

Spencers Retail Limited

April 05, 2024

Facilities	Amount (₹ crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	339.72 (Enhanced from 179.72)	CARE BBB-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	162.00 (Enhanced from 161.00)	CARE BBB-; Stable / CARE A3	Reaffirmed
Short Term Bank Facilities	225.00 (Enhanced from 130.00)	CARE A3	Reaffirmed

Details of facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Spencers 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 on account of the continued cash losses incurred by the company in FY23 (refers to the period April 01 to March 31) and 9MFY24 on a consolidated basis which has resulted in weakening of its debt protection metrics. The financial performance remained subdued due to the weak performance of the existing stores amidst increase in costs and intense competition. Rating also take cognizance of various steps, including closure of loss-making stores and focus on online platforms which is expected to result in improved profitability and higher sales. The funding of the cash deficit entirely through debt has led to elevated debt level. The ratings are also constrained by the erosion of its net worth due to the increasing losses and no equity infusion in recent past.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Turnaround in the performance thereby achieving operating profit with PBILDT margin of 2% on a sustained basis.
- Positive net-worth with improvement in performance and/or sizeable equity infusion.

Negative factors

- Withdrawal of fund support from the promoter group and/or reduction in the shareholding of the RPSG group in SRL below 51%.

Analytical approach: Consolidated

For arriving at the ratings, CARE Ratings Limited has considered the consolidated business and financial risk profile of SRL and Natures Basket Limited (NBL) as these companies are engaged in similar line of operations under a common management. The consolidated financial statement also includes Omnipresent Retail India Private Limited. Furthermore, significant comfort is drawn from SRL being part of RP-SG group. The list of companies being consolidated is given in **Annexure – 6**.

Outlook: Stable

The stable outlook reflects the strong financial flexibility available to the Company by virtue of being part of the RP-SG group and demonstrated support from the group to the company, which is expected to continue going forward.

Detailed description of the key rating drivers:

Key strengths

Experienced and resourceful promoters

The RP-SG group has interest across diverse business segments such as power, carbon black, retail, education, sports, business process outsourcing, rubber and tea plantations, FMCG, and media & entertainment. The group is spearheaded by Dr Sanjiv Goenka (previous 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 (Chairman of SRL), who has significant experience in retail industry.

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

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 December 31, 2023, the company operated through 166 retail stores [including 33 stores of NBL] in 41 cities in India, spread across a trading area of 13.91 lakh square feet. In 9MFY24, the company had around 59% revenue from the eastern part of the country, while it had around 22% and 19% revenue coming from northern and southern parts of the country respectively. In 9MFY24, SRL closed 21 loss-making stores and opened 2 new stores and NBL closed 4 of its loss-making stores and opened 2 new stores.

SRL operates in two distinct retail formats being convenience (small format stores) and hypermarket (large format stores) under the name "Spencers". In FY23, it had also ventured into value format stores. 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.

High contribution of non-discretionary product in the product basket

SRL offers a wide range of food and lifestyle products (fashion, home, entertainment). Approximately 75% of SRL's and 90% of NBL's product basket is non-discretionary in nature which provides stability to demand for the products. Presence of large amount of non-discretionary nature of products in the basket had provided cushion to the company in FY21-22 from the significant decline in overall demand on account of 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 1,00,000+ SKUs. The company has tie-ups with various multinational brands. NBL, on the other hand has a product base of 9000+SKUs from various reputed Indian and multinational brands. It also operates through its own portfolio of private brands. The private brand products contribute around 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.

Liquidity: Adequate

On the back of sustained cash losses, liquidity of SRL gets comfort from the expected support from its promoter group. In FY24, the company had debt repayment obligation of approximately ₹60 crore. SRL's working capital limits were utilised to the extent of about 74% in the past 12 months ended October 2023 while in NBL working capital limit utilization stood at about 85% for the last 12 months ended October 2023. SRL had cash and cash equivalents (consolidated) of ₹17 crore as on September 30, 2023. It also has other investments of ₹72.77 crore which can be liquidated if required. Its capex requirements are expected to be met out of availment 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.

Key weaknesses

Weak financial performance in FY23 and 9MFY24

On a consolidated level, the total operating income of the company increased in FY23 by about 7% as compared to FY22 with degrowth of 5.8% in 9MFY24 from 9MFY23 due to closure of loss making stores. However, SRL continued to incur losses in FY23 and 9MFY24 due to weak performance of the existing stores due to lower footfalls and intense competition. Lower PBILDT, increase in capital charge and lower non-operating income led to significant widening of losses during the period, from ₹121.46 crore in FY22 to ₹210.40 crore in FY23. Furthermore, in 9MFY24 the Company incurred net losses due to decline in revenue and under absorption of overheads, while PBILDT was low at ₹0.43 crore. The company has taken various steps, including closure of loss-making stores and focusing on online platforms, to increase sales and improve profitability, however, the impact of the same is yet to be observed.

Weakening in debt protection metrics

Continuous losses and absence of equity infusion resulted in erosion of the net-worth leading to negative net-worth position on consolidated basis as on March 31, 2023. The debt coverage indicators remain weak. The funding of the cash deficit and other

obligations entirely through debt has also resulted in increase in debt level as on September 30, 2023. Timely equity / fund infusion by promoter group would be critical going forward.

Intensely competitive nature of the retailing industry

Increased competition from both brick and mortar and online players is impacting 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.

Environment, social, and governance (ESG) risks

The stores use cloth and biodegradable shopping bags for packing items. The company provides meals to be served to orphanages and old age homes. There is a whistleblower policy (vigil mechanism) in place for reporting any actual or potential concerns and there was no such reporting during FY23. Half of total directors on the board of SRL are independent towards a good corporate governance practice.

Applicable criteria

[Consolidation](#)

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Retail](#)

[Service Sector Companies](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

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

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 with 133 stores as on December 31, 2023. In July 2019, the company acquired 100% stake in NBL from Godrej Industries Ltd at an enterprise value of ₹300 crore which was settled through cash and takeover of outstanding debts. NBL operates with 33 stores as on December 31, 2023.

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 agent on commission basis.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	2,299.69	2,452.58	1,798.23
PBILDT	24.63	4.45	0.43
PAT	-121.46	-210.40	-185.46
Overall gearing ratio (times)	19.40	NM	NM
Adjusted Overall gearing (times)	6.57	NM	NM
Interest coverage (times)	0.25	0.04	0.00

A: Audited, UA: Unaudited, NM: Not Meaningful

Adjusted overall gearing is calculated after excluding lease liability from debt.

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 last three years: Please refer Annexure-2

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of facilities

Name of the facilities	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	31/07/2024	5.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	02/09/2028	334.72	CARE BBB-; Stable
Fund-based - LT/ ST-Cash Credit		-	-	-	152.00	CARE BBB-; Stable / CARE A3
Fund-based - LT/ ST-Cash Credit		-	-	-	10.00	CARE BBB-; Stable / CARE A3
Fund-based - ST-Purchase Invoice Financing		-	-	-	225.00	CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
1	Fund-based - LT-Term Loan	LT	5.00	CARE BBB-; Stable	1)CARE BBB-; Stable (01-Dec-23)	1)CARE BBB; Negative (23-Feb-23) 2)CARE BBB; Stable (07-Jul-22)	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-Dec-23)	1)CARE BBB; Negative / CARE A3 (23-Feb-23) 2)CARE BBB; Stable / CARE A3 (07-Jul-22)	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	334.72	CARE BBB-; Stable	1)CARE BBB-; Stable (01-Dec-23) 2)CARE BBB; Stable (07-Jul-22)	1)CARE BBB; Negative (23-Feb-23) 2)CARE BBB; Stable (07-Jul-21)	-
4	Fund-based - LT/ ST-Cash Credit	LT/ST	152.00	CARE BBB-; Stable / CARE A3	1)CARE BBB-; Stable / CARE A3 (01-Dec-23) 2)CARE BBB; Stable / CARE A3 (07-Jul-22)	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	225.00	CARE A3	1)CARE A3 (01-Dec-23) 2)CARE A3 (07-Jul-22)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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-Term Loan	Simple
2	Fund-based - LT/ ST-Cash Credit	Simple
3	Fund-based - ST-Purchase Invoice Financing	Simple

Annexure-5: Lender details

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

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Natures Basket Limited	Full	Subsidiary
2	Omnipresent Retail India Private Limited	Full	Subsidiary

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.

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