

Frontier Emporio

Instrument	Amount	Rating Action as on March 2016
Fund-Based Limits	In Rs. Crore	
Cash Credit	8.00 (enhanced from Rs 3.5 crore)	[ICRA]BB-(Stable); reaffirmed/assigned
Term Loan	2.60 (reduced from Rs 4.0 crore)	[ICRA]BB-(Stable); reaffirmed
Unallocated	1.40 (enhanced from Nil)	[ICRA]BB- (Stable)/ [ICRA] A4; assigned
Total	12.00	

ICRA has reaffirmed its long-term rating of [ICRA]BB- (pronounced ICRA double B minus) on the Rs 10.60 fund based limits of Frontier Emporio. ICRA has also assigned its long term rating of [ICRA] BB- (pronounced ICRA double B minus) and short-term rating of [ICRA]A4 (pronounced ICRA A four) on the Rs. 1.40 crore unallocated limits of the firm. The outlook on the long-term rating is 'Stable'.

ICRA's rating reaffirmation takes into account the commercialization of retail showrooms of the firm in Karol Bagh and Chandigarh in FY16. On account of this, the company's operating income showed a sharp increase from Rs 11.89 crore in FY15 to Rs 22.27 crore in 10MFY16. Though, this has been accompanied by moderation in the operating margins, given the significant increase in fixed operating overheads.

The ratings continue to be constrained by the modest, though increasing scale of operations, its restricted pricing power in the highly fragmented and competitive ethnic wear retail segment characterized by the presence of branded as well as unorganized players and the firm's weak financial profile as reflected in its modest profitability and weak debt protection metrics. The ratings remain constrained by the high working capital intensity of operations because of high levels of inventory on account of the nature of the retail business that requires high levels of finished goods inventory to be maintained at the stores and also in anticipation of the strong demand post commercialization of its retail showrooms. Given the high levels of inventory, it remains susceptible to markdowns through discounted sales, given the fast changing fashion trends and subdued demand, which could impact the margins.

The ratings, however, derive comfort from the extensive experience of the promoters, of over two decades in the trading and retail sales of women's ethnic wear. The ratings also factor in the benefits derived from the firm's association with Frontier Raas Private Limited (FRPL, rated [ICRA] BB (Stable)), and the healthy market position of the 'Frontier Raas' brand (under which Frontier Emporio operates) in Delhi and the National Capital Region. The firm is expected to derive operational synergies with FRPL in terms of procurement, design, manufacturing, brand promotion, and centralization of other non-sales activities, which is expected to help the firm maintain healthy margins. The rating also positively factors in the favourable location of the showrooms of the firm (Karol Bagh in New Delhi, and Sector-17 in Chandigarh).

The ability of the firm to scale up its operations in a profitable manner while maintaining an optimal working capital cycle will be the key rating sensitivities. Moreover, given the high sensitivity of the operating cash flows to the working capital cycle, efficient inventory management and maintaining the average per store sales for both stores, would be critical for maintaining the financial profile and adequate liquidity.



About the Firm

Incorporated in June 2012, Frontier Emporio is promoted by Mr. Anil Batra and Mr. Sunil Batra, also promoters of FRPL, to operate the retail outlets of 'Frontier Raas' in Karol Bagh (New Delhi) and Sector-17 (Chandigarh), which commenced operations in November 2015 and September 2015 respectively. Pending the commencement of operations of the new showrooms in Karol Bagh and Chandigarh, the company derived its entire revenues from the wholesale business, in FY14 and FY15. FRPL currently operates the 'Frontier Raas' showroom located in South Extension (New Delhi); Frontier Raas is a renowned brand for ethnic bridal and party wear, primarily for women.

About FRPL

Incorporated in November 2011 by brothers, Mr. Anil Batra and Mr. Sunil Batra, FRPL is engaged in the retailing of ethnic garments, primarily for women, at its five storied showroom, with a built-up area of ~10,500 square feet, in South Extension, New Delhi. The showroom premises are owned by a group entity – Frontier Bazaar Private Limited (FBPL). Clothes are sold under the brand Frontier Raas, which is an established brand in NCR, and is targeted at customers in the premium segment. The company's key product offerings include saree, lehenga cholies, fabric material and ready to wear churidar suits.

Recent Results

The firm reported a profit after tax (PAT) of Rs 0.37 crore on an operating income of Rs 11.89 crore in FY15 as against a PAT of Rs 0.19 crore on an operating income of Rs 6.86 crore in FY14. The firm, on a provisional basis, reported an operating income of Rs 22.27 crore for ten months ending January 31st, 2016

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