Spencers Retail Limited

November 23, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long Term Bank Facilities	**30.00**	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Assigned**
Long Term / Short Term Bank Facilities	**40.00**	**CARE BBB; Stable / CARE A3 (Triple B ; Outlook: Stable/ A Three)**	**Assigned**
Total Facilities	**70.00 (Rs. Seventy Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the Bank Facilities of Spencers Retail Limited (SRL) draws strength from strong financial flexibility of the RP-Sanjiv Goenka group, well-diversified geographical presence of the retail stores, high contribution of non-discretionary product in the product basket, adequate supply chain infrastructure in place, tie-up with Indian and international brands along with own sales, and negative working capital cycle. The above ratings are, however, constrained by modest financial performance and debt protection metrics in FY18-FY20 (refers to the period April 01 to March 31) and H1FY21, and competitive industry.

Rating Sensitivities

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

- Improvement in PBILDT margin (consolidated) beyond 6% on a sustained basis
- Improvement in GCA over Rs.100 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 1.00x.
- Further deterioration of financial performance on quarter on quarter basis.

Detailed description of the key rating drivers

Key Rating Strengths

Strong financial flexibility of the RP Sanjiv Goenka group

Spencer's Retail Limited (formerly RP-SG Retail Limited) is a part of RP-Sanjiv Goenka 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 Mr. 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 across various formats

The company has presence in food, personal care and lifestyle (fashion, home, entertainment). As on March 31, 2020, the company operated through 191 retail stores [including Natures Basket Limited (NBL)] in 42 cities in India, spread across a trading area of 14.60 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 "Nature's 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%-85% 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.

Adequate inventory management and supply chain infrastructure in place

The company's inventory management module operates on state of art Enterprise Resource Planning system that is SAP R3. The inventory management tools in the SAP allow the company to monitor, manage and control the inventory levels. The

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

sales trends are also regularly monitored to optimise inventory levels. The company's said system also manages logistic requirements. Further, the company also has 14 distribution centres (12 of SRL and 2 of NBL) on lease. The centres are centrally located in critical geographies which function as local sourcing hubs and commodity repack centres thereby ensuring fresh sourcing from farmlands. Further, the company has also tied up with various delivery/e-commerce apps to facilitate doorstep deliveries.

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 up with various multinational brands. It also operates through its own portfolio of Private brands. The private brand product contributes ~10-15% to total sales of the company. NBL, on the other hand has a product base of 7000+SKUs from various reputed Indian & Multinational brands. The company also offers products under its own brand which constitutes around 50% of NBL's sales.

Negative working capital cycle
SRL (consolidated) has low collection period which is inherent in the industry. The 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 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 has been maintaining a negative working capital cycle. However, the average creditors days elongated to around 2 months in H1FY21 due to negotiation of payment terms with non-food vendors.

Key Rating Weakness
Moderate financial performance in FY18 to FY20 and H1FY21
Due to the scheme of arrangement with the appointed date of October 01, 2017, the revenue and income of newly incorporated SRL & erstwhile SRL had to be combined in FY18 for the purpose of comparison. On standalone basis, total operating income of the company grew at a CAGR of 7.42% during FY18-20 with y-o-y growth of ~8.69% in FY20 (from Rs.2,187 crore in FY19 to Rs.2,377 crore in FY20). Revenue growth in FY20 was mainly on account of revenue from new stores opened in FY19. Due to imposition of government regulations regarding ban on Liquor sales by parties other than Government from October 2019 in the state of Andhra Pradesh, the sales of those stores were affected negatively. This is getting off-set with the new licences sanctioned to the Company in West Bengal and East UP.
SRL earned net profit of Rs.7.90 crore for the first time in FY19, after incurring continuous losses in erstwhile SRL. However, the financial performance deteriorated in FY20 with net loss of Rs.57 crore due to recent addition of stores. The company reported cash loss of Rs.21 crore in FY20 as against cash profit of Rs.30 crore in FY19.
In H1FY21 (unaudited), SRL's sales witnessed de-growth of 20% from H1FY20. This was due to lower footfalls, lower operating hours and closure of stores that were situated in the malls due to the spread of COVID-19. As a result, the operating loss of the company stood at Rs.19.22 crore in H1FY21 as against operating profit of Rs.46.42 crore in H1FY20.
On consolidated level, SRL's performance remained by and large in line with standalone SRL till acquisition of loss making NBL in July 2019. Hence, with addition of sales of NBL, the consolidated Income from operations stood at Rs.2,645 crore in FY20 vis-à-vis Rs.2,187 crore in FY19. Consolidated loss was higher than standalone due to inclusion of loss in NBL.
In H1FY21, consolidated revenue from operation witnessed de-growth despite 6 months sale of NBL (vis-à-vis 3 month in H1FY20) due to de-growth of 20% in revenue on standalone basis contributed (as explained earlier). As a result, the operating loss of the company stood at Rs.13.58 crore in H1FY21 as against operating profit of Rs.36.71 crore in H1FY20. SRL has undertaken various measures to reduce costs by negotiating lease rentals, rationalize manpower costs and other overheads. As a result it has received rent concession of Rs.7.59 crore and Rs.8.81 crore respectively on standalone and consolidated basis.

Moderate debt protection metrics in FY20 and H1FY21
On consolidated level, SRL was debt free as on March 31, 2019 and March 31, 2018. However, as on March 31, 2020 the overall gearing ratio (excluding lease liability) of the company stood at 0.73x due to takeover of debt of NBL, availment of new term loan of Rs.30 crore along with working capital demand loan and invoice financing facility. The increase in gearing ratio was also on account of deterioration in tangible net worth of the company in FY20 due to adjustment of lease liability as per IND AS-116 in retained earnings and loss in FY20. The gearing ratio as on March 31, 2020 (including lease liability) stood at 3.20x. As on September 30, 2020, the overall gearing ratio including lease liability and excluding lease liability stood at 3.30x and 0.81x respectively.

Competitive 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

In view of the COVID19 outbreak and lowering of the discretionary spending by the consumers in these times of economic downturn, the outlook for the Indian players in retail sector is 'Negative' in the short to medium term. The impact on demand, which is expected to remain muted at least for the next three or four quarters, will be more in case of players with presence in non-essential items and luxury segments. However, the expected support from the government in terms of financial stimulus packages and wage support subsidy as well as rental waivers from the mall-owners which would help the retailers to bring down their fixed costs, will reduce the impact on their credit profile to an extent. The retailers with presence in essential commodities continue to have some cash flows to support their fixed costs.

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 are 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 analysis- 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 raised capital upto Rs.79.48 crore through right issue of shares in July/August 2020. The cash and bank balance of the company (on consolidated basis) as on March 31, 2020 stood at Rs.81.28 crore and as on September 30, 2020 at Rs.129.35 crore. However, current ratio stood low at 0.67x as on March 31, 2020 and 0.69x as on September 30, 2020 despite equity infusion due to acquisition of NBL in July 2019, regular capex, and losses.

SRL's WCDL limit stands unutilized since repaid in July 2020. NBL's average working capital utilization stood at 74% for last 12 months. Further, SRL has not opted for moratorium under RBI COVID-19 relief package.

Analytical Approach: Consolidated. Rating also factors in the financial flexibility of the RP-Sanjiv Goenka group.

Name of subsidiary	% shareholding of SRL
Natures Basket Limited	100%
Omnipresent Retail India Private Limited	100%

Applicable Criteria

CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Criteria on assigning Outlook and Credit watch to Credit Ratings
Rating Methodology-Organized Retails Companies
Rating Methodology -Short Term Instruments
Consolidation & Factoring Linkages in Ratings
Liquidity analysis of Non-financial sector entities.

About the Company

SRL (formerly RP-SG Retail Limited) 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. As a result of the demerger, the shareholders of CESC Ltd were allotted 6 equity shares of the company of the face value of Rs.5/- each for every 10 equity shares held by them in CESC Ltd held on October 31, 2018 (the Record Date). The assets and liabilities of erstwhile SRL and other retail undertakings of CESC Ltd, were transferred to RP-SG Retail Ltd with appointed date of October 01, 2017. Subsequently, RP-SG Retail Ltd was rechristened as Spencers Retail Limited in December 2018 and the equity shares got listed in BSE, NSE and CSE in January 2019. 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 Natures Basket Limited (NBL) from Godrej Industries Ltd at an enterprise value of Rs.300 crore settled through cash and takeover of outstanding debts. NBL operates with 31 stores with total trading area of 0.84 lakh sq feet as on March 31, 2020.

Consolidated Brief Financials (Rs. crore)	FY19 (A)	FY20(A)
Total operating income	2187.18	2644.54
PBILDT	8.91	61.79
PAT	2.39	-130.78
Overall gearing (times)	0.00	0.73
Interest coverage (times)	1.20	0.75

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 Bank Facilities	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

Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	30.00	CARE BBB; Stable	-	-	-	-
2.	Fund-based - LT/ ST-Cash Credit	LT/ST	40.00	CARE BBB; Stable / CARE A3	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Term Loan	Detailed explanation
A. Financial covenants	NA
B. Non- Financial covenants	
i	CA certificate for end use of funds to be submitted within 45 days from the date of disbursement.
ii	CA certificate for reimbursement of capex incurred in last 6 months to be provided within 15days from the date of disbursement.
Cash Credit/WCDL	
A. Financial covenants	NA
B. Non-Financial covenants	
i	Monthly stock (excluding stock in transit and unpaid stock) & book debts upto 120 days and creditor's statements to be submitted in bank's prescribed format within 45 days from the end of every month. Penalty for delay in submission of the statement. The value of unpaid stocks (e.g. under LCs) or slow moving stocks will not be considered for computation of drawing power
ii	Drawing power to be calculated by taking a margin of 25% on book debts upto 120 days and 20% on stock (excluding stock-in-transit and unpaid stock and after reducing creditors).
iii	Total borrowings under the main and sub limits should not exceed the main limit

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

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 for any clarifications.*

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