

Shoppers Stop Limited ^(Revised)

January 8, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities (Term Loan)	20.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Long Term Bank Facilities (Fund Based)	149.00		
Short Term Bank Facilities (Non Fund Based)	38.00	CARE A1+ (A One Plus)	
Proposed ST Working Capital Limits	50.00		
Total	257.00 (Rs. Two hundred fifty seven crore only)		
Proposed Non-Convertible Debenture Issue	100.00 (Rs. One hundred crore only)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE ratings assigned to the long term and short term bank facilities and Non-convertible Debenture instrument of Shoppers Stop Ltd. factor in strong promoters, experienced management, established track record in the retail industry along with a strong brand loyalty among its consumers. The ratings also derive strength from its robust inventory management system, efficient working capital management and improvement in financial risk profile of the company.

The rating strengths are however, tempered by the support to loss making subsidiary along with intense competition prevalent in the industry.

Rating Sensitivities**Positive factors**

- Increase in scale of operations with improvement in operating margins to 10-12% on a sustained basis
- Improvement in RoCE above 12% on a sustained basis

Negative factors

- Weaker than anticipated business performance on account of slower ramp up of new stores

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 promoted by K Raheja Corp group. 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, Chairman of the company, is assisted by Mr. Rajiv Suri, Managing Director and CEO, who is having international experience in retail industry, who along with his team has significant experience in the retail industry in India.

Significant Presence in the Retail Industry with strong brand loyalty

SSL is one of the largest retail chains in India with presence across 40 cities covering a total area of 4.28msf as on Sep 30, 2019. Besides its departmental store business, SSL also has presence in books (Crossword Bookstore Limited, wholly owned subsidiary), cosmetics and specialty format stores.

Furthermore 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 6.5mn members as on Sep 30, 2019, accounting for about 76% plus of total sales of the company in FY19 and 79% in H1FY20.

Stable operational performance

SSL for FY19 reported stable revenues and improvement in operating margins. Operating margin expanded by 120bps to 7.34% in FY19 as against 6.14% in FY18.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

The operating margins expanded on account of increase in share of revenues from non-apparel segment leading to an increase in Average Transaction Price (ATP) and Average Selling Price (ASP). The Company reported same store sales growth of 3.9% in FY19.

Debt coverage indicators continue to remain robust

SSL has a strong financial risk profile characterised by growth in total income, low leverage, sufficient liquidity & comfortable debt service indicators.

Capital structure continued to remain robust with overall gearing of 0.10x as on March 31, 2019. Furthermore, the company also has comfortable debt service indicators with total debt to GCA of 0.42x as on March 31, 2019. Interest coverage has improved from 6.05x for FY18 to 19.17x for FY19.

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 FY19, the inventory metrics remained stable and SSL continued to be benefited due to its efficient inventory model, 84% of the sales are on Consignment/Concessionaire/ROR and SOR thereby reducing the inventory risk. Also, majority of the sales of the company occurs through cash leading to lower debtor cycle.

Key Rating Weaknesses

Continued support to CBL

SSL has been extending financial support to its loss making subsidiary CBL. CBL in FY19 reported operating loss of Rs. 5.77 crore and loss of Rs. 14.45 crore at net level. Owing to continuous losses incurred by CBL, the net worth of CBL has also been completely eroded. SSL in FY19 advanced Rs. 8 crore to CBL.

Furthermore, as on March 31, 2019, the company has provided an unconditional and irrevocable corporate guarantee of Rs. 23.40 crore to the lender of CBL. As on date, as per the resolution passed by the Board on Oct 23, 2019, the corporate guarantee stands of Rs. 18.40 crore.

The ability of the management to scale up and turnaround the business of CBL and continuous financial support remains critical from credit rating perspective.

Intensifying competition

SSL faces intense competition from other brick and mortar retailers like Lifestyle International, Future Lifestyle Fashions, 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 Indian retail industry has emerged as one of the most dynamic and fast-paced industries due to the entry of several new players. Total consumption expenditure is expected to reach nearly USD 3,600bn by 2020 from USD 1,824bn in 2017. It accounts for over 10% of the country's Gross Domestic Product (GDP) and around 8% of the employment. India is the world's fifth-largest global destination in the retail space.

The Government of India has also supported and taken various initiatives to improve the retail industry in India. In 2018, India's retail sector investments doubled to reach Rs. 1,300 crore.

Going ahead, e-commerce is expected to drive the growth rate which makes brands/retailers access customers in tier 2 and tier 3 cities easier. It is projected that by 2021 traditional retail will hold a major share of 75 per cent, organised retail share will reach 18 per cent and e-commerce retail share will reach 7% of the total retail market.

Barring the current downturn in the economy and reduction in consumer spending in the medium term, the long-term outlook for the industry seems positive which is supported by rising incomes, favourable demographics, entry of foreign players, and increasing urbanisation.

Liquidity Analysis: Strong

As on Sep 30, 2019, SSL has strong liquidity in the form of cash equivalents and current investments to the tune of Rs. 11.75 crore and Rs. 45.50 crore respectively, low utilisation of working capital limits (average utilisation for trailing 12 months Oct-19 stands at 9%) and expected cash accrual of Rs. 223.34 crore in FY20 as against scheduled debt repayment aggregating to Rs. 42.21 crore. The company has capex of Rs. 125-150 crore each in FY20 and FY21 which would be entirely funded through internal accruals. SSL also has investment in Future Retail Limited which as on Nov 30, 2019 is valued at Rs. 161.16 crore.

Analytical Approach

Consolidated. SSL along with its subsidiaries are considered for analysis. The list of entities consolidated is mentioned in Annexure – III.

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](#)

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 along with its major subsidiary Crossword Bookstores Ltd. (CBL) has been engaged in retailing through department stores and specialty stores and operates on more than 4.28msf (excl. CBL) area across 40 cities as on Sep 30, 2019. 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.

Consolidated Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	3713	3597
PBILDT	228	264
PAT	214	65
Overall gearing (times)	0.15	0.10
Interest coverage (times)	6.05	19.17

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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	-	-	Mar 2020	20.00	CARE AA-; Stable
Non-fund-based - ST-BG/LC	-	-	-	38.00	CARE A1+
Proposed Non-fund-based - ST-BG/LC	-	-	-	50.00	CARE A1+
Fund-based - LT-Cash Credit	-	-	-	149.00	CARE AA-; Stable
Proposed Non-Convertible Debentures	-	-	-	100.00	CARE AA-; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Term Loan-Long Term	LT	20.00	CARE AA-; Stable	-	1)CARE AA-; Stable (08-Jan-19) 2)CARE AA-; Stable	1)CARE A (Under Credit watch with Developing Implications) (16-Oct-17)	1)CARE A (20-Oct-16)

						(22-May-18)	2)CARE A; Negative (09-Oct-17) 3)CARE A; Negative (11-Sep-17) 4)CARE A; Negative (18-Apr-17)	
2.	Non-fund-based - ST-BG/LC	ST	88.00	CARE A1+	-	1)CARE A1+ (08-Jan-19) 2)CARE A1+ (22-May-18)	1)CARE A1 (Under Credit watch with Developing Implications) (16-Oct-17) 2)CARE A1 (09-Oct-17) 3)CARE A1 (11-Sep-17) 4)CARE A1 (18-Apr-17)	1)CARE A1 (20-Oct-16)
3.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA-; Stable	-	1)CARE AA-; Stable (08-Jan-19) 2)CARE AA-; Stable (22-May-18)	1)CARE A (Under Credit watch with Developing Implications) (16-Oct-17) 2)CARE A; Negative (09-Oct-17) 3)CARE A; Negative (11-Sep-17) 4)CARE A; Negative (18-Apr-17)	1)CARE A (20-Oct-16)
4.	Short Term Instruments-CP/STD	ST	-	-	-	1)CARE A1+ (08-Jan-19) 2)CARE A1+ (22-May-18)	1)CARE A1 (Under Credit watch with Developing Implications) (16-Oct-17) 2)CARE A1 (09-Oct-17) 3)CARE A1 (18-Apr-17)	1)CARE A1 (20-Oct-16)
5.	Fund-based - LT-Cash Credit	LT	149.00	CARE AA-; Stable	-	1)CARE AA-; Stable (08-Jan-19) 2)CARE AA-; Stable (22-May-18)	1)CARE A (Under Credit watch with Developing Implications) (16-Oct-17) 2)CARE A; Negative (09-Oct-17) 3)CARE A; Negative (11-Sep-17)	1)CARE A (20-Oct-16)

								4) CARE A; Negative (18-Apr-17)	
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Annexure-3: Companies consolidated with SSL

Company	% Ownership as on March 31, 2019
Crossword Book Stores Limited	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%

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us
Media Contact

Mradul Mishra
 Contact no.: 022-68374424
 Email ID: mradul.mishra@careratings.com

Analyst Contact

Mr. Pulkit Agrawal
 Contact no.: 022-67543505
 Email ID: pulkit.agrawal@careratings.com

Relationship Contact

Name: Ankur Sachdeva
 Contact no.: 022-67543495
 Email ID: ankur.sachdeva@careratings.com

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