

Future Supply Chain Solutions Limited
March 26, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating²	Rating Action
Long term Bank Facilities- Fund Based	97.00	CARE A+ (Single A Plus) (Credit watch with negative implications)	Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable); Placed on credit watch with negative implications
Long-term Bank Facilities- Term Loan	50.00	CARE A+ (Single A Plus) (Credit watch with negative implications)	Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable); Placed on credit watch with negative implications
Short term Bank Facilities- Non Fund Based	22.00	CARE A1 (A One) (Credit watch with negative implications)	Revised from CARE A1+; (A One Plus); Placed on credit watch with negative implications
Total	169.00 (Rupees One hundred sixty nine crore only)		
Short-term Instrument - Proposed Commercial Paper Issue *	10.00	CARE A1 (A One) (Credit watch with negative implications)	Revised from CARE A1+; (A One Plus); Placed on credit watch with negative implications
Short-term Instrument - Proposed Commercial Paper Issue *	40.00	CARE A1 (A One) (Credit watch with negative implications)	Revised from CARE A1+; (A One Plus); Placed on credit watch with negative implications
Non-Convertible Debentures	199.00	CARE A+ (Single A Plus) (Credit watch with negative implications)	Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable); Placed on credit watch with negative implications

*carved out of working capital limits;
 Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has revised the Long Term and Short Term ratings assigned to the bank facilities/instruments of Future Supply Chain Solutions Limited (FSC) and placed the ratings under 'Credit Watch with Negative Implications'.

The rating action follows a sharp decline in the share prices of the Future group companies which has impacted the overall financial flexibility of the group and restricted the ability to raise further capital. The rating action was also triggered by the likely adverse impact of the nationwide lockdown for a period of 21 days starting from March 25, 2020. The spread of the coronavirus has picked up pace over the last few weeks in India and in light of this, it was extremely difficult to control the contagion without drastic measures which thereby resulted in Government imposing this country wide lockdown for 21 days. FSC has also closed its other warehouses other than those which store food products, staples

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

and essential commodities which are exempt from the lockdown. CARE also notes that around 65% of the revenues of FSC are obtained from Future Group companies whose business operations are also under immense pressure due to the ongoing coronavirus crisis. Thus, the coronavirus crisis has created a ripple effect on the entire value chain that supports the business operations of the Future Group of which FSC forms a quintessential part.

CARE shall be continuously monitoring the coronavirus crisis and its impact on the business, financial risk profile and liquidity position of the company during this period. CARE may remove the ratings from watch, and would take a final action on the ratings once clarity emerges on these issues.

The borrowings of the company significantly increased as FSC availed a fresh loan Rs. 225 crore in the month of September 2019 to incur the capex requirements of the company with respect to India Food Grid (IFG) which are however progressing slower than what was envisaged due to the ongoing economic slowdown. IFG is a network of 38 Integrated Food Distribution Centres (IFDC) across strategic locations within India. The India Food Grid will provide pan-India distribution reach, right from the manufacturing hubs till the points of consumption. Increase in borrowings along with reduced profitability and lower than envisaged cash accruals has the potential to further leverage the capital structure of FSC.

Fresh equity infusion of Rs. 252 crore also happened in December 2019 whereby Nippon Express, Japan acquired 22% stake in FSC. Despite this, CARE expects the overall gearing and debt protection metrics as at end FY20 to be higher than previous estimates and expectations.

The rating of FSC draws support from strong parentage of Future Group which is headed by Mr. Kishore Biyani, vastly experienced management, wide spread logistical network, operational synergies with group companies and potential benefits and opportunity to further expand its footprint in the global logistics business due to its new association with a reputed global logistics player Nippon Express, Japan. The ratings also consider the comfortable capital structure and debt coverage indicators along with adequate liquidity. FSC had been continuing to incur losses in the acquired 'last mile delivery business' carried out in its subsidiary Vulcan Express Pvt. Ltd (VEPL). However CARE notes that the company has exited from this business by selling it at a loss.

The ratings are tempered by the client concentration risk with significant dependence on Future Group, increasing debt, deterioration in market capitalization of the Future Group companies and weakness in the macro-economic scenario due to the coronavirus pandemic.

Key Rating Sensitivities

Positive

- Significant improvement in the gearing of the company can be positive for the ratings.
- Improvement in profitability along with strengthening of the capital structure across the Future group entities, and improved financial flexibility for the group could also impact the rating of FSC favorably.

Negative

- Further decline in the credit profile of the group due to the impact of coronavirus crisis
- Decline in revenue by 20% and lower than envisaged cash accruals with DSCR of less than 1.5x could constrain the company's debt repayment capability. This would also be primarily dependent on how long the coronavirus crisis prolongs.

Detailed description of the key rating drivers

Key Rating Strengths

Strong promoter group and experienced management

FSC is a part of Future Group (FG), with the flagship company of group Future Retail Limited (FRL). The group is headed by Mr. Kishore Biyani and has business interest across various sectors such as retail, FMCG, logistics, financial services etc. The promoters are supported by an experienced & qualified management team.

Equity Infusion by Nippon Express, Japan

In December 2019, Nippon Express (South Asia & Oceania) Pte. Ltd— a subsidiary of Nippon Express, Japan acquired 22% stake in FSC through a mix of primary and secondary issuance. The capital will be used to fund FSC's near-term growth plans. Through this partnership, Nippon Express and FSC are expected to derive significant synergies given their complementary skill sets and services offering, and gain a deeper foothold in the large and growing Indian logistics sector. The investment would allow Nippon Express and FSC to expand and explore logistics requirement across sectors in the

Indian market. The deal would also help FSC access Nippon Express' Japanese and MNC clients for exploring new business opportunities in India, especially for third-party and express logistics operations

Stable operating performance; exited from loss making last mile delivery business

The company has been able to increase its scale of operations largely by increasing its ground level presence by way of adding new distribution centres. Also, the company's efforts towards adding new services have led to overall growth of the company. The total operating income of FSC has increased by 31% from FY18 to FY19 led by improving revenue contribution both from group companies (65% in FY19) and addition of new customers outside the future group in sectors such as tyres, lubricants etc. FSC also had a subsidiary named Vulcan Express Private Limited (VEPL), which was in the last mile delivery business. The operations were found unviable due to extremely low pricing model and competition in the segment and hence this subsidiary was divested at a loss leading to FSC reporting a PAT loss of Rs. 42.10 crore in Q3FY20 (Standalone). In the nine months ended 31st Dec 2019, FSC reported operating revenues of Rs. 894.90 crore and PBILDT of Rs. 186.50 crore

Capital structure although comfortable has been witnessing moderation and is expected to moderate further

In FY18 the company had converted its CCDs into equity leading to significant reduction in debt and improvement in coverage indicators. Debt coverage indicators had consequently improved significantly in FY18. However in FY19, the total debt outstanding has increased from Rs. 32.96 crore as on March 31, 2018 to Rs. 217.81 crore as on March 31, 2019 mainly due to issue of NCD of Rs. 199 crore and also due increase in working capital requirements. NCDs were raised for working capital, general corporate purposes and capex (warehouse infrastructure/equipment) for the company. Debt coverage indicators have also consequently undergone moderation with overall gearing increasing from 0.07x as on March 31, 2018 to 0.40x as on March 31, 2019. After loan of Rs. 225 crore was availed and equity infusion from Nippon was done, the overall gearing has increased to 0.72x as on December 31, 2019. In view of lower than envisaged profitability and cash accruals due to ongoing coronavirus crisis, the capital structure is expected to moderate further. The rating shall remain sensitive to elevated levels of debt in absence any commensurate infusion of equity.

Key Rating Weaknesses**Client concentration Risk**

There is a moderate client concentration risk as group companies contributed around 65% to revenue in FY19 (68% in FY18). FSC is strategically important for the group companies engaged in retail operations as the entire supply chain is managed by FSC. Therefore, although FSC has a fair amount of revenue visibility going forward owing to its importance to group companies, profitability margins in the future would also depend on its ability to cater to customers outside the group.

Increase in borrowings of the company

The borrowings of the company increased as FSC availed a fresh loan Rs. 225 crore in the month of September 2019 to incur the capex requirements with respect to India Food Grid (IFG) which are however progressing slower than what was envisaged due to the ongoing economic slowdown. Increase in borrowings along with reduced profitability and lower than envisaged cash accruals has the potential to further leverage the capital structure of FSC.

Coronavirus crisis and its resultant impact on the overall Future Group

In view of the national lockdown for 21 days starting March 25, 2020 to control the spread of coronavirus infection, FSC has closed its other warehouses except those which store food products, staples and essential commodities which are exempt. CARE also notes that around 65% of the revenues of FSC are obtained from Future Group companies whose business operations are also under immense pressure due to the ongoing coronavirus crisis. Their share prices have also witnessed a steep decline, which is in line with the concerns relating to global economic slowdown due to coronavirus outbreak. The weakening of market capitalization has impacted the financial flexibility of the group. Thus, the coronavirus crisis has created a ripple effect on the entire value chain that supports the business operations of the Future Group of which FSC is a quintessential part.

Liquidity

Adequate: FSC has a scheduled loan installment of Rs. 37.50 crore along with interest due on March 31, 2020, for which the company has confirmed that they have adequate cash balance and receivables lined up. CARE also notes that significant debt repayments (i.e. NCD redemption) of Rs. 99 crore and Rs. 100 crore fall due in September 2021 and September 2022 respectively. Average maximum utilization for the last 12 month period ending December 2019 stood at 64% and provides some liquidity back-up.

Analytical approach:

Consolidated. The below entity has been considered:

Name of Company	Relationship with FSC	% holding by FSC
Leanbox Logistics Solutions Private Limited	Associate	50%

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Rating Methodology - Service Sector Companies](#)

About the Company

Future Supply Chain Solutions Limited (FSC), incorporated in March 2006, is a Future Group company with a focus on providing supply chain solutions (for non-agro products) to its group companies (anchor customers) as well as to outside companies. Future Group has wide presence in retail, consumer finance, insurance, leisure and entertainment, brand development, retail real estate development, retail media and logistics.

FSC provides integrated end-to-end logistics solutions for supply chain management, and offers warehousing and distribution, multi-modal transportation and container freight stations. As of December 31 2019, FSC operations are run through 100+ distribution centres across India, covering 8.01 million ft² of warehouse space across India with an average capacity utilisation at 93%.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	937.80	1228.42
PBILDT	96.69	126.88
PAT	30.47	61.53
Overall gearing (times)	0.07	0.40
Interest coverage (times)	6.04	7.11

A-Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	97.00	CARE A+ (Under Credit watch with Negative Implications)
Non-fund-based - ST-BG/LC	-	-	-	22.00	CARE A1 (Under Credit watch with Negative Implications)
Term Loan-Long Term	-	-	Mar-2024	50.00	CARE A+ (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures		10.15% pa	Sep-2022	199.00	CARE A+ (Under Credit watch with Negative Implications)
Commercial Paper-Commercial Paper (Carved out)	-	-	-	10.00	CARE A1 (Under Credit watch with Negative Implications)

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Carved out)	-	-	-	40.00	CARE A1 (Under Credit watch with Negative Implications)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	97.00	CARE A+ (Under Credit watch with Negative Implications)	1)CARE AA-; Stable (29-Aug-19)	1)CARE AA-; Stable (14-Mar-19) 2)CARE AA-; Stable (25-Jul-18)	1)CARE A; Stable (29-Aug-17)	1)CARE A (03-Nov-16)
2.	Non-fund-based - ST-BG/LC	ST	22.00	CARE A1 (Under Credit watch with Negative Implications)	1)CARE A1+ (29-Aug-19)	1)CARE A1+ (14-Mar-19) 2)CARE A1+ (25-Jul-18)	1)CARE A2+ (29-Aug-17)	1)CARE A2+ (03-Nov-16)
3.	Term Loan-Long Term	LT	50.00	CARE A+ (Under Credit watch with Negative Implications)	1)CARE AA-; Stable (29-Aug-19)	1)CARE AA-; Stable (14-Mar-19) 2)CARE AA-; Stable (25-Jul-18)	1)CARE A; Stable (29-Aug-17)	-
4.	Debentures-Non Convertible Debentures	LT	199.00	CARE A+ (Under Credit watch with Negative Implications)	1)CARE AA-; Stable (29-Aug-19)	1)CARE AA-; Stable (20-Sep-18)	-	-
5.	Commercial Paper-Commercial Paper (Carved out)	ST	10.00	CARE A1 (Under Credit watch with Negative Implications)	1)CARE A1+ (29-Aug-19)	1)CARE A1+ (14-Mar-19)	-	-
6.	Commercial Paper-Commercial Paper (Carved out)	ST	40.00	CARE A1 (Under Credit watch with Negative Implications)	1)CARE A1+ (29-Aug-19)	1)CARE A1+ (14-Mar-19)	-	-

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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