

Press Release

White Circle Mercantile Private Limited (WCMPL)

16 September, 2017



Rating Assigned

Total Instruments Rated*	Rs.110.00 Cr
Long Term Rating	SMERA provisional AA-/Stable (SO) # (Assigned)

*Refer Annexure for details

#Credit Enhancement on account of structured payment mechanism and waterfall in Escrow account.

#The assigned provisional rating will be converted to final rating after the required conditions are met.

Rating Rationale

SMERA has assigned rating of '**SMERA provisional AA-/Stable (SO)**' (read as **SMERA provisional double A minus Structured Obligation**) on the Rs.110.00 crore proposed non-convertible, secured, redeemable debenture (NCD) issue of White Circle Mercantile Private Limited (WCMPL). The outlook is '**Stable**'.

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 that are part of the issuance document structure for the proposed issue.

Incorporated in 2010, WCMPL acquires and deals in property, equipments, and assets. The current transaction for which the NCDs are proposed to be raised, envisages discounting of lease rentals under a lease arrangement with Future Retail Limited (FRL). WCMPL (lessor) is leasing various movable assets such as plant and machinery, furniture and fixtures, computers for retail outlets of FRL. Apart from the lease agreement with FRL, the company also trades in furniture and fixtures, albeit on a small scale.

Analytical Approach: SMERA has considered the standalone financial and business risk profile of WCMPL and factored in the benefits emanating from the presence of a strong counterparty, FRL. The promoters of FRL will be executing an undertaking for timely payment of lease rentals under the lease arrangement. Other than the support from FRL, SMERA has also considered credit enhancement in the form of structured payment mechanism and waterfall in Escrow account. Any change in the credit profile of FRL will be a key rating sensitivity.

List of key rating drivers and their detailed description

Strengths:

Strong credit profile of counterparty FRL: The rating factors in the strong credit profile of WCMPLs lessee i.e. Future Retail Limited (FRL) (*SMERA A1+ for commercial paper*). FRL is the largest player in organised retail in India with 893 stores in 246 cities aggregating 13.50 mn square feet of retail space on a pan India basis. This includes highly popular chains such as Big Bazaar, Food Bazaar, Home Town, and E-Zone. The business risk profile is also supported by the operational advantages due to established backend infrastructure provided by Future Enterprises Limited (FEL), the entity that owns most of the infrastructure required for retail operations. In

addition to their demonstrated acumen in organised retail trade, the promoters, Mr. Kishore Biyani and Mr. Rakesh Biyani have an established track record of raising capital from equity markets, private equity, and other sources. The promoters will be providing personal undertakings for the proposed NCDs for assuring performance of lessee which supports the credit profile of WCMPL. The redemption of these debentures will be effected through sale of the underlying assets to FEL. The commitments to buy these assets at the agreed price will be disclosed in the financial statement of FEL.

For FY2016-17, FRL reported net profit after tax (PAT) of Rs.365.59 crore on operating income of Rs.17,075.09 crore. The tangible net worth stood at Rs.2,085.00 crore as on 31 March, 2017.

For FY2016-17, FEL reported net profit after tax (PAT) of Rs.54.83 crore on operating income of Rs.4,485.45 crore. The tangible net worth stood at Rs.3,794.65 crore as on 31 March, 2017.

Structured payment mechanism with waterfall in escrow account and obligation to buy lease assets: WCMPL has entered into a lease agreement with Future Retail Limited (FRL) for equipment/movable assets leasing. Presently, these equipments have been financed by way of , term loan of Rs.150.00 crore (outstandings Rs.108.52 crore as on August 31, 2017). WCMPL proposes to refinance the term loan of Rs. 150.00 crore with non -convertible debentures (NCD) of Rs. 110.00 crore by September 2017.

The proposed NCD issue has an escrow mechanism with waterfall arrangement with priority for regulatory payments and debt (interest + principal) servicing. The balance can be utilised for other purposes. Besides this, the NCD issue terms include structured payment mechanism for timely servicing of debt wherein, FRL will ensure that the account is adequately funded to meet scheduled interest payment obligation at T-1 day (T being due date).

Further, as per the conditions stipulated, Future Enterprises Limited (FEL) shall have the obligation to buy the assets and pay the amount in four equal quarterly installments beginning from the end of first quarter from the completion of five years from the deemed date of allotment of NCDs. The right in the assets shall be transferred only on the receipt of final installment by FEL. Further, as per the put option, in case FEL expresses its inability to buy the assets, FRL shall have put option to compulsorily buy the assets from the company at the agreed price. The agreed price should not be less than outstanding debt obligations (interest and principal) and other statutory dues.

Comfortable debt servicing ability: WCMPL has comfortable debt servicing ability with adequate lease rentals for payment of interest and principal on term loan. The interest coverage ratio (ICR) stood at 2.86 times and debt service coverage ratio (DSCR) stood at 1.15 times in FY2017. The existing lease agreement is expected to be revised to align the lease payments with the revised interest outgo of NCDs. The DSCR is expected to be maintained at a minimum of 1.10 times.

Weaknesses:

Susceptibility of future cash flows of WCMPL to the counterparty's performance under the lease arrangements:

The net worth of WCMPL stood low at Rs. 20.56 crore as on 31 March, 2017 (Provisional). The gearing (debt to equity ratio) stood at 5.71 times (PY: 6.93 times) as on 31 March, 2017. The total debt of Rs.117.34 crore as on 31 March 2017, comprises term loan.

WCMPL presently derives most of its cash flows from the existing lease arrangement and has limited cash flows from its trading activity. Out of the total revenue of Rs. 97.94 crore, ~Rs. 42.00

crore of revenue is generated from trading activity. The company does not have major investments/non core assets that can generate liquidity. Against this backdrop, the company's ability to meet its obligations under the NCDs will be dependent on the continued and timely flow of rentals under the lease arrangement. The occurrence of events such as delays in receipt of rentals, or early exits/renegotiation by lessee may result in disruption of cash flow streams, thereby affecting the debt servicing ability of WCMPL.

Analytical approach: as mentioned above

Applicable Criteria

- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

About the Rated Entity - Key Financials

For FY2016-17 (Provisional), WCMPL reported net profit after tax (PAT) of Rs.0.36 crore on operating income of Rs.97.94 crore as against PAT of Rs. 0.47 crore on operating income of Rs. 66.56 crore. The tangible net worth stood at Rs.20.56 crore as on 31 March, 2017 as against Rs. 20.20 crore as on 31 March, 2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years: Not Applicable

***Annexure - Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate (Per cent)	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Non-convertible debentures (Proposed)	NA	NA	NA	110.00	SMERA provisional AA-/Stable (SO) (Assigned)

Note on complexity levels of the rated instrument: <https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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