Health & Glow Private Limited

November 27, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	77.41 (Reduced from 80.00)	CARE BBB-; Stable	Reaffirmed and removed from Rating Watch with Developing Implications; Stable outlook assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating of bank facilities of Health & Glow Private Limited (HGPL) were placed under 'Rating watch with developing implications' (RWD), post-acquisition by Bright Star Investments Private Limited (BSIPL) in July 2023 due to lack of clarity regarding business plans and overall management of the company. The company has now shared the business plan with CARE Ratings Limited (CARE Ratings) and accordingly the ratings have been removed from RWD.

Post acquisition of HGPL by BSIPL, the company will primarily focus on brick-and-mortar model. The company's brick-and-mortar stores' PBT losses have been reducing and in CARE Ratings' opinion the trend to continue on the back of several operational costs rationalization processes being planned by the company. The rating also factors in that the need-based support would be available from new shareholders, viz. BSIPL to fund losses and debt repayments in timely manner thereby maintaining external debt at reasonable levels.

The rating continues to positively factor in strong promoter support, well-established presence, and brand recognition of "Health & Glow" (H&G) outlets with a diversified product portfolio in healthcare and beauty segment, its asset-light business model. The rating also positively takes note of improvement in store-level profitability supported by increasing consumer demand for beauty and health care products which resulted in improved footfall as reflected in increase in the number of bills by 37% in FY23.

However, these rating strengths are partially offset by the continued net losses as a result of the continuation of losses from e-commerce division and high fixed cost. CARE Ratings expects that the company may continue to incur losses in the near to medium term owing to gestation period involved with new stores to break-even. The rating also continues to factor in intense competition from organised and unorganised players as well as e-commerce players and modest net worth base of the company.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Continued support from the promoters for liquidity and to maintain total debt (TD; including lease liabilities)/profit before depreciation, interest, and taxes (PBDIT) less than 2.5x

Negative factors

- Lack of continued financial support from the promoters in case of liquidity mismatch and aggressive debt-funded capex resulting in a deterioration of the overall liquidity profile

Analytical approach: Standalone along with factoring in support from Bright Star Investments Private Limited.

Outlook: Stable

CARE Ratings believes that HGPL will continue to sustain its scale of operation aided by increasing consumer demand for beauty and health care products.

Detailed description of the key rating drivers:

Key strengths

Experienced and resourceful promoters

HGPL previously promoted & managed by the Rajan Raheja group and the Hemendra Kothari group. As strategic investment, BSIPL, an investment arm of Radhakishan Damani, acquired HGPL July 11, 2023. Radhakishan Damani, a renowned investor and founder of Avenue Supermarts Limited operates one of the largest retail chains, D-mart in India. Apart from Avenue Supermarts, the shareholders have also experience in operating other retail chains and growing the business profitably. In CARE Ratings' opinion, HGPL would also benefit from such expertise of shareholders in scaling up of operations profitably.

Well-established presence and brand recognition

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The company operates health and beauty retail stores under the brand name of 'Health & Glow'. HGPL has a well-established presence in South India. Over the years, the company has been expanding its reach in the existing markets as well as forayed in newer geographies. The company has 171 (FY22: 162) operational stores as on September 30, 2023, across various geographies. CARE Ratings expects that with a wide range of brands and products of renowned and distinguished international brands across different categories including cosmetics, skin care, hair care, health care etc. would continue to attract regular footfall in its stores. For FY23 and H1FY24, number of bills increased by 37% and around 5% on Y-o-Y basis.

Asset-light model

HGPL follows asset-light model wherein all stores are under lease arrangement leading to lower capital investment and flexible fixtures can be reassembled and reused. Furthermore, HGPL also has flexibility to shift location, if required. HGPL continues to be the largest chain of dedicated retail stores under beauty & personal care segment in India. Although HGPL remains concentrated in South India (with Bengaluru, Chennai, Hyderabad and Cochin accounting for 82% of total stores), it has also expanded their presence in newer markets like Mumbai, Pune etc. since FY20. The company has plans to add significantly new stores during FY25 which in CARE Ratings' opinion would further improve its geographical reach and will aid in income growth.

Limited reliance on debt with losses funded primarily out of equity infusion by the promoters

Despite losses reported by the company since FY21, the company's reliance on working capital borrowing has been limited due to inventory rationalization and consistent equity infusion from the promoters. The promoters have infused ₹40 cr during FY23 to support the business. Post-acquisition by Bright Star Investments Private Limited, HGPL received ₹6.5 crore of unsecured loan from the new promoters to fund the non-operational expenses which demonstrate their confidence in the company's improving operational performance. CARE Ratings expects that HGPL will continue to receive support to the extent needed for business from the shareholders.

Key weaknesses

Weak profitability levels though improving gradually

The company had been incurring PBT level losses due to its high fixed costs and lower store level operating profits. The losses increased during FY21 and FY22 due to the impact of COVID-19 resulting in closure of stores. However, PBT loss has reduced significantly form ₹51 cr in FY22 to around ₹39 cr in FY23. Owing to increasing consumer disposable income and their increasing preference for safe and quality products, the company's average bill value is displaying increasing trend which increased from ₹988 in FY23 (FY22" ₹796) to ₹1,023 in H1FY24. The company has been witnessing improvement in store-level profitability supported by increasing demand and improving footfall as reflected in increase in the number of bills by 37% in FY23. Going froward, the company is planning to completely focus on store-level sales which will bring down net losses incurred by the company from e-com segment and therefore a significant improvement in PBT is expected by CARE Ratings in FY24 and FY25. The company is also undertaking several other measures to improve store-level profitability by rationalizing its product mix and cost structure which would be beneficial for HGPL in the medium to long term.

Intense competition from organized, unorganized as well as e-commerce space

HGPL which mainly caters to health and beauty segment remains susceptible to customer spending which is discretionary and vulnerable to pullbacks in economic downturns. Moreover, there is intense competition from organized multi-brand and single-brand retailers, apart from ecommerce players which leads to pricing pressure.

Working capital-intensive industry nature of business

Retailing business is highly working capital intensive mainly on account of high level of inventory required to be maintained to offer wide range of choice and product assortment, to its consumers. To support its increasing scale of operations, HGPL had availed additional working capital limit and the average utilization stood at 73% for 12 months ending September 2023. During FY21, HGPL has opted for 'Payment on Sale Model' under which payments to supplier are made only after the goods are sold. HGPL has also discontinued slow-moving product categories like baby care and dental care and gradual reduction in minimum shelf quantity. Furthermore, to regulate the inventory across various stores, HGPL has implemented various steps to maintain inventory based on regional preferences, volume of stock based on store potential and timely monitoring and return of slow-moving stock. HGPL follows inventory-led model, its operating cycle stood at nine days in FY23. Going forward, with the rise in the number of stores, efficient working capital management will be critical to keep a check on leverage levels.

Liquidity: Adequate

The company derives financial flexibility from its new shareholder, Bright Star Investments Private Limited which aids the company in securing bank lines. Despite incurring losses, the company has not relied on additional bank finance but has managed the liquidity with fund infusion of ₹40 crore in FY23 from its previous promoters. In July 2023, the company has received ₹6.5 cr of unsecured loan from directors to fund its overhead expenses and is expecting equity infusion to the extent needed for business in future. The company's month-end working capital utilization for 12 months stood at 73% ending September 2023. CARE Ratings expects the company will receive continuous fund infusion from the new promoters which will provide liquidity cushion to the company and will support its growing business requirements.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Retail
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Consumer services	Retailing	Speciality retail

Initially promoted by the Rajan Raheja group & the Hemendra Kothari group, HGPL operates healthcare & beauty-care stores under "Health and Glow" (H&G) brand. On July 11, 2023, BSIPL acquired entre stake in HGPL. As on September 30, 2023, HGPL operates 171 stores (March 2023: 174 stores) with total retail space of 1.55 lsf across India.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Sep 30, 2023 (UA)
Total operating income	200.66	345.80	187.33
PBILDT	-9.19	18.16	-8.02
PAT	-51.00	-38.88	-16.21
Overall gearing (times)	NM	NM	NA
Interest coverage (times)	NM	NM	NM

A: Audited UA: Unaudited; Sep 30, 2023, financials are on IGAAP basis; NM: Not meaningful; NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan	-	-	-	March 2025	7.91	CARE BBB-; Stable
Fund-based - LT-Working capital limits	-	-	-	-	69.50	CARE BBB-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Working capital limits	LT	69.50	CARE BBB-; Stable	1)CARE BBB- (RWD) (01-Aug-23)	1)CARE BBB-; Stable (21-Nov-22)	1)CARE BBB-; Negative (03-Jan-22)	1)CARE BBB-; Negative (07-Jan-21) 2)CARE BBB-; Negative (19-May-20)
2	Fund-based - LT-Term loan	LT	7.91	CARE BBB-; Stable	1)CARE BBB- (RWD) (01-Aug-23)	1)CARE BBB-; Stable (21-Nov-22)	-	-

LT: Long term, RWD: Rating watch with developing implications

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term loan	Simple
2	Fund-based - LT-Working capital limits	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3404 E-mail: saikat.roy@careedge.in	Karthik Raj K Director **CARE Ratings Limited** Phone: +91-80-4662 5555 E-mail: karthik.raj@careedge.in Himanshu Jain Associate Director **CARE Ratings Limited** Phone: +91-80-4662 5555 E-mail: himanshu.jain@careedge.in Preeti Narkhede Rating Analyst **CARE Ratings Limited** E-mail: Preeti.Narkhede@careedge.in

About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in