Emami Frank Ross Limited
February 25, 2021

Rating

<table>
<thead>
<tr>
<th>Facilities</th>
<th>Amount (Rs. crore)</th>
<th>Rating¹</th>
<th>Rating Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term Bank Facilities</td>
<td>45.00</td>
<td>CARE BBB; Stable (Triple B; Outlook: Stable)</td>
<td>Reaffirmed</td>
</tr>
</tbody>
</table>

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facility of Emami Frank Ross Ltd (EFRL) continues to draw strength from the long and satisfactory track record of the company with strong financial flexibility of the Emami group, demonstrated financial support from the group and its promoters and willingness of continuity of support as and when required. The rating continues to factor in growing number of retail pharmacy outlets and moderate operational performance in FY20 (refers to the period from April 01 to March 31) albeit deterioration in H1FY21 on account of Outpatient Departments (OPDs) being non-operational, lower occupancy in hospitals and closure of Starmark stores due to lockdown on account of COVID-19. The rating is, constrained by high debt levels, geographical concentration risk, moderation in financial performance in FY20 vis-a-vis FY19 and H1FY21 albeit improvement in total operating income (TOI), capital intensive and working capital intensive nature of business.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:
- Turnaround in the business with company generating sufficient cash accruals to meet its debt repayment obligations on a sustained basis.
- Reduction of debt level.

Negative Factors - Factors that could lead to negative rating action/downgrade:
- Inability to infuse funds on timely manner by the promoter group.

Detailed description of the key rating drivers

Key Rating Strengths

Strong financial flexibility of the Emami group along with demonstrated financial support from the group and its promoters

Emami Group is one of the leading industrial group with major interest in cosmetics, healthcare, edible oil, paper, retail, and real estate sectors. The flagship company of the group, Emami Limited (EL; rated CARE AA+; Stable/ CARE A1+), has presence in personal and healthcare products. The promoters of the group, Mr R S Agarwal and Mr R S Goenka, are qualified professionals with business experience of over four decades. Emami Group has demonstrated regular support towards funding of losses, servicing of debt obligation and financing of ongoing projects of the company. Bhanu Vyapaar Pvt Ltd (BVPL) and Diwakar Viniyog Pvt Ltd (DVPL) have extended support in the form of pledge of shares of EL for the term loan raised and Non-Convertible Bond (NCB) issued by EFRL.

The financial flexibility available to the group improved over the last few months. The company’s promoters sold its power and cement business to reduce the promoter level debt and the pledge of promoter shareholding. Consequently, the outstanding loan against pledge of promoter’s shares reduced from Rs.2,408 crore as on July 29, 2019 to Rs.1,370 crore as on February 02, 2021. The pledge of shares stands at 34.85% of promoter shareholding as on February 02, 2021 (46.80% as on June 30, 2019).

Long track record of the company

EFRL was established in 1906 as a proprietorship firm by Mr. Frank Ross. In 1919, it was converted into a public limited company and was rechristened as Frank Ross Limited (FRL). In 1993, FRL was acquired by the Emami Group. In 2008, FRL was merged into Emami Retail Pvt. Ltd. (a group company engaged in retailing of books, stationery, toys, school bags, etc. under the name ‘Starmark’) which was then rechristened to EFRL. EFRL is considered as one of the largest pharmacy retail chain in Eastern India. As on September 30, 2020, EFRL operates 205 ‘Frank Ross’ pharmacies and 7 ‘Starmark’ outlets, having major presence in Kolkata.

Growing number of retail pharmacy outlets

Over the years, EFRL has established its brand ‘Frank Ross’ in West Bengal and Karnataka. Total number of pharmacies increased to 214 (26 owned and 188 on rented premises) as on March 31, 2020 from 204 (26 owned and 178 on rented premises) as on December 31, 2019. Furthermore, on September 30, 2020, total number of pharmacies stood at 205 (26 owned and 179 on rented premises) as the company closed down 9 of its rented loss-making outlets in West Bengal, Karnataka and Orissa in H1FY21. With emphasis laid on opening stores in residential community to ensure demand stability, the company is also expanding in suburbs of West Bengal.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications
Key Rating Weaknesses

Geographical concentration risk
Majority of EFRL’s revenue (around 75% to 80%) comes from West Bengal as majority of the Pharmacy outlets of EFRL (173 stores out of 205 stores as on Sep 30, 2020) are located in West Bengal followed by Karnataka, Odisha and Tamil Nadu. Further, out of 7 stores of Starmark, 5 stores are located in Kolkata from which 65%-70% revenue is derived. Hence, the company is exposed to geographical concentration risk.

High debt levels and exposure to group entities
Total debt stood at Rs.536.7 crore as on March 31, 2020 vis-a-vis Rs.372 crore as on March 31, 2019. Out of the same, Rs.333 crore was extended to promoter group entities. The exposure to group companies reduced to Rs.91 crore as on September 30, 2020. Accordingly, total debt outstanding as on that date also reduced to Rs.310 crore.

Moderation in financial performance in FY20 and H1FY21 albeit improvement in TOI
The total operating income witnessed a growth of 10% y-o-y in FY20 vis-a-vis FY19 to Rs.447.45 crore against Rs.405.81 crore in FY19 on account of growth of around 14% in Pharmacy division despite de-growth of 10% in Starmark division. As a result, total sales/sq ft in Pharmacy division improved by 6% in FY20. With closure of non-profitable stores in Starmark division there was improvement of 12% in total sales/sq ft. PBILDT margin improved in FY20 to 6.86% from 3.56% in FY19 mainly on account reduction in rent expense due to transition to IND AS 116. However, EFRL incurred a net loss of Rs.19.56 crore in FY20 vis-a-vis loss of Rs.6.79 crore in FY19 on account of higher interest cost and depreciation. The company earned a GCA of Rs.1.91 crore in FY20 vis-a-vis Rs.3.28 crore in FY19 against a debt repayment obligation of Rs.93.38 crore in FY20. The shortfall in the debt repayment was met out of receipt of advances which was extended to group companies, leading to cash inflow in the group. In H1FY21, EFRL earned revenue of Rs.159.68 crore with PBILDT of Rs.4.78 crore against Rs.7.25 crore on a total operating income of Rs.218.74 crore in H1FY21. The decline in revenue in H1FY21 was mainly on account of partial operation of Pharmacy stores due to non-functioning of OPDs coupled with lower occupancy status in hospitals and non-operational of Starmark stores in Q1FY21 due to spread of COVID-19. As a result, the company continued to incur net loss of Rs.15.26 crore in H1FY21 against Rs.7.41 crore in H1FY20.

Capital intensive and working capital intensive nature of business
EFRL’s business is working capital intensive on account of high level of inventory that is required to be maintained to ensure ready availability of stock at its stores both in Pharmaceuticals and Starmark format store. The inventory for the overall business remained at same level in FY19 and FY20 though increased when compared to FY18 on account of addition of new stores in the pharmacy division in FY19. The average inventory period also remained at same level in at 75 days in FY20 and 76 days in FY19. However, in H1FY21, the overall inventory to sales increased to 50% with average inventory days of 96 days as its pharmacy stores were operating at ~65% during Q1FY21 due to lockdown on account of COVID-19. The operation cycle remained at same level of 77 days in FY20 against 76 days in FY19. Further, the company has to incur capital expenditure for periodic renovation and opening up of new stores, leading to reliance on borrowings. The company plans to have similar outflow towards capex in the medium term, to be funded out of promoters’ funds/loan.

Industry Update on Pharma Sector
During the COVID-19 induced lockdown period, while demand from segments like women healthcare, dermatology and orthopaedic were impacted as treatment for such ailments were kept on hold, higher off take was witnessed by low immunity segments dealing with diabetes, cardiology, respiratory, oncology illness among others. Besides, people have taken care of themselves to stay fit so as to avoid infections and doctor visits. Also, lower number of elective surgeries has resulted in lower prescriptions of anti-infectives, analgesics and gastro intestinal drugs. Furthermore, easing of restrictions in different phases of lockdown is believed to have supported the operations of pharma companies. During this period, the domestic market for antibiotics, cold and cough gained traction. With relief in various restrictions, the industry is expected to see pent up demand for treatments that were postponed which will support the demand for drugs. These parameters will augur well for pharma industry. In addition to this, the industry will continue to see demand from the domestic as well as international markets for some of the antivirals, antimalarials and antibiotics given the spread of Covid-19. Apart from above increase in health care spending, change in consumer attitude, etc., has significantly contributed in rapid growth of this segment.

Liquidity: Adequate
The company has an adequate liquidity position despite lower GCA of Rs.1.91 crore in FY20 due to refund of advances which was extended to group companies to meet the debt repayment obligation and infusion of unsecured loans by promoters. EFRL has a cash and bank balance amounting to Rs.6.87 crore as on March 31, 2020 and Rs.5.50 crore as on September 30, 2020. As per the discussion with the management and banker, the company has applied for moratorium of interest and principal payment of Loan Against Share for the month April 2020 and May 2020, for which the payment was made in the month of June’2020. As regards working capital facility, the company has applied for moratorium of interest for the month of April 2020 and May 2020, for which the payment was made in the month of June’2020. The company has also been extended Rs.26 crore of Emergency Credit line. The average working capital utilization for last 12 months ended November 2020 has been around 73.34%. Timely infusion of fund by promoters shall remain key rating monitorable.
Analytical approach: Standalone. Ratings factor in the financial flexibility of the Emami group in raising resources and demonstrated fund support by the group investment Companies.

Applicable Criteria
CARE’s Policy on Default Recognition
Financial ratios – Non-Financial Sector
Criteria on assigning Outlook and Credit watch to Credit Ratings
Rating Methodology-Organized Retails Companies
Rating Methodology -Short Term Instruments
Consolidation & Factoring Linkages in Ratings
Liquidity analysis of Non-financial sector entities

About the Company
Emami Frank Ross Limited (EFRL), currently belonging to the Emami group of Kolkata, was established in 1906 as a proprietorship firm by one English man, Mr. Frank Ross. In 1919, it was converted into a public limited company and was rechristened as Frank Ross Limited (FRL). In 1993, FRL was acquired by the Emami Group. In 2008, FRL was merged into Emami Retail Pvt. Ltd. (a group company engaged in retailing of books, stationery, toys, school bags, etc. under the name 'Starmark'). The name of the merged entity was changed to EFRL. Mr Gautam Jatia, MD, has around decades of experience in retail business.

<table>
<thead>
<tr>
<th>Brief Financials (Rs. crore)</th>
<th>FY19 (A)</th>
<th>FY20 (A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total operating income</td>
<td>405.81</td>
<td>447.45</td>
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<tr>
<td>PBILDT</td>
<td>14.43</td>
<td>30.70</td>
</tr>
<tr>
<td>PAT</td>
<td>-6.79</td>
<td>-19.56</td>
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<tr>
<td>Overall gearing (times)</td>
<td>NM</td>
<td>NM</td>
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<tr>
<td>Interest coverage (times)</td>
<td>0.38</td>
<td>0.68</td>
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A: Audited

Status of non-cooperation with previous CRA: Not Applicable
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 for this company: Annexure 4

Annexure-1: Details of Facilities

<table>
<thead>
<tr>
<th>Name of the Instrument</th>
<th>ISIN</th>
<th>Date of Issuance</th>
<th>Coupon Rate</th>
<th>Maturity Date</th>
<th>Size of the Issue (Rs. crore)</th>
<th>Rating assigned along with Rating Outlook</th>
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<tbody>
<tr>
<td>Fund-based - LT-Cash Credit</td>
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<td>-</td>
<td>-</td>
<td>-</td>
<td>45.00</td>
<td>CARE BBB; Stable</td>
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Annexure-2: Rating History of last three years

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Bank Facilities</th>
<th>Current Ratings</th>
<th>Rating history</th>
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<tbody>
<tr>
<td></td>
<td>Type</td>
<td>Amount Outstanding (Rs. crore)</td>
<td>Date(s) &amp; Rating(s) assigned in 2020-2021</td>
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<tr>
<td>1</td>
<td>Fund-based - LT-Cash Credit</td>
<td>LT</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
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Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Not Applicable

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

<table>
<thead>
<tr>
<th>Sr No</th>
<th>Name of instrument</th>
<th>Complexity level</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Fund-based - LT-Cash Credit</td>
<td>Simple</td>
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</tbody>
</table>
**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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