

**EXECUTIVE SUMMARY PURSUANT TO THE PROVISIONS OF SEBI (PROHIBITION OF INSIDER TRADING) REGULATIONS, 2015 FOR THE FINANCIAL DUE DILIGENCE OF FUTURE CONSUMER ENTERPRISE LIMITED (“FCEL”) IN RESPECT OF PROPOSED INVESTMENT IN FCEL BY BLACK RIVER FOOD 2 PTE. LTD**

1. Future Group Companies are currently the key customers for FCEL & its subsidiaries. Further, gross margins on sales made to Future Group Companies has increased on a year on year basis from FY14 to six months period ended 30<sup>th</sup> September 2015 (YTD16) resulting in overall increase in margins for FCEL & its subsidiaries.
  - Revenue from Future Group companies (mainly Future Retail Limited (FRL)) comprised 48% and 56% of total revenue of Future Consumer Enterprise Ltd (including Aadhaar and Nilgiris) during FY15 and YTD16, respectively, mainly comprising of sale of agricultural products and FMCG products.
  - FCEL and FRL have renewed the supply agreement, as per which FCEL shall supply products (under brand name owned/ licensed by FCEL) for sale by FRL stores
    - Product category wise margins to be charged by FCEL on sale of products to FRL have been defined in the agreement.
  
2. Convenience store business of KBFP and Aadhaar stores to be carried under a master franchisee agreement with separate legal entities which will impact the consolidated revenue and profitability of FCEL.
  - KBFP stores and Aadhaar stores had combined retail revenue of MINR 3,066 and MINR 1,399 in FY15 and YTD16, respectively.
  - FCEL (i.e. franchisors) has entered into a master franchisee agreement (MFA) for a period of 7 years with FRL and other independent player (i.e. franchisee’s), respectively. Per terms of the MFA, FCEL shall discontinue operations of its owned stores operating under the brand Aadhaar, KB’s Fair Price, KB’s Conveniently Yours and Big Apple. Going forward, such stores (and any new stores to be operated under the above brand names) will be developed and operated by the franchisees.
  - Franchisors shall be entitled to a monthly franchisee fee of 1.25% of gross revenue (excluding taxes) from operation of such stores by the franchisee. Franchisee fee will be applicable on sale of products purchased from FCEL or external parties.
  - Additionally, FCEL shall supply certain products to FRL and other independent players, which are to be sold at the convenience stores operated by these franchisees. The franchisees have given estimated minimum annual commitments till FY21 to the respective franchisor.
  - Further, select employees and select leased facilities of the franchisors (used for operating the owned stores) have been transferred to the franchisee effective 1st February 2016.
  - FY15 and YTD16 EBITDA for KBFP division aggregated (-ve) MINR 332 and (-ve) 133, respectively.
  
3. Q3FY16 Reported EBITDA (including other income) of MINR 46 at FCEL consolidated level, a positive improvement compared to preceding two quarters

- All key operating entities i.e. FCEL (standalone), Aadhaar and Nilgiris have witnessed improvement in contribution and EBITDA margins on a YoY basis from FY14 to YTD16. However, reported EBITDA remained negative during all 3 years.
4. Reported debt at a consolidated level aggregated MINR 5,656 at 30 Sep 2015.
- Reported consolidated debt at 30 Sep 2015 includes term loans from banks, foreign currency loans, Non Convertible Debentures and advances from other JV partners aggregating MINR 4,246, primarily obtained for capex requirements of the business. Additionally, reported debt also includes MINR 1,410 of cash credit / buyer's credit facilities utilized for funding the working capital requirement of the business.
5. Working capital balances are primarily dependent on payment pattern from Group companies
- Adjusted working capital requirements the all operating legal entities were different with:
    - Adjusted working requirements of FCEL (standalone) being around 16% of LTM revenue and around 55-58 days of revenue at 31 Mar 2015 and 30 Sep 2015
    - Adjusted working requirements of Aadhaar was around 5% - 9% of LTM revenue at 31 Mar 2015 and 30 Sep 2015 with improvement at 30 Sep 2015 due to faster realizations from Group Companies and lower inventory levels;
    - Adjusted working requirements of Nilgiris were minimal at 31 Mar 2015 and 30 Sep 2015
6. Other matters
- IFPPL: The Company has already completed the lease deed with the government authorities for 84 acres (out of 108 acres) of land on which the food park has been constructed.
  - Aussee Oats Milling Pvt Ltd: Leased around 3.25 acres from Board of Investment of Sri Lanka which is used for construction of manufacturing facility. This entity has already commenced manufacturing operations.
  - Tax related matters: Potential indirect tax matters primarily relate to ongoing litigation differential tax liability resulting on account of non-submission of statutory declaration forms. Further, direct tax matters primarily comprise of potential disallowances of certain expenses and ongoing litigations. Further, FCEL and its subsidiaries have carried forward losses and unabsorbed depreciation available for utilization going forward.

**EXECUTIVE SUMMARY PURSUANT TO THE PROVISIONS OF THE SEBI (PROHIBITION OF INSIDER TRADING) REGULATIONS, 2015 FOR THE LEGAL DOCUMENTARY DUE DILIGENCE OF FUTURE CONSUMER ENTERPRISE LIMITED (“COMPANY”) IN CONNECTION WITH THE PROPOSED INVESTMENT IN THE COMPANY BY BLACK RIVER FOOD 2 PTE. LTD (“PROPOSED TRANSACTION”) (as of January 16, 2016)**

**(i) CORPORATE AFFAIRS**

- The Company, a public company limited by shares, was incorporated on July 10, 1996 with corporate identification number L52602MH1996PLC192090 under the 1956 Act. The registered office of the Company is situated at Knowledge House, Shyam Nagar, Off Jogeshwari-Vikhroli Link Road, Jogeshwari (East), Mumbai – 400060. We understand from the Company that the registered office of the Company is not owned by the Company.
- The key business of the Company consists of manufacturing, sourcing, processing, branding, and distribution of food and fast moving consumer goods (“FMCG”) products. We understand that the Company operates convenience stores under the format names of KB’s Fair Price (“KBFP”), KB’s Conveniently Yours (“KBCY”) and Big Apple. The details of these stores and other corporate offices, warehouses and distribution centres pertaining to these stores operated by the Company are set out below:

Number of Stores	No. of Warehouses / Distribution Centres	No. of Corporate Offices
<b>Total: 119</b>	<b>Total: 3</b>	<b>Total: 2</b>
<b>KBFP: 79</b>	<b>Leased by Company:3</b>	<b>Leased by Company: 2</b>
<b>KBCY: 34</b>		
<b>Big Apple:6</b>		

*Note: In terms of the corporate action being undertaken and agreements being contemplated by the Company it is proposed that, as a condition precedent to the Proposed Transaction, the aforesaid stores will cease to be operated by the Company and will instead be operated by related/third party entities under a franchisee model.*

- As per the latest annual report of the Company for the financial year 2014-2015, the share capital of the Company is as follows:

<b>Authorized Share Capital</b>	Rs. 50,60,00,00,000 comprising of 5,65,00,00,000 equity shares of Rs. 6 each and 167,00,00,000 unclassified shares of Rs.10 each.
<b>Issued, Subscribed and Paid-up Share Capital</b>	Rs. 9,94,28,64,228 divided into 1,65,71,44,038 equity shares of Rs. 6 each.

- Based on the filings made by the Company with BSE Limited, the shareholding pattern of the Company as of September 30, 2015 is as follows:

Category of Shareholder	Shareholding Percentage	Number of Shareholders
Promoter and Promoter Group (there are no foreign shareholders)	43.58%	15
Public	Institutions – 18.58%	20
	Non-Institutions –37.84%	34,543

5. Corporate consents required to be obtained by the Company in relation to the Proposed Transaction: The Company has obtained consent of its board of directors on December 26, 2015 and will be required to obtain consent of its shareholders (as a special resolution) in relation to the Proposed Transaction (entailing issuance of equity securities of the Company and consequent amendments to the articles of association of the Company).
6. We note from the shareholders' resolutions that a scheme of amalgamation and arrangement involving merger of Future Agrovvet Limited ("FAL"), a wholly owned subsidiary of the Company, with the Company ("Scheme") was approved by the shareholders of the Company on August 01, 2014. We further understand that the Scheme was approved by the Bombay High Court on January 30, 2015 and given effect to from April 01, 2014. We have not reviewed a copy of the Scheme, however, we understand that pursuant to the Scheme the business of FAL comprising of the business of procuring, processing and supplying of agricultural commodities in loose and packaged form under various private brands has been transferred to the Company. We understand from the Company that it has completed the process of implementing the Scheme by intimating, *inter alia*, the relevant lessors, governmental authorities and insurers of FAL regarding the Scheme and getting such lease deeds, insurance policies and consents and approvals transferred/assigned in the name of the Company, wherever necessary.

(ii) **MATERIAL CONTRACTS**

1. We understand that the Company has executed the following contracts exceeding Rs. 10,00,00,000 (Rupees ten crores) by value:
  - 1.1 Master services agreement dated June 02, 2015 between the Company and Nufuture Digital (India) Limited ("Nufuture") ("Nufuture MSA").
  - 1.2 Tripartite agreement dated June 02, 2015 between the Company, Nufuture and Axis Trustee Services Limited pursuant to the Nufuture MSA.
  - 1.3 Master lease agreement dated June 26, 2015 between Future Ideas Company Limited ("FICL") and the Company ("FICL MLA").
  - 1.4 Tripartite agreement dated June 26, 2015 between the Company, FICL and Axis Trustee Services Limited pursuant to the FICL MLA.
  - 1.5 Joint venture agreement dated August 17, 2015 between Mibelle AG, the Company and Mibelle Future Consumer Products AG for establishment of Mibelle JV as a joint venture company.
  - 1.6 Debenture trust deed dated May 16, 2015 between the Company, Appu Nutritions Private Limited, Nilgiri's Mechanised Bakery Private Limited, The Nilgiri Dairy Farm Private Limited and IL&FS Trust Company Limited pursuant to which the Company has issued 1,000 (one thousand) rated, listed, secured, redeemable non-convertible debentures ("NCDs") in two series: 400 (four hundred) Series A and 600 (six hundred) Series B, to privately placed mutual funds of an amount of Rs. 100,00,00,000 (Rs. one hundred crore) on March 17, 2015 and which are listed on the wholesale debt segment of BSE.
  - 1.7 Business transfer agreement dated May 22, 2015 between the Company and Grasim Industries Limited ("Grasim") pursuant to which Grasim has transferred its consumer products division for manufacturing and distribution of skin care, home care, baby care, wet wipes and hand sanitizers under the trade names "Kara", "Purretta", "Handys" and "Prim" to the Company on a slump sale basis as a going concern.

2. We understand from the Company that apart from the above, there are no contracts exceeding Rs.10,00,00,000 (Rupees ten crores) by value that have been entered into by the Company.

**(iii) CONSENTS & APPROVALS**

1. We have been provided with a list of establishment and employee related consents and approvals obtained by the Company for its retail stores and distribution centres/godowns and corporate offices. Please note that we have only done a sample check of the establishment and employee related approvals and consents for the Company. In most cases, we have relied upon the information made available to us by the Company.
2. Please note that some of the consents and approvals were originally obtained by FAL. We understand from the Company that all such consents and approvals have been assigned/transferred to the Company pursuant to the Scheme.
3. Based on the information made available to us by the Company, we note that the necessary licenses are largely in place for the Company.

**(iv) PROPERTIES**

1. The Company owns the following immovable property, which we understand is currently being used for the purpose of premises is used as warehouse for storing and packing of goods:

Location of the Property	Area (in square feet)
Plot No.1280, H.S.D.C., Industrial Area - Rai Distt - Sonapat	1210.95

2. The Company has also obtained on lease certain properties which are used as offices, retail stores, warehouses and distribution centres. We also understand that the Company is operating certain stores on a franchisee basis. The details of these premises are set out below:

Company/ format	Total number of Stores	Owne d Stores	Lease d Stores	Franchise Stores	Total number of warehouses, distribution centres, depots, godowns	Total no. of corpor ate offices
KBFP	79	0	77	2	0	0
KBCY	34	0	34	0	0	0
Big Apple	6	0	6	0	0	0
<b>Total</b>	119	0	117	2	3	2

3. Please note that some premises being used by the Company were originally obtained on lease by FAL. Further, pursuant to the Scheme, the business of FAL has been transferred to the Company. We understand from the Company that it has completed the process of implementing the Scheme by intimating, *inter alia*, relevant lessors of FAL regarding the Scheme and getting such lease deeds transferred/assigned in the name of the Company, wherever necessary.

**(v) HUMAN RESOURCES**

1. We understand from the Company that the Company has approximately 2033 (two thousand and thirty three) employees. We have further been given to understand that the Company engages 130 (one hundred and thirty) persons by way of contract labour. However, we have not reviewed the registrations obtained by the Company under the Contract Labour (Regulation and Abolition) Act, 1970 in respect of the contract labour employed by the Company.
2. The Company carries on its business from various locations across various States in India. A store-wise list of employees of the Company is set out below:

Format Stores	Total number of Stores	Number of employees
KBFP	77	558
KBCY	34	414
Big Apple	6	55
<b>Total</b>	<b>117</b>	<b>1027</b>

3. We have been informed by the Company that there are no labour unions, collective bargaining arrangements or any other organisation/ association of the employees of the Company. We also understand that that the Company does not have any manufacturing units.
4. The Company has issued two employee stock option plans: one in 2011 and one in 2014.
5. Based on the information made available to us by the Company, we note that the necessary registrations under applicable labour and employment statutes are largely in place for the Company.

**(vi) FINANCIAL INDEBTEDNESS**

We note from the annual report of the Company for the financial year 2014-2015 that the Company has availed certain secured long term loans and short term borrowings including working capital loans from banks amounting, in aggregate, to Rs. 443,88,81,000 (Rupees four hundred and forty three crores eighty eight lakhs and eighty one thousand) and has also issued the NCDs described at paragraph (ii)1.6 above.

**(vii) INTELLECTUAL PROPERTY**

1. The Company uses 31 (thirty one) brands in respect of its business, which include both owned and licensed brands.
2. In respect of the above mentioned 31 (thirty one) brands, the Company currently uses a total of 142 (one hundred and forty two) trademarks under various classes, of which 66 (sixty six) trademarks are owned by the Company and 76 (seventy six) trademarks are licensed to the Company by other entities. We understand from the Company that to the best of its knowledge, no litigations, disputes, arbitration, legal proceedings or any threatened disputes/notices have been initiated against the Company in respect of these trademarks, except for the oppositions/ rectifications to registrations of certain trademarks.
3. While many of the trademarks are pending registration and do not currently enjoy statutory protection, they do however, enjoy protection under the law of passing off. India being a common law country recognises the use of unregistered trademarks and the goodwill accruing

therefrom. Indian courts have, on several occasions, upheld the rights accrued by virtue of use of a trade mark in respect of goods or services, even if the subject trade mark has not been registered. However, registration of a trade mark acts as a prima facie evidence of the validity of the trade mark and such statutory protection allows the proprietor to initiate *inter alia* infringement action against third parties. Under Indian law, a combined action for infringement and passing off is permissible. In India, a trade mark is registered for a period of 10 (ten) years and may be subsequently renewed every 10 (ten) years.

4. The Trade Marks Registry's online records, in respect of the following trade marks do not indicate if a request for renewal of the subject trade mark has been filed with the Trade Marks Registry. The Company confirms that they are not aware if such a request has been filed.

Trade Mark	Application/ Registration No.
Tendulkar's (Label)	1231255
Tendulkar's (Label)	1231256
Tendulkar's (Label)	1231257
Tendulkar's (Label)	1231258
Tendulkar's (Label)	1231259
Tendulkar's (Label)	1231261
Tendulkar's (Label)	1231262
Sachin's Where the Food Also Scores (Label)	1288099
Score Sports Bar (Label)	1307384
Score Sports Bar (Label)	1307385
Score Sports Bar (Label)	1307386
Sachin's Where the Food Also Scores (Label)	1288098

**(viii) LITIGATIONS**

We understand from the Company that 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 of above Rs. 25,00,00,000 (Rupees twenty five crores) for the Company.

**(ix) INSURANCE**

1. We understand from the Company that the Company has obtained comprehensive insurance policies in respect of its assets.
2. Please note that some of the insurance policies were originally obtained by FAL. We understand from the Company that all such insurance policies have been assigned/transferred to the Company pursuant to the Scheme.