

July 7, 2022

Disruption free quarter to set tone for robust growth

We expect companies in our Retail coverage universe to deliver a strong show in Q1FY23 (the only non-disrupted quarter in the last two years). As per our channel checks, fashion retailers, on a per store basis, have registered a recovery rate in the range of 110%+ of pre-Covid levels. The optimism was driven by improved consumer sentiments, wardrobe refresh and increased spend on discretionary purchases as consumer wallet share on non-essentials had remained subdued in the last two years. Also, fashion lifestyle retailers had built up healthy inventory for spring summer season in Q4FY22 after curtailing purchases for nearly two years (on an average, absolute inventory increased 1.5x YoY). On a favourable base of Q1FY22, we expect revenues to more than double (2.4x YoY) for our companies in our coverage universe (impressive three-year CAGR: 17%). In a bid to negate inflationary pressure, apparel retailers have taken price hikes in the range of 15-20%. Expect EBITDA margins to improve 80 bps QoQ (down 70 bps vs. Q1FY20 levels) to 12.3% in Q1FY23E. During the quarter, retailers continued calibrated expansion of their store network with opening of 10 D-Mart stores, 19 Tanishq stores, 56 Titan EyeCare stores, eight Zudio stores, three Westside stores and 11 V-Mart stores (including four Unlimited stores). Companies have restructured their existing store networks and aggressively enhanced footprint on a pan-India basis with emphasis on penetrating deeper in Tier III-V cities to capture potential demand pockets.

Titan, Trent to deliver superior financial performance

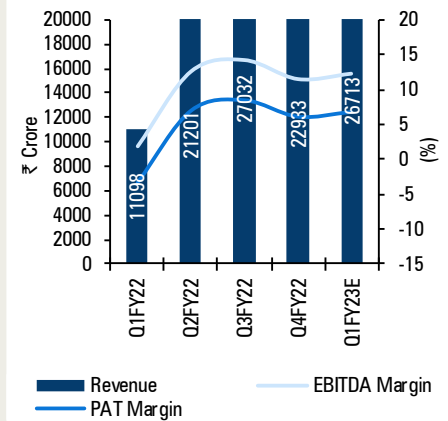
Titan's jewellery division had robust sales during the Akshaya Tritiya in May after two years of Covid induced lockdowns in this period. Growth in plain gold jewellery was ~3x YoY whereas studded ratio was now nearing pre-Covid levels (Q1FY20: 25%, Q1FY22: 22%). We expect Titan's jewellery division (including CaratLane) to record impressive three-year revenue CAGR of 25% in Q1FY23. Watches segment also saw healthy demand with revenue growth of 158% YoY in Q1FY23 (~106% of pre-Covid levels). For Avenue Supermarts, consolidated revenues to grow 93% YoY (three-year CAGR: 19%) in Q1FY23E. Revenue/sq ft for D-Mart expected at ₹ 8100 (~90% of pre-Covid levels). Avenue Supermarts continued its accelerated store expansion and added 10 stores in Q1FY23 (in line with its target of opening 40+ stores in FY23E). Among apparel players, we expect Trent and ABFRL to outperform. Trent, over the last few quarters, has been reporting industry best revenue growth driven by healthy store additions and recovery in SSSG. We expect Trent to report 298% YoY revenue growth (three-year CAGR: 20%). For ABFRL, we expect Pantaloons division to report revenue recovery of 119% of pre-Covid levels, with Lifestyle brands to register three-year revenue CAGR of 11%. For Bata India, reopening of offices and schools coupled with Bata's recent strategy of focusing on sneaker category is expected to lead to a recovery rate of 110% of pre-Covid levels in Q1FY23E.

Estimates for Q1FY23E

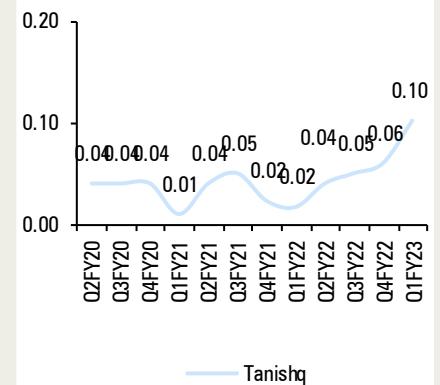
Company	Revenue		Change (%)		EBITDA		Change (%)		PAT		Change (%)	
	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ	Q1FY23E	YoY	QoQ
Avenue Supermarts	9,986.0	92.7	13.7	858.8	282.9	16.2	531.3	456.7	24.5			
Bata India	970.9	263.6	46.0	271.9	LP	68.0	139.8	LP	121.0			
Titan Company	9,328.8	168.6	19.7	1,053.9	669.3	32.7	707.7	3,831.0	34.0			
Trent Ltd	1,302.6	298.0	9.9	256.6	LP	68.4	106.6	LP	42.3			
TTK Prestige	557.9	56.3	-13.9	83.7	114.1	-20.9	63.7	134.2	-19.5			
Page Industries	1,239.2	147.1	11.5	275.1	704.5	3.0	189.9	1,636.4	-0.4			
ABFRL	2,705.4	233.2	18.5	424.7	LP	14.0	60.5	LP	90.0			
V-Mart	622.4	250.8	28.6	64.7	LP	28.0	3.9	LP	LP			
Total	26,713.1	140.7	16.5	3,289.3	1,561.0	24.4	1,803.3	LP	29.7			

Source: Company, ICICI Direct Research.

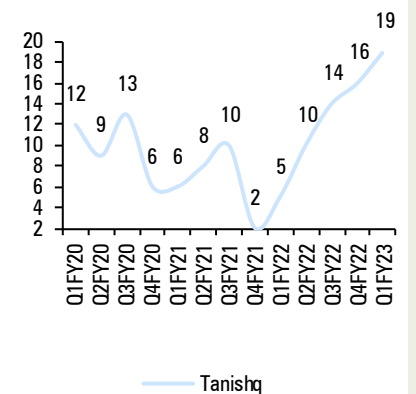
Topline & Profitability (Coverage Universe)



Space addition- million sq. ft. (QoQ)



Store addition –(QoQ) Tanishq (Titan)



Top Picks

Titan, Trent, ABFRL

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Exhibit 1: Company Specific view

Company	Remarks
Bata India	<p>We expect Bata to report normalised Q1 after a gap of nearly two years of Covid led disruption. Q1 generally tends to be the strongest quarter in terms of revenue for Bata (27-29% of revenues). Re-opening of offices and schools, coupled with Bata's recent strategy of focusing on sneaker category (~20% of sales) would propel revenue growth ahead of pre-Covid levels in Q1FY23. On a favourable base, expect revenue to increase 263% YoY (110% of pre-Covid levels) to ₹ 970.9 crore. Despite RM inflationary pressure, we expect gross margins to remain flattish QoQ at 57.0% (up 80 bps YoY) on account of calibrated price hikes and better product mix. On account of positive operating leverage, we expect the company to report one of its highest EBITDA of ₹ 272 crore (112% of pre-Covid levels) with healthy EBITDA margins of 28.0% (Q1FY22: -12.7%, Q4FY22: 24.4%). We expect the company to report PAT of ₹ 140 crore (Q1FY22: ₹ (-) 71 crore, Q4FY22: ₹ 63.1 crore)</p>
Titan Company	<p>Titan's has been a secular growth story with consistent market share gains from unorganised players. With gold prices stabilising (down 7% from March highs) and robust wedding and Akshaya Tiritiya, Titan's jewellery division is expected to deliver robust revenue growth in Q1FY23. On a favourable base, expect jewellery division to report revenue growth of 165% YoY (three year CAGR: 25%). Watches division revenue to grow 158% YoY (106% of pre-Covid levels) driven by new product and category launches. Overall revenues are expected to increase by 169% YoY (209% excluding gold bullion) to ₹ 9328.8 crore. Expect gross margins to improve 210 bps YoY to 24.5% on account of improved share of studded ratio. On a benign base and with positive operating leverage kicking in, we expect EBITDA margins to expand by 740 bps YoY (110 bps QoQ) to 11.3%. Tracking healthy operational performance, expect Titan to report PAT of ₹ 707.7 crore vs. ₹ 18.0 crore in Q1FY22 (three-year CAGR: 25%)</p>
Trent Ltd	<p>In the apparel retail space, Trent was the outperformer with the company registering industry best revenue growth in FY22 on the back of strong recovery in SSSG for Westside and robust store addition trajectory for Zudio. On a favourable base, we anticipate the company will report 298% YoY revenue growth at ₹ 1302.6 crore (three-year CAGR: 20%). During the quarter the company added eight Zudio and three new Westside stores. We expect gross margins to moderate by 127 bps YoY to 52.3% on account of increase in RM prices. Owing to higher operating expenses related to new store openings, we expect the company to report EBITDA margins of 19.7% (three-year EBITDA CAGR: 16%)</p>
Avenue Supermarts	<p>On a favourable base we expect Avenue Supermarts to report a consolidated revenue growth of 93% YoY to ₹ 9986 crore (QoQ growth of 14%, three-year CAGR:19%). Key monitorable during the quarter would be recovery in GM & apparel segment. The company added 10 stores in Q1FY23 taking the total count to 294 D-Mart outlets. Profitability during the base quarter was lower on account of less proportion of sales of discretionary products and negative operative leverage. On a weak base, we expect EBITDA margins to improve 430 bps YoY to 8.6% (Q4FY22: 8.4%). Absolute EBITDA is expected to increase 283% YoY to ₹ 858.8 crore (QoQ growth of 16%). Consequently, we anticipate YoY PAT growth of 4.5x to ₹ 531 crore (three-year CAGR: 18%)</p>

Source: Company, ICICI Direct Research

Exhibit 2: Company Specific views

ABFRL	<p>We expect ABFRL to register healthy revenue recovery in Q1FY23 driven by sustained growth for Lifestyle brands and Pantaloons segment surpassing pre-Covid levels for the first time in nearly two years. On a favourable base, expect revenue to increase 233% YoY to ₹ 2705.4 crore (131% of pre-Covid levels). Demand trends continued to be strong with major drivers being strong wedding season and revival of formal portfolio with opening up of offices. For FY22, Lifestyle segment had witnessed swifter recovery (~98% of pre-Covid levels), whereas Pantaloons recovery was lagging at 78% of pre-Covid levels. We expect Lifestyle segment to register revenue growth of 221% YoY (three-year CAGR: 12%) while Pantaloons is expected to grow 381% YoY (119% of pre-Covid levels). We expect the company to report EBITDA margins of 15.7% (vs. EBITDA loss of ₹ 169 crore in Q1FY22). Ensuuing PAT is anticipated at ₹ 60.5 crore (Q1FY22: loss of ₹ 352 crore, three-year CAGR 41%)</p>
TTK Prestige	<p>Kitchen appliances category has been resilient in the pandemic period also and middle to upper end of value added and innovative products continue to perform well, which is expected to aid the revenue growth for TTK Prestige. On a favourable base (owing to Covid impact), we anticipate revenue will increase 56% YoY to ₹ 558 crore driven by 65%, 48%, 56% YoY growth in cookers, cookware and appliances, respectively (three-year CAGR: 9.0%). We expect gross margins to decline 310 bps YoY (up 90 bps QoQ) to 41.5%. However, we expect EBITDA margins to improve 410 bps YoY to 15.0% (down 100 bps QoQ) on account of positive operating leverage. Absolute EBITDA is expected to increase by 114% YoY (owing to low base) to ₹ 83.7 crore. Consequently, we expect PAT to increase ₹ 63.7 crore vs ₹ 27 crore in Q1FY22</p>
Page Industries	<p>The company has expanded its multi brand outlet (MBO) network by more than 60% during the pandemic and added close to 55000 outlets with current MBO network of around 115000 outlets. Many newer outlets, which are less than a year old are expected to start contributing higher sales, which would provide thrust to volumes and revenue growth. We anticipate Page will report YoY revenue growth of 147% (on a benign base due to impact of Covid-19 in Q1FY22) to ₹ 1239.2 crore in Q1FY23E mainly driven by strong demand for its products and expanded distribution reach (three-year CAGR: 14%). Volumes are expected to increase 113% YoY while realisation is expected to be higher by 16% (due to price hikes taken in FY22 and change in product mix). We expect gross margins to improve 80 bps YoY to 58.5% (59.4% in Q4FY22). We anticipate EBITDA margins to improve from 6.8% (low base due to impact of pandemic) in Q1FY22 to 22.2% in Q1FY23. Subsequently, we expect Page to report a net profit of ₹ 190 crore vs. ₹ 11 crore in Q1FY22 (net profit of ₹ 191 crore in Q4FY22)</p>
V-Mart	<p>V-Mart is expected to deliver a mixed operational performance wherein the quarter was partially impacted owing to political unrest in company's key states such as UP and Bihar (~47% of total stores). We expect V-Mart stores (excluding Unlimited revenues) to report a recovery rate of 112% of pre-Covid levels (Q1FY20) to ₹ 522.4 crore. The revenue growth is expected to be mainly price led growth as the company has undertaken 15-20% price hike. Since the target audience is price sensitive, higher prices are expected to subdue volumes for Q1FY23. Store addition trajectory was impressive as it added 11 new stores (including four Unlimited). We expect overall revenues on a favourable base to increase by 251% YoY to ₹ 622.4 crore. Employee and other expenses to increase materially by 68% and 1.9x YoY due to integration of Unlimited format. However, owing to positive operating leverage, we expect the company to report EBITDA margins of 10.4% (Q1FY22: -1.1%, Q1FY20: 12.8%). Consequently, we expect it to report net profit of ₹ 3.9 crore (Q1FY22: loss of ₹ 29 crore)</p>

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	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Trent	1,167	1,470	Buy	41,483	15.8	9.2	6.7	5.3	-	392.0	115.1	73.2	238.7	72.2	42.7	32.0	4.3	14.1	26.0	31.0	-6.3	4.5	13.7	18.5
ABFRL	250	340	Buy	23,457	4.6	3.0	2.1	1.7	-	-	60.6	45.0	-	22.3	13.0	10.8	-8.9	5.1	13.4	16.4	-25.5	-3.9	7.3	9.5
Bata India	1,790	2,170	Buy	23,007	12.8	9.2	6.7	5.6	-	228.0	54.5	41.3	135.9	53.0	24.7	20.3	-5.9	9.6	39.5	41.0	-5.1	5.6	27.5	29.4
Titan Company	2,130	2,725	Buy	1,89,098	8.6	6.5	5.5	4.5	194.3	87.0	68.9	51.6	107.8	56.2	46.4	35.4	17.6	30.0	31.7	33.9	13.0	23.4	24.1	25.9
TTK Prestige	857	1,140	Buy	11,887	5.4	4.2	3.7	3.3	48.9	38.9	34.6	30.1	36.0	27.1	24.4	21.1	18.6	21.6	21.3	21.9	16.1	17.7	17.6	17.8
Page Industries	43,827	46,950	Hold	48,884	17.1	12.5	10.2	8.6	143.5	91.1	73.5	60.2	92.0	61.9	49.3	40.8	52.4	66.1	66.3	66.6	38.5	49.3	50.3	50.6
Avenue Supermarts	3,853	4,530	Buy	2,49,586	10.2	8.0	5.9	4.7	227.0	167.2	110.9	80.7	141.7	99.3	68.8	50.8	12.5	15.5	19.3	22.1	9.0	10.9	14.1	16.3
V-Mart	2,525	4,100	Buy	4,987	4.2	2.9	1.9	1.6	NA	428.8	73.4	42.5	34.7	23.6	15.0	11.7	6.0	10.3	19.1	24.4	-0.8	1.4	7.4	11.5

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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