

**Shoppers Stop Limited (Revised)**
**September 29, 2021**
**Ratings**

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	399.00 (Enhanced from 369.00)	CARE A+; Negative (Single A Plus; Outlook: Negative)	Reaffirmed
Short Term Bank Facilities	38.00	CARE A1 (A One)	Reaffirmed
<b>Total Bank Facilities</b>	<b>437.00</b> <b>(Rs. Four Hundred Thirty- Seven Crore Only)</b>		
Proposed Non-Convertible Debenture Issue	100.00 (Rs. One hundred crore only)	CARE A+; Negative (Single A Plus; Outlook: Negative)	Reaffirmed
<b>Total Long-Term Instruments</b>	<b>100.00</b> <b>(Rs. One Hundred Crore Only)</b>		

*Details of instruments/facilities in Annexure-1*
**Detailed Rationale & Key Rating Drivers**

The reaffirmation of the ratings assigned to the bank facilities and instruments of Shoppers Stop Limited (SSL) factors in the strong promoters being part of K. Raheja Corp. group, experienced management, established track record in the retail industry along with a strong brand loyalty and robust inventory management system. The ratings also take into account the equity infusion from rights issue of Rs.299.17 crore, sales of loss-making subsidiary (Crossword Bookstores Limited) and cost reduction measures undertaken to improve operational profitability.

The rating comfort is also drawn from adequate cash and bank balance including liquid investments of Rs.158 crore as on August 22, 2021.

The above ratings strengths are however, constrained by highly leveraged capital structure with weak coverage metrics and return indicators along with presence in highly competitive branded retail industry which is vulnerable to changes in fashion trends/consumer preferences and economic cycles.

**Key Rating Sensitivities**

*Positive Factors- Factors that could lead to positive rating action/upgrade:*

- Improvement in financial profile on back of strong sales growth.
- Improvement in capital structure through improvement in profitability/equity infusion

*Negative Factors- Factors that could lead to negative rating action/downgrade:*

- Weakening in liquidity position resulting from delays in ramping up of turnover as envisaged

**Outlook Negative**

The 'Negative' outlook on the rating of SSL reflects CARE's expectation of slow and gradual recovery in sales of the company given the discretionary nature of the products. In the light of lower revenue, profitability and cash flows, the debt coverage indicators of SSL could remain lower than envisaged. The outlook may be revised to 'Stable' on sustained improvement in demand along with improvement in its profitability and cash accruals leading to better liquidity and debt coverage indicators than presently envisaged for FY22.

**Detailed Description of the key rating drivers**
**Key Rating Strengths**
**Experienced promoters and management**

SSL is one of the leading retail stores chain in India. SSL is promoted by 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 28.2 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. The promoters are closely involved in the daily operations of the business. Mr 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., Mr. Venu Nair, Managing Director and Chief Executive Officer of the company, has 27 years of experience in retail and apparel industry across South Asia and Europe.

#### **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 47 cities covering a total area of 4.4msf as on June 30, 2021. Besides its departmental store business, SSL also has presence in cosmetics and specialty format (home furnishing, luxury accessories, etc.). Till August 31, 2021, the company also had presence in books through its subsidiary CBL.

Further, due to its established track record, SSL has a strong brand loyalty amongst its customers with a loyal customer base (first citizen card holders) of 7.8mn members as on March 31, 2021, accounting for about 78% of total sales of the company in FY21.

SSL implemented SAP S4/HANA and a new loyalty engine Gravity as on June 1, 2020, partnering with TCS. The new technology will help the company to gain better insights into the shopping behaviour of First Citizen. With improving omni-channel presence, the sales mix increased to Rs.44 crore in Q1FY22 vis-à-vis Rs.11 crore in Q1FY21. The First Citizen mix online improved to 4.30% in FY21 as against 20% in FY20. The average transaction value increased by 22.6% in Q1FY22. Further, the company has fully integrated its stores with Amazon in Q3FY21.

#### **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.

During FY21, the inventory metrics remained stable and SSL continued to be benefited due to its efficient inventory model, 69% 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, manage and control 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 optimise inventory levels. Shoppers Stop has 4 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.

#### **Exit from loss making subsidiary-Crossword Bookstores Limited (CBL) (100% subsidiary)**

SSL had been extending financial support to its loss making subsidiary CBL. CBL in FY21, reported operating net loss of Rs. 12.93 crore as against Rs. 12.45 crore in FY20. Further, during Q1FY22, CBL has incurred net loss of Rs.2.26 crore. Owing to continuous losses incurred by CBL, the networth of CBL has also been completely eroded. SSL in FY21 advanced Rs.15.00 crore to CBL taking the total financial support to Rs. 68.72 crore (Rs. 35.06 crore through equity infusion and Rs. 33.66 crore through unsecured interest-bearing loan @9%). Further, during Q1FY22, SSL has provided ICDs of Rs.3.00 crore to CBL.

SSL during FY21, impaired goodwill on CBL amounting to Rs. 22.40 crore. Also, during Q1FY22, SSL has made provision for impairment of Rs.15.00 crore.

On August 31, 2021, SSL has entered into agreement to sell CBL for a total valuation of Rs.41.62 crore to M/s. Dinesh Gupta, Aakash Gupta & Family (Owners of Agarwal Business House) (ABH), Pune (SSL, present franchisee partner for Crossword). Under the agreement, ABH will take over all the assets and brand. Any liabilities will be adjusted for arriving at the final consideration. The equity transfer will happen in phase wise manner upto September 2023, however, the CBL business would be entirely transferred to the new management and there would not be any funding required from SSL going forward. SSL has also settled the bank limits availed by CBL.

### **Cost rationalisation measures partially supporting margins**

In view of lowering of discretionary spending by the consumers in the times of economic downturn, the demand across sectors is expected to remain muted for at least the next two or three quarters and is more pronounced in case of players with presence in non-essential items and luxury segments. The widespread disruption brought about by the outbreak of first and second wave of COVID-19 pandemic has adversely impacted the performance of SSL. However, SSL management has taken various proactive steps to reduce its cost and augment liquidity. The company is also conserving cash by reducing workforce, salary cuts, and other establishment costs apart from cutting marketing. SSL has rationalised its overheads and has been renegotiating lease rentals with the lessors/mall owners and saved Rs.174.09 crore during FY21. In terms of other costs such as employee costs, advertising, electricity, etc., the company saved Rs. 258.91 crore in FY21 over FY20. Further, the company has also saved around Rs.140 crore during Q1FY22. The ability of the company to control cost with improvement in revenue is critical from credit perspective.

### **Key Rating Weaknesses**

#### **Deterioration in operational performance in FY21 due to COVID19; recovery expected in FY22**

SSL for FY21 reported significant dip in revenues; primarily on account of closure of all its stores in the wake of COVID19 outbreak leading to a fall in footfalls over FY20 and de-growth in same store sales growth by 51.8%.

Going ahead, the operational performance of the company is expected to be better owing to relaxation in norms leading to opening of stores. The footfalls increased substantially during Q1FY22 at 1.7mn vis-à-vis 1.78mn for FY21. The company till Q1FY22 reported a loss of Rs.105 crore as against Rs.120 crore during corresponding period last year. Further, the revenues are expected to pick up from Q3FY22 due to festive season. However, the recovery is expected to be slow thereby leading to gradual improvement in operational as well as financial performance of the company.

#### **Deterioration of debt coverage indicators in the wake of COVID19**

SSL's financial risk profile deteriorated in FY21 on account of temporary closure of all stores as directed by the governing authorities in the wake of COVID19 outbreak. On account of disruption in the operations in the wake of COVID-19 outbreak, the company had raised debt to augment its liquidity position. Impact on net worth (due to losses, impact of MTM on investments in Future Retail Limited and adoption of IND AS 116 in FY20) and increase in debt has led to deterioration in debt coverage indicators Total debt (excl. lease liabilities) as on March 31, 2021 increased to Rs.186.03 crore (Rs.2,105.83 crore incl. lease liabilities) as against Rs. 157.28 crore as on March 31, 2020. Overall gearing (incl. lease liabilities) stood at of 56.62x as on March 31, 2021. After adjusting for pre IndAS 116, the overall gearing stood at 0.20x as against 0.16x as on March 31, 2020.

Furthermore, during the same period, the company's debt coverage ratios such as total debt to GCA and interest coverage ratio indicators also deteriorated to 44.89x and 1.19x from 6.38x and 2.94x as on March 31, 2020.

### **Intensifying competition**

SSL faces intense competition from other brick and mortar 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.

### **Industry Outlook**

The retail industry was affected due to the outbreak of Covid-19 followed by the nation-wide lockdown in the last week of March 2020. The closure of retail stores and shopping malls across the country led to a sharp decline in retail sales. While stores selling essential items like food and groceries, medicines were allowed to function, stores selling non-essential items like apparels, consumer durables etc were completely shut. As the lockdown restrictions were eased in a phased manner, the industry initially grappled with both supply and demand side issues. Even when the shopping complexes and malls were allowed to open from June 2020, footfalls were low as people were cautious of stepping out due to the virus. Also, during times of uncertainty, people become prudent in terms of discretionary spending. Meanwhile, on the supply side, retailers faced logistic challenges. The consumer demand began improving on a quarterly basis from Q2FY21. Further, the vaccination inoculation drive started in January 2021 aided the consumer confidence.

The spread of the virus led to an acceleration in online sales of consumer products as consumer behaviour changed during the lockdown as people avoided physical store visits due to fears of virus contraction. Shopping through online channels not only enabled customers to shop from the comfort and safety of their homes but it also allowed retail players to operate and survive despite restrictions during the period of lockdown and subsequent stages of unlock.

After gradual pick up in revenues in Q3-Q4FY21, the revenues declined in April-May 2021, this decline was primarily due to the state-wise imposition of restrictions from April onwards on account of the recent spike in Covid-19 cases. Restrictions in movement and limited hours of operation for stores created a challenging business environment for retailers. Consumer sentiment was once again adversely impacted, and people became cautious with regards to discretionary expenses. In near future, consumer demand is expected to improve for non-essential items as lockdown restrictions are lifted from June 2021. The recovery in consumer demand is dependent on the spread of the virus and the progress of the vaccination drive in the country. Overall, for FY22, sales are expected to be higher than FY21 levels but it is to be noted that the possibility of a third wave of Covid-19 might impact the industry dynamics.

The long-term outlook of the industry remains positive on the back increase in disposable income, favourable demographics, brand consciousness, growth of e-commerce amongst other enablers.

#### **Liquidity: Adequate**

As on August 22, 2021, SSL has adequate liquidity in the form of liquid investments to the tune of Rs. 137.88 crore parked in mutual funds and Rs.19.82 crore in fixed deposits as against repayments of Rs.56.25 crore for FY22. The company has capex plans of Rs.110 crore funded through mix of debt and internal accruals. The company has taken additional loan of Rs.100 crore in August 2021 to augment its liquidity profile/capex plan and does not plan to raise any further debt. The liquidity also factors in financial flexibility that the company enjoys being part of K Raheja Corp group.

#### **Analytical Approach**

Consolidated. The list of entities consolidated is mentioned in Annexure – 4.

#### **Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology: Organised Retail Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

#### **About the Company**

Shoppers Stop Ltd. (SSL) incorporated in 1997, has been promoted by 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 department stores and specialty stores and operates on more than 4.4msf area across 47 cities as on June 30, 2021. SSL is one of the pioneers in organised retail in India and has chain of multi brand departmental stores spread predominantly in Tier 1 and Tier 2 cities.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	3492	1971
PBILDT	580	266
PAT	-142	-267
Overall gearing (times)	NM	56.62
Interest coverage (times)	2.94	1.19

A: Audited; NM: Not meaningful

**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:** NA

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	June 2025	250.00	CARE A+; Negative
Non-fund-based - ST-BG/LC	-	-	-	38.00	CARE A1
Fund-based - LT-Cash Credit	-	-	-	149.00	CARE A+; Negative
Proposed Debentures-Non Convertible Debentures	-	-	-	100.00	CARE A+; Negative

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Term Loan-Long Term	LT	250.00	CARE A+; Negative	-	1)CARE A+; Negative (03-Sep-20)	1)CARE AA-; Stable (08-Jan-20)	1)CARE AA-; Stable (08-Jan-19) 2)CARE AA-; Stable (22-May-18)
2.	Non-fund-based - ST-BG/LC	ST	38.00	CARE A1	-	1)CARE A1 (03-Sep-20)	1)CARE A1+ (08-Jan-20)	1)CARE A1+ (08-Jan-19) 2)CARE A1+ (22-May-18)
3.	Debentures-Non Convertible Debentures	LT	100.00	CARE A+; Negative	-	1)CARE A+; Negative (03-Sep-20)	1)CARE AA-; Stable (08-Jan-20)	1)CARE AA-; Stable (08-Jan-19) 2)CARE AA-; Stable (22-May-18)
4.	Short Term Instruments-CP/STD	ST	-	-	-	-	1)Withdrawn (31-Dec-19)	1)CARE A1+ (08-Jan-19) 2)CARE A1+ (22-May-18)

5.	Fund-based - LT-Cash Credit	LT	149.00	CARE A+; Negative	-	1)CARE A+; Negative (03-Sep-20)	1)CARE AA-; Stable (08-Jan-20)	1)CARE AA-; Stable (08-Jan-19) 2)CARE AA-; Stable (22-May-18)
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**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- NA**
**Annexure-4: Consolidated details**

Company	% Ownership as on March 31, 2021
Crossword Book Stores Limited (sold as on August 31, 2021)	100%
Upasna Trading Limited	100%
Shopper's Stop Services (India) Limited	100%
Shopper's Stop.Com (India) Limited	100%
Gateway Multichannel Retail (India) Limited	100%

**Annexure 5: Complexity level of various instruments rated for this Company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Proposed-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

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

**Annexure 5: Bank Lender Details for this Company**

[Click here to view Bank Lender Details](#)



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