

Festive fervour to accelerate revenue trajectory...

About the stock: Shoppers Stop (SSL) is one of India's leading departmental stores and has undergone various structural changes with focus on enhancing its share of private label brands and beauty portfolio, accelerating growth through digital channels and providing better shopping experience through 'personal shoppers'

- Operates 80 departmental stores and 160 beauty format stores spread across 4.0 million sq ft and present in 47 cities

Q2FY22 Results: Post easing of store restrictions, consumer sentiments rebounded sharply with revenue recovering swiftly at 75% of pre-Covid levels.

- On a favourable base, revenue grew 116% YoY to ₹ 631.6 crore
- SSL achieved operational cost savings worth ₹ 62 crore (vs. Q2FY20 levels). This reduced quarterly cash burns, to a certain extent
- PBT losses were at ₹ 4.1 crore vs. ₹ 136.5 crore in Q2FY21. During H1FY22, the company reported negative FCF worth ₹ 65 crore (vs. ₹ 210 crore YoY)
- SSL's liquidity position remains fairly stable with cash & investments worth ₹ 151 crore and debt worth ₹ 213 (net debt ₹ 62 crore, D/E: 0.4x)

What should investors do? The stock price has underperformed broader indices in the last five years due to weak SSSG, muted store addition pace and lower share of private label brands.

- With the new management team in place, we expect SSL to revive its revenue trajectory and margin profile. Reasonable valuations prompt us to be positive on the stock and maintain **BUY**

Target Price and Valuation: We value SSL at ₹ 400 i.e. 8.5x FY23E EV/EBITDA.

Key triggers for future price performance:

- Strong start to festive season with sales recovering more than 100% in East, followed by North
- We believe the new MD (former Westside CEO) would bring his expertise in private label brands domain and focus on enhancing share of private labels
- The company expects to ramp up space through addition of 10 stores (shut four loss making stores in H1FY22) in FY22E (capex: ₹ 100 crore for FY22E)
- SSL undertook cost optimisation initiatives in FY21 of which it expects ~45% to be sustainable in nature (₹ 200 crore cost savings in FY22E). This would aid margin, going forward, with lower breakeven sales for new stores
- Key thrust on accelerating investments in omni-channel with long term target of the channel contributing 20% of sales from current ~8%

Alternate Stock Idea: Apart from SSL, in our retail coverage, we also like ABFRL

- ABFRL has charted out growth strategies to become a ~US\$2.8 billion entity by FY26E, translating into 15% CAGR in FY20-26E
- BUY with a target price of ₹ 265

SHOPPERS STOP

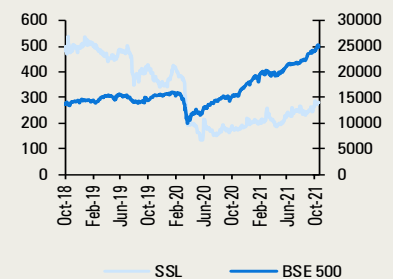
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	3,610.2
Totak Debt (Mar-21) (₹ Crore)	150.0
Cash (Mar-21) (₹ Crore)	169.5
EV (₹ Crore)	3,590.7
52 week H/L	335/ 161
Equity Capital (₹ Crore)	54.7
Face Value (₹)	5.0

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	65.5	65.5	65.5	65.5	65.4
FII	5.6	5.6	5.8	5.8	5.8
DII	19.7	19.8	19.9	19.9	20.0
Others	9.3	9.2	8.8	8.8	8.8

Price Chart



Recent event & key risks

- To add 10 new stores in H1FY22
- Key Risk:** (i) Re-imposition of lockdown may lower sales, (ii) Delay in expansion of store network

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Key Financial Summary

Financials	FY19	FY20	FY21	5 year CAGR (FY15-FY20)	FY22E	FY23E	3 year CAGR (FY20-FY23E)
Net Sales	3,481.3	3,381.0	1,725.1	1.0%	2,649.3	3,902.6	4.9%
EBITDA	253.3	549.4	53.4		354.8	726.4	9.8%
PAT	78.8	(140.9)	(275.2)		(79.9)	107.0	
EV/Sales (x)	0.8	1.5	3.2		2.1	1.4	
EV/EBITDA (x)	11.6	9.0	103.1		15.8	7.5	
RoCE (%)	11.6	4.7	(14.8)		(2.0)	14.1	
RoE (%)	8.1	-103.1	-151.5		-78.4	51.2	

Key takeaways of recent quarter & conference call highlights

- Shoppers Stop reported a swift revenue recovery in Q2FY22 post easing of Covid-19 restrictions. Revenue recovery rate gradually improved to ~75% in Q2FY22 (vs. 35% in Q2FY21). On a favourable base, revenue grew 116% YoY to ₹ 631.6 crore. Overall store operational days during the quarter were at 87%. The management indicated that the festive season has begun on a strong note and sales have recovered more than 100% in the East, followed by the North. All stores are now currently operational
- Omni-channel strategies continue to provide the key thrust with digital sales growth of 2x YoY (~8% of overall sales). As on date, the company has invested ₹ 20 crore and plans to invest another ₹ 20 crore in the next six to eight months, primarily in technology like site personalisation, hyperlocal deliveries, etc. Shopperstop.com unit economics level has now broken-even
- Share of private label brands remained constant QoQ at 14.0%. New brand launches in the ethnic and active wear space has witnessed healthy traction. The company will continue to focus on its nine power brands. In a bid to boost the share, SSL has rejigged its product portfolio of private label brands through the launch of sharper price point assortments (< ₹ 999) and enhanced product offerings like sleepwear, loungewear and innerwear. The progress on the MD's strategic growth roadmap with improvement in key parameters like SSSG and private label share would be critical factors to watch
- The beauty format continues to perform well compared to departmental stores with revenue growth of 146% YoY to ₹ 133 crore. Beauty brands contribution to business improved 200 bps YoY to 17.0% in Q2FY22. It has launched 19 new brands in the beauty format while another 41 brands are expected to be launched in the next 90 days across stores and online
- On the store network front, SSL currently has 80 departmental stores and 161 beauty stores. Over the next 18 months, the company is planning to add 20 departmental and 20 beauty stores. The total store area is expected to increase from 4.2 million square feet (sq ft) to 4.8 million sq ft. The focus will be on adding compact new stores with higher productivity
- The First Citizen loyalty programme saw addition of 110000 new enrolments with share of First Citizen to total revenue at 75%
- The net debt of the company is ₹ 62 crore. It expects to be debt free by Q3FY22
- SSL's own website contributes about 75% of online sales while the remaining 25% is contributed by third party online platforms
- The company is planning to renovate its older stores. Five stores have been renovated in H1FY22 while four more store renovations are planned in H2FY22. SSL is looking to perform store renovations in a more efficient manner so that the store downtime can be reduced

Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total operating Income	3,381.0	1,725.1	2,649.3	3,902.6
Growth (%)	-2.9%	-49.0%	53.6%	47.3%
Cost of Goods Sold	1,967.6	1,065.1	1,591.6	2,234.5
Gross Margin (%)	41.8	38.3	39.9	42.7
Employee Expenses	321.9	257.5	294.1	351.2
Operating & Other Expenses	542.0	349.2	408.8	590.5
Total Operating Expenditure	2,831.5	1,671.7	2,294.5	3,176.2
EBITDA	549.4	53.4	354.8	726.4
Growth (%)	116.9%	-90.3%	564.9%	104.7%
Depreciation	439.2	384.7	399.8	413.9
Interest	194.4	220.0	201.2	220.3
Other Income	33.5	218.8	159.5	50.7
PBT (Before extraordinary item)	-50.7	-332.5	-86.7	143.0
Extraordinary item	-20.0	-22.4	-15.0	0.0
Total Tax	70.3	-79.7	-21.8	36.0
PAT	-140.9	-275.2	-79.9	107.0
Minority Interest/Share of JV	0.0	0.0	0.0	0.0
PAT(after minority interest)	-140.9	-275.2	-79.9	107.0

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	-140.9	-275.2	-79.9	107.0
Add: Depreciation	439.2	384.7	399.8	413.9
Add: Interest Expense	194.4	220.0	201.2	220.3
(Inc)/dec in Current Assets	-168.3	322.9	-216.7	-474.4
Inc/(dec) in CL and Provisions	279.3	-406.2	167.6	462.1
Others	-33.1	-234.0	0.0	0.0
CF from operating activities	570.6	12.2	472.0	728.8
(Inc)/dec in Investments	-107.0	77.8	102.3	-0.5
(Inc)/dec in Fixed Assets	-200.0	-82.1	-120.0	-150.0
(Inc)/dec in CWIP	20.5	7.1	-7.1	0.0
Others	0.0	33.0	0.0	0.0
CF from investing activities	-286.5	35.7	-24.8	-150.5
Issue/(Buy back) of Equity	0.0	10.7	0.0	0.0
Inc/(dec) in loan funds	83.7	26.3	50.0	-100.0
Less: Interest Expense	-194.4	-220.0	-201.2	-220.3
Others	-188.9	175.4	-237.3	-229.7
CF from financing activities	-299.6	-7.5	-388.4	-549.9
Net Cash flow	-15.5	40.4	58.8	28.4
Opening Cash	16.7	1.3	41.6	100.4
Closing Cash	1.3	41.6	100.4	128.8

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	44.0	54.7	54.7	54.7
Reserve and Surplus	92.7	127.0	47.1	154.1
Total Shareholders funds	136.6	181.7	101.8	208.8
Total Debt	123.7	150.0	200.0	100.0
Other LT Liabilities	2,067.8	1,911.6	1,911.6	1,911.6
Deferred Tax Liability	-264.1	-342.4	-359.6	-377.5
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	2,064.0	1,900.8	1,853.8	1,842.8
Assets				
Gross Block	1,179.9	1,262.1	1,382.1	1,532.1
Less: Acc Depreciation	593.0	761.0	940.7	1,142.9
Capital WIP	10.0	2.9	10.0	10.0
Total Fixed Assets	596.9	504.0	451.4	399.1
Investments	205.7	127.9	25.6	26.1
Other Non-current Assets	1,325.7	1,209.6	1,209.6	1,209.6
Inventory	1,223.9	847.2	1,088.8	1,443.4
Debtors	35.1	34.8	36.3	53.5
Loans and Advances	246.4	240.5	211.9	312.2
Cash	1.3	41.6	100.4	128.8
Other Current Assets	166.1	226.0	228.3	230.6
Total Current Assets	1,672.7	1,390.2	1,665.7	2,168.4
Creditors	1,496.7	1,139.9	1,306.5	1,764.2
Other Current Liab. & Prov.	240.3	190.9	191.9	196.3
Total Current Liabilities	1,737.0	1,330.8	1,498.4	1,960.5
Net Current Assets	-64.3	59.4	167.3	208.0
Application of Funds	2,064.0	1,900.8	1,853.8	1,842.8

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹) (annualised)				
EPS	-16.0	-25.2	-7.3	9.8
Cash EPS	33.9	10.0	29.2	47.6
BV	15.5	16.6	9.3	19.1
DPS	0.8	0.0	0.0	0.0
Cash Per Share	0.1	3.8	9.2	11.8
Operating Ratios				
EBITDA Margin (%)	16.3	3.1	13.4	18.6
PBT Margin (%)	-1.5	-19.3	-3.3	3.7
PAT Margin (%)	-4.2	-16.0	-3.0	2.7
Inventory days	132.1	179.3	150.0	135.0
Debtor days	3.8	7.4	5.0	5.0
Creditor days	161.6	241.2	180.0	165.0
Return Ratios (%)				
RoE	-103.1	-151.5	-78.4	51.2
RoCE	4.7	-14.8	-2.0	14.1
RoIC	5.2	-16.0	-2.2	15.2
Valuation Ratios (x)				
P/E	NA	NA	NA	33.7
EV / EBITDA	9.0	103.1	15.8	7.5
EV / Net Sales	1.5	3.2	2.1	1.4
Market Cap / Sales	0.9	2.1	1.4	0.9
Price to Book Value	21.2	19.9	35.5	17.3
Solvency Ratios				
Debt/EBITDA	0.2	2.8	0.6	0.1
Debt / Equity	0.9	0.8	2.0	0.5
Current Ratio	1.0	1.0	1.1	1.1
Quick Ratio	0.3	0.4	0.4	0.4

Source: Company, ICICI Direct Research

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Sell: <-15%



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