

Press Release

Future Market Networks Limited

July 17, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 100.00 Cr.
Long Term Rating	ACUITE A- / Outlook: Stable

* Refer Annexure for details

Corrigendum: *In the Press Release published on March 20, 2018 the 'PAT' figures included 'Other comprehensive income' which was not captured earlier. This press release incorporates the above.*

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE A-** (read as **ACUITE A minus**)' on the Rs. 100.00 crore bank facilities of Future Market Networks Limited. The outlook is '**Stable**'.

Future Market Networks Limited, a part of the Future Group, was incorporated in 2008 by Future Group. FMNL is primarily the holding company for the retail space and warehouse assets of the Group. FMNL owns and manages retail real estate assets, most of which have been leased to the companies of the Future Group. FMNL also provides services such as housekeeping, mall promotions, security and parking services which helps it to earn revenue from Common Area Maintenance (CAM). The company is also engaged in the business of taking large spaces in malls and commercial spaces on lease and further sub-leasing them to both group and non-group tenants. FMNL owns four malls at Mumbai, Siliguri, Kolkata and Madhya Pradesh which has an aggregate developed area of 1.2 million sq. ft.

Key Rating Drivers

Strengths

- **Strong support from the Future Group**

Acuite believes that FMNL will receive strong support from the Future Group given its strategic importance to the retail conglomerate. FMNL provides real estate infrastructure and allied services to the group companies which are critical to maintain the latter's market position and competitiveness in the retail industry. Further, control and ownership of retail assets is an important element in the expansion strategy of any growing retail business. FMNL also shares the group name and is fully owned by the promoters and the group companies, thereby reinforcing the moral obligation to provide support. FMNL being a Group Company and having adequate technical and commercial expertise, shall be in a position to leverage its strength to acquire further retail space to enhance its portfolio. Additionally, the Group has also provided a letter of comfort to demonstrate its support for FMNL. This envisages that the group will take all necessary steps to ensure that the rated entity meets all its obligations under the available bank facilities.

As the current cash flows of FMNL may be inadequate, Acuite believes that timely support from Future Group will be critical to maintain the debt service commitments of FMNL and also to undertake refinancing of such debt.

Weaknesses

• Moderate financial risk profile

The financial risk profile of FMNL is moderate marked by net worth of Rs. 179.48 Cr. as on 31 March 2017 as against Rs. 186.03 Cr. as on 31 March 2016. While the gearing has slightly improved from 2.07 times as on 31 March 2016, it is relatively high at 1.91 times as on 31 March 2017. The total debt of Rs. 343.34 Cr. outstanding as on 31 March 2017 comprises Rs. 161.92 Cr. as term loan from the banks, Rs. 174.50 Cr. as unsecured loans from other parties and Rs. 6.92 Cr. as short term bank borrowings. FMNL has incurred losses due to high interest and financial costs and its debt protection metrics are below average.

• Susceptibility of margins to risks associated with real estate segment

FMNL owns 4 malls at Mumbai, Siliguri, Kolkata and Ujjain. It owns an aggregate developed area of 1.2 million sq. ft. and manages another 0.8 million sq. ft. of retail space through its subsidiaries/joint ventures. Since these malls are the primary source of cash flow for FMNL, the steady flow of rentals from these four malls is critical to the credit profile of FMNL. The rental revenues from malls will be influenced by factors like demand for retail space in Mumbai, Siliguri, Kolkata and Bangalore respectively which in turn will be based on factors such as level of retail spending. In the event of factors like slowdown in retail spending, the demand for retail property will be impacted. This in turn will affect future rental flows and also translate to risks like early exits/ renegotiation by clients. FMNL will therefore remain vulnerable to economic cycles as they derive their entire revenue from leasing out commercial spaces, which is linked to spending pattern of consumers.

Analytical Approach

Acuite has considered the consolidated approach to evaluate the credit quality of FMNL and subsequently considered the support from the Future Group to arrive at the final ratings.

Outlook: Stable

Acuite believes that FMNL will maintain a stable outlook over the medium term on account of its strong linkages and high support expectations from the Future Group. The outlook may be revised to 'Positive' in case the company exhibits healthy growth in cash accruals while curtailing exposure to other entities and managing its working capital requirements efficiently. Conversely, the outlook may be revised to 'Negative' in case of any dilution of support from the Future Group or any significant deterioration in the financial risk profile and liquidity position of the company.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	87.40	89.87	156.86
EBITDA	Rs. Cr.	19.05	30.41	31.06
PAT*	Rs. Cr.	(30.40)	111.04	(78.07)
EBITDA Margin	(%)	21.80	33.83	19.80
PAT Margin	(%)	(34.78)	123.56	(49.77)
ROCE	(%)	2.96	15.62	(0.54)
Total Debt/Tangible Net Worth	Times	1.91	2.07	14.92
PBDIT/Interest	Times	0.95	2.38	0.53
Total Debt/PBDIT	Times	8.30	2.90	18.80
Gross Current Assets (Days)	Days	1,491	825	679

* PAT includes other comprehensive income.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation of Entities - <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loan I	Not Applicable	Not Applicable	Not Applicable	25.65	SMERA A-/Stable (Assigned)
Term loan II	Not Applicable	Not Applicable	Not Applicable	70.00	SMERA A-/Stable (Assigned)
Proposed long term facility	Not Applicable	Not Applicable	Not Applicable	4.35	SMERA A-/Stable (Assigned)

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About Acuité Ratings & Research:

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