March 20, 2020

Future Corporate Resources Private Limited: Ratings downgraded to [ICRA]BB+(Stable)/[ICRA]A4+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Long-term Loans	414.00	226.67	[ICRA]BB+ (Stable); revised from [ICRA]BBB (Negative);
Long-term Loans	582.09	0.00	Ratings withdrawn
Long-term, Fund-based Facilities	50.00	50.00	[ICRA]BB+ (Stable); revised from [ICRA]BBB (Negative)
Short-term, Non-fund Based Facilities	130.00	130.00	[ICRA]A4+; revised from [ICRA]A3+
Principal Protected Market Linked Debenture Programme (PP-MLD)	600.00	437.11	PP-MLD[ICRA]BB+ (Stable); revised from PP-MLD[ICRA]BBB (Negative)
Total	**1776.09**	**843.78**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in ratings reflects the continued high debt levels of the Future Group (total of all holding companies (holdcos) and operating companies (opcos)) and a substantial increase in the pledged shareholding of the promoter Group across its listed companies (listcos) due to continued decline in share prices. While Future Corporate Resources Private Limited's (FCRPL) external debt reduced to Rs. 1,430 crore (excluding the impact of Ind-AS) as on December 31, 2019 from Rs. 2,758 crore (excluding the impact of Ind-AS) as on March 31, 2019, the total debt (including debt from Group companies) remains high. Furthermore, despite monetisation of investments across various Group entities, the total Group debt has increased as on December 31, 2019, as against March 31, 2019. ICRA notes the increase in debt is mainly on account of an increase in debt of the opcos, with the total debt at the Group's listcos increased to Rs. 12,778 crore as on September 30, 2019 from Rs. 10,951 crore as on March 31, 2019. With continued reduction in the share price of the Future Group listcos, the total Group debt[1] / market capitalisation has increased to 1.2 times as on March 16, 2020 from 0.4 times as on March 31, 2019. Furthermore, this has resulted in an increase in the pledged shareholding of the promoter Group, resulting in reduced financial flexibility. However, the Group also has investments in several unlisted entities, which provides an opportunity to monetise investments. While the Future Group has received investments from marquee investors such as Amazon and Blackstone, its ability to timely monetise its investments and / or reduce the debt at the holdcos as well as opcos and achieve reduction in the pledge levels across various listcos is a key rating sensitivity.

FCRPL's debt servicing is solely dependent on its ability to monetise its investments and / or timely refinance its debt due to insufficient accruals from its operating business. The performance of the company's operating businesses has weakened since FY2018, following decrease in business on the back of adverse change in business

[1]*Total debt as on December 31, 2019 (excluding impact of Ind-As) for the holdcos and total debt as on September 30, 2019 for the listcos*

environment and regulatory changes. This resulted in an operating loss of Rs. 20.7 crore in FY2018 and Rs. 18.7 crore in FY2019. Coupled with high interest expenses, this resulted in a cash loss of Rs. 627.4 crore in FY2018 and Rs. 744.9 crore in FY2019. The company has initiated a joint venture (JV) with the Generali Group for distribution of insurance policies. Adequate cash flow generation from this business remains to be seen and is a key monitorable. The ratings continue to consider the financial support that FCRPL enjoys in the form of loans and advances from its Group companies. ICRA takes comfort from FCRPL's importance to the Future Group with strategic investments in various Future Group companies listed on the stock exchanges, apart from investment in unlisted companies. ICRA takes comfort from the initiatives being undertaken by the Group to monetise its investments in non-core operations. ICRA notes that FCRPL's financial profile depends significantly on the performance of its Group companies owing to its exposure to them either through investments or loans and advances.

The Stable outlook reflects ICRA's opinion that FCRPL will continue to enjoy financial support from Group companies.

The rating on the Rs. 582.09-crore term loans has been withdrawn as there is no amount outstanding against the same and at the request of the company.

Key rating drivers and their description

Credit strengths

Investment holding company of Future Group with strategic importance to Group – FCRPL is primarily an investment holding company of the Future Group, facilitating the funding of Group companies through various investments and lending of loans and advances, as well as providing services to scale up / support the retail businesses of the Group. Being a part of Future Group, the company enjoys financial support in the form of sizeable loans and advances from Group companies.

Largest shareholder in Future Retail Limited (FRL), one of the Group's key listed entities, in addition to stakes in unlisted entities; unlocking this value could help service debt obligations in case such a need arises – The company's core operations involve application of borrowings for funding of Group companies through investments or lending of loans and advances, staying invested till a good value is unleashed and then disposing of the investment to nurture some other company. As on March 31, 2019, it had investments of Rs. 8,926.0 crore, comprising investments in listed as well as unlisted entities. It also has 47.0% stake in Future Retail Limited (FRL), one of the Group's key listed entities, which lends financial flexibility. Unlocking this value could help service FCRPL's debt obligations, in case such a need arose.

Monetisation of investments in non-core businesses to reduce Group's overall debt levels – After selling partial stakes in the general and life insurance businesses, Future Lifestyle Fashions Limited (FLFL) and entire stake in Skechers in FY2019, the Future Group witnessed investments from Blackstone (total investment of Rs. 1,750 crore – Rs. 545 crore towards secondary purchase of 6% stake in FLFL and Rs. 1,200 crore as zero coupon NCD in holdco of FLFL), Nippon Express (invested US$ 50 million as primary equity and US$ 50 million as secondary purchase in Future Supply Chain Solutions Limited), AION (invested Rs. 300 crore in FLFL) and Amazon (invested US$ 200 million for 49% stake in Future Coupons Private Limited) during the current year. FCRPL's management has indicated further monetisation of investments in the near term so as to reduce the Group's overall debt.

Credit challenges

Weakened performance of operating businesses since FY2018 – The performance of the company's operating businesses has weakened since FY2018, following the loss of business from the Group companies due to concerted efforts at reducing intra-Group transactions. This has impacted its media and fabric trading segments. Furthermore, the company's mobile connection business, T24, witnessed a significant decline in revenues to Rs. 6.9 crore in FY2019 from Rs. 30.7 crore in FY2018 due to increased competitive intensity post the launch of Reliance Jio. These resulted in an operating loss of Rs. 18.8 crore in FY2019. Coupled with high interest expenses, this led to a cash loss of Rs. 744.9 crore in FY2019. Due to insufficient cash flows from its operations, FCRPL's debt servicing is solely dependent on its ability to monetise its investments and / or timely refinance its debt.

Weak financial profile with high borrowing levels; leveraged balance sheet to support investments / increase stakes in Group ventures – The company's financial profile is weak, with high borrowing levels mainly to support investments or increase stakes in Group ventures, fund its losses and repay customer advances. Despite a reduction in its total debt as on December 31, 2019 through monetisation of some of its investments, FCRPL's debt levels are expected to remain high in the near to medium term.

High overall Group debt level; increase in pledge levels in various listed companies – despite monetisation of investments across various Group entities, the total Group debt has increased as on December 31, 2019, as against March 31, 2019. ICRA notes the increase in debt is mainly on account of an increase in debt of the opcos, with the total debt at the Group's listcos increased to Rs. 12,778 crore as on September 30, 2019 from Rs. 10,951 crore as on March 31, 2019. With continued reduction in the share price of the Future Group listcos, the total Group debt[2] / market capitalisation has increased to 1.2 times as on March 16, 2020 from 0.4 times as on March 31, 2019. Furthermore, this has resulted in an increase in the pledged shareholding of the promoter Group, resulting in reduced financial flexibility. However, the Group also has investments in several unlisted entities, which provides an opportunity to monetise investments.

Liquidity position: Stretched

The company's liquidity profile remains **stretched** on account of weak operating performance. It has sizeable debt repayment obligations of ~Rs. 316.0 crore and ~Rs. 729.0 crore in FY2021 and FY2022, respectively. Being the key investment vehicle for the Group, FCRPL's prospects are tied to the fortunes of the underlying investee companies. In absence of sufficient cash flows from operations, its ability to timely monetise its investments and / or timely refinance its debt is critical for meeting its debt repayment obligations. ICRA takes comfort from the financial support enjoyed by the company in the form of loans and advances received from the Group companies.

Rating sensitivities

Positive triggers – The rating may be revised if there is a material reduction in the Group debt both at the holdco as well as the opco level, along with reduction in the pledge levels across various listcos of the Future Group.

Negative triggers – Inability of the Group to reduce its debt levels (both at holcos as well as opcos) either through improved internal cash flows and / or monetisation of investments would be a negative trigger. Continued high pledge levels across various listcos of the Group would also be negative.

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[2]*Total debt as on December 31, 2019 (excluding impact of Ind-As) for the holdcos and total debt as on September 30, 2019 for the listcos*

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Holding Companies ICRA Policy on Withdrawal and Suspension of Credit Rating
Parent/Group Support	Group Company: Future Group We expect the Future Group to be willing to extend financial support to FCRPL, should there be a need, given the high strategic importance of FCRPL being a key investment holding company for the Group, and also out of its need to protect its reputation from the consequences of a Group entity's distress. The Group has consistently extended timely financial support to FCRPL in the past, whenever a need has arisen.
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

Future Corporate Resources Private Limited (erstwhile Suhani Trading and Investment Consultants Private Limited (STIC)), a Future Group company, came into existence in its current form with effect from March 31, 2017, after its amalgamation with the six companies—Future Corporate Resources Limited (FCRL), PIL Industries Limited, Weavette Business Ventures Limited, Manz Retail Private Limited, ESES Commercials Private Limited, and Gargi Business Ventures Private Limited. The company's name was changed to FCRPL with effect from December 11, 2018. It is primarily an investment company / holding company of the Future Group, facilitating the funding of Group companies through various investments and lending of loans and advances, and providing services to scale up / support the retail business of the Group. The company, moreover, acts as a media services and fabric trading arm of the Future Group. FCRPL is involved in other allied businesses, which were earlier under FCRL, including mobile connection services in a tie-up with Tata DoCoMo under the brand, T24, the customer loyalty programme, Payback, the leasing of information technology assets (software as well as hardware) and management consultancy services.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	465.9	1026.9
PAT (Rs. crore)	4.4	16.0
OPBDIT/OI (%)	-4.5%	-1.8%
RoCE (%)	7.9%	7.6%
Total Outside Liabilities/Tangible Net Worth (times)	2.9	3.1
Total Debt/OPBDIT (times)	NM	NM
Interest Coverage (times)	0.0	0.0
DSCR	-0.01	-0.1

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2020)					Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding*	Current Rating	Earlier Rating	FY2019		FY2018	FY2017
					20-Mar-2020	03-May-2019	07-Jan-2019	18-Sep-2018	09-Feb-2018	-
1	Term Loan	Long-Term	226.67	226.67	[ICRA]BB+ (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
2	Fund-based Facility	Long-Term	50.00	-	[ICRA]BB+ (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
3	Non-fund Based Facility	Short-Term	130.00	-	[ICRA]A4+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	-
4	Principal Protected Market Linked Debenture Programme	Long-Term	437.11	437.11	PP-MLD [ICRA]BB+ (Stable)	PP-MLD [ICRA]BBB (Negative)	PP-MLD [ICRA]BBB (Negative)	PP-MLD [ICRA]BBB (Stable)	PP-MLD [ICRA]BBB (Stable)	-
5	Non-Convertible Debenture Programme	Long-Term	-	-	-	-	Withdrawn	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
6	Term Loan	Long-Term	582.09	-	Withdrawn	[ICRA]BBB (Negative)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	

*Amount in Rs. crore; *As on March 16, 2020*

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE370I07233	PP-MLD	23-Jul-15	6.0%	30-Apr-21	170.22	PP-MLD[ICRA]BB+ (Stable)
INE370I07241	PP-MLD	23-Jul-15	6.0%	30-Apr-21	70.09	PP-MLD[ICRA]BB+ (Stable)
INE370I08017	PP-MLD	23-Jul-15	6.0%	30-Apr-21	196.80	PP-MLD[ICRA]BB+ (Stable)
NA	Term Loan 1	15-Dec-16	11.40%	Dec-23	344.61	[ICRA]BB+ (Stable) withdrawn
NA	Term Loan 2	06-Jan-15	10.75%	Jan-20	37.48	[ICRA]BB+ (Stable) withdrawn
NA	Term Loan 3	29-Sep-15	10.30%	Dec-18	-	-
NA	Term Loan 4	Mar-18	11.00%	Sep-21	200.00	[ICRA]BB+ (Stable) withdrawn
NA	Term Loan 5	Mar-18	9.75%	Dec-18	-	-
NA	Term Loan 6	Mar-18	10.25%	Sep-21	66.67	[ICRA]BB+ (Stable)
NA	Term Loan 7	Mar-19	11.15%	Sep-22	160.0	[ICRA]BB+ (Stable)
NA	Fund-based Facility	-	-	-	50.00	[ICRA]BB+ (Stable)
NA	Non-fund Based Facility	-	-	-	130.00	[ICRA]A4+

Source: Future Corporate Resources Private Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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