

April 8, 2022

## Omicron, cost inflation to subdue performance...

As per our channel checks, apparel retailers in Q4FY22E on a per store basis have registered a recovery rate in the range of 50-60% in January (owing to trade being impacted by Omicron Covid variant) while February was a month of recovery gaining ground to 80-85% of pre-Covid levels. However, March has seen a sharp recovery with most apparel companies being able to surpass the pre-Covid levels owing to strong demand driven by opening up of offices, reopening of schools and increased demand due to the wedding season. We expect companies in our coverage universe to report close to pre-Covid sales in Q4FY22 led by higher store additions in the last couple of quarters and price hikes. We expect our coverage universe to report revenue growth of 12.9% YoY in Q4FY22. In a bid to negate inflationary pressure (all time high yarn prices), apparel retailers have taken price hikes in range of 8-12% and passed on the same to consumers, which has aided in supporting gross margins. We expect EBITDA margin for our coverage universe to remain flattish at 11.2% with expected EBITDA growth of 13.4% YoY. During the quarter, retailers continued calibrated expansion of their store network with opening of three Westside Stores, 16 Tanishq stores, 54 Zudio stores, three V-Mart stores (opened 14 new, closed 11 unviable stores).

## Trent, Page to outperform amid challenging scenario

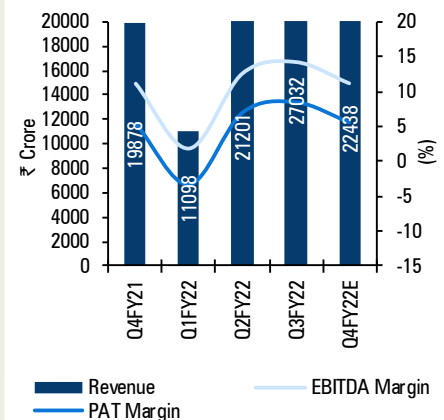
Titan's jewellery division faced dual challenges during the quarter due to Omicron and sharp rise in gold prices, which impacted demand owing to consumer deferring their jewellery purchases. We expect Titan's jewellery division revenues to decline 2% YoY with studded jewellery expected to grow in double digits which would aid its margin performance. We expect Titan's watches and wearable division to report growth of 12% YoY on the back of good growth momentum amid a challenging external environment with sales increasing across all offline channels.

For Avenue Supermarts, we expect consolidated revenues to grow 18% YoY to ₹ 8766 crore. Avenue Supermarts has continued its accelerated store expansion and added 21 stores in Q4FY22 (18 stores added in Q3FY22, 50 stores for FY22) taking total store count to 284 stores. Fashion retailers have witnessed revenue recovery in the range of 107-114% of pre Covid level. We expect ABFRL, V-Mart and Bata to report revenue recovery rate of 114%, 112%, 107%, respectively. Among the apparel retail space, Trent was the outperformer with company registering industry best revenue growth in Q3FY22. We anticipate Trent will report 48% YoY revenue growth at ₹ 1145 crore (two-year CAGR: 25%). We expect Page Industries to report YoY revenue growth of 18% to ₹ 1037 crore in Q4FY22E mainly driven by demand for WFH athleisure wear and expanded distribution reach. For TTK Prestige, we expect revenues to grow 11% driven by sustained demand.

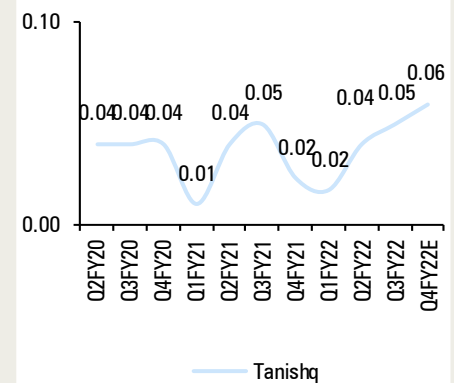
Estimates for Q4FY22E									(₹ crore)
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q4FY22E	YoY	QoQ	Q4FY22E	YoY	QoQ	Q4FY22E	YoY	QoQ
Avenue Supermarts	8,766.0	18.3	-4.9	722.3	17.9	-16.6	451.4	9.1	-18.3
Bata India	729.8	23.7	-13.3	135.7	21.2	-19.5	43.2	46.9	-40.3
Titan Company	7,480.7	-0.2	-25.5	852.6	4.4	-40.9	562.5	-1.0	-44.4
Trent Ltd	1,145.0	48.0	-15.0	201.5	48.0	-30.9	64.5	13.4	-51.5
TTK Prestige	615.1	10.9	-14.5	109.5	6.8	-12.9	76.5	-7.1	-13.8
Page Industries	1,036.7	17.7	-12.9	195.9	15.4	-21.9	133.6	15.6	-23.0
ABFRL	2,181.1	19.7	-27.0	279.2	18.6	-52.0	-49.6	NA	NA
V-Mart	483.9	37.5	-22.6	19.9	-41.0	-85.0	-37.6	NA	NA
<b>Total</b>	<b>22,438.2</b>	<b>12.9</b>	<b>-17.0</b>	<b>2,516.7</b>	<b>13.4</b>	<b>-34.8</b>	<b>1,244.4</b>	<b>16.4</b>	<b>-45.5</b>

Source: Company, ICICI Direct Research.

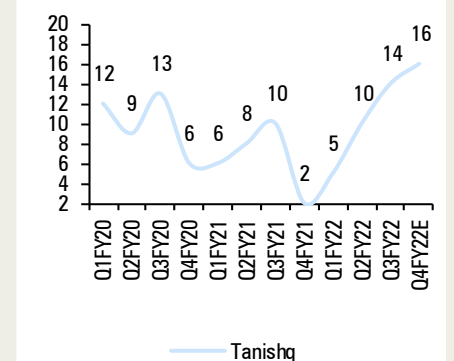
### Topline & Profitability (Coverage Universe)



### Space addition- million sq. ft. (QoQ)



### Store addition -(QoQ) Tanishq (Titan)



### Top Picks

Trent, Bata

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**Exhibit 1: Company Specific view**

Company	Remarks
Bata India	The management indicated that the impact of the omicron variant had limited impact on business operations and expect the recovery to be swift. The recent strategy of enhanced casual footwear (sneaker) is bearing fruits with segment contributing ~20% of overall revenues. We expect revenue to grow 24% YoY to ₹ 729.8 crore (two-year CAGR: 9%). Higher RM expenses and change in channel mix (higher share of franchise and MBO sales) to restrict gross margin expansion to 50 bps YoY to 53.6%. We expect EBITDA margins to remain flattish YoY at 19%, with absolute EBITDA increasing 21% YoY to ₹ 135.7 crore. Expect PAT to increase 47% YoY to ₹ 43.2 crore
Titan Company	Titan's has been a secular growth story with consistent market share gains from the unorganised players. However, on a strong base of Q4FY21 (large B2B order for gold coins) and with Q4FY22 having dual disruptions owing to Omicron Covid variant and sharp rise in gold prices (~ 8%), its jewellery division revenues are expected to decline 2% YoY due to demand deferral by customers. We expect studded jewellery to grow in double digits, which would aid its margin performance. We expect watches division to report revenue growth of 12% YoY. Overall revenues are expected to remain flattish YoY at ₹ 7481 crore. Expect gross margins to improve 190 bps YoY to 24% on account of improved share of studded ratio. We expect EBITDA margins to improve 50 bps YoY to 11.4%. On the back of a subdued operational performance, we expect PAT to remain flattish YoY at ₹ 562.5 crore
Trent Ltd	In the apparel retail space, Trent was the outperformer with the company registering industry best revenue growth in Q3FY22 on the back of a strong recovery in SSSG for Westside and robust store addition trajectory for Zudio. While the Omicron wave impacted sales in January 2022, the company did witness strong recovery from February onwards. Furthermore, we believe it has added 54 Zudio stores and three Westside stores. We anticipate Trent will report 48% YoY revenue growth at ₹ 1145 crore (two-year CAGR: 25%). The company had recorded higher than average gross margins in Q4FY21 owing to reversal in inventory provisioning and lower discounting. Hence, on a high base, we expect gross margins to contract 227 bps YoY to 50.9%. We expect EBITDA margins to remain flattish YoY at 17.6%, with absolute EBITDA increasing 48% YoY to ₹ 201.5 crore
Avenue Supermarts	Despite initial hiccups in January (store restrictions owing to omicron variant), robust store addition trajectory to aid revenue growth. The company added 21 stores in Q4FY22 (added 18 in Q3FY22) taking the total count to 284 D-Mart outlets. Consolidated revenues to increase 18% YoY to ₹ 8766.0 crore with revenue/sq ft of ₹ 7723 (vs. ₹ 8400 in Q4FY21). Higher opex towards new store addition to restrict margin expansion. We expect EBITDA margins to decline 10 bps YoY to 8.2%. Absolute EBITDA to increase 18% YoY to ₹ 722.3 crore. Higher depreciation and lower other income to result in PAT growth of 9% YoY to ₹ 451.4 crore

Source: Company, ICICI Direct Research

**Exhibit 2: Company Specific views**

ABFRL	On a favourable base of Q4FY21, we expect ABFRL to report 19.7% YoY revenue growth to ₹ 2181.1 crore. Recovery post disruption in January is expected to be swifter in lifestyle brands, with revenue growth of 24% YoY, while we expect Pantaloons division to record revenue growth of 16% YoY. On an adjusted base, revenue recovery rate for ABFRL to be at 114% of pre-Covid levels. With expenses reverting back to normalised levels (rental expenses), we expect EBITDA margins to remain constant YoY at 12.8%, with absolute EBITDA increasing 19% YoY to ₹ 279.2 crore. The company, over the last four quarters, has significantly curtailed debt, which has led to a decline in finance cost by ~20%. Hence, we expect net losses to narrow down to ₹ 49.6 crore vs. ₹ 195 crore in Q4FY21
TTK Prestige	Kitchen appliances category has been resilient even in the pandemic period. Though January and February were impacted due to Covid, we expect a strong recovery in March to aid revenue growth. We anticipate revenue will increase 11% YoY to ₹ 615 crore driven 12%, 9%, 11% YoY growth in cookers, cookware and appliances, respectively. We expect gross margin to decline 150 bps YoY to 44.1%. Consequently, we expect EBITDA margins to decline 70 bps YoY to 17.8% with EBITDA expected to increase by 7% YoY to ₹ 110 crore. We expect PBT before extraordinary items to increase 6% YoY to ₹ 103 crore. In Q4FY21, the company had extraordinary income to the tune of ₹ 11.9 crore on account of reversal of provision for export obligation, which led to PAT being higher. Hence, we expect PAT to decline 7% YoY to ₹ 77 crore
Page Industries	Disruption in trade activities in January 2022 owing to Covid led restriction would moderate the pace of growth for Page Industries. The recovery has been strong post easing of Covid restrictions and March is expected to be the best month in Q4 in terms of revenues. The company has expanded its multi brand outlet (MBO) network by more than 60% during the pandemic and added close to 45000 stores with current MBO network of around 105000 outlets. In spite of Covid led disruption, we anticipate Page will report YoY revenue growth of 18% to ₹ 1037 crore in Q4FY22E mainly driven by demand for WFH athleisure wear and expanded distribution reach. Volumes are expected to increase 10% YoY while realisation is expected to be higher by 7% to ₹ 204 per piece (owing to change in product mix). We expect gross margins to decline 110 bps YoY to 56.5% (53.2% in Q3FY22). We expect EBITDA margins to decline 40 bps YoY to 18.9% in Q4FY22E. Subsequently, we expect Page to report 16% YoY growth in net profit to of ₹ 134 crore (net profit of ₹ 175 crore in Q3FY22)
V-Mart	We expect V-Mart stores (excluding Unlimited revenues) to report a recovery rate of 112% of pre-Covid levels (Q4FY19) to ₹ 386 crore. The revenue growth is expected to be mainly price led growth as company has undertaken 7-8% price hike in Q4FY22 (~18% in FY22). During the quarter, the company added 14 new V-Mart stores and closed 11 unviable stores (YTD addition of 24 stores) taking the total store count to 380 stores (including 74 'Unlimited' stores). We expect overall revenues to increase 38% YoY to ₹ 484 crore (including revenues of Unlimited). We expect gross margins to decline 90 bps YoY to 28.9% owing to increase in raw material cost (cotton yarn/fabric). Higher employee (up 55% YoY) and other expense (up 82% YoY) due to integration of Unlimited format to result in EBITDA margin contraction of 540 bps YoY to 4.1% Consequently, we expect net loss to widen to ₹ 37.6 crore vs. ₹ 1.5 crore in Q4FY21

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		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Trent	1,310	1,330	Buy	46,567	17.8	10.3	7.8	6.7	-	237.7	130.6	93.8	268.3	73.1	49.9	40.8	4.3	18.2	24.0	27.2	-6.3	8.0	13.1	16.0
ABFRL	310	360	Buy	29,066	5.7	3.6	2.6	2.2	-	-	63.6	50.2	-	29.9	16.3	13.5	-8.9	4.1	22.5	26.0	-25.5	-4.3	14.1	15.2
Bata India	1,965	2,360	Buy	25,256	14.2	9.6	7.1	5.9	-	210.3	56.3	41.6	149.9	54.3	26.8	21.4	-5.9	10.8	30.0	33.2	-5.1	6.6	21.2	24.1
Titan Company	2,460	2,960	Buy	2,18,395	9.9	7.4	6.1	5.1	224.5	89.7	71.2	56.5	124.8	58.9	47.5	38.7	17.6	33.9	33.9	34.2	13.0	25.4	25.5	25.9
TTK Prestige	840	1,270	Buy	11,651	5.3	4.4	3.9	3.4	48.0	40.7	34.6	29.7	35.2	28.8	24.7	21.2	18.6	20.5	21.4	22.0	16.1	16.9	17.6	18.1
Page Industries	44,110	45,400	Hold	49,200	17.2	13.2	11.0	9.4	144.5	106.4	75.5	63.2	92.6	70.4	50.6	42.7	52.4	57.3	67.0	66.1	38.5	44.2	51.1	50.3
Avenue Supermarts	4,160	5,260	Hold	2,69,472	11.1	8.6	6.2	4.9	245.1	169.5	109.3	86.5	153.1	105.0	68.7	54.5	12.5	15.8	20.6	21.8	9.0	11.5	15.2	16.1
V-Mart	3,610	4,720	Buy	7,106	6.2	4.0	2.6	2.2	NA	380.5	73.6	53.3	51.0	32.9	19.8	16.0	6.0	11.3	22.0	25.1	-0.8	2.2	10.3	12.6

Source: Company, ICICI Direct Research

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Sell: <-15%



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