

Press Release

Future Market Networks Limited

June 04, 2020



Rating Downgraded & Withdrawn

Total Instruments Rated*	Rs. 35.00 Cr.
Long Term Rating	ACUITE BBB (Downgraded & Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded and withdrawn the long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE A-**' (read as **ACUITE A minus**) to the Rs. 35.00 Crore bank facilities of FUTURE MARKET NETWORKS LIMITED (FMNL). The rating has been withdrawn on account of request received from the company and No dues Certificate received from the banker.

Reason for Downward revision in the rating

FMNL 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 last week of May, 2020, Central Government had announced plans for relaxation of lockdowns 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. FMNL's revenues are mainly derived from the association from Future Group entities. However, FMNL'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 no current external borrowings of FMNL. 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.

About the company

Incorporated in 2008, FMNL is a part of the Future Group promoted by the Biyani family. FMNL is engaged in the mall leasing business and manages the retail real estate portfolio of the group. The company holds a total space of 1105613 sq ft, which in turn is leased out within the future group and also to companies outside the group. Out of the total revenues, FMNL generates ~15 per cent of the revenues from its owned properties and the rest is by way of sub-leasing. The company also provides services such as housekeeping, mall promotions, security and parking services which helps it to earn revenue from Common Area Maintenance (CAM).

Analytical Approach

Acuité has considered the consolidated approach of FMNL and its subsidiaries to evaluate the credit quality of FMNL and subsequently considered the support from the Future Group (FERG) to arrive at the final rating.

Key Rating Drivers

Strengths

- **Strong support from the Future 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.

Acuite believes that FMNL will continue to receive 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 are 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.

Weaknesses

- **Moderate financial risk profile**

The financial risk profile of FMNL is moderate marked by net worth of Rs. 185.43 Cr. as on March 31, 2019 as against Rs. 179.49 Cr. as on March 31, 2018. The gearing levels improved to 0.83 times as on March 31, 2019 against 1.32 times as on March 31, 2018. The total debt outstanding as on March 31, 2019 of Rs. 153.99 Cr. comprises term loans from banks of Rs. 36.92 Cr. and Rs. 117.07 Cr. as unsecured loans from promoter group companies.

- **Exposed to real estate dynamics with respect to leased properties**

FMNL operates three mall spaces spanning ~565000 sq. ft in Mumbai, Kolkata and Siliguri which are taken on lease and in turn subleased. Majority of the revenues derived from this segment is from tenants outside the group company. Since these malls are the primary source of cash flow for FMNL, the steady flow of rentals from these three malls is critical to the credit profile of FMNL. The rental revenues from malls will be influenced by factors such as demand for retail space in these areas which in turn will be based on factors such as level of retail spending. In the event of factors such as slowdown in retail spending, the demand for retail property will be impacted which in turn is expected to impact the 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 the spending pattern of consumers.

Liquidity Position:

The Liquidity profile of FMNL will continue to be moderate over the near term and the same is also supported by the promoter group's ability for infusion of funds that has been reflected in the past from repayment of maturing debt obligations.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	109.22	84.30
PAT	Rs. Cr.	9.50	(14.58)
PAT Margin	(%)	8.70	(17.30)
Total Debt/Tangible Net Worth	Times	0.83	1.32
PBDIT/Interest	Times	2.91	1.64

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>
- Entities in Real Estate - <https://www.acuite.in/view-rating-criteria-63.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation of companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
18-June-2019	Term Loan I	Long Term	25.65	ACUITE A- (Withdrawn)
	Term Loan II	Long Term	35.00	ACUITE A- (Withdrawn)
	Term Loan II	Long Term	35.00	ACUITE A- / Stable (Reaffirmed)
	Proposed facility	Long Term	4.35	ACUITE A- (Withdrawn)
17-July-2018	Term Loan I	Long Term	25.65	ACUITE A- / Stable (Assigned)
	Term Loan II	Long Term	70.00	ACUITE A- / Stable (Assigned)
	Proposed facility	Long Term	4.35	ACUITE A- / Stable (Assigned)
20-March-2018	Term Loan I	Long Term	25.65	ACUITE A- / Stable (Assigned)
	Term Loan II	Long Term	70.00	ACUITE A- / Stable (Assigned)
	Proposed facility	Long Term	4.35	ACUITE A- / Stable (Assigned)

***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 II	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BBB (Downgraded & Withdrawn)

Contacts

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About Acuité Ratings & Research:

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