

Spencers Retail Ltd — 14 Jan 2025 Credit Rating Summary

Section	Details
Agency	CARE Ratings Ltd.
Rating Change	Reaffirmed at CARE BBB- / CARE A3 (Note: Rating was downgraded from BBB to BBB- in Dec 2023 and remains at the bottom of Investment Grade).
Outlook (Current vs Previous)	Stable vs Stable
Key Drivers of Change	<ul style="list-style-type: none"> • Revenue Contraction: FY24 TOI down 4% to ₹2,345.03 Cr; H1FY25 down 6.8% YoY due to closure of 37 loss-making stores. • Operational Stress: PBILDT turned negative in FY24 (-₹9.17 Cr) and worsened in H1FY25 (-₹43.62 Cr) due to under-absorption of overheads. • Eroded Equity: Continuous PAT losses (₹266.15 Cr in FY24) led to Negative Net Worth. • Parental Floor: Rating floor is maintained solely by the financial flexibility of the RP-Sanjiv Goenka (RP-SG) Group despite standalone insolvency.
Rated Instruments	• LT Term Loan: ₹371.08 Cr
Key Observations	<p>Positives:</p> <ul style="list-style-type: none"> • Defensive Portfolio: 75%-90% of product mix is non-discretionary (Food/FMCG). • Working Capital: Efficient negative cycle; inventory holding low at 40-45 days. • Geographic Concentration: 82% revenue from East India provides a strong regional moat. <p>Risks:</p> <ul style="list-style-type: none"> • Quick Commerce Threat: Losing market share to Blinkit, Zepto, and Swiggy Instamart. • Liquidity Strain: High bank limit utilization (~89%) and reliance on debt to fund cash losses. • Geographic Exit: Closed majority of stores in North/South India to stem losses.
Investor Impact	<ul style="list-style-type: none"> • Growth: Shrinking physical footprint (131 stores vs higher previous counts); pivot to online is unproven. • Margins: Deepening operating losses; turnaround requires 2% PBILDT (currently -4% in H1FY25). • Leverage: Debt is rising to fund deficits rather than assets; Gearing is "NM" (Not Meaningful) due to negative equity. • Dilution Risk: VERY HIGH. Agency notes "timely equity infusion is critical" to prevent further rating slippage.
Agency / Cross Analysis	<p>Same Agency: CARE reaffirmed the rating despite significantly worse financials in H1FY25 compared to FY24. The rationale shifted from "performance-based" to almost entirely "parent-support based."</p> <p>Conclusion: There is a clear mismatch between deteriorating standalone performance (widening losses) and the Stable outlook, indicating the rating is 100% reliant on the Promoter's willingness to infuse cash.</p>
Final Inference	Distress Signal. Spencers is a "Zombie" entity surviving on RP-SG Group lifelines. For equity investors, the business model is being disrupted by Quick Commerce, and significant equity dilution or a massive asset sale is inevitable to fix the balance sheet.