



# NAVIGATING GLOBAL SHIFTS

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CURRENCY  
VOLATILITY

INTERNATIONAL  
CREDIT SQUEEZE

TIGHT  
DOMESTIC CYCLE

GLOBAL  
RECESSION

GEOPOLITICAL  
TENSIONS



## CONTENTS

02	Message from the Chairman
03	Message from the MD and CEO
05	Introduction: Navigating Global Shifts
16	Corporate Information
17	Directors' Report
25	Management Discussion and Analysis
32	Report on Corporate Governance
43	Standalone Financial Statements
	- Auditors' Report
	- Standalone Balance Sheet
	- Standalone Profit & Loss Account
	- Standalone Cash Flow Statement
	- Notes to Accounts
85	Consolidated Financial Statements
	- Auditors' Report
	- Consolidated Balance Sheet
	- Consolidated Profit & Loss Account
	- Consolidated Cash Flow Statement
	- Notes to Accounts

## MESSAGE FROM THE CHAIRMAN



DEAR STAKEHOLDERS,

Future Group took an early bet on India's tryst with its economic transformation. When India began to liberalize in the Nineties, we were still in the womb. We were a growing toddler when the new economy ushered in fresh opportunities, and barely into our teens when Indian conglomerates started to spread their wings and diversify into the Indian consumption space. We understood the aspirations of Indian consumers—especially those of its young demographic profile. It was therefore incumbent on us to create businesses and enterprises that were locally relevant, yet globally muscled, staking our claim on the world stage.

Future Capital Holdings was among the key enterprises that emerged within Future Group to drive innovation and value creation through a combination of capital, knowledge creation and world-class talent.

It was designed to combine the entrepreneurial skills of world-class professionals with the extensive presence that Future Group has in the consumption and retailing space. The objective was to create a long-term sustainable business model that creates wealth for its customers, communities, investors and every stakeholder.

This year was witness to unprecedented global economic turmoil; FCH's business model, much like its peers in the global financial community, was put to the test. It was a time for some deep introspection: to review our strengths, operational efficiencies, business performance and values. Today, I am glad to share with you that FCH has emerged stronger and well placed to capitalize on emerging opportunities. Its business model is far more robust and primed for delivering more value and wealth creation to its community of stakeholders and the country as a whole. We are confident of our ability to make the best use of the opportunities that unravel as the economy prepares itself for a fresh phase of growth and development.

In the year ahead, Future Capital Holdings will

continue to focus on bringing about a paradigm shift in the financial services arena in India. The company will also invest its talent resources in developing dynamic strategies across asset classes, setting new standards for the practices of its peers in the financial sector.

I would like to thank my fellow colleagues on the Board of Directors of the company for their time and enthusiasm in guiding the management team through out the year. I also congratulate the leadership team and every member of the organization for showing exemplary skills during such an extraordinary year in the financial services industry.

Like our country, Future Group stands on the threshold of a time of unparalleled prosperity and promise. Like youth, we will evolve and mature. There will be changes and new learnings, but through it all, what will remain steadfast is our commitment to realizing our ambitions and delivering on our promise.

I take this opportunity to thank you all for your continuing support.

Warm regards,

**Kishore Biyani**, *Chairman*

## MESSAGE FROM THE MD AND CEO



DEAR PARTNERS,

It gives me great pleasure to present Future Capital Holdings' Annual Report for the year 2008-2009. The world has shifted dramatically since I last wrote to you, a year ago. And while there have been economic uncertainties, slowdowns and recessions in the past, probably none have tested managerial and leadership skills the way those skills have been tested throughout this most recent global financial crisis. However, in such adversity there also lies opportunity. Despite what was a trying economic climate, I am pleased to highlight our progress over the past year and the significant steps we undertook towards securing, preserving and enhancing our capital.

We developed a more focused, powerful and sleeker organization by strengthening our balance sheet, rationalizing costs and consolidating and simplifying our credit business.

The result is a stronger and nimbler company, better prepared to take advantage of emerging opportunities. Most importantly, these measures were taken without compromising our core values or the strong reputation we enjoy with the businesses we advise, bankers, financial institutions and international investors. Moreover, we have evolved our core businesses while continuing to protect our biggest asset: a world-class talent base.

We conceptualized Future Capital Holdings as a new age capital management and investing business that could play a crucial role in the development of the consumption-led economy in India. We underscore that philosophy in our fourth year of existence, and we have seen our business lines adapt to both global and local shifts.

Within our investment advisory business, we leveraged our active management style and the operational capabilities we have developed since inception. We were able to protect our capital in a year when many in the industry were overcome by public market financial upheavals. We continue to work closely, advising the businesses on defensive

approaches to issues (such as working capital requirements), offensive growth strategies and opportunities to seek new channels for revenues and, in some cases, to dominate individual sectors.

As operational expertise differentiated our private equity advisory business, so prudence and successful execution continued to be the cornerstone of our real estate advisory business. We are one of the few real estate advisory businesses in the region that chose to recommend that no new real estate investments be made for over two years, recognizing early signals of a bubble across our key markets within the country. In this environment, we remain focused on managing and developing our existing investments. We have seen significant progress in the execution of individual projects.

One of our achievements over the past year is having become the advisor to the investment manager of a logistics-focused fund, which was raised in the midst of a tumultuous environment. The logistics segment—specifically industrial warehousing—holds tremendous promise. Despite the boom in manufacturing and retail, there continues to be a dearth of organized players offering a pan-India network of quality industrial warehouses. Given overwhelming tenant demand and reduced construction costs, we believe the time is right to establish our presence in this sector and start building for the future.

## MESSAGE FROM THE MD AND CEO

We have built out our wholesale credit business, which focuses on structural credit, mezzanine capital and other special situations-related financing. Despite a year of restrictive norms and a tight credit environment, we have built a sizeable proprietary credit book. We believe that the credit business will continue to experience moderate growth in the next twelve to fifteen months. The year also saw us revising our strategy towards our retail credit business, and we took certain initiatives for long term sustainable growth. Underwriting standards were tightened to focus on building a high-quality portfolio, points of presence were rationalized, a new channel strategy with a minimal fixed cost structure was adopted and a consolidated and simplified structure was put into place to optimize costs and increase synergies.

I look ahead to the future with renewed optimism. Fundamentals indicate that India's trend real GDP growth rate is 6.0% over the next two decades. Excluding the agriculture and public sectors, this rate is closer to 7.5% with inflation forecasted at 4%. Therefore, our investing universe should have a topline growth rate of 11-12%. At nearly 60%, India continues to have one of the highest domestic

consumption/GDP shares in the region (in comparison, China's consumption share is 38% of GDP), and a bulk of consumer demand stems from low-income aspirant households tied to agriculture, which should see healthy growth in 2009. Further, India's banking system remains sound, well capitalized and conservatively regulated with the bulk of lending still carried out by state banks and an impressive credit growth of around 20%.

The recent parliamentary elections have resulted in a stable government coalition which should further boost confidence in the recovery and benefit structural reform. At FCH it promises to be a time of identifying and building on the existing platform and exploring new opportunities. I take this opportunity to thank our bankers, investors, shareholders and all stakeholders for their continued support and encouragement.

Best Regards,



**Sameer Sain, MD and CEO**

## INTRODUCTION: NAVIGATING GLOBAL SHIFTS

The last twelve months have brought one of the most severe economic adjustments the world has ever seen. Fuelled by the sub-prime and liquidity crisis, this economic adjustment brought the world to a standstill. Many economies around the world are now expected to contract.

Global shifts like these present deep challenges, as well as unique opportunities. Management and leadership will be tested like never before. Those who can navigate through these global shifts will emerge stronger, more flexible and more capable to lead a new economic reality.

Future Capital Holdings Limited (FCH) has built a new age capital management and investing business in India, focused on the domestic growth and consumption story. Around 60% of India's GDP is driven by consumption. Over half of the population is below the age of 25. We have positioned ourselves to participate in this structural growth story with a buy-side mindset. We are proud to have built a unique and differentiated financial services company over the past four years.

Every business at FCH responded effectively to navigate through the recent shifts in the global economy.

### FUTURE CAPITAL PRIVATE EQUITY (FCPE)

Our classic private equity approach guided us away from the exuberance for Private Investment in Public Equities (PIPEs) in India that dominated 2008. This strict discipline allowed FCPE to preserve capital. As conditions tightened, we mentored and worked closely with individual companies to better manage resources, focus on execution and increase presence within individual sectors.

### FUTURE CAPITAL REAL ESTATE (FCRE)

Our call to withhold investment recommendations in real estate for over two years helped us navigate away from the most severe leg of deterioration in land values. We focused on execution and ensured that all projects under our advisory achieved financial closure. Encouragingly, in the midst of deeply challenging macroeconomic conditions, we became advisors to the investment manager of a logistics-focused fund, a well-placed opportunity in the current environment.

### FUTURE CAPITAL CREDIT (FCC)

In our retail credit business, we spent a great deal of effort to tighten the underwriting standards and improve the quality of our portfolio. We rationalized the growth and prepared a new strategy to build this business going forward. We supplemented the lower growth of the retail credit business by creating a unique wholesale credit business, which focuses on structured credit, mezzanine capital and innovative financing solutions.

Our philosophy of building a world-class talent-driven business has ensured that we not just navigate successfully through global shifts, but actually emerge stronger, sleeker and more flexible to lead the next leg of growth.

## FUTURE CAPITAL PRIVATE EQUITY (FCPE)

# HOW DID FCPE NAVIGATE SHIFTS WITHIN PRIVATE EQUITY?

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# A CONSISTENTLY CONSERVATIVE APPROACH



The liquidity crunch and accompanying economic slowdown of 2008 hit private equity investors across the globe. Although the first six months of calendar year 2008 witnessed strong activity in India, by the second half of the year the tremors from the US mortgage crisis began taking a toll on the domestic market. In particular, Private Investment in Public Equity (PIPE) deals lost over 53% of their value.

Against this volatility, FCPE remained disciplined and committed to the philosophy we set out as advisors to our investment manager: that we will advise on domestic growth and consumption opportunities that would offer higher stable returns over the long run. We ensure high quality and sustainable value through our approach, which continues to be long-term and differentiated.

Our investment advisory philosophy is characterized by a classic private equity approach of conducting extensive due diligence, being rights- and terms-conscious and avoiding momentum plays and PIPE transactions. In addition, FCPE's substantial and dedicated in-house operations team plays an active, hands-on role in assisting investee companies of the fund—whose investment manager we advise—with developing business strategies, implementing growth plans and building operational efficiencies. Throughout the year, we cautioned individual companies on the looming macro headwinds. We helped them through their working capital issues, and revisited their growth strategies, in order to navigate effectively through the correction. In particular cases, businesses were able to gain valuable presence in their sectors.

## PAN INDIA FOOD SOLUTIONS

Compared to other countries, 'eating out' has traditionally not been an integral part of Indian culture. But things are changing. With growing affluence, higher disposable incomes and younger demographics, this category of consumer behavior has been evolving rapidly in recent years. Today, 'eating out' accounts for as high as 10% of total annual consumer spending across Indian nuclear families. The Food & Beverage (F&B) retail industry in India has remained highly fragmented and unorganized due to lack of back-end infrastructure and investments, with most of the restaurants being run as standalone outlets, usually run by the entrepreneur him/herself. Given the opportunity for the creation of a dominant food services company with a pan-India footprint, Indivision India Partners (IIP), whose investment manager FCPE advises, invested in Pan India Food Solutions Pvt Ltd (Blue Foods), India's leading restaurant company. Blue Foods is a unique platform with a mix of established fine dining and quick-service formats across all major metro areas, and a wide range of cuisines under the following brands: Copper Chimney, Noodle Bar, Bombay Blue, Spaghetti Kitchen, Cream Centre, Penne, Spoon and Food Talk.

In addition, Blue Foods is one of the largest retailers of gelato, under the brand Gelato Italiano, and operates coffee shops under the brand Coffee Bean & Tea Leaf. FCPE has been involved in advising the company to improve accounting, MIS systems, financial controls and other business processes. Blue Foods' organizational design has been reworked to create a regional structure of empowerment and accountability of targets—both revenue and profitability—with motivated teams working towards common organizational goals, in an effort to help scale up the company.

