

CMP: INR 83

Rating: Buy

TP: INR 147

BSE	542337
NSE	INE020801028
Bloomberg	SPENCER:IN
Reuters	SPEN.BO
Sector	Diversified Retail
Face Value (INR)	5
Equity Capital (INR cr)	45
Mkt Cap (INR cr)	748
52w H/L (INR)	139 / 74
Avg Yearly Volume (in 000')	599

Shareholding Pattern %

(As on Sep 2024)

Promoters	58.81
FII	8.31
DII	1.99
Public & Others	30.87

Stock Performance (%)	1m	3m	12m
Spencer's	(5.6)	(19.3)	(20.8)
Nifty 50	(1.1)	(4.2)	12.4

Spencer's Vs Nifty 50



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: The temporary margin dip, resulting from inventory rundown and reduced income during the ramp-down, is expected to normalize as operations stabilize in high-performing areas. 19.5% is the sustainable gross margin (as they are not positioned as a value discounter). **In the next 5 years, we foresee the company stabilizing at ~10% EBITDA(which translating into ~4-5% Business EBITDA) Margins- an improvement of ~580bps from the current level.**

Nature's Basket expansion in premium grocery segment with stable margins: With a stable gross margin of around 28% and plans to open three new stores (reaching a total of 36 stores) by the end of FY25, Nature's Basket is strategically positioned to capture growth in high-demand regions. **We expect double-digit growth in EBITDA margins for Nature's Basket, by Q4FY25.**

Strategic exit from northern and southern markets enhances profitability and focus: To streamline operations and boost profitability, Spencer's Retail closed 47 stores in the NCR and Southern markets, which contributed approximately 22% of revenue but generated around INR 500+ Mn in EBITDA losses. This strategic exit reduced financial drag and is expected to double store-level EBITDA in remaining markets. **Now focused on high-potential regions like East India and UP, where it plans to open 3-4 new stores by FY25 end, we believe Spencer's is positioned to accelerate its turnaround** and direct resources to more promising markets.

Store and region rationalization coupled with geographic expansion into better-performing territories: Spencer's has reduced its trading area from 1.3 mn sq ft to 800,000 sq ft by closing underperforming stores in the NCR and Southern regions. **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 and valuation: With favorable industry tailwinds expected in the latter half of the year, we anticipate a notable increase in discretionary spending, which should accelerate Spencer's margin growth. The company's rigorous cost-cutting measures and ongoing store rationalization—closing underperforming locations while expanding in successful clusters—are effectively balancing growth and profitability. This strategy, paired with Spencer's attractive valuations, highlights its significant earnings potential. **We value Spencer's Retail at an EV/EBITDA multiple of 6.9x on FY27E EBITDA, arriving at a target price of INR 147. Given these factors, we initiate coverage with a BUY rating, viewing Spencer's as a solid long-term investment opportunity.**

Exhibit: Financial overview

Year-end March (INR Mn)	Net Sales	IND-AS EBITDA	Reported EBITDA	PAT	EPS (INR)	IND-AS EBITDA Margin (%)	Reported EBITDA Margin	EV/EBITDA	EV/ Sales
FY23	24,526	1,262	36	-2,104	-23.3	5.1%	0.1%	10.1	0.5
FY24	23,450	1,056	-116	-2,662	-29.5	4.5%	-0.5%	13.7	0.6
FY25E	22,540	1,019	-108	-2,401	-26.6	4.5%	-0.5%	14.6	0.7
FY26E	24,697	2,187	952	-1,248	-13.9	8.9%	3.9%	6.6	0.6
FY27E	27,352	2,808	1,441	-573	-6.4	10.3%	5.3%	4.9	0.5

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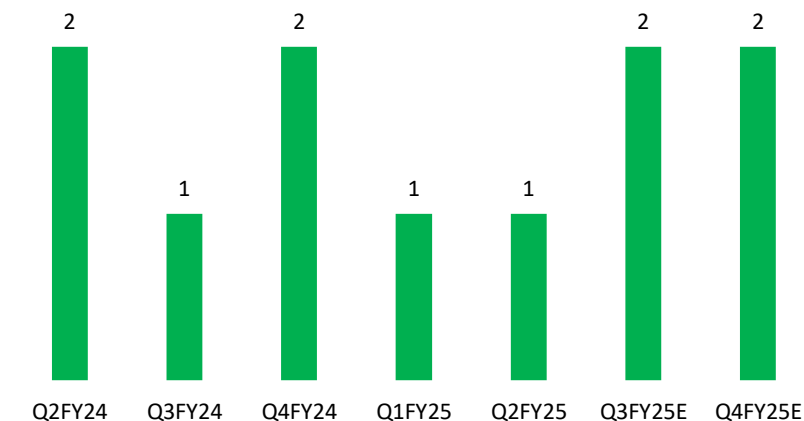
Source: Arihant research, company filings

Investment Rationale

Strategic exit from northern and southern markets enhances profitability and focus: In a significant move to streamline operations and improve profitability, Spencer's Retail has closed 47 stores across the NCR and Southern markets, regions that accounted for approximately 22% of its revenue but were responsible for considerable EBITDA losses. By discontinuing these operations, Spencer's has effectively reduced a major financial drag, as these locations were contributing close to INR 56 crores in regional EBITDA losses. We anticipate this closure to lead to margin improvement, driving Spencer's toward positive EBITDA margins in the range of 9-10% by FY26-27E. While this shift impacted short-term top-line performance, it has created a pathway for Spencer's to double its store-level EBITDA in the remaining markets.

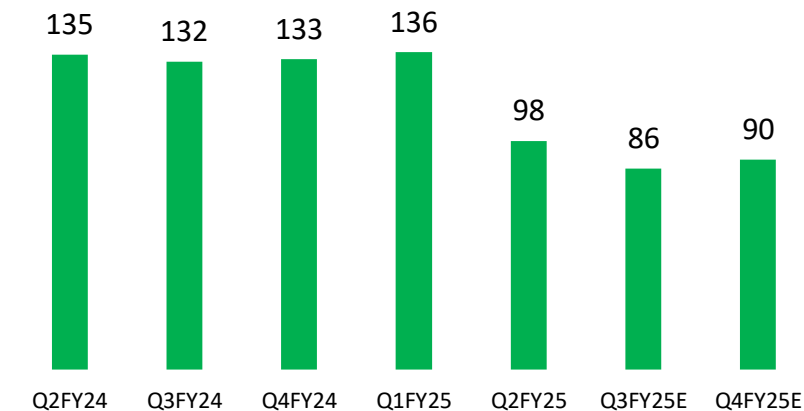
This closure aligns with Spencer's strategic redirection toward higher-potential regions, specifically East India and UP, where the brand has demonstrated stronger growth and plans to open 3-4 new store by FY25 end. Following the strategic exit, Spencer's is well-positioned to allocate resources toward more promising markets, thereby accelerating its turnaround efforts and enhancing focus on regions with a sizable consumption opportunity.

New stores added in Spencer's standalone



Source: Arihant research, company filings

Total Stores Count in Spencer's Standalone



Source: Arihant research, company filings

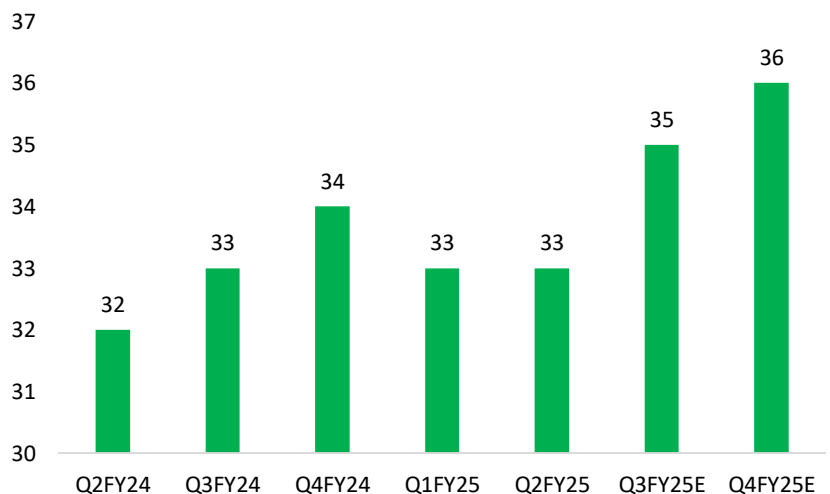
Investment Rationale

Nature's Basket expansion in premium grocery segment with stable margins: Nature's Basket is emerging as a key value driver, showing growth with a 4% increase QoQ. Although impacted by heavy monsoons in Q2FY25, which delayed shipments and affected operations in the West, consumer trends remain stable, with muted 1% YoY growth.

This momentum has been fueled by new stores in high-performing locations and a strengthened focus on core categories. With a stable gross margin of around 28% and plans to open three new stores (reaching a total of 36 stores) by the end of FY25, Nature's Basket is strategically positioned to capture growth in high-demand regions. The brand caters to an upscale customer base seeking quality gourmet and health-focused products, providing Spencer's with access to a lucrative segment within the organized retail market.

The planned expansion, alongside a strong focus on maintaining premium margins, supports Spencer's broader objective of enhancing profitability and footprint in profitable markets, making Nature's Basket a valuable asset for sustained long-term growth. The company is also on track to reach double digit EBITDA margins growth for Nature's Basket by Q4, reinforcing the promising outlook.

Total store count in Nature's Basket



Source: Arianth research, company filings

Margin improvement across core categories with cost-cutting and store rationalization: Spencer's Retail is positioning itself for strong margin recovery following the strategic closure of underperforming stores in NCR and Southern regions. The temporary margin dip in Q2, resulting from inventory rundown and reduced income during the ramp-down, is expected to normalize as operations stabilize in high-performing areas.

The company has outlined a financial roadmap targeting a P&L model with a 19% gross margin, 12% store operating expenses (resulting in a 6-6.6% store EBITDA), and 5-5.5% corporate overheads, aiming for an initial 1% overall EBITDA by the end of Q4FY25. Once break-even is reached, Spencer's plans to further improve profitability, targeting 9-10% EBITDA (which translating into 4-5% business EBITDA) within 5 years.

Investment Rationale

By leveraging its private label brands in groceries, FMCG, and apparel, Spencer's is enhancing product differentiation and margin potential. In Q2, the company's continuing regions, specifically UP and East, reported gross margins hitting the 19% target, demonstrating strong operational health in these markets. Additionally, Nature's Basket maintained high margins, with only a slight dip to 27.8%, further supporting overall profitability.

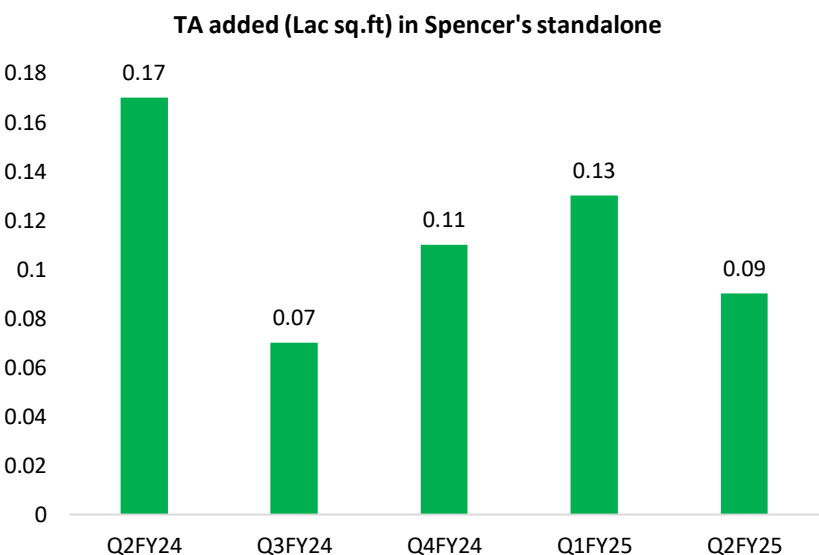
With these strategic initiatives in place, Spencer's Retail is aligned to achieve stable and sustainable margins, establishing a foundation for long-term growth and value creation.

Store and region rationalization with expansion into better-performing territories: Spencer's has reduced its trading area from 1.3 mn sq ft to 800,000 sq ft by closing underperforming stores in the NCR and Southern regions. This strategic reduction is part of a focused approach to enhance profitability by operating in high-potential regions, specifically East India and UP.

The company plans to add 100,000 sq ft per year over the next 12-18 months, aiming to bring its trading area back to approximately 1 mn sq ft within 24 months. This growth is targeted in regions where Spencer's has demonstrated strong performance and brand presence.

By reducing its overall trading footprint and concentrating on productive areas, Spencer's expects to achieve higher EBITDA and improve operational metrics. The shift allows for a more streamlined, profitable operation that can support sustainable expansion in strategic areas.

The reduction in trading area not only optimizes store-level performance but also simplifies the distribution and support structures, further reducing operational costs and enhancing overall efficiency.



Source: Arihant research, company filings

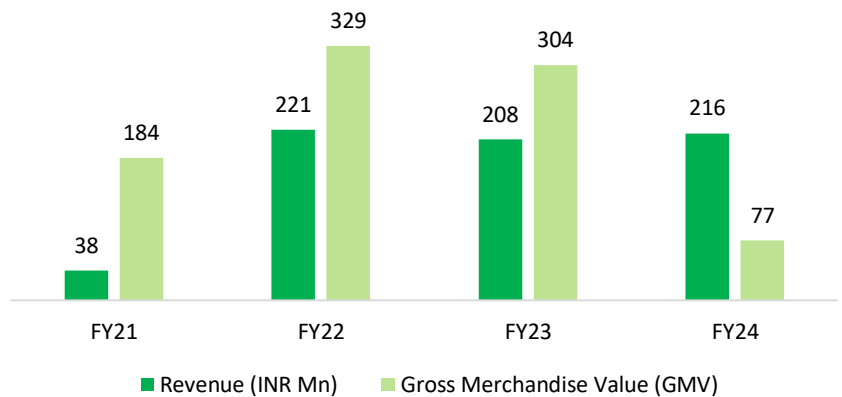
Investment Rationale

Successful expansion of eCommerce and optimization of express delivery service: Spencer's Retail is capitalizing on the rapid growth of its eCommerce segment, which has seen a 20% YoY increase in orders. With an Average Bill Value (ABV) of INR 900, well above the industry average of INR 500-550, Spencer's is effectively capturing higher-spending customers, further supporting channel profitability. The company's omni-channel approach, which integrates eCommerce and phone orders, currently contributes around 15% of total revenue, with a goal to exceed 20%.

To enhance service quality and delivery speed, Spencer's is expanding its fulfillment network in Kolkata from 12 stores, with plans to scale up to 30 stores. This will reduce average delivery times from 50-55 minutes to a target of 30 minutes, aligning with growing consumer demand for quick commerce. Additionally, Spencer's is overhauling its tech stack and backend operations, ensuring a smoother user experience and faster fulfillment as part of its evolving eCommerce proposition.

Spencer's express delivery service, already operational in Kolkata, Lucknow, and Banaras, aims to transition to a 30-minute delivery model by mid-December. This aggressive expansion and refinement of its eCommerce capabilities position Spencer's as a strong omni-channel retailer, well-aligned with evolving consumer expectations and poised for sustained growth in the digital retail space.

Revenue and GMV trend in Ecommerce subsidiary- Omnipresent Retail India Private Ltd



Overhead cuts and cost optimization take center stage: Spencer's Retail is driving a cost reduction initiative, targeting a 20% cut in overhead costs for FY25 as part of its commitment to streamlined operations and improved profitability. Already, the company has reduced operating overheads from 8% to 6.3% of sales, showcasing significant early progress.

A key component of this optimization is a reduction of over 100 corporate and regional positions, with the full impact expected to be visible in Q3FY25 as notice period costs phase out.

At the store level, Spencer's aims to bring operating costs down to 12%, balanced between rental and non-rental expenses. Standardizing these costs across all stores will allow Spencer's to consistently capture efficiency improvements. The benefits of these measures are already evident, as Q1FY25 saw operating expenses reduced by INR 100 Mn QoQ. These moves support Spencer's path to achieving business EBITDA breakeven by Q4FY25.

Outlook and Valuation

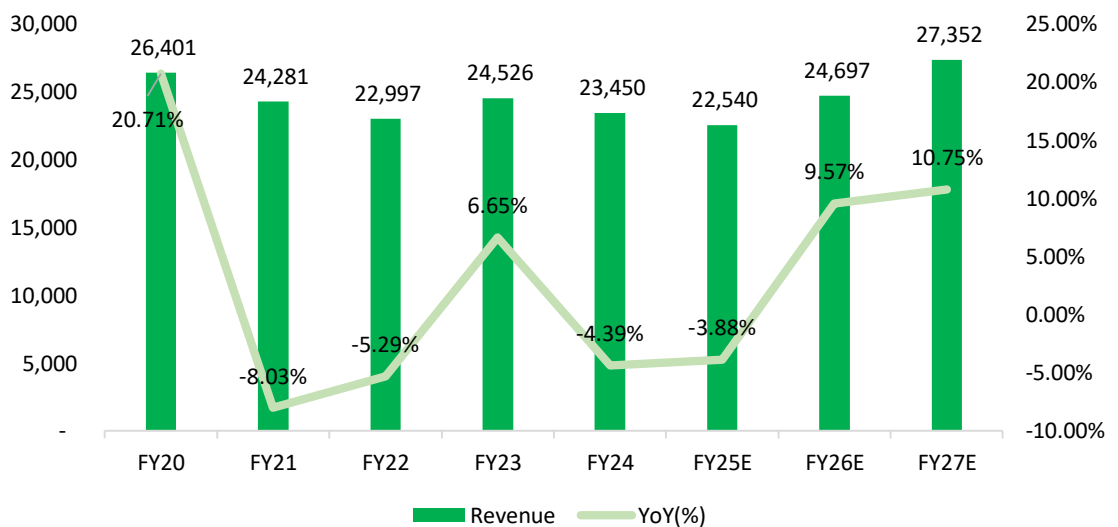
Despite short-to-medium-term challenges, we maintain a positive long-term outlook on Spencer's Retail. The company has undertaken strategic initiatives, including the closure of underperforming stores, expansion of high-margin private labels, and a robust push towards eCommerce and omni-channel integration. These efforts, while initially impacting top-line growth, are expected to drive sustainable margin improvement and profitability as Spencer's focuses on its high-potential regions and streamlines operations.

Spencer's focus on margin recovery, disciplined cost optimization, and enhanced fulfillment capabilities position it well to capitalize on India's evolving retail landscape. With consumer trends shifting towards convenience and quick commerce, Spencer's omni-channel capabilities are poised to capture growing demand, and its higher-than-industry-average ABV in the eCommerce channel underscores its ability to attract quality customers.

We value Spencer's Retail at an EV/EBITDA multiple of 6.9x on FY27E EBITDA, arriving at a target price of INR 147. Based on this valuation and the company's ongoing improvements, we initiate coverage with a BUY rating, signaling a favorable long-term investment opportunity in Spencer's Retail.

Story in charts

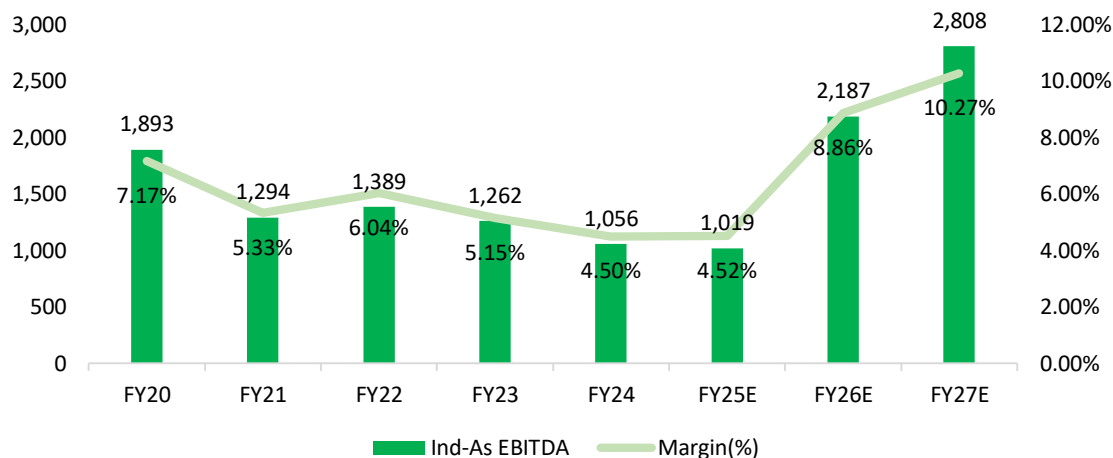
Exhibit : Revenue & YoY growth



Source: Arihant research, company filings

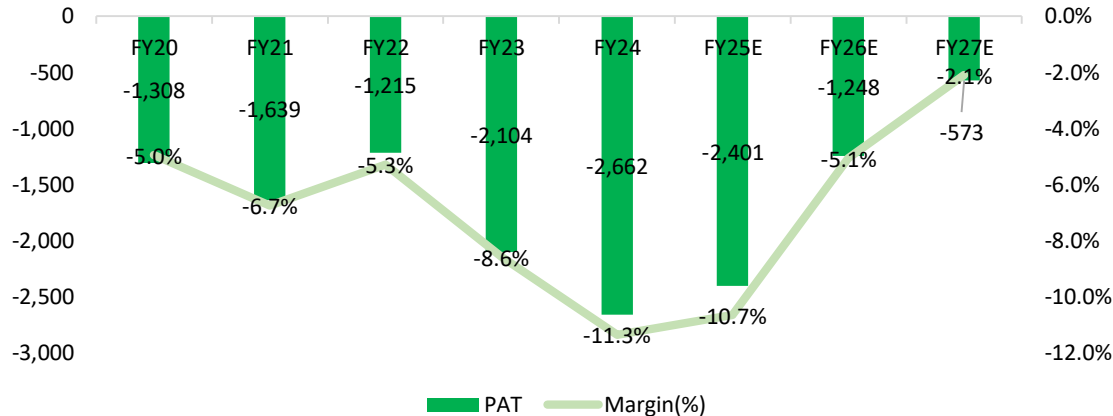
Story in charts

Exhibit : EBITDA & Margin (%)



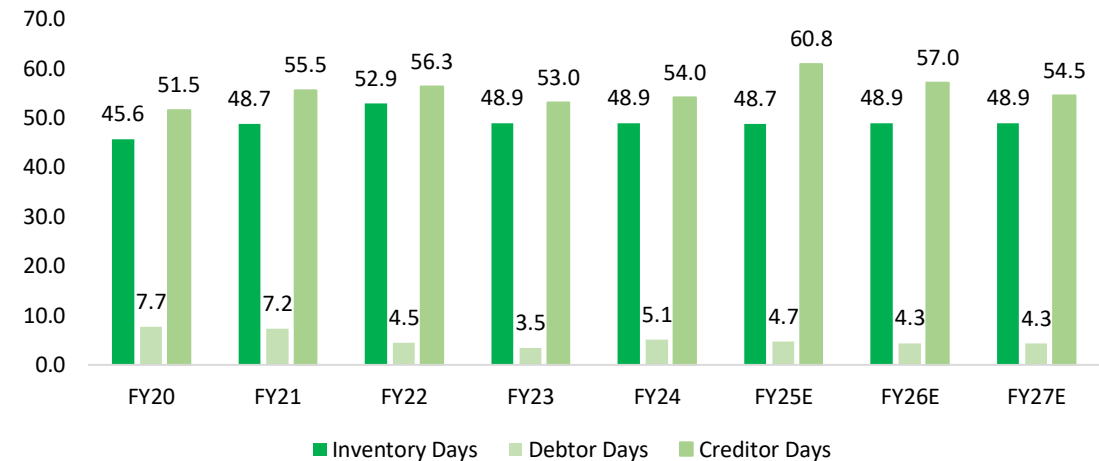
Source: Arihant research, company filings

Exhibit : PAT & Margin (%)



Source: Arihant research, company filings

Exhibit: Working Capital Days



Source: Arihant research, company filings

Exhibit: Q2FY25 Quarterly Performance (Consolidated)

Quarterly Results					
Consolidated (INR Mn)	Q2FY25	Q1FY25	Q2FY24	QoQ%	YoY%
Net sales	5180.3	5483.2	5740.4	-5.5%	-9.8%
COGS	4284.0	4359.5	4527.4	-1.7%	-5.4%
GP	896.4	1123.8	1213.0	-20.2%	-26.1%
GP Margin (%)	17.30%	20.49%	21.13%	-319.09	-382.79
Employees benefits expense	494.7	445.7	517.9	11.0%	-4.5%
Other expenses	591.9	390.8	475.1	51.5%	24.6%
EBITDA	-190.2	287.2	220.0	-166.2%	-186.4%
EBITDA Margin (%)	-3.67%	5.24%	3.83%	-891.01	-750.47
Depreciation and amortisation expense	894.8	576.2	596.3	55.3%	50.1%
EBIT	-1085.0	-289.0	-376.3	275.5%	188.4%
EBIT margin (%)	-20.9%	-5.3%	-6.6%	-1567.41	-1438.97
Other Income	610.2	281.7	30.6	116.6%	1896.6%
Finance Cost	397.7	427.7	356.4	-7.0%	11.6%
PBT	-872.5	-434.9	-702.1	-100.6%	-24.3%
Tax	-0.6	-0.6	-0.9	0.0%	-29.5%
Reported PAT	-871.8	-434.3	-701.2	-100.7%	-24.3%

	Q2FY25	Q1FY25	Q2FY24	QoQ(bps)	YoY(bps)
RMC/Sales	82.70%	79.51%	78.87%	319.09	382.79
Employee exp/Sales	9.55%	8.13%	9.02%	142.06	52.79
Other exp/Sales	11.43%	7.13%	8.28%	429.86	314.90

Source: Arihant research, Company filings

Commentary on Q2FY25 performance

Q2 performance overview

- Executed a large-scale exercise to ramp down operations in South and NCR regions, involving 47 stores and workforce optimization.
- Nature's Basket, was impacted by heavy monsoons in Q2, which delayed shipments and affected operations in the West, but consumer trends here are stable with muted 1% growth.
- E-commerce in core regions grew by 20% YoY.
- The continued operations showed about 4% growth. Staples and bakery items within these core regions saw mid-single-digit growth, while other non-discretionary items remained flat.

Revenue & margins

- Consolidated revenue decreased by 9.8%, with Spencer's specifically declining 11.3%, primarily due to store closures.
- Gross margins at Spencer's fell by 448 bps in Q2 due to inventory rundown and reduced scale but expected to stabilize at 19% post-closures.
- Nature's Basket had a minor margin impact (10 bps drop to 27.8%).

Spencer's Retail-Q2FY25 Concall KTAs

Mcap: INR 8,440mn | CMP: INR 93.6

Absolutely weaker quarter, the highest ever negative margin in the industry.

Slower growth in e-commerce compared to the industry.

Slower growth in no of bills (NOB) and de-growth in average billing value (AVB) is the key challenge for the business.

Spencer's Retail has reported the highest-ever loss in Q2FY25 due to the closure of stores, ramp-down operations, slower growth in orders (5% YoY), reduction in average billing rate, etc. The margins stood at -9% in Q2FY25 due to a decrease in revenue and an increase in overheads. The closure of stores in the south and NCR regions accelerated depreciation. The company is working on cost optimizations and focused on EBITDA breakeven in coming quarters, however, slower growth in a number of bills and average bill value remains a key challenge. The company is targeting operational break-even in the near term and setting foundational metrics to expand over the next few years, especially through cost management, supply chain stability, and tech-driven e-commerce improvements.

Guidance

- The company expects demand for discretionary items to improve in Q3 due to the festive season, while non-discretionary demand remains steady.
- Plans for cautious growth in UP and East, supported by improved e-commerce logistics and store expansions.
- The company is targeting a P&L model with 19% gross margin, 12% store opex (resulting in a 6-6.5% store EBITDA), 5-5.5% corporate overheads, and 1% overall EBITDA as an initial target. Aims to achieve it by the end of Q4FY25.
- Once break-even is reached, the company will aim for 3-4% EBITDA within 5 years.

Restructuring & regional focus

- Executed a strategic decision to scale down operations in South and NCR regions, affecting 47 stores and a significant employee base. Transition aimed to be seamless without disrupting continuing regions.
- Post-restructuring, focus remains on profitable regions (East and UP) with a "right to play" emphasis, showing confidence in future growth in these areas.
- The company targeted two large addressable markets i.e. UP and West Bengal. Spencer's has added 1 store in Siliguri; and plans to add 2 more in Kolkata in Q3.
- Nature's Basket planned addition of 3 more stores by FY25 end.

Demand scenario

Spencer's noted a slowdown in urban demand, which impacted overall consumption in Q2, particularly in discretionary categories. FMCG beauty products, general merchandise, and apparel showed flat growth in Q2. Essentials like staples and fresh bakery items performed well, as these are part of regular household consumption.

Cost reductions

- Operational costs at both store and corporate levels reduced, contributing to savings. Spencer's achieved a savings of INR 15 per square foot in store-level costs during Q2. They expect limited additional cost optimization at the store level, as rent and utilities are fixed costs.
- The full effect of corporate optimizations will begin to show in Q3.
- Despite higher interest costs, consolidated PBT for H1 showed a slight improvement to -INR 1,310 Mn from -INR 1,340 Mn last year.
- In Q2, Spencer's optimized 100+ headcount positions, with full savings from this move expected in Q3. Last year, support costs (corporate overhead and RODC marketing) were INR 1,720 Mn, about 8% of sales.
- Following recent cost-cutting measures, Spencer's aims to reduce these expenses to INR 1,140 Mn, or approximately 6% of sales by the end of Q3.

Delivery time reduction

- In Kolkata, expanded e-commerce fulfillment from 12 stores, with a goal to increase to 30 stores, aiming to reduce delivery times to 30 minutes or less. No dark stores used; fulfillment is from existing stores.
- Express delivery (currently 60 minutes) will be reduced to a 30-minute delivery timeframe by mid-December in key cities like Kolkata, Lucknow, and Banaras.

One-time costs for South & NCR closures

- These closures resulted in a net credit of INR 3.24 Mn after accounting for lease terminations, accelerated depreciation, dismantling expenses, and provisions for inventory and security deposits. Excluding the impact of closed regions, Spencer's ongoing EBITDA in East and UP would have been INR 75 Mn.
- One-time accelerated depreciation cost due to store closures in South and NCR regions, recorded as INR 320 Mn. Expected to normalize to around INR 200 Mn per quarter going forward.

Customer spending patterns

- The company observed a 5% growth in the number of bills (NOB), indicating steady customer traffic. However, the average bill value (ABV) decreased, suggesting consumers are either downgrading to lower-priced items or purchasing smaller quantities. This trend is more pronounced in discretionary categories.

Online channel performance

- Spencer's e-commerce platform saw strong growth off a smaller base, with higher NOB but lower ABV. While ABV in-store fell 3-4%, online ABV decreased from INR 1,100 to approximately INR 900 as order volumes increased.
- Despite this decline, Spencer's ABV remains higher than the industry average for quick commerce, which is around INR 500-550.
- Monthly orders are at 1.25 lakh, up from 75,000 last year, with a focus on increasing frequency and retention.
- E-commerce (including phone delivery) represents 15% of total sales, with ambitions to grow this to 20%.

- Spencer's aims to achieve business EBITDA break-even by the end of FY25, accelerating their previous 12-18 month timeline.
- The company has exited from two geographies - NCR and South India - representing about 20% of their turnover, to focus on better-performing regions in East India and Uttar Pradesh.
- Spencer's is targeting a consolidated top line of INR 24,000 Mn for FY26, with a business EBITDA of about 2%, representing a potential EBITDA of INR 400-500 Mn annually.
- The company plans to open 8-10 new stores in the next 12-18 months, increasing its trading area from the current 800,000 square feet to close to 1mn square feet.
- The company is focusing on five key cities: Kolkata, Siliguri, Lucknow, Varanasi, and Gorakhpur for its expansion and omnichannel strategy.
- Spencer's aims to increase its omnichannel mix (e-commerce and phone delivery) from the current 15% to 20% in the short term.
- Nature's Basket, subsidiary of Spencer's, is expected to contribute about INR 3,500 Mn to the overall targeted revenue of INR 24,000-25,000 Mn in the next 12 months.
- The cost of setting up a new store is estimated at INR 1,300-1,500 per square foot, with a total investment of INR 25-30 Mn for an 8000 sq foot store.
- Spencer's is working on optimizing its support costs, aiming to reduce them from the current 8% to less than 6% of revenue.
- The company is considering a capital raise in the future, but the quantum and timing are yet to be determined.
- The company is targeting a gross margin of around 18-18.5% for Spencer's, with store operating costs expected to decrease to 12%, resulting in a store EBITDA of 6.5%.
- Nature's Basket operates at a higher gross margin of 33-34%, with store operating expenses expected to be around 24-25%, potentially leading to a store EBITDA of 9-10%.
- The company is shifting its marketing budget from ATL (above the line) to more specific, data-driven direct marketing initiatives to improve customer retention.
- Spencer's is investing in e-commerce capabilities, including improvements to its tech stack and transport management systems to offer a seamless customer experience.
- The company is recalibrating its non-food mix to ensure it remains complementary to the core grocery business while being more efficient in terms of inventory management.
- Spencer's is focusing on increasing its fresh food category share to drive frequency and repeat purchases.
- The company sees potential for Nature's Basket in major urban centers like Mumbai, Bangalore, and Delhi, and plans to continue its presence in these markets. They aim to add 4-5 new stores in cities like Ahmedabad, Pune, and Bangalore this year.
- Spencer's is considering the launch of smaller format stores (2,000 to 4,000 sq ft) in addition to its existing hypermarket format.
- Though there have been past challenges in achieving profitability targets, the management emphasized commitment to delivering on the current turnaround plan within the next two quarters.

Industry overview

Indian Retail Industry

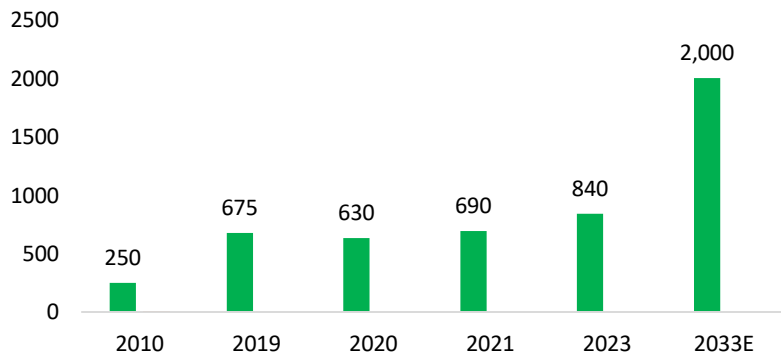
India's retail sector boasts an impressive market size, ranking fourth globally and contributing over 10% to the nation's GDP. The FMCG Sector industry is projected to grow to a market size of almost US\$ 220 Bn by 2025 and US\$ 615.87 Bn by 2027.

India's omnichannel business is projected to grow 5x to USD 55 bn by 2027, up from the current USD 11 bn. Over 60% of national brands are now leveraging some form of omnichannel approach. This rapid expansion is largely supported by the evolving ecosystem, including SaaS-based technology providers and logistics players..

Expansion of retail Industry

60 shopping malls with a total retail space of 23.25 Mn sq. ft are expected to become operational during 2023-25 and along with that Amazon increased its investment in India by USD 15 bn in the coming 7 years, bringing its total investment of USD 26 Bn. FDI makes investments in India's retail trading sector of USD 4.63 between April 2000 to March 2024. In the employment sector, the retail sector contributes 8% of the workforce. It is expected to create 25 Mn new jobs by 2030.

Indian Retail Market Size (USD Bn)

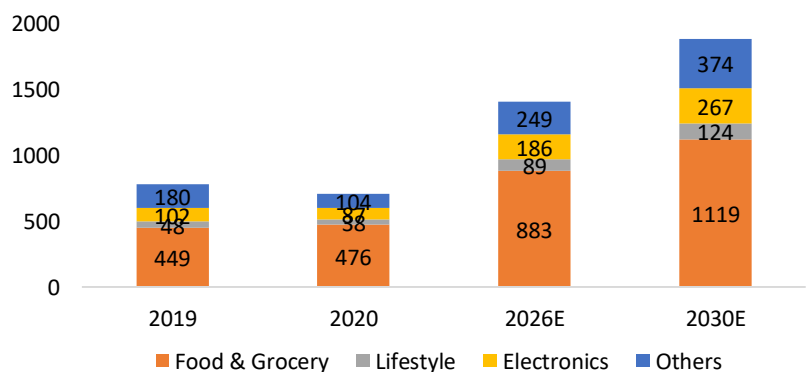


Source: IBEF

The Indian retail market is expected to reach USD 2 Tn by 2033.

Strong Growth in the Indian Retail Industry

Indian Retail Industry (USD Bn)

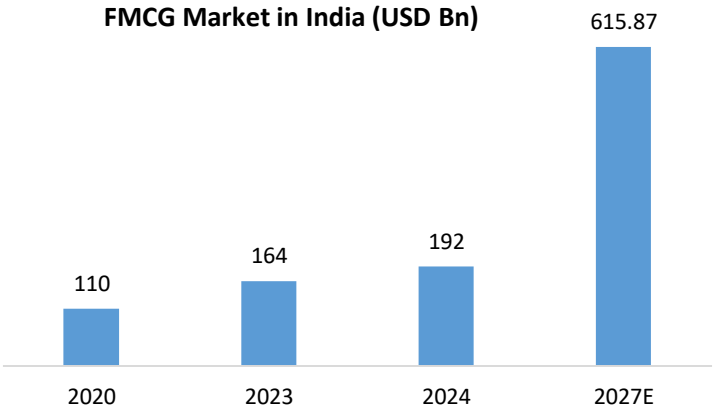


Source: IBEF

Industry overview

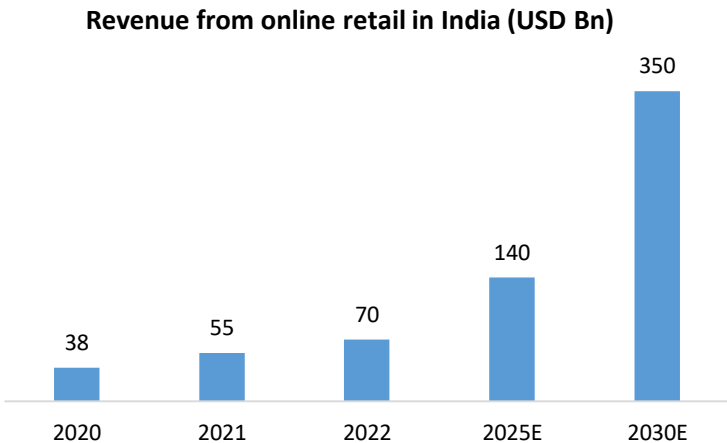
FMCG Market Size in India

The total revenue of the FMCG market is expected to grow at a CAGR of 27.9% from 2021 to 2027. Indian online grocery market is expected to grow at a CAGR of 32.7% by 2032.



Source: IBEF

FMCG market growth is expected to reach USD 220 Bn by 2025 and USD 615.87 Bn by 2027. Indian e-commerce industry growth is expected to cross USD 350 Bn by 2030 with an annual growth rate of 23%. E-commerce market value in India's e-commerce sector is expected to reach USD 53.08 Bn in 2024 and USD 91.24 Bn by 2029.



Source: IBEF

Opportunities in the FMCG sector in India:

Large retail network: India is the fifth-largest retail destination globally, with over 10,415 stores covering 22 mn sq ft, led by players like Reliance Retail. Strong foothold in food, consumer electronics, and fashion retail.

Private label growth: Online private labels are growing 1.3 to 1.6 times faster than traditional e-commerce. Private label revenues form 15-25% of total earnings for stores like Shopper Stop and Lifestyle.

Global sourcing base: India's price competitiveness attracts global retailers like Walmart, GAP, Tesco, and JC Penney, with an increasing shift toward wholly-managed sourcing offices in India.

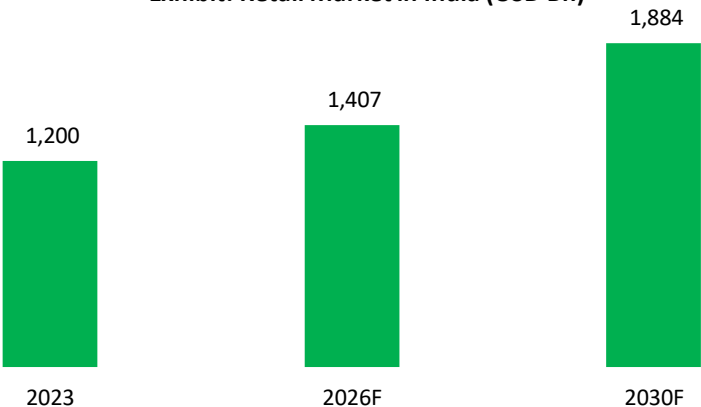
Luxury retailing: Rising disposable incomes and exposure to global brands drive demand for luxury products. Indian luxury market projected to reach USD 200 Bn by 2030.

Industry overview

Indian Organised Retail Market

India's retail industry is undergoing a notable shift driven by changing consumer preferences and digital advancements. Despite recent challenges like a slowdown in sales and a growing focus on experience-oriented spending, the sector remains strong, accounting for ~ 10% of the nation's GDP.

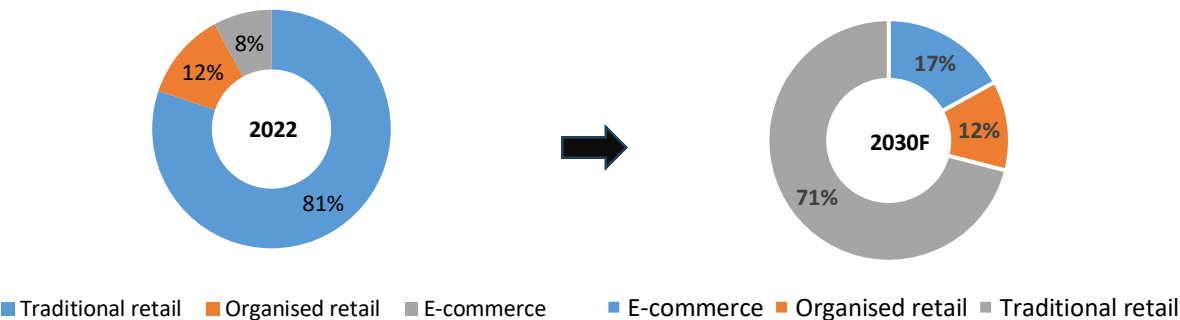
Exhibit: Retail Market in India (USD Bn)



Source: IBEF

The unorganized retail sector makes up over 90% of India's retail market, mainly through traditional shops like family-run stores, corner shops (kiranas), street vendors, and local markets. In 2022, it held 81% of the market, showing its large presence compared to organized retail. This sector is highly fragmented, relying on local supply chains and strong customer loyalty, but it lacks standardized operations and processes.

Exhibit: Organised retail in a nascent stage - Significant Scope for Expansion



Source: IBEF

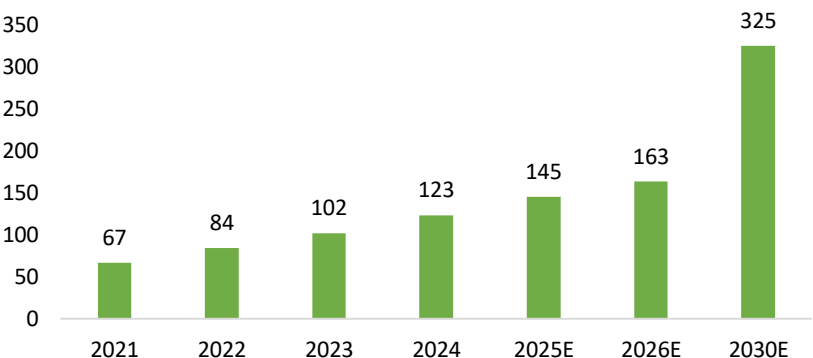
Organized retail makes up 12% of India's total retail market as of 2022 and includes modern retail formats like chains, supermarkets, hypermarkets, and specialty stores. This sector is expected to grow steadily at 10% from 2021 to 2032, fueled by urbanization, higher incomes, and rising consumer demand for quality products and convenience. Organized retail has also developed ~120 Mn Sq ft of retail space across India, especially in urban centers. Major cities like Delhi, with 23.7 Mn sq. ft., and Mumbai, with 16.7 Mn sq. ft., hold the largest retail spaces and are key areas for further growth.

Industry overview

Indian E-Commerce Market

Indian e-commerce is projected to grow at a CAGR of 27%, reaching USD 163 Bn by 2026 and expanding further to USD 325 Bn by 2030. This growth is driven by 500 million online shoppers and increased internet access, especially in rural areas. By 2026, smartphone adoption is expected to exceed 1.18 billion, boosting digital transactions. Rural areas, especially in tier 2-4 towns, will drive over 60% of the demand. India's online retail penetration is expected to reach 10.7% by 2024, up from 4.7% in 2019. The overall retail market is projected to grow from USD 690 Bn in 2021 to USD 2 trillion by 2032.

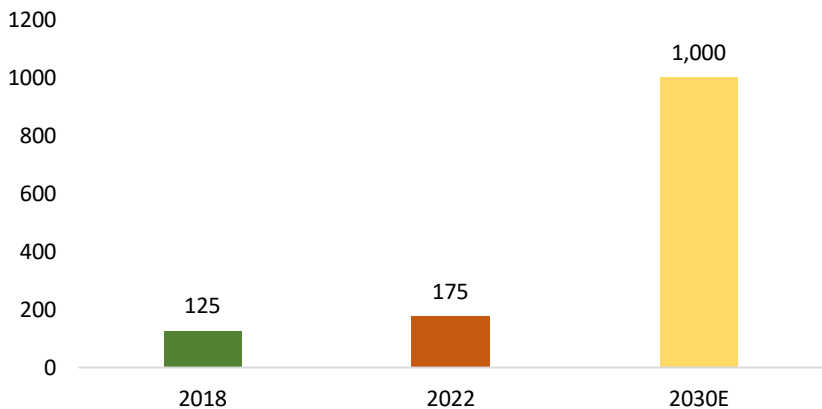
Exhibit: Indian E-Commerce Market (USD Bn)



Source: IBEF

As of December 2023, India has around 936.16 Mn internet subscribers, with ~350 Mn active online users regularly engaging in transactions. The digital sector in India is on a rapid growth trajectory, projected to reach a valuation of USD 1 trillion by 2030, supported by the Government of India's 'Digital India' initiative, which aims to create a trillion-dollar online economy by 2025. The B2C e-commerce segment is expected to expand at a steady CAGR of 8.68% from 2023 to 2027. Additionally, India's B2B online marketplace is anticipated to become a USD 200 Bn opportunity by 2030.

Exhibit: India's Internet Economy (USD Bn)



Source: IBEF

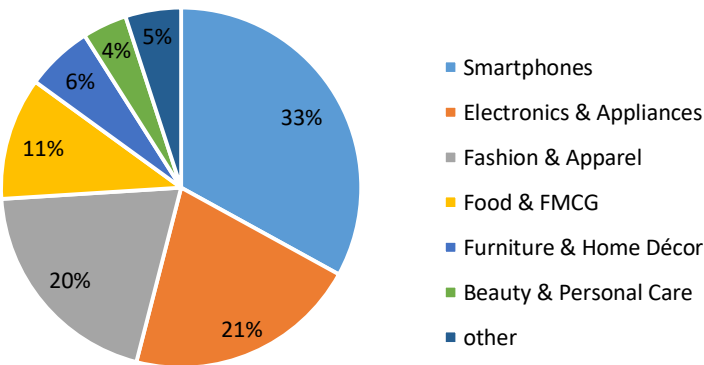
Industry overview

Investments in E-commerce

Global companies are heavily investing in India’s expanding e-commerce sector. Amazon plans to invest USD 26 Bn by 2030, with USD 11 Bn already spent. Google recently contributed USD 350 Mn to Flipkart, part of a USD 1 Bn funding round led by Walmart to boost Flipkart's operations and integrate Google’s cloud platform. In October 2023, Tata Group committed an additional USD 1 Bn to its super app Tata Neu, adding to the USD 2 Bn invested earlier in the year. Walmart also announced over USD 2.5 Bn in new investments to capture growth in India’s e-commerce and digital payments markets, highlighting global confidence in the sector's potential.

India's live commerce market, led by the beauty and personal care (BPC) segment, is projected to achieve a gross merchandise value (GMV) of USD 4-5 Bn by 2025. The country’s rapidly growing e-commerce market is fueled by affordable smartphones and low-cost data plans, prompting major retail and consumer goods companies to boost their investments in the online sector.

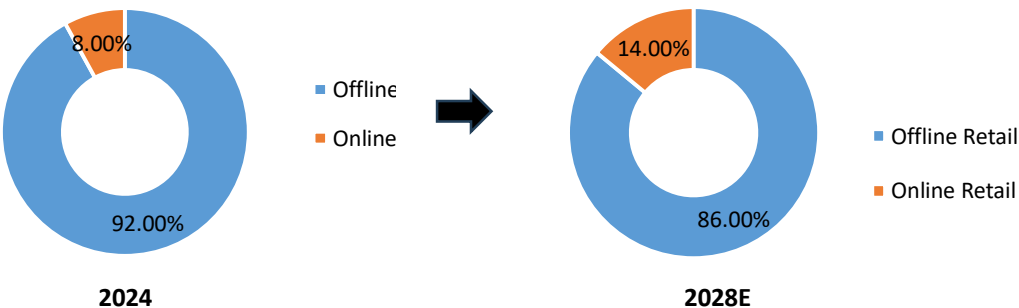
Exhibit: Shares of various Segment in e-commerce Retail



Source: IBEF

The Indian market has lot of opportunities for E-retailers with the growing internet penetration which opens growth chances in the online retail sector. The online retail market is expected to grow from 8 % in 2023 to an estimated increase of 14% by 2028.

Exhibit: Online Retail as a % of Total Retail in India



Source: IBEF

Industry overview

Quick Commerce

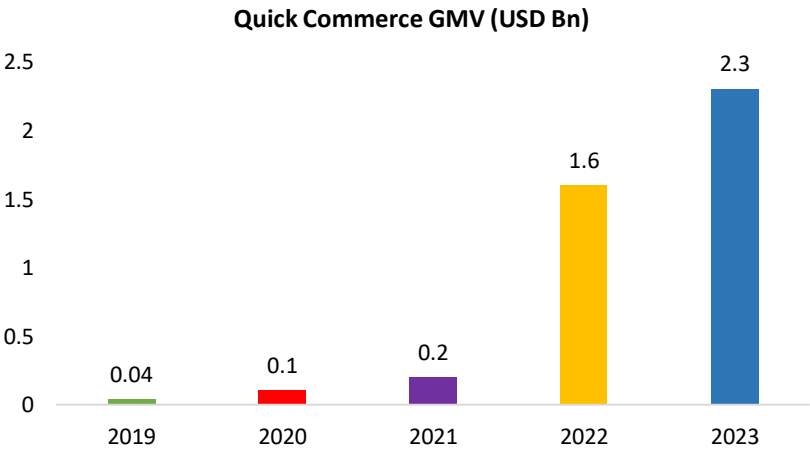
In India Quick commerce is growing by 70% as compared to the previous year 2023 and the gross merchandise value (GMV) of quick commerce in India is USD 2.3 billion. Quick Commerce's expected growth rate is CAGR 27.9% between FY22 and FY27.

Exhibit: Process flow of Instant delivery platforms



Source: IBEF

Quick commerce is expanding the online grocery is expected to reach 10% to approximately 45% in the coming year. Quick commerce platform are expanding their product range and delivery areas. In India, quick commerce is expected to touch USD 5.5 billion by 2025 as per the given data.



Source: IBEF

Quick commerce is transforming India's retail industry by catering to consumers' demand for instant convenience, driven by technological advancements and a supportive business environment. While growth opportunities are promising, especially in major cities, quick commerce companies will need to prioritize cost-efficient delivery, leverage AI, and explore new revenue streams like advertising and FMCG partnerships. As they address the challenges of India's price-sensitive market, companies may find long-term potential in tapping into the country's diverse consumer base and evolving needs.

Indian Retail Industry: Opportunities and Challenges**Opportunities**

- The Indian retail market is expected to reach USD 325 bn by 2030. With the support of digitalization in small cities and rural areas.
- OMNI Channel Model strategy Spencer's aims to fully convert into OMNI Channel.
- Hyperlocal strategy adoption helps with direct interaction with a customer and also proving Out-of-store channels.
- Change consumer behaviour and evolution of consumer main focus on customer prioritize value, convenience, and quality.
- The company focuses on providing an efficient in-store experience with well-lit stores and competitive pricing and cross-selling.
- India's Quick Commerce market is increasing because of the increase in on-demand delivery. Due to this Spencer's offers express delivery service from nearby stores.
- Spencer's focuses on both fast delivery and a wide range of product selection and customers can choose between slotted and express delivery.
- Developing real state and infrastructure for supply chain and logistics improving the retail market.
- More opportunity due to increased and changing consumer preferences growing urbanisation and increasing involvement of customers in the market.
- Rising income and purchase power, easy availability of credit encourage more spending in the market.
- Large number of retail outlets 10,415 retail stores covering 22 mn sq. ft and expected to increase the number of outlets.
- The Indian Luxury market is expected to grow to USD 200 bn by 2023 by increasing the foreign trend in the Indian market.

Challenges

- High competition in price wars and promotional schemes creates a high challenge to retain customers and build loyalty.
- Quickly shifting preferences in easy-to-access and availability there is an increase in the chance of adopting substitutes.
- Identifying the prime location at an affordable price creates a challenge for retailers in real estate.
- The problem with the supply chain lack of appropriate infrastructure this it difficult to reach the product on time and increases cost.
- The unorganised retail sector is the major competitor for the organized retail sector as many consumers are not familiar with the benefits and options offered by organized retail.
- The unorganised sector contains 90% of the share in the Indian retail sector which is competition for the organised sector.

Business Overview

About the company

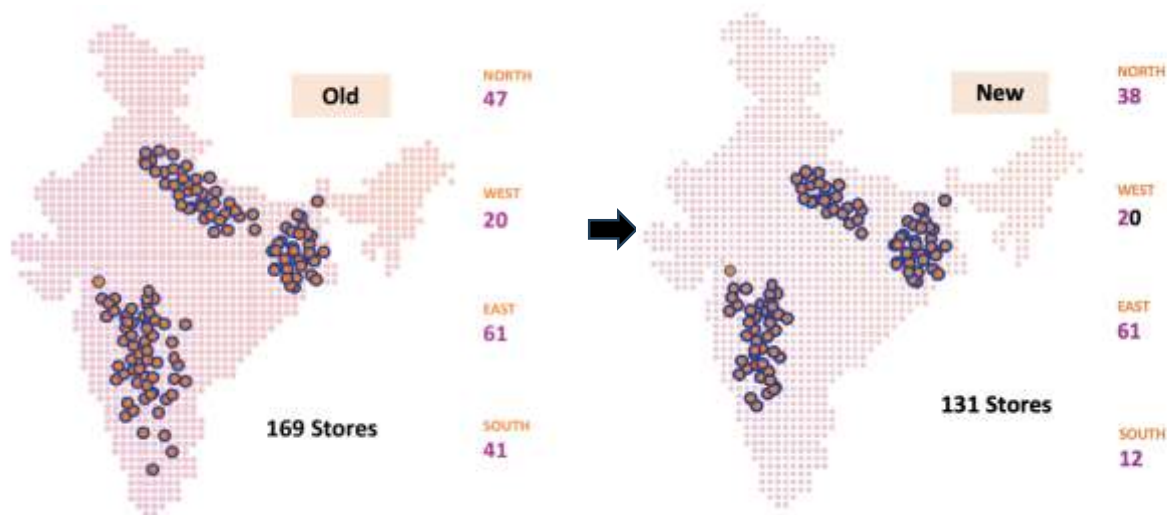
Spencer's Retail Limited, established in 2017 as part of the RP-Sanjiv Goenka Group, is a leading multi-format retail chain in India. The company meets diverse consumer needs with a wide product range that includes FMCG, fashion, food, staples, personal care products, home essentials, general merchandise, electrical items, and electronics. Its various business models, including Nature's Basket, Artisan Pantry, and Wholesale Bazaar, cater to specific market segments, making Spencer's a versatile and comprehensive shopping destination.

Spencer's commands ~72% of India's organized retail market, covering a broad range of segments such as Food and Grocery, Apparel, General Merchandise, Consumer Durables, Mobile and IT, Furniture and Household Items, and Footwear.

Geographical presence

Spencer's Retail has a widespread geographical presence across India, with a network of 131 stores, including those under its Nature's Basket brand, spanning over 27 cities. The stores collectively cover a trading area of approximately 10.34 lakh square feet. Spencer's has a strong foothold in East India and Uttar Pradesh, which are focus regions for growth following the closure of less profitable stores in the South and NCR. The company's locations offer various specialty sections, like Spencer's Gourmet and Nature's Basket, which provide a range of international and healthy foods.

Exhibit: Spencer's stores across the country



Source: Company, Spencer's Retail

Business Overview

Exhibit: Business activities of Spencer's Retail

Category	Details
Spencer's OMNI-channel business structure	<ul style="list-style-type: none"> - Retail store business - E-commerce business
Spencer's strengths	<ul style="list-style-type: none"> - Leading organised retailer - Pan-india reach - Loyal customer base
Dynamic demand adaptation	<ul style="list-style-type: none"> - Strengthening digital presence - Launching "wholesale bazaar" format - Enhancing supply chain and in-store efficiency - Expanding in existing clusters
Strategies for sustainable value creation	<ul style="list-style-type: none"> - Effective product sourcing - Cost-effective customer offers - High-performance team - Customer-centric transformation - Community investment
Sustainable value creation methodology	<ul style="list-style-type: none"> - Value creation - Trade-offs - Output optimisation

Source: Company, Spencer's Retail

Exhibit: Spencer's private brands



Source: Company, Spencer's Retail

Private brands

The company has developed an extensive portfolio of private brands across various categories, enhancing its competitive edge in India's organized retail sector. These private brands cover essential and specialized categories that cater to customer demands for quality and value.

Categories include:

Apparel: Spencer's offers private-label apparel, featuring stylish yet affordable clothing that appeals to a broad range of customers.

Staples & FMCG: Includes essential household items, pantry staples, and fast-moving consumer goods that provide cost-effective, high-quality alternatives to national brands.

Electric & Electronics: Spencer's private brands in electronics cover a selection of household and personal electronic products, emphasizing quality and reliability.

General Merchandise: This category offers a variety of home and lifestyle products, designed to meet every day needs and add convenience for consumers.

Spencer's Retail Ltd. has two main subsidiaries:

Nature's Basket Limited (NBL): Acquired on July 4, 2019, NBL is a premium grocery chain specializing in gourmet and international foods. It enhances Spencer's presence in high-end retail segments, with flagship stores in major cities like Mumbai, Pune, Bengaluru, Delhi, and Kolkata, as well as through its online platform..

Omnipresent Retail India Private Limited (ORIPL): Acquired on September 26, 2017, ORIPL functions as an e-commerce arm of Spencer's, supporting the company's OMNI-Channel platform for a seamless shopping experience across food, grocery, apparel, general merchandise, and liquor.

Business Overview

**Nature's Basket- Premium grocery subsidiary of Spencer's Retail**

Nature's Basket, acquired by Spencer's Retail in 2019, is a premium grocery retailer in India, renowned for its wide selection of gourmet and specialty foods. With a legacy of providing high-quality, curated products, Nature's Basket has established itself as a go-to destination for discerning customers seeking fresh, unique, and high-end grocery items. The brand operates with a focus on customer experience, offering an upscale, curated shopping environment.

Product range

Nature's Basket offers a vast selection across several categories, including:

- **Fresh Produce:** Premium fruits, vegetables, and dairy.
- **Gourmet Foods:** Artisanal cheeses, international spices, exotic meats, and other specialty items.
- **Bakery and Confectionery:** Freshly baked bread, gourmet chocolates, and an array of sweet treats.
- **Health and Wellness:** A variety of organic and natural foods, catering to the growing trend of health-focused diets.

Private brands

- **Healthy Alternatives:** Organic and health-focused foods for conscious consumers.
- **L'Exclusif:** Premium line with gourmet and exclusive products tailored to sophisticated tastes.
- **Nature's:** Everyday essentials with an emphasis on quality.

Store presence

Nature's Basket operates over 33 stores across key cities in India, including Mumbai, Pune, Bengaluru, Delhi, and Kolkata. The stores are located in high-consumption areas, often in premium locations, enhancing accessibility for their target audience.

Artisan Pantry initiative

As part of its commitment to providing high-end grocery experiences, Nature's Basket launched the "Artisan Pantry" format—a luxury grocery concept featuring artisanal and gourmet products. This initiative is designed for customers seeking exclusive, high-quality items, and positions Nature's Basket as a leader in the premium grocery segment. The company operates 4 Artisan Pantries, with 2 located in Mumbai, 1 in Bengaluru, and 1 in Kolkata. This includes a recently launched expansive 11,000 sq. ft. Artisan Pantry in Mumbai and a 5,000 sq. ft. Artisan Pantry in Kolkata.

Omnipresent Retail India Pvt. Ltd. (ORIPL)- E-commerce subsidiary of Spencer's Retail

ORIPL is a 100% owned subsidiary of Spencer's Retail Ltd, focusing on the e-commerce segment within Spencer's diverse retail operations. Established to enhance Spencer's digital reach, ORIPL serves as an OMNI-channel platform, offering customers a seamless integration of online and offline shopping experiences across various categories.

Natures Basket's Private Brands



Source: Company, Spencer's Retail

Business Overview

Exhibit: Spencer’s Retail physical store business model

Store Type	Description	Cities Presence	Revenue Share
Large-Format Stores	Strategically located, offering a wide range of food and non-food items (including electronics and apparel) under one roof, aiming to engage consumers deeply.	33	79%
Small-Format Stores	Located in neighborhoods, specializing in groceries and selected general merchandise, designed for convenient access.	22	21%

Source: Company, Spencer’s Retail

Wholesale Bazaar: Spencer’s Retail’s specialized format

Spencer’s Retail launched **Wholesale Bazaar** as a specialized format designed to serve the needs of local Kirana (small neighborhood) stores, especially in Eastern India. This initiative demonstrates Spencer's commitment to bridging distribution gaps in regional markets by providing Kirana stores with reliable access to competitively priced products.

Exhibit: Key features of Wholesale Bazaar

Focus on Kirana Stores	Tailored to meet the needs of Kirana stores with reliable supply chains for local consumer demand.
Ease of Access	Strategically located in Eastern India for reduced logistical challenges for Kirana stores.
Wide Range of Products	Offers groceries, FMCG, perishables, and non-food items to cover Kirana store inventory needs.
Bulk Purchase Benefits	Enables bulk purchasing, leveraging economies of scale for cost savings and profitability.
Competitive Pricing	Provides competitive pricing to support retailer margins and attract customers.
Support Services	Offers inventory guidance, marketing help, and business insights to streamline Kirana operations.

Source: Company, Spencer’s Retail

Management team

Personnel	Designation	Description
Mr. Shashwat Goenka	Chairman	Mr. Shashwat Goenka serves as the Vice Chairman of the RP-Sanjiv Goenka Group and is the founder of the FMCG brand 'Too Yumm.' He currently chairs FICCI's Young Leaders Forum and CII's National Retail Committee while also being a member of the National Executive Committee. A former President of the Indian Chamber of Commerce, he is a Wharton School graduate from the University of Pennsylvania and holds the position of Honorary Consul of Finland.
Mr. Pratip Chaudhuri	Non-Executive Independent Director	Mr. Pratip Chaudhuri, with over 30 years in retail and banking, was Managing Director of SBI from 2011 to 2013, significantly shaping its operations and strategy
Mr. Utsav Parekh	Non-Executive Independent Director	Mr. Utsav Parekh brings extensive finance and investment experience, offering strategic insights to the board. His background in corporate finance enhances the company's financial guidance.
Ms. Rekha Sethi	Non-Executive Independent Director	Rekha Sethi serves as an Independent Non-Executive Director in Samvardhana Motherson and Hero Steels, Haldia Energy Ltd., RP-Sanjiv Goenka Group Pvt Ltd., Sun Pharma Laboratories Ltd., and Sun Pharma Distributors Ltd.. She is also involved in various councils and boards, contributing broad governance expertise.
Mr. Anuj Singh	CEO and Managing Director	Anuj Singh, a seasoned retail executive with over 20 years of global experience, has held leadership roles in operations, supply chain, and strategy. His career includes roles at Nestle, Walmart India, and General Mills India.
Mr. Sandeep Kumar Banka	Chief Financial Officer	Mr. Sandeep Kumar Banka, a Chartered Accountant with over 21 years of experience, has held leadership roles in finance, budgeting, and taxation at Tata Motors, Hindustan Petroleum, and Emami Cement
Mr. Navin Kumar Rathi	Company Secretary & Compliance Officer	Mr. Navin Kumar Rathi, an Associate Member of the Institute of Company Secretaries of India (ICSI) and a law graduate, brings 13+ years of extensive experience spanning secretarial practices, company law, SEBI and stock exchange compliance, mergers and acquisitions, insurance, and taxation.

Source: Company, Spencer's Retail

Key financials

Income statement (INR mn)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Gross Sales	24,526	23,450	22,540	24,697	27,352
Net Sales	24,526	23,450	22,540	24,697	27,352
YoY (%)	6.6%	-4.4%	-3.9%	9.6%	10.8%
Adjusted COGS	19,597	18,724	17,925	19,177	21,061
YoY (%)	7.5%	-4.5%	-4.3%	7.0%	9.8%
Personnel/ Employee benefit expenses	1,986	2,011	1,816	1,732	1,843
YoY (%)	5.2%	1.3%	-9.7%	-4.6%	6.4%
<i>Manufacturing & Other Expenses</i>	<i>1,681</i>	<i>1,659</i>	<i>1,780</i>	<i>1,600</i>	<i>1,640</i>
YoY (%)	12.6%	-1.3%	7.3%	-10.1%	2.5%
Total Expenditure	23,264	22,394	21,521	22,509	24,544
YoY (%)	-9.1%	-16.3%	-3.5%	114.6%	28.4%
IND-AS EBITDA	1,262	1,056	1,019	2,187	2,808
YoY (%)	-9.1%	-16.3%	-3.5%	114.6%	28.4%
IND-AS EBITDA Margin (%)	5.15%	4.50%	4.52%	8.86%	10.27%
Reported EBITDA	36	-116	-108	952	1,441
Reported EBITDA Margin	0.15%	-0.50%	-0.48%	3.86%	5.27%
Depreciation	2,544	2,497	2,793	2,879	2,958
% of Gross Block	41.3%	45.4%	46.1%	42.9%	39.6%
EBIT	-1,282	-1,441	-1,773	-691	-150
EBIT Margin (%)	-5.23%	-6.15%	-7.87%	-2.80%	-0.55%
Interest Expenses	1,152	1,480	1,646	1,728	1,721
Non-operating/ Other income	326	256	1,017	1,171	1,297
PBT	-2,108	-2,665	-2,403	-1,248	-573
Tax-Total	-4	-4	-1	0	0
Adj. Net Profit	-2,104	-2,662	-2,401	-1,248	-573
Reported Profit	-2,104	-2,662	-2,401	-1,248	-573
PAT Margin	-8.6%	-11.3%	-10.7%	-5.1%	-2.1%

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	-7,010	-8,259	-8,832
Net worth	-1,505	-4,158	-6,560	-7,808	-8,382
Unsecured Loans/ Borrowings/ Lease Liabilities	13,406	16,216	19,175	21,692	23,633
Other Liabilities	378	373	404	442	488
Total Liabilities	16,294	16,959	17,410	18,660	20,253
Total Funds Employed	23,374	22,554	20,691	20,874	22,322
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	4,226	5,451	7,113
Inventory	2,645	2,659	3,009	3,306	3,662
Days	49	49	49	49	49
Debtors	198	253	292	294	323
Days	3	5	5	4	4
Other Current Assets	400	418	439	527	580
Cash and Cash equivalent	132	315	329	948	2,151
Current Liabilities/Provisions	8,585	9,753	9,841	10,022	10,450
Creditors / Trade Payables	3,436	3,846	3,645	3,563	3,716
Days	53	54	61	57	54
Liabilities	483	596	655	676	698
Net Current Assets	-4,946	-6,017	-5,615	-4,571	-3,338
Total Asset	16,294	16,959	17,410	18,660	20,253
Total Capital Employed	21,239	22,976	23,025	23,231	23,591

Key financials

Cash Flow Statement (INR Mn)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	-2,104	-2,662	-2,401	-1,248	-573
Adjustments: Add					
Depreciation and amortisation	2,544	2,497	2,793	2,879	2,958
Interest adjustment	826	1,224	629	557	424
Change in assets and liabilities	1,266	1,060	1,020	2,187	2,808
Inventories	-41	-14	-350	-297	-355
Trade receivables	69	-55	-39	-2	-29
Trade payables	102	410	-201	-82	153
Other Liabilities and provisions	1,186	1,018	284	258	271
Other Assets	-68	-43	-23	-97	-64
Taxes	131	-4	0	0	0
Net cash from operating activities	2,645	2,373	692	1,968	2,784
Net Sale/(Purchase) of tangible and intangible assets, Capital work in progress	-3,315	-3,278	-2,915	-3,002	-2,945
Net Sale/(Purchase) of investments	324	637	1,201	1,295	1,380
Others	33	33	-24	-25	-26
Net cash (used) in investing activities	-2,958	-2,608	-1,737	-1,733	-1,592
Interest expense	327	414	1,123	594	22
Other financing activities	-19	8	0	0	0
Net cash (used) in financing activities	308	422	1,123	594	22
Closing Balance	176	363	441	1,269	2,483

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	4.29	6.94	7.69	3.76	3.08
Current Ratio	4.15	6.60	7.26	3.18	2.19
DuPont Analysis					
Sales/Assets	1.51	1.38	1.29	1.32	1.35
Assets/Equity	NA	NA	NA	NA	NA
RoE	NA	NA	NA	NA	NA
Per share ratios					
Reported EPS	-23.34	-29.53	-26.64	-13.85	-6.36
BV per share	-16.69	-46.14	-72.78	-86.63	-92.99
Cash per Share	1.46	3.49	3.65	10.52	23.87
Revenue per Share	272.11	260.18	250.08	274.01	303.47
Profitability ratios					
Net Profit Margin (PAT/Net sales)	-5.28%	-8.58%	-11.35%	-10.65%	-5.05%
Gross Profit / Net Sales	20.10%	20.15%	20.48%	22.35%	23.00%
EBITDA / Net Sales	5.15%	4.50%	4.52%	8.86%	10.27%
EBIT / Net Sales	-5.23%	-6.15%	-7.87%	-2.80%	-0.55%
ROCE (%)	-16.63%	-20.00%	-23.43%	-8.00%	-1.53%
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	53.01	54.02	60.83	57.03	54.48
Leverage ratios					
Interest coverage	-1.11	-0.97	-1.08	-0.40	-0.09
Debt / Asset	0.33	0.43	0.45	0.44	0.43
Valuation ratios					
EV / EBITDA	10.08	13.68	14.60	6.60	4.86
EV / Sales	0.52	0.62	0.66	0.58	0.50

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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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