

April 01, 2020

## Rural Fairprice Wholesale Limited: Update on Material Event, Rating downgraded to [ICRA]D

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	320.0	320.0	[ICRA]D; revised from [ICRA]BB+(CE) (Stable)
Non-convertible Debenture Programme	350.0	350.0	[ICRA]D; revised from [ICRA]BB+(CE) (Stable)
<b>Total</b>	<b>670.0</b>	<b>670.0</b>	

\*Instrument details are provided in Annexure-1

### Material Event

On March 26, 2020, ICRA received a communication from the debenture trustee regarding default by Rural Fairprice Wholesale Limited (RFWL) on acceleration of repayment of non-convertible debenture (NCD) of Rs. 670 crore. However as confirmed by the debenture trustee, there has not been any invocation of the guarantee.

### Rationale

The rating revision takes into account the default by RFWL on the accelerated repayment of Rs. 670 crore NCD (rated by ICRA) triggered by the event of default caused due to a sharp decline in the share price of Future Retail Limited (FRL) and inability of the company to top up the security cover. While these NCDs are backed by a corporate guarantee from Future Corporate Resources Private Limited (FCRPL), the debenture trustee has confirmed that the same has not been invoked. ICRA notes that the matter is currently sub-judice.

Further, despite the corporate guarantee from FCRPL for RFWL's NCD and bank lines, in ICRA's opinion, the rating does not benefit from credit enhancement.

### Key rating drivers and their description

#### Credit strengths – Not Applicable

#### Credit challenges

**Weak financial profile with high borrowing levels** – The company's financial profile is weak, with high borrowing levels mainly to support investments in Group ventures and fund its losses.

**Overall Group debt level remains high; pledge levels in various listed companies of the Group have also increased** – Despite monetisation of investments across various Group entities<sup>1</sup>, the total Group debt has

<sup>1</sup> After selling partial stakes in the general and life insurance businesses, Future Lifestyle Fashions Limited (FLFL) and entire stake in Skechers in FY2019, the Future Group witnessed investments from Blackstone (total investment of Rs. 1,750 crore – Rs. 545

increased as on December 31, 2019, as against March 31, 2019. ICRA notes the increase in debt is mainly on account of an increase in debt of the opcos, with the total debt at the Group's listcos increased to Rs. 12,778 crore as on September 30, 2019 from Rs. 10,951 crore as on March 31, 2019. With continued reduction in the share price of the Future Group listcos, the total Group debt<sup>2</sup> / market capitalisation has increased to 1.2 times as on March 16, 2020 from 0.4 times as on March 31, 2019. Furthermore, this has resulted in an increase in the pledged shareholding of the promoter Group, resulting in reduced financial flexibility. However, the Group also has investments in several unlisted entities, which provides an opportunity to monetise investments.

### Liquidity position: Poor

The company's liquidity profile is poor on account of its weak operating performance. The total debt as on December 31, 2019 is Rs 670 crore with sizeable debt repayment obligations of ~Rs. 320.0 crore and ~Rs. 350.0 crore in FY2022 and FY2023, respectively. The company is making minimal profits and just turned profitable in FY2019.

### Rating sensitivities

**Positive triggers** – The rating may be upgraded in case of improvement in the credit profile of the company and the Group, resulting in regularisation of debt servicing.

**Negative triggers** – Not Applicable.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent / Group Support	Not Applicable.
Consolidation / Standalone	The ratings are based on the standalone financial profile of the company

### About the company

Incorporated in September 2009, Rural Fairprice Wholesale Limited is a wholly-owned subsidiary of FCRPL, which is one of the holding companies of the Future Group. RFWL trades in all kinds of fashion, foods, fast moving consumer goods (FMCG) and other related products with the Future Group entities as well as others.

*crore towards secondary purchase of 6% stake in FLFL and Rs. 1,200 crore as zero coupon NCD in holdco of FLFL), Nippon Express (invested US\$ 50 million as primary equity and US\$ 50 million as secondary purchase in Future Supply Chain Solutions Limited), AION (invested Rs. 300 crore in FLFL) and Amazon (invested US\$ 200 million for 49% stake in Future Coupons Private Limited) during the current year. FCRPL's management has indicated further monetisation of investments in the near term to reduce the Group's overall debt.*

<sup>2</sup>Total debt as on December 31, 2019 (excluding impact of Ind-As) for the holdcos and total debt as on September 30, 2019 for the listcos

### Key financial indicators (audited)

	<b>FY2018</b>	<b>FY2019</b>
Operating Income (Rs. crore)	9.1	35.5
PAT (Rs. crore)	-7.6	0.0
OPBDIT/OI (%)	0.8%	0.1%
RoCE (%)	0.0%	0.0%
Total Outside Liabilities/Tangible Net Worth (times)	NM	NM
Total Debt/OPBDIT (times)	NM	NM
Interest Coverage (times)	0.0	NM
DSCR	NM	265.0

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

	Instru me nt	Rating (FY2020)						Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Current Rating	Earlier Rating	Earlier Rating	FY2019	FY2018			FY2017
					01-Apr-2020	20-Mar-2020	3-May-2019	7-Jan-2019	15-Feb-2018	1-Feb-2018	18-Jan-2018	-
1	NCD	Long-term	320.0	320.0	[ICRA]D	[ICRA]BB+ (CE) (Stable)	[ICRA] BBB(SO) (Negative)	[ICRA] BBB(SO) (Negative)	[ICRA] BBB(SO) (Stable)	[ICRA] BBB-(SO) (Stable)	Provisional [ICRA]BBB- (SO) (Stable)	-
2	NCD	Long-term	350.0	350.0	[ICRA]D	[ICRA]BB+ (CE) (Stable)	[ICRA]BBB (SO) (Negative)	-	-	-	-	-

Amount in Rs. crore; \*As on March 16, 2020

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE204Z07014	NCD	Jan-18	0.0%*	02-Apr-21	320.0	[ICRA]D
INE204Z07022	NCD	Apr-19	0.0%**	10-Jul-22	350.0	[ICRA]D

Source: Rural Fairprice Wholesale Limited

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