

Enhancing share of private label, beauty segments...

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 83 departmental stores and 163 beauty format stores spread across 4.2 million sq ft and present in 47 cities

Q3FY22 Results: Healthy demand owing to strong festive and wedding season led SSL to reach close to pre-Covid levels in Q3FY22 (~96% of Q3FY20).

- On a favourable base revenue grew 34% YoY to ₹ 951.2 crore
- SSL achieved operational cost savings worth ₹ 42 crore (vs. Q3FY20 levels). Owing to positive operating leverage EBITDA grew 2x YoY to ₹ 183 crore
- PBT at ₹ 66 crore vs. loss of ₹ 28 crore in Q3FY21 (Q3FY20 PBT: ₹ 63 crore)
- Liquidity position remains fairly stable with cash & investments worth ₹ 207 crore and debt worth ₹ 194 (net surplus ₹ 13 crore, D/E: 0.3x)

What should investors do? The stock price has underperformed the broader indices over the last five years on account of 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 remain positive on the stock and maintain **BUY**

Target Price and Valuation: We value SSL at ₹ 480 i.e. 8.5x FY24E EV/EBITDA.

Key triggers for future price performance:

- We believe the new MD (former Westside CEO) would bring in his expertise in the private label brands domain and focus on improving the share of high margin private label brands (~14% of revenues)
- It has embarked on a healthy store addition plans with opening of five stores in Q4FY22 and 12 in FY23E. Majority of the store addition in Tier II/III cities. The capex for the same is expected to be ₹ 100 crore, to be funded mainly through internal accruals
- The management expects steady SSSG growth of 9-11% in the near term
- Key thrust on accelerating investments in omni-channel with long term target of channel contributing 20% of sales from current ~8%
- Higher focus on beauty segment (currently ~17% of revenues) through scale up of its own private brand Arcelia (75+ SKUS to be launched in Q4)

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

- ABFRL has charted out a growth strategy to become a ~US\$2.8 billion entity by FY26E, translating into 15% CAGR in FY20-26E
- BUY with a target price of ₹ 360

SHOPPERS STOP

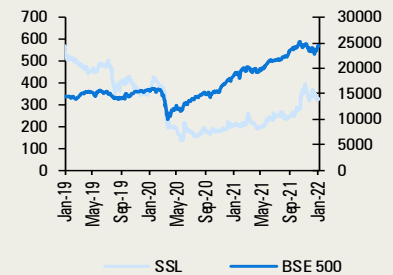
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	4,321.3
Totak Debt (Mar-21) (₹ Crore)	150.0
Cash (Mar-21) (₹ Crore)	169.5
EV (₹ Crore)	4,301.8
52 week H/L	425/ 180
Equity Capital (₹ Crore)	54.7
Face Value (₹)	5.0

Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	65.5	65.5	65.5	65.4	65.5
FII	5.6	5.8	5.8	5.8	5.9
DII	19.8	19.9	19.9	20.0	20.1
Others	9.2	8.8	8.8	8.8	8.4

Price Chart



Recent event & key risks

- To add 12 new stores in FY23E
- Key Risk:** (i) Re-imposition of lockdown can 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	FY24E	4 year CAGR (FY20-FY23E)
Net Sales	3,481.3	3,381.0	1,725.1	1.0%	2,539.5	3,845.7	4,449.5	7.1%
EBITDA	253.3	549.4	53.4		316.8	715.7	825.2	10.7%
PAT	78.8	(140.9)	(275.2)		(81.5)	109.8	151.3	
EV/Sales (x)	0.9	1.6	3.4		2.3	1.5	1.3	
EV/EBITDA (x)	12.8	9.6	110.3		18.8	8.2	7.0	
RoCE (%)	11.6	4.7	(14.8)		(2.0)	14.8	16.7	
RoE (%)	8.1	-103.1	-151.5		-81.4	52.3	41.9	

Key takeaways of recent quarter & conference call highlights

- Shoppers Stop reported a swift revenue recovery in Q3FY22 owing to improved consumer sentiments and sustained demand during the festive period. Revenue recovery rate gradually improved to ~96% in Q3FY22 (vs. 75% in Q2FY22). Customer footfalls improved materially by 65% YoY to 10.9 million, with improved operational KPIs (ASP and ATS up 20% and 14%, respectively). Consumer sentiment during the quarter was strong driven by festive and wedding purchases. Athleisure and active wear continued to perform well. The key differentiator during the quarter was that most customers refurbished their wardrobe as apparel and beauty segments witnessed strong demand
- Omni-channel strategies continue to provide the key thrust with digital sales growth of 39% YoY (~6% of overall sales). As on date, SSL has invested ₹ 40 crore and plans to invest ~₹ 46 crore in FY23E, primarily in technology, such as site personalisation, hyperlocal deliveries, etc
- Share of private label brands remained constant YoY at 14.0%. New brand launches in the men's ethnic-wear space has witnessed healthy traction and contributed ~5% to private brands. Kids segment performed exceptionally well with volume and value growth of 98% and 70%, respectively. In a bid to boost the share, the company has rejigged its product portfolio of private label brands through launch of sharper price point assortments (< ₹ 999) and enhanced product offerings such as sleepwear, loungewear and innerwear. The progress on MD's strategic growth roadmap with improvement in key parameters like SSSG and private label share would be critical factors to watch
- Beauty format continues to perform well compared to departmental stores with revenue growth of 40% YoY to ₹ 202 crore. Beauty brands contribution to business improved 75 bps YoY to 17.0% in Q3FY22. It has launched 70 new brands in YTD FY22 in the beauty format. Its private brand Arcelia (revenue run rate of ₹ 1 crore per month currently), has witnessed healthy traction and expects to launch 75+ SKUs in Q4FY22E
- On the store addition front, the company is planning to add five new departmental stores in Q4FY22 and is further adding 12 new stores in FY23E. The management guided that most new stores would be opened in Tier II cities as Tier II cities have shown good productivity levels. Currently, the average store size is ~ 40000-50000 square feet. The new stores that would be opened in Tier II cities would have an average size of 25000-30000 sq ft
- The management has also inducted new talent into the company by hiring experienced industry professionals. In the last few quarters the company had inducted new business head for retail and ecommerce segments. Also recently SSL has inducted new business heads for First Citizen and customer engagement and also a separate head for the beauty business. The management indicated that this would enable it to improve the growth trajectory on each of the above strategic pillars and contribute to the overall growth of the company

Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Total operating Income	1,725.1	2,539.5	3,845.7	4,449.5
Growth (%)	-49.0%	47.2%	51.4%	15.7%
Cost of Goods Sold	1,065.1	1,521.0	2,202.0	2,546.2
Gross Margin (%)	38.3	40.1	42.7	42.8
Employee Expenses	257.5	269.2	346.1	404.9
Operating & Other Expenses	349.2	432.5	581.8	673.2
Total Operating Expenditure	1,671.7	2,222.6	3,130.0	3,624.3
EBITDA	53.4	316.8	715.7	825.2
Growth (%)	-90.3%	493.8%	125.9%	15.3%
Depreciation	384.7	360.8	387.1	428.1
Interest	220.0	201.2	220.3	239.4
Other Income	218.8	156.2	38.5	44.5
PBT (Before extraordinary item)	-332.5	-88.9	146.8	202.2
Extraordinary item	-22.4	-15.0	0.0	0.0
Total Tax	-79.7	-22.4	36.9	50.9
PAT	-275.2	-81.5	109.8	151.3
Minority Interest/Share of JV	0.0	0.0	0.0	0.0
PAT(after minority interest)	-275.2	-81.5	109.8	151.3
EPS (₹) (after minority interest)	-25.2	-7.5	10.0	13.8

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	-275.2	-81.5	109.8	151.3
Add: Depreciation	384.7	360.8	387.1	428.1
Add: Interest Expense	220.0	201.2	220.3	239.4
(Inc)/dec in Current Assets	322.9	-126.5	-538.2	-282.2
Inc/(dec) in CL and Provisions	-406.2	113.2	490.6	215.1
Others	-234.0	0.0	0.0	0.0
CF from operating activities	12.2	467.1	669.6	751.7
(Inc)/dec in Investments	77.8	38.4	-1.8	-1.8
(Inc)/dec in Fixed Assets	-82.1	-90.0	-150.0	-150.0
(Inc)/dec in CWIP	7.1	-7.1	0.0	0.0
Others	33.0	0.0	0.0	0.0
CF from investing activities	35.7	-58.7	-151.8	-151.8
Issue/(Buy back) of Equity	10.7	0.0	0.0	0.0
Inc/(dec) in loan funds	26.3	50.0	-100.0	0.0
Less: Interest Expense	-220.0	-201.2	-220.3	-239.4
Others	175.4	-237.3	-224.8	-248.7
CF from financing activities	-7.5	-388.4	-545.1	-488.1
Net Cash flow	40.4	19.9	-27.3	111.7
Opening Cash	1.3	41.6	61.6	34.2
Closing Cash	41.6	61.6	34.2	146.0

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Liabilities				
Equity Capital	54.7	54.7	54.7	54.7
Reserve and Surplus	127.0	45.5	155.3	306.6
Total Shareholders funds	181.7	100.2	210.0	361.3
Total Debt	150.0	200.0	100.0	100.0
Other LT Liabilities	1,911.6	1,911.6	1,911.6	1,911.6
Deferred Tax Liability	-342.4	-359.6	-377.5	-396.4
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	1,900.8	1,852.2	1,844.0	1,976.4
Assets				
Gross Block	1,262.1	1,352.1	1,502.1	1,652.1
Less: Acc Depreciation	761.0	901.6	1,081.9	1,280.1
Capital WIP	2.9	10.0	10.0	10.0
Total Fixed Assets	504.0	460.4	430.2	381.9
Investments	127.9	89.5	91.3	93.1
Other Non-current Assets	1,209.6	1,209.6	1,209.6	1,209.6
Inventory	847.2	1,008.8	1,422.4	1,645.7
Debtors	34.8	34.8	52.7	61.0
Loans and Advances	240.5	203.2	307.7	356.0
Cash	41.6	61.6	34.2	146.0
Other Current Assets	226.0	228.3	230.6	232.9
Total Current Assets	1,390.2	1,536.6	2,047.5	2,441.5
Creditors	1,139.9	1,252.3	1,738.4	1,950.5
Other Current Liab. & Prov.	190.9	191.7	196.2	199.2
Total Current Liabilities	1,330.8	1,444.0	1,934.6	2,149.7
Net Current Assets	59.4	92.6	112.9	291.8
Application of Funds	1,900.8	1,852.2	1,844.0	1,976.4

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹) (annualised)				
EPS	-25.2	-7.5	10.0	13.8
Cash EPS	10.0	25.5	45.4	53.0
BV	16.6	9.2	19.2	33.0
DPS	0.0	0.0	0.0	0.0
Cash Per Share	3.8	5.6	3.1	13.3
Operating Ratios				
EBITDA Margin (%)	3.1	12.5	18.6	18.5
PBT Margin (%)	-19.3	-3.5	3.8	4.5
PAT Margin (%)	-16.0	-3.2	2.9	3.4
Inventory days	179.3	145.0	135.0	135.0
Debtor days	7.4	5.0	5.0	5.0
Creditor days	241.2	180.0	165.0	160.0
Return Ratios (%)				
RoE	-151.5	-81.4	52.3	41.9
RoCE	-14.8	-2.0	14.8	16.7
RoIC	-16.0	-2.1	15.8	18.7
Valuation Ratios (x)				
P/E	NA	NA	36.4	26.4
EV / EBITDA	110.3	18.8	8.2	7.0
EV / Net Sales	3.4	2.3	1.5	1.3
Market Cap / Sales	2.3	1.6	1.0	0.9
Price to Book Value	22.0	39.9	19.0	11.1
Solvency Ratios				
Debt/EBITDA	2.8	0.6	0.1	0.1
Debt / Equity	0.8	2.0	0.5	0.3
Current Ratio	1.0	1.1	1.1	1.1
Quick Ratio	0.4	0.4	0.3	0.4

Source: Company, ICICI Direct Research

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Sell: <-15%



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