

Shoppers Stop

 BSE SENSEX
 55,777

 S&P CNX
 16,663

CMP: INR361
TP: INR400 (+11%)
Neutral


Bloomberg	SHOP IN
Equity Shares (m)	109
M.Cap.(INRb)/(USDb)	39.4 / 0.5
52-Week Range (INR)	425 / 180
1, 6, 12 Rel. Per (%)	14/49/45
12M Avg Val (INR M)	131
Free float (%)	34.5

Financials & Valuations(INR b)

INRb	FY22E	FY23E	FY24E
Sales	25.8	35.9	38.6
EBITDA	3.2	6.6	7.1
Adj. PAT	-0.6	1.3	1.3
EBITDA Margin (%)	12.4	18.4	18.4
Adj. EPS (INR)	-6.6	15.0	16.1
EPS Gr. (%)	-81.5	LP	7.4
BV/Sh. (INR)	7.1	21.2	36.4
Ratios			
Net D:E	12.5	5.0	2.3
RoE (%)	-35.7	66.2	42.1
RoCE (%)	4.5	13.0	13.0
Payout (%)	0.0	0.0	0.0
Valuations			
P/E (x)	-54.2	23.8	22.2
EV/EBITDA (x)	17.6	8.0	7.0
EV/Sales (x)	2.2	1.5	1.3
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	5.7	8.9	10.4

Focus on smaller stores to improve productivity

Store additions, Beauty and Private labels to revive growth

We met with the management of Shoppers Stop to understand the:

- revenue trends amid the third COVID wave in Jan'22
- performance of the new smaller stores opened in tier 2-3 cities; and
- traction on its ambitious target to double its revenue in the next 3-4 years.

Key highlights of our discussion

- Shoppers Stop's revenue was adversely impacted in Jan'22 due to COVID-19. However, its revenue recovered strongly and almost reached the pre-COVID levels in Feb'22; further, early trend in Mar'22 indicates the revenue scale to surpass the pre-COVID levels.
- According to our channel checks, the new smaller compact feature stores (of 20k-25k sqft) enjoy significantly better revenue/sqft (of ~1.5x) v/s the existing bigger stores (of 40k-50k sqft).
- Management targets to double revenue over the next 3-4 years backed by: a) its strategy of adding 10-12% new stores annually, b) its initiative to revive SSSG to high single or double digit on improved new store productivity and focus on private labels, c) strong growth in the Beauty segment and d) e-commerce initiatives.
- However, our revenue estimates are nearly 40% below the management guidance (building in FY23E revenue at 6% above FY20), which reflect in its valuation of 12x EV/EBITDA – at 40-50% discount to its peers.
- Even if the company achieves 60-70% of its guidance, it could significantly surprise the street expectations. The pace of store additions and SSSG remain the key monitorables.
- We maintain our Neutral rating on the stock with a TP of INR400.

Exhibit 1: Valuation based on FY24E

	Methodology	Driver (INR b)	Multiple	Fair Value (INR b)	Value/sh (INR)
Standalone (Shoppers Stop)	EV/EBITDA	7	12	82	747
Total Enterprise Value				82	747
Less Net debt				38	347
Equity Value				44	400
Shares o/s (m)				109.6	
CMP (INR)					361
Upside (%)					11

Source: MOFSL, Company

Our interaction in details:

The company is witnessing a healthy recovery in topline...

- Shoppers Stop's revenue was adversely impacted in Jan'22 due to COVID-19. However, its revenue recovered strongly and almost reached the pre-COVID levels in Feb'22; further, early trend in Mar'22 indicates the revenue scale to surpass the pre-COVID levels.
- The company has reached ~92% of the pre-COVID revenue on a monthly run rate basis and almost touched the pre-COVID level on a daily/weekly bases.
- New stores are likely to have a high single-digit SSSG, which will boost the company's topline further.

...and is targeting to double its revenue in the next 3-4 years

- Management targets to double revenue over the next 3-4 years backed by: a) its strategy of adding 10-12% new stores annually, b) its initiative to revive SSSG to high single or double digit, on improved new store productivity and focus on private labels, c) strong growth in the Beauty segment and d) e-commerce initiatives.
- New store opening targets on track
 - The company opened four new stores in 4QFY22YTD, which includes three departmental stores (opened in Jaipur, Jodhpur and Lucknow) and one beauty store (opened in Phoenix Marketcity, Kurla). Further, with the likely opening of 3-4 new stores in Mar'22, the company is on course to achieve its guidance of opening 12 stores (five Shoppers Stop and seven Beauty stores) in 4QFY22.
 - For FY23E, there is a visibility on 10 new store openings (which are in pipeline), likely to begin in 2QFY23 and 3QFY23, against the guidance of 22 store additions (10 Shoppers Stop and 12 Beauty stores). The store addition pipeline is on track.
 - Typically, it takes nearly 3-4 months to open a store after entering into an agreement with the mall authority.
 - According to the management, Tier 2 and 3 city stores are doing better than many Exclusive Brand Outlets (EBOs).
 - A large part of the cleaning process has been carried out already with respect to the store closures. As a result, the management does not expect any major store closures further, barring 3-4 additional stores.

Compelling new store economics:

- **Focus on smaller stores:** The company is opening new smaller compact feature stores (of 20k-25k sqft) to improve the store productivity. There will be some larger stores though, but not above 35k sqft size, which may be opened in select markets (such as Patna) where the opportunity is huge.
- The smaller stores do not necessarily limit the number of brands, but space allocation and the number of SKUs change with a focus on productivity.
- **Productivity of the new stores is significantly better with a revenue of INR15,000-17,000/sqft v/s INR10,000-11,000/sqft for the bigger format stores.** These figures include sales on an SOR basis, which result in 10% higher revenue than the reported IGAAP numbers.
- The SSSG of the first compact store (opened two years back) has been much better than the existing bigger stores.

- **Focus on Private labels:** The share of Private labels, which currently stands at ~14% of revenue (at ~INR5b), is expected to increase to 20-25% in the next three years with potentially 50%+ YoY growth. The growth will be led by:
 - Improved product category and filling in the white spaces
 - Increased penetration of private brands across stores
 - Trimming down the number of brands for clear brand definition
 - “Bandeya” and “Infuse”, which are gaining ground post a good start.
 However, the management is currently not aiming to take the share of private labels to more than 50%, due to its sustained focus on the multi-brand store format.
- The share of Beauty and Non-Apparel increasing in the mix
 - Nearly 40% of the company’s revenue is coming from the Beauty and Non-Apparel segments, of which Beauty constitutes 17% (i.e. nearly INR7b of revenue on a non-IGAAP basis).
 - Management expects a 25% YoY growth in the Beauty segment going ahead.
 - Under the Beauty segment, the in-house brand “Arcelia” is performing very well in terms of productivity. Further, TPA brands (Mac, Clinique, Bobbi Brown and Too Faced) are witnessing a strong traction too.
 - Shoppers Stop launched 28 new brands in 3QFY22 and further plans to launch another 75 brands in 4QFY22. Arcelia launched 40+ SKUs of perfumes, deodorants and sheet masks and further plans to launch 75+ SKUs of makeup and nails in 4QFY22.
- Investing in e-commerce initiative
 - E-commerce currently accounts for ~6% of Shoppers Stop’s revenue.
 - The company is extensively investing in omni-channel capabilities.
 - Growth in e-commerce was ~2x in 1QFY22 and 2QFY22. Sales in 3QFY22 and YTD have been ~3x v/s the pre-COVID levels.

Cost saving measures

- The company has saved INR2b in costs YTD, primarily emanating from employee costs, other expenses and interest and depreciation costs (majorly due to the IND AS 116 impact). The cost saving break up is as follows: 25% on employee cost, 25% on SG&A and 5-10% on corporate office, while the remaining flows from the combination of lower marketing costs, rental savings and other costs.
- These cost saving measures exclude any further investments on omni-channel (to the tune of INR400m).

Exhibit 2: Segment wise share of revenue

INR m	FY20	Share
Total Revenue	43,850	
1.) Beauty	7,241	17%
2.) Shoppers Stop Departmental Revenue	36,109	82%
Pvt Labels	5000	11%
Brands - Non apparels	9,799	22%
Brands Apparels	21,310	49%
3.) Online	500	1%

Source: MOFSL, Company

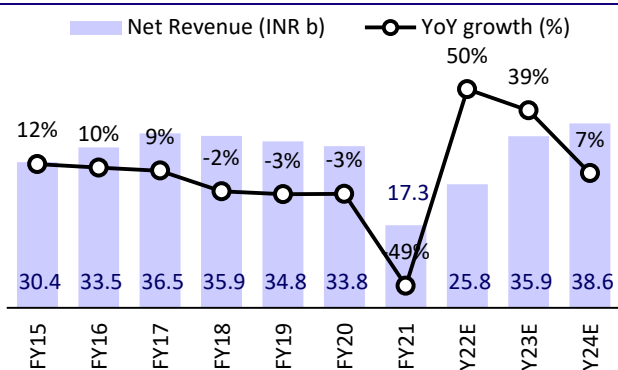
Exhibit 3: Segmental details

INRm	FY20
1.) Beauty Business	
Revenue	7,241
No. of Stores	170
Revenue/Store	42.6
2.) Departmental Stores – Shoppers Stop	
Revenue	36,109
No. of Stores	100
Revenue/Store (INRm)	361
Revenue/sqft (INR)	8,597
Area/Store	42,000
Area (msqft)	4.2

Source: MOFSL, Company

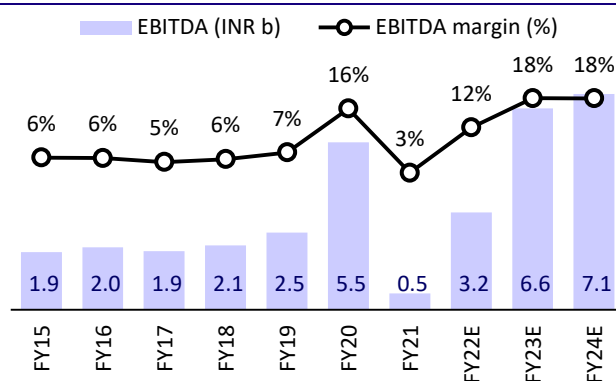
Story in charts

Exhibit 4: Expect revenue to post 22% CAGR over FY22-24



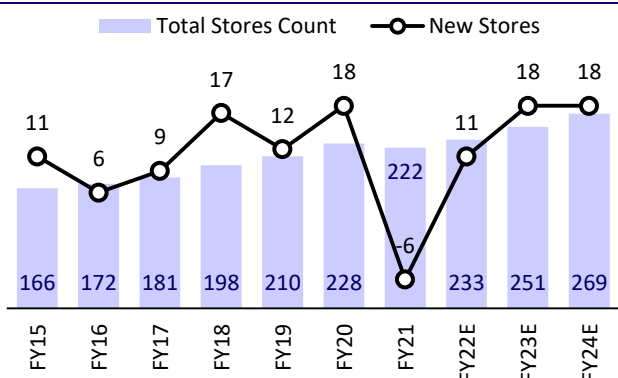
Source: MOFSL, Company

Exhibit 5: EBITDA margin to expand to 18% by FY24E



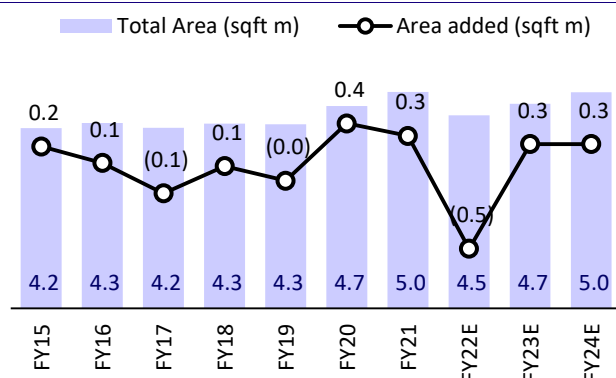
Source: MOFSL, Company

Exhibit 6: Store additions likely to remain strong...



Source: MOFSL, Company

Exhibit 7: ...along with area additions



Source: MOFSL, Company

Financials and valuations – standalone

Standalone - Income Statement

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Income from Operations	36,480	35,915	34,813	33,810	17,251	25,819	35,886	38,576
Change (%)	8.7	-1.6	-3.1	-2.9	-49.0	49.7	39.0	7.5
Raw Materials	22,874	22,134	20,272	19,676	10,651	15,569	20,993	22,567
Employees Cost	2,735	3,013	3,145	3,219	2,575	2,641	2,905	3,137
Lease Rentals	3,480	3,597	3,863	560	0	0	0	0
Other Expenses	5,467	5,054	5,000	4,860	3,492	4,415	5,383	5,786
Total Expenditure	34,555	33,799	32,280	28,315	16,717	22,624	29,281	31,491
% of Sales	94.7	94.1	92.7	83.7	96.9	87.6	81.6	81.6
EBITDA	1,925	2,116	2,533	5,494	534	3,194	6,605	7,086
Margin (%)	5.3	5.9	7.3	16.3	3.1	12.4	18.4	18.4
Depreciation	1,155	1,119	1,351	4,392	3,847	3,441	3,766	4,023
EBIT	770	997	1,182	1,102	-3,313	-247	2,840	3,063
Int. and Finance Charges	585	362	124	1,944	2,200	2,020	2,150	2,250
Other Income	296	160	179	335	2,188	1,531	984	984
PBT bef. EO Exp.	481	796	1,237	-507	-3,325	-735	1,674	1,797
EO Items	-478	-504	0	-200	-224	0	0	0
PBT after EO Exp.	3	292	1,237	-707	-3,549	-735	1,674	1,797
Total Tax	203	176	449	703	-797	-185	421	452
Tax Rate (%)	6425.7	60.2	36.3	-99.5	22.5	25.2	25.2	25.2
Minority Interest	0	0	0	0	0	0	0	0
Reported PAT	-199	116	788	-1,409	-2,752	-550	1,253	1,345
Adjusted PAT	-677	765	1,001	-1,609	-2,976	-550	1,253	1,345
Change (%)	7,183.7	-213.0	30.8	-260.8	84.9	-81.5	-327.7	7.4
Margin (%)	-1.9	2.1	2.9	-4.8	-17.3	-2.1	3.5	3.5

Standalone - Balance Sheet

(INR m)

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	418	440	440	440	547	547	547	547
Total Reserves	7,190	9,094	9,337	926	1,270	720	1,972	3,317
Net Worth	7,608	9,534	9,776	1,366	1,817	1,266	2,519	3,864
Total Loans	5,759	874	0	21,915	20,054	20,054	20,054	20,054
Lease Liabilities				20,678	19,116	19,116	19,116	19,116
Deferred Tax Liabilities	-43	-198	-320	-2,641	-3,424	-3,424	-3,424	-3,424
Capital Employed	13,324	10,210	9,457	20,640	18,447	17,896	19,149	20,494
Gross Block	8,125	9,282	10,103	27,331	26,559	28,046	29,848	31,650
Less: Accum. Deprn.	1,772	2,804	4,155	8,547	9,453	12,894	16,659	20,683
Net Fixed Assets	6,353	6,478	5,948	18,784	17,107	15,152	13,189	10,967
Right to use assets				13,257	12,096	12,096	12,096	12,096
Capital WIP	169	182	351	443	29	29	29	29
Total Investments	4,080	3,176	2,935	2,057	1,279	1,279	1,279	1,279
Curr. Assets, Loans&Adv.	7,712	7,592	15,199	16,727	13,902	15,349	23,480	28,453
Inventory	3,528	3,284	10,535	12,239	8,472	8,842	12,290	13,211
Account Receivables	357	437	444	351	348	521	724	778
Cash and Bank Balance	50	52	167	13	416	2,901	6,178	9,854
Loans and Advances	3,777	3,818	4,052	4,125	4,666	3,085	4,288	4,610
Curr. Liability & Prov.	4,990	7,218	14,977	17,370	13,870	13,913	18,828	20,235
Account Payables	3,302	4,886	12,542	14,967	11,399	11,730	15,817	17,003
Other Current Liabilities	1,617	2,252	2,341	2,295	2,409	2,122	2,950	3,171
Provisions	72	79	93	108	62	62	62	62
Net Current Assets	2,722	374	222	-643	32	1,436	4,652	8,218
Appl. of Funds	13,324	10,210	9,457	20,640	18,447	17,896	19,149	20,494

E: MOFSL Estimates

Financials and valuations – standalone

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)								
EPS	-8.1	9.2	12.0	-19.3	-35.6	-6.6	15.0	16.1
Cash EPS	5.7	22.6	28.2	33.3	10.4	34.6	60.1	64.3
BV/Share	91.1	114.2	117.1	16.4	21.8	15.2	30.2	46.3
DPS	0.8	0.8	0.8	0.0	0.0	0.0	0.0	0.0
Payout (%)	-37.8	67.8	9.8	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E	-44.0	39.0	29.8	-18.5	-10.0	-54.2	23.8	22.2
Cash P/E	62.4	15.8	12.7	10.7	34.2	10.3	5.9	5.6
P/BV	3.9	3.1	3.0	21.8	16.4	23.5	11.8	7.7
EV/Sales	1.0	0.9	0.9	1.6	3.4	2.2	1.5	1.3
EV/EBITDA	18.4	15.2	12.3	9.7	110.0	17.6	8.0	7.0
Dividend Yield (%)	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.0
FCF per share	6.1	23.2	11.1	43.8	-6.6	28.4	42.0	45.6
Return Ratios (%)								
RoE	-8.8	8.9	10.4	-28.9	-187.0	-35.7	66.2	42.1
RoCE	-498.4	3.9	8.6	17.3	-3.9	4.5	13.0	13.0
RoIC	-532.7	5.0	11.8	18.2	-14.7	-1.2	16.8	21.8
Working Capital Ratios								
Fixed Asset Turnover (x)	4.5	3.9	3.4	1.2	0.6	0.9	1.2	1.2
Asset Turnover (x)	2.7	3.5	3.7	1.6	0.9	1.4	1.9	1.9
Inventory (Days)	35	33	110	132	179	125	125	125
Debtor (Days)	4	4	5	4	7	7	7	7
Creditor (Days)	33	50	132	162	241	166	161	161
Leverage Ratio (x)								
Current Ratio	1.5	1.1	1.0	1.0	1.0	1.1	1.2	1.4
Interest Cover Ratio	1.3	2.8	9.5	0.6	-1.5	-0.1	1.3	1.4
Net Debt/Equity	0.2	-0.2	-0.3	14.5	10.1	12.5	5.0	2.3

Standalone - Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
(INR m)								
OP/(Loss) before Tax	481	796	1,237	-707	-3,549	-735	1,674	1,797
Depreciation	1,155	1,119	1,351	4,392	3,847	3,441	3,766	4,023
Interest & Finance Charges	585	362	124	1,944	2,200	2,020	2,150	2,250
Direct Taxes Paid	-237	-356	-565	-422	124	185	-421	-452
(Inc)/Dec in WC	-264	1,341	-24	538	-575	1,213	216	151
CF from Operations	1,720	3,261	2,124	5,745	2,046	6,124	7,384	7,769
Others	-150	-43	-24	-101	-1,948	-1,531	-984	-984
CF from Operating incl EO	1,570	3,218	2,100	5,644	99	4,593	6,400	6,785
(Inc)/Dec in FA	-1,063	-1,179	-1,123	-1,786	-823	-1,487	-1,802	-1,802
Free Cash Flow	506	2,039	977	3,858	-724	3,106	4,598	4,983
(Pur)/Sale of Investments	-502	456	-224	-1,033	578	0	0	0
Others	725	1,128	36	1,321	178	1,693	1,123	1,237
CF from Investments	-841	405	-1,311	-1,498	-66	206	-679	-565
Issue of Shares	9	1,814	11	0	2,960	0	0	0
Inc/(Dec) in Debt	-140	-4,062	-398	-400	1,500	0	0	0
Interest Paid	-581	-378	-124	-1,944	-2,195	-2,020	-2,150	-2,250
Dividend Paid	0	-75	-80	-80	0	0	0	0
Others	0	0	0	-1,809	-558	0	0	0
CF from Fin. Activity	-712	-2,701	-591	-4,232	1,707	-2,020	-2,150	-2,250
Inc/Dec of Cash	17	922	198	-87	1,740	2,779	3,571	3,970
Opening Balance	34	-870	-31	99	-1,324	122	2,608	5,885
Closing Balance	50	52	167	12	416	2,901	6,178	9,854
Less other bank balance	21	83	68	1,336	294	294	294	294
Net closing balance	30	-31	99	-1,324	122	2,608	5,885	9,560

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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