

Rating Rationale

Brickwork Ratings reaffirms “BWR A+” for Future Capital Holdings Limited’s Non-convertible Debenture Issue of ₹300 crores (INR Three Hundred Crores only, including Green Shoe option of ₹ 150 crore), Non-convertible Debenture Issue of ₹250crores (INR Two Hundred and Fifty Crores only)and unsecured subordinated Debt Issue of ₹ 200 Cr (INR Two Hundred Crores only)

NCD Issue: BWR A+	Outlook : Stable
Subordinated Debt Issue: BWR A+	Outlook : Stable

Brickwork Ratings (BWR) has reaffirmed the rating of BWR A+ (Pronounced BWR A plus) with a stable outlook for the Non-convertible debenture issues of ₹300 crores and ₹250 crores and Unsecured Subordinated Debt issue of ₹200 crores of Future Capital Holdings Limited (FCHL).

The rating “BWR A+” stands for an instrument that is are considered to have adequate degree of safety regarding timely servicing of financial obligations. Such instruments carry low credit risk.

The rating, inter alia, factors improved asset quality, lower NPA levels, growth in NII and experienced management. However, the rating is constrained by volatile interest rate scenario, increasing exposure to real estate and heavy competition from other NBFCs and banks.

BWR has essentially relied upon the audited financial results of FCHL, projected financials, publicly available information and information and clarification provided by the company management.

Background: FCH was incorporated in October 2005 as a private limited company called KB Infin Private Limited. The company was converted to a public limited company with effect from August 2006 and the name of the Company was changed to Future Capital Holdings Limited with effect from December 2006.

FCHL is a systematically important non-deposit taking NBFC focused on wholesale and retail credit. As of September 2011, Promoter group holds 61.04% stake in FCHL, (53.67% is held by Pantaloons Retail (India) Ltd. and the balance 7.37% is held by Mr. Kishore Biyani). Corporate Bodies hold 11.96%, Individuals hold 16.76%, NRIs hold 5.76% and Mutual funds, Banks, FIs and FII's, together hold 4.19%.

However, as per our discussion with company and media reports, Pantaloon is planning to reduce its stake in the near future.

In FY11, FCHL's subsidiary Future Capital Financial Services Limited was merged with FCHL. This was done to release FCHL's guarantees on loans to the subsidiary and improve capital adequacy among other things.

Business Model: FCHL's business segments include wholesale credit, retail credit and a small portion of Income from Fee based activities. The wholesale credit portfolio constituted 71% of the asset book for FY11 and consists of Loan against property (LAP) to corporates or developers (75% of Wholesale credit portfolio) and Loan against shares (25% of Wholesale credit portfolio). The retail credit portfolio constituted 29% of the asset book for FY11 and consists of LAP to SSIs and Individuals, Loan against gold, Consumer durable loans. Since FCHL provides LAP in both, retail as well as wholesale segments, the company's exposure to real estate has increased from 8% in FY10 to 57% in FY11.

In FY11, the gross loan book of the company increased by 93% to ₹2886.78 crores from ₹1495.12 crores in the previous year. The wholesale credit portfolio increased by 69% and the retail portfolio surged by over 190%. FCHL wants to concentrate only on secured loans with tangible collateral and so in line with its strategy; the company has stopped disbursing personal loans from FY2010. The company started loans against gold business in FY11 and has also forayed into housing finance business and auto loans in FY12.

In FY11, due to the growth in the loan book, FCHL's gross revenue increased by 50% from ₹262 crores to ₹392 crores. The revenue from the wholesale segment was ₹ 208.61 crores, retail segment contributed ₹166.96 crores and other income was ₹16.47crores.

Financial Performance:

On a consolidated basis, FCHL's Profit before tax increased from ₹60.15crores in FY10 to ₹83.86crores in FY11. However Profit after tax reduced from ₹59.25croresto ₹49.12croresduring the same period. This was due to a one-time tax provisioning on account of the merger with its subsidiary. Interest income grew by more than 80%, from ₹145.40 crores to ₹270.35crores. This was due to a robust increase in the company's loan book. Interest expense for FY11 was ₹121.57crores as compared to ₹63.25crores in FY10. The net interest income was ₹148.77crores and ₹82.15crores respectively.

The company's networth increased from ₹690.89crores in FY10 to ₹746.92crores in FY11.The consolidated borrowings grew by over 120% from₹1175.42crores in FY10 to ₹2623.82crores in FY11. This has translated in a corresponding increasein the loan book (net) from ₹1496.17croresto ₹2856.91croresduring the same period.The adjusted gearing has increased to 3.55 as compared to 1.72 for FY10 due to the increased debt amount.

The company's CRAR stood at 23.47% as on March 31, 2011 vs regulatory requirement of 15%. FCHL has reduced its NPA levels by focusing on secured lending, stringent controls and improved collections. Gross NPA as a percentage of Loans has decreased from 3.73% in FY10 to 0.25% in FY11. The Net NPA has reduced from 1.63% to 0.06% during the same period. The NPAs are pertaining to the retail credit segment. There are no NPAs in the wholesale credit segment.

For H1FY12, Interest income increased to ₹239.67 crores from₹112.07croresin H1-FY11. Net interest expense was ₹115.41 crores as compared to₹46.50crores. PAT increased from ₹21.36 crores to₹50.23crores, due to increased net interest income. For H1FY12, Networth stood at ₹798.39 crores. The debt levels increased from ₹1805 crores to₹3342.98 crores, thereby leading to an increased adjusted gearing of 4.23.

Rating Outlook:

FCHL intends to increase its composition of retail portfolio from the current 30% of total loans to around 50 % in the near future. The company wants to concentrate only on secured loans that are less risky and are backed by tangible collateral. The company has recently added new business segments like gold loans, auto loans and so it now has a more diversified and secured asset portfolio. However, the exposure to real estate is still large. FCHL’s ability to remain adequately capitalized, scale up its operations in rising interest rate environment and extensive competition while maintaining the quality of the assets and earnings profile are key rating sensitivities.

Analysts	Media
<p>SameerSinghvi sameer.s@brickworkratings.com</p>	<p>Anitha G media@brickworkratings.com</p>
<p>Michelle Lobo michelle.l@brickworkratings.com</p>	<p>Relationship Contact K N Suvarna Senior VP - Business Development kn.suvarna@brickworkratings.com</p>

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Key Financials

Annexure I: Future Capital Holdings Ltd – Consolidated Balance Sheet

(In Rs. Crores)	H1 FY 2012	H1 FY 2011	FY 11	FY 10	FY 09
<u>Sources of Funds</u>					
Networth	798.39	757.83	746.92	690.89	667.62
<u>Loan Funds</u>					
Secured Loans	2,958.09	1,249.44	2,022.36	643.48	330.55
Unsecured Loans	384.90	555.55	601.47	531.94	142.60
Total Debt	3,342.98	1,804.99	2,623.82	1,175.42	473.15
Total Liabilities	4,141.37	2,562.82	3,370.75	1,866.31	1,140.77
<u>Application Of Funds</u>					
Goodwill on Consolidation	8.67	8.54	8.67	8.54	8.54
Fixed Assets Net Block	91.68	79.38	80.94	80.72	94.97
Capital Work in Progress			2.17	0.21	0.35
Investments	93.71	450.98	260.06	309.19	546.95
Deferred Tax Assets	6.88	8.24	6.05	9.27	1.17
Loans and Advances (net)	3,780.85	1,992.38	2,856.91	1,496.17	542.15
Other Current Assets	370.02	210.81	424.69	77.20	30.98
Total Current Assets	4,150.87	2,203.19	3,281.60	1,573.37	573.13
Total Current Liabilities & Provisions	-210.50	-187.52	-268.80	-114.99	-84.34
Net Current Assets	3,940.37	2,015.67	3,012.80	1,458.38	488.79
Miscexp not written off	0.06		0.06		
Total Assets	4,141.37	2,562.82	3,370.75	1,866.31	1,140.77

Annexure II: Future Capital Holdings Ltd – Consolidated Profit & Loss

(In Rs. Crores)	H1 FY 2012	H1 FY 2011	FY 11	FY 10	FY 09
Income from operations (adjusted for Inter segment revenue)	332.81	140.15	372.82	236.36	179.86
Other Income	2.59	0.78	28.69	15.28	6.86
Total Income	335.40	140.93	401.51	251.64	186.72
Expenditure					
Personnel Expenses	37.30	18.12	48.12	54.20	88.44
Administrative & Other Expenses	34.13	15.11	50.56	36.55	68.46
Depreciation	3.07	1.79	4.24	12.26	6.69
Financial Expenses	164.26	69.96	180.08	80.76	34.67
Provisions & write offs	20.68	3.12	34.65	7.71	16.76
Total Expenditure	259.45	108.10	317.66	191.49	215.03
Profit before Tax	75.95	32.83	83.86	60.15	-28.31
Add: Prior Period Items			-	-	0.18
Provision for Taxation	25.72	11.47	34.74	0.90	3.99
Profit after Tax	50.23	21.36	49.12	59.25	-32.11