

November 10, 2020

Future Lifestyle Fashions Limited – Valuation of NCDs

We had invested in the Non-Convertible Debentures (NCDs) of Future Lifestyle Fashions Limited (“FLFL” or “the Company”) in Nov’17. NCDs are secured by first pari-passu charge on all Fixed Assets of the Company, both present and future. We had exercised the put option on NCDs issued by FLFL, by virtue of which the maturity was shifted to 9th November 2020 from 9th November 2022. The put option was exercised on 8th September 2020. The news flow pertaining to the Company was positive with the proposed scheme of arrangement with the Reliance Group. The put option was exercised keeping the interest of unit holders in mind. The Company has failed to make the repayment including interest payment on due date.

The external rating of these NCDs was AA- by CRISIL and CARE at the time of our investment.

FLFL, part of Future Group, operates in fashion retail and distribution and has pan-India presence. FLFL operates its retail outlets in three broad formats – Central (big-box fashion retailer), Brand Factory (fashion discount chain) and Exclusive Brand Outlets. FLFL owns a portfolio of both owned / licensed brands and has also invested in various investee (pvt. label) brands. The Company’s performance (operating and financial) was satisfactory till Mar’20. However, Covid-19 and related lockdowns has impacted the various businesses in India more severely business like FLFL which are consumer facing and in retail fashion. This has impacted the performance and liquidity profile of the Company.

The Company’s Board of Directors on August 29, 2020 have approved to undertake a Composite Scheme of Arrangement, wherein various Future Group Companies including FLFL, Future Retail Limited (FRL) and others would be amalgamated with Future Enterprises Limited (FEL) and subsequently assets and liabilities under logistics, warehousing, retail & wholesale undertaking will be transferred & vested as a going concern on slump sale basis from FEL to Reliance Group.

In the meanwhile, Amazon had filed the arbitration proceedings under shareholders’ agreement between Amazon, Future Coupons Private Limited (one of the promoter entity of FRL) and the promoter group. FLFL has submitted to stock exchanges on November 01, 2020 that as per information received by the Company from Future Retail Limited (FRL) and promoter group entity – FRL is advised that an interim award given by Emergency Arbitrator (EA - nominated by Singapore International Arbitration Center (SIAC)) to Amazon.com NV Investment Holdings LLC has no legal status under Part I of the Indian Arbitration and Conciliation Act 1996.

With various gradual removal of lock down measures taken by various authorities in India, we understand that the business of the Company is picking up (which got impacted due to lockdowns). The Company (on consolidated basis) has reported increase in revenue from operations at Rs 409.19 crs in Q2FY21 from Rs 85.82 crs in Q1FY21.

The Company in its various communications has informed us that they are taking several steps to find a holistic solution for challenges caused by pandemic and the primary objective of the Company is to ensure repayment of its financial obligations in full as early as possible. The Company has also confirmed that the NCD is part of scheme of arrangement for debt to be transferred to Reliance Group. We understand that the approval from Competition Commission of India is awaited for facilitating this deal.

Rationale for Valuation

As per Principles of Fair Valuation in Eighth Schedule of SEBI (Mutual Funds) Regulations, 1996, AMCs are responsible for true and fairness of valuation and correct NAV. After intimation of default to independent Scrip Level Valuation Agencies (SLVs) i.e. CRISIL & ICRA, they have valued the NCDs at zero. However, we have done two trades in the secondary market with independent buyers to discover the fair value of the investment. We have sold a part of our holding in NCDs at 75% of face value. We have also taken into consideration that the Future Group is in the process of selling businesses to Reliance Group

Basis the above, we are valuing the balance investment at this traded price (75% of Face Value) plus 75% of accrued interest, in the interest of the Investors. This is in accordance with SEBI circular SEBI/HO/IMD/DF4/CIR/P/2019/102 dated 24th September 2019 specified under clause 4 'Deviation from valuation guidelines'

Impact on Valuation [November 09, 2020]

Scheme name	ISIN	Issuer Name	Rating	Price at which security is valued (Rs per 100)	Price provided by valuation agencies (Rs per 100)	Impact in Rs Crs (incl. interest accrued and due)	% of Impact
Kotak Credit Risk Fund	INE452007047	Future Lifestyle Fashions Limited	BB	75.00	0	74.58	4.02%

Note: It is the prerogative of the fund manager to ascertain whether any security provides investment benefit to the fund and is in keeping with the larger investment goal, strategy and the investment & operational mandate of the fund. As such the fund manager may or may not choose to invest in a particular credit paper. The portfolio construction is the purview of the Fund Manager and allocation may change from time to time. Past performance may not be sustained in the future.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

Kotak Credit Risk Fund

(An open ended debt scheme predominantly investing in AA and below rated corporate bonds (Excluding AA+ rated corporate bonds))



This open ended fund Scheme is suitable for investors seeking

1. Income over a medium term investment horizon.
2. Investment predominantly in AA and below rated corporate bonds (Excluding AA+ rated corporate bonds).

***Investors should consult their financial advisors if in doubt about whether the product is suitable for them**