

Press Release

Future Retail Limited (FRL)

23 September, 2017

Rating Reaffirmed



Total Instruments Rated*	Rs.1100.00 Cr
Short Term Rating	SMERA A1+ (Reaffirmed)

**Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed the short-term rating of '**SMERA A1+**' (read as **SMERA A One Plus**) on the Rs.1100.00 crore proposed commercial paper issue of Future Retail Limited (FRL).

Future Enterprises Limited (FEL) houses the physical assets (store formats of erstwhile Future Retail Limited and Bharti Retail Limited including all infrastructure at stores) apart from strategic investments in various companies. The company is also engaged in the manufacturing of garments for men, women and kids. FRL, the retail arm of Future Group, operates retail formats namely Big Bazaar, FBB, Easy day, E-zone etc. FRL pays rentals to FEL for utilisation of the physical infrastructure (stores and other allied infrastructure).

Analytical Approach: SMERA has consolidated the financial and business risk profiles of FEL and Future Retail Limited (FRL) hereinafter referred to as 'a Combined Entity' on account of their common management, strong operational and financial linkages.

List of key rating drivers and their detailed description

Strengths:

Long track record and established position in organised retail: The Combined Entity benefits from the established track record and extensive experience of the promoters in retail. The promoters are supported by a strong management team with significant experience in retail. Mr. Kishore Biyani, the founder and Group CEO of the Future group, is widely recognised as a pioneer of modern retail in India. FRL enjoys a leading position in organised retail with pan India presence across multiple formats including Big Bazaar, FBB and Easy day. FRL's Big Bazaar was ranked among the top four most trusted brands in 2016 by Brand Equity survey. The management has been expanding its footprint in the domestic retail segment through a mix of organic and inorganic initiatives.

As on June 2017, FRL, (with the recently acquired Bharti Retail) has 893 stores in 26 states and 246 cities. Further, the company recently acquired Heritage Foods (including the chain of 124 Heritage Fresh stores of 2,000-8,000 square ft in Hyderabad, Bengaluru, and Chennai). Besides, the government is considering proposal of 100 per cent FDI in single and multi brand retail which is likely to augur well for the segment. Besides, recent initiatives like GST are likely to provide a further fillip to organised retail.

SMERA believes that the Combined Entity will benefit from its established position in organised retail and its strategy of scaling up operations through a mix of organic and inorganic initiatives.

Strong resource mobilisation ability and monetisation of non-core investments: The Combined Entity has strong resource mobilisation ability and has diversified funding mix with

funds being raised from banks, institutions and capital markets. Apart from the financial flexibility emanating from a diverse lender base, FEL also benefits from its ability to unlock the value of its investments in other group ventures.

FEL, effectively holds (through direct and indirect ownership) 27.40 per cent and 49.87 per cent stake in Future Generali India Life Insurance Company Limited (life insurance business) and Future Generali India Insurance Company Limited (general insurance business) respectively. FEL plans to divest its holdings partly or entirely in the non-life insurance business by March 2018.

FEL has already divested 12.75 per cent stake in Future Supply Chains Solutions Limited (FSC) for ~Rs.185 crore in April 2016. Further, the company has divested its entire stake in Future Lifestyle Fashions Limited (FLFL) for Rs.375 crore in Q2FY2017. Further, in July 2017, FEL divested its stake in Future Consumer Limited (FCL) for Rs. 490.00 crore. The proceeds from disinvestments are expected to be used primarily for deleveraging of FEL.

SMERA believes that, the management's continuous focus on monetisation of non-core investments and reduction of debt levels is expected to support the credit profile of the combined entity over the near to medium term.

Weaknesses:

Moderate financial risk profile: The net worth of the Combined Entity stood at Rs. 5,880.08 crore as on 31 March, 2017. The gearing (debt to equity ratio) of FEL (combined) stood at 1.11 times (PY: 1.22 times) as on 31 March, 2017. The total debt of Rs.6553.41 crore as on 31 March 2017, comprised term loans, debentures of Rs. 5,326.86 crore and working capital borrowings. The interest coverage ratio (ICR) for FY2017 was 2.54 times (PY: 2.24 times). The DSCR for FY2018 is expected to be in the range of 3 to 4 times for the Combined Entity.

The management is in the process of lowering the cost of funds by refinancing the existing high cost debt with that of a longer tenure and cost. Besides, proceeds from monetisation of non-core investments will be used primarily for deleveraging.

The ability to refinance its debt and monetise its investments, in a timely manner will be key rating sensitivities

Working capital intensity: The Combined Entity has high working capital requirements reflected in the high gross current assets (GCA) of 157 days (PY: 177 days) in FY2017. This was on account of high inventory storage of ~88 days in FY2016 leading to higher working capital requirements. While the debtors days stood low at ~15 due to the retail format (cash and carry), the Combined Entity receives extended credit of 70 to 80 days from suppliers which moderates the working capital requirements. The average working capital limit utilisation of FEL stood low at ~45 per cent. However, the average working capital limit utilisation of FRL stood relatively high at ~70 per cent in the last six months ended July 2017. The Combined Entity has also been supporting its working capital requirements through Commercial Paper.

SMERA believes that the working capital requirements will remain high in the medium term due to the nature of retail business. Thus, efficient management of working capital will remain crucial for the maintenance of a stable credit risk profile.

Highly competitive landscape of the retail segment: Organised retailers face immense competition from unorganised or Kirana stores (constitute over 94 per cent of the total retail market) that largely cater to customers in and around their locality. Additionally, within organised retail too there exists stiff competition from established players like Avenue Supermart, Shoppers Stop, Reliance Retail etc. Moreover, the offline as well as online players have added significantly to

price wars and discounts. The government is considering proposal of 100 per cent FDI in single and multi brand retail which is likely to augur well for the segment resulting in the competition getting even more tougher.

The organised retail segment is expected to grow significantly on the back of higher disposable incomes which will help players like FRL to expand their footprint.

Analytical approach: as mentioned above

Applicable Criteria

- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

About the Combined Entity:

The erstwhile Future Retail Limited (E-FRL), the flagship company of the Future Group (one of India's largest retailers), is engaged mainly in value retailing. Till FY2014-15, E-FRL was engaged in retail operations as well as owned the infrastructure assets associated with retail operations. During FY2015-16, pursuant to a business restructuring exercise, E-FRL's retail and infrastructure operations were split into two separate entities namely Future Retail Limited (FRL) and Future Enterprises Limited (FEL) respectively. As per the arrangement, FRL would be carrying out the retail trade whereas the infrastructure assets would be owned by FEL.

On 31 October, 2015 (appointed date), E-FRL acquired Bharti Retail Limited (BRL) in an all- stock deal. The retail operations of E-FRL and that of Bharti Retail Limited (BRL) were merged and subsequently the name was changed to Future Retail Limited (FRL). The infrastructure operations of BRL merged with E-FRL's infrastructure and investment operations and subsequently the name of the entity was changed to Future Enterprises Limited (FEL).

Presently, FEL owns the physical assets (store formats of E-FRL and BRL including all the infrastructure assets situated in the stores) apart from strategic investments in various companies. FRL operates all retail formats. Mr. Kishore Biyani continues to be associated as a promoter of both, FEL and FRL. As on June 2017, FRL, along with the recently acquired Bharti Retail has 893 stores in 26 states and 246 cities. It includes 253 Big Bazaar stores, 523 Easy Day, 19 E-Zone, 54 FBB, 37 Home Town and rest of the other formats. Further, FRL is in the process of demerger of Home Retail Business which is expected to be completed by December 2017 with appointment date of August 2017. A separate legal entity namely 'Praxis Home Retail Private Limited' of Future group will take over the home retail business and the entity is expected to get listed on BSE (Subject to listing permissions).

About the Rated Entity – Key Financials

On a standalone basis, for FY2016-17, FRL reported net profit after tax (PAT) of Rs.365.59 crore on operating income of Rs.17,075.09 crore. The tangible net worth stood at Rs.2,085.00 crore as on 31 March, 2017. For Q1FY2018, FRL reported PAT of Rs. 147.85 crore on net sales of Rs.4704.93 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Date	Name of Instruments	Term	Amount (Rs. Crore)	Ratings
01-Sep, 2017	Standalone Commercial Paper Programme (Proposed)	Short Term	450.00	SMERA A1+ (Assigned)
	Earmarked Commercial Paper Programme (Proposed)	Short Term	650.00	SMERA A1+ (Assigned)

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate (Per cent)	Maturity Date	Size of the Issue (Rs. Crore)	Ratings
Standalone Commercial Paper Programme (Proposed)	NA	NA	NA	450.00	SMERA A1+ (Reaffirmed)
Earmarked Commercial Paper Programme (Proposed)	NA	NA	NA	650.00	SMERA A1+ (Reaffirmed)

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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