

Press Release
Future Brands Limited

May 18, 2020

Rating Downgraded



Total Instruments Rated*	Rs.806.25 Cr.
Long Term Rating	ACUITE BBB+ (CE) (Downgraded; Under Rating watch with Negative Implications)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long term rating to '**ACUITE BBB+ (CE)**' (**read as ACUITE triple B plus (Credit Enhancement)**) from '**ACUITE A- (CE)**' (**read as ACUITE A minus (Credit Enhancement)**) on the Rs. 806.25 Cr. bank facilities of **FUTURE BRANDS LIMITED (FBL)**. The rating continues to remain under '**Watch with Negative Implications**'.

Analytical Approach

For arriving at the rating, Acuité has considered the standalone business and financial risk profile of FBL and notched it up based on Letter of Comfort from Future Group (FERG)[^]. The rating of FERG will be central to the rating of FBL and any revision in the rating of FERG shall entail revision in the rating of FBL.

[^]FERG comprises of Future Retail Limited (FRL) (ACUITE A / A1 (Under Watch with Negative Implications)) and Future Enterprises Limited (FEL) (ACUITE A / A1 / FA (Under Watch with Negative Implications))

Reason for Downward revision in the rating

Acuité had, vide its release dated, 16 April, 2020, revised the rating on instruments and facilities of FBL to ACUITE A- and kept the rating on Watch with Negative Implications. FBL 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 first week of May, 2020, Central Government had announced plans for moderate relaxation of lockdowns in Orange and Green 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. This is expected to provide some relief to players like FBL as the company derives its revenues in form of royalty income. FBL derives majority of its revenues from FRL and Future Lifestyle Fashion Limited (FLFL) as royalty income for around 40 brands owned by FBL. 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.

Acuité believes that in the event of further deterioration in liquidity profile of FERG, the management may be required to accord higher priority to their on-balance sheet debt of FRL and FEL. Any adverse credit events of FERG would impart a negative bias to the rating of FERG which in turn will have implications on the credit profile of FBL.

Unsupported (Standalone) Rating

ACUITE BB-

About the company

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 A / A1 (Under Watch with Negative Implication)) 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.

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. 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

- Susceptibility of future cash flows of FBL to the counterparty's performance and timely support from FERG**

The net worth of FBL stood at 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 total debt of Rs. 447.50 Cr outstanding as on 31 March, 2019 comprise of secured long term loan. FBL presently derives its majority cash flows from FRL and FLFL. The company has been in trading activities on an intermittent basis. However, in FY2019, there are no trading activities and cash flows are only from royalty income and consultancy business. The revenues of the company stood at Rs.146.48 Cr in FY2019 as against Rs.165.17

crore in the previous year. Going ahead, the company's revenues are likely to impact on account outbreak of COVID – 19 followed by lockdown situation across the country. The company's revenues are highly dependent on Fashion business of FEG. The lockdown has led to temporary halt in the sales of all the products besides essential commodities. This expected to impact the revenue and profitability of the company in FY2021. However, the exact magnitude of the impact on the cash flows is yet to be ascertained at the current juncture. Against this backdrop, the company's ability to meet its debt obligations will be dependent on the receipt of loans and advances from group companies and support from FERG. The occurrence of events such as delays in receipt of loans and advances, timely support from FERG may result in disruption of cash flow streams, thereby affecting the debt servicing ability of FBL. Any further deterioration in liquidity profile of FERG will impart a negative bias towards the rating of FBL.

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. With expected drop in cash flows of FY2021, FBL's dependence on FERG will further increase. 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 FERG
- Timely liquidation of investment and/or proceed received from sale of brands

Material Covenants

- None

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>
- 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
16-Apr-20	Term loans	Long term	112.50	ACUITE A- (CE) (Downgraded; Under Watch with Negative Implications)
	Term loans	Long term	256.75	ACUITE A- (CE) (Downgraded; Under Watch with Negative Implications)
	Term loans	Long term	100.00	ACUITE A- (CE) (Downgraded; Under Watch with Negative Implications)
	Proposed Bank Facilities	Long term	337.00	ACUITE A- (CE) (Downgraded; Under Watch with Negative Implications)
11-Mar-20	Term Loan	Long term	112.50	ACUITE A+ (CE) / Stable (Reaffirmed)
	Term Loan	Long term	256.75	ACUITE AA- (CE) / Stable (Reaffirmed)
	Term Loan	Long term	100.00	ACUITE A+ (CE) / Stable (Reaffirmed)
	Proposed Bank facilities	Long term	337.00	ACUITE A+ (CE) / Stable (Reaffirmed)
08-Jan-19	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. Crore)	Ratings/Outlook
Term loans	23-09-2015	12.25%	15-09-2020	112.50	ACUITE BBB+ (CE) (Downgraded; Under Watch with Negative Implications)
Term loans	26-03-2019	10.95%	31-03-2025	256.75	ACUITE BBB+ (CE) (Downgraded; Under Watch with Negative Implications)
Term loans	31-12-2019	10.90%	31-12-2025	100.00	ACUITE BBB+ (CE) (Downgraded; Under Watch with Negative Implications)
Proposed Bank Facilities	Not Applicable	Not Applicable	Not Applicable	337.00	ACUITE BBB+ (CE) (Downgraded; Under Watch with Negative Implications)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (*Erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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