

EXECUTIVE SUMMARY PURSUANT TO THE PROVISIONS OF SEBI (PROHIBITION OF INSIDER TRADING) REGULATIONS, 2015 FOR THE FINANCIAL DUE DILIGENCE OF FUTURE LIFESTYLE FASHIONS LIMITED (“FLFL”) IN RESPECT OF A POTENTIAL INVESTMENT IN FLFL

1. FLFL is an integrated fashion company operating a chain of departmental retail format stores and portfolio of own and licensed brands, with 339 stores covering ~6.8 mn sqft of area
 - FLFL, incorporated on 30th May 2012 and listed on Indian stock exchanges w.e.f 1st October 2013, was formed through the demerger of the lifestyle fashion businesses of Future Retail Limited (formerly Pantaloon Retail (India) Limited) (‘FRL’) and Future Ventures India Limited (‘FVIL’). During 2013, vide Composite Scheme of Arrangement & Amalgamation between Indus-League Clothing Limited (‘ILCL’), Lee Cooper (India) Limited (‘LEE COOPER’), FVIL, FRL, FLFL and their respective shareholders and creditors:
 - i. Fashion business of ILCL was demerged into FVIL
 - ii. LEE COOPER was merged into FVIL
 - iii. Fashion business of FRL and FVIL was demerged into FLFL
 - During FY17, FLFL’s Lee Cooper branded business along with the corresponding license rights was carved out and transferred to Future Specialty Retail Limited (‘FSRL’), a step-down subsidiary of FLFL by way of slump sale, w.e.f 28th March 2017. Also, identified investments held in investee companies by FLFL have been transferred to its wholly owned special purpose vehicle FLFL Lifestyle Brands Limited (‘FLBL’) with effect from 29th March 2017. Subsequently, FLBL raised funds from certain investors, which resulted in dilution of FLFL’s equity stake in FLBL to ~49%. Accordingly, FLBL ceased to be a subsidiary of FLFL w.e.f 30th March 2017
2. Revenue for FLFL grew by ~27% in FY19 vs FY18. Revenue growth for Central was ~[14]% and Brand Factory was ~[53]%, and SSSG of [8.6]% in FY19, and [12.0]% in FY 18. Walk-ins and average ticket size for both Central and Brand Factory was also shared. This shows no material deviation from prior publicly disclosed information.
3. EBITDA margin maintained at 9.8% in FY18 and FY19.
4. Total reported debt of the combined FLFL and Lee Cooper business as of 31st March 2019 aggregated to ~INR 904 crore. Reported Debt to Equity ratio improved from 0.51 as of 31st March 2018 to 0.49 as of 31st March 2019.

5. Standard diligence process involved evaluation of Quality of Earnings ('QoE') and debt and debt-like items; as of 30th March 2019 for debt and debt-like items, and for the periods FY18 and FY19 for QoE. The analysis didn't reveal any material deviation from the reported numbers
6. Analysis of format level stores, space in square feet and Revenue was also part of the diligence. The data shared was inline with the reported numbers.

Head	FY 17		FY 18		FY 19	
	Central	Brand Factory	Central	Brand Factory	Central	Brand Factory
No of Stores	35	53	40	63	44	93
Sft In Mn	3.5	1.5	3.7	1.8	4	2.5
Rev Rs Crs	2,273	1,044	2,513	1,411	2,861	2,160

7. COGS to MRP ratio was provided for the top 7 brands of FLFL. It ranged from ~31%-35% in both FY18 and FY19.
8. Analysis on the mix of End of Season Sales ('EOSS') vs non-EOSS sales for both Central and Brand Factory, along with the % of mark-down offered during each was also performed as a part of the due diligence process. It was found to be in line with the market guidance provided.
9. Adjusted net working capital days declined from 73 days as of 31st March 2018 to 61 days as of 31st March 2019. Inventory days increased marginally because of inventory built up for upcoming stores whereas overall adjusted working capital shown improvement on account of better stock turns in comparison with vendor payment cycle.
10. Analysis on inventory, receivables and payables ageing was also performed as a part of the due diligence process, and was found to be in line with the market guidance provided.
11. Analysis on inventory shrinkage was also performed as a part of the due diligence process, and was found to be in line with the industry practice. Actual inventory shrinkage was 0.2-0.4% of net sales in FY18 and FY19.
12. Analysis on the mix of Sale or Return ('SOR') vs. Outright ('OR') for receivables and payables was also performed as a part of the due diligence process. Share of SOR receivables was [41%] and ~35% of the total receivables as of 31 March 2018 and 31st March 2019 respectively, while share of SOR payables was [~75%] and ~76% of the total payables as of 31st March 2018 and 31st March 2019 respectively.

13. Analysis on vendor concentration was also performed as a part of the due diligence process. It was observed that purchases from the top 10 vendors constituted ~35%-45% of the total purchases made during FY18 to FY19.

14. Investor was also provided with a detailed understanding of FLFL's business model. Information was shared on future guidance with respect to targeted revenue CAGR of 20%-22%, driven by new store openings and same store sales growth of 6% to 12% for its two large store formats. This combined with the fixed cost leverage from economies of scale and an increase in the share of the own brand sales to 45% over the next five years, should lead to an increase in the gross margins and EBITDA margins. Working capital and capex would remain in line with historical trends . All information provided was based on current market trends, and in line with recently published equity research reports.

EXECUTIVE SUMMARY PURSUANT TO THE PROVISIONS OF SEBI (PROHIBITION OF INSIDER TRADING) REGULATIONS, 2015 FOR THE LEGAL DUE DILIGENCE OF FUTURE LIFESTYLE FASHIONS LIMITED (“FLFL”) IN RESPECT OF A POTENTIAL INVESTMENT IN FLFL

1. Indebtedness of FLFL was reviewed, and the following legal documents were analysed: (i) secured long-term loans availed by FLFL; (ii) short-term loans availed by FLFL; and (iii) secured working capital consortium limits availed by FLFL. For the review of financial covenants and details of security, the listed FLFL banks were analysed.

Types of loans covered are secured term loan, secured working capital facility and short term revolving unsecured loan. Financial covenants reviewed were found to be in line with the market guidance provided.

2. Franchise agreements for FLFL were also reviewed (Lee Cooper – Apparel Franchise Agreement and Lee Cooper – Footwear Franchise Agreement, both with Iconix). These are related to the license for manufacturing and selling of apparel and footwear products under the ‘Lee Cooper’ trademark.
3. Material contracts for FLFL were also reviewed on a sample basis pertaining to lease agreements, customer contracts and third-party vendor agreements. Along with these, key terms of contract manufacturing agreements were also analysed. Also, FLFL does not enter into any long form contracts with respect to contract manufacturing, and these arrangements are done in the form of purchase orders issued from time to time.
4. There are no litigations, disputes, arbitration, legal proceedings or any threatened disputes/notices involving the Company pending in any court/tribunal or involving any governmental/statutory authority or third parties, which could lead to potential claims or liabilities above Rs. 10 crore for the Company.
