

### Future Enterprises Limited (FEL)

Instrument	Amount (Rs. Crore)	Rating/Outlook
Non-convertible Debentures (Proposed)	300.00	SMERA provisional AA (SO)/Stable (Assigned) *

\* Credit enhancement on account of structured payment mechanism in the form of Debt Service Reserve Account (DSRA).

\* The assigned provisional rating will be converted to final rating after the required conditions are met

SMERA has assigned rating of '**SMERA provisional AA (SO)**' (**read as SMERA provisional double A Structured Obligation**) to the Rs.300.00 crore proposed non-convertible, secured, redeemable, taxable debenture issue of Future Enterprises Limited (FEL). The outlook is '**Stable**'. The rating is driven by SMERA's assessment of the credit profile and credit enhancement in the form of DSRA, wherein FEL is to maintain funding support equivalent to at least 12 months interest payment on the outstanding non-convertible debentures (NCDs) at all times. This will be in the form of fixed deposits with banks or 'AAA' rated liquid bonds (as acceptable to SMERA) or a bank guarantee in favour of the trustee to be in force for the entire tenure of the NCDs.

To arrive at the rating, 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 strong operational and financial linkages.

The combined entity benefits not only from the established track record and extensive experience of the promoters in retail but also from its leading position in organised retail in India and pan India presence across multiple formats. The credit profile is supported by its strong resource mobilisation ability. The management's continuous focus on improvement of the financial risk profile by monetisation of non- core investments and reduction of debt levels is expected to improve the credit profile of the combined entity over the medium term.

The credit profile is however constrained by moderate profitability and gearing level. SMERA expects the profitability to improve in the near to medium term due to economies of scale and rationalisation of costs. The debt to equity ratio stood at 1.22 times as on March 31, 2016. The credit profile is also constrained by the group's presence in the fragmented and intensely competitive retail sector.

The rating is provisional and the final rating is subject to the execution of a trust deed (with a SEBI registered trustee) that will clearly lay down the legal payment mechanism as also the rights and obligations of various parties involved in the issuance document structure for the proposed issue. This will remain in force for the tenure of NCD's, irrespective of the demerger, merger or restructuring in FEL.

The rating centrally factors in the adherence to a specific legal payment mechanism (credit enhancement in the form of DSRA) to be administered by the trustees of the NCD. The trust and retention account (TRA) is to be funded one working day in advance (T-1) in case of fixed deposits and two working days in advance (T-2) in case of bank guarantee. In case of 'AAA' rated liquid bonds, it will be three working days in advance (T-3) for servicing debenture holders on the forthcoming due date T, and ensure that the trustee is intimated about the clear funds. If FEL fails to do so, the payment will be made good through liquidation of fixed deposits by due date, bank guarantee (invocation by T-1) or 'AAA' rated liquid bonds (invocation by T-2).

### Rating Sensitivity Factors

- Sustained improvement in revenues and profitability
- Improvement in capital structure and coverage indicators
- Successful monetisation of non-core investments as envisaged
- Debt funded capital expenditure (capex) or acquisitions
- Successful execution and continued adherence to credit enhancement mechanism

### Outlook: Stable

SMERA believes that FEL 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 an adverse movement in the company's gearing or debt servicing metrics vis a vis our expectations, due to large debt funded capex/acquisitions, significantly lower cash flows from operations or challenges in monetising its non-core investments.

### Criteria applied to arrive at the ratings:

- Consolidation

### 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 home, electronics and value retailing. Till FY2014-15, E-FRL was engaged in retail operations as well as owned the infrastructure assets associated with the 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 all the infrastructure assets would be owned by FEL.

On October 31, 2015 (appointed date), E-FRL acquired Bharti Retail Limited (BRL) in an all-stock deal. The retail operations of E-FRL merged with Bharti Retail Limited's (BRL) retail operations and subsequently the name of the entity 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 in the stores) apart from strategic investments in various companies. FRL operates all the retail formats. Mr. Kishore Biyani continues to be associated as a promoter of both, FEL and FRL. As on March 31, 2016, FRL operates 738 stores with 12.96 Mn. Sq.Ft. spread across 221 cities. It includes 218 Big Bazaar stores, 320 Easy Day, 92 E-Zone, 43 Home Town and rest other formats.

On a standalone basis, for FY2015-16, FEL (excluding subsidiaries, joint ventures and associates) and FRL together reported net profit after tax (PAT) of Rs.26.38 crore on operating income of Rs.14,613.00 crore. The tangible net worth stood at Rs.4,930.00 crore as on March 31, 2016.

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**ABOUT SMERA**

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