

CMP: INR 85

Rating: Buy

Target Price: INR 151

Stock Info

BSE 532337

NSE SPENCERS

Bloomberg. SPENCER:IN

Reuters SPEN.BO

Sector Diversified Retail

Face Value (INR) 5

Mkt Cap (INR Mn) 96,838

52 week H/L (INR) 139/74

Avg. Yearly Volume (in ,000) 596

Shareholding Pattern %

(Ason Sept, 2024)

Promoters 58.81

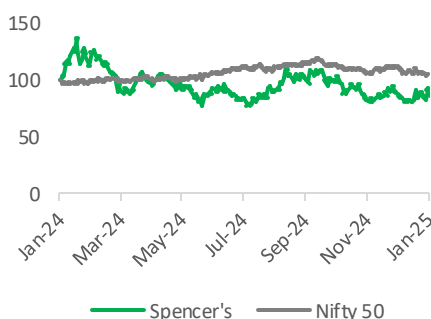
Public & Others 41.19

Stock Performance (%) 1m 3m 12m

Spencer's -0.42 -15.6 -13.4

Nifty 50 -5.5 -6.6 5.8

Spencer's Vs Nifty 50



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Source: Arihant Research, Company Filings

Spencer retail reported its Q3FY25 numbers, with revenue at INR 5,170 Mn, Down by 20.95% YoY and 0.21% QoQ, below our estimates of INR 5866 Mn. Gross profit for the quarter was INR 1,100 Mn, reflecting a 17.20% YoY decreased and a 22.69% QoQ rise, below our estimate of INR 1,263 Mn. Gross margins increased by 96 bps YoY and 397bps QoQ to 21.3%, below our estimate of 21.5%. EBITDA for the quarter was INR 118 Mn, marking an 0.45% YoY increased, below our estimate of INR 419 Mn. EBITDA margin increased by 48.6 bps YoY to 2.3%, registering a rise of 1095.5 bps QoQ, above with our estimate of 2.1%. The loss for the quarter stood at INR 473 Mn, compared to INR 872 Mn in the previous quarter, above our Estimates of INR 598 Mn. The PAT margin decreased by 132.9 bps YoY but improved by 767.2 bps QoQ to -9.2% in Q3FY25, compared to -16.8% in Q2FY25.

Investment Rationale

Efficiency-Led Turnaround and EBITDA Growth: Spencer's achieved a significant operational milestone in Q3FY25, marking the first positive operational EBITDA (Pre-INDAS) in 22 quarters. This achievement is underpinned by a strategic decision to exit loss-making geographies, leading to a 46% YoY EBITDA (including other income) growth to INR 175 Mn. The operational focus on core regions, coupled with cost optimization, has reduced operating expenses by INR 320 Mn YoY, despite a lower store count. Store performance has improved, with sales per square foot increasing to INR 1,875 from INR 1,550 in the same quarter last year. The company's strategy to focus on profitability and efficiency is working well, setting a strong base for steady future growth.

Quick Commerce Platform "Jiffy" Changing the Game in Fast Deliveries: The launch of "Jiffy," Spencer's 30-minute delivery service, reinforces its omnichannel growth strategy. This initiative leverages the existing store network as fulfillment centers, reducing capital expenditure. With a successful pilot in Kolkata delivering over 9,500 orders on a peak day, Jiffy is poised to contribute INR 3,650 Mn annually in revenues. The strategic deployment of a self-managed fleet ensures enhanced delivery reliability and customer satisfaction. By addressing the fast-growing quick commerce market, Spencer's is well-positioned to capture increased wallet share from its loyal customer base, driving incremental revenue growth.

Strategic Focus on Core Geographies: By exiting unprofitable regions like NCR and South India, Spencer's is focusing on high-growth markets like East India and parts of UP, with a population of over 200 Mn. The company plans to open 8-10 new stores in the next 12 months, combining retail and fulfillment functions to boost sales productivity and optimize returns.

Lots of positives with some negatives

1) Strong operating and gross margin expansion, both QoQ and YoY. 2) Achieved operational profitability this quarter after a prolonged gap. 3) Entered the fast-growing quick commerce segment with "Jiffy," leveraging existing stores and incurring minimal costs on dark stores. 4) Focused presence in core Eastern and Northern markets with significant potential for growth in consumer spending. 5) Nature's Basket continues to deliver stable performance. 6) After a long time Net Debt has witnessed some decline. 7) Revenue growth still lag.

Outlook and Valuation

Spencer's Retail Ltd. is poised for a turnaround driven by strategic initiatives and operational improvements. While challenges like subdued consumer demand and competitive pressures persist, the company's calibrated approach to store additions, cost control, improving store-level productivity and a sharper regional focus position it for steady financial and operational gains. **We maintain our "BUY" rating and value Spencer's Retail by SOTP with a target price of INR 151.**

Exhibit 1: Financial Performance

Year-end March (INR Mn)	Net Sales	EBITDA	IND-As EBITDA	PAT	EPS (INR)	EBITDA Margin (%)	IND-As EBITDA Margin	EV/EBITDA	EV/Sales
FY23	24,526	36	1,262	-2,104	-23.3	0.1%	5.1%	360.8	0.5
FY24	23,450	-116	1,056	-2,662	-29.5	-0.5%	4.5%	-125.6	0.6
FY25E	21,293	-142	923	-2,275	-25.2	-0.7%	4.3%	-104.2	0.7
FY26E	23,346	691	1,858	-1,477	-16.4	3.0%	8.0%	21.0	0.6
FY27E	26,734	1,098	2,435	-956	-10.6	4.1%	9.1%	12.8	0.5

Exhibit 2: Q3FY25 - Quarterly Performance (Consolidated)

Consolidated (INRMn)	Q3FY25	Q2FY25	Q3FY24	QoQ%	YoY%
Net sales	5169.7	5180.3	6540.1	-0.2%	-21.0%
COGS	4069.9	4284.0	5211.8	-5.0%	-21.9%
GP	1099.8	896.4	1328.4	22.7%	-17.2%
GP Margin (%)	21.27%	17.30%	20.31%	397.06	96.34
Employees benefits expense	322.7	494.7	519.2	-34.8%	-37.8%
Other expenses	659.1	850.9	691.6	-22.5%	-4.7%
EBITDA	118.0	-449.2	117.5	-126.3%	0.5%
EBITDA (Margin%)	2.28%	-8.67%	1.80%	1095.47	48.65
Depreciation and amortisation exp	215.6	635.8	316.1	-66.1%	-31.8%
EBIT	-97.5	-1085.0	-198.6	-91.0%	-50.9%
EBIT margin (%)	-1.9%	-20.9%	-3.0%	1905.78	114.98
Other Income	30.7	610.2	62.4	-95.0%	-50.8%
Finance Cost	407.2	397.7	376.8	2.4%	8.1%
PBT	-474.0	-872.5	-512.9	45.7%	7.6%
Tax	-0.6	-0.6	-0.9	0.0%	-29.5%
Reported PAT	-473.4	-871.8	-512.0	45.7%	7.5%
PAT Margin (%)	-9.2%	-16.8%	-7.8%	767.20	-132.89

	Q3FY25	Q2FY25	Q3FY24	QoQ	YoY
RMC/Sales	78.73%	82.70%	79.69%	-397.06	-96.34
Employee exp/Sales	6.24%	9.55%	7.94%	-330.69	-169.68
Other exp/Sales	12.75%	16.43%	10.58%	-367.72	217.37

SOTP					
INR Mn		FY27E	Mutiple (FY27E)		
Spencer	Sales	21,902	EV/Sales	0.8	17,522
Nature Basket	EBITDA	177	EV/EBITDA	14	2,473
					19,995
Cash					2,826
Debt					9,201
Market Cap					13,620
No. Of Shares					90
Target price					151
CMP					85
Upside					77.8%

Spencer's Retail – Q3FY25 Concall Highlights

- Operating costs reduced by INR 320 Mn YoY, with total operating costs at INR 700 Mn in Q3FY25 compared to INR 1,020 Mn in Q3FY24.
- Sales per square foot of Spencer's improved to INR 1,875 in Q3FY25 from INR 1,550 in Q3FY24. Pre-COVID levels were INR 2,000, potential for further growth.
- The company completed the planned closure of 47 loss-making stores, reducing regional EBITDA losses by INR 560 Mn annually.
- Opened one new store and relocated another, with plans to add 8–10 stores over the next 12 months in core regions i.e. East and UP.
- Launched a 30-minute delivery platform "Jiffy," with enhanced tech and user experience. Pilot testing in Kolkata recorded impressive trials, processing over 10,000 orders with INR 10 Mn in sales.
- Withdrew from NCR and South regions to concentrate on East and UP, where the company has stronger competitive advantages and lower operational risks.
- The company strengthened e-commerce by integrating store fulfillment, targeting existing offline customers for increased order frequency.
- Aims to sustain the positive EBITDA trend and further optimize operational metrics while carefully expanding store count.
- Net debt reduced to INR 8,830 Mn from INR 8,960 Mn in the previous quarter.
- The company transitioned to a fully self-managed fleet for e-commerce delivery to ensure reliability and control over customer experience.
- Nature's Basket has launched two new Artisan Pantry Stores at prime locations: MG Road in Bangalore and Palladium Mall in Ahmedabad. Furthermore, the company has maintained stable margins and EBITDA, with promising opportunities for growth in the future.

Exhibit 3 : Revenue & YoY Growth (%)

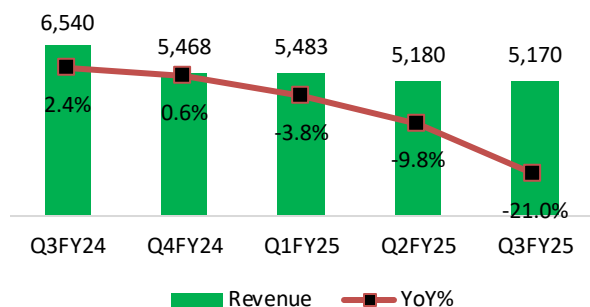


Exhibit 4: EBITDA & EBITDA Margin Trend (%)

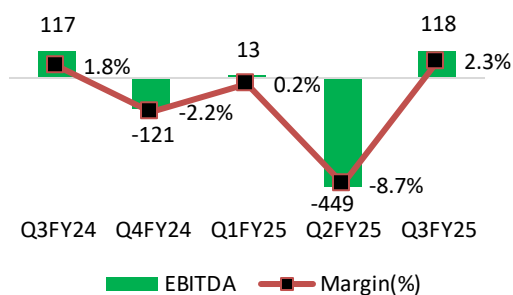


Exhibit 5: PAT & PAT Margin (%) Trend

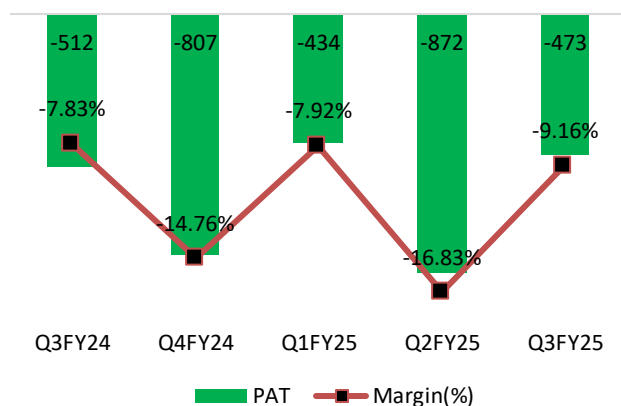


Exhibit 6: EPS

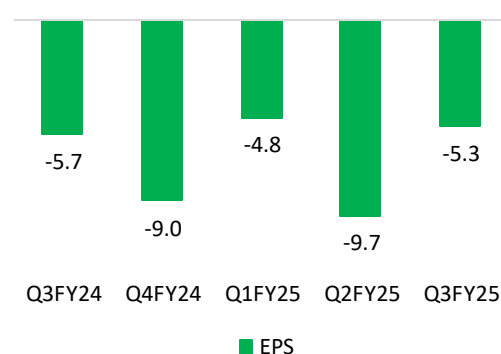
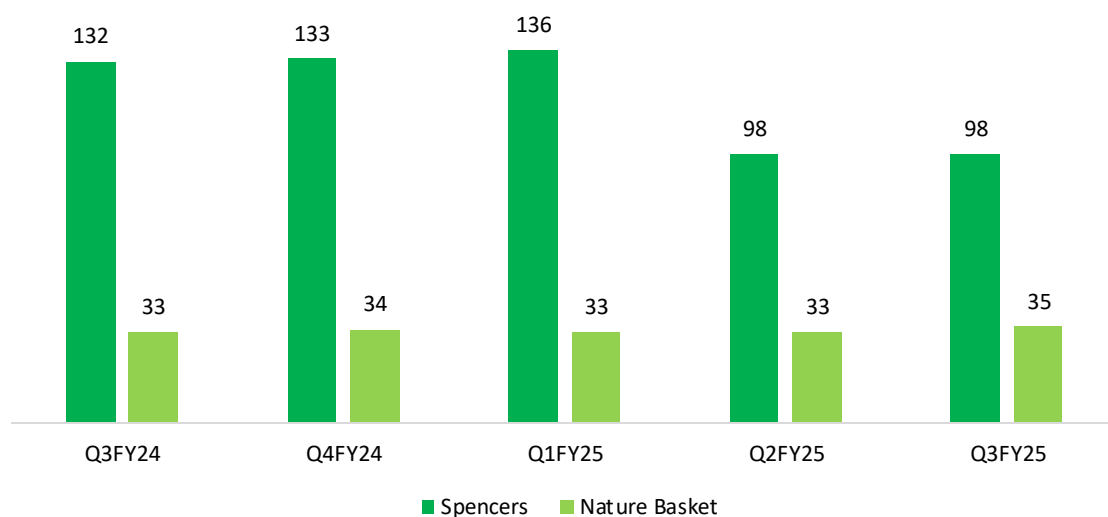


Exhibit 6: No of Total Store Added Spencer's & Nature Basket



Key financials

Income statement (INR mn)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Gross Sales	24,526	23,450	21,293	23,346	26,734
Net Sales	24,526	23,450	21,293	23,346	26,734
YoY (%)	6.6%	-4.4%	-9.2%	9.6%	14.5%
Adjusted COGS	19,597	18,724	17,001	18,245	20,797
YoY (%)	7.5%	-4.5%	-9.2%	7.3%	14.0%
Personnel/ Employee benefit expenses	1,986	2,011	1,581	1,481	1,618
YoY (%)	5.2%	1.3%	-21.4%	-6.3%	9.2%
Manufacturing & Other Expenses	2,907	2,832	2,853	2,929	3,220
YoY (%)	10.0%	-2.6%	0.7%	2.7%	9.9%
Total Expenditure	24,490	23,567	21,435	22,655	25,636
YoY (%)	-85.0%	-425.8%	21.9%	-586.3%	59.0%
EBITDA	36	-116	-142	691	1,098
YoY (%)	-85.0%	-425.8%	21.9%	-586.3%	59.0%
EBITDA Margin (%)	0.15%	-0.50%	-0.67%	2.96%	4.11%
IND-As EBITDA	1,262	1,056	923	1,858	2,435
IND-As EBITDA Margin	5.15%	4.50%	4.33%	7.96%	9.11%
Depreciation	1,317	1,325	1,361	1,403	1,441
% of Gross Block	21.4%	24.1%	22.5%	20.9%	19.3%
EBIT	-1,282	-1,441	-1,503	-712	-343
EBIT Margin (%)	-5.23%	-6.15%	-7.06%	-3.05%	-1.28%
Interest Expenses	1,152	1,480	1,753	1,840	1,833
Non-operating/ Other income	326	256	978	1,076	1,220
PBT	-2,108	-2,665	-2,277	-1,477	-956
Tax-Total	-4	-4	-2	0	0
Adj. Net Profit	-2,104	-2,662	-2,275	-1,477	-956
Reported Profit	-2,104	-2,662	-2,275	-1,477	-956
PAT Margin	-8.6%	-11.3%	-10.7%	-6.3%	-3.6%
Balance sheet (INR Mn)					
Year-end March	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Equity Share Capital	451	451	451	451	451
Reserves & Surplus/ Other Equity	-1,955	-4,609	-6,884	-8,361	-9,317
Networth	-1,505	-4,158	-6,434	-7,910	-8,866
Unsecured Loans/ Borrowings/ Lease Liabilities	13,406	16,216	19,683	22,225	24,193
Other Liabilities	378	373	404	442	488
Total Liabilities	16,294	16,959	18,002	19,112	20,506
Total Funds Employed	23,374	22,554	21,592	21,480	22,516
Application of Funds					
Net Fixed Assets	-80	-21	-9	-9	-9
Capital WIP	21	9	9	9	9
Investments/ Notes/ Fair value measurement	738	559	374	251	168
Current assets	3,640	3,736	4,817	5,902	7,365
Inventory	2,645	2,659	2,843	3,125	3,579
Days	49	49	49	49	49
Debtors	198	253	276	278	316
Days	3	5	5	4	4
Other Current Assets	400	418	439	527	580
Cash and Cash equivalent	132	315	908	1,433	2,448
Current Liabilities/ Provisions	8,585	9,753	10,024	10,279	10,876
Creditors / Trade Payables	3,436	3,846	3,603	3,584	3,894
Days	50	51	61	57	54
Liabilities	483	596	655	676	698
Net Current Assets	-4,946	-6,017	-5,207	-4,377	-3,511
Total Asset	16,294	16,959	18,002	19,112	20,506
Total Capital Employed	21,239	22,976	23,208	23,489	24,017

Key financials

Cash Flow Statement (INR Mn)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	-2,104	-2,662	-2,275	-1,477	-956
Adjustments: Add					
Depreciation and amortisation	1,317	1,325	1,361	1,403	1,441
Interest adjustment	826	1,224	774	764	613
Change in assets and liabilities	40	-113	-140	691	1,098
Inventories	-41	-14	-184	-282	-454
Trade receivables	69	-55	-23	-2	-38
Trade payables	102	410	-243	-19	310
Other Liabilities and provisions	1,186	1,018	510	269	283
Other Assets	-68	-43	-23	-97	-64
Taxes	131	-4	0	0	0
Net cash from operating activities	1,419	1,200	-103	559	1,135
Net Sale/(Purchase) of tangible and intangible assets, Capital work in progress	-2,089	-2,106	-1,483	-1,526	-1,429
Net Sale/(Purchase) of investments	324	637	1,163	1,199	1,303
Others	33	33	-24	-25	-26
Net cash (used) in investing activities	-1,731	-1,435	-344	-352	-152
Interest expense	327	414	1,299	496	-75
Other financing activities	-19	8	0	0	0
Net cash (used) in financing activities	308	422	1,299	496	-75
Closing Balance	176	363	1,215	1,918	2,826

Key Ratios					
Year-end March	FY23	FY24	FY25E	FY26E	FY27E
Solvency Ratios					
Debt / Equity	NA	NA	NA	NA	NA
Net Debt / Equity	NA	NA	NA	NA	NA
Debt / EBITDA	151.47	-62.94	-58.78	12.69	8.38
Current Ratio	146.54	-59.82	-50.22	9.91	5.81
DuPont Analysis					
Sales/Assets	1.51	1.38	1.18	1.22	1.30
Assets/Equity	NA	NA	NA	NA	NA
RoE	NA	NA	NA	NA	NA
Per share ratios					
Reported EPS	-23.34	-29.53	-25.24	-16.38	-10.61
BV per share	-16.69	-46.14	-71.38	-87.76	-98.37
Cash per Share	1.46	3.49	10.07	15.90	27.16
Revenue per Share	272.11	260.18	236.24	259.02	296.61
Profitability ratios					
Net Profit Margin (PAT/Net sales)	-5.28%	-8.58%	-11.35%	-10.69%	-6.32%
Gross Profit / Net Sales	20.10%	20.15%	20.16%	21.85%	22.21%
EBITDA / Net Sales	0.15%	-0.50%	-0.67%	2.96%	4.11%
EBIT / Net Sales	-5.23%	-6.15%	-7.06%	-3.05%	-1.28%
ROCE (%)	-16.63%	-20.00%	-18.84%	-8.06%	-3.57%
Activity ratios					
Inventory Days	48.89	48.88	48.73	48.86	48.86
Debtor Days	3.45	5.12	4.72	4.35	4.32
Creditor Days	50.36	51.29	60.83	57.03	54.48
Leverage ratios					
Interest coverage	-1.11	-0.97	-0.86	-0.39	-0.19
Debt / Asset	0.33	0.43	0.46	0.46	0.45
Valuation ratios					
EV / EBITDA	360.83	-125.61	-104.18	21.01	12.78
EV / Sales	0.53	0.62	0.69	0.62	0.53

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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%

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