## Spencers Retail Ltd — FY 2023 Annual Report Analysis

# Annual Report Analysis (Consolidated)

*Source: CRORES. All figures  Crores. Pipeline: v5-Gemini — W1a → W3 → W1b+W2+W2F (parallel, notes-injected) → Merge.*

### Investor Snapshot

| # | Analytical Point | Sentiment |
|---|---|---|
| 1 | **Spencer’s Retail operates a diversified retail model with 6.65% YoY revenue growth to □2,453 Cr, though it struggles with high fixed costs and intense competition.** | □ |
| 2 | **Top-line growth is supported by a strategic pivot to the "Value Market" format (10 new stores) and high-margin display income of □67.49 Cr.** | □ |
| *3* | ***Operating EBITDA collapsed by 84% to  4 Cr as rising material and utility costs neutralized revenue gains, leading to a widened net loss of  210 Cr.*** | □ |
| *4* | ***The company is technically insolvent with a negative consolidated net worth of  150.47 Cr and a deeply negative Debt/Equity ratio of -8.9x.*** | □ |
| *5* | ***Financial health is critical, evidenced by an Interest Coverage Ratio of -0.83x and a formal breach of financial covenants in bank loan agreements.*** | □ |
| *6* | ***Cash flow from operations of  27 Cr is artificially sustained by non-cash add-backs (Depreciation/ Interest) and a  15.76 Cr one-time lease termination gain.*** | □ |
| *7* | ***Liquidity is severely constrained with a cash balance of only  13 Cr and trade payables of  344 Cr exceeding total current assets.*** | □ |
| *8* | ***Capital allocation is value-destructive with ROCE at -8.00%, as debt is utilized to service interest and fund losses rather than productive capex.*** | □ |
| *9* | ***Asset quality is at risk due to  332 Cr in non-amortized intangible assets (Brands/Goodwill) which pose a massive impairment threat to the fragile balance sheet.*** | □ |
| 10 | **Governance remains compliant with a 50% independent board and stable 58.8% promoter stake, though high KMP turnover signals organizational instability.** | □ |
| *11* | ***The outlook is clouded by "hidden leverage" in the form of  1,323 Cr in undiscounted lease liabilities, creating a permanent drag on profitability.*** | □ |
| *12* | ***Investment View: AVOID; the business is a distressed turnaround play where survival depends on lender leniency; monitor for positive net worth and 1.5x interest coverage.*** | □ |

# FINAL RESEARCH SUMMARY: SPENCER’S RETAIL LTD (SRL)

### 1. BUSINESS OVERVIEW

- **Multi-Format Strategy:** Operates an ecosystem comprising premium gourmet (**Natures Basket**), aspirational hypermarkets (**Spencer’s Retail**), and a newly launched discount value format (**Value Market**).
- **Revenue Drivers:** Primary driver is Food & Grocery, with a strategic pivot toward a higher **Non-Food Sales Mix** (General Merchandise and Apparel) to capture higher gross margins.

- **Private Label Push:** Aggressive expansion of Private Labels such as *Smart Choice*, *2Bme*, and *Healthy Alternatives*, alongside **Sales or Return (SOR)** brands to mitigate inventory risk.
- **Omni-channel Ecosystem:** Digital reach via **ORIPL** (App/WhatsApp/Web) achieved ₹302 Cr GMV; physical stores act as dark stores for hyper-local fulfillment.
- **Cost Drivers:** Heavily burdened by **Real Estate Costs** and rising **Power and Fuel** expenses (up 16.04% YoY).
- **Expansion Plans:** Launched **Spencer’s Value Market** with 10 stores (1.4 Lakh sq. ft.) in FY23; targeting 10-15 new store openings across Spencer’s and Natures Basket (~10% trading area addition).
- **Geographical Presence:** Adopting a **Cluster-Based Expansion** strategy, concentrating stores in West Bengal, Andhra Pradesh, and Telangana to optimize logistics and marketing.
- **Industry Position:** Operating in a sector with only 11% organized retail penetration; positioning as a "one-stop-shop" anchor while defending against quick-commerce via "Out-of-Store" channels.

## 2. MANAGEMENT COMMENTARY & OUTLOOK

- The strategic pivot to the "Value Market" format acknowledges that mass-market growth in Tier II-IV cities requires a different proposition than the legacy aspirational hypermarket.
- Management aims to "ring-fence" consumers across the income pyramid by segmenting into Premium (Natures Basket), Aspirational (Spencer’s), and Value (Value Market).
- ORIPL (Digital arm) achieved its first-ever positive EBITDA at the GMV level, signaling a transition from a cash-burn center to a self-sustaining channel.
- The competitive response to industry "Price Wars" is a focus on "Differentiated Assortment," particularly in "Freshness" (Meat, Seafood, Vegetables) and Gourmet categories to build a moat against digital discounters.
- Execution excellence is being prioritized through a Warehouse Management System (WMS) and SAP-driven automated replenishment to improve working capital efficiency.
- Management acknowledges the widening of losses (₹210 Cr vs ₹121 Cr YoY) but remains "cautiously optimistic" about the structural shift to organized retail.
- Leadership transition is complete with Mr. Shashwat Goenka taking over as Chairman and Mr. Anuj Singh as CEO, marking a shift toward a tech-integrated, multi-format approach.
- The long-term vision is to become a "dynamic conglomerate" driven by innovation, with an immediate focus on cost control and margin expansion through product mix optimization.
- **Management Tone Verdict: Pragmatically Aggressive but Financially Strained. Management is displaying "Strategic Agility" by pivoting to the Value format and achieving digital milestones, but there is a stark disconnect between the "Execution Excellence" narrative and the reality of technical insolvency and mounting losses. The tone suggests a high-risk strategy of "growing their way out" of fixed-cost burdens through 10% area expansion despite a 4.32x Debt-to-Equity ratio.**

## 3. FINANCIAL ANALYSIS

### 3.1 Financial Statements

*Source: Screener.in — all monetary values in ₹ Crores. Use these numbers directly.*

## P&L Statement (□Crores)

| Line Item | Mar 2023 | Mar 2022 |
|---|---:|---:|
| Sales - | 2,453.00 | 2,300.00 |
| Sales Growth % | 6.65 | -5.29 |
| Expenses - | 2,448.00 | 2,275.00 |
| Material Cost % - | 80.00 | 79.00 |
| Raw material cost | 1,965.00 | 1,816.00 |
| Change in inventory | -5.00 | 7.00 |
| Manufacturing Cost % | 6.00 | 5.00 |
| Employee Cost % | 8.00 | 8.00 |
| Other Cost % | 6.00 | 6.00 |
| Operating Profit | 4.00 | 25.00 |
| OPM % | 0.00 | 1.00 |
| Other Income - | 32.00 | 76.00 |
| Exceptional items | 0.00 | 1.00 |
| Other income normal | 32.00 | 75.00 |
| Interest | 115.00 | 97.00 |
| Depreciation | 132.00 | 126.00 |
| **Profit before tax** | -211.00 | -122.00 |
| Tax % | 0.00 | 0.00 |
| **Net Profit -** | -210.00 | -121.00 |
| Exceptional items AT | 0.00 | 1.00 |
| Profit excl Excep | -210.00 | -122.00 |
| Profit for PE | -210.00 | -122.00 |
| Profit for EPS | -210.00 | -121.00 |
| Profit Growth % | -72.00 | 29.00 |
| EPS in Rs | -23.34 | -13.48 |
| Dividend Payout % | 0.00 | 0.00 |

## Balance Sheet (₹Crores)

| Line Item | Mar 2023 | Mar 2022 |
|---|---|---|
| Equity Capital | 45.00 | 45.00 |
| Reserves | -196.00 | 17.00 |
| Borrowings - | 1,341.00 | 1,069.00 |
| Long term Borrowings | 181.00 | 127.00 |
| Short term Borrowings | 361.00 | 234.00 |
| Lease Liabilities | 799.00 | 708.00 |
| Preference Capital | 0.00 | 0.00 |
| Other Borrowings | 0.00 | 0.00 |
| Other Liabilities - | 439.00 | 435.00 |
| Trade Payables | 344.00 | 333.00 |
| Advance from Customers | 0.00 | 0.00 |
| Other liability items | 96.00 | 101.00 |
| **Total Liabilities** | 1,629.00 | 1,565.00 |
| Fixed Assets - | 1,132.00 | 1,049.00 |
| Building | 814.00 | 713.00 |
| Plant Machinery | 74.00 | 72.00 |
| Equipments | 4.00 | 3.00 |
| Computers | 31.00 | 29.00 |
| Furniture n fittings | 103.00 | 102.00 |
| Vehicles | 0.00 | 0.00 |
| Intangible Assets | 332.00 | 332.00 |
| Other fixed assets | 27.00 | 23.00 |
| Gross Block | 1,385.00 | 1,274.00 |
| Accumulated Depreciation | 254.00 | 225.00 |
| CWIP | 2.00 | 8.00 |
| Investments | 94.00 | 94.00 |
| Other Assets - | 401.00 | 415.00 |
| Inventories | 265.00 | 260.00 |
| Trade receivables - | 20.00 | 27.00 |
| Receivables over 6m | 6.32 | 32.01 |
| Receivables under 6m | 16.58 | 23.34 |
| Prov for Doubtful | -3.14 | -28.72 |
| Cash Equivalents | 18.00 | 18.00 |
| Loans n Advances | 6.00 | 5.00 |
| Other asset items | 93.00 | 105.00 |
| **Total Assets** | 1,629.00 | 1,565.00 |

## Cash Flow Statement (□Crores)

| Line Item | Mar 2023 | Mar 2022 |
|---|---|---|
| Cash from Operating Activity - | 27.00 | 55.00 |
| Profit from operations | 10.00 | 44.00 |
| Receivables | 6.00 | 3.00 |
| Inventory | 0.00 | 8.00 |
| Payables | 10.00 | 2.00 |
| Loans Advances | 0.00 | 0.00 |
| Other WC items | -15.00 | -4.00 |
| Working capital changes | 2.00 | 10.00 |
| Direct taxes | 15.00 | 1.00 |
| Cash from Investing Activity - | -26.00 | -40.00 |
| Fixed assets purchased | -26.00 | -25.00 |
| Fixed assets sold | 1.00 | 1.00 |
| Investments purchased | -45.00 | -124.00 |
| Investments sold | 47.00 | 105.00 |
| Interest received | 0.00 | 0.00 |
| Acquisition of companies | 0.00 | 0.00 |
| Other investing items | -2.00 | 3.00 |
| Cash from Financing Activity - | -5.00 | -54.00 |
| Proceeds from shares | 0.00 | 0.00 |
| Proceeds from borrowings | 219.00 | 127.00 |
| Repayment of borrowings | -38.00 | -22.00 |
| Interest paid fin | -115.00 | -96.00 |
| Financial liabilities | -70.00 | -64.00 |
| **Net Cash Flow** | -4.00 | -40.00 |
| Free Cash Flow | 1.00 | 31.00 |
| CFO/OP | 271.00 | 219.00 |

## Key Ratios (□Crores)

| Line Item | Mar 2023 | Mar 2022 |
|---|---|---|
| Debtor Days | 3.00 | 4.00 |
| Inventory Days | 49.00 | 52.00 |
| Days Payable | 64.00 | 67.00 |
| Cash Conversion Cycle | -12.00 | -10.00 |
| Working Capital Days | -79.00 | -63.00 |
| ROCE % | -8.00 | -2.00 |

### 3.2 Financial Analysis Summary

- **Revenue** from operations grew by **6.65%** to **₹2,453.00 Cr**, supported by high-margin **Display Income** of **₹67.49 Cr** (2.75% of top line), signaling bargaining power with suppliers despite a consolidated **Net Profit** loss of **-₹210.00 Cr**.
- **Operating Profit** collapsed from **₹25.00 Cr** to **₹4.00 Cr** as **Material Cost %** rose to **80%** and **Power and Fuel** costs spiked by **16.04%**, significantly outpacing **Revenue** growth and indicating severe energy inefficiency.
- **Finance Cost** increased to **₹115.21 Cr**, with **58.04%** of this (**₹66.87 Cr**) being interest on **Lease Liabilities**, highlighting the heavy financial burden of the "asset-light" model which contributed to a **Profit before tax** of **-₹211.00 Cr**.
- **Net Worth** has turned negative at **-₹150.47 Cr** due to accumulated losses, rendering the company technically insolvent and resulting in a **Debt / Equity** ratio that is no longer meaningful, while **Total Debt** (including **Lease Liabilities**) surged to **₹1,341.00 Cr**.
- **Total Borrowings** of **₹541.50 Cr** carry high interest rates (up to **10.70%**), and the Group breached financial covenants in bank agreements, signaling extreme liquidity stress and reliance on bank condonation letters.
- **Working Capital** remains negative at **-79 days**, driven by **Trade Payables** of **₹344.00 Cr** which exceed current assets of **₹363.97 Cr**, indicating the business is almost entirely funded by supplier credit.
- **Trade Receivables** dropped to **₹20.00 Cr** following a massive write-off of bad debts worth **₹25.17 Cr**, which improved **Debtor Days** to **3.00** but reflects poor historical credit quality.
- **Intangible Assets** of **₹332.00 Cr**, comprising **Brands** (**₹197.99 Cr**) and **Goodwill** (**₹131.27 Cr**), are treated as having "Indefinite Useful Life" and are not amortized, creating a massive impairment risk if Nature's Basket underperforms.
- **CFO** of **₹27.00 Cr** remains positive despite a **-₹210.00 Cr Net Profit** primarily due to non-cash add-backs of **₹132.00 Cr** in **Depreciation** and **₹115.00 Cr** in **Interest**, though **CFO** declined YoY from **₹55.00 Cr**.
- **Other Income** of **₹32.00 Cr** included a non-recurring gain of **₹15.76 Cr** from the "Reversal of net liability on termination of lease," which artificially reduced the reported **Net Profit** loss.
- **Capital Allocation** is severely restricted, with **Fixed assets purchased (Capex)** of **₹26.00 Cr** consuming nearly all of the **₹27.00 Cr CFO**, leaving a **Free Cash Flow** of only **₹1.00 Cr** to service **₹38.00 Cr** in **Repayment of borrowings**.
- **ROCE** deteriorated further to **-8.00%** from **-2.00%**, as the **Gross Block** of **₹1,385.00 Cr** failed to generate positive **EBIT**, while **Asset Turnover** remained stagnant at **1.51x**.
- **Other Assets** include **Security Deposits** of **₹48.21 Cr** (non-earning assets tied with landlords) and **Other Expenses** include a large **Miscellaneous Expenses** bucket of **₹17.65 Cr** which lacks granular detail, potentially masking structural inefficiencies.
- **Synthesis: Spencers Retail is facing a liquidity crisis with negative Net Worth and breached debt covenants, where modest Revenue growth is entirely offset by surging utility costs and a massive interest burden from Lease Liabilities, resulting in a business that is currently unable to self-fund its debt obligations.**

### 3.3 Contingent Liabilities & Commitments

- **Claims not acknowledged as debt:** ₹47.38 Cr (material relative to cash balance of ₹13.17 Cr).
- **Tax Disputes:** Sales Tax / VAT / GST disputes amounting to ₹0.37 Cr.
- **Service Tax Provision:** Long-standing provision of ₹4.60 Cr for service tax on commercial rent, pending Supreme Court ruling.
- **Capital Commitments:** ₹3.37 Cr (primarily for new store infrastructure).

### 3.9 Earnings Quality & Forensic Checks

| # | Check | Impact | Status | Evidence | Notes Detail |
|---|---|---|---|---|---|
| 1 | PAT vs CFO trend | Profit ↓ — non-cash depreciation and finance costs mask deep cash losses; CFO □27 Cr vs PAT -□210 Cr. | □ | PAT -□210 Cr, CFO □27 Cr, Depr □132 Cr. | CFO is positive only due to add-back of □132 Cr depreciation and □115 Cr interest; core operations are cash-negative. |
| 2 | Receivables & channel-stuffing signal | Revenue ↑↓ — flat working capital against 6.6% sales growth suggests no aggressive stuffing; risk is low. | □ | Sales □2,453 Cr (+6.6%), Inventory □265 Cr (+1.9%), Receivables □20 Cr (-26%). | Sharp drop in receivables due to □25.17 Cr bad debt write-off rather than improved collections. |
| 3 | Revenue timing | Revenue ↑↓ — stagnant customer advances indicate lack of growth in loyalty or advance-order book. | □ | Contract Liabilities □14.99 Cr (FY23) vs □14.83 Cr (FY22). | Note 16: Advances from customers remained flat; Note 2.2(l): Agent-based revenue recognition prevents top-line bloating. |
| 4 | Revenue from related parties % | Neutral — promoter holding is stable; no significant revenue-side RPT distortion noted in core retail. | □ | Promoter holding 58.81%; RPT details focus on holding structure. | Note 12(e): Stable promoter stake; Note 13(d): Treasury shares held by Employee Benefit Trust reduce equity. |
| 5 | Inventory vs revenue growth | Profit ↑ — inventory efficiency improved; flat stock levels despite 6.6% sales growth suggests better churn. | □ | Sales Growth 6.65%, Inventory Growth 1.9% (□265 Cr vs □260 Cr). | Note 5: Inventory levels are flat, suggesting aggressive clearance of old stock or improved turnover. |
| 6 | Inventory valuation method change | Neutral — no change in valuation policy; consistent application of lower of cost or NRV. | □ | Inventory □265 Cr. | Accounting policy Note 2.2: Valuation remains consistent; no policy shifts reported. |
| 7 | Exceptional items in operating profit | Profit ↑ — absence of exceptional charges in FY23 vs FY22 slightly improves comparative operating results. | □ | FY23 Exceptional: □0; FY22 Exceptional: □1 Cr. | No major one-off restructuring charges or impairments recognized in the current P&L. |
| 8 | Depreciation rate vs useful life policy | Profit ↑ — non-amortization of □332 Cr intangibles prevents massive non-cash P&L charges. | □ | Intangible Assets □332 Cr; Depreciation □132 Cr. | Note 4: Brands and Goodwill have "Indefinite Useful Life" and aren't amortized, creating significant impairment risk. |
| 9 | Provision reversals boosting PAT | Profit ↑ — non-recurring lease termination gain of □15.76 Cr artificially reduced the reported net loss. | □ | Other Income □32 Cr; Lease reversal □15.76 Cr. | Note 20/24: Reversal of net liability on lease termination is a one-time gain, not an operating profit. |
| 10 | Tax rate consistency + cash tax vs P&L tax | Neutral — zero tax rate consistent with heavy losses; cash tax reflects statutory outflows. | □ | Tax %: 0.00; Direct Taxes (CFO): □15 Cr. | Note 2.2(q): No DTA recognized on □210 Cr loss due to lack of future profit certainty. |
| 11 | CWIP age and stalling projects | Neutral — CWIP is immaterial and declining, suggesting no major stalled capital projects. | □ | CWIP □2 Cr (FY23) vs □8 Cr (FY22). | Capital commitments are low at □3.37 Cr, indicating a slowdown in new store expansions. |
| 12 | Deferred tax asset recognition adequacy | Profit ↓ — non-recognition of DTA on losses signals management's lack of | □ | Unused tax losses □210.40 Cr; DTA not recognized. | Note 2.2(q): Prudent but alarming signal that future |

| # | Check | Impact | Status | Evidence | Notes Detail |
|---|---|---|---|---|---|
| | | confidence in near-term recovery. | | | taxable profits are not "reasonably certain." |
| 13 | RPT quantum and trend | Neutral — promoter commitment remains high; no evidence of value siphoning through RPTs. | □ | Promoter stake 58.81%; no major sales. | Note 12(e): Promoter group maintains stable holding despite erosion of net worth to negative □150 Cr. |
| 14 | Dividend paid vs FCF adequacy | Neutral — no dividends paid due to negative reserves and technical insolvency. | □ | Dividend Payout 0%; Free Cash Flow □1 Cr. | Total Equity is negative □150.47 Cr; company relies on debt refinancing and bank condonation (Note 14.3). |
| 15 | Negative Equity Status | Profit ↓ — Technical insolvency; Group surviving on continuous debt refinancing and promoter credit. | □ | Consolidated Equity -□150.47 Cr. | Erosion of net worth makes the company a captive entity of promoter credit support. |
| 16 | Auditor KAM: Intangibles Valuation | Profit ↑↓ — High subjectivity in Brand (□198 Cr) and Goodwill (□131 Cr) valuation; sensitive to growth rates. | □ | Brands/Goodwill □329.26 Cr. | If Nature's Basket projections fail, a massive impairment hit to the already negative equity is inevitable. |
| 17 | Covenant Breach | Neutral — Breach of financial ratios in bank loan agreements signals severe liquidity stress. | □ | Note 14.3. | Reliance on bank condonation letters to prevent immediate loan recall. |

## 4. MANAGEMENT & GOVERNANCE

A. Auditor Report & Key Audit Matters * **Audit Opinion:** Unqualified. * **Key Audit Matters (KAM): Impairment Testing of Intangibles.** The auditor identified the valuation of Brands (□197.99 Cr) and Goodwill (□131.27 Cr) as a KAM due to high subjectivity in "Relief from Royalty" and "Discounted Cash Flow" methodologies. Management engaged independent valuation specialists to verify assumptions. * **Going Concern:** Financial statements are prepared on a going concern basis despite negative consolidated equity of □150.47 Cr. * **Other Matters:** Auditor noted unaudited financial information for Spencer's Employee Benefit Trust (assets □1.02 Cr), deemed immaterial. * **Covenant Breaches:** The Group breached certain financial ratios in bank loan agreements, requiring condonation letters from lenders.

B. Related Party Transactions | Party | Relationship | Nature | Amount (□Cr) | Concern | |-------|--------------|--------|----------------|---------| | Rainbow Investments Limited | Promoter | Holding Entity | 43.94% Stake | Neutral | | Spencer's Employee Benefit Trust | Controlled Entity | Treasury Shares | 1.00 Cr | Neutral | * **RPT Verdict:** Monitor □ While no "tunneling" is explicitly flagged, the company's technical insolvency makes it entirely dependent on the Promoter Group's ability to provide financial support or maintain credit standing for refinancing.

C. Shareholding | Category | Mar 2023 (%) | Mar 2022 (%) | |:---------|-------------:|-------------:| | **Promoter Group** | 58.81 | 58.81 | | Public | 41.19 | 41.19 | * Promoter group maintains a stable stake, signaling commitment despite net worth erosion.

D. Board Composition + KMP Compensation * **Total Directors:** 8 | **Independent %:** 50.00% | **Women Directors:** 1 (Ms. Rekha Sethi). * **Family Relations:** Dr. Sanjiv Goenka (Chairman) and Shashwat Goenka (Director) are related. Shashwat Goenka was appointed Chairman effective May 23, 2023. * **Compensation Analysis:** Consolidated Operating Profit fell by 84% (□25 Cr to □4 Cr), while total Employee Benefits Expense increased by 5.17% to □198.60 Cr. * **KMP Turnover:** High turnover (CEO resigned Jan 2023, CS resigned Oct 2022) suggests organizational instability during financial stress.

F. Capital Allocation & Capex | Action | FY Current (□Cr) | FY Prior (□Cr) | % of CFO | Signal | |--------|-------------------|-----------------|----------|--------| | ***Interest Payments*** | 115.00 Cr | 96.00 Cr | 425.92% | □| | ***Net Debt Change*** | 181.00 Cr | 105.00 Cr | 670.37% | □| | ***Lease Liabilities*** | 799.00 Cr | 708.00 Cr | 2,959.25% | □| | Capex | 26.00 Cr | 25.00 Cr | 96.29% | □| | Dividends | 0.00 Cr | 0.00 Cr | 0.00% | □| * **CAPEX Analytical Notes:** * **CFO Coverage:** CFO/Capex ratio is 1.03. CFO barely covers maintenance capex and fails to cover finance costs. * **Nature of Capex:** Primarily infrastructure (□27 Cr) for the **1.4 Lakh sq. ft. addition for Value Market stores**. * **Deployment Efficiency:** Asset turnover is stagnant (1.51x); revenue growth (6.65%) is lagging behind Gross Block growth (8.71%). * **Verdict:** Value-destroying. New borrowings are used to fund interest and operating leaks rather than productive growth.

H. Risks * **Liquidity & Solvency (High):** Negative consolidated equity of □**150.47 Cr**; reliance on continuous debt refinancing. * **Impairment of Intangibles (High):** □**329.26 Cr** in Brands/Goodwill; potential 219% hit to current equity if Nature's Basket underperforms. * **Covenant Breach (High):** Risk of loans being called for immediate repayment due to breached financial ratios. * **Hidden Leverage (High):** Undiscounted lease obligations of □**1,323.11 Cr** causing continuous net losses. * **Competitive Pricing (Medium):** Price wars in retail impacting margins; Power/Fuel costs up 16%. * **Contingent Liabilities (Medium):** Claims of □**47.38 Cr** exceed cash balance of □**13.17 Cr**.

## 5. SCORECARD & VERDICT

### Part A: Scorecard

| Dimension | Rating (1–5) | Delta | Key Evidence | One-line Rationale |
|---|---|---|---|---|
| Business Quality | 3 | → | 6.6% Rev growth; 11% organized penetration | Moderate diversification but struggling with high fixed costs and price wars. |
| Financial Health | 1 | ↓ | D/E -8.9x (Negative Equity); Int. Coverage -0.83x | Technically insolvent with negative net worth and breached covenants. |
| Earnings Quality | 2 | ↓ | CFO > PAT due to Depr; □15.76 Cr lease gain | PAT is heavily masked by non-cash items and one-time lease termination gains. |
| Management & Governance | 3 | → | 50% Ind. Board; Stable Promoter Stake | Compliant structure but high KMP turnover and technical insolvency risks. |
| Capital Allocation & Earnings Visibility | 1 | ↓ | ROCE -8%; Debt used for interest servicing | Value-destructive allocation where debt funds losses rather than growth. |

**BUSINESS POSITIVES (for this company this year)** * □**Revenue Growth:** Top-line increased by **6.65% to □2,453 Cr** despite a challenging environment. * □**Digital Traction:** ORIPL achieved its first **positive EBITDA at GMV level** with □302 Cr GMV. * □**High-Margin Income: Display Income of □67.49 Cr** (2.75% of revenue) shows bargaining power with suppliers. * □**Inventory Efficiency:** Inventory levels remained flat (□**265 Cr**) despite sales growth, suggesting improved churn. * □**Strategic Pivot:** Successful launch of **10 Value Market stores** (1.4 Lakh sq. ft.) to target Tier II-IV growth.

**BUSINESS NEGATIVES / CONCERNS (for this company this year)** * □**Technical Insolvency:** Consolidated **Net Worth is negative** □**150.47 Cr**; company survives on debt refinancing. * □**Covenant Breach:** Group **breached financial ratios** in bank loan agreements (Note 14.3). * □**Massive Losses:** Net Loss widened to **-□210 Cr**; ROCE deteriorated to **-8.00%.** * □**Hidden Leverage:** Undiscounted **Lease Liabilities of □1,323.11 Cr** create a massive interest/depreciation burden. * □**Asset Quality Risk:** □**332 Cr in Intangibles** (Brands/

Goodwill) are not amortized, posing a massive impairment threat. * □**Liquidity Stress: Trade Payables (□344 Cr)** exceed Current Assets (□364 Cr); cash balance is only □13 Cr.

**OVERALL SCORECARD SUMMARY** Spencer's Retail is in a state of severe financial distress, characterized by technical insolvency and a reliance on promoter/bank leniency to remain a going concern. While the business shows strategic agility through its "Value Market" pivot and digital EBITDA milestones, these operational gains are being completely swallowed by a massive debt and lease-related interest burden. Earnings quality is poor, with the bottom line supported by non-recurring lease gains and the non-amortization of significant intangible assets. The trajectory is deteriorating financially, even as the business model attempts to stabilize.

## Part B: Governance Check Matrix

| # | Check | Status | Evidence |
|---|---|---|---|
| 1 | Audit opinion clean? | □ | Unqualified opinion (p.76) |
| 2 | Promoter pledge = 0? | □ | Not disclosed in snippets |
| 3 | KMP pay < 5% of PAT? | □ | PAT is negative; KMP pay not disclosed but Employee costs rose 5% |
| 4 | RPT quantum < 5% of revenue? | □ | No major RPT sales/purchases disclosed |
| 5 | Board > 50% independent? | □ | 50% (4 out of 8 directors) |
| 6 | At least 1 woman director? | □ | Ms. Rekha Sethi |
| 7 | No statutory dues outstanding? | □ | □7.43 Cr statutory dues reported (Note 18) |
| 8 | No fraud reported? | □ | None reported in snippets |
| 9 | Audit trail enabled? | □ | Reported as enabled |
| 10 | Frequent Auditor change | □ | S.R. Batliboi & Co. LLP continuing term |
| Final line: "Total: 7/10 □— Governance Rating: 3" | | | |

## Part C: Investor Verdict

**THESIS:** A distressed retail turnaround play where operational pivots (Value Market/Digital) are racing against a balance sheet collapse. **OVERALL STANCE:** AVOID **RATIONALE:** The company is technically insolvent with negative equity and breached covenants, making it a high-risk bet on promoter support rather than business fundamentals. **RE-EVALUATE WHEN:** Consolidated Net Worth turns positive AND Interest Coverage Ratio exceeds 1.5x. **BULL CASE:** Successful scaling of the "Value Market" format leads to store-level EBITDA that covers consolidated interest costs (□115 Cr+). **BEAR CASE:** Lenders recall loans following covenant breaches or a major impairment of the □332 Cr intangible assets wipes out any remaining recovery hope. **KEY MONITORABLE:** Interest Coverage Ratio: -0.83x → 1.0x

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*v5-Gemini* | *95 pages* | *96 chunks*