

Press Release

Future Retail Limited (FRL)

09 March, 2018



Rating Reaffirmed

Total Instruments Rated*	Rs. 1250 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. 1250.00 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).

Update:

FRL's management has acquired Hypercity Retail (India) Limited with effect from 01 December 2017 at a purchase consideration of Rs.640.00 crore which has been funded through equity shares of Rs.500 crore and cash of Rs.140 crore.

The acquisition is expected to add ~19 stores of Hypercity Retail (India) Limited to Combined Entity (FEL and FRL). Considering the size of the Hypercity acquisition vis-à-vis the existing scale of the Combined Entity, no major impact of this acquisition is envisaged on the combined entity's credit profile.

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.

Key rating drivers

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. After the recent acquisition of Heritage Foods (including the chain of 124 Heritage Fresh stores - Hyderabad, Bengaluru, and Chennai; in October, 2017 the company announced acquisition of Hypercity Retail (India) Limited which has around 19 stores across India. The Combined Entity has thus followed a strategy of organic and inorganic growth.

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. Recent initiatives like GST are also 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. The company divested its entire stake in Future Lifestyle Fashions Limited (FLFL) for Rs.375 crore in Q2FY2017. 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 above 3 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 funding of a longer tenure and low 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 FY2017 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 combined average working capital limit utilisation stood at ~70 per cent in the last six months ended October 2017. Apart from working capital borrowings from bank, the working capital requirements have also been through capital market instruments like Commercial Paper.

SMERA believes that the working capital requirements will remain high in the medium term due to the retail nature of 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 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.

SMERA believes that with its growing geographical reach in the domestic market, the Combined Entity should be able to maintain its strong position in India's organised retail segment.

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 has demerged its Home Retail Business from December 2017. A separate legal entity namely 'Praxis Home Retail Limited' of Future group has taken over the home retail business and the entity is been listed on BSE.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	4,485.45	8,915.46	-
EBITDA	Rs. Cr.	1,026.95	1,105.20	-
PAT	Rs. Cr.	54.83	44.45	-
EBITDA Margin	(%)	22.90	12.40	-
PAT Margin	(%)	1.22	0.50	-
ROCE	(%)	6.67	13.54	-
Total Debt/Tangible Net Worth	Times	1.40	1.47	-
PBDIT/Interest	Times	2.38	2.26	-
Total Debt/PBDIT	Times	1.35	2.22	-
Gross Current Assets (Days)	Days	210.84	99.00	-

Any other information: Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Trading Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smerra.in/criteria-complexity-levels.htm>

Status of non-cooperation with previous CRA (if applicable): None

Rating History (Upto last three years)

Date	Name of Instruments	Term	Amount (Rs. Cr.)	Ratings/Outlook
18-Nov-2017	Standalone Commercial Paper Programme (Proposed)	Short Term	600.00	SMERA A1+ (Reaffirmed)
	Earmarked Commercial Paper Programme (Proposed)	Short Term	650.00	SMERA A1+ (Reaffirmed)
23-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	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Standalone Commercial Paper Programme (Proposed)	NA	NA	NA	600.00	SMERA A1+ (Reaffirmed)
Earmarked Commercial Paper Programme (Proposed)	NA	NA	NA	650.00	SMERA A1+ (Reaffirmed)

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ABOUT SMERA

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