Shoppers Stop Limited

September 28, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	399.00	CARE A+; Stable	Reaffirmed
Short-term bank facilities	38.00	CARE A1+	Reaffirmed
Non-convertible debentures	100.00	CARE A+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities and instruments of Shoppers Stop Limited (SSL) takes into account the strong parentage group, being part of the K. Raheja Corp. group with an experienced management and established track record in the retail industry along with a strong brand loyalty and robust inventory management system. The company has a strong brand recall value among customers with strong performance across private brands and beauty segments-led increasing popularity of the Omni Channel especially in Tier II and Tier III cities. SSL's operations have also improved with total revenue increasing by 59.68% to ₹4,022.13 crore in FY23 coupled with an improvement in operating profit to ₹695.25 crore. The operating margins improved by 657 bps to 17.29% in FY23.

The company has added 11 more stores till Q1FY24 and now has a presence in 52 cities. In Q1FY24 with capital expenditure (capex) of ₹43 crore spent on expansion and renovation, revenue per store improved by 53% to ₹14.9 crore per store. Improvement in profitability (higher accretion to reserves) has resulted in improved networth in FY23, however it continues to remain lower than pre-COVID-19 levels.

The above ratings strengths are however, constrained by weak solvency ratios and high lease liability along with presence in the highly competitive branded retail industry which is vulnerable to changes in fashion trends/consumer preferences and economic cycles.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainability of operating margins above 18% with healthy topline growth.
- Improvement in capital structure with TOL/TNW <5.0x through improvement in networth or lower creditors.

Negative factors

- Sharp decline in topline growth or weakening of operating margins below 11-12%.
- Larger-than-expected debt-funded capex or stretched creditors leading overall gearing (excluding lease) at 1.0x

Analytical approach: Consolidated

SSL along with its subsidiaries are considered for analysis. Refer annexure-6.

Outlook: Stable

CARE Ratings Limited (CARE Ratings) has assigned Stable outlook on account of expectation of continued improvement in financial performance backed by strong brand and store additions.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters and management: SSL is one of the leading retail stores chains in India. SSL is promoted by the K Raheja Corp Group, which has diversified business interests across real estate development (residential and commercial), hospitality and retail segments. The group is a leading player in the commercial real estate development with developed area of over around 28 million square feet (sq.ft.). SSL is professionally managed with the members of the Board comprising of professionals and well supported by key management personnel having good experience in the industry. B.S. Nagesh is Chairman of the company. He is associated with the company since 1991 and is the founder Chairman of Retailers Association of India.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Significant presence in the retail Industry with strong brand loyalty and omni channel model: SSL is one of the largest retail chains in India with presence across 52 cities covering a total area of 3.9 million sq.ft. as on June 30, 2023. Besides its departmental store business, SSL also has presence in cosmetics and specialty format (home furnishing, luxury accessories, etc.). Given its established track record, SSL has a strong brand loyalty amongst its customers with a loyal customer base (first citizen card holders) of 9.2mn members as on June 30, 2023, accounting for about 80% of total sales of the company in FY23.
SSL implemented SAP S4/HANA and a new loyalty engine Gravity partnering with TCS. The new technology will help the company to gain better insights into the shopping behaviour of First Citizen. The contribution margin has been positive in omni-channel. The average transaction value increased by 8% YoY in FY23.

Low working capital cycle: SSL manages the inventory effectively with less bought out stock arrangement which leads to lower inventory period, ultimately relieving pressure on working capital requirement for the company on a consolidated level. Furthermore, the company enjoys high creditor period which supports lower reliance on external working capital debt. During FY23, the inventory metrics remained stable and SSL continued to be benefited due to its efficient inventory model, 64% of the sales are on Consignment/Concessionaire and Sales or return (SOR) basis thereby reducing the inventory risk to a certain extent. Also, majority of the sales of the company occurs through cash, leading to lower debtor cycle.

Robust supply chain infrastructure in place: SSL has a robust supply chain infrastructure in place which helps in achieving better operational efficiencies. The company monitors, manages and controls the inventory levels at various nodes. This helps the company to manage the flow of inventory efficiently. The inventory management system enables it to offer and display correct merchandise assortments in the right mix, style, colour and fashion at various price points on the shelves as per the regional taste and preference. The sales trends are also regularly monitored to optimize inventory levels. Shoppers Stop has four distribution centres spread across India which cater to the department stores. SAP S4/HANA and the loyalty engine Gravity has helped SSL integrate its stores with its online portal and Amazon leading to better inventory management and improve the turnaround time.

Improvement in operational performance in FY23: The total revenue from operation has increased by 59.68% to ₹ 4,022.13 crore led by 70% growth in revenue from private brands and 54% growth in revenue from beauty segment. Private Brands contribute 14% of total revenue and Beauty Segment contributed 16% of total revenue in FY23. The average transaction value (ATV) grew by 8% while average selling price (ASP) growing by 10% which grew the operating profit to ₹695 crore in FY23 (PY: ₹270.02 crore). The operating margin also improved by 657 bps to 17.29% in FY23 and further improved by 61 bps in Q1FY24 to 17.9%. The company has also optimized the store area thus supporting the margins. CARE Ratings expects the margins to remain stable. SSL has plans to add 12-15 new departmental stores every year for the next three years.

Improving financial risk profile however remains modest given high lease liabilities: Total debt (excluding lease liabilities) improved to ₹126.09 crore in FY23 (PY: ₹215.88 crore) on account of repayment of debt. As SSL's performance improved with a 95.58% improvement in cash accruals and higher retention of profits, the networth recovered which improved the overall gearing to 15.10x as on March 31, 2023. The bigger chunk of debt comes from lease liabilities which stands at ₹ 2,248.65 crore (of which ₹271.89 crore is within current maturity). TOL/TNW (including lease payments) was to the tune of ₹13.65x as on March 31, 2023 (PY: 492.25). With the increase in operations and increase in the number of stores, the lease liability has increased by 18.38% in FY23. After recording consecutive net losses for two consecutive years, the company reported a PAT of ₹116.01 crore in FY23. Although there has been a dip in net profit in Q1FY24, the company expects that the festive season should improve the performance further.

Key weaknesses

Intensifying competition: SSL faces intense competition from other brick and mortal retailers like Lifestyle International, Aditya Birla Fashion, Trent etc. The company also faces competition from online retailers like Amazon, Flipkart, Myntra. Heightened competition from both brick and mortar and online players could impact overall SSSG of SSL.

Operating performance exposed to economic down-cycles: The retail clothing and apparel industry has heavy dependence on the disposable income of its customer segment and is susceptible to economic cycles because of the discretionary nature of purchases. The retailers' operating margins may be under pressure if they expand significantly since the earnings from their current store locations may not be enough to cover the losses from the significant addition of new outlets. Although a major part of SSL's stores have achieved break-even status, a major increase in the operating profitability moving forward is uncertain because of gestation losses from new locations and inflationary pressures on the cost of raw materials.

Liquidity: **Adequate**

As on June 30, 2023, SSL has adequate liquidity in the form of current investments parked in mutual funds and fixed deposits as against repayments of ₹62.75 crore term loan repayment for FY24. The company does not plan to raise any further term debt. The capex would be largely done through internal accruals [due to cashflow from operations (Projected) at around ₹425 crore in FY24]. Also, the fund-based working capital limits of the company have been moderate at around 49% average utilisation for the trailing 12 months ending July 2023.

Environment, social, and governance (ESG) risks:

- Executed Internet of Things (IoT) base Automation for the energy optimisation of 21 stores. In FY23, SSL executed a capital investment towards energy conservation of Rs. 0.97 crores
- The company also harvested 60KL of rainwater at one of the Hyderabad.
- In keeping with best-in-class store planning and maintenance practises, floor fixtures were renovated, repurposed, and reused whenever possible.
- In comparison to the previous year, when consumption was 5,59,43,661 units (as partial lockdown), SSL had consumed 8,10,30,446 units as of March 2023 during FY23. Due to the addition of 12 new stores in FY23, the energy consumption appears to be higher.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Retail
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Services	Retailing	Distributors

SSL incorporated in 1997, has been promoted by the K Raheja Corp. Group (Chandru L. Raheja Group), one of the leading groups in the business of retail, real estate development and hotels in the country. SSL has been engaged in retailing through departmental stores for apparels (98), specialty beauty stores (146), home concept stores (7) and airport doors (22) while operating on more than 3.9 million sq. ft. area across 52 cities as on June 30, 2023. As on August 31, 2021, SSL has sold its major subsidiary – Crossword Bookstores Ltd. (CBL) at a total valuation of ₹41.60 crore. SSL is one of the pioneers in organised retail in India and has a chain of multi-brand departmental stores primarily in apparel and beauty spread across predominantly in Tier 1 and Tier 2 cities.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total Revenue from Operations	2,518.75	4,022.13	1,000.90
PBILDT	270.02	695.25	179.15
PAT	-47.00	116.01	14.49
Overall gearing (times)	280.93	15.10	NA
Interest coverage (times)	1.31	3.32	3.31

A: Audited UA: Unaudited NA: Not Applicable; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-convertible debentures		-	-	Not placed	100.00	CARE A+; Stable
Fund-based - LT-Cash credit		-	-	-	149.00	CARE A+; Stable
Non-fund-based - ST-BG/LC		-	-	-	38.00	CARE A1+
Term loan-Long term		-	-	June 2025	250.00	CARE A+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Term Loan-Long term	LT	250.00	CARE A+; Stable	-	1)CARE A+; Stable (29-Sep-22)	1)CARE A+; Negative (30-Sep-21)	1)CARE A+; Negative (03-Sep-20)
2	Non-fund-based - ST-BG/LC	ST	38.00	CARE A1+	-	1)CARE A1+ (29-Sep-22)	1)CARE A1 (30-Sep-21)	1)CARE A1 (03-Sep-20)
3	Debentures-Non-convertible debentures	LT	100.00	CARE A+; Stable	-	1)CARE A+; Stable (29-Sep-22)	1)CARE A+; Negative (30-Sep-21)	1)CARE A+; Negative (03-Sep-20)
4	Fund-based - LT-Cash credit	LT	149.00	CARE A+; Stable	-	1)CARE A+; Stable (29-Sep-22)	1)CARE A+; Negative (30-Sep-21)	1)CARE A+; Negative (03-Sep-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non-convertible debentures	Simple
2	Fund-based - LT-Cash credit	Simple
3	Non-fund-based - ST-BG/LC	Simple
4	Term loan-Long term	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please [click here]

Annexure-6: List of Subsidiaries

Company	Business Activity	% Ownership as on June 30, 2023
Global SS Beauty Brands Limited (formerly Upasna Trading Limited)	Supervising distribution and logistics operations	100%
Shopper's Stop Brands (India) Limited (formerly Shopper's Stop Services (India) Limited)	Services	100%
Shopper's Stop.Com (India) Limited	Services	100%
Gateway Multichannel Retail (India) Limited	Catalogue retailing	100%

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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