Health & Glow Private Limited

May 19, 2020

Rating:

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	50.00	**CARE BBB-; Negative (Triple B Minus; Outlook: Negative)**	**Reaffirmed; Outlook Revised from Stable to Negative**
Total Facilities	**50.00 (Rs. Fifty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating outlook of Health & Glow Private Limited (HGPL) from 'Stable' to 'Negative' reflects the heightened business risk involving significant impact on company's profitability and cashflow likely over the next few quarters prompted by COVID-19 pandemic led lockdown. Following the lockdown imposed, the company's stores were closed resulting in nil footfalls in the last month or so. Furthermore, CARE believes that post lifting of the lockdown restrictions as well, demand and footfalls are expected to be muted at least for the next two quarters given the economic downturn caused by the outbreak and likely lowering of the discretionary spending by the customers. The loss of revenues for a longer period may have a significant bearing on the financial profile of the company.

The rating continues to factor in experienced and resourceful promoters, financial flexibility company enjoys being part of Rajan Raheja group and the Hemendra Kothari group, well established presence and brand recognition of "Health & Glow" outlets with a diversified product portfolio in beauty and personal care segment in South India and its asset light business model. The rating also derives strength from growth in H&G division notwithstanding decline in total operating income during FY19, post hive-off of 'Foodworld' segment and utilization of sale proceeds to pare its long term debt resulting in improvement in leverage levels of the company. The rating also takes into account lower dependence on bank borrowings and comfortable operating cycle of the company despite working capital intensive nature of operations.

The rating, however, continues to be constrained by thin profitability mainly due to high sales and advertisement overheads, continuation of losses from e-commerce division and write off of fixed assets on closure of stores and erosion of net worth from past losses. The rating also continues to factor in intense competition from organized and unorganized players as well as e-commerce segment. The rating takes into account the anticipated impact on company's profitability, time associated with stabilization of stores opened in new cities and continual high operational overheads. Even as management has embarked on cost cutting measures, the turnaround in business is likely to take longer than earlier envisaged. However company continues to enjoy financial flexibility to meet any liquidity challenges with support from the promoters.

Outlook: Negative

The outlook has been revised from 'Stable' to 'Negative' on account of likely adverse impact on the company's credit profile due to store closures on the back of COVID-19 outbreak. The outlook may be revised to stable if the company is able to restore operations in the stores with regular customer footfalls and scale up the operations to the past levels in the medium term translating into improvement in profitability and cashflows.

Rating Sensitivities

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

- Turnaround in store level operation in shorter than expected timelines and increase in proportion of profitable stores enabling healthier cash flows in relation to its overall debt.

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

- Lower than anticipated cash flow from operations and aggressive debt funded expansion resulting in deterioration of debt coverage indicators.
- Prolonged period of closure of the company's stores consequent to the on-going COVID-19 pandemic thereby resulting in significant deterioration in the credit profile.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoters

HGPL is promoted & managed by the Rajan Raheja group and the Hemendra Kothari group. The Rajan Raheja group now 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.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Well-established presence and brand recognition with a diversified product portfolio in beauty and personal care segment
H&G 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 has added net 18 H&G stores in FY19, and 6 H&G stores in H1FY20 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.

Asset light model
HGPL follows asset light model wherein all stores are under lease arrangement leading to lower capital investment. Further, HGPL also has flexibility to shift location if required. HGPL continues to be the largest chain of dedicated retail stores under health & beauty 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 forayed into other markets like Mumbai, Pune etc. in FY19.

Growth in H&G division notwithstanding decline in total operating income, post hive-off of Foodworld segment
HGPL witnessed moderation in Total operating income during FY19 due to limited contribution from Foodworld division (till June 2018) before completion of its sale to Future Retail Ltd. Foodworld division had originally been a drag on operating revenues over the years with continuous decline in same store growth. Although HGPL also witnessed moderation in same store growth in FY19 due to time taken for stabilization of new stores, average sale per store remained stable. The segment reported 14% jump in total revenues, which was supported by improvement in average bill value. Apart from opening 27 new stores in FY19, the company also undertook re-organization exercise with closure of 9 non-performing stores during the year. The Company is also prototyping remodeling of existing 5 stores with contemporary look and feel.

Comfortable operating cycle despite working capital intensive industry
Despite significant capacity expansion during FY19 and presence in retail segment which remains highly working capital intensive, the company's dependence on short term bank borrowings remained low. Although HGPL follows inventory led model, the company's operating cycle remained comfortable at 31 days in FY19 vis a vis 28 days in previous year. Going forward, with the rise in the number of stores, efficient working capital management will be critical to keep a check on leverage levels.

Key Rating Weaknesses
Weak profitability margins expected to continue over medium term with risk associated with new stores' gestation period to turnaround
PBILDT margins of HGPL witnessed significant decline in FY19 at 1.23x (FY18 : 3.1x) whereas significant improvement in PAT margins at 6.29x in FY19 (from 0.56x in FY18) is witnessed due to one-time item – proceeds from sale of Foodworld division. HGPL posted losses in FY19 as its profit margin continues to be dragged by overheads which increased from 7% of sales in FY18 to 10% of sales in FY19. This was driven by lower sales followed by absorption of foodworld employees and new cost associated with development of marketing competencies and regional office of new geography, in addition to continuation of losses from e-commerce division (due to high fixed overheads). HGPL also incurred expenses towards write-off of assets, cost associated with closure of stores and pre-operative expenses towards new stores and remodeling of some existing stores. The losses from e-commerce segment are expected to continue in current year also leading to drag on overall profitability.

Moderate Capital structure and limited reliance on external debt for on-going expansion
HGPL remains long term debt free on March'19 with closure of term loans from sale proceeds of Foodworld. The accretion of profit has resulted in improved tangible net worth of Rs. 65.43 crore in FY19 (FY18: Rs. 41.90 crore). In addition to this reduced dependence on short term borrowings has led to improvement in overall gearing and adjusted gearing (including minimum lease commitments) remains comparable at even with rise in lease liability with roll out of new stores. With reduction in total Debt, TDGCA stands improved to 0.24x (3.78x in March'18) despite moderation in cash flow from operations. Going forward, HGPL's capital structure is expected to moderate over medium term, due to anticipated net losses leading to drop in networth levels and higher utilization of bank limits towards on-going expansion. However support from promoters is expected, in case business is not generating enough cash. 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 have need based funds infusion from promoters, and bank funding at competitive rates.

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 e-commerce players which leads to pricing pressure. Apart from the above, HGPL is also

susceptible to competition from un-organized players and e-commerce players.

Industry outlook

In view of the COVID 19 outbreak and lowering of the discretionary spending by the consumers in these times of economic downturn, the outlook for the Indian players in retail sector is 'Negative' in the short to medium term. The impact on demand, which is expected to remain muted at least for the next three or four quarters, will be more in case of players with presence in non-essential items and luxury segments. Even after the lockdown is lifted, demand for discretionary products will take time to pick up. This is because footfalls will be low in malls and retail stores as people will avoid visiting crowded markets. It is likely that the spending on clothing and other accessories would not be much and the retailers would have to offer heavy discounts or extend the sale periods to clear the piled up stock.

Liquidity: Adequate

Liquidity position of the company is adequate with unutilized limit of Rs. 12 Cr and a cash and bank balance of Rs. 0.39 Cr to meet its fixed expenses and debt obligations. The company has been sanctioned additional working capital limit of Rs. 10 Cr. Company does not have any long term debt obligations. The company has been extended moratorium under RBI package to defer the interest payment towards its OD facility for the months of March, April and May '20. The company is looking at postponing lease rentals and also taking other cost control initiatives to support liquidity.

Analytical approach: Standalone

Applicable Criteria

Rating outlook and Credit watch to Credit Ratings
CARE's Policy on Default Recognition
Consolidation and Factoring Linkages in Ratings
Rating Methodology: Organized Retail companies
Financial ratios- Non-Financial Sector

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 beauty and personal care stores under "Health and Glow" (H&G) brand from Health & Glow Retailing Pvt. Ltd.
Further on May 21, 2018, HGPL signed a Business Transfer Agreement to sell Foodworld stores (38 stores at that time) to Future Retail Limited (FRL) 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. At present HGPL operates 154 'Health & Glow' stores (as on September 2019) under beauty and personal care segment with total retail space of 1.49 lakh sq ft across India.

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	434.80	366.59
PBILDT	13.51	4.50
PAT (after discontinuing operations)	2.42	23.05*
Overall gearing (times)	0.94	0.11
Interest coverage (times)	3.21	1.13

*A: Audited |*PAT includes profit from sale of Foodworld segment*

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits	-	-	-	50.00	CARE BBB-; Negative

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Working Capital Limits	LT	50.00	CARE BBB-; Negative	-	1)CARE BBB-; Stable (14-Nov-19)	1)CARE BBB-; Stable (30-Nov-18) 2)CARE BBB- (Under Credit watch with Developing Implications) (30-May-18)	1)CARE BBB-; Stable (18-Sep-17)
2.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (30-Nov-18) 2)CARE BBB- (Under Credit watch with Developing Implications) (30-May-18)	1)CARE BBB-; Stable (18-Sep-17)

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

Name of the Instrument – Working capital limits (STL/OD)	Detailed explanation
A. Financial covenants	
I. Total external debt not to cross Rs. 50 crores.	--
II. The borrower to continue to sub-ordinate redeemable preference share of Rs. 86 crores.	--
B. Non- financial covenants	
I. The promoters to maintain their respective shareholding in the company	--

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name - Archana N R
Group Head Contact no.- 080- 46625525
Group Head Email ID- archana.nr@careratings.com

Relationship Contact
Name: Nitin Kumar Dalmia
Contact no. : 080-46625555
Email ID : nitin.dalmia@careratings.com

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