

Spencer's Retail Limited

July 07, 2022

Ratings

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|--|--|--|---------------|
| Long Term Bank Facilities | 125.00 (Reduced from 130.00) | CARE BBB; Stable (Triple B; Outlook: Stable) | Reaffirmed |
| Long Term / Short Term Bank Facilities | 135.00 | CARE BBB; Stable/CARE A3 (Triple B; Outlook: Stable/ A Three) | Reaffirmed |
| Short Term Bank Facilities | 100.00 | CARE A3 (A Three) | Assigned |
| Total Bank Facilities | 360.00 (₹ Three hundred sixty crore only) | | |

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Spencer's Retail Limited (SRL) continue to derive strength from the strong financial flexibility it enjoys by virtue of being a part of the established RP-Sanjiv Goenka group (RP-SG Group), geographically diversified presence of the retail stores, high contribution of non-discretionary products in the product basket safeguarding the revenue to an extent from the adverse impact of any sudden downturn or pandemic situation, tie-up with Indian and international brands along with own brand sales and favourable working capital cycle.

The ratings, however, remain constrained by the continued net losses incurred by the company on a consolidated basis which has resulted in weak debt protection metrics. The ratings factor in the impact of disruptions caused by the Covid-19 pandemic amidst intense competition on the sales of the company in FY22 (refers to the period April 01 to March 31) which has continued from FY21 and adversely affected the profitability of the company. Going forward, with gradual normalisation of footfalls in the stores with receding impact of the pandemic and various initiatives taken by the company to improve sales and reduce costs including closure/relocation of non-profitable stores, the profitability is expected to improve. Sustained revival of demand outlook 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.
- Reduction in the shareholding of the RP-SG group in SRL below 51%.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and Resourceful promoters

SRL is a part of the RP-SG Group. The group has interests across diverse business segments such as power, infrastructure, carbon black, retail, education, BPO and media & entertainment. The group is spearheaded by Dr Sanjiv Goenka (Chairman of SRL) 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.

The group has demonstrated support to the company in the past and the same is expected to continue going forward as well.

Geographical diversification with pan-India presence

The company offers a diverse assortment of food, personal care and lifestyle (fashion, home, entertainment) products. As on March 31, 2022, the company operated through 190 retail stores [including 36 stores of Natures Basket Limited (NBL)] in 37 cities in India, spread across a trading area of 14.65 lakh square feet with around 46% and 25% revenue coming from eastern and southern parts of the country respectively. In FY22, the company closed/relocated 14 SRL stores and opened 4 stores.

SRL operates in two distinct retail formats being convenience (small format stores) and hypermarket (large format stores) under the name "Spencer's". Its subsidiary NBL operates its stores on small retail format under the name "Natures Basket". Furthermore, 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. In FY22, NBL opened 4 stores and closed 1 store.

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

High contribution of non-discretionary product in the product basket

SRL offers a wide 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. Presence of large amount of non-discretionary nature of products in the basket has provided cushion to the company from the significant decline in overall demand on account COVID-19 pandemic 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 and multinational brands. It also operates through its own portfolio of private brands. The private brand products contribute around 10-15% to the 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 (40-45 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 1.5-2 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.

Improvement in demand outlook

The impact of Covid-19 on retail stores continued to be felt in FY22. As the impact of the pandemic is receding, sales at standalone stores and malls are on a rising trend. The retailers with presence across the retail segments (grocery, apparel, appliances, accessories) as well as those who have an omni-channel strategy with presence in both offline and online channels are expected to have a quicker recovery. Going forward, the demand is expected to improve with improving consumer preference towards non-discretionary spendings. SRL deals with wide range of grocery items along with apparels, appliances, etc apart from non-discretionary items in the food and beverages category and the gradual normalisation of movement of people is expected to further increase the footfall in the stores. However, the increased preference for online shopping is expected to continue to have an impact, as the spending as well as shopping patterns of the customers have changed significantly. Also, any widespread recurrence of the pandemic again has the potential to disrupt sales.

Key rating weaknesses

Continued net loss in FY22

On a consolidated level, the total operating income of the company witnessed a decline of about 5% y-o-y in FY22 compared with FY21 on account of the intermittent disruptions caused during the year due to the pandemic. Though the PBILDT margin improved in FY22 with improvement in product sales mix and cost cutting measures, the company incurred net loss of Rs.121.46 crore in FY22 as compared with net loss of Rs.163.85 crore in FY21.

On a standalone basis, SRL reported an operating income of Rs.1,999.62 crore in FY22 compared to Rs.2102.91 crore in FY21. The PBILDT margin of SRL (Standalone) improved in FY22 compared with FY21, however, PBILDT margin of NBL has witnessed a decline with reduction in sales. SRL on a standalone basis incurred a net loss of Rs.84.56 crore in FY22 compared to Rs.127.93 crore in FY21.

Moderation in debt protection metrics during FY22

On a consolidated basis, the overall gearing ratio of the company (excluding lease liabilities from total debt) moderated from 1.45x as on March 31, 2021, to 6.57x as on March 31, 2022, on account of significant losses incurred by the company which has depleted the net worth of the company and increase in total debt on account of increase in term loan and working capital borrowings to fund operations.

Intensely competitive nature of the retailing industry

Increased 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 continues to be a key threat. Also, change in FDI norms can lead to further competition. The government had allowed FDI in food processing sector. Apart from this, the government is also contemplating liberalising rules relating to multi-brand retail. This will open foreign investments which may pose a threat to existing retail players like SRL, etc.

Liquidity: Adequate

In FY22, the company had debt repayment obligation of Rs.21.83 crore (consolidated) which was met out of positive cash flow generation from the business and new lines of credit available to the company. In FY23, the company has debt repayment obligation of Rs.37.34 crore.

SRL's working capital limits were utilised to the extent of about 70% in the past 12 months ended April 2022 while in NBL the working capital utilization stood at about 92% for last 12 months ended April 2022. SRL had cash and cash equivalents of Rs.39 crore as on March 31, 2022. Its capex requirements are expected to be met out of availing of debt. SRL enjoys significant financial flexibility by virtue of being a part of the RP-SG group. The group in the past has also demonstrated support to SRL by way of capital infusion.

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. Furthermore, significant 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

[CARE's Policy on default recognition](#)

[Rating Methodology: Consolidation](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

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

[Criteria on Assigning 'Outlook' and 'Credit Watch' to Credit Ratings](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Organized Retail Companies](#)

About the Company

SRL was incorporated on February 08, 2017, as a part of the RP-SG 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 SRL in December 2018.

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 which was settled through cash and takeover of outstanding debts. NBL operates with 36 stores with total trading area of 1.08 lakh sq. feet as on March 31, 2022.

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.

| Brief Financials (Consolidated) (₹ crore) | March 31, 2020 (A) | March 31, 2021 (A) | March 31, 2022 (Abridged) |
|---|--------------------|--------------------|---------------------------|
| Total operating income | 2640.07 | 2,428.07 | 2,299.69 |
| PBILDT | 57.32 | 7.95 | 24.63 |
| PAT | -130.78 | -163.85 | -121.46 |
| Adjusted Overall gearing (times) | 0.73 | 1.45 | 6.57 |
| Interest coverage (times) | 0.70 | 0.09 | 0.25 |

A: Audited

Financials have been classified as per CARE Rating standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Available

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 | ISIN | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|--|------|------------------|-------------|---------------|-----------------------------|---|
| Fund-based - LT-Term Loan | | - | - | July 2024 | 15.00 | CARE BBB; Stable |
| Fund-based - LT/ ST-Cash Credit | | - | - | - | 10.00 | CARE BBB; Stable / CARE A3 |
| Fund-based - LT-Term Loan | | - | - | Sep 2027 | 110.00 | CARE BBB; Stable |
| Fund-based - LT/ ST-Cash Credit | | - | - | - | 125.00 | CARE BBB; Stable / CARE A3 |
| Fund-based - ST-Purchase Invoice Financing | | - | - | - | 100.00 | 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 (₹ 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-Term Loan | LT | 15.00 | CARE BBB; Stable | - | 1)CARE BBB; Stable (01-Oct-21) 2)CARE BBB; Stable (07-Jul-21) | 1)CARE BBB; Stable (23-Nov-20) | - |
| 2 | Fund-based - LT/ST-Cash Credit | LT/ST* | 10.00 | CARE BBB; Stable / CARE A3 | - | 1)CARE BBB; Stable / CARE A3 (01-Oct-21) 2)CARE BBB; Stable / CARE A3 (07-Jul-21) | 1)CARE BBB; Stable / CARE A3 (23-Nov-20) | - |
| 3 | Fund-based - LT-Term Loan | LT | 110.00 | CARE BBB; Stable | - | 1)CARE BBB; Stable (01-Oct-21) 2)CARE BBB; Stable (07-Jul-21) | - | - |
| 4 | Fund-based - LT/ST-Cash Credit | LT/ST* | 125.00 | CARE BBB; Stable / CARE A3 | - | 1)CARE BBB; Stable / CARE A3 (01-Oct-21) 2)CARE BBB; Stable / CARE A3 (07-Jul-21) | - | - |
| 5 | Fund-based - ST-Purchase Invoice Financing | ST | 100.00 | CARE A3 | | | | |

*Long term/ Short term

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 Instrument | Complexity Level |
|---------|--|------------------|
| 1 | Fund-based - LT-Term Loan | Simple |
| 2 | Fund-based - LT/ ST-Cash Credit | Simple |
| 3 | Fund-based - LT/ ST-Cash Credit | Simple |
| 4 | Fund-based - ST-Purchase Invoice Financing | Simple |

Annexure-5: Bank Lender DetailsTo view the lender wise details of bank facilities please [click here](#)

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@careedge.in for any clarifications.

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About us:

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