

SEC/110/2017-18

March 23, 2018

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| BSE Limited Mumbai Samachar Marg, Fort, Mumbai - 400 001. Stock Code : 532638 | National Stock Exchange of India Ltd. Exchange Plaza, Bandra-Kurla Complex, Bandra (East), Mumbai - 400 051. SHOPERSTOP |
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Dear Sirs,

Sub: Revision in Rating

Pursuant to provisions of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please be informed that CRISIL Ltd., has upgraded their rating on the Rs. 100 crore commercial paper of the Company from "CRISIL A1" to "**CRISIL A1+**". The communication from CRISIL Ltd. in this regard is enclosed herewith.

We request you to kindly take the same on record.

Thanking you,

Yours truly,
For Shoppers Stop Limited


for **Bharat Sanghavi**
Company Secretary



Encl: aa

Rating Rationale

March 21, 2018 | Mumbai

Shoppers Stop Limited

Rating upgraded to 'CRISIL A1+'

Rating Action

Rs.100 Crore Commercial Paper Programme

CRISIL A1+ (Upgraded from 'CRISIL A1')

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has upgraded its rating on the commercial paper programme of Shoppers Stop Limited (Shoppers Stop) to '**CRISIL A1+**' from 'CRISIL A1'.

The rating action takes into account sharp improvement in financial and business profile of Shoppers Stop post completion of sale of Hypercity Retail Ltd (Hypercity, earlier 51% subsidiary of Shoppers Stop) and infusion of Rs. 179 crore by Amazon.com NV Investment Holdings LLC (Amazon; a subsidiary of Amazon.com rated at AA-/stable by S&P Global) for acquisition of 5% stake in Shoppers Stop.

Improvement in financial risk profile is on account of sharp reduction in consolidated debt from Rs 885 crore as on March 31, 2017 to about Rs 70 crore (estimated) by March 31, 2018 as Hypercity debt has moved out and the funds from Amazon were used to prepay debt. Furthermore, Shoppers Stop's liquidity has also strengthened with expected cash and equivalent to about Rs.250 crore in addition to completely unutilised bank lines as on March 31, 2018. CRISIL believes that the company will continue to maintain comfortable liquidity going forward. Shoppers Stop also enjoy healthy financial flexibility being a part of K Raheja group.

Sale of loss making Hypercity business will help Shoppers Stop to report improvement in operating margin to about 6% in near term from earlier level of 3-4%. Its operating margin is also expected to improve further gradually over the medium term driven by improving proportion of breakeven stores, and expected increase in private labels. Expected recovery in same store growth to 4-6% and better margin will result in increase in cash accrual to Rs 180-200 crore per annum which will be sufficient for future capital expenditure (capex) of Rs 130 crore per annum. As a result, Shoppers Stop's debt to EBITDA (earnings before interest, depreciation and amortisation) ratio and adjusted gearing will remain healthy below 0.5 times in the medium term on sustained basis.

CRISIL's rating continues to reflect Shoppers Stop's established position in the departmental stores category, and prudent working capital management. The rating also factors in healthy financial risk profile and financial flexibility. These rating strengths are partially offset by the susceptibility of operating profitability to economic downturns and increasing competition in the apparel retail.

Analytical Approach

For arriving at its rating, CRISIL has combined the business and financial risk profiles of Shoppers Stop and its subsidiaries. All these entities are collectively referred to, herein, as Shoppers Stop.

Key Rating Drivers & Detailed Description

Strengths

* Established position in the departmental stores category

Shoppers Stop is among the largest departmental store chains in India with retail space of 4.5 million square feet (sq ft) as on Dec 31, 2017. With a diverse range of offerings such as apparel, baby-care, footwear, personal accessories, and furniture, the format targets the relatively less price-sensitive, upper and upper-middle class consumers. Shoppers Stop has established a strong brand equity in this target demographic, as demonstrated by repeat customers (through its loyalty program - First Citizen) contributing around 76% of sales. The company has also successfully scaled up this franchise through regular store additions. The number of Shoppers Stop outlets more than doubled to 82 as of Dec 31, 2017, from 32 as of March 31, 2010. While additions to retail space are likely to continue at a moderate pace (6 stores per annum) over the medium term, CRISIL believes that improving profitability from the recently added stores will gradually benefit cash flows from the departmental store format over the medium term.

* Prudent working capital management

The company complements its market position by healthy inventory management practices. Over 60% of revenue is derived from merchandise procured on consignment or sale-or-return basis. This optimal mix ensures an adequate gross margin

while reducing susceptibility to inventory build-up during a slowdown, or to unsuccessful store additions. Besides, quick cash conversion on sales also results in working capital bank limit being only moderately utilised.

* Healthy financial risk profile

The financial risk profile improved due to prepayment of debt during year to date fiscal 2018. Consolidated debt reduced from Rs 885 crore from March 31, 2017 to Rs 70 crore as on January 31, 2018. This has resulted in sharp improvement in gearing to below 0.1 time currently from over 2 times in fiscal 2017.

Operating profitability and expected healthy growth outlook for apparel retailing are expected to result in improvement in operating performance of the company in the medium term. The company is expected to generate cash accrual of over Rs 200 crore per annum which will be sufficient for proposed annual capex.

* Healthy liquidity and financial flexibility

Shoppers Stop's liquidity position is characterised by unutilised bank lines of Rs.270 crore as well as cash and equivalent of about Rs. 350 crore as on January 31, 2018. Liquidity is expected to remain healthy with cash and equivalent of over Rs 250 crore going forward including marketable securities in the form of Future Retail shares aggregating Rs 250 crore. Its financial flexibility also benefits from its strong parentage of the K Raheja group. Being part of the K Raheja group has also helped to raise funds on attractive terms. Moreover, the promoters, who have a long track record in sectors such as realty, hospitality, and retailing, have provided financial support in the past.

Shoppers Stop has repaid a sizeable portion of its debt in fiscal 2018 and its liquidity position is improving, supported by better cash accruals, and funds infused via Amazon. This has enhanced financial flexibility of the company.

Weaknesses

* Susceptibility of operating profitability to economic downturns

Shoppers Stop's profitability is also sensitive to any sizeable annual additions to retail space, competitive intensity, and any economic slowdown. For instance, Shoppers Stop's operating profitability has ranged between 3.9% and 9.1%, between fiscal 2009 and fiscal 2017. CRISIL believes that Shoppers Stop's profitability will witness only limited and gradual improvement and continue to lag behind most of its established peers, due to high competitive intensity, and low share of higher margin private label business in its revenues. Operating profitability will also remain sensitive to any weakening in consumer sentiment and to any large store additions in future.

* Exposure to increasing competitive intensity in apparel retail segment

Attractiveness of the apparel segment is expected to lead to increasing competition in the sector. For instance, large global apparel brands, including The GAP Inc (rated 'BB+/Stable' by S&P Global), Aeropostale Inc and Hennes & Mauritz AB, have entered the Indian markets in the recent past. CRISIL expects the entry of global apparel brands is expected to continue over the medium term. The competitive intensity is also increasing due to increasing presence of the domestic brands.

About the Company

Shoppers Stop is a K Raheja Corp group company promoted by Mr. Chandru L Raheja. The promoters hold a 63% stake in the company as on January 12, 2018. It is one of the largest departmental store chains in India, with 82 stores and retail space of 4.5 million sq ft as on December 31, 2017. The company also operates formats like Crossword and Home Stop, which are into retailing of books and home d♦♦♦♦@cor, respectively.

For the nine months ended December 31, 2017, on standalone basis, net loss was Rs 15 crore (after exceptional expense of Rs 56 crore towards impairment in investments and mark to market loss on securities) on sales of Rs 3182 crore, against a PAT of Rs 16 crore on sales of Rs 3047 crore for the corresponding period of the previous fiscal.

Key Financial Indicators

| As on / for the period ended March 31 [^] | | 2017 | 2016 |
|--|----------|-------|-------|
| Revenue | Rs crore | 5,003 | 4,672 |
| Profit after tax | Rs crore | (78) | (43) |
| PAT margins | % | (1.6) | (0.9) |
| Adjusted Debt/Adjusted Net worth | Times | 2.83 | 2.36 |
| Interest coverage | Times | 2.39 | 2.18 |

[^]CRISIL adjusted

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

| ISIN | Name of Instrument | Date of Allotment | Coupon Rate (%) | Maturity Date | Issue Size (Rs crore) | Rating Assigned |
|------|----------------------------|-------------------|-----------------|---------------|-----------------------|-----------------|
| NA | Commercial Paper Programme | NA | NA | 7-365 days | 100 | CRISIL A1+ |

Annexure - Rating History for last 3 Years

| Instrument | Current | | | 2018 (History) | | 2017 | | 2016 | | 2015 | | Start of 2015 |
|------------------|---------|---------|------------|----------------|------------------|----------|------------|------|------------------|------|------------------|---------------|
| | Type | Quantum | Rating | Date | Rating | Date | Rating | Date | Rating | Date | Rating | Rating |
| Commercial Paper | ST | 100 | CRISIL A1+ | | No Rating Change | 12-10-17 | CRISIL A1 | | No Rating Change | | No Rating Change | CRISIL A1 |
| | | | | | | 22-08-17 | CRISIL A2+ | | | | | |

Table reflects instances where rating is changed or freshly assigned. 'No Rating Change' implies that there was no rating change under the release.

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Rating criteria for manufacturing and service sector companies](#)

[Rating Criteria for Retailing Industry](#)

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Last updated: April 2016

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