

Press Release

Future Retail Limited

April 02, 2020

Rating Downgraded



Instruments Rated*	Rs. 1400.00 Cr
Short Term Rating	ACUITE A1 (Downgraded; Under Watch with Negative Implications)
Instruments Rated*	Rs. 200.00 Cr
Long Term Rating	ACUITE A+ (Downgraded; Under Watch with Negative Implications)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the short-term rating to '**ACUITE A1**' (read as **ACUITE A one**) from '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs. 1400.00 Cr commercial paper programme of FUTURE RETAIL LIMITED. The rating is placed '**Under Watch with Negative Implications**'.

Acuité has downgraded the long-term rating of to '**ACUITE A+**' (read as **ACUITE A plus**) from '**ACUITE AA**' (read as **ACUITE double A**) on the Rs. 200.00 Cr proposed Non-Convertible Debentures of FUTURE RETAIL LIMITED. The rating is placed '**Under Watch with Negative Implications**'.

Reasons for downward revision in the rating

The downward revision in the ratings is primarily driven by the ongoing challenges faced by the Future Group in maintaining adequate liquidity buffers commensurate with its near term debt obligations. The group's retail operations have been severely impacted on account of the ongoing COVID – 19 crisis and such disruption in operations is expected to continue atleast over the next 2-3 weeks even in the best case scenario. This has led to significant decline in the operational cash flows of the group. The group has near term debt obligations which not only includes bank facilities but also Non-Convertible Debentures and Commercial Papers obligations. However, the group is in talks with various lenders/investors/stakeholders for the deferment of the payments.

Acuité understands that the group has approached its consortium lenders for release of additional limits to tide over the current liquidity pressures. The timely release of these additional lines by the lenders will partially mitigate the near term liquidity pressures of the group. Further, the promoter's financial flexibility has been significantly impaired due to the recent decline in the stock prices of the key listed group companies. The exchanges have been notified with regard to invocation of shares by the trustee on behalf of certain lenders. The promoters are presently exploring legal options to avoid any major dilution in their stake.

Against the uncertain backdrop of COVID – 19, Acuité believes that the company's operational performance will be significantly impaired over at least 1-2 quarters even in the event of the timely resumption of operations post the lockdown period. Further, the quick restoration of supply chain may also pose a challenge. The continuing domestic economic slowdown which has significantly aggravated by the Covid-19 led disruption may have a prolonged impact on the retail spending patterns and on the revenues of Future Group. Therefore, FERG may face considerable headwinds in attaining expected profitability and revenue growth for FY2021 and consequently near to medium term debt protection metrics are expected to be under pressure.

Watch with Negative Implications

Acuité believes that the outbreak of COVID – 19 followed by lockdown situation in the country has led to considerable impact on the operational performance and the liquidity position of the group. The top management of the group has been in discussion with the various lenders, investors and other stakeholders to mitigate the impact of these events on their timely debt servicing. The recent Reserve Bank of India (RBI)

announcement on a three month loan moratorium framework has enabled banks to extend certain concessions to their borrowers who have been impacted by the COVID – 19 outbreak. The stance of the lenders in this regard will be critical. The timely support from the lenders in extending the due dates (for both fund based and non-fund based facilities) will be critical to maintenance of stable credit profile.

In the opinion of Acuité, the exact magnitude of the impact on liquidity is difficult to ascertain at the juncture. In the event of the group demonstrating the ability to successfully alter its liability profile by deferring its due dates with the concurrence of lenders/investors, Acuité will initiate necessary action to resolve the watch. Acuité will be closely monitoring the developments regarding the ongoing discussions with banks, other debt investors and creditors. The occurrence of any credit events in such a situation could impart a further negative bias towards the rating.

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.

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 in a long term period. Acuite believes that while FERG's operational performance over the near term may be impacted on account of outbreak of COVID – 19 and the lockdown situation across the country, and the headwinds faced both on the demand and supply side. However, from a medium to long term perspective FERG will benefit from its established presence across the country.

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 as on 30 September 2019 (1.28 times as on 31 March, 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.

The proposed transfer of assets from FEL to FRL is not expected to significantly impact the Debt/EBITDA on a consolidated basis for FY2020. The sale of non-core assets could also be impacted on account of the ongoing crisis. Acuite had initially envisaged an improvement in debt protection indicators for FY2021 after factoring in the operational cash flows and proceeds from disposal of non-core assets. Acuite now believes that the immediate impact of COVID – 19 outbreak on the group's operations and the secondary impact in terms of demand slowdown will preclude the possibility of any major improvement in the debt protection indicators over FY2021. Any significant impact on the debt coverage indicators or significant increase in debt level and deterioration in EBITDA would impart a negative bias towards the rating.

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. The high level of encumbrances coupled with significant decline in the share prices of FRL and FEL has inhibited the promoter's future financial flexibility.

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 timely revival of consumer spending amidst the ongoing economic slowdown; COVID -19 like calamities and intense competition impose near term challenges**

FERG has a significant presence in grocery segment, the business profile is linked to level of retail spending. Any improvement in the economic parameters such as per capita income, high level of disposable income, improved job creation etc. leads to higher level of retail spending. Conversely, in the event of prolonged economic slowdown due to myriad factors like natural calamities, there could be job losses and consequently slowdown in retail spending by the consumers. While the challenges will be more acute in the discretionary segments, even players like Future Group who cater to the products of mass consumption will not be insulated from these economic events. The competition in the retail segment will have a bearing on the future growth trajectory of such players.

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 cyclicity. 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

The liquidity buffers of FERG is currently impacted and the stress is expected to continue till the restoration of normalcy in the group's operations. The group has significant near term debt obligations both towards banks and capital market instruments. The management is in discussions with the lenders/investors to seek a deferment of the debt obligations and to ensure the timely servicing of the debt. The stance of the lenders and investor will be critical in this regards. Acuite will be closely monitoring the developments regarding the ongoing discussions with banks and other debt investors.

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
- Possible challenges faced from lenders and investor in deferment of debt obligation

Material Covenants

None

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

None

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
28-Feb-2020	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 (Reaffirmed)
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 (Downgraded; Under Watch with Negative Implications)
Standalone Commercial Paper Programme	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A1 (Downgraded; Under Watch with Negative Implications)
Standalone Commercial Paper Programme	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A1 (Downgraded; Under Watch with Negative Implications)
Standalone Commercial Paper Programme	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A1 (Downgraded; Under Watch with Negative Implications)

					Watch with Negative Implications)
Standalone Commercial Paper Programme	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A1 (Downgraded; Under Watch with Negative Implications)
Standalone Commercial Paper Programme	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A1 (Downgraded; Under Watch with Negative Implications)
Standalone Commercial Paper Programme	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A1 (Downgraded; Under Watch with Negative Implications)
Earmarked Commercial Paper Programme	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A1 (Downgraded; Under Watch with Negative Implications)
Commercial Paper Programme (Proposed)	Not Applicable	Not Applicable	Not Applicable	250.00	ACUITE A1 (Downgraded; Under Watch with Negative Implications)
Commercial Paper Programme (Proposed)	Not Applicable	Not Applicable	Not Applicable	300.00	ACUITE A1 (Downgraded; Under Watch with Negative Implications)
Standalone Commercial Paper Programme (Proposed)	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A1 (Downgraded; Under Watch with Negative Implications)
Standalone Commercial Paper Programme (Proposed)	Not Applicable	Not Applicable	Not Applicable	150.00	ACUITE A1 (Downgraded; Under Watch with Negative Implications)
Non-Convertible Debentures (Proposed)	Not Applicable	Not Applicable	Not Applicable	200.00	ACUITE A+ (Downgraded; Under Watch with Negative Implications)

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