

May 09, 2017

Future Entertainment Private Limited

Summary of rated instruments

| Instrument* | Rated Amount (in Rs. crore) | Rating Action |
|----------------|--------------------------------|----------------------------------|
| Long-term loan | 175.00 | [ICRA]BBB- (stable); re-affirmed |

*Instrument details are provided in Annexure-1

Rating action

ICRA has re-affirmed the long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus)¹ assigned to the Rs. 175.00 crore² long-term loans of Future Entertainment Private Limited (FEPL or 'the company'). The outlook on the rating is 'stable'.

Rationale

The rating re-affirmation takes into consideration FEPL's strong management team, experienced in incubating, managing and nurturing brands, and the good sales track record of the licensed brands, which is expected to result in comfortable royalty income for the company. The rating also draws comfort from the synergies arising from FEPL being a part of the Future Group, by way of access to in-house retail outlets with pan-India presence and the financial support extended to the company in the form of equity and interest-free unsecured loans.

The rating is, however, constrained by the leveraged capital structure of the company. Furthermore, any delay in receipt of royalty income from the retail partners can strain the liquidity position of FEPL, given the single source of revenue stream for the company. ICRA also notes the intense competition in the apparel industry, which can impact the sale of the licensed brands and thus the corresponding royalty income for FEPL. However, the rating derives comfort from the strong track record and established presence of the Group companies in the retail space with a sizeable scale of operations and adequate credit profile.

Given the significant debt repayment obligations of the company and weak accruals, timely support from the promoter company remains critical.

Key rating drivers

Credit strengths

- Strong management team with extensive experience in incubating, managing and nurturing brands
- Good track record of its licensed brands, expected to result in comfortable royalty income
- Synergies arising by being part of the Future Group, by way of access to in-house retail outlets with pan-India presence, and financial support by way of equity infusion and interest-free loans

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

Credit weaknesses

- Highly leveraged capital structure
- Intense competition from other apparel brands, which could jeopardise brand sales and corresponding royalty income
- Any delay in receipt of royalty income can strain the liquidity position given the single source of revenue stream for the company

Description of key rating drivers:

FEPL is a step-down wholly-owned subsidiary of Future Corporate Resources Limited [FCRL, rated [ICRA]BBB- (stable)]. The company has signed a trademark licensing and assignment agreement with Future Brands Limited (FBL, a Group company), granting it the exclusive licence for using four trademarks of FBL, viz. SPUNK, BUFFALO, RIG and AFL, for a period of 10 years. FEPL has sub-licensed these trademarks to two retail partners - Future Lifestyle Fashions Limited (FLFL) and Future Enterprises Limited (FEL) - and earns 5% royalty income (increased from 3% for BUFFALO, RIG and AFL and 4% for SPUNK in FY2016) on the sale of these brands. The company's revenue growth is thus dependent on the growth in the sales of these licensed brands. While FEPL's cash accruals have remained weak, ICRA continues to draw comfort from it being a part of the Future Group which has been supporting the company in case of need.

Analytical approach: For arriving at the rating, ICRA has taken comfort from the support of the parent company, FCRL and the operational synergies with Group entities, providing access to in-house retail outlets with pan-India presence.

Links to applicable criteria:**Corporate Credit Rating –A Note on Methodology****Impact of Parent or Group Support on an Issuer's Credit Rating****About the company:**

Future Entertainment Private Limited was incorporated in December 2006, but started operations in January 2015, when it was converted into a step-down subsidiary of Future Corporate Resources Limited [rated [ICRA]BBB- (stable)], through a 100% holding by Future Outdoor Media Limited. The company manages and develops brands in the field of retail, fast moving consumer goods (FMCG), entertainment, media hubs, multiplexes and other related activities. In that regard, the company has signed a trademark licensing and assignment agreement with Future Brands Limited (a Group company), granting it the exclusive licence for using four trademarks of FBL, viz. SPUNK, BUFFALO, RIG and AFL, for a period of 10 years. It has also been permitted to sub-license these trademarks to retail partners and earn royalty income on the sale of the brands. As on date, the company has sub-licensed these four trademarks to two group entities – Future Lifestyle Fashions Limited and Future Enterprises Limited.

For the 12-month period ended March 31, 2016, FEL reported a net loss of Rs. 4.9 crore on an operating income (OI) of Rs. 17.1 crore, as against a net loss of Rs. 2.4 crore on an OI of Rs. 1.5 crore for the 12-month period ended March 31, 2015.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

| S. No | Instrument | Current Rating (FY2018) | | | | Chronology of Rating History for the past 3 years | | |
|-------|------------|-------------------------|--------------------------|--------------------------------|--------------------|---|-------------------------|-------------------------|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating | Date & Rating in FY2017 | Date & Rating in FY2016 | Date & Rating in FY2015 |
| | | | | | May 2017 | April 2016 | April 2015 | - |
| 1 | Term Loan | Long-term | 175.00 | 142.38 | [ICRA]BBB-(stable) | [ICRA]BBB-(stable) | [ICRA]BBB-(stable) | - |

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

Annexure-1
Instrument Details

| Instrument | Date of Issuance/ Sanction | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|-------------------|---------------------------------------|--------------------|-----------------|-------------------------------------|-----------------------------------|
| Term Loan | December 2014 | 11.30% | January 2021 | 175.00 | [ICRA]BBB- (stable) |

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