

## Press Release

### Future Retail Limited

February 28, 2020



### Rating Assigned and Reaffirmed

<b>Instruments Rated*</b>	Rs. 1400.00 Cr
<b>Short Term Rating</b>	ACUITE A1+ (Reaffirmed)
<b>Instruments Rated*</b>	Rs. 200.00 Cr
<b>Long Term Rating</b>	ACUITE AA / Negative (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

Acuité has reaffirmed short-term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs. 1400.00 crore commercial paper issue of FUTURE RETAIL LIMITED.

Acuité has reaffirmed long-term rating of '**ACUITE AA**' (read as **ACUITE double A**) on the Rs. 200.00 crore proposed Non-Convertible Debentures of FUTURE RETAIL LIMITED. The outlook is '**Negative**'.

### Analytical Approach

Acuité has consolidated the financial and business risk profiles of Future Enterprises Limited (FEL) 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. FEL's business and financial risk profile also includes that of its subsidiaries and associate companies.

In case of certain Non-Convertible Debentures issued by FEL, a differential rating has been assigned due to the presence of a Structured Payment Mechanism (SPM) and Debt Service Reserve Account (DSRA) in these instruments. Acuité has factored in the benefits derived from the SPM and DSRA for arriving at the rating of these debentures. Extent of Consolidation: Full.

### Updates

Future Enterprises and Retail Group (FERG)'s debt level has continued to be on an elevated levels. FRL's debt levels have increased significantly to Rs.10,722 Cr as on 30 September 2019 as against Rs.2,657 Cr as on 31 March 2019. FEL's debt levels have moderately increased at Rs.7572 Cr as on 30 September, 2019 as against Rs.6544 Cr as on 31 March 2019. The sharp rise in debt levels is primarily on account of certain adjustments such as treatment of lease obligation as debt to comply with IND AS 116. On a like to like basis, the total debt outstanding for FRL and FEL stood at Rs.3,982 Cr and Rs. 6,724 Cr respectively as on 30 September 2019. Acuité continues to adopt a consolidated approach (i.e. FEL & FRL together referred as FERG) while arriving at the ratings for both FRL and FEL. Acuité believes that consolidated debt levels will continue to remain elevated despite the recent announcements of equity infusion. The timely infusion of funds from foreign investors and demonetization of its investments in a timely manner will remain a key monitorable for a gradual deleveraging of FERG.

As intimated by both FRL and FEL on the stock exchanges dated October 12, 2019, the lease assets with a maximum amount of Rs.4000 Cr are expected to transferred from FEL to FRL. The lease rental income for FEL (lease rental expense for FRL) will subsequently reduce by Rs.600 Cr. Further, FEL has ventured into new initiatives along with its leasing and fashion business, pertaining to Data Mining and Data Management for its group companies under the brand name 'Tathastu'. Along with data management business, the company has also extended its business to Financial Services, Payments & Distribution model for Mutual Funds, NPS, Digital Gold, Insurance and other products. Acuité believes that FEL's business model is undergoing a transformation and its success in these new initiatives will determine its growth trajectory over the near to medium term.

## **About FERG:**

### **Future Retail Limited (FRL)**

Future Retail Limited (FRL), the flagship company of the Future Group (one of India's largest retailers), is engaged mainly in value retailing. FRL, the retail arm of Future Group, operates diverse and multiple retail formats namely Big Bazaar, FBB, Easy day, E-zone etc. As on December 2019, the company operates across 1,388 large and small format stores spread across 414 cities in India with an area of around 16.05 million sq. ft. and a mix format of large and small stores across Big Bazaar, Food Bazaar, Foodhall, ezone and others.

### **Future Enterprises Limited (FEL)**

FEL owns the physical assets and other retail infrastructure associated with the retail activity of FRL, apart from the strategic investments in various other companies in Future Group like Futurebazaar India Limited, Future Supply Chain Solutions Limited, and Future Media (India) Limited among others. Further, FEL is also engaged in e-retail, media ventures and global sourcing of food, fashion, footwear and others from international markets among other businesses. Mr. Kishore Biyani, key promoter continues to be associated with both, FEL and FRL. There are significant inter-company transactions between FRL and FEL pertaining to sale and purchases and lease rentals etc.

Both FRL and FEL are listed on stock exchanges and as per an announcement to the exchanges dated October 12, 2019, the assets to the tune of Rs.4000 Cr are expected to be transferred from FEL to FRL.

## **Key Rating Drivers**

### **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. As on December 2019 FRL, operates across 1,388 stores spread across 16.05 million square feet in 414 cities. There are around 394 large format stores (13.82 million square feet), 990 small format (2.20 million square feet) and 4 others. Further, the company has recently shut down its 162 store mainly from the small format segment which contributed 157 stores. The company has also 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. The group has also witnessed a growth in same store sales growth (SSSG) of around 6.8% in FY2019 over previous year.

FERG has witnessed a significant increase in other business such as Future Pay and Big Bazaar Profit Club. The total customer base stood at 13.5 mn in June 2019 as against 6 mn in June 2018. Further, the total number of members for Big Bazaar Profit Club has increased to 1 mn in December 2019 as against 0.3 mn in December 2018.

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 organized 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 the ability to raise funds from banks, institutional investors, capital markets and Fixed Deposits from public. Besides, the demonstrated fund raising ability in the domestic markets, FRL has recently raised \$500 million through 5 years bonds in the Singapore Market. These funds will be utilized for purchase of assets from FEL. Further, its borrowings comprises a mix of term

loans, debentures, foreign denominated bonds, commercial paper and working capital borrowings. The group has been able to access funds from retail investors which is evident from the success of its Fixed Deposit programme. The total Fixed Deposits outstanding as on February 20, 2020 is Rs.398 Cr. FERG has recently been able to bring in strategic investors like Amazon who are interested in participating in the organised retail space in India. As per the deal announced, there will be an initial investment of ~Rs.1500 Cr by Amazon in Future Coupons Limited, a company which will own ~7.3% stake in Future Retail Limited (FRL) after subscribing to the share warrants. Further, the deal will also provide a call option to Amazon to acquire all or part of Promoter's shareholding exercisable between 3rd to 10th year.

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. FEL has plans to divest its holdings partly or entirely in the non-life insurance business over the near to medium term. However, the distribution rights of the insurance companies are expected to be retained by FERG.

Acuite believes that, the management's continued ability to attract fresh investments by diluting stakes in operating companies and timely monetisation of its stake in Future Generali India Life Insurance Company Limited and Future Generali India Insurance Company Limited will be critical for sustaining a healthy credit profile.

## **Weaknesses**

### **• Elevated debt levels**

The tangible net worth of FERG stood at Rs. 7548 Cr as on 30 September, 2019. The gearing (debt to equity ratio) of FERG (combined) stood at 2.42 times (1.28 times as on 31 March, 2019) as on 30 September 2019. The total debt for FERG of Rs.18,294 Cr as on 30 September 2019, comprised term loans, debentures, working capital borrowings and Commercial Paper issuances. Further, the sharp rise in debt levels is on account of certain adjustments such as treatment of lease obligation as debt to comply with IND AS 116. Debt/EBITDA (annualised) on a standalone basis for FRL stood at 4.0 times for 6MFY2020 for FEL 4.4 times for 6MFY2020. Based on FY2019 figures, consolidated Debt/EBITDA stood at 3.7 times. Besides the on balance sheet borrowings, FERG has contractual commitments towards rentals (included as lease rental expenses in P&L) and asset purchase agreements for other companies.

With proposed takeover of assets by FRL from FEL coupled with adaption of IND AS 116, the Debt/EBITDA for the following year is expected to change for both the entities individually. However, on a group basis no major improvement is expected on Debt/EBITDA levels by March 2020, even after considering the deleveraging on account of Amazon deal. FERG is also focusing on optimising the interest cost and rebalancing the liability profile so as to achieve an elongation in the overall maturity of the debt. The management is now actively exploring avenues to monetise its investment in Insurance arms which will be partly utilised for the deleveraging.

In addition to the high debt in the operating companies, i.e., FERG, Acuite has also taken a note of the significant debt raised through pledge of promoter holdings. As on December 2019, only ~42 per cent and ~8 per cent of the promoter holding in FRL and FEL respectively was unencumbered. Further, as on 17 February 2020, the unencumbered level for FRL have increased to ~48 per cent. The high level of encumbrances inhibits the promoter's future financial flexibility. The promoters are exploring various options to monetise the group's assets and reduce the encumbered shareholding.

Acuite believes that timely deleveraging of the operating companies along with the significant reduction of debt at the promoter level will be a key monitorable.

### **• Susceptibility to spending patterns of consumers amidst 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. Further, 100% (or 51%) foreign direct investments (FDI) in single brand retail and multi brand retail may also 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.

Acuite notes that FERG is into a mass consumption segment which is relatively insulated from economic cyclicality. However, in the event of significant and sustained slowdown in the economic activity, the retail spends of the consumers are likely to be impacted which in turn could slow the growth trajectory for players like FERG.

### Liquidity Position: Adequate

FERG has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. FERG generated net cash accruals of Rs. 1824.42 Cr in FY2019 (PY: Rs. 829.95 Cr) while its maturing debt obligation were in the range of 138.27 Cr in FY2019. Further the cash accruals of FERG are estimated to remain at around Rs. 2000.00 Cr to Rs. 2500.00 Cr 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 70% to 75% over the last five months ended January, 2020. FERG has also been supporting its working capital requirements through Commercial Paper. The combined entity had maintained unencumbered cash and bank balance of Rs. 346.32 Cr as on 31 March, 2019. Further, the liquidity is also supported by profit shared by Bharti Family from the sales proceeds of shares held in FRL. The total receivables for FRL stood at ~Rs.672 Cr as on 31 March 2019. Acuite believes that the liquidity of FERG is likely to remain adequate over the medium term due to the nature of the retail business.

### Rating Sensitivities

- Significant delays in infusion of fresh equity and deleveraging of FERG
- Higher than expected increase in debt levels leading to deterioration in debt protection indicators
- Debt/EBTIDA for the combined entity higher than 2.75 times beyond September 2020 on an annualized basis
- Any adverse changes in government regulations that impact the competitiveness of FERG's retail business

### Material Covenants

None

### Outlook: Negative

Acuite believes that elevated debt levels will continue to have a bearing on the credit profile of FERG over the near to medium term. The high level of promoter level debt will also have an impact on the overall group's financial flexibility. The rating may be downgraded in case the debt levels don't see any progressive reduction and continue to put pressure on the debt protection indicators of FERG or if the operating performance is significantly below expectation. Further, the outlook may be revised to 'Stable' in case of significant improvement in capital structure by reduction in debt levels in FERG as well as in promoter level debt.

### About the Combined Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	21,609.90	19,829.07
PAT	Rs. Cr.	908.25	51.05
PAT Margin	(%)	4.20	0.26
Total Debt/Tangible Net Worth	Times	1.28	1.07
PBDIT/Interest	Times	3.19	2.13

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

None

**Any other information**

Not Applicable

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.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
30-Oct-2019	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 Programme	Short Term	50.00	ACUITE A1+ (Reaffirmed)
	Standalone Commercial Paper Programme	Short Term	25.00	ACUITE A1+ (Reaffirmed)
	Earmarked Commercial Paper Programme	Short Term	100.00	ACUITE A1+ (Reaffirmed)
	Commercial Paper Programme (Proposed)	Short Term	250.00	ACUITE A1+ (Reaffirmed)
	Commercial Paper Programme (Proposed)	Short Term	300.00	ACUITE A1+ (Reaffirmed)
	Standalone Commercial Paper Programme (Proposed)	Short Term	75.00	ACUITE A1+ (Reaffirmed)
	Standalone Commercial Paper Programme (Proposed)	Short Term	150.00	ACUITE A1+ (Reaffirmed)
	Non-Convertible Debentures (Proposed)	Long Term	200.00	ACUITE AA / Negative (Assigned)
20-Feb-2019	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 Programme	Short Term	50.00	ACUITE A1+ (Reaffirmed)
	Standalone Commercial Paper Programme	Short Term	25.00	ACUITE A1+ (Reaffirmed)
	Earmarked Commercial Paper Programme	Short Term	100.00	ACUITE A1+ (Reaffirmed)
	Commercial Paper Programme (Proposed)	Short Term	250.00	ACUITE A1+ (Reaffirmed)
	Commercial Paper Programme (Proposed)	Short Term	300.00	ACUITE A1+ (Reaffirmed)
	Standalone Commercial Paper Programme (Proposed)	Short Term	75.00	ACUITE A1+ (Reaffirmed)
	Standalone Commercial Paper Programme (Proposed)	Short Term	150.00	ACUITE A1+ (Reaffirmed)
08-Feb-2019	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 Programme	Short Term	50.00	ACUITE A1+ (Reaffirmed)
	Standalone Commercial Paper Programme	Short Term	25.00	ACUITE A1+ (Reaffirmed)
	Earmarked Commercial Paper Programme	Short Term	100.00	ACUITE A1+ (Reaffirmed)
	Commercial Paper Programme (Proposed)	Short Term	250.00	ACUITE A1+ (Reaffirmed)
	Commercial Paper Programme (Proposed)	Short Term	300.00	ACUITE A1+ (Reaffirmed)
	Standalone Commercial Paper Programme (Proposed)	Short Term	75.00	ACUITE A1+ (Reaffirmed)
	Standalone Commercial Paper Programme (Proposed)	Short Term	150.00	ACUITE A1+ (Assigned)
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 Programme	Short Term	50.00	ACUITE A1+ (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+ (Reaffirmed)
	Earmarked Commercial Paper Programme (Proposed)	Short Term	650.00	ACUITE A1+ (Reaffirmed)
01-Sept-2017	Standalone Commercial Paper Programme (Proposed)	Short Term	450.00	ACUITE A1+ (Stable)
	Earmarked Commercial Paper Programme (Proposed)	Short Term	650.00	ACUITE A1+ (Stable)

**\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Standalone Commercial Paper Programme	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A1+ (Reaffirmed)
Standalone Commercial Paper Programme	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A1+ (Reaffirmed)
Standalone Commercial Paper Programme	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A1+ (Reaffirmed)
Standalone Commercial Paper Programme	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A1+ (Reaffirmed)
Standalone Commercial Paper Programme	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A1+ (Reaffirmed)
Standalone Commercial Paper Programme	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A1+ (Reaffirmed)
Standalone Commercial Paper Programme	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A1+ (Reaffirmed)
Earmarked Commercial Paper Programme	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A1+ (Reaffirmed)
Commercial Paper Programme (Proposed)	Not Applicable	Not Applicable	Not Applicable	250.00	ACUITE A1+ (Reaffirmed)
Commercial Paper Programme (Proposed)	Not Applicable	Not Applicable	Not Applicable	300.00	ACUITE A1+ (Reaffirmed)
Standalone Commercial Paper Programme (Proposed)	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A1+ (Reaffirmed)
Standalone Commercial Paper Programme (Proposed)	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE A1+ (Reaffirmed)
Non-Convertible Debentures (Proposed)	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE AA / Negative (Reaffirmed)

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### About Acuité Ratings & Research:

Acuité Ratings & Research Limited (*erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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