Press Release

Taquito Lease Operators Private Limited

May 22, 2020

Rating Downgraded

Total Instruments Rated*	Rs.255.00 Cr.
Long Term Rating	ACUITE BBB+ (CE) (Downgraded; Under Rating watch with Negative Implications)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long term rating to **'ACUITE BBB+ (CE)' (read as ACUITE triple B plus (Credit Enhancement))** from **'ACUITE A- (CE)' (read as ACUITE A minus (Credit Enhancement))** on the Rs. 255 cr. Non-Convertible Debentures of TAQUITO LEASE OPERATORS PRIVATE LIMITED (TLPL). The rating continues to remain under **'Watch with Negative Implications**.

Analytical Approach

For arriving at the rating, Acuité has considered the standalone business and financial risk profile of the TLPL and notched it up based on Letter of Comfort from Future Group (FERG)^. The promoters of FRL (ACUITE A / A1 (Watch with negative implications)) have executed undertaking for timely payment of lease rentals under the lease arrangement and proposed takeover of asset at the time of maturity of rated instrument by FEL (ACUITE A / FA / A1 (Watch with negative implications)). The rating of FERG will be central to the rating of TLPL and any further revision in the rating of FERG shall entail revision in the rating of TLPL.

^FERG comprises of Future Retail Limited (FRL) and Future Enterprises Limited (FEL)

Reason for Downward revision in the rating and rating action of 'Watch with Negative Implications'

Acuité had, vide its release dated, 08 April, 2020, revised the rating on instruments and facilities of TLPL to ACUITE A- and kept the rating on Watch with Negative Implications. TLPL has significant linkages with FERG. The downward revision was primarily driven by the recent revision in the ratings on instruments of FERG. FERG has been facing significant challenges in maintaining adequate liquidity buffers commensurate with its near term debt obligations. Acuité is in touch with the group officials to obtain clarity on the development regarding operations and the liquidity management.

As per the last announcements in the first week of May, 2020, Central Government had announced plans for moderate relaxation of lockdowns in Orange and Green Zones followed by announcement made on May 17, 2020 wherein the Government has announced plans to further relax the lockdown in all the three zones. This is expected to provide relief to players like FERG as the revenue momentum will pick up once the stores in these zones become operational. TLPL's revenues are mainly derived from the association from Future Group entities. However, TLPL's standalone business and financial risk profile is subdued and is highly dependent on FERG for its timely debt repayments. Further, Acuité draws comfort from TLPL's low yearly debt obligations to the tune of Rs.24 crore. TLPL does not have any principal repayment until FY2023. Any further downward revision in rating of FERG will impose negative bias towards the rating of TLPL. Notwithstanding these announcements, Acuité believes that attaining normal optimum scale of operations would be a gradual process with challenges both on the demand side as well on the supply side.

Acuité believes that in the event of further deterioration in liquidity profile of FERG, the management may be required to accord higher priority to their on-balance sheet debt of FRL and FEL. Any adverse credit events of FERG would impart a negative bias to the rating of FERG which in turn will have implications on the credit profile of TLPL.

Unsupported (Standalone) Rating

ACUITE BB-

About the company

Incorporated in 2012, TLPL has leased out certain fixed assets required for retail operations of FERG. It derives its revenues mainly from lease rentals from the Future Group.

Key Rating Drivers

Strengths

- **Strong presence of the Group**

The rating factors in strong and established presence of the FERG in retail segment. TLPL is a part of FEG and its lessee being Future Retail Limited (FRL) (ACUITE A / A1 (Watch with negative implications)). FRL is the flagship company of the Future Group engaged in the retail of household and consumer products through departmental store facilities under various formats in India. It 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.

The business risk profile is also supported by the operational advantages due to the established backend infrastructure provided by Future Enterprises Limited (FEL) (ACUITE A / FA / A1 (watch with negative implications)), 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.

Acuité believes that TLPL will continue to receive support from the Future Group. Additionally, rating also factors in support in the form of personal undertakings provided by the promoters (Mr. Kishore Biyani, Mr. Vijay Biyani and Mr. Rakesh Biyani) for the NCDs for assuring performance of lessee which supports the credit profile of TLPL. The redemption of these debentures will be effected through sale of the underlying assets to FEL.

Weaknesses

- **Susceptibility of future cash flows of TLPL to the counterparty's performance under the lease arrangements**

The net worth of TLPL stood at Rs.46.98 crore as on 31 March 2019 as against Rs. 110.85 crore as on 31 March, 2018. The deterioration in tangible net worth of the company is majorly on account of net loss incurred by the company and increase in intangible asset during FY2019. The gearing (debt to equity ratio) has subsequently deteriorated to 5.37 times as on 31 March 2019 from 2.40 times as on 31 March, 2018. The total debt of Rs.252.45 crore as on 31 March, 2019 comprised non-convertible debentures (NCDs). TLPL presently derives its cash flows from the existing lease arrangement with FRL. The company has been in trading activities on an intermittent basis. However, in FY2019, there are no trading activities and cash flows are only from existing lease arrangement with FRL. The revenues of the company stood at Rs.37.21 crore in FY2019 as against Rs.298.69 crore in the previous year. 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 TLPL. Any further deterioration in liquidity profile of FERG will impart a negative bias towards the rating of TLPL.

Liquidity position

TLPL's liquidity will be driven by support from the Future Group. TLPL is highly dependent on the timely flow of rental from FRL for servicing its debt obligations. However, Acuité also notes that the company does not have any principal repayment in next 2 years. The redemptions of NCDs will start from FY2023 which will be supported by the promoter group's ability for infusion of funds for repayment of maturing debt obligations.

Rating Sensitivities

- Credit profile of FERG

Material Covenants

- DSCR to be maintained at 1.10x

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	37.21	298.69
PAT	Rs. Cr.	(11.44)	0.09
PAT Margin	(%)	(30.73)	0.03
Total Debt/Tangible Net Worth	Times	5.37	2.40
PBDIT/Interest	Times	1.42	2.42

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-52.htm
- Infrastructure Entities - https://www.acuite.in/view-rating-criteria-51.htm
- Explicit Credit Enhancements - https://www.acuite.in/view-rating-criteria-49.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
08-Arpil-20	Non-convertible debentures	Long term	255.00	ACUITE A- (CE) (Downgraded; Watch with Negative Implications)
	Non-convertible debentures (Proposed)	Long term	45.00	ACUITE A- (CE) (Downgraded & Withdrawn)
23-May-19	Non-convertible debentures	Long term	255.00	ACUITE AA- (CE) / Stable (Reaffirmed)
	Non-convertible debentures (Proposed)	Long term	45.00	ACUITE AA- (CE) / Stable (Reaffirmed)
17-May-18	Non-convertible debentures	Long term	255.00	ACUITE AA- (CE) / Stable (Assigned)
	Non-convertible debentures (Proposed)	Long term	45.00	ACUITE AA- (CE) / Stable (Assigned)
16-Sept-2017	Non-convertible debentures (Proposed)	Long term	300.00	Provisional ACUITE AA- (CE) / Stable (Assigned)

*Annexure – Details of instruments rated

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
INE496Z07016	Non-convertible debentures	04/05/2018	9.5%	03/05/2024	255.00	ACUITE BBB+ (CE) (Downgraded; Under Watch with Negative Implications)

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About Acuité Ratings & Research:
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