

Press Release

Brickwork Ratings assigns “BWR A+” for Future Capital Holdings Limited’s Non-Convertible Debentures Issues of ₹ 300 crore (including Green Shoe option of ₹ 150 crore) and ₹ 250 crore with a tenor of 5 years

NCD Issue Rating: BWR A+

Outlook : Stable

Brickwork Ratings (BWR) has assigned the rating of **BWR A+** (Pronounced BWR A plus) with a stable outlook for the following ratings of Future Capital Holdings Limited:

| Instruments | Amount | Rating | Assigned/ Reaffirmed | Issue Date | Maturity Date | Rating History |
|-------------|---|--------------------|-------------------------|----------------|-------------------|-------------------|
| | | | | | | Rating As on |
| NCD | ₹ 300 crore (including Green Shoe option of ₹ 150 crore) | BWR A+ (Stable) | Assigned | Not Applicable | Not Applicable | Not Applicable |
| NCD | ₹ 250 crore | BWR A+ (Stable) | Assigned | Not Applicable | Not Applicable | Not Applicable |

“BWR A+” rating stands for an instrument that is considered to offer **Adequate** credit quality/safety in terms of timely servicing of debt obligations. A “Stable” rating outlook signifies the expectation of the rating being stable in the near term.

The rating has, inter alia, factored comfortable capital adequacy, strong group support and promoter track record. The rating is, however, constrained due to its highly competitive industry, FCH’s limited experience and exposure to the corporate and retail lending business segment, a highly concentrated portfolio with respect to corporate lending and increasing debt levels. The rating takes into account the transfer of the retail lending business and a part of the wholesale lending business to its wholly owned subsidiary Future Capital Financial Services Limited (FCFSL) as per the approval by High Court of Judicature at Mumbai and the realignment of its investment advisory business to Everstone Investment Advisors Private Limited (EIAPL).

Due to the above demerger and re-alignment, Brickwork Ratings has taken into account the consolidated financials of FCH and the rating is based on the analysis of consolidated financials.

FCH proposes to raise about ₹ 300 crore (including Green Shoe option of ₹ 150 crore) and ₹ 250 crore through issue of secured NCD's having a tenor of 5 years. The NCD is secured by first exclusive charge on the standard receivables of retail and corporate and wholesale credit assets of the Company and first charge on a fixed asset owned by the Company. The security cover is of 1.25 times of the issue. FCH proposes to utilize the proceeds from the proposed NCD issue towards general corporate purposes and working capital requirements.

Future Capital Holdings Limited (FCH) is the financial services arm of the Future Group, promoted by PRIL. The company was originally incorporated on October 18, 2005. FCH is currently classified as a Systematically Important Non-Deposit taking NBFC by the Reserve Bank of India. The company came up with its Initial Public Offering (IPO) in FY08 and raised about ₹490 crore through the issue out of which ₹29 crore was utilized for share issue expenses, ₹ 31 crore towards general corporate purposes and ₹ 430 crore towards retail financial services.

The company along with its subsidiaries is engaged in the business of Asset Management and Advisory Services, Wholesale Credit and Treasury activities, Retail Financial Services and Trade Finance. The Wholesale credit business and RFS comprised the Credit Business Division (CBD).

In March 2009, the directors of FCH approved a composite scheme of Amalgamation & Arrangement providing for:

- Transfer of the retail financial operations and certain activities of wholesale credit division of the Company to Future Capital Financial Services Limited (FCFSL), a Wholly Owned Subsidiary of the Company.
- Amalgamation of Future Capital Credit Limited, a Wholly Owned Subsidiary of the Company and a Non Banking Finance Company registered with the Reserve Bank of India, with Future Capital Financial Services Limited.

The said scheme became effective from February 1, 2010, but operative with retrospective effect from April 1, 2009.

Kishore Biyani is the Founder and CEO of Future Group and Pantaloon Retail India Ltd and is the Chairman of FCH. Mr. Sameer Sain is the Vice Chairman of the company as on 31st March 2010. Mr. Gyanendra Nath Bajpai, Mr. Shailesh Haribhakti and Mr. Alok Oberoi are the independent directors of FCH. FCH's management team has been strengthened with the addition of Mr. Vaidyanathan to the team at FCH.

FCH's standalone net profit after tax has grown by 86% to ₹ 17.30 crore for FY10 from ₹9.30 crore for FY09. FCH's consolidated income has grown by 35% to ₹ 251.65 crore for year ended March 31, 2010 from ₹ 186.72 crore for March 31, 2009. The consolidated net profit after tax has grown to ₹ 59.26 crore for FY10 from ₹ (32.11) crore for FY09. FCH has incurred a total expenditure of ₹ 194.48 crore in FY10 as compared to ₹ 215.01 in FY09. FCH has a capital adequacy ratio of 28.97% as on March 31, 2010. Debt equity ratio was 1.6 as on March 31, 2010 as compared to 0.64 as on March 31, 2009. The Return on Assets stood at 3.70% during FY10 while ROE was 8.03% in FY 10.

The Company had acquired 50.10% each in FCH Centrum Direct Limited ('FCDL') and FCH Centrum Wealth Managers Limited ('FCWML') respectively on March 12, 2008. During the year, the Company has sold 0.10% each in FCDL and FCWML.

The company's portfolio consists of retail loans, corporate loans and portfolio buy-outs. In the retail segment, gross NPAs stood at ₹ 37.29 crore as on March 31, 2010 of which ₹31.43 crore were from the personal loans segment. On account of huge NPAs in the personal loan segment, the company has taken a decision to stop disbursement of unsecured personal loans and the policy was placed in effect from January 2010. The company's gross NPA as on 31 March 2010 were 2.49% and net NPA were 2.01%.

Q1 FY11 Performance (consolidated)

FCH's credit book increased to about ₹ 1721.11 crore as on June 30, 2010 as against ₹ 1394.32 crore as on March 31, 2010. FCH's consolidated income has grown to ₹ 65.80 crore as on Q1FY11 from ₹ 51.70 crore as on Q1FY10. The Wholesale Credit and Treasury business contributed to 59% of the revenues in Q1FY11 as compared to 21% in Q1FY10. The consolidated net profit after tax grew to ₹ 13.20 crore for Q1FY11 from ₹ 6.30 crore for Q1FY10. The income from investment advisory services which contributed to 22% in FY10 revenues was nil for the quarter due to the realignment of the business done in 2010.

Rating Outlook

Brickwork Ratings believes that the synergies of the Future Group businesses in retail with FCH while beneficial to the overall growth of the company still need to be tapped to their potential. While the future group has a large experience in the retailing industry, they are still relatively new to the finance industry which is risk prone and requires close monitoring and highly competitive in nature.

Brickwork Ratings also believes that the realignment of a highly profitable investment advisory business will impact the performance of FCH until its growth in the retail and corporate lending space stabilizes to compensate for the same.

| Analysts | Media |
|---|---|
| Rajalakshmi R , Lead-Analyst rajalakshmi.r@brickworkratings.com | Anitha G media@brickworkratings.com |
| Shilpi Agarwal , Co- Analyst shilpi.a@brickworkrating.com | Relationship Contact K N Suvarna Senior V P - Business Development kn.suvarna@brickworkratings.com |
| Phone: 1-860-425-2742 | |

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