

RATING RATIONALE

13 April 2020

Future Retail Limited

Brickwork Ratings Revises the ratings for the Non-Convertible Debentures//Withdraws the rating of the proposed Commercial Paper of Future Retail Limited

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Dec, 2019)	Present
ProposedNCD	25.00	25.00	Long Term	BWR AA Negative	BWR A+ Credit Watch With Negative Implications
Proposed Commercial Paper	100.00	100.00	Short Term	BWR A1+	Withdrawal on account of request from the company as the rating has not been utilised.
Total	125.00	125.00	INR One Hundred and Twenty Five Crores Only		

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

** Details of NCD/Commercial Paper are provided in Annexure-I&II

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) has withdrawn the rating of the proposed commercial paper amounting to Rs.100 crs on account of the request from the company as the rating has not been utilised by them.



BWR has downgraded the rating of NCDs to BWR A+ Credit Watch With Negative Implications.

The downgrade is on account of a deterioration in the debt protection metrics, profitability and liquidity of the company and the group, elevated pledge of the promoter-held shares in group companies coupled with the deterioration in market capitalisation. The downgrade also factors in 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 resulting in lower operating cash flow and liquidity as well as increased working capital requirement and uncertainty in the expected level of cash flows from the business.

KEY RATING DRIVERS

Credit Strengths:

- Experienced promoters and management with a long track record of the company in the industry
- Pan-India presence across multiple formats with increasing presence.
- **Equity infusion by Amazon in Future Retail:** A promoter company, Future Coupons Limited (FCL), has entered a share subscription agreement and shareholders' agreement with Amazon.com NV Investment Holdings LLC. Pursuant to these agreements, Amazon has made an equity investment of \$200mn in FCL for acquiring a 49% stake (~Rs.1,500 crore) comprising both voting and non-voting shares. The funds raised through divestment have been infused in FRL.
- Revenues increased to Rs.15,672.97 crs in 9M Dec19, v/s Rs.14,922.97 crs in 9M Dec18 and Rs.20,164 crs in FY March 2019, v/s Rs.18,477 crs in FY march 2018, on account of increased sales from the newly opened as well as the existing stores.

Credit Risks:

- **Elevated debt level:** The company has raised additional debt of Rs.3560 crs via the issuance of the dollar bond, which has been utilised to buy assets from FEL.
- **High level of pledge of promoter holding:** ~57% of the promoters holding is pledged against



debt raised at the promoter level. The share price of FRL has declined significantly in the past 6 months requiring pledge of more shares which resulted in further deterioration in the financial flexibility.

- **Impact of COVID-19:** Due to the ongoing lockdown on account of COVID-19, the company's retail stores 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 company, thereby affecting the overall financial strength and margins as well as the liquidity of the company which is expected to be managed by release of peak limit by the banks as requested by the company and availment of moratorium as permitted by RBI for the payment of debt from the lenders.
- Intense competition in the industry

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

BWR has essentially relied on the company's standalone/consolidated audited financial statements upto FY March 2019, provisional 9M FY2020 and projections upto FY21, as well as publicly available information and the information / clarification provided by the company.

RATING SENSITIVITIES

The company's ability to manage its working capital due to the ongoing COVID-19 situation, improve debt protection metrics which is adversely impacted by increasing debt levels on account of asset buyback from a group company, namely FEL, and improve profitability and the timely availability of peak limits from the lenders, as well as an improvement in the liquidity would be key rating sensitivities.

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

Negative: Deterioration in the financial flexibility, liquidity and debt protection profile of the company and the group..

LIQUIDITY POSITION

Liquidity was adequate as on March 31, 2019 consisting of cash and cash equivalents of Rs.204.91 crs and current investments of Rs.47.90 crs in FY19. However, the same deteriorated on account of ongoing disruption in sales and cash collection impacted by the ongoing lockdown on account of Covid-19. There is cash flow mismatch which is expected to be managed by the release of peak limits from the lenders and moratorium availed by the company on repayment of debt from the lenders as per the RBI package.

COMPANY PROFILE

Future Retail Limited was incorporated in 1987 and is based in Mumbai, India. Future Retail Limited engages in the retail of household and consumer products through departmental store facilities under various formats in India. It operates multiple retail formats in hypermarkets, supermarkets, and home segments. The company's stores offer food and grocery categories, pre-packed vegetables and fruits, FMCG and daily use products, home improvement products, and consumer durables and electronic products. It has developed a digital payment wallet called Future Pay, which also makes EMI facilities available.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Standalone Financials

Key Parameters	Units	FY2018	FY2019	9MFY19	9M FY20
Result Type		Audited	Audited	Unaudited	Unaudited
Total Operating Income	Rs. in crores	18477.97	20164.90	14768.30	15672.97
EBITDA	Rs. in crores	830.17	1049.77	746.25	2003.96
PAT	Rs. in crores	11.31	732.81	529.65	504.45

Tangible Net worth (TNW)	Rs. in crores	2557.06	3231.41	-	-
Total Debt (TD)	Rs. in crores	1286.41	2657.04	-	-
TNW/TD	Times	0.50	0.82	-	-
Current Ratio	Times	1.43	1.33	-	-

Consolidated Financials

Key Parameters	Units	FY2019	9M FY19	9M FY20
Result Type		Audited	Unaudited	Unaudited
Total Operating Income	Rs. in crores	20332.58	14922.97	15672.97
EBITDA	Rs. in crores	1036.44	748.94	2003.96
PAT	Rs. in crores	727.19	527.13	504.45
Tangible Net worth (TNW)	Rs. in crores	3150.62	-	-
Total Debt (TD)	Rs. in crores	2553.98	-	-

Note: The consolidated numbers for FY2018 is not available as there were no subsidiaries in FY 2017-18

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA as not yet issued.

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA

RATING HISTORY

Instrument / Facilities	Current Rating			Rating History		
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	19-Dec-19	6-Oct-2018	5-Oct-2017
Proposed NCD	Long Term	25.00	BWR A+ Credit Watch With Negative Implications	BWR AA Negative	BWR AA Stable	BWR AA Stable
Proposed Commercial paper	Short Term	100.00	Withdrawal	BWR A1+	BWR A1+	BWR A1+
Total		125.00	INR One Hundred and Twenty Five Crores Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

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

Hyperlink/Reference to applicable Criteria

[General Criteria](#)

[Approach to financial Ratios](#)

[Commercial Paper](#)

[Industry](#)

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Future Retail Limited

ANNEXURE I

INSTRUMENT (NCD) DETAILS

Instrument	Issue Date	Amount in Crs.	Coupon Rate	Maturity Date	ISIN Particulars
NCD	Not yet issued	25.00	~9-10%	Upto 10 years	NA

ANNEXURE II

List of entities consolidated

Name of Entity	% ownership	Extent of consolidation	Rationale for consolidation
Travel News Services (India) Private Limited (TNSI)	100.00	Full	Subsidiary
SHME Food Brands Private Limited	100.00	Full	Subsidiary
TNSI Retail Private Limited	100.00	Full	Subsidiary



Welcome Retail Private Limited	51.00	51.00	Subsidiary*
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*It is a joint Venture between TNSI and Felmingo Group

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