

## Spencers Retail Limited

July 07, 2021

### Ratings

| Facilities                             | Amount<br>(Rs. crore)                                     | Ratings <sup>1</sup>                                               | Rating Action |
|----------------------------------------|-----------------------------------------------------------|--------------------------------------------------------------------|---------------|
| Long Term Bank Facilities              | 90.00<br>(Enhanced from 30.00)                            | CARE BBB; Stable<br>(Triple B; Outlook: Stable)                    | Reaffirmed    |
| Long Term / Short Term Bank Facilities | 115.00<br>(Enhanced from 40.00)                           | CARE BBB; Stable / CARE A3<br>(Triple B; Outlook: Stable/ A Three) | Reaffirmed    |
| <b>Total Bank Facilities</b>           | <b>205.00</b><br><b>(Rs. Two Hundred Five Crore Only)</b> |                                                                    |               |

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the Bank Facilities of Spencer's Retail Limited (SRL) continues to derive strength from financial flexibility enjoyed by virtue of being part of RP-Sanjiv Goenka group (RP-SG Group), geographically diversified presence of the retail stores, high contribution of non-discretionary product in the product basket safeguarding the revenue from the adverse impact of any downturn or pandemic situation, tie-up with Indian and international brands along with own sales, and favourable working capital cycle. The above ratings are, however, constrained by moderation in financial performance and debt protection metrics in FY21 (refers to the period April 01 to March 31) mainly due to the impact of COVID-19 and intense competitive nature of industry. Revival of demand outlook with ease of restriction amid second covid wave shall remain crucial.

### Rating Sensitivities

#### **Positive Factors - Factors that could lead to positive rating action/upgrade**

- Improvement in PBILDT margin (consolidated) beyond 4% on a sustained basis
- Improvement in Gross Cash Accruals (GCA) over Rs.50 crore on a sustained basis

#### **Negative Factors - Factors that could lead to negative rating action/downgrade**

- Weakening of debt credit metrics on account of larger than anticipated debt funded capex leading to overall gearing above 2.50x

### Detailed description of the key rating drivers

#### **Key Rating Strengths**

##### ***Experienced and resourceful promoters***

SRL is a part of RP-SG Group. The group has interests across diverse business segments such as power, infrastructure, carbon black, retail, education, BPO, media & entertainment. The group is spearheaded by Dr. Sanjiv Goenka (Chairman) who has more than three decades of professional experience. Retail & FMCG business of the group is looked after by Mr. Shashwat Goenka (Sector Head-Retail & FMCG), who has significant experience in retail industry.

##### ***Geographical diversification with pan-India presence***

The company offers a diverse assortment of food, personal care and lifestyle (fashion, home, entertainment). As on March 31, 2021, the company operated through 197 retail stores [including 33 stores of Natures Basket Limited (NBL)] in 41 cities in India, spread across a trading area of 14.70 lakh sq ft. with ~40% and 30% revenue coming from Eastern and Southern part of the country respectively. SRL operates in two distinct retail formats being convenience (small format stores) and hypermarket (large format stores) under the name "Spencer's". NBL operates its stores on small retail format under the name "Natures Basket". Further, the company (consolidated) has also been expanding its stores in Tier II and Tier III markets to capture the rising demand of goods in other cities.

##### ***High contribution of non-discretionary product in the product basket***

SRL offers the range of food and lifestyle products (fashion, home, entertainment). Approximately 80%-84% of SRL's and NBL's product basket is non-discretionary in nature which provides stability in demand for the products. The non-discretionary nature of product basket has provided cushion to the company in the current prevailing economic downturn due to COVID-19, when consumers curtailed their discretionary spending with reduced income as well as tendency to preserve cash.

##### ***Tie-up with Indian and international brands along with own brand program***

SRL provides customers with wide choice across 88,000+ SKUs. The company has tie ups with various multinational brands. NBL, on the other hand has a product base of 7000+SKUs from various reputed Indian & Multinational brands. It also

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

operates through its own portfolio of Private brands. The private brand product contributes ~10-15% to total sales of the company.

***Favourable working capital cycle***

SRL (consolidated) has low collection period which is inherent in the industry. The average inventory holding period is relatively low (40-50 days) on account of high share of fast-moving food items with low shelf life which leads to lower working capital requirement. SRL is exposed to the risk of slow, non-moving, expired and non-saleable inventory for which it follows suitable provisioning norms. The average creditor's period is generally of 1.5 months with actual credit period ranging between 7 to 120 days depending on the type of product and relationship with the supplier. Hence, the company continues to maintain negative working capital cycle.

***Key Rating Weakness******Moderation in financial performance in FY21***

On consolidated level, the company reported income from operation of Rs. 2,428.07 crore with PBDILT of Rs.7.95 crore and loss of Rs.163.85 crore. The sales declined due to adverse impact of COVID-19 restrictions on non-food and non-essential items. The PBILDT margin has declined from 2.17% in FY20 to 0.33% in FY21 majorly on account of loss of other operating income due to significant reduction in footfall due to the pandemic and loss of margin on reduction of sales of non-essential items. Further there has been increase in costs such as freight and other operating costs due to increase in out of store business and provisions for bad and doubtful debts as compared to FY20.

On a standalone basis, SRL reported an income of Rs.2,068.95 crore in FY21. The company incurred net loss of Rs.127.94 crore in FY21. The company continued to incur cash loss which was funded out of rights issue in FY21 as well as available surplus funds.

***Moderation in debt protection metrics during FY21***

On consolidated level, the overall gearing ratio of the company stood at 1.45x as on March 31, 2021 vis-à-vis 0.73x as on March 31, 2020 due to higher working capital utilisation coupled with loss incurred in FY21. SRL which was debt free as on March 31, 2019, but due to takeover of debt of NBL, availing of new term loan of Rs.30 crore along with working capital demand loan and invoice financing facility, the overall gearing ratio (excluding lease liability) of the company stood at 0.73x as on March 31, 2020.

On a standalone level, the capital structure of SRL moderated during the year marked by overall gearing ratio of 0.51x as on March 31, 2021 vis-à-vis 0.26x as on March 31, 2020, majorly on account of higher working capital utilisation.

***Intense competitive nature of Industry***

Heightened competition from both brick and mortar and online players could impact overall Same Stores Sales growth (SSSG) of SRL and NBL. Competition from e-commerce players, remains a key threat. Also, change in Foreign Direct Investment (FDI) norms can lead to further competition. Currently, the government has allowed FDI in food processing sector. Apart from this, the government is also contemplating liberalising rules relating to multi-brand retail. This will open up foreign investments which may pose a threat to existing retail players.

***Industry Outlook***

The lockdown that started from March 2020 onwards continued for almost 2 months with rules and regulations for retail stores differing as per the respective state governments and municipalities. This constrained the activities of retail stores at various locations across PAN India. Retail stores had to undertake various cost cutting measures and renegotiate lease payment terms with store owners to tide over the covid-19 induced business challenges.

As restrictions were eased in a phased manner, it is to be noted that online sales of essential and non-essential items spiked as customers avoided physical visits to stores. With malls being allowed to reopen from June, 2020 onwards, initially demand was muted due to apprehensions surrounding the spread of virus but gradually footfalls started to increase, especially during the festive season.

Although sales at standalone stores and malls is rising on an m-o-m basis, they have not reached pre-covid levels yet and are expected to be impacted on account of restriction in movement, social distancing, reduced operating store hours and reduction in purchasing power of consumers. Further spike in Covid cases in certain states since Q4FY21 impacted demand.

In addition to the above, after the control of the spread of the coronavirus and post the lock-down period, the spending as well as shopping patterns of the consumers is expected to change significantly. The consumers are likely to curtail their discretionary spending with reduced income in their hands as well as tendency to preserve cash.

Also, more preference is likely towards online channels in order to avoid crowded spaces. In such times, the retailers with presence across the retail segments (grocery, apparel, appliances, accessories) as well as who have an omni-channel strategy with presence in both offline and online channels are expected to have a quicker recovery.

***Liquidity: Adequate***

SRL enjoys financial flexibility of the RP-Sanjiv Goenka Group which can act as a support in future as and when required. Further the company has also completed infusion of capital through right issue of Rs.79.48 crore in July 2020. The cash and bank balance of the company (on consolidated basis) as on March 31, 2021 stood at Rs.57.75 crore. However, current ratio stood low at 0.68x as on March 31, 2021 despite of fund infusion through rights issue. SRL has WCDL limit of Rs.115 crore which stands utilized to the extent of 30% as on June 29, 2021 while in case of NBL, the working capital utilization stands

around 70% for last 12 months ended March 31, 2021.

The company has also got sanctioned term loans of Rs.60 crore out of which Rs.22.40 crore has been disbursed until June 29, 2021.

**Analytical approach:** Consolidated. For arriving at the ratings, CARE has considered the consolidated business and financial risk profiles of SRL and NBL as these companies are engaged in similar line of operation under a common management. The consolidated financial statement also includes Omnipresent Retail India Private Limited. Further, comfort is drawn on SRL being part of RP-SG group.

| Name of subsidiaries                     | % shareholding of SRL |
|------------------------------------------|-----------------------|
| Natures Basket Limited                   | 100%                  |
| Omnipresent Retail India Private Limited | 100%                  |

#### Applicable Criteria

Criteria on assigning Outlook and Credit watch to Credit Ratings

CARE's Policy on Default Recognition

Financial ratios - Non-Financial Sector

Criteria for Short Term Instruments

Rating Methodology: Consolidation

Rating Methodology-Organized Retail Companies

Liquidity analysis of Non-financial sector entities

#### About the Company

SRL was incorporated on February 08, 2017 as a part of the RP-Sanjiv Goenka Group. The retail business (except the business in the state of Gujarat and some investments) of erstwhile Spencer's Retail Ltd (wholly owned subsidiary of CESC Ltd, the flagship company of the group) was transferred to RP-SG Retail Limited under the scheme of arrangement of the CESC Group. Subsequently, RP-SG Retail Ltd was rechristened as Spencer's Retail Limited in December 2018 and the equity shares got listed in BSE, NSE and CSE in January 2019. During the year, the Company got delisted from The Calcutta Stock Exchange Limited (CSE) w.e.f. November 23, 2020. The equity shares of the Company continue to remain listed at BSE and NSE. SRL is a multi-format retailer providing merchandise across categories such as FMCG, fashion, food, staples, general merchandise, personal care, home essentials, electrical and electronics.

In July 2019, the company acquired 100% stake in NBL from Godrej Industries Ltd at an enterprise value of Rs.300 crore settled through cash and takeover of outstanding debts. NBL operates with 33 stores with total trading area of 0.93 lakh sq feet as on March 31, 2021.

Omnipresent Retail India Private Limited, a 100% subsidiary of SRL, is engaged in the business of operating an online platform and also acts as delivery agents on commission basis.

| Consolidated Brief Financials (Rs. crore) | FY20 (A) | FY21 (Abridged) |
|-------------------------------------------|----------|-----------------|
| Total operating income                    | 2,640.07 | 2,428.07        |
| PBILDT                                    | 57.32    | 7.95            |
| PAT                                       | -130.78  | -163.85         |
| Overall gearing (times)                   | 0.73     | 1.45            |
| Interest coverage (times)                 | 0.70     | 0.09            |

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 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-Term Loan       | -                | -           | September, 2024 | 30.00                         | CARE BBB; Stable                          |
| Fund-based - LT/ ST-Cash Credit | -                | -           | -               | 40.00                         | CARE BBB; Stable / CARE A3                |

| 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-Term Loan       | -                | -           | March, 2027   | 60.00                         | CARE BBB; Stable                          |
| Fund-based - LT/ ST-Cash Credit | -                | -           | -             | 75.00                         | CARE BBB; Stable / CARE A3                |

**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 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 |
| 1.      | Fund-based - LT-Term Loan              | LT              | 30.00                          | CARE BBB; Stable           | -                                         | 1)CARE BBB; Stable (23-Nov-20)            | -                                         | -                                         |
| 2.      | Fund-based - LT/ ST-Cash Credit        | LT/ST           | 40.00                          | CARE BBB; Stable / CARE A3 | -                                         | 1)CARE BBB; Stable / CARE A3 (23-Nov-20)  | -                                         | -                                         |
| 3.      | Fund-based - LT-Term Loan              | LT              | 60.00                          | CARE BBB; Stable           | -                                         | -                                         | -                                         | -                                         |
| 4.      | Fund-based - LT/ ST-Cash Credit        | LT/ST           | 75.00                          | CARE BBB; Stable / CARE A3 | -                                         | -                                         | -                                         | -                                         |

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not Applicable****Annexure 4: Complexity level of various instruments rated for this Company**

| Sr. No. | Name of the Instrument          | Complexity Level |
|---------|---------------------------------|------------------|
| 1.      | Fund-based - LT-Term Loan       | Simple           |
| 2.      | Fund-based - LT/ ST-Cash Credit | Simple           |
| 3.      | Fund-based - LT-Term Loan       | Simple           |
| 4.      | Fund-based - LT/ ST-Cash Credit | Simple           |

**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](mailto:care@careratings.com) for any clarifications.

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