

Press Release

Future Brands Limited

March 11, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.806.25 Cr.
Long Term Rating	ACUITE A+ (CE) / Outlook: Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE A+ (CE)**' (read as **ACUITE A+ (Credit Enhancement)**) on the Rs.806.25 Cr. bank facilities of Future Brands Limited (FBL). 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, 2019 (Future group companies). It 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. 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 such as Colgate Palmolive India Limited, Eicher Motors Limited, Tata Motors Limited among others on conceptual and operational brand challenges and offers them insights & knowledge-based brand solutions.

FBL currently holds the licenses to 40 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 AA / Negative / A1+) and Future Lifestyle Fashion Limited. As on March 31, 2019, 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.

Unsupported (Standalone) Rating

ACUITE BB

Analytical Approach

Acuite has considered the standalone business and financial risk profile of FBL to arrive at the rating. Acuite has also factored in support from Future Group to arrive at the rating.

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.

Acuite 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. Further, the credit profile of Future Group will remain a key monitorables and any weakening in credit profile of Future Group will impart a negative bias towards the credit rating of FBL.

• 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 two 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

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 for various business purposes and purchase of new brands. However, the company is also expected to sell few brands and/or liquidate its investments in case the operational cash flows are inadequate for servicing the debt obligation. It is also expected that the Future Group shall either infuse funds for timely servicing of debt and/or arrange for timely refinancing.

• Moderate financial risk profile

The financial risk profile of FBL is moderate marked by tangible net worth of Rs. 374.38 Cr as on 31 March, 2019 (PY: Rs. 300.56 Cr). The tangible net worth of the company comprises of compulsory convertible debentures of Rs.169.55 Cr. and unsecured loans from promoters and others of Rs.129.90 Cr. as on 31 March 2019. The gearing (debt/equity ratio) stood moderate at 1.20 times as on 31 March, 2019 (PY: 1.11 times). 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. 447.50 Cr outstanding as on 31 March, 2019 comprise of secured long term loan. The interest coverage ratio improved to 2.97 times in FY2019 (PY: 2.59 times) on account significant improvement in profitability of the company in FY2019 over FY2018. The operating profit of the company has improved to 75.75 per cent in FY2019 from 36.91 per cent in FY2018. The increase in operating profitability is on account of increase in royalty income and closure of trading income. Further, the total outside liabilities to tangible net worth (TOL/TNW) stood at 1.67 times as on 31 March, 2019 (PY: 1.97 times).

Liquidity position

FBL's liquidity will be driven by support from the Future Group. The repayments in FY2019 has been supported by infusion of unsecured loans and liquidation of loans and advances towards its group companies. The liquidity profile of FBL is also expected to be supported from sell of brands and liquidation of its investments towards its group companies. Further, in case of shortfall in repayments, the company's ability to refinance these term loans/timely sell of brands/liquidation of investments and/or timely infusion of funds from Future Group will be a key rating sensitivity factor.

Rating Sensitivities

- Credit Profile of Future Group
- Timely liquidation of investment and/or proceed received from sale of brands

Material Covenants

- None

Outlook: Stable

Acuite believes that the company will maintain a stable outlook over the medium term owing to its strong linkages with the Future Group. 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	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	146.48	165.17
PAT	Rs. Cr.	33.08	1.63
PAT Margin	(%)	22.59	0.99
Total Debt/Tangible Net Worth	Times	1.20	1.11
PBDIT/Interest	Times	2.97	2.59

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 Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Explicit Credit Enhancements - <https://www.acuite.in/view-rating-criteria-49.htm>
- Criteria For Group And Parent Support - <https://www.acuite.in/view-rating-criteria-47.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-Jan-2019	Term Loans	Long term	206.25	ACUITE A+ /Stable (Assigned)
	Proposed Term loans	Long term	590.00	ACUITE A+ /Stable (Assigned)
	Proposed Overdraft	Long term	10.00	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 loans	23-09-2015	12.25%	15-09-2020	112.50	ACUITE A+ (CE) / Stable (Reaffirmed)
Term loans	26-03-2019	10.95%	31-03-2025	256.75	ACUITE A+ (CE) / Stable (Reaffirmed)
Term loans	31-12-2019	10.90%	31-12-2025	100.00	ACUITE A+ (CE) / Stable (Reaffirmed)
Proposed Bank Facilities	Not Applicable	Not Applicable	Not Applicable	337.00	ACUITE A+ (CE) / Stable (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

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