

Rating matrix		
Rating	:	Hold
Target	:	₹ 545
Target Period	:	12 months
Potential Upside	:	8%

What's changed?		
Target	Changed from ₹ 535 to ₹ 545	
EPS FY19E	Changed from ₹ 9.5 to ₹ 10.3	
EPS FY20E	Changed from ₹ 11.3 to ₹ 12.9	
Rating	Unchanged	

Quarterly performance					
	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	999.1	963.2	3.7	864.5	15.6
EBITDA	97.2	79.4	22.5	54.0	79.9
EBITDA (%)	9.7	8.2	149 bps	6.3	348 bps
PAT	44.3	16.3	LP	13.2	235.7

Key financials (Standalone)				
(₹ Crore)	FY17	FY18A	FY19E	FY20E
Net Sales	3,648	3,591	3,610	4,007
EBITDA	193	212	255	303
Net Profit	(19.9)	11.6	91.0	113.4
EPS (₹)	(2.4)	1.3	10.3	12.9

Valuation summary				
	FY17	FY18A	FY19E	FY20E
EV / EBITDA	24.9	21.4	17.7	14.8
Target EV/EBITDA	25.1	22.9	19.0	16.0
EV / Sales	1.3	1.3	1.2	1.1
P/BV	5.5	4.7	4.4	4.1
RoNW (%)	-2.6	1.2	9.0	10.4
RoCE (%)	5.8	9.6	12.3	14.4

Stock data	
Particular	Amount
Market Capitalisation (₹ Crore)	4,442.0
Total Debt (Mar-18) (₹ Crore)	87.4
Cash (Mar-18) (₹ Crore)	5.2
EV (₹ Crore)	4,524.1
52 week H/L	690/ 452
Equity Capital (₹ Crore)	44.0
Face Value (₹)	5.0

Price performance				
	1M	3M	6M	12M
Shoppers Stop	-5.5	4.0	-8.2	-1.4
Future Lifestyle	4.7	13.1	1.7	8.5
Trent Ltd	-2.2	8.6	0.9	11.3

Research Analysts	
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## Shoppers Stop (SHOSTO)

₹ 505

### Strong festive season aids SSSG...

- Revenues for the quarter grew 3.7% YoY to ₹ 999.1 crore. Adjusting for changes on account of GST and Ind-As-115, revenue growth would have been 9.9% YoY. Growth was mainly driven by healthy SSSG of 8.9% YoY (highest in the last five quarters) owing to strong festive season and low base of Q3FY18
- Gross margin for the quarter rose ~260 bps YoY due to higher share of private label brands (up 150 bps YoY, 10 bps QoQ to 10.4%). However, higher employee cost (up 6.1% YoY), rental expense (up 8.4% YoY) and other expenses (up 7.4% YoY) curtailed the EBITDA margin expansion. Resultant operating margin rose 150 bps YoY to 9.7% (adjusted EBITDA margin up ~100 bps YoY to 9.2%)
- Efforts to improve the balance sheet have resulted in significant debt reduction (cash surplus of ₹ 113 crore as on December 31, 2019). Subsequently, interest cost declined 67% YoY. Resultant PAT came in at ₹ 44.3 crore vs. ₹ 16.3 crore in Q3FY18 (the company had reported one-time exceptional expense to the tune of ₹ 16.7 crore in Q3FY18). Adjusted growth was at ~60% YoY
- The updated FDI norms, which are expected to be effective from February 1, 2019, bars selling of products of any entity in which an e-tailer has an equity stake (Amazon had earlier picked up 5% stake in SSL). The management said it is still awaiting clarity from the government as to the extent of minimum equity holding criteria for enforcement of the new norms. However, if the issue remains inconclusive, it would abide by the law and stop sale of its products on the Amazon platform (e-commerce contributes ~2% of sales)

### Management expects to exit FY19E with mid-single digit SSSG

SSL reported healthy SSSG of 8.9% (I-direct estimate: 7%) on account of a strong festive season resulting in uptick in customer footfalls (up 2.9% YoY) along with improvement in conversion ratio (up 90 bps to 28.1%). Growth was witnessed across all categories, with watches and beauty segment registering low double digit growth, whereas Indian wear dominated the apparel category with 21% YoY growth, followed by denim segment, which grew 15% YoY. On the store addition front, the company added five beauty format stores, while opening of four departmental stores were deferred to Q4FY19 due to delay in mall openings. Omni channel sales grew 58% YTD while e-commerce contributes ~2% of revenues. The management maintained its guidance to exit FY19E with ~5% SSSG with EBITDA margin expansion of 70-80 bps YoY (on YTD basis SSL clocked adjusted EBITDA margin of 6.8%).

### Sustained enhancement in SSSG- key monitorable; recommend HOLD!

The share of private label brands continues to be one of the lowest compared to its peers (~10-10.5%). To address the same, the management has undertaken several initiatives such as a) setting up a new design studio, testing lab, b) re-jigging its product portfolio and c) hiring a new head of design and new management team. Going forward, an increase in share of private label brands remains the key monitorable for margin expansion and revival in SSSG. Factoring in the strong margin beat of Q3FY19, we revise our earnings estimates upwards for FY19E, FY20E. However, sustainable enhancement in SSSG would be critical for re-rating of the stock. We maintain our **HOLD** recommendation on the stock with a revised target price of ₹ 545 (16.0x FY20E EV/EBITDA).

## Variance analysis

	Q3FY19	Q3FY19E	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	Comments
Revenue	999.1	1,050.3	963.2	3.7	864.5	15.6	Adjusted revenue growth: 9.9%. Healthy festive season led to SSSG of 8.9%
Other Income	2.9	3.4	3.4	-15.3	2.6	11.3	
Raw Material Expense	587.7	640.7	591.2	-0.6	509.5	15.3	
Gross Profit	411.5	409.6	372.1	10.6	355.0	15.9	
Gross Profit Margin	41.2	39.0	38.6	256 bps	41.1	-244 bps	Higher gross margins owing to increase in share of private label brands
Other Expenses	134.3	138.6	125.0	7.4	130.9	2.6	
Rental Expense	99.7	98.7	92.0	8.4	94.3	5.7	
Employee Expense	80.3	81.9	75.7	6.1	75.8	6.0	
EBITDA	97.2	90.3	79.4	22.5	54.0	79.9	
EBITDA Margin (%)	9.7	8.6	8.2	149 bps	6.3	348 bps	Adjusted EBITDA margin: 9.2%. One of its highest ever EBITDA margin
Depreciation	27.8	32.6	30.0	-7.2	31.1	-10.5	
Interest	3.0	2.8	9.2	-67.3	2.7	12.7	
Exceptional Items	0.0	0.0	-16.6		0.0		Exceptional expense in Q3FY18 pertaining to impairment of investments
PBT	66.4	54.9	23.6	181.5	20.3	227.0	
Tax Outgo	24.9	23.3	10.6	134.8	9.7	157.9	
Minority Interest	0.0	0.0	0.0		0.0		
PAT	44.3	35.0	16.3	171.3	13.2	235.7	Adjusted PAT growth was at ~60%

## Key Metrics

Total space						
Space (Mn sq ft)	4.3	-	4.5	-0.2	4.3	0.0
Like to Like sales growth (%)	8.9	7.0	1.4		3.6	

Source: Company, ICICI Direct Research

## Change in estimates

(₹ Crore)	Old	FY19E New	% Change	Old	FY20E New	% Change
Revenue	3,782.9	3,610.1	-4.6	4,128.2	4,006.8	-2.9
EBITDA	242.1	255.2	5.4	284.8	302.5	6.2
EBITDA Margin (%)	6.4	7.1	67 bps	6.9	7.6	65 bps
PAT	83.0	91.0	9.6	99.3	113.4	14.2
EPS (₹)	9.5	10.3	9.5	11.3	12.9	14.1

Source: Company, ICICI Direct Research

## Company Analysis

**Exhibit 1: Space addition trend - Departmental stores**



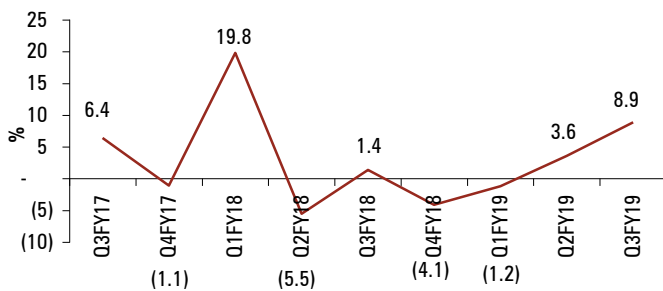
Source: Company, ICICI Direct Research

**Exhibit 2: Number of stores (Departmental)**



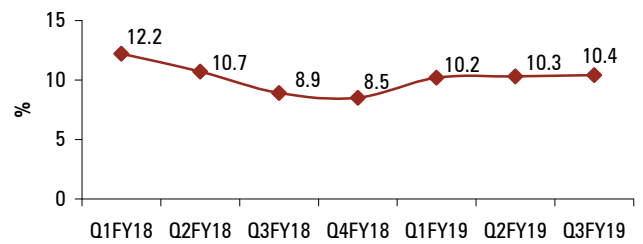
Source: Company, ICICI Direct Research

**Exhibit 3: Like to like sales growth**



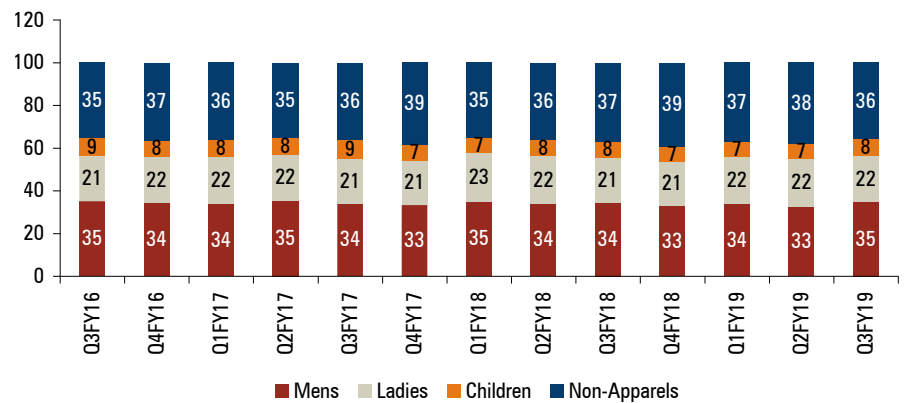
Source: Company, ICICI Direct Research

**Exhibit 4: Share of private label brands**

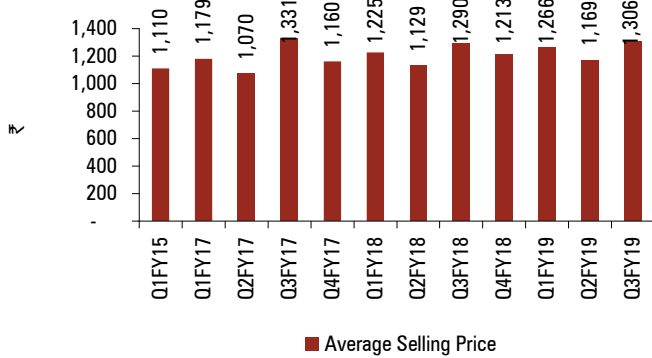


Source: Company, ICICI Direct Research

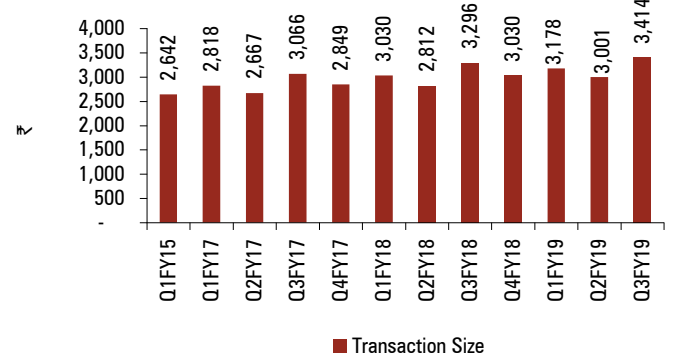
**Exhibit 5: Share of apparel and non-apparel mix**



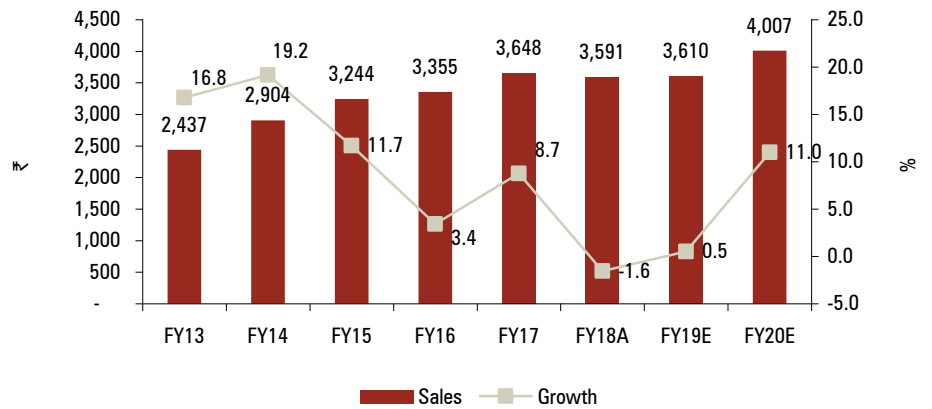
Source: Company, ICICI Direct Research

**Exhibit 6: Average selling price**


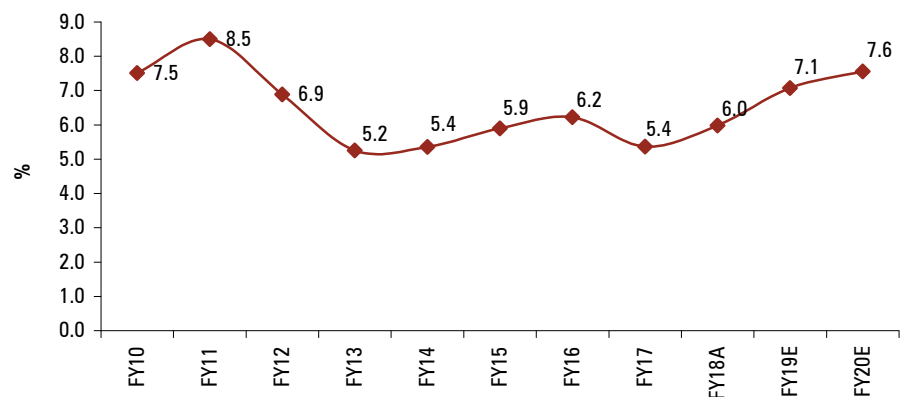
Source: Company, ICICI Direct. Research

**Exhibit 7: Average ticket size**


Source: Company, ICICI Direct. Research

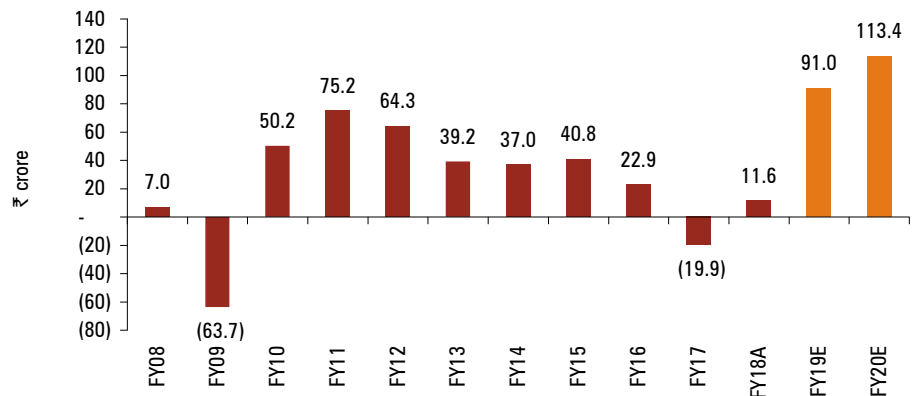
**Exhibit 8: Revenue and growth trend**


Source: Company, ICICI Direct Research

**Exhibit 9: Standalone operating margin**


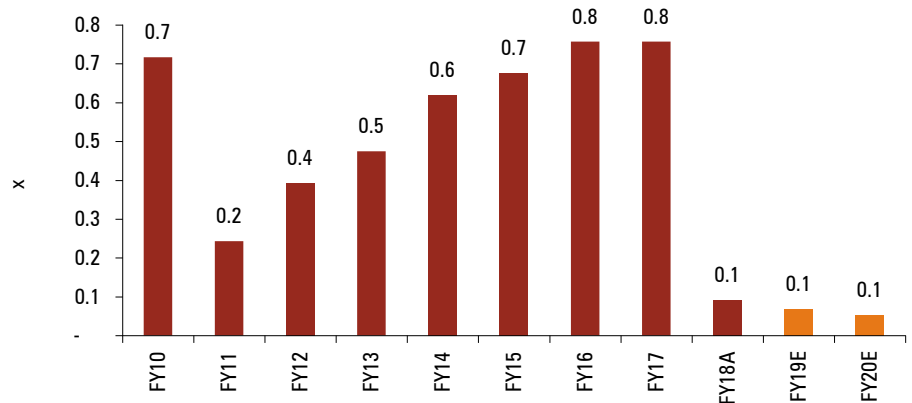
Source: Company, ICICI Direct Research

**Exhibit 10: Standalone PAT performance**



Source: Company, ICICI Direct Research

**Exhibit 11: Debt/equity ratio trend**



Source: Company, ICICI Direct Research

## Valuation

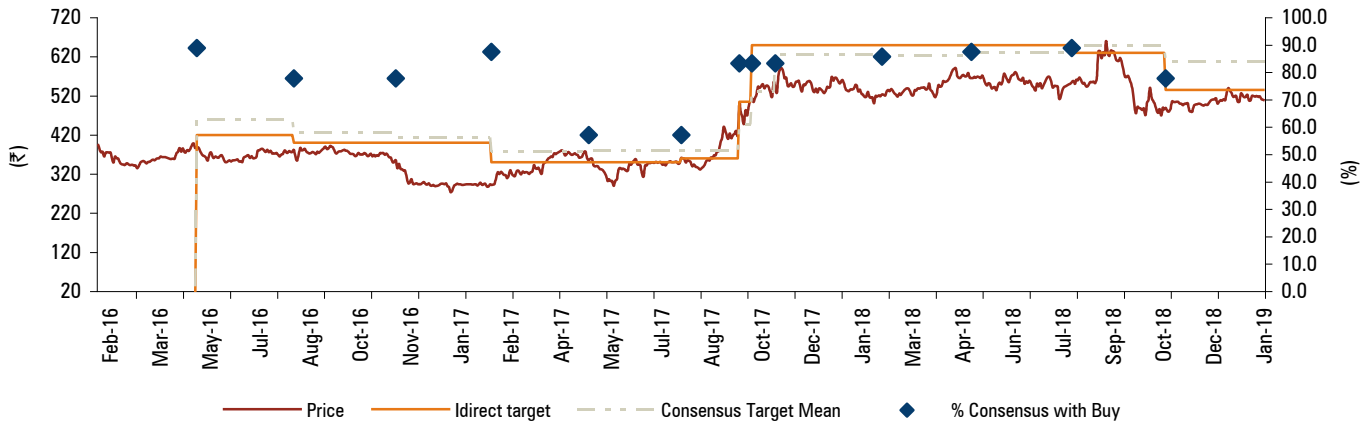
The share of private label brands continues to be one of the lowest compared to its peers (~10-10.5%). To address the same, the management has undertaken several initiatives such as, a) set up a new design studio, testing lab, b) has re-jigged its product portfolio and c) and hired a new head of design and new management team. Going forward, an increase in share of private label brands remains the key monitorable for margin expansion and revival in SSSG. Factoring in the strong margin beat of Q3FY19, we revise our earnings estimates upwards for FY19E, FY20E. However, sustainable enhancement in SSSG would be critical for re-rating of the stock. We maintain our **HOLD** rating on the stock with a revised target price of ₹ 545 (16.0x FY20E EV/EBITDA).

**Exhibit 12: Valuations**

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoCE (%)	RoNW (%)
FY17	3648.1	8.7	-2.4	PL	NA	24.9	5.8	-2.6
FY18A	3591.5	-1.6	1.3	LP	382.9	21.4	9.6	1.2
FY19E	3610.1	0.5	10.3	684.3	48.8	17.7	12.3	9.0
FY20E	4006.8	11.0	12.9	24.7	39.2	14.8	14.4	10.4

Source: Company, ICICI Direct Research

## Recommendation history vs. consensus estimate



Source: Bloomberg, Company, ICICI Direct Research

## Key events

Date	Event
Mar-12	Departmental stores touch 3.0 mn sq ft (total space - 4.6 mn sq ft), LTL picks up to 10% (against negative growth in Q3FY12)
Oct-12	LTL regains the double digit mark (12.5%), after hitting low single digits in the two preceding quarters
Oct-13	Cost rationalisation effort, mid teen LTL and new store stabilisation aid a revival in standalone operating margin (up 40 bps YoY to 4.9%)
Mar-15	Launches new brand 'WROGN'
Aug-15	Launches exclusive brands like Rocky Star & Desigual
Sep-16	Myntra to sell its own private label brands in Shoppers Stop departmental stores
Dec-16	HyperCity adds new products to its portfolio such as fresh meat, bakery items. It also reported LTL sales growth of 9.5% in Q3FY17
Mar-17	SSL's departmental store report negative LTL growth of 1.1% in Q4FY17 mainly on account of curtailing of EOSS by 10 days
Sep-17	SSL issued 4.4 mn shares to Amazon (₹ 178 crore) equivalent to 5% stake
Oct-17	Hypercity stake sale to Future Retail
Oct-17	SSL exits duty-free airport retail business

Source: Company, ICICI Direct Research

## Top 10 Shareholders

Rank	Investor Name	Last Filing Date	%O/S	Position (m)	Change (m)
1	Palm Shelter Estate Development Pvt. Ltd.	31-Dec-18	13.4%	11.8	0.0
2	Cape Trading Pvt. Ltd.	31-Dec-18	11.8%	10.4	0.0
3	Anbee Construction Pvt. Ltd.	31-Dec-18	11.8%	10.4	0.0
4	Raghukool Estate Development Pvt. Ltd.	31-Dec-18	6.4%	5.6	0.0
5	Capstan Trading Pvt. Ltd.	31-Dec-18	6.2%	5.5	0.0
6	Aditya Birla Sun Life AMC Limited	31-Dec-18	6.1%	5.4	0.2
7	Casa Maria Properties Pvt. Ltd.	31-Dec-18	6.0%	5.3	0.0
8	Amazon.com NV Investment Holdings LLC	31-Dec-18	5.0%	4.4	0.0
9	Reliance Nippon Life Asset Management Limited	31-Dec-18	4.7%	4.1	-0.8
10	K Raheja Corporation	31-Dec-18	3.8%	3.4	0.0

Source: Reuters, ICICI Direct Research

## Shareholding Pattern

(in %)	Dec-17	Mar-18	Jun-18	Sep-18	Sep-18
Promoter	63.7	63.7	63.7	63.7	63.7
FII	8.1	9.3	10.2	11.9	11.8
DII	14.8	14.2	13.7	12.5	12.9
Others	13.4	12.8	12.5	11.9	11.6

## Recent Activity

Buys			Sells		
Investor Name	Value	Shares	Investor Name	Value	Shares
Aditya Birla Sun Life AMC Limited	1.46	0.19	Reliance Nippon Life Asset Management Limited	-6.37	-0.82
State Street Global Advisors (US)	0.05	0.01	Miraj Marketing Co., L.L.P.	-1.46	-0.19
L&T Investment Management Limited	0.04	0.01	ICICI Prudential Life Insurance Company Ltd.	-0.24	-0.03
Shah (Duru Sushil)	0.03	0.00	Dimensional Fund Advisors, L.P.	-0.13	-0.02
			BlackRock Institutional Trust Company, N.A.	-0.01	0.00

Source: Reuters, ICICI Direct Research

## Financial summary (Standalone)

Profit and loss statement				
	₹ Crore			
(Year-end March)	FY17	FY18A	FY19E	FY20E
Total operating Income	3,648.1	3,591.5	3,610.1	4,006.8
Growth (%)		-1.6	0.5	11.0
Cost of Goods Sold	2,287.4	2,213.4	2,123.8	2,334.0
Gross Margin (%)	37.3	38.4	41.2	41.8
Employee Expenses	273.5	301.3	310.5	332.6
Operating & Other Expenses	894.6	865.1	920.6	1,037.8
Total Operating Expenditure	3,455.5	3,379.8	3,354.9	3,704.3
EBITDA	192.5	211.6	255.2	302.5
Growth (%)		9.9	20.6	18.5
Depreciation	115.5	111.9	122.1	137.5
Interest	58.5	36.2	9.4	7.7
Other Income	29.6	16.0	16.2	18.0
PBT (Before extraordinary item)	48.1	79.6	140.0	175.3
Extraordinary item	-47.8	-50.4	0.0	0.0
Total Tax	20.3	17.6	49.0	61.9
PAT	-19.9	11.6	91.0	113.4
Minority Interest/Share of JV	0.0	0.0	0.0	0.0
PAT(after minority interest)	-19.9	11.6	91.0	113.4
Growth (%)	PL	LP	684.3	24.7
EPS (₹) (after minority interest)	-2.4	1.3	10.3	12.9

Source: Company, ICICI IDirect Research

Balance sheet				
	₹ Crore			
(Year-end March)	FY17	FY18A	FY19E	FY20E
Liabilities				
Equity Capital	41.8	44.0	44.0	44.0
Reserve and Surplus	719.0	909.4	968.4	1,042.1
Total Shareholders funds	760.7	953.4	1,012.4	1,086.0
Total Debt	575.9	87.4	69.3	57.2
Other LT Liabilities	0.0	0.0	0.0	0.0
Deferred Tax Liability	-4.3	-19.8	-20.8	-21.8
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	1,332.4	1,021.0	1,060.9	1,121.4
Assets				
Gross Block	816.8	931.0	1,014.3	1,119.7
Less: Acc Depreciation	177.2	280.4	402.5	540.0
Capital WIP	12.6	15.3	13.2	10.6
Total Fixed Assets	652.2	665.9	625.0	590.2
Investments	408.0	317.6	412.6	474.5
Other Non-current Assets	0.0	0.0	0.0	0.0
Inventory	352.8	328.4	1,137.4	1,251.4
Debtors	35.8	43.7	41.5	45.0
Loans and Advances	353.0	222.5	198.6	240.4
Cash	5.1	5.2	5.4	22.2
Other Current Assets	24.6	159.3	160.9	162.5
Total Current Assets	771.2	759.2	1,543.8	1,721.5
Creditors	330.2	488.6	1,285.8	1,427.1
Other Current Liab. & Prov.	168.9	233.2	234.7	237.8
Total Current Liabilities	499.0	721.8	1,520.5	1,664.8
Net Current Assets	272.2	37.4	23.3	56.7
Application of Funds	1,332.4	1,021.0	1,060.9	1,121.4

Source: Company, ICICI IDirect Research

Cash flow statement				
	₹ Crore			
(Year-end March)	FY17	FY18A	FY19E	FY20E
Profit after Tax	-19.9	11.6	91.0	113.4
Add: Depreciation	115.5	111.9	122.1	137.5
(Inc)/dec in Current Assets	70.6	12.2	-784.4	-161.0
Inc/(dec) in CL and Provisions	-43.0	222.7	798.7	144.4
Others	0.0	0.0	0.0	0.0
CF from operating activities	123.2	358.5	227.4	234.4
(Inc)/dec in Investments	-2.6	90.4	-95.0	-61.9
(Inc)/dec in Fixed Assets	-100.2	-122.9	-83.3	-105.4
(Inc)/dec in CWIP	15.3	-2.8	2.1	2.6
Others	-23.4	0.0	0.0	0.0
CF from investing activities	-110.9	-35.3	-176.2	-164.6
Issue/(Buy back) of Equity	0.0	2.2	0.0	0.0
Inc/(dec) in loan funds	-13.9	-488.5	-18.1	-12.1
Others	1.3	163.3	-32.9	-40.9
CF from financing activities	-12.6	-323.0	-51.0	-53.0
Net Cash flow	-0.2	0.2	0.1	16.8
Opening Cash	5.3	5.1	5.2	5.4
Closing Cash	5.1	5.2	5.4	22.2

Source: Company, ICICI IDirect Research

Key ratios				
(Year-end March)	FY17	FY18A	FY19E	FY20E
Per share data (₹) (annualised)				
EPS	-2.4	1.3	10.3	12.9
Cash EPS	11.4	14.0	24.2	28.5
BV	91.1	108.4	115.1	123.5
DPS	0.0	0.7	3.1	3.9
Cash Per Share	0.6	0.6	0.6	2.5
Operating Ratios				
EBITDA Margin (%)	5.4	6.0	7.1	7.6
PBT Margin (%)	1.3	2.2	3.9	4.4
PAT Margin (%)	-0.6	0.3	2.5	2.8
Inventory days	35.8	33.9	115.0	114.0
Debtor days	3.6	4.5	4.2	4.1
Creditor days	33.6	50.4	130.0	130.0
Return Ratios (%)				
RoE	-2.6	1.2	9.0	10.4
RoCE	5.8	9.6	12.3	14.4
RoIC	8.5	14.2	20.5	25.9
Valuation Ratios (x) (annualised)				
P/E	NA	382.9	48.8	39.2
EV / EBITDA	24.9	21.4	17.7	14.8
EV / Net Sales	1.3	1.3	1.2	1.1
Market Cap / Sales	1.2	1.3	1.2	1.1
Price to Book Value	5.5	4.7	4.4	4.1
Solvency Ratios				
Debt/EBITDA	3.0	0.4	0.3	0.2
Debt / Equity	0.8	0.1	0.1	0.1
Current Ratio	1.5	1.1	1.0	1.0
Quick Ratio	0.8	0.6	0.3	0.3

Source: Company, ICICI IDirect Research



## ICICI Direct Research coverage universe (Retail)

	CMP			M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
Sector / Company	(₹)	TP(₹)	Rating	(₹ Cr)	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Bata India	1,100	1,160	Buy	14,184	17.4	23.5	28.5	63.2	46.8	38.6	35.4	28.4	23.2	19.9	22.1	23.7	15.1	17.8	19.0
Shoppers Stop (SHOSTO)	505	545	Hold	4,420	1.3	10.3	12.9	382.9	48.8	39.2	21.4	17.7	14.8	9.6	12.3	14.4	1.2	9.0	10.4
Titan Company (TITIND)	977	1,065	Buy	86,657	12.7	16.2	20.8	76.8	60.2	46.9	50.3	39.2	31.0	29.3	31.5	33.5	22.2	23.4	25.1
Trent	355	410	Buy	11,828	2.6	4.8	6.9	135.5	73.4	51.7	55.8	41.8	32.9	10.0	12.0	14.7	5.5	9.5	12.5
ABFRL	210	250	Buy	16,168	1.5	2.2	3.4	137.6	97.7	62.1	34.9	27.9	22.8	8.5	11.4	13.5	10.8	13.2	17.2

Source: Company, ICICI Direct Research

## **RATING RATIONALE**

ICICI Direct Research endeavours to provide objective opinions and recommendations. ICICI direct Research assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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