

Shoppers Stop Ltd

January 08, 2019

Ratings

Facilities	Amount* (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	742.67	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	21.50	CARE A1+ (A One Plus)	Reaffirmed
Total	764.17 (Rupees Seven Hundred sixty four crore and seventeen lakhs)		
Commercial Paper (CP) issue*	100	CARE A1+ (A One Plus)	Reaffirmed
Non-Convertible Debenture issue	100	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed

*The CP/STD issue shall be maintained such that the outstanding CP/STD & fund based working capital limit utilized will not exceed the lesser of sanctioned fund based limits or the Drawing Power at any point of time.

Detailed Rationale & Key Rating Drivers

CARE has reaffirmed the assigned to the long term and short bank facilities and instruments of Shoppers Stop Ltd. factor in the improvement in the financial risk profile of the company as a result of cash flows from the equity investments from Amazon as well as the sale of the hypercity business to Future Retail. The sale and corresponding transfer of the hypercity business has resulted in the reduction in the consolidated debt of the company while the proceeds were utilized to repay debt resulting in improvement in the capital structure.

The rating also factors in the company's strong and resourceful promoters, experienced management and 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 and efficient working capital management.

The aforementioned rating strengths are however, tempered by the average operational performance combined with high level of competitive intensity.

The ability of SSL to improve its profitability from new as well as existing stores, improvement in online / omni channel sales and achieve timely break-even in the stores planned across all formats and thereby generates sufficient accruals to fund its expansion plans are the key rating sensitivities.

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 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 the experienced management of Mr. Rajiv Suri, Chief Executive Officer and Managing Director, who is having international experience in retail industry, who along with his team have significant experience in the retail industry in India.

Strong presence in the Retail Industry with strong brand loyalty

SSL is one of the largest retail chains in India with a presence across 38 cities covering and SSL covering total area of 4.27 million sq ft as on September 30, 2018. The company has one of best loyalty program i.e. "First Citizen Club" programme wherein it issues First Citizen card to its customers to become members which contributes almost ~75% of total sale of the company. SSL provides various offers/ incentives/ discounts to its

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

member to enhance loyalty. SSL has a strong brand loyalty amongst its customers with a loyal customer base (first citizen card holders) of 57 lakh members as on September 30, 2018.

Significant improvement in the financial risk profile

In FY18 SSL has sold its loss making Hypercity Retail India Ltd business to the future group in cash and stock deal. On a standalone basis SSL has received ~ Rs. 255 crore of future retail ltd shares with lock in of till 01st December 2018 and Rs.57 crore of cash, which company has used for debt repayment and planning to use in future capex as required. Furthermore, amazon investment arm amazon.com NV investment holding LLC made capital investment in SSL of Rs. 179.26 crore. Sale of investments in Timezone and Nuance has also resulted in additional inflows of Rs. 28.71 crore. These transactions have helped SSL to reduce standalone total debt to Rs. 87.38 crore as on 31st March 2018 as against Rs. 575.9 crore as on 31st March 2017. While the consolidated debt has reduced to Rs. 125.35 crore as on 31st March 2018 as against Rs. 885.11 crore as on 31st March 2017. On standalone basis overall gearing stood at 0.10x as on 31st March 2018 while interest coverage was at 6.29x as against 0.82x and 3.78x as on 31st March 2017 and as on consolidated level overall gearing stood at 0.15x and interest coverage at 6.05x on 31st March 2018 as against 2.75x and 3.56x as on 31st March 2017.

Efficient Working Capital Cycle management

Apart from the low receivables period, 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 in FY18.

Liquidity analysis

As on September 30, 2018 as per standalone basis, cash and bank balance stands at Rs.9 crore. The company has unutilized commercial paper of Rs. 100 crore, NCD of Rs. 100 crore and working capital lines to the extent of below 50% on the basis of past 19 months average thereby providing sufficient liquidity cushion. Considering that the company has repaid about half of the debt obligation due also the company has pre-paid most of long term bank loans and the company has total long term loan outstanding to the tune of Rs. 60 crore. Also, the lock in period of Rs. 255 crore(original value) future retail limited stocks has ended and this investment is available for future liquidity requirement. The liquidity position of the company is at very comfortable level.

Key Rating Weaknesses

Moderate operational profile

The company has witnessed a below par operational performance in the past few years. The consolidated as well as standalone total income of SSL witnessed a decline of 2% in FY18 on a y-o-y basis. The operating margin (PBILDT Margin) witnessed a marginal improvement of 31bps on standalone basis and by 24bps on consolidated basis. During FY18, the PBILDT margin stood at 6.31% as against 6.01% in FY17. The operating margin of the company is constrained by limited contribution from in-house brands which typically enjoy better margins. While the lower than anticipated sales growth is largely on account of limited same stores sales growth, limited contribution from newly opened stores and below par traction in the online / omni – channel sales. The improvement in the operational performance of the company including healthy sales growth, increasing contribution from in-house brands and resultant improvement in operational profitability would be the key rating monitorables.

Increasing competition in the industry

SSL continues to face intense competition from other premium retailers like Future Lifestyle Fashions Ltd, Pantaloons, etc and it is also vulnerable to changes in fashion trends, consumer spending habits as well as economic cycles. Notwithstanding, SSL continues to remain a key player in the organised retail segment in the country.

Analytical approach: Consolidated

Applicable Criteria

[CARE's Criteria on assigning Outlook to Credit Ratings](#)

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology – Retail](#)

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

About the Company

Shoppers Stop Ltd (SSL) 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. As on March 31, 2018, the promoters hold 63.70% stake in SSL. SSL group along with its subsidiaries Crossword Bookstores Ltd (CBL)] and operates on more than 4.4 million sq ft area across 38 cities in India as on March 31, 2018. On a standalone level, SSL earned a PAT profit before exceptional item of Rs.62.01 crore on a total income of Rs.3607 crore in FY18 as compared with a PAT profit before exceptional item of Rs.27.86 crore on a total income of Rs.3677 crore in FY17.

On a Consolidated level, SSL earned a PAT profit before exceptional item of Rs.59.30 crore on a total income of Rs.3712.9 crore in FY18 as compared with a PAT profit before exceptional item of Rs.18.45 crore on a total income of Rs.3778 crore in FY17.

Brief Financials - Consolidated (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	3778.17	3712.9
PBILDT	213.67	228.04
PAT before exceptional Items from continue operations	18.45	59.30
Overall gearing (times)	2.75	0.15
Interest coverage (times)	3.56	6.05

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Analyst Contact

Name: Mr Ratnam Nakka

Tel: 022- 6754 3578

Email: ratnam.nakka@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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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	-	-	-	395.67	CARE AA-; Stable
Fund-based - LT-Working capital facilities	-	-	-	347.00	CARE AA-; Stable
Debentures-Non	-	-	-	100.00	CARE AA-; Stable

Convertible Debentures					
Non-fund-based - ST	-	-	-	21.50	CARE A1+
Short Term Instruments-CP/STD	-	-	-	100.00	CARE A1+

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Term Loan-Long Term	LT	395.67	CARE AA-; Stable	1)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)	1)CARE A (27-Aug-15)
2.	Non-fund-based - ST-BG/LC	ST	21.50	CARE A1+	1)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)	1)CARE A1 (27-Aug-15)
3.	Debentures-Non Convertible Debentures	LT	100.00	CARE AA-; Stable	1)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)	1)CARE A (27-Aug-15)
4.	Short Term Instruments-CP/STD	ST	100.00	CARE A1+	1)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	1)CARE A1 (20-Oct-16)	1)CARE A1 (27-Aug-15)

						(18-Apr-17)		
5.	Fund-based - LT-Working capital facilities	LT	347.00	CARE AA-; Stable	1)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)	1)CARE A (27-Aug-15)

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU

Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH

Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI

Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD

Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR

Mr. Nikhil Soni

304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA

Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI

Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE

Mr. Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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