

Press Release

Future Retail Limited (FRL)

February 08, 2019

Rating Reaffirmed and Assigned



Instruments Rated*	Rs. 1250.00 Cr
Short Term Rating	ACUITE A1+ (Reaffirmed)
Instruments Rated*	Rs. 150.00 Cr
Short Term Rating	ACUITE A1+ (Assigned)

*Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the short term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs. 1250.00 crore commercial paper issue of Future Retail Limited (FRL).

Further Acuite has assigned the short term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs. 150.00 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: Acuite has consolidated the standalone financial and business risk profiles of Future Enterprises Limited and Future Retail Limited (FRL) hereinafter referred to as Future Enterprises and Retail Group (FERG) on account of their common management, strong operational and financial linkages. Extent of Consolidation: Full.

List of key rating drivers and their detailed description

Strengths:

Long track record and established position in organised retail: FERG benefits from the established track record and extensive experience of the promoters 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. The promoters are supported by a strong management team with significant experience in retail. FRL enjoys a leading position in organised retail with pan India presence across multiple formats including Big Bazaar, FBB and Easy day. Revenue share from apparel segment stood at ~36%, ~32% from staple segment (Food segment) and ~32% from Non – food segment for FY2018. As on December, 2018 FRL, has 1,444 stores spread across 15.90 million square feet in 409 cities. Further, the company has recently started a premium Food Hall in Bandra (Mumbai) spread over 25,000 square feet in four storey building. This store will cater to premium segment of footfall.

Big Bazaar is one of the strongest retail brands in India and was ranked at number 6 in the 'Brand Asia – 2017' Survey by Market Xcel in association with Nikkei BP, Japan. The management has been expanding its footprint in the domestic retail segment through a mix of organic and inorganic initiatives. With 100 per cent FDI in single brand and 51 per cent in multi brand retail permitted by the government, the investments are likely to increase further and will enhance the penetration of the formal retail sector in a significant manner over the medium term. Acuite believes that FERG will benefit from its established position in organised retail and its strategy of scaling up operations through a mix of organic and inorganic initiatives.

Demonstrated strong resource mobilisation ability and monetisation of non-core investments:

FERG has demonstrated strong resource raising ability through a diverse set of lenders/investors. FEL in the past had been able to unlock the value of investments in Future Lifestyle Fashion Limited by diluting 16.09% stake. FEL, effectively holds (through direct and indirect ownership) 31.11 per cent and 49.92 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. Also FEL holds 51.22% in Future Supply Chain Ltd. FEL has been planning to divest its holdings partly or entirely in the non-life insurance business over the near to medium term.

Acuité 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 FERG stood at Rs. 6598.95 crore as on 31 March, 2018. The gearing (debt to equity ratio) of FERG (combined) stood at 1.07 times (PY: 1.11 times) as on 31 March, 2018. The total debt of Rs.7073.84 crore as on 31 March 2018, comprised term loans, debentures of Rs. 4324.89 crore and working capital borrowings. The interest coverage ratio (ICR) for FY2018 was 2.13times (PY: 2.54 times). The DSCR for FY2019 is expected to be in the range of 3 to 4 times for the Combined Entity. Annualized Debt/EBITDA on a standalone basis for FRL stood at 1.67 times as on September, 2018 as against 1.54 times for FY2018 and for FEL 4.75 times as on September, 2018 as against 4.23 times in FY2018.

The management is in the process of equity infusion of Rs. 2000 crore at a price of Rs. 505 per share. As per the discussion with the management, this infusion will happen in a phased manner with Rs. 500.00 crore expected by March, 2019 and remaining in the near to medium term.

FERG is also focusing on lowering the cost of funds by refinancing the existing higher cost debt at a lower cost and with a longer. Besides, proceeds from the monetisation of non-core investments are expected to be used primarily for deleveraging.

As per the discussion with the management, Acuité expects the Debt/EBITDA to be maintained at 1.75 times for FRL and 4.00 times for FEL on a standalone and annualize basis in the near to medium term. Any significant deviation from the specified Debt/EBITDA levels may have an impact on the rating. Further the ability to refinance its debt and monetise its investments, in a timely manner will be key rating sensitivities.

Working capital intensity: FERG has high working capital requirements reflected in the high gross current assets (GCA) of 147 days (PY: 145 days) in FY2018. This was on account of high inventory storage of ~93 days in FY2018 leading to higher working capital requirements. While the debtors days stood low at ~15 due to the retail format (cash and carry), FERG receives extended credit of 80 to 90 days from suppliers which moderates the working capital requirements. The average working capital limit utilisation of FEL stood at ~73.31 per cent. And for FRL stood at ~63.05 per cent in the last six months ended November 2018. FERG has also been supporting its working capital requirements through Commercial Paper.

Acuité 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. Further, 100% (or 51%) foreign direct investments (FDI) in single brand retail and multi brand retail will result in higher competition.

However, 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.

Outlook: Stable

Acuite believes that FERG will maintain a stable outlook over the medium term owing to the promoter's extensive experience. The outlook may be revised to 'Positive' in case of significantly higher than expected growth in revenues/profitability margins coupled with sizeable reduction in debt levels. Conversely, the outlook may be revised to 'Negative' in case of significant movement in gearing or debt servicing metrics vis a vis Acuite's expectations due to large debt funded capex/acquisitions, lower cash flows from operations or challenges in monetising its non-core investments.

Liquidity Position:

FERG has moderate liquidity marked by healthy net cash accruals to its maturing debt obligations. FERG generated net cash accruals of Rs. 829.95 crore in FY2018 (PY: Rs. 1128.63 crore) while its maturing debt obligation were in the range of 138.27 crore in FY2018 (PY: Rs. 149.67 crore). Further the cash accruals of FERG are estimated to remain at around Rs. 1500.00 crore to Rs. 2000.00 crore for FY2019 to FY2021. The operations of the combined entity are moderately working capital intensive and the average working capital limit utilization for both FEL and FRL has been between 63% to 73% over the last six months ended November, 2018. FERG has also been supporting its working capital requirements through Commercial Paper. The combined entity had maintained unencumbered cash and bank balance of Rs. 246.18 crores as on 31 March, 2018. The working capital requirements have increased significantly on account of loans and advances given to the suppliers which forms major portion of the current assets.

Acuite believes that the liquidity of FERG is likely to remain moderate over the medium term due to the nature of the retail business.

About FERG:

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.

FRL 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 has added ~19 stores of Hypercity Retail (India) Limited to Combined Entity (FEL and FRL).

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.

About the Rated Entity - Consolidated

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	23,581.06	21,560.54	15,760.59
EBITDA	Rs. Cr.	2,038.57	1,613.25	1,188.58
PAT	Rs. Cr.	51.05	423.11	58.77
EBITDA Margin	(%)	8.64	7.48	7.54
PAT Margin	(%)	0.22	1.96	0.37
ROCE	(%)	6.31	9.79	11.38
Total Debt/Tangible Net Worth	Times	1.07	1.11	1.22
PBDIT/Interest	Times	2.13	2.54	2.24
Total Debt/PBDIT	Times	3.47	3.55	4.90
Gross Current Assets (Days)	Days	147	145	172

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Securitised Transactions - <https://www.acuite.in/view-rating-criteria-29.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trade Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.htm>
- Consolidation Criteria: <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instruments	Term	Amount (Rs. Cr.)	Ratings/Outlook
18-Aug-2018	Standalone Commercial Paper Programme	Short Term	75.00	ACUITE A1+ (Reaffirmed)
	Standalone Commercial Paper Programme	Short Term	75.00	ACUITE A1+ (Reaffirmed)
	Standalone Commercial Paper Programme	Short Term	100.00	ACUITE A1+ (Reaffirmed)
	Standalone Commercial Paper Programme	Short Term	100.00	ACUITE A1+ (Reaffirmed)
	Standalone Commercial Paper Programme	Short Term	100.00	ACUITE A1+ (Reaffirmed)
	Standalone Commercial Paper	Short Term	50.00	ACUITE A1+

	Programme			(Reaffirmed)
	Standalone Commercial Paper Programme	Short Term	25.00	ACUITE A1+ (Reaffirmed)
	Earmarked Commercial Paper Programme	Short Term	100.00	ACUITE A1+ (Reaffirmed)
	Earmarked Commercial Paper Programme (Proposed)	Short Term	550.00	ACUITE A1+ (Reaffirmed)
	Standalone Commercial Paper Programme (Proposed)	Short Term	75.00	ACUITE A1+ (Reaffirmed)
09-Mar-2018	Earmarked Commercial Paper Programme (Proposed)	Short Term	600.00	ACUITE A1+ (Reaffirmed)
	Standalone Commercial Paper Programme (Proposed)	Short Term	650.00	ACUITE A1+ (Reaffirmed)
18-Nov-2017	Standalone Commercial Paper Programme (Proposed)	Short Term	600.00	ACUITE A1+ (Reaffirmed)
	Earmarked Commercial Paper Programme (Proposed)	Short Term	650.00	ACUITE A1+ (Reaffirmed)
23-Sep-2017	Standalone Commercial Paper Programme (Proposed)	Short Term	450.00	ACUITE A1+ (Assigned)
	Earmarked Commercial Paper Programme (Proposed)	Short Term	650.00	ACUITE 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	NA	NA	NA	75.00	ACUITE A1+ (Reaffirmed)
Standalone Commercial Paper Programme	NA	NA	NA	75.00	ACUITE A1+ (Reaffirmed)
Standalone Commercial Paper Programme	NA	NA	NA	100.00	ACUITE A1+ (Reaffirmed)
Standalone Commercial Paper Programme	NA	NA	NA	100.00	ACUITE A1+ (Reaffirmed)
Standalone Commercial Paper Programme	NA	NA	NA	100.00	ACUITE A1+ (Reaffirmed)
Standalone Commercial Paper Programme	NA	NA	NA	50.00	ACUITE A1+ (Reaffirmed)
Standalone Commercial Paper Programme	NA	NA	NA	25.00	ACUITE A1+ (Reaffirmed)
Earmarked Commercial Paper Programme	NA	NA	NA	100.00	ACUITE A1+ (Reaffirmed)
Commercial Paper Programme (Proposed)	NA	NA	NA	250.00	ACUITE A1+ (Reaffirmed)
Commercial Paper Programme (Proposed)	NA	NA	NA	300.00	ACUITE A1+ (Reaffirmed)

Standalone Commercial Paper Programme (Proposed)	NA	NA	NA	75.00	ACUITE A1+ (Reaffirmed)
Standalone Commercial Paper Programme (Proposed)	NA	NA	NA	150.00	ACUITE A1+ (Assigned)

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About Acuité Ratings & Research:

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