

Press Release

Suhani Trading and Investment Consultants Private Limited

30 December, 2017



Rating Assigned

| | |
|---------------------------|------------------------------------|
| Instruments Rated* | Rs. 700.00 Cr. |
| Long term Rating | SMERA Provisional AA- (SO)/Stable# |

*Refer Annexure for details

Credit enhancement on account of structured payment mechanism and Escrow mechanism

SMERA has assigned long term rating of '**SMERA Provisional AA- SO**' (read as **SMERA provisional double A minus structured obligation**) to the Rs. 700.00 crore Proposed Non-Convertible Debenture (NCD) issue of Suhani Trading and Investment Consultants Private Limited (STICPL). The outlook is '**Stable**'.

The rating on the Rs. 700.00 crore proposed debentures is provisional and the final rating is subject to:

- (a) Execution of a trust deed (with a SEBI registered trustee) that lays down the legal payment mechanism as also the rights and obligations of various parties for proposed issue.
- (b) Confirmation from the debenture trustee that pledge has been created as per the term sheet.
- (c) Confirmation from the debenture trustee regarding execution of personal guarantees and compliance with other terms and conditions as per the termsheet.

The provisional rating is valid for 90 days and SMERA reserves the right to alter/modify/withdraw the rating any time prior to 90 days, if such an action is deemed fit.

About the Issuer (STICPL):

Suhani Trading and Investment Consultants Private Limited (STICPL) was incorporated in 2007. The company is an investment company for the promoters of the Future Group and held 47.70 per cent shares of Future Retail Limited (FRL) as on 31 March 2017. STICPL is engaged in the trading of fabrics and other allied services.

STICPL is in the process of merger with six other companies that hold shares in the Future Group of companies.

List of key rating drivers and their detailed description:

Strengths:

Rating driven by structured payment mechanism, pledge of shares in Future Retail Limited and Future Lifestyle Fashion Limited

The proposed NCDs will be secured by a pledge of shares of Future Retail Limited and Future Lifestyle Fashion Limited with an asset coverage of 1.5 times the of the facility amount. Apart from the asset coverage, the term sheet reflects the timelines for funding of the account, tolerance for any slippages below the stipulated asset coverage, timelines for top up and

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invocation of pledge etc. The rating factors in the adherence to a timely payment and escrow mechanism to be administered by the trustees to the NCD.

Long track record and established position of the Future Group in organised retail trade

The Future Group (Future Retail Limited, Future Enterprises Limited and Future Lifestyle Fashion Limited) benefits from the established track record and extensive experience of the promoters in retail. The promoters are supported by a strong management team with significant experience in retail. Mr. Kishore Biyani, the founder and Group CEO of the Future group, is widely recognised as a pioneer of organised retail in India.

Future Retail Limited (FRL) the retail arm of Future Group, operates retail formats namely Big Bazaar, FBB, Easy day, E-zone etc. FRL utilises the infrastructure owned by Future Enterprises Limited. FRL reported net profit of Rs. 368.28 crore on operating income of Rs. 16686 crore for FY2016-17.

Future Enterprises Limited (FEL) houses the physical assets apart from strategic investments in various group companies. FEL is also engaged in the manufacturing of garments for men, women and kids. FRL reported net profit of Rs. 43.56 crore on operating income of Rs. 3105.03 crore for FY2016-17.

Future Lifestyle Fashion Limited (FLFL) markets fashion brands through exclusive brand outlets, department stores and multi brand outlets, as well as company operated chains such as Central, Brand Factory and Planet Sports. FLFL reported net profit of Rs. 45.67 crore on operating income of Rs. 3800.44 crore for FY2016-17.

SMERA believes that the Future group will benefit from its established position in organised retail and proven strategy of scaling up operations through a mix of organic and inorganic initiatives.

Weaknesses

Debt servicing linked to timely refinancing/infusion of funds by the promoters

STIPCL functions as an investment vehicle of the promoter of Future Group. It is in the process of raising funds based on pledge of shares held as investments and these companies are primarily investment companies with limited revenue streams. It is in the process of a merger with six other group companies that are other functional investment companies. Since the operational cash flows would be inadequate to service the debt obligation, it is expected that the Future group shall either infuse funds for timely servicing of debt and/or arrange for timely refinancing.

Going forward, infusion of funds from Future Group, refinancing or timely liquidation of its investments to support servicing of debt will remain the key rating sensitivity.

Risk arising from adverse movement in stock prices

The rating is based on the structured payment mechanism and pledge of shares of FRL and FLFL. As per the term sheet the issuer has to maintain minimum asset coverage of 1.5 times of the facility amount. The ability of the promoters to maintain the asset coverage will be central to rating. Since the stock market is volatile, occurrence of events such as slowdown in FII flows, sharp depreciation in domestic currency, political events, and other such macroeconomic events, can cause decline in stock prices. Additionally, company specific factors can also

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influence movements in stock prices. This risk is mitigated by stipulation of caps on promoter's borrowings based on shares. However, sharp and continuous decline in share prices could potentially lead to challenges in adhering to the covenants.

Analytical approach: SMERA has considered credit enhancement in the form of escrow mechanism and pledge of shares of Future Retail Limited and Future Enterprises Limited while arriving at the rating.

Applicable Criteria

- Securitised Transactions-<https://www.smera.in/criteria-securitization.htm>
- Trading Entities-<https://www.smera.in/criteria-trading.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Outlook – Stable

SMERA believes that the company will maintain a stable outlook over the medium term owing to its association with the Future Group and sizeable liquid investment portfolio. The outlook may be revised to 'Positive' if the company scales up operations while improving operating profitability and successfully able monetises its liquid and illiquid investments, thus reducing the debt of the company. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve scalability and profitability or delays in receipt of support from promoters of the Future Group or lower than expected returns on the liquidation of investments.

About the Rated Entity – Key Financials

| | Unit | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 0.31 | 0.26 | 0.26 |
| EBITDA | Rs. Cr. | (0.06) | (0.05) | (0.09) |
| PAT | Rs. Cr. | (1.26) | (0.04) | (0.09) |
| EBITDA Margin | (%) | (20.62) | (18.63) | (35.93) |
| PAT Margin | (%) | (412.15) | (16.06) | (33.32) |
| ROCE | (%) | (0.03) | 0.13 | (0.38) |
| Total Debt/Tangible Net Worth | Times | 1.12 | (204.97) | (80.42) |
| PBDIT/Interest | Times | (14.59) | 0.43 | (0.35) |
| Total Debt/PBDIT | Times | (3285.70) | 1224.05 | 527.43 |
| Gross Current Assets (Days) | Days | 1776702 | 17109 | 858 |

Status of non-cooperation with previous CRA (if applicable): None

Any other information: None

Rating History for the last three years: NA

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***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings |
|-------------------------------------|------------------|----------------|----------------|-------------------------------|--|
| Proposed Non-Convertible Debentures | Not Applicable | Not Applicable | Not Applicable | 700.00 | SMERA Provisional AA- (SO)/Stable (Assigned) |

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ABOUT SMERA

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