

## IMPACT OF COVID-19 ON REVENUES AND REAL ESTATE STRATEGY OF RETAIL BUSINESS IN THE INDIAN EMERGING MARKET

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### ABSTRACT

The decision to acquire a real estate asset for managing the business operations is critical which can be done either through leasing or owning the property. This would bring us two different perspectives on the operations and financial expenses of the business, both being vital for a business model. The retail store chain 'Shoppers Stop' is looking to expand its business for which it needs space of 25000 sq. ft. at Urban Square, one of the largest malls in Rajasthan (Economic Times, 2019). The primary focus of the study is to select the alternative that will provide the required space at the least net cost and determine whether Shoppers Stop should continue or delay its plan of business expansion basis its revenue forecast in current situation. Primary and secondary survey of the subject property, interviews with brokers and property agents were conducted to derive the necessary data points. It was found out that leasing the property would be the best alternative irrespective of the pre-COVID or post-COVID period. But, due to the COVID-19 pandemic, the retail sector has been hit hard and there has been a sharp decline in the revenues. Hence, Shoppers Stop should delay its plan of expanding the operations.

**KEYWORDS:** Asset Acquisition, Opportunity Cost, Leasehold Property, Space Market, Tax Shield, Revenue Projections

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## INTRODUCTION

### Indian Retail Industry

The Indian retail sector has emerged as one of the most competitive and fast-paced industries owing to the entry of many new players. It accounts for more than 10 percent of the Gross Domestic Product (GDP) of India and about 8 percent of the employment (Gupta S., 2018). India is the fifth largest global retail destination in the world. The Indian retail market is expected to grow significantly driven by attitudinal shifts, urbanization and income growth. Large conglomerates such as the Piramal's, the TATA's, the RPG group, ITC and the Raheja's have invested heavily into the large-scale retail stores (Gupta S., 2018).

### RESEARCH METHODOLOGY

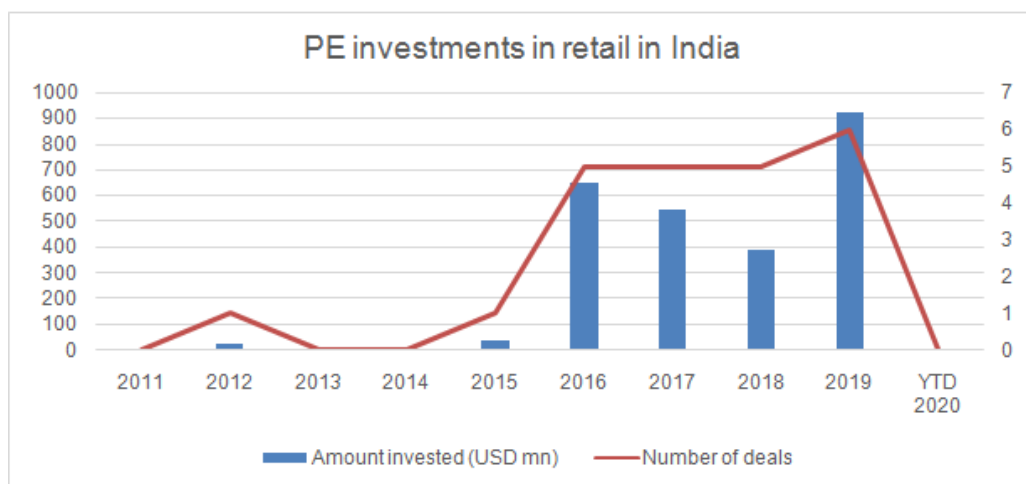
The discounted cash flow (DCF) method in income capitalization approach has been used for determining the leasing and buying cost of retail store and projections for fifteen years have been forecasted considering the strategy of Shoppers Stop (FINANCIAL EXPRESS, 2020).

### Why Discounted Cash Flow Method?

The explicit discounted cash flow (DCF) valuation method is of the greatest application in the evaluation of investment value to assist in buying/selling decisions or selection between alternative investments. However, it can also be used to estimate the fair market value of the property by incorporating a set of tenable assumptions that are consistent with the observed market prices, and then applying those assumptions with the relevant adjustments, to the valuation of subject property (RICS, 2011).

### INVESTMENT TRENDS IN THE INDIAN RETAIL SECTOR

The COVID-19 pandemic has resulted in a temporary shutdown of malls across the country and has placed the tenants and developers in a precarious situation, but the long-term growth story for malls is still not over (Knight Frank, 2020). Once the cure or vaccine for the pandemic is found, mall revenues have significant potential to rise due to the dearth in supply of good quality successful malls, increasing levels of disposable income, rising consumer demand, India's growth potential and demographics, in spite of the structural changes taking place in some malls to accommodate new anchors and entertainment options so as to remain relevant in the face of online retail competition. The investment in the retail assets was over USD 2.5 billion in the previous decade (Knight Frank, 2020).



**Figure 1: PE Investments in Retail Sector in India (Knight Frank, 2020).**

Note: YTD 2020 Represents Investments Till 31st May 2020

**Table 1: Retail Sector Assets Transactions in India (Knight Frank, 2020)**

Year	Total Area of the Assets Transacted (sq. ft.)
2011	-
2012	924,000
2013	-
2014	-
2015	1,200,000
2016	4,720,000
2017	6,040,000
2018	4,925,000
2019	8,850,000
Grand Total	26,659,000

## COMMERCIAL LEASE STRUCTURES

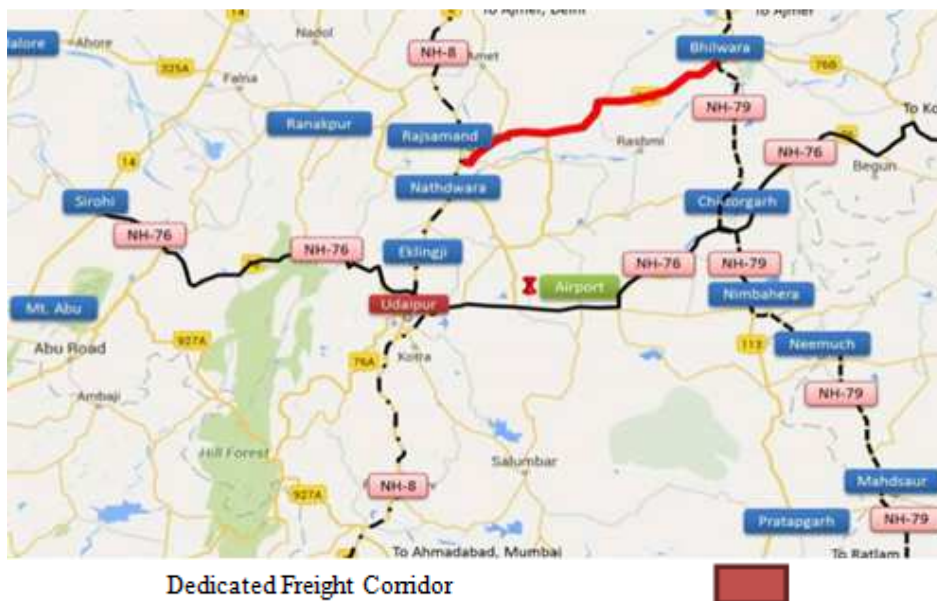
The standard commercial leases follow a structure of 9 or 15 years, with fixed escalation of 15% post 3 years. In most of the cases, the lock-in period ranges from 3-5 years. The commercial property leases are generally 5-15 years and, also have an option to renew for an additional term of five years (Knight Frank, 2015).

## RENTS

The commercial property rents are generally quoted in INR/sq. ft./ month and are payable in advance every month. The rents are paid for the warm shell and fit outs separately (only if the owner of the property arranges the fit outs) (Knight Frank, 2015).

## URBAN SQUARE, UDAIPUR

Urban Square is being developed as the most iconic and largest malls in Rajasthan which comprises a balanced mix of commercial suites, office spaces, high street shopping, food and entertainment zone, organized mall, Janpath, 5-star hotel and a 6-screen multiplex (Bhumika Enterprises, 2020). The mixed-use project is of 1.8 million sq. ft. and boasts exquisite facilities and amenities. The mixed-use project has been conceived as a catalyst to raise the standards of the historic city of Udaipur in trade, infrastructure and hospitality. Urban Square is Rajasthan's first European styled shopping cum tourist hub. The project is under construction and is expected to be completed by March 2021 (Bhumika Enterprises, 2020).



**Figure 2: Map of Udaipur, Rajasthan (Google Maps, 2020).**

## Connectivity

Urban Square is strategically located at RIICO industrial area in Sukher road to capture the tourist traffic from cities like Udaipur, Chittorgarh, Nathdwara, Kumbalgarh, Ranakpur and Mt. Abu (Bhumika Enterprises, 2020). The mixed-use project is 10 kilometres from Udaipur railway station and 26 kilometres from Maharana Pratap Airport at Udaipur. It is approximately 2-3 kilometres from the intersection of National Highway 8, the main Delhi-Mumbai Highway and National Highway 76 – the East-West corridor which connects Guwahati, Assam to the port city of Porbandar in Gujarat. The tenth node of the Delhi - Mumbai Industrial Corridor (DMIC) at Bhilwara - Rajsamand Industrial Area has its influence zone over Udaipur, given its proximity (Bhumika Enterprises, 2020).

**SHOPPERS STOP**

Shoppers Stop is one of the largest retail chains of large-scale departmental stores in India established in 1991 by K Raheja Corp. It includes multiple categories like apparel, accessories, home furnishings and decoration. It is one of the rare companies that is run by professional managers while most of the retail companies are run by entrepreneurs. It has 90 stores and retail floor space of approximately 4.5 million sq. ft. across 42 cities in India (Shoppers Stop, 2020) (Financial Express, 2020) (Knight Frank, 2017). It is the only Indian member of the International Department Stores Group (IGDS), along with 29 other established retailers from around the world (Knight Frank, 2017).



**Figure 3: Growth of Shoppers Stop Stores in India (Shoppers Stop, 2020).**



**Figure 4: Shoppers Stop Retail Stores Spread Across India (Shoppers Stop, 2020).**

The figure shows spread of Shoppers Stop across India and it is seen that the distribution of departmental stores is quite dense in few locations while it is minimal in some locations. 43% of the departmental stores are located across three states covering five cities. The company has been selling off its loss-making businesses and shutting down the loss-making stores to reduce the losses and clear out its debt. The company is also re-structuring and re-sizing its stores to improve its performance (Financial Express, 2020).

## BUSINESS MODEL OF SHOPPERS STOP

Over the period of time, the business model of Shoppers Stop has evolved, back in 1991 when the store was launched, it was a single brand men's wear store and as time passed by, it has diversified into women's wear, children wear and non-apparel businesses. The company targeted the masses initially but in 2008, the company repositioned and reinvented as a 'bridge to luxury brand' (Agarwal, 2020). At present, Shoppers Stop houses different international brands and is known as a multi-brand store for apparels and non-apparel products (Shoppers Stop, 2020). The company targets young adults and high mid-income families via social media for shopping in-store and targets millennial customers as they truly believe them to be the influencers of family shopping. The company spends approximately 15-20 crores for each of the stores launched to enhance the customer experience and provide the shoppers an experience of shopping at an international destination. (Shoppers Stop, 2020). Shoppers stop store houses more than 30 thousand pieces of various products on an average and each store carries a stock of minimum 63 days, therefore the store size must not be less than 15000 sq. ft. (Agarwal, 2020).

## BUSINESS STRATEGIES ADOPTED BY SHOPPERS STOP

**Table 2: Product Positioning of Shoppers Stop Stores (Agarwal, 2020)**

Ground Floor	Personal Care, Accessories, Kid's Section
First Floor	Women's apparels
Second Floor	Men's apparels

The purpose of such layout is to attract the customers through beauty products, personal care products and accessories which lead them into the store. Men are usually accompanied by women and hence, women's section has been placed before men as to attract them and, also as they are the impulse buyers (Agarwal, 2020).

### Personal Shoppers Program

The Personal Shoppers Program is provided by Shoppers Stop to the customers to raise the conversion ratio of footfalls into sales. The company has experienced over 10 percent growth in footfalls every year but the conversion ratio of footfalls into sales has remained stagnant in the past few years and hence, this program has been introduced (Financial Chronicle, 2020). In the Personal Shoppers Program, a personal shopper is assigned to every customer on prior booking who enters the stores. The personal shopper assists the customers with the latest trends and best apparel that meets customer's needs. The customer also gets an exclusive lounge, trial rooms and an exclusively designated billing counter (Shoppers Stop, 2020). The program has been incorporated in some of the stores and the ticket sizes have increased by 2 to 3 times when the personal shoppers were engaged (Financial Chronicle, 2020). This increases the requirement of the real estate space of the company as this program has become their brand ambassador and it contributes approximately 15% to the sales (Economic Times, 2020).

### Entry-Level Price Points

In order to attract younger customers that walk out of the store without purchasing due to the higher price points, Shoppers Stop would reduce the entry level price points. These will majorly be the value brands that will be available at affordable prices (Financial Chronicle, 2020). In order to maintain premium store positioning to bridge-to-luxury, the company will only have about 5 to 8 percent of the products at such lower price points. These products might help the company to retain a customer who is walking out of the store without purchasing (Financial Chronicle, 2020).

**Catchment or Trade Areas of Shoppers Stop in Udaipur**



**Figure 5: Secondary Catchment – 150 Kilometers.**



**Figure 6**



**Figure 7: Super Primary Catchment – 06 Min. Drive.**



**Figure 8: Primary Catchment – 04 Min. Drive.**

Located at Sukher, Urban Square mall is just 9 km away from the old city and the prominent Lake Palace hotel, around 5 km from Sukhadia Circle which is a well-known local attraction and less than 3 km from the road that leads to the tourist attractions of Ranakpur, the city known for its world famous Jain temples and Mount Abu, the hill station of Rajasthan (Google Maps, 2020).

Udaipur, the City of Lakes, offers a customer base of about 17 lakhs that are waiting to be tapped. The city also has the highest per capita income in Rajasthan which is higher than cities like Hyderabad, Kanpur, Indore, Bhopal, etc. (AIPL, 2020). The city serves as a leading regional trading hub and, also serves as the headquarters for the surrounding districts. The customers have rising aspirations, grand incomes but a dearth of retail avenues (AIPL, 2020).

### **CORPORATE REAL ESTATE STRATEGY OF SHOPPERS STOP**

Shoppers Stop has a corporate real estate strategy of leasing its departmental stores in premium locations for longer periods of 15 years or more (Financial Express, 2020). The purpose to enter into lease agreements is to reduce the high amount of initial capital cost which can block further investments in expansion or renovation. Investment in real estate can also have a negative impact on their operational costs as the maintenance cost would then shift to Shoppers Stop.

### **LEASE OR BUY ANALYSIS**

The company has the choice of leasing or buying the retail space for expanding its business. The cost of leasing and buying is determined considering various factors illustrated in the table. The lease or buy analysis is considered for 15 years as Shoppers' Stop usually leases the space for a minimum period of 15 years (Financial Express, 2020).

### **Basis for Weighted Average Cost of Capital**

The Weighted Average Cost of Capital has been determined twice considering pre-COVID and post-COVID periods as shown below:

#### **Weighted Average Cost of Capital (Pre-COVID Period)**

Cost of equity ( $K_e$ ) – The cost of equity is considered as risk free rate (debt cost + market premium). Market premium is the standard deviation of market returns for two years from January 2018 to December 2019 and the cost of debt is considered from the annual report of the company for FY 2019-20 (Shoppers Stop, 2019-20).

**Table 3: Cost of Equity (Yahoo Finance, 2020) (Shoppers Stop, 2019-20)**

Standard Deviation	0.85%
Cost of Debt ( $K_d$ )	9.60%
Cost of Equity ( $K_e$ )	10.45%

Cost of debt ( $K_d$ ) – The cost of debt is determined considering the weighted average of the interest rates of the company for FY 2019-20 (Shoppers Stop, 2019-20).

**Table 4: Cost of Debt (Income Tax Department, 2020) (Shoppers Stop, 2019-20)**

Cost of Debt Before Tax	9.60%
Tax Rate	25%
Cost of Debt After Tax	7.20%

Weight of equity ( $W_e$ ) and Weight of debt ( $W_d$ ) – The weight of equity and weight of debt is determined considering the average debt equity ratio of the previous five years of the company as it would give a better estimate of the same.

**Table 5: Equity and Liabilities of Shoppers Stop in Past Years (Shoppers Stop, 2016-17), (Shoppers Stop, 2018-19), (Shoppers Stop, 2019-20)**

	2020	2019	2018	2017	2016
Equity	₹ 6664	₹ 91470	₹ 90444	₹ 48444	₹ 51388
Liabilities	₹ 401421	₹ 156089	₹ 88318	₹ 157201	₹ 151789

Note: All Amounts are in ₹ Lakhs

**Table 6: Weight of Equity and Weight of Debt**

$W_e$	27.60%
$W_d$	72.40%

Hence,  $WACC = (W_e \times K_e) + (W_d \times K_d) = (0.2760 \times 0.1045) + (0.7240 \times 0.0720) = 8.10\%$ .

### Weighted Average Cost of Capital (Post-COVID Period)

Cost of equity ( $K_e$ ) – The COVID-19 pandemic hit India in the end of March 2020 and the country experienced a nationwide lockdown of two and a half months. Hence, standard deviation of market return for two years is considered from July 2018 to June 2020 and it is observed that the standard deviation of market returns increases in the post-COVID period due to the volatility in the market. The cost of debt is considered from the annual report of the company for FY 2019-20 (Shoppers Stop, 2019-20). Hence, the cost of equity rises in the post-COVID period.

**Table 7: Cost of Equity (Yahoo Finance, 2020) (Shoppers Stop, 2019-20)**

Standard Deviation	1.50%
Cost of debt ( $K_d$ )	9.60%
Cost of equity ( $K_e$ )	11.11%

Cost of debt ( $K_d$ ), Weight of equity ( $W_e$ ) and Weight of debt ( $W_d$ ) remain the same.

Hence,  $WACC = (W_e \times K_e) + (W_d \times K_d) = (0.2760 \times 0.1111) + (0.7240 \times 0.0720) = 8.28\%$ .

### DECISION OPTION 1: LEASING THE PROPERTY

The retail space area required for expanding the business is 25000 sq. ft. The factors affecting the leasing cost and the various expenses have been determined through a primary survey with the property agent of Urban Square mall.



**Table 8: Leasing the Property (Input Factors) \* (Economic Times, 2019), \*\* (Kaushik, 2020)**

Particulars	Amount
Retail space area (sq. ft.)	₹ 25000*
Base rent in 2021 (INR/sq. ft./month)	₹ 60*
IFMS charges (INR/sq. ft./month)	₹ 100**
Electricity and power back-up charges (INR/sq. ft./month)	₹ 100**
External development charges (INR/sq. ft./month)	₹ 50**
Gross Lease (INR/sq. ft./month)	₹ 310
Prepaid meter charges (fixed)	₹ 10000**

The tax rate which will be applicable on the expenses is considered and surcharge has also been added to it as per the standard norms provided by the Income Tax Department of India.

**Table 9: Tax Implications \*\*\* (Bankbazaar, 2020)**

Particulars	
Tax Rate	25%***
Surcharge	12% on 25%***
Tax Rate with Surcharge	28%

### Leasing the Property (Cash Flows)

Ind AS 116 which came into force on 1 April 2019 have been applied while determining the leasing cost for Shoppers Stop. The Present value of lease payments is discounted at the borrowing rate of Shoppers Stop.

The lease rentals are escalated by 15% every three years which are the standard commercial leasing terms (Knight Frank, 2015). The expenses are escalated by 4% every year considering the inflation rate

**Table 10: Leasing the Property (Cash Flows)**

Particulars	Amount	2021 to 2035
Right-of-use asset	₹ 175146916.7	
Lease rent	₹ 18000000	15% escalation every 3 years
IFMS expenses	₹ 30000000	4% escalation every year
Electricity and power back-up charges	₹ 30000000	4% escalation every year
External development charges	₹ 15000000	4% escalation every year
Prepaid meter charges	₹ 10000	4% escalation every year
Gross lease rent	₹ 93010000	

The depreciation method applied on the right-of-use asset is as per IFRS (International Financial Reporting Standards) 16 Leases (IFRS, 2020). The tax shield is applied on lease payments and depreciation and hence, the cost of leasing is determined for pre-COVID and post-COVID periods.

**Table 11: Depreciation and Tax Shield on the Property**

Depreciation	Straight Line Method (SLM) on Right-of-Use Asset
Tax shield on gross lease rent	Tax rate with Surcharge X Gross lease
Tax shield on depreciation	Tax rate with Surcharge X Depreciation

**Table 12: Annual After-Tax Cost of Leasing of the Property**

Annual After-Tax Cost of Leasing (Pre-COVID)	Gross Lease – Tax Shield (Gross Lease Rent and Depreciation)
Annual After-Tax Cost of Leasing (Post-COVID)	Gross Lease – Tax Shield (Gross Lease Rent and Depreciation)

**Table 13: Cash Flow Summary**

Year	Gross Lease	Total Expenses	Annual After-Tax Cost of Leasing (Pre-COVID)	Annual After-Tax Cost of Leasing (Post-COVID)
2021	₹ 93010000	₹ 104686461	₹ 63697791	₹ 57835349
2022	₹ 96010400	₹ 107686861	₹ 65858079	₹ 59827615
2023	₹ 99130816	₹ 110807277	₹ 68104778	₹ 61899571
2024	₹ 105076049	₹ 116752510	₹ 72385346	₹ 65847205
2025	₹ 108451091	₹ 120127552	₹ 74815376	₹ 68088233
2026	₹ 111961134	₹ 123637595	₹ 77342608	₹ 70418902
2027	₹ 118716580	₹ 130393041	₹ 82206528	₹ 74904518
2028	₹ 122513043	₹ 134189504	₹ 84939982	₹ 77425370
2029	₹ 126461365	₹ 138137825	₹ 87782773	₹ 80047055
2030	₹ 134138369	₹ 145814830	₹ 93310217	₹ 85144586
2031	₹ 138408874	₹ 150085335	₹ 96384980	₹ 87980201
2032	₹ 142850199	₹ 154526660	₹ 99582734	₹ 90929241
2033	₹ 151575539	₹ 163252000	₹ 105864979	₹ 96722867
2034	₹ 156379276	₹ 168055737	₹ 109323670	₹ 99912549
2035	₹ 161375163	₹ 173051624	₹ 112920708	₹ 103229817

The present value of cost of leasing is discounted at the Weighted Average Cost of Capital for the respective periods.

**Table 14: Net Cost of Leasing the Property**

Particulars	Amount
Present Value of cost of leasing (Pre-COVID)	₹ 691394518
Present Value of cost of leasing (Post-COVID)	₹ 622209469
Net cost of leasing (Pre-COVID)	₹ 691394518
Net cost of leasing (Post-COVID)	₹ 622209469

## DECISION OPTION 2: BUYING THE PROPERTY

The company has the choice of buying the retail space and a maximum discount of ₹600/ sq. ft. is offered on the investment. But there is blockage of funds when buying the property and hence, the funds cannot be used elsewhere.

**Table 15: Cost of Buying the Property \* (Economic Times, 2019), \*\* (Kaushik, 2020)**

Particulars	
Retail space area (sq. ft.)	₹ 25000*
Cost/sq. ft.	₹ 15000**
Discounted Cost/sq. ft.	₹ 14400**
Property cost	₹ 360000000

The different expenses affecting the buying cost are determined through a primary survey with the property agent of Urban Square mall. The property tax is not applicable on the retail space as the property is being developed in one of the industrial areas of Udaipur i.e. RIICO Industrial area. The commercial property insurance is also taken into consideration which would affect the buying cost.

**Table 16: Buying the Property (Input Factors) \*\* (Kaushik, 2020)**

Particulars	
IFMS charges (INR/sq. ft./month)	₹ 100**
Electricity and power back-up charges (INR/sq. ft./month)	₹ 100**
External development charges (INR/sq. ft./month)	₹ 50**
Prepaid meter charges (fixed)	₹ 10000**
No Property Tax as it is in Industrial zone	-
Commercial property insurance	0.08% of property cost**

The depreciation rate and the depreciation method applicable for the retail space are considered as specified by the Income Tax Department of India (Income Tax Department, 2020).

**Table 17: Depreciation on the Property \*\*\*\* (Income Tax Department, 2020)**

Particulars	
Useful Life of the Asset (RCC Framed Structure)	60 years****
Depreciation Rate as per Income Tax Act	10% ****
Depreciation	Written Down Value (WDV) method on property cost

The tax rate which will be applicable on the expenses is considered and surcharge has also been added to it as per the standard norms provided by the Income Tax Department of India.

**Table 18: Tax Implications \*\*\* (Bankbazaar, 2020)**

Particulars	
Tax Rate	25% ***
Surcharge	12% on 25% ***
Tax Rate with Surcharge	28%

### Buying the Property (Cash Flows)

The expenses are escalated by 4% annually considering the inflation rate.

**Table 19: Buying the Property (Cash Flows)**

Particulars	Amount	2021 to 2035
Purchase of asset (INR)	₹ 360000000	
<b>Expenses of the Property Annually</b>		
IFMS expenses (INR)	₹ 30000000	4% escalation every year
Electricity and power back-up charges (INR)	₹ 30000000	4% escalation every year
External development charges (INR)	₹ 15000000	4% escalation every year
Prepaid meter charges (INR)	₹ 10000	4% escalation every year
Commercial property insurance (INR)	₹ 288000	0.08% of property cost with 4% escalation every year
Gross expenses	₹ 75298000	

The depreciation method applied on the property cost is provided by the Income Tax Department of India (Income Tax Department, 2020). The loan repayment is determined by compounding on a monthly basis and the opportunity cost of equity is also considered as the funds will be blocked in the property.

**Table 20: Expenses in Buying the Property**

Depreciation	10% on Written Down Value of Purchase of Asset
Interest Payment	9.60% compounded on monthly basis
Principal Payment	Monthly instalments paid
Opportunity Cost of Equity (Pre-COVID)	Cost of equity (Pre-COVID) X Equity amount
Opportunity Cost of Equity (Post-COVID)	Cost of equity (Post-COVID) X Equity amount

The tax shield is applied on gross expenses, depreciation and interest payments and the terminal value of the property at the end of 15 years is determined considering the forecast in inflation rate as real estate appreciation (knoema, 2020). The terminal value and the present value of cost of buying are discounted at the Weighted Average Cost of Capital. Hence, the net cost for buying the retail space is determined.

**Table 21: Tax Shield on the Property**

Tax shield on gross expenses	Tax rate with Surcharge X Gross expenses
Tax shield on depreciation	Tax rate with Surcharge X Depreciation
Tax shield on interest	Tax rate with Surcharge X Interest

The price appreciation in real estate for resale of the property is determined considering the forecast in inflation rate in pre-COVID and post-COVID periods. The inflation rate forecast for the pre-COVID and post-COVID periods is as below:

**Table 22: Inflation Rate Forecast (knoema, 2020)**

Year	Inflation Rate Forecast (Pre-COVID)	Inflation Rate Forecast (Post-COVID)
2021	4.50%	3.60%
2022	4.10%	3.60%
2023	4.30%	3.70%
2024	4.40%	3.70%
2025	4.60%	3.80%
2026	4.80%	3.80%
2027	5.00%	3.80%
2028	5.10%	3.80%
2029	5.30%	3.80%
2030	5.40%	3.90%
2031	5.60%	3.90%
2032	5.80%	3.90%
2033	6.00%	3.90%
2034	6.20%	3.90%
2035	6.30%	3.90%

**Table 23: Annual After-Tax Cost of Buying of the Property**

Particulars	Amount
Annual After-Tax Cost of Buying (Pre-COVID)	Gross expenses + Interest payment + Principal payment + Opportunity cost of equity - Tax shield
Annual After-Tax Cost of Buying (Post-COVID)	Gross expenses + Interest payment + Principal payment + Opportunity cost of equity - Tax shield

**Table 24: Cash flow Summary**

Year	Gross Expenses	Total Expenses	Annual After-Tax Cost of Buying (Pre-COVID)	Annual After-Tax Cost of Buying (Post-COVID)
2021	₹ 75298000	₹ 133675085	₹ 78052428	₹ 78704831
2022	₹ 78298400	₹ 132330810	₹ 81429225	₹ 82081628
2023	₹ 81418816	₹ 131391830	₹ 84812555	₹ 85464958
2024	₹ 84664049	₹ 130819450	₹ 88218054	₹ 88870457
2025	₹ 88039091	₹ 130578012	₹ 91660699	₹ 92313102
2026	₹ 91549134	₹ 130634472	₹ 95154934	₹ 95807337
2027	₹ 95199580	₹ 130957998	₹ 98714792	₹ 99367195
2028	₹ 98996043	₹ 131519596	₹ 102354008	₹ 103006411
2029	₹ 102944365	₹ 132291755	₹ 106086125	₹ 106738528
2030	₹ 107050619	₹ 133248113	₹ 100924599	₹ 110577002
2031	₹ 111321124	₹ 134363125	₹ 113882901	₹ 114535303
2032	₹ 115762449	₹ 135611755	₹ 117974609	₹ 118627012

**Table 24: Contd.,**

2033	₹ 120381427	₹ 136969160	₹ 122213514	₹ 122865917
2034	₹ 125185164	₹ 138410389	₹ 126613707	₹ 127266110
2035	₹ 130181050	₹ 139910071	₹ 131189682	₹ 131842085

The present value of cost of buying and the present value of resale of property is discounted at the Weighted Average Cost of Capital for the pre-COVID and post-COVID periods. The net cost of buying the property in pre-COVID and post-COVID periods is determined by considering the different factors as mentioned below.

**Table 25: Net Cost of Buying the Property**

Particulars	Amount
Purchase of asset	₹ 360000000
Present value of cost of buying (Pre-COVID)	₹ 833112202
Present value of cost of buying (Post-COVID)	₹ 828581612
Resale of property (Pre-COVID)	₹ 765458279
Resale of property (Post-COVID)	₹ 629882550
Present value of resale of property (Pre-COVID)	₹ 238061807
Present value of resale of property (Post-COVID)	₹ 191036187
Net cost of buying (Pre-COVID)	₹ 955050395
Net cost of buying (Post-COVID)	₹ 997545424

## REVENUE ANALYSIS

The revenues for the pre-COVID and post-COVID periods have been forecasted by the moving average method where each point of the moving average of the time series is the weighted average of the number of consecutive points in the series and four data points have been considered to eliminate the effects of seasonality and irregularity. Also, the percentage error in the moving average method has been determined to understand the accuracy of the forecasts.

### Revenue Forecast (Pre-COVID)

The COVID-19 pandemic has been the defining moment in the first year of the new decade and the retail sector has been worst hit since the end of March 2020 due to the lockdown imposed by the Indian government to prevent the spread of the COVID-19 pandemic. Hence, the time period from Q1 FY 2017-18 to Q4 FY 2019-20 has been considered to forecast the revenues until Q4 FY 2020-21 as the retail store is expected to open by Q1 FY 2021-22.

**Table 26: Revenue Analysis by Moving Average Method (Pre-COVID) (Shoppers Stop, 2016-17), (Shoppers Stop, 2018-19), (Shoppers Stop, 2019-20)**

Quarter Ended Year	Revenue (Crores)	% Average	Seasonality Index
Q1 FY 2017-18	₹ 941.07		
Q2 FY 2017-18	₹ 837.57		
Q3 FY 2017-18	₹ 963.22	109.01	
Q4 FY 2017-18	₹ 849.61	97.36	
Q1 FY 2018-19	₹ 826.57	93.84	94.65
Q2 FY 2018-19	₹ 864.53	98.43	99.32
Q3 FY 2018-19	₹ 1002.00	114.94	111.99
Q4 FY 2018-19	₹ 791.05	90.68	94.03
Q1 FY 2019-20	₹ 832.42	95.45	
Q2 FY 2019-20	₹ 863.45	100.21	
Q3 FY 2019-20	₹ 1000.66		
Q4 FY 2019-20	₹ 709.17		

The linear regression model is used for forecasting the revenues which consisted of the previous revenues and the different quarters. The quarters have been considered as independent variables while the revenues pertaining to the quarters have been considered as dependent variables. The percentage error was found to be 1% which implies that the moving average method is quite accurate to the estimation of forecasts in revenues.

The forecasts for the further quarters in the pre-COVID period are illustrated below:

**Table 27: Forecasted Revenue (Pre-COVID)**

Quarter Ended Year	Forecast Revenue (Crores)
Q1 FY 2020-21	₹ 787.26
Q2 FY 2020-21	₹ 819.73
Q3 FY 2020-21	₹ 917.03
Q4 FY 2020-21	₹ 763.95
Total Revenue in FY 2020-21	₹ 3287.97

The forecasts in revenues estimate a minor decrease of 0.05% in FY 2020-21 when compared to FY 2019-20 which was mainly due to the lockdown since the end of March 2020. This concludes that the pre-COVID period would have been an optimistic situation for Shoppers' Stop to expand its business and open a new retail store.

### Revenue Forecast (Post-COVID)

Nationwide lockdowns were a mandatory intervention to limit the spread of the virus and save human lives, but the cost to the world economy has been disastrous. The retail sector is severely impacted with an extensive loss in business incomes due to store closures, reduced footfalls and supply chain disruptions (Cushman & Wakefield, 2020). The future seems quite uncertain and these forecasts are linked to economic recovery forecasts and vaccine development. Hence, the time period from Q2 FY 2017-18 to Q1 FY 2020-21 has been considered to forecast the revenues until Q4 FY 2020-21 as the retail store is expected to open by Q1 FY 2021-22.

**Table 28: Revenue Analysis by Moving Average Method (Post-COVID) (Shoppers Stop, 2018-19), (Shoppers Stop, 2019-20), (Shoppers Stop, 2020)**

Quarter Ended Year	Revenue (Crores)	% Average	Seasonality Index
Q2 FY 2017-18	₹ 837.57		
Q3 FY 2017-18	₹ 963.22		
Q4 FY 2017-18	₹ 849.61	97.36	
Q1 FY 2018-19	₹ 826.57	93.84	91.93
Q2 FY 2018-19	₹ 864.53	98.43	96.47
Q3 FY 2018-19	₹ 1002.00	114.94	120.26
Q4 FY 2018-19	₹ 791.05	90.68	91.32
Q1 FY 2019-20	₹ 832.42	95.45	
Q2 FY 2019-20	₹ 863.45	100.21	
Q3 FY 2019-20	₹ 1000.66	132.70	
Q4 FY 2019-20	₹ 709.17		
Q1 FY 2020-21	₹ 53.92		

The linear regression model is used for forecasting the revenues where the quarters have been considered as independent variables while the revenues pertaining to the quarters have been considered as dependent variables. The percentage error was found to be 0.97% which implies that the moving average method is quite accurate to the estimation of forecasts in revenues.

The forecasts for the further three quarters in the post-COVID period are illustrated below:

**Table 29: Forecasted Revenue (Post-COVID)**

Quarter Ended Year	Actual Revenue (Crores)
Q1 FY 2020-21	₹ 53.92
Quarter Ended Year	Forecast Revenue (Crores)
Q2 FY 2020-21	₹ 552.70
Q3 FY 2020-21	₹ 647.10
Q4 FY 2020-21	₹ 459.54
Total revenue in FY 2020-21	₹ 1713.26

The forecasts in revenues estimate a decrease of 50% in FY 2020-21 when compared to FY 2019-20 which concludes that the post-COVID period is a pessimistic situation for Shoppers' Stop to expand its business due to the uncertainty in consumer spending and economic downturn.

### SUBJECT PROPERTY ANALYSIS

The retail store is expected to open by April 2021 and would require sufficient cash flows to expand its business and invest in the subject property at Urban Square mall in Udaipur, Rajasthan (Bhumika Enterprises, 2020). Considering the revenues of Shoppers Stop in FY 2019-20 and the retail store space, the revenues for the subject property are determined.

**Table 30: Analysis for the Subject Property**

Total space of the retail stores (sq. ft.)	<b>4,500,000</b>
Total revenue in FY 2019-20 (INR)	34638800000
Revenue/sq. ft. (INR)	7697.51
Subject retail store space (sq. ft.)	25000
Total revenue of the retail store in FY 2019-20	192437777
Total revenue of the retail store (Pre-COVID)	190609618
Total revenue of the retail store (Post-COVID)	96218888
Gross lease rent of subject property	93010000
Revenue after lease rental payment (Pre-COVID)	97599618
Revenue after lease rental payment (Post-COVID)	3208888

The proportion of the lease rentals to the total revenues is to the tune of 48.79% in the pre-COVID period whereas it rises to 96.66% in the post-COVID period due to the lower revenues pouring into the business.

### ANALYSIS AND FINDINGS

As per the analysis, it is evident that Shoppers Stop should prefer the option of leasing the property irrespective of the pre-COVID or post-COVID period as it saves on various expenses like insurance and opportunity cost of equity. Also, investing in the property blocks the further investments in renovation or expansion which might produce higher returns than the appreciation in the real estate. The leasing cost in the post-COVID period seems favourable for Shoppers Stop considering the Weighted Average Cost of Capital but there has been an extensive decline in the revenues due to the supply chain disruptions, loss of footfalls, loss of business income and inventory. This concludes that the pre-COVID period would have been an optimistic time for Shoppers Stop to expand its business and open its new retail store.

### CONCLUSIONS

Given the current scenario, Shoppers Stop should delay the plan of expanding its business as the future seems quite uncertain and the revenues are expected to surge once the vaccine develops or when there is flattening of the COVID-19 curve. In the pre-COVID period, global retailers had started to take keen interest in the burgeoning Indian retail sector and

as per the estimates, net absorptions were rising while the vacancy rates were declining. This would have given an edge to the retail market in their revenues. But, due to the COVID-19 pandemic, there has been a dip in the consumer spending as there has been an overall economic gloom and social distancing norms are in place. Also, even after the lockdown ends, there are possibilities of restrictions on footfalls in the malls as the social distancing norms might extend for malls due to the high population density.

In the coming times, once the situation returns to normalcy, the footfalls in malls are expected to come back to normal or may even exceed the pre-lockdown levels as malls in India are a place for social interaction and connections. However, there lies an opportunity in every crisis and the Indian retail sector may embark on a different growth trajectory in the coming years with new sustainable models emerging in the businesses along with a strong foothold on technology.

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