

July 7, 2021

Revenues to decline significantly sequentially amid Covid-19 second wave...

Q4FY21 had exhibited a sense of normalcy with revenue recovery across retailers hovering at ~80% of pre-Covid levels. However, lockdowns due to second wave in April, May derailed the recovery process and Q1FY22E performance is expected to be negatively impacted. With a significant surge in Covid-19 cases across some states in India, footfalls dropped to 35% of pre-Covid levels in April 2021 with 45-50% of stores being operational. The situation deteriorated further in May as most states across India announced lockdowns to control the spread of the second Covid wave. Some larger states like Maharashtra are still operating with restrictions, which is expected to curtail the pace of revenue recovery. On the cost side, companies are negotiating with store/mall owners for rental waivers and are hopeful of getting rental waivers (quantum could be marginally lower than last year), providing some solace to retailers in the low revenue scenario. June saw several states gradually reopening markets with a reduction of restrictions imposed on trade activities. With lower restrictions on trade activities, the recovery is expected to gradually gain ground in June. We expect companies in our coverage universe to report a sequential decline in revenue of ~ 50-65% in Q1FY22E. Margins are expected to remain under pressure owing to raw material inflation and negative operating leverage.

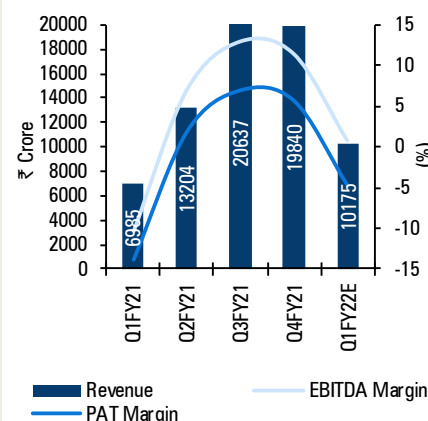
Avenue Supermart, Page, TTK, to report lower revenue de-growth

Owing to significantly lower store operational days (~47% in Q1FY22), Titan's jewellery division is expected to report revenue decline of ~60% QoQ (107% YoY growth). With nearly no sales in May, green shoots were visible in June with gradual re-opening of stores. Despite fewer operational days in June 2021 (~58%), sales growth was marginally better on a YoY basis in the jewellery segment. The watches and eyewear segment also witnessed a rapid recovery in footfalls with the re-opening of stores (watches segment to report 48% QoQ de-growth). Overall revenues for Titan (excluding bullion sales) is expected to record growth of 117% YoY (down 60% QoQ). For Avenue Supermarts, localised restriction on store operations (32% stores in Maharashtra, 18% in Gujarat) is expected to impact performance in Q1FY22. More than 80% of D-Mart stores in April-May were operating at significantly lower number of hours. We expect the company to report revenue de-growth of 31% in Q1FY22 (up 32% YoY). Fashion retailers are expected to be impacted the most owing to malls facing higher government restrictions. We expect Trent, ABFRL, V-Mart to report revenue decline of 70%, 65%, 56%, respectively, on a sequential basis. Page Industries and TTK Prestige are expected to report QoQ revenue decline of 47% and 41%, respectively.

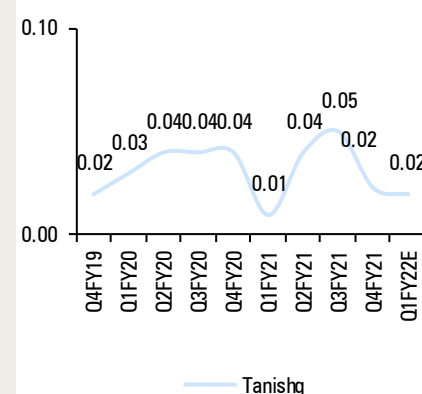
Estimates for Q1FY22E							(₹ crore)		
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ
Avenue Supermarts	5,131.0	32.1	-30.8	261.7	134.1	-57.3	144.5	260.6	-65.1
Bata India	222.7	65.2	-62.3	-55.7	NA	PL	-84.9	NA	PL
Titan Company	3,015.0	52.3	-59.8	108.3	LP	-86.7	14.7	LP	-97.4
Trent Ltd	233.1	142.0	-69.9	-74.8	NA	PL	-119.9	NA	PL
TTK Prestige	329.6	58.0	-40.6	30.3	282.8	-70.4	18.6	355.8	-77.4
Page Industries	459.1	61.2	-47.9	15.6	LP	-90.8	-1.7	NA	PL
ABFRL	629.5	96.7	-64.7	-214.6	NA	PL	-405.4	NA	NA
V-Mart	155.0	98.6	-55.9	-3.0	NA	PL	-38.2	NA	PL
Total	10,174.9	45.7	-48.7	67.8	LP	-97.0	-472.4	NA	PL

Source: Company, ICICI Direct Research.

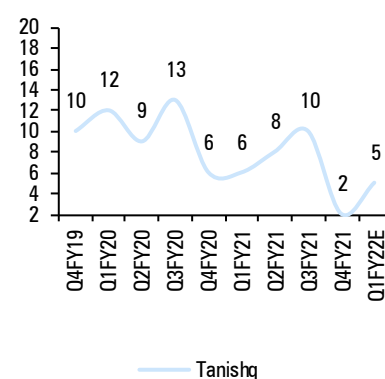
Topline & Profitability (Coverage Universe)



Space addition- million sq ft (QoQ)



Store addition -(QoQ) Tanishq (Titan)



Top Picks

Titan, Trent, V-Mart, TTK Prestige

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Exhibit 1: Company Specific view

Company	Remarks
Bata India	<p>Formal and fashion footwear were the most impacted categories, which dragged the performance for Bata in FY21. Revenue recovery rate had gradually reached ~80% in Q4FY21 (adjusted basis). We expect the recovery momentum to decelerate significantly in Q1FY22 owing to lockdowns and demand disruptions during the quarter. On a sequential basis, we expect revenues to decline 62% to ₹ 222.7 crore (up 65% YoY on low base). Gross margins are expected to decline 210 bps QoQ to 51.0% owing to an unfavourable product mix. Further, on account of negative operating leverage, we expect the company to report EBITDA loss of ₹ 55.7 crore vs. EBITDA profit of ₹ 112.0 crore in Q4FY21 (Q1FY21: EBITDA loss of ₹ 86 crore)</p>
Titan Company	<p>Titan is among few discretionary companies in our coverage to have reverted back to healthy sales growth post the pandemic disruptions (Q4FY21: 60% topline growth). The healthy growth trajectory sustained till mid-April 2021 until lockdown disrupted demand. Most sales in May were lost with total operational days in Q1FY22 at ~47%. We expect revenue from the jewellery segment to decline 60% QoQ (up 107% YoY, excluding bullion sales), while watches division is expected to report revenue de-growth of 48% in Q1FY22 (up 280% YoY) Overall revenues are expected to decline 60% QoQ to ₹ 3015 crore (up 52% YoY on a low base). We anticipate margins will contract sharply by 730 bps QoQ to 3.6% owing to negative operating leverage. Subsequently, we expect the company to report PAT of ₹ 14.7 crore (Q4FY21: ₹ 568 crore, Q1FY21: net loss ₹ 294 crore)</p>
Trent Ltd	<p>Localised stringent rules in states like Maharashtra (17% of total Westside stores) are expected to have significantly impacted revenue growth momentum from April onwards. Zudio format (~20% of sales) had recovered to nearly 100% pre-Covid levels in Q4FY21 while Westside had recovered ~77%. Owing to store closures, we expect Trent to report revenue de-growth of 70% QoQ to ₹ 233.1 crore (Q1FY21: ₹ 96 crore). On account of negative operating leverage, we expect Trent to report EBITDA loss of ₹ 74.8 crore (Q4FY21: ₹ 136.6 crore, Q1FY21: (-) ₹ 119.1 crore). Subsequently, we expect Trent to report PBT loss worth ₹ 160.2 crore in Q1FY22. The company has a healthy store addition pipeline (19 Westside, 15 Zudio Stores) which is expected to be commissioned in Q2FY22</p>
Avenue Supermarts	<p>Stringent lockdown restrictions in Q1FY22 (~80% of stores operated for significantly lower number of hours) weighed on the performance during the quarter. Revenue is expected to decline 31% QoQ to ₹ 5131 crore (up 32% YoY on low base). On account of restriction on sale of general merchandise & apparel, we expect gross margins to contract 50 bps QoQ to 14.3%. Owing to negative operating leverage, we expect the company to report EBITDA margin contraction of 320 bps QoQ to 5.1%. PAT expected to decline 65% QoQ to ₹ 144.5 crore (Q1FY21: ₹ 40 crore)</p>

Source: Company, ICICI Direct Research

Exhibit 2: Company Specific views

ABFRL	<p>Adjusting for the base effect, recovery rate for ABFRL had reached ~85% in Q4FY21. Resurgence of a second wave of Covid-19 in the later part of March 2021 negatively impacted customer footfalls and decelerated the pace of growth. On a sequential basis, we expect revenue to decline 65% YoY to ₹ 629.5 crore (97% YoY growth on low base). Pantaloon division is expected to be impacted the most with revenue decline of ~70% QoQ while we expect Lifestyle brands to report revenue de-growth of 61% in Q4FY21. While the company has been consistently re-negotiating rental cost, we expect EBITDA losses to bloat to ₹ 215 crore vs. EBITDA profit of ₹ 257 crore in Q4FY21 and EBITDA loss of ₹ 351 crore in Q1FY21</p>
TTK Prestige	<p>Demand for cooker and kitchen appliances significantly surged during FY21. With most of the markets shut, we expect TTK to report revenue decline of 40.6% QoQ to ₹ 329.6 crore (up 58% YoY). Inflationary pressures in commodity prices will be partially offset by price hikes taken during the previous two quarters. We expect gross margins to decline 140 bps QoQ (up 370 bps YoY) to 44.2%. On account of positive negative leverage, we expect EBITDA margins to decline sharply by 930 bps QoQ to 9.2% (Q1FY21: 3.8%). Subsequently, we expect TTK to report PAT of ₹ 18.6 crore (Q4FY21: ₹ 82.4 crore, Q1FY21: ₹ 4.1 crore)</p>
Page Industries	<p>Driven by strong demand for WFH athleisure wear, Page reported healthy sales growth in Q4FY21. However, lockdown in most states resulting in closure/restricted operating hours/days of physical retail stores is likely to negatively impact the sales momentum in Q1FY22. We anticipate Page will report QoQ revenue de-growth of 47% to ₹ 459 crore in Q1FY22E. Volumes are expected to decline 49% QoQ while realisation is expected to be higher by 2% to ₹ 194 per piece (owing to change in product mix). We expect gross margins to decline 260 bps QoQ to 55.0% (48.1% in Q1FY21). Also, on account of negative operating leverage, we expect EBITDA margins to decline substantially from 19.3% in Q4FY21 to 3.4% in Q1FY22E. Subsequently, we expect the company to report net loss of ₹ 1.7 crore (vs. net profit of ₹ 116 crore in Q4FY21 and ₹ loss of 40 crore in Q1FY21)</p>
V-Mart	<p>On a normalised base, recovery rate for V-Mart had reached ~88% of pre-Covid levels. The management indicated that it was witnessing close to normal demand but a resurgence of Covid cases significantly derailed revenue recovery. In April, ~25% of stores were non-operational but as the pandemic started spreading to Tier II/III cities, majority of its stores were shut in May. We expect V-Mart to report revenue decline of 56% QoQ (up 99% YoY) to ₹ 155.0 crore. Owing to higher RM prices, we expect gross margins to decline 77 bps QoQ (176 bps YoY) to 29.0%. Furthermore, owing to negative operating leverage, we expect the company to report EBITDA loss of ₹ 3.0 crore vs. EBITDA of ₹ 33.6 crore in Q4FY21. The company during the quarter added three new stores taking total count to 282</p>

Source: Company, ICICI Direct Research

Exhibit 3: Valuation Summary

Sector / Company	CMP			M Cap (₹ Cr)	EV/Sales (x)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
	₹	TP(₹)	Rating		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Trent	897	1,015	Buy	31,886	8.5	11.5	7.7	5.5	245.5	-	233.3	101.3	54.4	172.7	53.2	36.2	15.9	4.3	15.0	21.7	5.1	-6.3	5.4	11.3
ABFRL	214	225	Buy	18,169	2.2	4.0	2.6	2.0	-	-	-	60.6	15.7	-	21.2	12.4	10.2	-8.9	4.0	19.2	-15.3	-25.5	-1.9	10.4
Bata India	1,581	1,925	Buy	20,320	6.3	11.3	6.9	5.2	62.1	-	77.4	39.5	23.3	119.3	28.2	18.3	28.2	-5.9	20.4	32.7	17.2	-5.1	13.5	23.0
Titan Company	1,720	1,800	Buy	1,53,587	7.3	6.9	5.8	4.8	102.0	157.2	79.3	57.6	62.2	86.9	50.6	37.7	28.7	17.6	28.3	32.2	22.5	13.0	21.3	24.3
TTK Prestige	9,354	9,760	Buy	12,974	6.2	5.9	5.1	4.4	70.3	53.4	50.0	41.2	49.1	39.3	35.3	29.4	17.1	18.6	18.6	20.3	14.1	16.1	15.5	16.8
Page Industries	29,984	34,800	Hold	33,444	11.3	11.7	9.6	7.8	97.4	98.2	75.0	53.0	62.6	62.7	49.2	35.7	55.7	52.4	55.4	65.0	41.9	38.5	42.8	50.0
Avenue Supermarts	3,340	3,130	Hold	2,16,355	8.6	8.9	6.7	4.8	166.3	196.8	125.9	84.3	100.1	122.7	79.1	53.6	16.4	12.5	16.9	21.2	11.7	9.0	12.4	15.6
V-Mart	3,020	3,500	Buy	5,945	3.3	5.1	3.4	2.4	111.2	NA	147.9	55.8	25.6	42.1	26.9	17.3	27.0	6.0	13.2	21.4	10.7	-0.8	4.7	11.1

Source: Company, ICICI Direct Research

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Sell: <-15%



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