

## Press Release

### Future Brands Limited

January 08, 2019

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 806.25 Cr.
<b>Long Term Rating</b>	ACUITE A+ / Outlook: Stable

\* Refer Annexure for details

### Rating Rationale

Acuité has assigned long-term rating of '**ACUITE A+**' (read as **ACUITE A plus**) on the Rs. 806.25 crore bank facilities of FUTURE BRANDS LIMITED. The outlook is '**Stable**'.

Future Brands Limited (FBL) was incorporated in 2006 and is a part of Future group of companies - one of India's largest retailers. FBL is 98.06 per cent owned by Future Ideas Company Limited and Surplus Finvest Private Limited as on 31 March, 2018 (Future group companies). It is a brand & Intellectual Property right company which focuses on creating, developing, managing, nurturing and acquiring brands.

FBL provides consulting and market research services to other Future Group companies for expansion of the brands under their portfolio. FBL operates on a licensing model and partners with licensees to expand its portfolio of brands across new categories, markets and retail formats. Besides licensing, FBL advises global and Indian companies on conceptual and operational brand challenges and offers them insights & knowledge-based brand solutions.

FBL currently holds the licenses to 31 brands including John Miller, BARE, DJ&C, Fresh & Pure, Lombard, Srishti, IQIP, Knighthood, KORYO, Rig etc. across fashion, electronics and FMCG formats. Two major licensees include Future Retail Limited (rated ACUITE A1+) and Future Lifestyle Fashion Limited. As on March 31, 2018, FBL has two subsidiaries, DMA Yellow Works Ltd. (DMA) and D&H Blurb Communication Ltd. (D&H) which have specialized expertise in brand identity, mass media, advertising, design and retail design solutions.

### Analytical Approach

Acuité has considered the standalone approach to evaluate the credit quality of FBL and subsequently considered the support from the Future Group to arrive at the final ratings.

## Key Rating Drivers

### Strengths

#### • Strong support from the Future Group and established position in organised retail trade

Future Brands Limited is a brand & Intellectual Property right company which focuses on creating, developing, managing, nurturing and acquiring brands. FBL also provides consulting and market research services to other Future Group companies for expansion of the brands under their portfolio which are critical to maintain the latter's market position and competitiveness in the retail industry. All the brands owned by FBL are mainly sold through various retail formats of the Future group such as Central, Big Bazaar, Brand Factory, Food Bazaar, etc. The nation-wide presence of various retail formats of the Future group ensures that FBL's brands are also assured a national presence. Further, control and ownership of the brands is an important element in the expansion strategy of any growing retail business. FBL also shares the group name and is fully owned by the promoters and the group companies, thereby reinforcing the moral obligation to provide support.

FBL being a Group Company and having adequate technical and commercial expertise shall be in a position to leverage its strength to acquire more brands to enhance its portfolio. Furthermore, in case of new brands acquired or developed by FBL, the group's pan-India presence will help FBL to roll out its products faster on a nation-wide basis.

Acuité believes that FBL will be able to leverage the strong market position of Future group in order to acquire or develop new brands and roll out its products faster on PAN India basis.

#### • Experienced management

FBL promoted by Future Group, is led by Mr. Santosh Desai, the Managing Director and CEO who was earlier the president of McCann-Erikson, one of India's premier advertising agencies. Mr. Desai has an experience of more than 2 decades in advertising and has been strategically involved in brand building for various local and multinational clients. Ms. Ashni Biyani joined FBL in 2007 and is involved in the innovation and incubation cell of the Group, through which she has led multiple initiatives related to Big Bazaar, Food Bazaar and launch and operations of the Holii brand.

Thus the management of FBL is quite experienced in the consulting and market research fields and has considerable expertise in creating, developing, managing, nurturing and acquiring brands and providing consultancy services to various companies.

#### Weaknesses

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

FBL is a brand & Intellectual Property right company which focuses on creating, developing, managing, nurturing and acquiring brands and also provides consulting and market research services to other Future Group companies for expansion of the brands under their portfolio. It is in process of raising funds based on support through future group of companies for purchase of various new brands. 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.

#### • Moderate financial risk profile

The financial risk profile of FBL is moderate marked by tangible net worth of Rs. 300.56 Cr as on 31 March, 2018 (PY: Rs. 298.92 Cr). The gearing (debt/equity ratio) stood moderate at 1.17 times as on 31 March, 2018 (PY: 1.55 times). The gearing has improved on account of repayments of the secured term loan as per scheduled repayments in FY2018 over FY2017. The gearing is expected to increase in the near to medium term as the company plans to raise additional loan for purchase of various new brands. The total debt of Rs. 334.43 Cr outstanding as on 31 March, 2018 comprise of Rs. 333.62 Cr as secured long term loan and Rs. 0.81 Cr as short term borrowings. The interest coverage ratio improved to 2.59 times in FY2018 (PY: 1.67 times) on account of reduction in debt levels resulting in lower interest cost in FY2018 over FY2017. The total outside liabilities to tangible net worth (TOL/TNW) stood at 1.97 times as on 31 March, 2018 (PY: 2.14 times) on account of high trade payables and security deposits received from one of the group company.

#### Outlook: Stable

Acuité believes that the company will maintain a stable outlook over the medium term owing to its strong linkages 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 deleveraging the balance sheet through monetizing its investments. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve scalability and profitability or there are delays in receipt of support from promoters of the Future Group.

#### About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	165.17	209.31	168.47
EBITDA	Rs. Cr.	60.96	114.78	89.22
PAT	Rs. Cr.	1.63	1.28	2.14
EBITDA Margin	(%)	36.91	54.84	52.96
PAT Margin	(%)	0.99	0.61	1.27
ROCE	(%)	3.67	9.91	14.12
Total Debt/Tangible Net Worth	Times	1.11	1.55	2.63
PBDIT/Interest	Times	2.59	1.67	1.87
Total Debt/PBDIT	Times	5.46	3.92	5.78
Gross Current Assets (Days)	Days	965	858	1037

#### 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>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-8.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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 loans	Not Applicable	Not Applicable	Not Applicable	206.25	ACUITE A+ / Stable
Proposed Term loans	Not Applicable	Not Applicable	Not Applicable	590.00	ACUITE A+ / Stable
Proposed Overdraft	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A+ / Stable

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**About Acuité Ratings & Research:**

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