

Spencer's Retail Limited

February 23, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	210.17 (Enhanced from 125.00)	CARE BBB; Negative	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	161.00 (Enhanced from 135.00)	CARE BBB; Negative / CARE A3	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	130.00 (Enhanced from 100.00)	CARE A3	Reaffirmed

Details of facilities in Annexure-1.

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 take note of the significant increase in net losses in 9MFY23 (refers to the period April 01 to December 31) due to the weaker than expected performance of the newly opened and existing stores amidst increase in costs and intense competition. The funding of the cash deficit entirely through debt has also resulted in higher than envisaged increase in debt level. The ratings take note of the various steps being undertaken by the company, including opening of new value format stores, to increase sales and improve profitability.

Rating sensitivities: Factors likely to lead to rating actions

Positive Factors

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

Negative Factors

- Further weakening of operating profitability and/or deterioration in debt credit metrics on account of larger than anticipated debt level to fund losses.
- Reduction in the shareholding of the RP-SG group in SRL below 51%.
- Delay in infusion of required equity capital / delay in finalisation of equity infusion beyond September 2023

Analytical approach: Consolidated

For arriving at the ratings, CARE Ratings Limited has considered the consolidated business and financial risk profiles 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 on SRL being part of RP-SG group.

Name of subsidiaries	% Shareholding of SRL
Natures Basket Limited	100%
Omnipresent Retail India Private Limited	100%

Outlook: Negative

The outlook has been revised from 'Stable' to 'Negative' considering the deteriorating trend in operating profitability and increase in debt level to fund the cash deficit. The same is expected to continue exerting pressure on the cash flow and necessitate further fund infusion to meet its obligations. The outlook may be revised to 'Stable' if there is a reversal in the profitability trend given the various measures being undertaken by the company and/or there is significant long-term fund infusion by the promoter group to meet cash shortfall and fund growth initiatives of medium term.

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

Key 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, carbon black, retail, education, sports, business process outsourcing, rubber and tea plantations, FMCG, 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 December 31, 2022, the company operated through 185 retail stores [including 35 stores of NBL] in 37 cities in India, spread across a trading area of 14.37 lakh square feet. In H1FY23, the company had around 51% revenue from the eastern part of the country, while it had around 25% and 24% revenue coming from northern and southern parts of the country respectively. In 9MFY23, the company closed/relocated 9 SRL stores and opened 5 new stores.

SRL operates in two distinct retail formats being convenience (small format stores) and hypermarket (large format stores) under the name "Spencer's". In Q4FY23, it has 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. In 9MFY23, NBL opened 1 store and closed 3 stores.

High contribution of non-discretionary product in the product basket

SRL offers a wide range of food and lifestyle products (fashion, home, entertainment). Approximately 79%-85% 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 had provided cushion to the company in FY22 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 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 was felt in FY22. As the impact of the pandemic receded in 9MFY23, sales at standalone stores and malls showed 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 overall 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. Both SRL and NBL have their own online platforms for online sales of products.

Key weaknesses

Increase in net loss in 9MFY23

On a consolidated level, the total operating income of the company increased in 9MFY23 by about 9% as compared to 9MFY22. However, the PBILDT decreased due to under absorption of overheads. Lower PBILDT, increase in capital charge and lower other income led to significant widening of losses during the period. The company incurred consolidated net loss of ₹149.17 crore in 9MFY23 as compared with net loss of ₹78.99 crore in 9MFY22.

Weakening in debt protection metrics

On a consolidated basis, the overall gearing ratio of SRL (excluding lease liabilities from total debt) had 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.

In 9MFY23, the debt level has increased further for funding the high level of cash losses and meeting other obligations. Going forward, infusion of long-term funds in the form of equity by the promoters for meeting cash shortfall and funding growth is a key monitorable.

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 FY23, SRL has total debt repayment obligation of ₹40.84 crore. The company has already repaid ₹30.38 crore till December 31, 2022.

SRL's working capital limits were utilised to the extent of about 79% in the past 9 months ended December 2022 while in NBL's working capital limit utilization stood at about 61% for the last 9 months ended December 2022. SRL had cash and cash equivalents of ₹36 crore as on December 31, 2022. It also has other investments of ₹72 crore which can be liquidated if required. It had unutilized working capital limits (consolidated) of Rs.132 crore as on February 08, 2023. 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.

Applicable Criteria

[Policy on default recognition](#)

[Consolidation](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Organised Retail](#)

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 150 stores as on December 31, 2022. 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 35 stores as on December 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)	FY21 (A)	FY22 (A)	9MFY23 (UA)
Total operating income	2428.07	2299.69	1909.19
PBILDT	7.95	24.63	6.15
PAT	-163.85	-121.46	-149.17
Adjusted Overall gearing (times)	1.45	6.57	NA
Interest coverage (times)	0.09	0.25	0.07

A: Audited, UA: Unaudited, NA: Not Available

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

Financials have been classified as per CARE Rating standards.

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

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

Complexity level of the 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-Term Loan		-	-	31/07/2024	11.67	CARE BBB; Negative
Fund-based - LT-Term Loan		-	-	02/09/2028	198.50	CARE BBB; Negative
Fund-based - LT/ ST-Cash Credit		-	-	-	151.00	CARE BBB; Negative / CARE A3
Fund-based - LT/ ST-Cash Credit		-	-	-	10.00	CARE BBB; Negative / CARE A3
Fund-based - ST-Purchase Invoice Financing		-	-	-	130.00	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	11.67	CARE BBB; Negative	1)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; Negative / CARE A3	1)CARE BBB; Stable / CARE A3 (07-Jul-22)	1)CARE BBB; Stable / CARE A3 (01-Oct-21) 2)CARE BBB; Stable / CARE A3	1)CARE BBB; Stable / CARE A3 (23-Nov-20)	-

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
						(07-Jul-21)		
3	Fund-based - LT-Term Loan	LT	198.50	CARE BBB; Negative	1)CARE BBB; Stable (07-Jul-22)	1)CARE BBB; Stable (01-Oct-21) 2)CARE BBB; Stable (07-Jul-21)	-	-
4	Fund-based - LT/ST-Cash Credit	LT/ST*	151.00	CARE BBB; Negative / CARE A3	1)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	130.00	CARE A3	1)CARE A3 (07-Jul-22)	-	-	-

*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 - ST-Purchase Invoice Financing	Simple

Annexure-5: Bank Lender Details

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

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**

Name: Mradul Mishra

Phone: +91-22-6754 3596

E-mail: mradul.mishra@careedge.in

Analyst contact

Name: Mamta Muklania

Phone: +91-33-4018 1651

E-mail: mamta.khemka@careedge.in

Relationship contact

Name: Lalit Sikaria

Phone: + 91-033- 40181600

E-mail: lalit.sikaria@careedge.in

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