 crs and Rs.250 crs, the company has created DSRA via 'AAA' rated liquid investments. In case of 3rd NCD of Rs.300 crs, the company has created DSRA via Fixed deposit.

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY

RATING HISTORY

Sl. No.	Instrument / Facility	Current Rating (Year 2020)			Rating History			
		Type	Amount (Rs Crs)	Rating	Feb 2020	March 2019	Feb 2018	Oct 2017
1		Long Term				BWR AA-(Stable)	BWR AA-(Stable)	BWR AA-(Stable)
2	NCD		300.00	BWR A Credit Watch With Negative Implications	BWR AA-Credit Watch With Developing Implications	BWR AA(SO) (Stable)	BWR AA (SO) (Stable)	NA
3	NCD		250.00			BWR AA(SO) (Stable)	BWR AA(SO) (Stable)	BWR AA(SO) (Stable)
4	NCD		300.00			BWR AA (SO) (Stable)	BWR AA (SO) (Stable)	BWR AA (SO) (Stable)
Rs. 850.00 Cr (Rupees Eight Hundred Fifty Crores Only)								

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Status of non-cooperation with previous CRA (if applicable)-Reason and comments: NA
Any other information: NA

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Group support](#)
- [Industry](#)



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Future Enterprise Limited

Annexure I

Sr. No.	Instrument/Facility	ISIN No	Issue Date	Amount (Rs. Crs)	Coupon	Maturity Date
1	NCD	INE623B07404	13-Oct-16	25.00	9.75%	13-Oct-21
2		INE623B07412	13-Oct-16	25.00	9.80%	13-Oct-23
3		INE623B07420	26-Oct-26	20.00	9.75%	26-Oct-21
4		INE623B07438	26-Oct-16	30.00	9.80%	26-Oct-23
5		INE623B07446	5-Dec-16	6.00	9.75%	5-Dec-21
6		INE623B07453	5-Dec-16	29.00	9.80%	5-Dec-23
7		INE623B07461	21-Dec-16	27.00	9.50%	21-Dec-23
8		INE623B07479	21-Dec-16	18.00	9.55%	21-Dec-23
9		INE623B07545	26-Apr-17	45.00	9.28%	26-Apr-24
10		INE623B07552	9-May-17	24.00	9.17%	9-May-22
11		INE623B07560	9-May-17	26.00	9.28%	9-May-24
12		INE623B07578	16-May-17	2.00	9.17%	16-May-22



13		INE623B07586	16-May-17	23.00	9.28%	16-May-24
14		INE623B07594	26-Sep-17	88.00	8.80%	26-Sep-2022
15		INE623B07602	26-Sep-17	75.00	8.91%	26-Sep-2024
16		INE623B07610	13-Oct-17	87.00	8.91%	13-Oct-2024
17		INE623B07644	12-Mar-19	20.00	9.40%	12-Mar-23
18		INE623B07651	12-Mar-19	59.00	9.50%	12-Mar-25
19		INE623B07669	12-Mar-19	25.00	9.50%	12-Mar-25
	Total			654.00		

ANNEXURE II

List of entities consolidated

Name of Entity	% ownership	Extent of consolidation\$	Rationale for consolidation
Bluerock eServices Private Limited	100.00	100.00	Subsidiary
Future E-Commerce Infrastructure Limited	86.71	100.00	Subsidiary
Future Media (India) Limited	93.10	100.00	Subsidiary
Future Merchandising and Sourcing Pte. Ltd.	100.00	100.00	Subsidiary
Future Supply Chain Solutions Limited (FSCSL) (Subsidiary of RTPL w.e.f. December 24, 2018)	51.22	100.00	Step down Subsidiary
Futurebazaar India Limited	100.00	100.00	Subsidiary
Office Shop Private Limited (100% Subsidiary of Work Store Limited)	61.67	100.00	Step Down Subsidiary
Ritvika Trading Private Limited (RTPL) (w.e.f. November 19, 2018)	100.00	100.00	Subsidiary
Vulcan Express Private Limited (100% Subsidiary of FSCSL)	51.22	100.00	Step down Subsidiary
Work Store Limited	67.67	100.00	Subsidiary
Apollo Design Apparel Parks Limited	39.00	39.00	Joint Venture
Future Generali India Insurance Company Limited	25.51	25.51	Joint Venture



Future Generali India Life Insurance Company Limited	7.77	7.77	Joint Venture
Goldmohur Design and Apparel Park Limited	39.00	39.00	Joint Venture
Shendra Advisory Services Private Limited	49.82	49.82	Joint Venture
Sprint Advisory Services Private Limited	49.81	49.81	Joint Venture
Leanbox Logistics Solutions Private Limited (Associate of FSCSL)	25.61	25.61	Associate

\$Out of the extent of consolidation % mentioned above for subsidiaries and step down subsidiaries, there will be a deduction of minority interest to the extent of non holding stake.

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