

**Rating Rationale 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 re-alignment 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.

**Salient features of the issue:**

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.

The Company has appointed IDBI Trusteeship Services Limited as a Debenture Trustee to complete all requirements concerning obtaining/creation of securities and monitoring the same for the benefit of and protection of the interests of the investors in the proposed NCD issue.

**Background of the Company:**

The Future Group, led by its founder and Group CEO - Mr. Kishore Biyani, is one of India's leading organized multi-format retailers. While retail forms the core group business activity, group subsidiaries are present in consumer finance, capital, insurance, leisure, brand development, retail real estate development, retail media and logistics. Pantaloon Retail (India) Ltd ("PRIL") is the flagship company of the Future Group.

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 as KB Infin Private Limited. Pursuant to a resolution of the shareholders in 2006 and by virtue of the acquisition of the entire share capital by PRIL, the company was converted to a public limited company and the name of the company was changed to Future Capital Holdings Limited. 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.

### **Business Segments:**

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).

- **Asset Management and Advisory** - The company provided private equity and real estate investment advisory services to onshore and offshore clients through two dedicated teams FCPE – Future Capital Private Equity and FCRE – Future Capital Real Estate. The segment earned advisory fees of ₹ 54.60 crore which contributed to about 22% of the revenues of consolidated financials in FY10.

FCH has re-aligned its advisory services to Everstone Investment Advisors Private Limited and while the management will be done by Everstone Investment Advisors Private Limited, FCH expects the economic interest on investments already made in this space to continue to accrue to it

- **\*Corporate Lending and Wholesale Credit (CLWC)-** This business includes secured lending trades, project financing, acquisition financing and working capital financing to reputed names in the industry with comfortable collateral cover and clearly identified take outs, backed by strong cash flow streams. Currently there are no NPA's from CLWC. The segment earned income of ₹ 80.60 crore which contributes about 32% of the revenues of consolidated financials. The corporate loan book grew from ₹166.30 crore to ₹739 crore as on March 31, 2010. Wholesale loans accounted to 53% of the loan portfolio as on March 31, 2010.
- **\*Retail Financial Services (RFS)** - RFS offers consumer finance and distribution of financial services products. FCH provides home equity loans, consumption loans and personal loans. FCH also participates in retail portfolio buy-outs from other banks and NBFC's. Total buy-out book stood at ₹364 crore in FY10. The segment earned income of ₹ 107.40 crore which contributes about 43% of the revenues of consolidated financials. Retail loans accounted to 47% of the loan portfolio as on March 31, 2010.

- **Trade Finance** – This business segment was started in FY10. It focuses on end-to-end supply chain financing including suppliers credit, short tenor working capital loans, discounting of bills payable and purchase of receivables. This business is in nascent stage.
- **\*Amalgamation and Demerger**  
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. Since FCFSL is a wholly owned subsidiary of the Company, no consideration has been received against the assets and liabilities transferred.

### **Shareholding Pattern of FCH**

As on March 31, 2010, Promoters and promoters group have aggregate holdings of 73.51% in FCH, public shareholding was of 10.81%, Bodies Corporate hold 4.18%, FII hold 2.28%, 0.62% by mutual funds and financial institutions and others hold 8.59%. Out of 73.51% stake of promoters and group, Pantaloon retail India Limited holds 55%.

### **Management**

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 31<sup>st</sup> March 2010. He is a graduate in Commerce from University of Mumbai and a Bachelor in Business Administration from the University of Massachusetts at Amherst. He also holds a Masters degree in Business Administration from the Cornell University. He was the Co-Founder and Managing Partner of Everstone Capital as on 31<sup>st</sup> 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.

### Loan Profile

The Loan Portfolio is segmented into Retail Credit, started in FY07, within which the company provides personal loans, consumption loans and home equity loans and Wholesale Credit, started in FY08, within which the company gives secured lending to corporates with comfortable collateral cover and clearly identified take-outs, backed by strong cash flow streams. The company also participates in retail portfolio buy-outs from other banks and NBFC's, with a strong first loss protection from these originators. Nearly 56% of its retail portfolio as on March 31, 2010 comprised of portfolio buy-outs.

The table below shows the growth in loan portfolio over the last two years.

<b>Disbursements</b>	<b>Rs. in crore</b>	
<b>Segments</b>	<b>Mar-10</b>	<b>Mar-09</b>
<b>Retail</b>	<b>655.44</b>	<b>445.84</b>
Of which: Portfolio buy-outs	364.44	133.80
<b>Wholesale credit</b>	<b>738.88</b>	<b>166.30</b>
<b>Total</b>	<b>1394.32</b>	<b>612.14</b>

### Financial Performance

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. The overall increase in income is primarily due to increase in the loan book if wholesale and retail credit.

FCH has incurred a total expenditure of ₹ 194.48 crore in FY10 as compared to ₹ 215.01 in FY09. The decrease in expenditure was due to the decrease in personnel and administration expenses which was mainly on account of restructuring of Retail Financial Services business and

realignment of Investment Advisory business. Increase in total income and decrease in total expenditure has contributed to the substantial increase in net profit.

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 table below shows the summary of operational performance of FCH (consolidated) during last three years:

(Rs. Crore)	Mar-10	Mar-09	Mar-08
Income from Operations	236.36	179.86	98.48
Other Income	15.28	6.86	0.83
<b>Total Income</b>	<b>251.64</b>	<b>186.72</b>	<b>99.31</b>
Personnel Expenses	54.20	88.44	55.91
Administrative & Other Expenses	44.26	85.21	58.33
Financing Charges	80.76	34.67	7.82
Depreciation	12.26	6.69	3.51
<b>Total Expenditure</b>	<b>191.48</b>	<b>215.01</b>	<b>125.57</b>
PBT	60.15	-28.29	-26.26
<b>PAT</b>	<b>59.25</b>	<b>-32.11</b>	<b>-28.75</b>
<b>CRAR %</b>	28.97%	50.35%	82.56%
<b>Debt Equity Ratio</b>	1.60	0.64	0.29
<b>Cost of Funds</b>	10.35%	12.60%	10.03%
<b>Return on Funds</b>	13.72%	17.05%	11.24%
<b>Net Interest Margin</b>	5.45%	6.75%	-0.06%
<b>Return on Assets</b>	3.70%	-2.76%	-4.49%
<b>Return on Equity</b>	8.03%	-4.40%	-4.01%

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. Accordingly, these investments were classified as investment in subsidiary companies till March 31, 2009.

During the year, the Company has sold 0.10% each in FCDL and FCWML. Consequently the same has been classified as joint ventures of the Company. These investments were acquired on a temporary basis with an intention to sale in the near future and hence they have not been consolidated with the Groups' financial statements for the year ended March 31, 2010.

### **Asset Quality**

The company's portfolio consists of retail loans, corporate loans and portfolio buy-outs. While the company has customer behavior patterns recorded for its retail portfolio and utilizes scorecards for the same, all corporate loans are processed through the Investment Committee, of which Mr. Kishore Biyani is also the member.

Brickwork Ratings believes that the risk management practices currently in place at FCH need to be substantially improved if the growth targets of the company are to be met while maintaining/improving the asset quality of the portfolio.

High concentration levels in the corporate loan portfolio could turn detrimental to the company in case of borrower defaults in this segment. (Currently there are no NPAs from the corporate loan portfolio, however Brickwork Ratings believes that the amount of time for seasoning of loans has so far been too less to be able to generalize portfolio behavior for the future based on the historical behavior).

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 table below shows the asset quality of the portfolio over the last two years:

	<b>Mar-10</b>	<b>Mar-09</b>
Gross NPA (Rs. in crore)	37.29	10.85
Net NPA (Rs. in crore)	29.92	9.13
Gross NPA %	2.49%	2.00%
Net NPA %	2.01%	1.74%

### **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.

### **Funding Mix**

Nearly 55% of the funding for FCH comes from cash credit and term loans, 43% of the funding comes from commercial paper and the rest from inter corporate deposits. Total borrowings for the year ended March 31, 2010 was ₹ 1175.42 crore.

The following table shows the total borrowings of the company as on March 31, 2010:

<b>Particulars</b>	<b>Rs. In crore</b>
<b>Cash credit</b>	135.84
<b>Term Loans</b>	507.64
<b>Commercial Paper</b>	506.94
<b>Inter Corporate deposits</b>	25
<b>Total</b>	<b>1175.42</b>

## 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.

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