Health & Glow Private Limited

November 21, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	15.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Long-term bank facilities	65.00 (Reduced from 80.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Total bank facilities	**80.00 (₹ Eighty crore only)**		

Detailed rationale and key rating drivers

The revision in the outlook assigned to the bank facilities of Health & Glow Private Limited (HGPL) reflects gradual improvement in the company's operations on month-on-month basis reaching around 90% of pre-COVID-19 sales during H1FY23. Moreover, the company has cut down its losses significantly during H1FY23 as compared to H1FY22. The store business have recovered with some challenges in walk-ins continuing to be in territories like Bangalore and West, owing to delayed return of employees working from office in these territories. The H1FY23 losses has been primarily on account of E-Com business where the investments continue to be made by the Company. The losses incurred in the past year and investments for the current year have been primarily funded by infusion by promoters of ₹85 crores (₹45 crore in FY22 and ₹40 crore in H1FY23) in the form of preference capital that are subordinated to bank debts. In view of the improved demand, the company also has expansionary plans to open several new stores over next 5 years on pan India basis which will further support growth in scale. CARE Ratings Limited believes that company may continue to incur losses in near to medium term owing to gestation period involved with new stores to break-even as well as proposed ramp up in e-commerce business by leveraging upon the brand recall and wide brick and mortar network it has created. However, such losses are likely to be majorly funded with equity infusion from shareholders thereby maintaining debt at manageable levels.

The rating also continues to positively factor in experienced and resourceful promoters on back of which company is able to raise unsecured limits from banks, 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 and the company's various initiatives to generate revenue through maximum utilization of space in the store to reduce the store operational cost and create avenue for additional revenue generation. The rating also considers lower operating cycle of the company despite working capital intensive nature of the retail industry. These rating strengths are partially offset by weak profitability levels which is expected to continue over the medium term with continuation of losses from e-commerce division and costs associated with opening of new stores and write-off of fixed assets on closure of stores. The rating also continues to factor in intense competition from organised and unorganised players as well as e-commerce segment and modest networth base of the company.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Continued support from the promoters for liquidity and to maintain total debt (including lease liabilities)/ PBDIT less than 2.5x.

Negative factors – Factors that could lead to negative rating action/downgrade:

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

Outlook: Stable

The revision in outlook from 'Negative' to 'Stable' factors in revenues inching back to pre-Covid levels translating into reduction in losses which are primarily supported by from fund infusion from shareholders.

Detailed description of the key rating drivers

<u>Key rating strengths</u>

Experienced and resourceful promoters

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

HGPL is promoted & managed by the Rajan Raheja group and the Hemendra Kothari group. The Rajan Raheja group operates in a range of business ventures which includes manufacturing, media, insurance, retail and software. Mr. Hemendra Kothari is a veteran investment banker, and fully owns investment firm DSP Investment Managers Pvt. Ltd. HGPL benefits immensely from the experience of its promoters in various businesses as well as their financial resourcefulness resulting in continued financial support demonstrated in the past.

Well-established presence and brand recognition:
HGPL has a well-established presence in South India. Over the years, company has been expanding H&G's reach in the existing markets as well as forayed in newer geographies. The company operates with 172 H&G stores as on September 30, 2022 across various geographies. The store offers 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. which attracts regular footfall in its stores.

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. Further, 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 and plans to open new stores in tier-2 and tier-3 cities. Company has added 10 new stores during H1FY23 and plans to add another 25 stores during H2FY23. Addition of stores will aid income growth and relatively lower gestation period associated with these stores would ensure faster achievement of break-even.

Comfortable operating cycle despite working capital-intensive industry
The company's dependence on short-term bank borrowings remained limited with average utilisation at 50% in the last 12 months ending October 2022. 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. Although HGPL follows inventory led model, the company's operating cycle was negative in FY22 vis-à-vis 6 days in previous year due to following 'Direct Supply to Store Model' wherein the stores receive the direct supply from the dealer/distributors. 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. Further, 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. Going forward, with the rise in the number of stores, efficient working capital management will be critical to keep a check on leverage levels.

Limited reliance on debt with losses funded primarily out of equity infusion by the promoters Despite losses reported by the company since FY21, company's reliance on working capital borrowing has been limited due to inventory rationalization and consistent equity infusion from promoters. The promoters have infused ₹45 crore during FY22 and another ₹40 crore during H1FY23 to support the business. The promoters have demonstrated support in the past, by infusing funds to support the operations of the company. Moreover, given the fact, HGPL belongs to Rajan Raheja group, and Hemendra Kothari group, it provides the financial flexibility to HGPL to raise additional banking lines.

Key rating weaknesses

Weak profitability levels expected to continue over medium term though improvement seen in the recent past:
Till FY18, when Foodworld and H&G division were operating in the company, H&G division was profit making. However, even after hiving off Foodworld division, overheads have grown in line with inflationary trends for the company while sales continued to be subdued, compared to gradual recovery in sales growth. continued to remain high for the company resulting in PBT loss since FY20. Increase in PBT loss in FY21 and FY22 was also due to sharp decline in company's sales due to disruptions caused by COVID-19 pandemic. H&G has started doing profitable business at store level from H2FY22. The average bill value has increased from ₹ 796 (FY22) to ₹ 924(H1FY23). The company is likely to continue to incur loss in near to medium term due to investments increased overheads from increased in Ecom business. Going forward, quick turnaround of company's operations while maintaining the debt at satisfactory levels and receipt of envisaged equity infusion during continued losses would be key rating monitorable.

Intense competition from organised, 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 e-commerce players which leads to pricing pressure. However, the traction in e-commerce sales is gaining momentum over the years, and so the company is focusing on e-commerce business based on the changing consumer preferences. An IT professional team has been hired to improvise the user interface and add increase the product offering in the mobile application.

Liquidity: **Adequate**

The company derives financial flexibility from being part of strong promoter group which aids in securing additional bank lines. Despite incurring continued losses, company has not relied on additional bank finance but has managed the liquidity with fund infusion of ₹45 crore and ₹40 crore during FY22 and H1FY23 respectively. The company had unavailed bank lines of ₹54 crore as on September 30, 2022. CARE expects fund infusion from promoters to continue to support growing business requirements, which would also be critical for HGPL to maintain adequate liquidity.

Analytical approach

Standalone along with factoring in company being part of renowned group Rajan Raheja Group & Hemendra Kothari Group from which it derives financial flexibility as seen in the past track record of funding support provided.

Applicable criteria

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

About the company

Promoted by Rajan Raheja group & Hemendra Kothari group, Health & Glow Private Limited (HGPL; erstwhile Foodworld Supermarkets Private Limited (FSPL)), started as operator of chain of supermarket stores by the name of Foodworld (previously Spencer's daily). Later, with effect from January 01, 2015, HGPL acquired all healthcare & beauty-care stores under "Health and Glow" (H&G) brand, by way of a slump-sale from Health & Glow Retailing Pvt. Ltd. (HGRL, sister concern). Furthermore, on May 21, 2018, HGPL signed a Business Transfer Agreement to sell Foodworld stores (38 stores at that time) to Future Retail Limited (FRL) under slump sale arrangement, and the same was concluded on June 01, 2018. Post the completion of transaction, company changed its name from Foodworld Supermarkets Private Limited to Health & Glow Private Limited. As on September 30, 2022, HGPL operates 172 'Health & Glow' stores (Mar'22: 162 stores) under healthcare and beauty care segment with total retail space of 1.55 lakh sq. ft. across India.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Sep 30, 2022 (UA)
Total operating income	163.80	200.66	156
PBILDT	-6.54	-9.19	-12.2
PAT	-44.96	-51.00	-20.6
Overall gearing (times)	23.52	NM	NA
Interest coverage (times)	NM	NM	NM

A: Audited; UA: Un-audited; H1FY23 financials are on IGAAP basis; NM- Not meaningful; NA- Not available

Status of non-cooperation with previous CRA:
Not Applicable

Any other information: Not Applicable

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

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

Complexity level of various instruments rated for this company: Annexure-4

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	15.00	CARE BBB-; Stable
Fund-based - LT-Working Capital Limits	-	-	-	-	65.00	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Working capital limits	LT*	65.00	CARE BBB-; Stable	-	1)CARE BBB-; Negative (03-Jan-22)	1)CARE BBB-; Negative (07-Jan-21) 2)CARE BBB-; Negative (19-May-20)	1)CARE BBB-; Stable (14-Nov-19)
2	Fund-based - LT-Term loan	LT	15.00	CARE BBB-; Stable	-	-	-	-

*Long term

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I.	Total external debt not to exceed 50 crores at any point in time
B. Non-financial covenants	
I.	Rajan Raheja Group and Hemendra Kothari Group to maintain their respective shareholding either directly or indirectly.
II.	Borrowers to continue to subordinate redeemable preference shares.

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working Capital Limits	Simple

Annexure-5: Bank lender details for this company

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

Note on 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.

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About us:
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