SEC/41/2020-21

September 4, 2020

BSE Ltd. Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai 400 001. **Stock Code : 532638**	National Stock Exchange of India Ltd. Exchange Plaza, Bandra-Kurla Complex, Bandra (East), Mumbai-400 051. **SHOPERSTOP**

Dear Sir / Madam,

Sub: Revision in Credit Rating

Pursuant to the Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, please be informed that CARE Ratings Ltd; have revised the credit rating and outlook assigned to the Company, as under :

Facilities	Amount (Rs. Crore)	Revised Rating & Outlook	Existing Rating & Outlook
Long Term Bank Facilities (Term Loan)	220	CARE A+ Outlook: Negative	CARE AA - Outlook: Stable
Long Term Bank Facilities (Fund Based)	149		
Short Term Bank Facilities (Non Fund Based)	38	CARE A1	CARE A1+
Proposed Non-Convertible Debenture Issue	100	CARE A+ Outlook: Negative	CARE AA - Outlook : Stable

A copy of the press release dated September 3, 2020, issued by CARE Ratings Ltd, in this regard, is enclosed herewith.

Please take the same on record.

Thank you.

Yours truly,
For **Shoppers Stop Limited.**

BHARAT KANAKLAL SANGHAVI

Digitally signed by BHARAT KANAKLAL SANGHAVI
Date: 2020.09.04 19:04:22 +05'30'

Bharat Sanghavi
Company Secretary

Encl : A/a

Shoppers Stop Limited

September 03, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities (Term Loan)	220.00	**CARE A+; Negative (Single A Plus; Outlook: Negative)**	**Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)**
Long Term Bank Facilities (Fund Based)	149.00		
Short Term Bank Facilities (Non Fund Based)	38.00	**CARE A1 (A One)**	**Revised from CARE A1+ (A One Plus)**
Total	**407.00 (Rs. Four hundred seven crore only)**		
Proposed Non-Convertible Debenture Issue	100.00 (Rs. One hundred crore only)	**CARE A+; Negative (Single A Plus; Outlook: Negative)**	**Revised from CARE AA-; Stable (Double A Minus; Outlook: Stable)**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the facilities and instruments of Shoppers Stop Limited (SSL) is on account of moderation in its profitability during FY20 (A); (FY; refers to the period April 01 to March 31) and Q1FY21 arising primarily out of muted sales due to outbreak of COVID-19 pandemic leading to losses at PAT level. PAT loss along with MTM loss on investments have impacted the networth which coupled with increase in debt to support liquidity has led to deterioration in debt coverage. CARE expects the recovery to be slow and gradual on account of extension of lockdown and likely curtailment of discretionary spending by the customers. Also, more preference is likely towards online channels. In such times, the retailers with omni-channel strategy with presence in both offline and online channels are expected to have a quicker recovery. SSL with its presence across offline and online channels and a robust loyalty programme is expected to benefit with faster recovery.

The ratings continue to derive strength from 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. CARE also takes cognizance of the various cost management initiatives being undertaken by the company such as rationalization of its lease rentals, headcount and manpower cost so as to counter the loss of sale and challenging operating environment arising from the pandemic.

The rating strengths are however, tempered by the support to loss making subsidiary along with presence in the highly competitive branded retail industry which is vulnerable to changes in fashion trends/consumer preferences and economic cycles which is likely to be further exacerbated by the expectation of lower demand for discretionary products in the medium-term.

Outlook Negative

The 'Negative' outlook on the rating of SSL reflects CARE's expectation of likely adverse impact on the credit profile of the company in the medium-term despite staggered easing of the lockdown from June 2020. Recovery in consumer demand is likely to be delayed and gradual given the discretionary nature of the products in the backdrop of people avoiding visiting crowded places like malls/retail outlets and the overall lower income levels due to higher unemployment as a result of the expected economic downturn due to impact of COVID-19. CARE expects the consumers to curtail their discretionary spending with reduced income as well as tendency to preserve cash due to uncertain environment. In the light of lower revenue, profitability and cash flows, the debt coverage indicators of SSL could remain significantly 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 FY21.

Rating Sensitivities

Positive factors

- Improvement in financial profile post the end of pandemic on back of strong sales growth.
- Improvement in capital structure as envisaged through improvement in profitability/equity infusion

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

Negative factors

- Weakening in liquidity position resulting from extended closure/and or delays in ramping up of turnover as envisaged
- Increase in working capital intensity or weakening of debt credit metrics leading to 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 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. Rajiv Suri, Managing Director and Chief Executive Officer of the Company, has tendered his resignation, for personal reasons, to pursue a career in a company outside India. In the interim period, the Company shall be managed by an experienced CXO Committee to ensure stability of operations and strategic initiatives.

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 4.5msf as on June 30, 2020. Besides its departmental store business, SSL also has presence in books (Crossword Bookstore Limited), cosmetics and specialty format (home furnishing, luxury accessories, etc.)
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 7mn members as on March 31, 2020, accounting for about 79% of total sales of the company in FY20 and 76% in Q1FY21.
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 First Citizen mix online improved to 30% in Q1FY21 as against 20% in FY20. The average transaction value increased by 34% in Q1FY21. The company is aiming to fully integrate its stores with Amazon by 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 FY20, the inventory metrics remained stable and SSL continued to be benefited due to its efficient inventory model, 62% 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 a new loyalty engine Gravity will help SSL integrate its stores with its online portal and Amazon leading to better inventory management and improve the turnaround time.

Key Rating Weaknesses
Moderate operational performance; FY21 to be significantly impacted by COVID19
SSL for FY20 reported stable marginal 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 FY19 and de-growth in same store sales growth by 2.5%.
Going ahead, the operational performance of the company is going to be significantly impacted due to complete lockdown in most parts of the country till May 2020 and discretionary nature of the apparels and other products sold by the company. CARE expects the recovery to be slow and gradual thereby leading to a decline in operational as well as financial performance of the company.

Deterioration of debt coverage indicators in the wake of COVID19 and adoption of IndAS116
The company's net worth has been impacted as on March 31, 2020 on account of losses and impact of MTM on investments in Future Retail Limited. It has been further impacted due to adoption of IND AS 116. 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 and increase in debt has led to deterioration in debt coverage indicators Total debt (excl. lease liabilities) as on June 30, 2020 increased to Rs. 170.20 crore (excl. lease liabilities) as against Rs. 81.00 crore as on March 31, 2019. Overall gearing as on March 31, 2020 (incl. lease liabilities) stood at of 154.75x, whereas adjusting for pre IndAS 116 it stood at 0.31x as against 0.10x as on March 31, 2019.
Furthermore during the same period, the company's debt coverage ratios such total debt to GCA and interest coverage ratio indicators also deteriorated to 16.00x and 1.34x from 0.42x and 18.34x as on March 31, 2019.
SSL is undertaking various measures to boost its omni-channel presence, reduce costs through negotiating lease rentals, rationalise manpower costs and other overheads.
The ability of the company to achieve cost reduction measures as envisaged is critical from credit perspective.

Short to medium-term consumption slow-down in the economy accentuated by the outbreak of COVID-19 crisis
Private consumption which is a driver of the economy (accounting for around 60% of the GDP) witnessed a notable decline in growth rates in Q4FY20 to 2.7% from 6.2% in Q4FY19. Moreover, the nationwide lockdown imposed by the government from end-March 2020 till May 31, 2020 for controlling the outbreak of Coivd-19 is expected to have adverse impact on the retail industry as the non-essential establishments remained closed which almost stopped the business operation of the retail industry. Fashion and lifestyle segment of the retail industry is likely to suffer to a greater extent due to the shutdown and consumer spending on such items taking a backseat during such times. Further, the restrictive measures for the containment of virus, the overall lower income levels due to higher unemployment and the sharp global economic slowdown is expected to constrain consumption demand. The cash inflow of the retail industry came to a standstill, while the fixed operating costs remained largely intact during the 75-days lockdown period; albeit some lease rentals were waived. Even after the staggered opening of malls and stores from June 2020; the demand is expected to reach pre-COVID levels earliest by the October-December 2020 festive season as people are likely to curtail their discretionary spending with reduced income as well as tendency to preserve cash. Also, retailers may have to extend heavy discounts or extend the sale period to clear the piled-up inventory, thereby impacting its profitability. Furthermore, there is a likely shift in consumer preference towards online channels in order to avoid crowded spaces. In such times, apparel retailers with omni-channel presence and those with access to support from strong parents or groups will be better placed to counter the challenging business environment. SSL having presence across offline and online channels along is expected to fare relatively better which would aid faster recovery once the COVID-19 pandemic subsides.

Negative impact of COVID-19 pandemic; albeit mitigating steps planned by SSL's management towards cost rationalization
In view of envisaged lowering of discretionary spending by the consumers in these times of economic downturn, the outlook for the Indian players in retail sector is 'Negative' in the short to medium term. The impact on demand, which is expected to remain muted for at least the next two or three quarters, will be more pronounced in case of players with presence in non-essential items and luxury segments. However, rental waivers from the mall-owners could help the retailers to bring down their fixed costs which will reduce the impact on their credit profile to an extent. On the other hand, a faster reversal to normalcy may contain the extent of likely deterioration. The widespread disruption brought about by the outbreak of COVID-19 pandemic across the globe has also adversely impact the performance of SSL. However, SSL management has articulated various proactive steps taken by the company 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 and deferring capital expenditure (capex) outlay. SSL's management has articulated various steps to reduce cost by around Rs.450 crore during FY21 compared with FY20; of which it has already achieved savings of around Rs.185 crore in Q1FY21.

Continued support to Crossword Bookstores Limited (CBL)
SSL has been extending financial support to its loss making subsidiary CBL. CBL in FY20, reported net loss of Rs. 12.45 crore as against Rs. 14.45 crore in FY19. Owing to continuous losses incurred by CBL, the networth of CBL has also been completely eroded. SSL in FY20 advanced Rs. 3 crore to CBL taking the total financial support to Rs. 53.73 crore. SSL during FY20, impaired goodwill on CBL amounting to Rs. 9.65 crore.
Furthermore, the company has also provided an unconditional and irrevocable corporate guarantee to of Rs. 18.40 crore to the lenders of CBL towards the debt drawn.

Intensifying competition
SSL faces intense competition from other brick and mortal 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.

Liquidity: Adequate
As on July 17, 2020, SSL has adequate liquidity in the form of current investments to the tune of Rs. ~70 crore parked in mutual funds, partially available undrawn lines (Rs. ~34 crore). Although the company is expected to generate negative cash accrual of Rs. 80 crore in FY20, it does not have any significant scheduled term loan repayments in the current fiscal. Post the COVID outbreak, the company has put on hold its capex plan of Rs. 212 crore and will go ahead only with committed capex of Rs. 75-80 crore in FY21. SSL also has investment in Future Retail Limited which as on Aug 26, 2020 is valued over Rs. 50 crore. The company may raise additional debt to augment its liquidity profile. 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 – 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
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 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 4.5msf area across 47 cities as on June 30, 2020. 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)	FY19 (A)	FY20 (A)
Total operating income	3597	3498
PBILDT	264	586
PAT	65	-142
Overall gearing (times)	0.10	154.75
Interest coverage (times)	2.97	1.38

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	-	-	March 2023	150.00	CARE A+; Negative
Proposed Term Loan	-	-	-	70.00	CARE A+; Negative
Non-fund-based - ST-BG/LC	-	-	-	38.00	CARE A1
Fund-based - LT-Cash Credit	-	-	-	149.00	CARE A+; Negative
Proposed 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Term Loan-Long Term	LT	220.00	CARE A+; Negative	-	1)CARE AA-; Stable (08-Jan-20)	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)
2.	Non-fund-based - ST-BG/LC	ST	38.00	CARE A1	-	1)CARE A1+ (08-Jan-20)	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)
3.	Debentures-Non Convertible Debentures	LT	100.00	CARE A+; Negative	-	1)CARE AA-; Stable (08-Jan-20)	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)
4.	Short Term	ST	-	-	-	1)Withdrawn	1)CARE	1)CARE A1 (Under Credit

	Instruments-CP/STD					(31-Dec-19)	A1+ (08-Jan-19) 2)CARE A1+ (22-May-18)	watch with Developing Implications) (16-Oct-17) 2)CARE A1 (09-Oct-17) 3)CARE A1 (18-Apr-17)
5.	Fund-based - LT-Cash Credit	LT	149.00	CARE A+; Negative	-	1)CARE AA-; Stable (08-Jan-20)	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)

Annexure-3: Companies consolidated with SSL

Company	% Ownership as on March 31, 2020
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%

Annexure-4: 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. 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

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.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**