

## Shoppers Stop Limited (Revised)

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	399.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Short Term Bank Facilities	38.00	CARE A1+ (A One Plus)	Revised from CARE A1 (A One)
<b>Total Bank Facilities</b>	<b>437.00</b> <b>(₹ Four Hundred Thirty-Seven Crore Only)</b>		
Non-Convertible Debentures (Proposed)	100.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
<b>Total Long Term Instruments</b>	<b>100.00</b> <b>(₹ 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 revision of outlook from negative to stable, considers the substantial improvement in the operations of the company owing to demand revival on account of easing of covid norms. The company has added more stores which would result into further improvement in the revenues of the company. The company is likely to turn profitable at PAT level after a span of almost 3 years, which is likely to improve the net worth of the company in the projected period. The rating comfort is also drawn from adequate liquidity in the form of current investments parked in mutual funds and fixed deposits.

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

### Rating Sensitivities

#### Positive Factors – Factors that could lead to positive rating action/upgrade:

- Improvement in financial profile on back of sustained sales growth above 20%.
- Improvement in capital structure with gearing <0.5x through improvement in profitability/equity infusion.

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

- Weakening in liquidity position resulting from extended closure/and or delays in ramping up of turnover leading to negative net worth.
- Increase in working capital intensity or weakening of debt credit metrics leading to further deterioration of capital structure

### 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 30 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 3.8msf as on June 30, 2022. 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 8.9mn members as on June 30, 2022, accounting for about 78% of total sales of the company in FY22.

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 15% YoY in FY22. Further, the company has fully integrated its stores with Amazon in Q3FY21.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

### 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 FY22, 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, 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. 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%).

SSL during FY22, has recorded provision for impairment on CBL amounting to Rs. 15.00 crore (as against Rs. 22.40 crore in FY21).

On August 31, 2021, SSL 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.

### Improvement in operational performance in FY22

The operational performance of the company significantly improved with revenue from operations climbing 44% YoY in FY22. The increase is attributable to higher footfalls and transaction volume (rather than just price increase). During the same period PBILDT improved by around 59%. The company has also optimized the store area thus supporting the margins. Also, the margins to remain stable as the company has good cost pass-through ability. SSL has plans to add 12-15 new departmental stores every year for the next 3 years.

### Key Rating Weaknesses

#### Deterioration of debt coverage indicators

Debt protection metrics have been negatively skewed in FY22 due to consistent negative profits over the last 3 fiscals. 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 also led to deterioration in debt coverage indicators. Total debt (excl. lease liabilities) as on March 31, 2022 increased to Rs.215.87 crore (Rs.2,115 crore incl. lease liabilities) as against Rs. 186.03 crore as on March 31, 2021. Overall gearing (excl. lease liabilities) also stood high at 28.7x as on March 31, 2022.

However, during the same period, the company's debt coverage ratios such as total debt to GCA and interest coverage ratio indicators improved to 7.65x and 2.05x from 44.89x and 1.19x as on March 31, 2021.

#### 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

India is the fourth largest retail market in the world. During the pandemic, the closure of retail and shopping malls have led to sharp decline in sales. Companies with higher operating and financial leverage, were affected and survived by raising new debt or raising capital from equity market. Over the period as things opened up, we have seen a boom in the retail, travel and hospitality industry over the past few months. The profitability of the companies making losses have become positive since past 2-3 quarters due to rebound in the demand. The festive season and postponed wedding season, alongside wardrobe reboot boosted demand due to pick up in office travel and leisure travel. These may result in higher sales in the apparel and luxury segment as well. This uptrend has been seen globally and is expected to sustain. The long-term outlook of the industry also remains positive on the back of increase in disposable income with rise in purchasing power, favorable demographics, brand consciousness amongst other enablers. Life-style brands like SSL which operate on low-to-medium volume and high margins have been able to maintain loyal customer base.

#### Liquidity: Adequate

As on June 30, 2022, SSL has adequate liquidity in the form of current investments to the tune of Rs. 152.42 crore parked in mutual funds and fixed deposits of Rs.19.82 crore as against repayments of Rs.100.79 crore term loan repayment for FY23. The company does not plan to raise any further term debt. The capex would be largely done through internal accruals and the debt levels would remain same. Also, the fund-based working capital limits of the company have been low at ~14% average utilisation for trailing 12 months ending June 2022.

#### Analytical approach: Consolidated:

SSL along with its subsidiaries are considered for analysis.

Company	% Ownership as on March 31, 2022
Crossword Book Stores Limited (upto October 11, 2021)	49%
Upasna Trading Limited	100%
Shopper's Stop Services (India) Limited	100%
Shopper's Stop.Com (India) Limited	100%
Gateway Multichannel Retail (India) Limited	100%

### 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](#)

### 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 3.8msf area across 47 cities as on June 30, 2022. SSL is one of the pioneers in organized retail in India and has chain of multi brand departmental stores spread predominantly in Tier 1 and Tier 2 cities.

Brief Financials (Rs. crore)	31-03-2021 (A)	31-03-2022 (A)	Q1FY23 (UA)
Total operating income	1971	2672	954
PBILDT	266	423	168
PAT	-267	-47	23
Overall gearing (times)	56.62	280.93	-
Interest coverage (times)	1.19	2.05	3.3

A: Audited; UA: Unaudited

**Status of non-cooperation with previous CRA:** NA

**Any other information:** NA

**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 for this company:** Annexure 4

### 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
Term Loan-Long Term		-	-	June 2025	250.00	CARE A+; Stable
Non-fund-based - ST-BG/LC		-	-	-	38.00	CARE A1+
Fund-based - LT-Cash Credit		-	-	-	149.00	CARE A+; Stable
Debentures-Non Convertible Debentures	Proposed	-	-	-	100.00	CARE A+; Stable

### Annexure-2: Rating History of 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Term Loan-Long Term	LT	250.00	CARE A+; Stable	-	1)CARE A+; Negative (30-Sep-21)	1)CARE A+; Negative (03-Sep-20)	1)CARE AA-; Stable (08-Jan-20)
2	Non-fund-based - ST-BG/LC	ST	38.00	CARE A1+	-	1)CARE A1 (30-Sep-21)	1)CARE A1 (03-Sep-20)	1)CARE A1+ (08-Jan-20)
3	Debentures-Non Convertible Debentures	LT	100.00	CARE A+; Stable	-	1)CARE A+; Negative (30-Sep-21)	1)CARE A+; Negative (03-Sep-20)	1)CARE AA-; Stable (08-Jan-20)
4	Short Term Instruments-CP/STD	ST	-	-	-	-	-	1)Withdrawn (31-Dec-19)
5	Fund-based - LT-Cash Credit	LT	149.00	CARE A+; Stable	-	1)CARE A+; Negative (30-Sep-21)	1)CARE A+; Negative (03-Sep-20)	1)CARE AA-; Stable (08-Jan-20)

\*Long Term / Short Term

### Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

### Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of 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 Ratings Ltd. 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.

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

To view the lender wise details of bank facilities please [click here](#)

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