

### **Corporate Governance**

FVIL has complied with the corporate governance code in accordance with Clause 49 to the extent applicable. In terms of the Clause 49 of the Listing Agreement, FVIL has already constituted the Audit Committee, Remuneration Committee and Shareholders'/Investor Grievances Committee. All the above committees have been constituted in February 2008. Currently the Board has five Directors out of which three Directors are independent directors in terms of Clause 49 of the Equity Listing Agreement.

### **Pending litigation against the company**

NIL

### **Pending litigation against the Directors**

Litigations against Directors (Mr.Kishore Biyani and Mr.Anil Harish) are mainly in the capacity of the director of Pantaloon Retail India Ltd for alleged adulteration of certain food items.

### **Pending litigation against the Promoters**

Litigations against Promoters (Pantaloon Retail India) include cases for infringement of trademark/patents, income-tax related cases, labour cases under the Minimum Wages Act and Industrial Disputes Act, Consumer cases under the consumer forums and litigations for alleged adulteration of certain food items.

### **Operational Profile**

In line with the business model of the company, the asset book of FVIL mainly comprises investments in business ventures in the retail sector. The Investment Management Team of FVIL is responsible for identification of the investment opportunities.

At standalone level, as on September 30, 2010, Investments accounted for 89% of FVIL's asset book (78% of the asset book as on March 31, 2010). As of Sept 30, 2010, FVIL had invested in 13 Business Ventures which have presence across different segments across the retail value chain. Investment in Indus League Clothing Limited (Lifestyle retailing), Future Consumer Enterprises Limited (FMCG), Aadhaar Retailing Limited (rural retailing) and Capital Foods Exports Pvt. Limited (food processing) comprise around 90% of FVIL's investments as of Sept 30, 2010. Other business ventures wherein FVIL has invested are Turtle Ltd, Celio Future Fashions, Lee Copper India Private Ltd, AND Designs India Limited, Biba Apparels Private Limited, Holii Accessories Private Limited, Indus Tree Crafts Private Limited and SSIPL Retail Pvt. Limited

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### Key details of major Investments

- **Indus League Clothing Ltd (ILCL):** - ILCL was incorporated in Nov, 1998 and started commercial operations from April 1999. ILCL is engaged in lifestyle retailing business. ILCL's product portfolio comprises of established brands such as "Indigo Nation", "Scullers", "Jealous", "Urbana" & "John Miller". These brands mainly cater to the formal / smart casuals' category of the menswear retail. ILCL operates through contract manufacture of its entire sales with a vast supplier/ job-worker base and caters primarily for the domestic retail market. ILCL also largely enjoys the vast distribution network available with Pantaloon Retail India Limited primarily through its Pantaloons, Central and Brand Factory stores. FVIL transferred its entire shareholding in Celio Future Fashions Limited, Lee Cooper India Limited and Turtle Limited in favour of Indus League Clothing Limited in FY10. In FY10, ILCL has reported profit of Rs.1.72 crore on Total Income of Rs.240.15 crore.
- **Aadhaar Retailing (ARL):** - ARL is in the business of rural and semi-urban retail distribution of agricultural and consumer products for personal and household use, including apparel, seeds, fertilizers and FMCG products. FVIL acquired 70% of the equity share capital of ARL from its promoter, Godrej Agrovet Limited in March 2008 with the intention of participating in the opportunity in rural consumption sector. At the end of FY10, ARL reported accumulated losses of Rs.72 crore (Mar.31,09:-Rs.42 crore). ARL reported loss of Rs.30.08 crore on Sales of Rs.68.11 crore in FY10. Going forward, Aadhaar plans to gradually change its retail distribution model from self owned retail outlets to franchisee distribution model coupled with increased exposure to the wholesale clientele segment.
- **Capital Foods Export Ltd (CFPL):** - CFPL is engaged in manufacturing and exporting of various Ready to Eat and frozen food products. On standalone basis, CFPL reported profit of Rs.0.7 crore on Sales of Rs.18.5 crore in FY10. CFPL distributes products in India through its subsidiary Capital Foods Ltd. Capital Foods is a food processing company having development and manufacturing capabilities in various processed food products, such as instant noodles, sauces, chutneys and microwavable rice and curries. It markets its products under various brands, which include "Ching's Secret", "Smith & Jones", "Raji", "Mama Marie" and "Kaeng Thai".
- **Future Consumer Enterprises Ltd:-** FCEL is engaged in trading of FMCG products (private labels owned by Future group) under the brand Caremate, Cleanmate, Tasty Treat, Premium Harvest, Fresh & pure , Ekatta and John Miller Deo. FCEL has started its commercial *ARI* operations since July 10.

Majority of FVIL's investments are in business ventures which are in growth/nascent phase of operations. However, these companies have a well established market presence across the retail value chain which is expected to grow at a CAGR of over 15% over the next few years. The success of the Business Ventures would however depend upon their ability to forecast, anticipate and respond to changing consumer preferences and trends in a timely manner. In this endeavour, Pantaloon along with other arms of the Future Group, is expected to assist the Company in providing mentoring to the Business Ventures, to actively assist their strategic growth and business development plans which would be beneficial for the ventures.

### **IPO Details**

#### ***Size of the Issue***

FVIL proposes an initial public offering of Rs.750 crore through 100% book building process.

#### ***Terms of the issue***

At least 50% of the net issue to public shall be available for allocation on a proportionate basis to Qualified Institutional Buyers (QIBs). In addition, 5% of the QIB Portion (excluding Anchor Investor Portion) shall be available for allocation on a proportionate basis to mutual funds only and the balance shall be available for allotment on a proportionate basis to QIBs and mutual funds. Further, not less than 15% of the net issue to public shall be available for allocation on a proportionate basis to Non-Institutional Bidders and not less than 35% of the net issue to public shall be available for allocation on a proportionate basis to Retail Individual Bidders.

#### ***Purpose of the issue***

The Objects of the Issue is to raise resources for the following:

- The Company seeks to utilise the proceeds of the issue to invest in or acquire, and operate innovative and emerging businesses in India's rapidly growing "consumption-led" sectors, which it defines as sectors whose growth and development will be determined primarily by the growing purchasing power of Indian consumers and their changing tastes, lifestyle and spending habits
- General corporate purpose and
- To meet the issue expenses

### **Financial Analysis**

The entire investment book of FVIL is financed through its Network. In the last two years the promoters have been regularly infusing capital in FVIL to fund the investments in business ventures. In line with its investment strategy FVIL funds the business ventures both in the form of equity and debt funding. As of Sept 30, 2010 debt funding which mainly comprises short term ICDs to its

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business ventures and other group companies accounted for around 8% of its total assets. While the equity funding grants the potential upside to its investments over a longer time frame, debt funding ensures steady cash-flows to meet its operational costs. Further absence of debt (at standalone levels) limits the requirement of large cash-inflows. Since FVIL is exempted from single party/ group exposure norms for loan/ investments by RBI subject to the condition that FVIL should not be accessing public funds by way of debt, hence, going forward, FVIL will have to depend on equity infusion or divestment in its subsidiaries/associates to support further investment/loans in its business ventures.

FVIL reported profit at standalone levels in FY10 of Rs.21 crore (FY09:-Loss of Rs.10 crore) mainly due to profit on sale of equity shares to related companies. FVIL has made investments in business ventures mainly in the last two years. Majority of the subsidiaries/joint ventures are in their nascent stage of operations and are as yet reporting low returns on network. FVIL reports losses at consolidated levels (accumulated loss at consolidated level stood at Rs.75 cr as of Mar 31, 2010) mainly due to accumulated losses in its subsidiary Aadhar. Since the companies are presently in their growth phase, FVIL is not likely to earn any dividend income in the near future.

### Industry Review

The steady revival of the global economy since H2FY10 is expected to restore consumer confidence and therefore result in higher footfalls. Importantly, the growth in Indian retailing would be driven by the demand for discretionary products, even though, the sale of necessities would continue to acquire a dominant share of the total retail pie. In a bid to provide variety to the consumers and also boost margins, the retailers would concentrate on the sale of private label brands particularly in segments such as beauty & personal care, apparels and food & grocery.

CARE Research expects the funding constraints i.e. working capital as well as long-term capital to ease in the long-run on account of several funding options available in the form of Private Equity (PE) funding, QIPs (Qualified Institutional Placements), IPOs (Initial Public Offering) etc. However the expansion plans of the retailers would strictly be as demand-oriented opposed to achieving pan-India presence earlier. CARE Research expects the total retail sales at Rs.2,696,375 cr by FY12 with CAGR of 16.6% during the period FY10-FY12. Of the same, the penetration of organised retail is estimated to be 7.2% valued at Rs.1,94,137 cr with CAGR of 27.8% during the period FY10-FY12.

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### Prospects

FVIL enjoys the benefit of Future group's experience in the retail sector which would help it in good measure to nurture and add value to its business ventures. Besides, aggregation of investments in retail sector would also enable it to eventually unlock value at a higher premium. FVIL's ability to successfully turnaround operationally and financially the business ventures, mobilise funds for providing the funding support to existing/new business ventures and profitably divest stake in its business ventures would eventually decide the success of FVIL's unique business model.

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## Financials

(Rs. Crore)

| As on /For the period ending                     | Standalone    |               | Consolidated  |               |
|--|---------------|---------------|---------------|---------------|
|  | March 31,2009 | March 31,2010 | March 31,2009 | March 31,2010 |
| Profit /Loss on trading in securities:           | (14)          | 14            | (14)          | (3)           |
| Interest Income                                  | 9             | 8             | 9             | 7             |
| Dividend Income                                  | 2             |               | 2             |               |
| Sale of Retail Merchandise                       |               |               | 121           | 124           |
| Proportionate share in JV                        |               |               | 11            | 24            |
| Gain on disposal of investments in associates/JV |               |               |               | 22            |
| <b>Total Income</b>                              | <b>(3)</b>    | <b>26</b>     | <b>131</b>    | <b>178</b>    |
| <b>Cost of Goods Sold*</b>                       |               |               | <b>125</b>    | <b>124</b>    |
| Operating Expenses*                              | 7             | 5             | 54            | 63            |
| Interest Expense*                                |               |               | 2             | 10            |
| PBT  | (10)          | 21            | (51)          | (19)          |
| PAT  | (10)          | 17            | (56)          | (21)          |
| Total Assets                                     | 356           | 579           | 418           | 825           |
| Total Investments                                | 279           | 454           | 222           | 101           |
| Equity share Capital                             | 369           | 576           | 369           | 576           |
| Tangible Network                                 | 355           | 579           | 307           | 504           |
| Total Borrowings                                 |               |               | 56            | 169           |
| <b>Ratios (%)</b>                                |               |               |               |               |
| Overall Debt/ Equity ratio (times)               | -             | -             | 0.18          | 0.33          |
| Capital Adequacy Ratio                           | 102.81        | 108.48        |               |               |
| Op. expenses /Avg. cap. Emp.                     | 1.99          | 1.02          | 13.60         | 11.22         |
| PAT/total income (%)                             | NA            | 65.05         | NA            | NA            |
| Return on Net worth (%)                          | NA            | 3.53          | NA            | NA            |
| Return on Total Assets (%)                       | NA            | 3.58          | NA            | NA            |

*AKP* \* includes proportionate share in joint venture

Mr. V.K.Chopra, a Director on the Board of Pantaloon Retail India Ltd. (one of the promoters of FVIL) is CARE's Rating Committee Member. To comply with the regulations, the member has not participated in the grading process and the rating committee meeting.

### DISCLAIMER:

CARE's IPO grading is a one time assessment and the analysis draws heavily from the information provided by the issuer as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE, does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. CARE's IPO grading does not take cognizance of the price of the security and it is not a recommendation to buy, sell or hold shares/securities. It is also not a comment on the offer price or the listed price of the scrip. It does not imply that CARE performs an audit function or forensic exercise to detect fraud. It is also not a forecast of the future market performance and the earnings prospects of the issuer; also it does not indicate compliance/violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the IPO grading.

**Annexure II**

**Press Release**

**CARE assigns 'CARE IPO GRADE 3' to the IPO of Future Ventures India Ltd (FVIL)**

**Grading Assigned**

CARE has assigned a 'CARE IPO Grade 3' to the proposed IPO of FVIL. 'CARE IPO Grade 3' indicates **average fundamentals**. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the 'fundamentals' of the issuer.

FVIL proposes an initial public offering of Rs.750 crore through 100% book building process, representing 90.36% of the tangible Network (as on September 30,2010) of the company.

| Particulars | Issue size                                      | Grading <sup>1</sup>          | Remarks  |
|-------------|---|-------------------------------|----------|
| IPO Grading | Rs.750 crore through 100% book building process | 'CARE IPO Grade 3'<br>[Three] | Assigned |

**Grading Rationale**

The grading factors in Future group's established track record in the organized retail business in India, pan-India presence across multiple formats, implicit and explicit support to FVIL from Future group in the form of access to the expertise of the Future Group's management team, capital support from the promoters, mentoring and consulting services by Pantaloon Retail for nurturing FVIL's business ventures. The grading also considers the established market presence of most of the business ventures wherein FVIL has invested, across the value chain such as Lifestyle, FMCG and Food Product segments, as well as FVIL's robust capital adequacy levels and debt free financial profile (at standalone levels). Further, aggregation of investments in the retail sector also enhances the potential upside to FVIL's future divestment gains. The gradings are however constrained by the low profitability parameters of FVIL at standalone and consolidated level on account of its asset profile basically comprising investments in companies which are in nascent/growth stage of operations. FVIL's ability to successfully turnaround operationally and financially the business ventures, mobilise funds for providing the funding support to existing/new business ventures and profitably divest stake in its business ventures would eventually determine the success of its unique

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<sup>1</sup> Complete definition of the grading assigned is available at [www.careratings.com](http://www.careratings.com) and other publications of CARE

business model. Slowdown in economic growth in India might impact the growth prospectus of these companies.

### Company Profile

**FVIL is a part of the Future group, founded by Mr. Kishore Biyani.** Future is one of India's fast growing business houses with multiple businesses, spanning across the consumption space with retail forming the core business activity of the group. The Future Group has successfully demonstrated the ability to identify, incubate and grow various consumption-led businesses in India like Pantaloon Retail India Ltd, FCH, Future Media, Future Brands, Future Supply Chain and Future Bazaar, Central, Big Bazaar, Food Bazaar, Home Town and E-zone. FVIL is registered as a systemically important non deposit taking NBFC. The business model of FVIL is to invest in and operate innovative and emerging businesses in growing "consumption-led" sectors in India. In addition to providing capital, FVIL intends to create, operationally manage and strategically mentor these businesses, referred to as the "Business Ventures". The major business segments identified by FVIL are (i) fashion, (ii) FMCG, (iii) food processing, (iv) home products, (v) rural distribution and (v) vocational education. FVIL has operating Synergies with Future group in terms of sourcing, employees, marketing mentoring and research. FVIL is also likely to have an access to the expertise of Pantaloon, along with other arms of the Future Group, whose deep understanding of India's consumption-led sectors would be utilized in evaluating and monitoring the Business Ventures.

In line with the business model of the company, the asset book mainly comprises of Investments in business ventures. At standalone level, as on September 30, 2010, Investments accounted for 89% of FVIL's asset book (78% of the asset book as on March 31, 2010). As of Sept 30, 2010, FVIL had invested in 13 Business Ventures which have presence across different segments across the retail value chain. Investment in Indus League Clothing Limited (Lifestyle retailing), Future Consumer Enterprises Limited (FMCG), Aadhaar Retailing Limited (rural retailing) and Capital Foods Exports Pvt. Limited (food processing) comprise around 90% of FVIL's investments. The entire investment book of FVIL is financed through its Network. In the last two years the promoters have been regularly infusing capital in FVIL to fund the investments in business ventures. In line with its investment strategy FVIL funds the business ventures both in the form of equity and debt funding. FVIL is reporting profit at standalone levels in FY10 of Rs.21 crore (FY09:-Loss of Rs.10 crore). FVIL has made investments in business ventures mainly in the last two years. Majority of the subsidiaries/joint ventures are in their nascent stage of operations and are as yet reporting low returns

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on network. FVIL reports losses at consolidated levels (accumulated loss at consolidated level stood at Rs.75 cr as of Mar 31, 2010) mainly due to accumulated losses in its subsidiary Aadhar.

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