

Press Release
Emami Frank Ross Limited

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	75.00 (Enhanced from 55.00)	CARE BBB; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Emami Frank Ross Limited (EFRL) continue to derive strength from it being a part of the established Emami group and continued support from the group in the form of unsecured loans and pledge of promoter holding in the flagship entity Emami Limited (EL; rated 'CARE AA+; Stable/ CARE A1+') for a large part of the debt availed in EFRL. Timely need-based support from the group is expected to continue as and when required in the future as well.

The ratings also factor in the long track record of operations of EFRL with growing number of retail pharmacy outlets and tie-up with various hospitals and corporates for sale of its pharmacy products.

The ratings take note of the improvement in total operating income (TOI) in FY22 (refers to the period April 1 to March 31) which continued in 9MFY23 with normalization of operations post the receding impact of the COVID-19 pandemic. The company reported net profit in FY22 and 9MFY23 after reporting losses for the last few years.

The ratings remain constrained by the high debt level with a negative net worth, exposure to group/associate entities, geographical concentration risk, competitive industry and capital-intensive nature of business.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in operating profitability on a sustained basis (PBILDT margin > 7%) and company generating sufficient cash accruals to meet its debt repayments.
- Meaningful reduction in debt level.

Negative factors

- Inability to infuse funds from the promoter group as and when required.
- Significant increase in cash losses.

Analytical approach: Standalone. Ratings additionally factor in the financial flexibility of the Emami group in raising resources and demonstrated fund support to EFRL by the group.

Outlook: Stable

The stable outlook reflects the expectation of continued need-based timely financial support to EFRL from its strong promoter group as demonstrated in the past.

Key strengths

Strong financial flexibility of the Emami group along with demonstrated financial support to EFRL

EFRL belongs to the Kolkata-based Emami group with EL being the flagship company of the group. The group is one of the leading manufacturers of herbal and Ayurveda products in personal, cosmetic and health care segments with market leadership in few of its products and presence across diverse business segments like paper, edible oil, real estate, hospitals, ball pen tips manufacturing, retail and pharmacy.

Emami Group has demonstrated regular support towards funding losses and servicing of debt obligations. The promoter holding companies have pledged their shares in EL against which EFRL has been able to avail new term loans to meet its long-term working capital requirements. Also, need based support in the form of unsecured loans have been flowing to the company from the group as and when required. The negative tangible net worth of EFRL has been supported by such funding support from the promoters.

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

Long track record of the company with growing number of pharmacy outlets

EFRL was established in 1906 and acquired by the Emami group in 1993. In 2008, the pharmacy business was merged into Emami Retail Private Limited (a group company engaged in retailing of books, stationery, toys, school bags, etc. under the name 'Starmark').

Over the years, EFRL has established its brand 'Frank Ross' majorly in West Bengal and Karnataka and is considered as one of the largest pharmacy retail chains in eastern India. The total number of pharmacies stood at 226 (27 owned and 183 on rented premises, 16 others on rent-free premises) as on December 31, 2022 (207 as on March 31, 2022). With emphasis laid on opening stores in residential community to ensure demand stability, the company is also expanding in suburbs of West Bengal. In 9MFY23, it opened new rented stores in multiple states including Tripura, Bihar, Chhattisgarh and Assam. EFRL has also been gradually closing down its rented loss-making outlets in West Bengal, Karnataka and Odisha.

As on December 31, 2022, EFRL operates 4 'Starmark' outlets, all in Kolkata.

Tie-up with hospitals and corporates

The company has tie-up with four hospitals in Kolkata for sale of its medicines. Apart from this, the company also sells medicine under Central Government Health Scheme (CGHS) by bidding in various tenders for the same. Furthermore, the company has tie-ups with various corporates for sale of its medicine and other pharma products. Sales through these channels comprise around 35% of the net sales of the pharma division of the company apart from the retail sales.

Improvement in sales and profitability in FY22; continued in 9MFY23

The TOI of EFRL witnessed a growth of about 33% y-o-y in FY22 on account of resumption of normal operations. Pharmacies and Starmark division constituted 92% and 8% respectively of net sales in FY22 (93% and 7% respectively of net sales in FY21). With the increase in revenue and higher margin sales made in Q1FY22, the PBILDT margin witnessed an increase from 4.98% in FY21 to 7.15% in FY22.

The increase in debt levels in FY21 had led to a significant increase in interest costs, which continued at a similar level in FY22. However, the interest coverage is supported by the interest income booked by the company on loans advanced to group entities. With the revenue generated increasing significantly and better PBILDT, the company earned PAT of ₹5.33 crore in FY22 compared to net loss of ₹38.24 crore in FY21.

In 9MFY23, TOI witnessed a growth of about 10% y-o-y on account of increase in revenue for both pharmacy division as well as Starmark division. However, the PBILDT margin decreased from 8.23% in 9MFY22 to 4.83% in 9MFY23. The company had earned higher than average margins in 9MFY22 which has normalised in the current year. Going forward, CARE Ratings expects the company to continue to report growth in TOI and generate profits with planned increase in number of pharmacy stores (including franchisee stores).

Key weaknesses

High debt levels with negative networth and exposure to group/associate entities

Owing to the continuous net losses reported by the company in the past, the net worth of the company continues to remain negative. The total debt (including lease obligations) decreased to ₹464.92 crore as on March 31, 2022 from ₹723.17 crore as on March 31, 2021. A large part of the debt is utilized to extend advances to group/associate entities and such advances decreased to ₹201.3 crore as on March 31, 2022 as against ₹444.6 crore as on March 31, 2021.

With weak standalone debt coverage indicators, the company has been requiring support from the group to meet its fund requirements including debt repayments. Going forward, the support is expected to continue and is a key rating monitorable.

Geographical concentration risk

A large part EFRL's revenue (around 80% to 85%) comes from West Bengal, as majority of the pharmacy outlets of EFRL (186 stores out of 226 stores as on December 31, 2022) are located in West Bengal followed by Karnataka, Odisha and Tamil Nadu. Furthermore, all of its 4 stores of Starmark are located in Kolkata. Accordingly, the company is exposed to geographical concentration risk.

Intensifying competition

While the demand prospects remain stable for pharma products, the company tends to face competition from other organised retail players, local stores and e-commerce in the pharmacy business. During the pandemic, the footfalls in stores witnessed a significant decline and people relied more on online purchases. Competition from e-commerce continues to remain a key threat. In stationery and other products retailing as well, the company faces intense competition.

CARE Ratings Limited

3rd Floor, Prasad Chambers (Shagun Mall Building),
10A, Shakespeare Sarani, Kolkata - 700 071
Phone: +91-33-4018 1600/2283 1803

4th Floor, Godrej Coliseum, Somaiya Hospital
Road, Off Eastern Express Highway, Sion (East),
Mumbai - 400 022
Phone: +91-22-6754 3456 • www.careedge.in

CIN-L67190MH1993PLC071691

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 stores. The inventory for the overall business witnessed a decline as on March 31, 2022 compared with March 31, 2021 on account of better inventory management measures implemented. With reduction in overall inventory and increase in sales, the average inventory period witnessed a decrease from 84 days in FY21 to 58 days in FY22. The inventory to sales ratio was 18% in 9MFY23. The inventory value increased despite increase in sales in pharmacy stores as on December 31, 2022.

Furthermore, the company incurs capital expenditure for periodic renovation and opening up of new stores, leading to reliance on borrowings to fund the same.

Liquidity: Adequate

EFRL maintains adequate liquidity out of fund support from promoter group entities. The company had free cash and cash equivalents of ₹6.34 crore as on December 31, 2022. In FY23, the company has debt repayment obligation of ₹83 crore. The company has already repaid around ₹56 crore term debt obligation in 9MFY23. Shortfall in cash accruals, if any, for debt repayment is expected to be met out of fund infusion by promoters in the form of unsecured loans or receipt back of advances to group entities. Also, most of the loans are backed by pledge of shares of EL. The average fund based working capital limit utilization during the 12-month trailing period ended December 31, 2022 stood at 75.38%.

Applicable criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Retail](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Services	Retailing	Pharmacy Retail

EFRL, currently belonging to the Emami group of Kolkata, was established in 1906 as a proprietorship firm by an Englishman, Mr Frank Ross. In 1919, it was converted into a public limited company and was rechristened as Frank Ross Ltd (FRL). In 1993, FRL was acquired by the Emami group. In 2008, FRL was merged into Emami Retail Pvt. Ltd. The name of the merged entity was subsequently changed to EFRL. EFRL is engaged in retailing of pharma products under 'Frank Ross' pharmacies and books/stationery under 'Starmark' outlets, with majority of sales from pharmaceutical products. As on December 31, 2022, EFRL operated 226 'Frank Ross' pharmacies and 4 'Starmark' outlets, having major presence in Kolkata, West Bengal.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	372.05	496.26	410.27
PBILDT	18.51	35.50	19.82
PAT	-38.24	5.33	3.19
Overall gearing (times)	NM	NM	NM
Interest coverage (times)	0.26	0.50	0.49

A: Audited, UA: Unaudited, NM: Not Meaningful since net-worth is negative

Note: 'the above results are latest financial results 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

CARE Ratings Limited

3rd Floor, Prasad Chambers (Shagun Mall Building),
10A, Shakespeare Sarani, Kolkata - 700 071
Phone: +91-33-4018 1600/2283 1803

4th Floor, Godrej Coliseum, Somaiya Hospital
Road, Off Eastern Express Highway, Sion (East),
Mumbai - 400 022
Phone: +91-22-6754 3456 • www.careedge.in

CIN-L67190MH1993PLC071691

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-Cash Credit		-	-	-	67.00	CARE BBB; Stable
Non-fund-based - LT-Bank Guarantee		-	-	-	8.00	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-Cash Credit	LT	67.00	CARE BBB; Stable	-	1)CARE BBB; Stable (07-Feb-22)	1)CARE BBB; Stable (25-Feb-21) 2)CARE BBB; Stable (07-Apr-20)	-
2	Non-fund-based - LT-Bank Guarantee	LT	8.00	CARE BBB; Stable	-	1)CARE BBB; Stable (07-Feb-22)	-	-

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-Cash Credit	Simple
2	Non-fund-based - LT-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

CARE Ratings Limited

3rd Floor, Prasad Chambers (Shagun Mall Building),
10A, Shakespeare Sarani, Kolkata - 700 071
Phone: +91-33-4018 1600/2283 1803

4th Floor, Godrej Coliseum, Somaiya Hospital
Road, Off Eastern Express Highway, Sion (East),
Mumbai - 400 022
Phone: +91-22-6754 3456 • www.careedge.in

CIN-L67190MH1993PLC071691

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 Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in Relationship Contact Lalit Sikaria Director CARE Ratings Limited Phone: + 91-033- 40181600 E-mail: lalit.sikaria@careedge.in	Analytical Contacts Hardik Manharbhai Shah Director CARE Ratings Limited Phone: +91-79-4026 5620 E-mail: hardik.shah@careedge.in Mamta Muklania Associate Director CARE Ratings Limited Phone: +91-33-4018 1651 E-mail: mamta.khemka@careedge.in Mayank Sourabh Analyst CARE Ratings Limited E-mail: Mayank.Sourabh@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.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

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

CARE Ratings Limited

3rd Floor, Prasad Chambers (Shagun Mall Building),
10A, Shakespeare Sarani, Kolkata - 700 071
Phone: +91-33-4018 1600/2283 1803

4th Floor, Godrej Coliseum, Somaiya Hospital
Road, Off Eastern Express Highway, Sion (East),
Mumbai - 400 022
Phone: +91-22-6754 3456 • www.careedge.in

CIN-L67190MH1993PLC071691