

Rating Rationale for Future Capital Holdings Limited's Subordinated Debt Issue of ₹ 200 crore

Issue Rating: BWR A+

Outlook : Stable

Brickwork Ratings (BWR) has assigned and reaffirmed the ratings for the following Issues of Future Capital Holdings Limited:

Instruments	Amount	Rating	Assigned/ Reaffirmed	Issue Date	Maturity Date	Rating History
						Rating As on
Subordinated Debt	₹ 200 crore	BWR A+ (Stable)	Assigned (November 19, 2010)	-	-	-
NCD	₹ 250 crore	BWR A+ (Stable)	Reaffirmed	Raised ₹ 125 crore- October 2010	October 2015	BWR A+ (Stable) September 2010
NCD	₹ 300 crore (including Green Shoe option of ₹ 150 crore)	BWR A+ (Stable)	Reaffirmed	Raised ₹ 239.10 crore – August 2010	Call option	BWR A+ (Stable) August 2010

“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 been assigned and reaffirmed taking into account the financial performance of the company, publicly available information and clarifications provided by the company.

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.

FCH's consolidated total income from operations has increased by 22.14% from ₹ 115.38 crores in HY1FY10 to ₹ 140.93 crores in HY1FY11 as against the interest expenses which increased by 87% from ₹ 24.78 crore during HY1FY10 to ₹ 46.50 crore during HY1FY11. It has posted consolidated profit before tax of ₹ 32.83 crore for the half year ended September 30, 2010 as compared to ₹ 22.34 crore as on September 30, 2009, an increase of 46.96% y-on-y. The company has registered consolidated net profit of ₹ 21.36 crores in HY1FY11 as compared to ₹ 17.95 crore in HY1FY10, an increase of 19% over the half year. The overall increase in income is primarily due to increase in the loan book of wholesale and retail credit.

FCH has incurred a total expenditure of ₹ 108.10 crore in HY1FY11 as compared to ₹ 93.04 in HY1FY10. Personnel and administration expenses decreased by 43% and 12% respectively, mainly on account of restructuring of Retail Financial Services business and realignment of Investment Advisory business.

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. However, the Net Interest Margin has marginally declined to 5.45% as on March 31, 2010 from 6.75% as on March 31, 2009.

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 levels stood at 2.49% as on March 31, 2010 as compared to 2% on March 31, 2009. Net NPAs have shown a similar trend and have increased from 1.74% in FY09 to 2.01% in FY10.

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.

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