

## Demand recovery post Covid disruption augurs well

**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 a better shopping experience through 'personal shoppers'.

- Operates 88 departmental stores, 171 beauty format stores spread across 4.2 million sq ft while being present in 47 cities

**Q4FY22 Results:** Covid-led disruptions in January-February and one-off expenses (~₹ 21 crore) led to a subdued performance in Q4FY22. The revenue recovery rate declined to 90% in Q4FY22 vs. 96% in Q3FY22.

- On a favourable base, revenue grew 6% YoY to ₹ 709.9 crore
- Increase in operating costs (owing to higher store additions) and one-off expenses (₹ 21 crore) led EBITDA margins to decline 343 bps YoY to 10.8% with absolute EBITDA declining 20% YoY to ₹ 76.7 crore
- PBT losses were at ₹ 49 crore vs. ₹ 37.2 crore in Q4FY21

**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 a revival in SSL's 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 ₹ 595 i.e. 10.0x 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 enhancing the share of high margin private label brands (~14% of revenues)
- It has embarked on a healthy store addition plan with the opening of 12 departmental stores and 15 beauty stores in FY23E. Majority of the store additions in Tier II/III cities. Capex for the same is expected to be ₹ 150 crore, which will 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 scaling up of its own private brand Arcelia

**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 ₹ 360

## SHOPPERS STOP

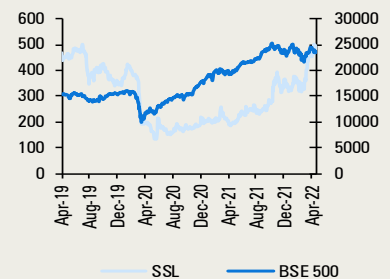
### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	5,497.9
Totak Debt (Mar-22) (₹ Crore)	193.9
Cash (Mar-22) (₹ Crore)	179.7
EV (₹ Crore)	5,512.1
52 week H/L	598/ 191
Equity Capital (₹ Crore)	54.8
Face Value (₹)	5.0

### Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	65.5	65.5	65.4	65.5	65.6
FII	5.8	5.8	5.8	5.9	4.3
DII	19.9	19.9	20.0	20.1	19.8
Others	8.8	8.8	8.8	8.4	10.3

### 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	FY22E	5 year CAGR (FY17-FY22)	FY23E	FY24E	2 year CAGR (FY22-FY24E)
Net Sales	3,481.3	3,381.0	1,725.1	2,493.8	-7.0%	3,727.8	4,385.5	32.6%
EBITDA	253.3	549.4	53.4	267.5		693.4	813.2	74.3%
PAT	78.8	(140.9)	(275.2)	(86.7)		110.4	157.2	
EV/Sales (x)	1.3	1.9	4.3	3.0		2.0	1.6	
EV/EBITDA (x)	17.6	11.8	138.6	27.7		10.6	8.8	
RoCE (%)	11.6	4.7	(14.8)	(3.9)		13.9	16.0	
RoE (%)	8.1	-103.1	-151.5	-88.2		52.9	43.0	

## Key takeaways of recent quarter & conference call highlights

- On account of Covid led disruptions in January, Shoppers Stop reported a subdued performance in Q4FY22. The revenue recovery rate, which had gradually inched up to 96% of pre-Covid levels in Q3FY22, declined to 90% in Q4FY22. On a favourable base, revenue grew 6% YoY to ₹ 709.9 crore. Nevertheless, customer footfall in the second half of Q4FY22 witnessed a sharp recovery with sales near pre-Covid levels. Furthermore, the healthy momentum continued in April with sales trading higher than pre-Covid levels (double digit growth). The management indicated that if not for Omicron impact, revenue in Q4 would have increased by 28% YoY
- Average selling price improved ~17% YoY to ₹ 1366 driven by premiumisation mix and price hikes (8-10%). Subsequently, average transaction size improved 17% to ₹ 4062. Customer footfalls declined 5% in Q4FY22 (8.3 million) owing to a sharp decline in January (25%) and February (8%). However, the company witnessed a sharp recovery with footfalls increasing 33% in March (on a favourable base)
- Gross margins declined 80 bps YoY to 40.1%. The margin was impacted owing to inventory write off worth ₹ 9 crore due to change in IT applications. Employee and other expenses increased 21% and 13% YoY, respectively, owing to higher store additions. Also, other expenses were impacted by one offs such as lease cost impact worth ₹ 6 crore and another ₹ 6 crore pertaining towards receivable write-off. Subsequently, EBITDA declined 20% YoY to ₹ 76.7 crore
- Revenue from private label brands increased 9.4% YoY with share improving 20 bps YoY to 13.2%. Kids segment also performed exceptionally well with volume and value growth of 20% and 40%, respectively. New brand launches in the men's ethnic-wear space witnessed healthy traction. In a bid to boost the share, SSL has re-jigged 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. It aims to increase the share to 25% over the next five years
- During the quarter, the company added five new departmental stores taking the count to 88 (spread across 4.2 mn sq ft). Out of gross store additions of eight in FY22, seven were added in Tier II/III cities. Going forward, the company expects to add 12-15 new departmental stores (~10 in Tier II/III cities) in FY23E (highest in the last six to seven years). The capex for the same is estimated at ₹ 148 crore. Currently, the average store size is ~40000-50000 square feet (sq ft). The new stores that would be opened in Tier II cities would have an average size of 25000-30000 sq ft. Furthermore, to improve the productivity of existing stores, SSL refurbished three, nine stores in Q4FY22, FY22, respectively. For the same, the company incurred a capex worth ₹ 25 crore. The management plans to renovate eight stores in FY23 with a capex of ₹ 53 crore
- Omni-channel strategies continue to be the key thrust. However, on a high base, revenue from digital sales grew 5% YoY (~6% of overall sales). The company invested ~ ₹ 53 crore in FY22 and plans to invest ₹ 55 crore in FY23E, primarily in technology, such as site personalisation, hyperlocal deliveries, etc
- Beauty format continues to perform well compared to departmental stores with revenue growth of 9% YoY to ₹ 157 crore. Beauty brands contribution to business improved 20 bps YoY to 17.6% in Q4FY22. It has launched 94 new brands in 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 60+ SKUs of nail range in Q4FY22. It is expected to launch 100+ SKUs of makeup and bath body in Q1FY23

**Q4FY22 conference call highlights:**

- Normally, January is a strong and significant month for the company but due to Omicron revenue for January declined 15%. February saw a recovery and revenue grew 7% YoY with March showing strong YoY growth of 40%. The management indicated that the momentum that was built in March had continued in April also. For FY23 the management is targeting a decent double digit growth (vs. pre-Covid levels) in line with the growth of the retail industry. The company is looking to reach ~₹ 7000 crore revenue over the next four to five years
- The company's personal shopper segment contributes around 10% of sales. The management indicated that the average ticket size in the personal shopper segment is 3x the normal average ticket size
- On the private brands front, the share is now at ~13% overall and ~19% in the apparel segment. The company is aiming to increase the revenue share of private labels to ~25% over the next few years
- SSL has launched a co-branded credit card with HDFC Bank, which provides benefits to Shoppers Stop first citizen loyalty members as well as HDFC Bank customers. The company is planning to provide higher benefits to consumers on private labels, which should aid in improving the revenue share of private labels
- The beauty segment remains a focus area for the company. It added 12 new beauty stores during Q4FY22. The company is the largest physical retailer in the beauty segment. The beauty segment enables SSL to have an enhanced customer engagement, which the company is looking to leverage to generate higher revenues. Also, SSL is planning to aggressively add beauty stores as the store size is small and the ramp up is significantly faster
- On the advertisement and publicity expense front, the management indicated that it is likely to increase the spending owing to higher spending on content creation for website and SS beauty app
- The company has taken a price hike of 8-10% recently and has not experienced a drop in volumes on account of that
- Athleisure and active wear continued to perform well. However, most customers also rebooted their wardrobes with formal wear with re-opening of offices
- The company in FY22 continued to achieve operational cost savings and curtailed operating overheads by ~ ₹ 253 crore compared to pre-Covid levels. The management expects certain cost savings to be structural in nature and post better margins, going forward, compared to pre-Covid levels
- The management guided that most new stores would be opened in Tier II cities as Tier II cities have shown good productivity levels. Also, the payback period for the new stores is two to two and a half years compared to metro stores, which are 3.5-4 years
- The company's liquidity position remains fairly stable with cash & investments worth ₹ 178 crore and debt worth ₹ 194 (net debt ₹ 16 crore, D/E: 0.3x). It expects to be net surplus by FY23E

## Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Total operating Income</b>	<b>1,725.1</b>	<b>2,493.8</b>	<b>3,727.8</b>	<b>4,385.5</b>
Growth (%)	-49.0%	44.6%	49.5%	17.6%
Cost of Goods Sold	1,065.1	1,503.4	2,134.9	2,509.8
Gross Margin (%)	38.3	39.7	42.7	42.8
Employee Expenses	257.5	269.3	335.5	399.1
Operating & Other Expenses	349.2	453.6	564.0	663.5
Total Operating Expenditure	1,671.7	2,226.3	3,034.4	3,572.4
<b>EBITDA</b>	<b>53.4</b>	<b>267.5</b>	<b>693.4</b>	<b>813.2</b>
Growth (%)	-90.3%	401.3%	159.2%	17.3%
Depreciation	384.7	352.0	374.3	416.3
Interest	220.0	205.4	209.0	230.6
Other Income	218.8	166.1	37.3	43.9
PBT (Before extraordinary item)	-332.5	-123.8	147.5	210.1
Extraordinary item	-22.4	-15.0	0.0	0.0
Total Tax	-79.7	-52.1	37.1	52.9
PAT	-275.2	-86.7	110.4	157.2
Minority Interest/Share of JV	0.0	0.0	0.0	0.0
<b>PAT(after minority interest)</b>	<b>-275.2</b>	<b>-86.7</b>	<b>110.4</b>	<b>157.2</b>
<b>EPS (₹) (after minority interest)</b>	<b>-25.2</b>	<b>-7.9</b>	<b>10.1</b>	<b>14.4</b>

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	-275.2	-86.7	110.4	157.2
Add: Depreciation	384.7	352.0	374.3	416.3
Add: Interest Expense	220.0	205.4	209.0	230.6
(Inc)/dec in Current Assets	322.9	-143.4	-600.5	-325.5
Inc/(dec) in CL and Provisions	-406.2	260.5	601.1	363.1
Others	-234.0	-108.0	0.0	0.0
<b>CF from operating activities</b>	<b>12.2</b>	<b>479.8</b>	<b>694.2</b>	<b>841.7</b>
(Inc)/dec in Investments	77.8	-18.5	-2.9	-3.0
(Inc)/dec in Fixed Assets	-82.1	-83.9	-200.0	-150.0
(Inc)/dec in CWIP	7.1	-11.1	4.0	0.0
Others	33.0	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>35.7</b>	<b>-113.5</b>	<b>-198.9</b>	<b>-153.0</b>
Issue/(Buy back) of Equity	10.7	0.1	0.0	0.0
Inc/(dec) in loan funds	26.3	43.9	-3.9	20.0
Less: Interest Expense	-220.0	-205.4	-209.0	-230.6
Others	175.4	-213.1	-222.9	-249.4
<b>CF from financing activities</b>	<b>-7.5</b>	<b>-374.6</b>	<b>-435.7</b>	<b>-460.0</b>
Net Cash flow	40.4	-8.3	59.5	228.8
Opening Cash	1.3	41.6	33.3	92.8
<b>Closing Cash</b>	<b>41.6</b>	<b>33.3</b>	<b>92.8</b>	<b>321.6</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	54.7	54.8	54.8	54.8
Reserve and Surplus	127.0	43.5	153.9	311.1
Total Shareholders funds	181.7	98.3	208.6	365.9
Total Debt	150.0	193.9	190.0	210.0
Other LT Liabilities	1,911.6	1,899.5	1,899.5	1,899.5
Deferred Tax Liability	-342.4	-374.0	-392.6	-412.3
Minority Interest / Others	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>1,900.8</b>	<b>1,817.7</b>	<b>1,905.5</b>	<b>2,063.1</b>
<b>Assets</b>				
Gross Block	1,262.1	1,346.0	1,546.0	1,696.0
Less: Acc Depreciation	761.0	899.0	1,069.1	1,255.6
Capital WIP	2.9	14.0	10.0	10.0
Total Fixed Assets	504.0	461.0	486.9	450.4
Investments	127.9	146.4	149.3	152.3
Other Non-current Assets	1,209.6	1,276.4	1,276.4	1,276.4
Inventory	847.2	1,007.5	1,480.9	1,742.2
Debtors	34.8	38.2	51.1	60.1
Loans and Advances	240.5	186.6	298.2	350.8
Cash	41.6	33.3	92.8	321.6
Other Current Assets	226.0	259.7	262.3	264.9
Total Current Assets	1,390.2	1,525.2	2,185.3	2,739.6
Creditors	1,139.9	1,441.9	2,042.6	2,403.0
Other Current Liab. & Prov.	190.9	149.5	149.8	152.5
Total Current Liabilities	1,330.8	1,591.3	2,192.4	2,555.6
Net Current Assets	59.4	-66.1	-7.2	184.0
<b>Application of Funds</b>	<b>1,900.8</b>	<b>1,817.7</b>	<b>1,905.5</b>	<b>2,063.1</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Per share data (₹) (annualised)</b>				
EPS	-25.2	-7.9	10.1	14.4
Cash EPS	10.0	24.2	44.3	52.4
BV	16.6	9.0	19.1	33.4
DPS	0.0	0.0	0.0	0.0
Cash Per Share	3.8	3.0	8.5	29.4
<b>Operating Ratios</b>				
EBITDA Margin (%)	3.1	10.7	18.6	18.5
PBT Margin (%)	-19.3	-5.0	4.0	4.8
PAT Margin (%)	-16.0	-3.5	3.0	3.6
Inventory days	179.3	147.5	145.0	145.0
Debtor days	7.4	5.6	5.0	5.0
Creditor days	241.2	211.0	200.0	200.0
<b>Return Ratios (%)</b>				
RoE	-54.6	-58.0	-50.0	-50.0
RoCE	-151.5	-88.2	52.9	43.0
RoCE	-14.8	-3.9	13.9	16.0
RoIC	-16.0	-4.2	15.6	19.9
<b>Valuation Ratios (x)</b>				
P/E	NA	NA	49.9	35.0
EV / EBITDA	138.6	27.7	10.6	8.8
EV / Net Sales	4.3	3.0	2.0	1.6
Market Cap / Sales	3.2	2.2	1.5	1.3
Price to Book Value	30.3	56.1	26.4	15.1
<b>Solvency Ratios</b>				
Debt/EBITDA	2.8	0.7	0.3	0.3
Debt / Equity	0.8	2.0	0.9	0.6
Current Ratio	1.0	1.0	1.0	1.1
Quick Ratio	0.4	0.3	0.3	0.4

Source: Company, ICICI Direct Research

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