ArihantCapital
Generating Wealth

Sales Note
16th August 2024

Spencer's Retail

A remarkable turnaround story starting FY25

CMP: INR 88
Outlook: Positive

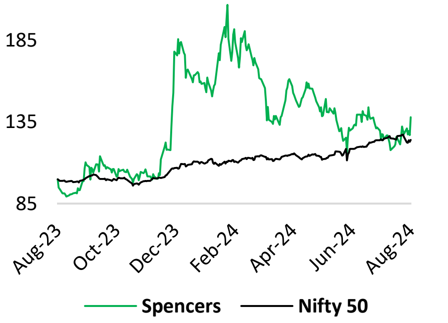
Stock Info	
BSE	542337
NSE	SPENCERS
Bloomberg	SPENCER:IN
Reuters	SPEN.BO
Sector	Diversified Retail
Face Value (INR)	5
Equity Capital (INR cr)	45
Mkt Cap (INR cr)	848
52w H/L (INR)	139 / 58
Avg Yearly Volume (in 000')	638

Shareholding Pattern %
(As on June 2024)

Promoters	58.81
FII	8.32
DII	1.99
Public & Others	30.88

Stock Performance (%)	1m	3m	12m
Spencers	(0.3)	11.0	24.1
Nifty 50	11.0	(0.1)	38.4

Spencers Vs Nifty 50



Abhishek Jain
Abhishek.jain@arihantcapital.com
022 67114872

Anushka Chitnis
anushka.chitnis@arihantcapital.com
022 67114870

Spencer's Retail (SRL), part of the RPSG Group, is a multi-format retailer offering FMCG, fashion, food, staples, personal care, home essentials, and electronics. Their two brands are- Spencer's and Nature's Basket.

Margin improvement across core categories, supported by ongoing cost cutting and store rationalization: There is a visible improvement in gross margins despite no significant change in the mix between food and non-food, indicating that in core categories of food, FMCG, and staples, delivered better margins due to a better product mix within this category. 19.5% is the sustainable gross margin (as they are not positioned as a value discounter). **In the next 2-3 years, we foresee the company stabilizing at 4-5% EBITDA Margins- an improvement of ~500bps from the current level.**

Nature's Basket and Spencer's on a Revival Path as major value triggers: In Q1FY25, Nature's Basket grew +4% QoQ and 8% YoY driven by new store addition into better performing areas, and an improved performance of core categories. **We expect high-single-digit growth for Nature's Basket, a target breakeven consolidated EBITDA by Q3, and positive EBITDA by Q4**. The company's Q1FY25 performance remained flat vs Q4, but consolidated gross margins improved by 97bps QoQ and 90bps YoY owing to the same reasons. In Q1FY25, Natures Basket gross margins were up 98bps YoY, and Spencer's were up 75bps YoY. **This is an indicator of how these two stores will lead to major value unlocking hereon.**

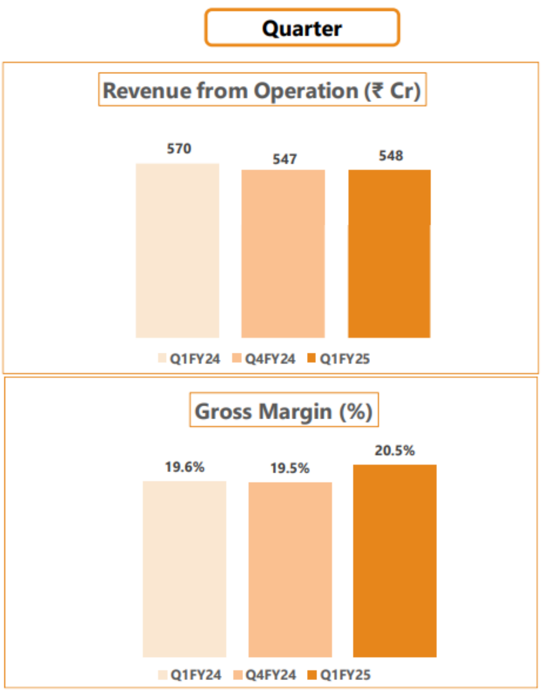
Store and region rationalization coupled with geographic expansion into better-performing territories: They decided to exit 2 operating territories recently, which is NCR and Telangana- comprising 49 stores and 22% of the top line these 49 stores accounted for close to INR 56 crores of losses at a regional EBITDA level. **This closure did impact the top line, but it will significantly improve EBITDA levels going forward as the previous store level drag is done away with.** This also allows them to focus on the remaining two geographies where there is a sizeable consumption opportunity. These 2 areas have 800,000 sqft of trading area (vs the earlier 1.3mn), and **over the next 12- 18 months they plan to add at the rate of 100,000 sqft per year to bring back the total trading area to close to 1 mn sqft in 24 months.**

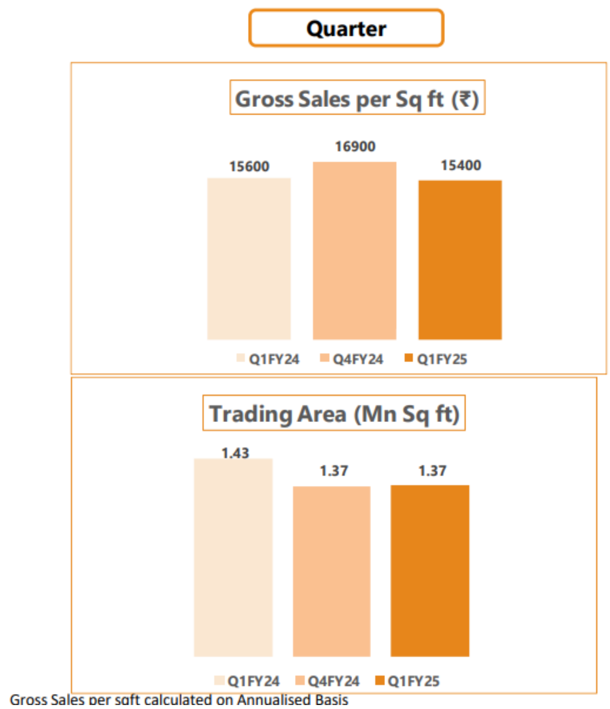
Outlook: Given the current industry tailwinds coming up in the latter half of this year, we expect the level of discretionary spending to pick up significantly. That, coupled with the heavy opex cuts the company is undertaking, margin acceleration will take place at a very fast pace. The company is also aggressively working on rationalizing its store presence, closing down stores that are dragging down margins, and opening up stores in successful clusters via both store formats, thus balancing store expansion with cost optimization. To add to that, its cheap valuations are also attractive. We believe there is tremendous earning potential in this company, that is yet to be realized. At a stable 5% margin, we believe the company can trade at 5x P/S (it is currently valued at 1.55x the Q1FY25 sales), which is much cheaper than its peers- some of which are currently valued at 20x P/S.

Overhead cuts and cost optimization take the center stage: Over the past year, this has been a focal point for the company. There will be a 20% reduction in overhead costs in FY25. Operating overhead cost is now 6.3% of sales vs the earlier 8%. In Q1FY25 opex was down by 11% Q4FY24. **They also expect a sustainable operating cost structure of 13% at the store level with a 35% lower headcount and a similar reduction in related costs by Q3FY25.**

Good store addition and SSSG ahead: Target SSSG is 5-6%, with an addition of 8-10 stores every year. This year they are looking for an addition of 6-7 stores, mostly in the regions of East and North which are well performing regions with more successful store clusters.

Successful express delivery business: The company's online express grocery delivery service gained a 20% market share in existing markets. This is a recent venture, that initially required major investments into IT which resulted in one-off expenses at the time of incurrence. This business is already EBITDA positive despite being relatively new. The current major market is Kolkata, but they are working to proliferate it into different states.





Source: Company Presentation

Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park	#6 Lad Colony
Building No. 10, 1st Floor	Yeshwant Niwas Road
Andheri Ghatkopar Link Road	Indore
Chakala, Andheri (E)	Madhya Pradesh
Mumbai – 400093	India
Tel: (91-22) 42254800	
Fax: (91-22) 42254880	

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	**SMS: 'Arihant' to 56677**	www.arihantcapital.com	instresearch@arihantcapital.com

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800Fax. 022-42254880