

Shoppers Stop Ltd. (SS)

Brilliant turnaround; Initiate with HOLD

SS has been a pioneer in Indian retailing since 1991 and has been able to make a mark in the highly competitive retailing market. It is the seventh largest among all listed retail plays and has 266 stores spread over 48 cities. SS has been in losses for the past 3 years primarily because of COVID restrictions however It has seen a strong revival in its financials in FY23 – in 1HFY23 sales are up 131% yoy, EBITDA margin is up 1560bps yoy and PAT has gone to a profit from a loss yoy.

The winner which SS identified early is Beauty. Beauty is now 15% of sales. While nurturing its association with big brands, SS has setup its own private label, Arcelia. It is now, also setting up SS Beauty stores which sell all its Beauty assortment.

Further, SS used the COVID pandemic to restructure its terms with its suppliers and also rationalise its manpower. It has mostly been a free cash generating company since it sold Hypercity. We assign a HOLD rating with target price of Rs654 per share with a target P/E of 30X on FY24 earnings.

Investment Rationale

- SS has constantly tweaked its strategy:** For example, it i) exited loss making businesses i.e., Hypercity and Crossword ii) sharpened its pricing and assortment iii) entered the fast-growing Tier II and Tier III towns.
- SS has invested behind the turnaround:** Even before COVID, SS invested behind its strategic pillars of growth i.e., Beauty, Private Brands and Omni Channel. These investments are paying off now. These are discussed below:
 - Beauty** – i) SS now has a private brand, Arcelia. SS has started Arcelia stores to draw customers. Arcelia stores are chic and upmarket. ii) It is also setting up SS Beauty stores which retail all brands sold by SS. iii) It is increasing the brands with whom it has a relationship for retailing their products.
 - Private labels** – these are currently 15% of sales, but are important because SS private labels are exclusive to SS. SS has invested behind getting its assortment and pricing right.
 - SAP & other software** – SS has invested Rs 600mn in its SAP implementation. This helps SS in increasing the freshness of its merchandise by better control of its supply chain. It also helps SS understand its customer preferences.
 - Online** – Since online is a fast-growing sales stream, SS is focusing on growing its omni channel, which assists in online sales.
- Valuations are high:** SS trades at a FY24E P/E of 31.6x.

Key Risks

- India's retail sector slows down.
- Several trends which SS has invested behind like Beauty and online retail do not show the anticipated growth.



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Rating: **Hold** Upside/(Downside): -5%
CMP: **690** Target Price: **654**

Market Data

Bloomberg:	SHOP:IN
52-week H/L (Rs):	819 / 301
Mcap (Rs bn/USD bn):	75/0.9
Shares outstanding (mn):	109
Free float:	34.40%
Daily vol. (3mth Avg)	0.2 mn
Face Value (Rs):	5

Group:

Source: Bloomberg, EISEC Research

Shareholding pattern

	Jun-22	Mar-22	Dec-21	Sep-21
Promoter*	65.6	65.6	65.6	65.5
FIIs	6.7	6.4	6.1	5.9
DIIIs	19.8	16.6	16.7	15.8
Public/others	7.7	11.4	11.6	12.8

Source: BSE, *9.9% of shares held pledged

Price Performance (%)*

YE Mar (R)	1M	3M	6M	12M
Nifty 500	3.2	3.6	14.1	3.5
Shoppers Stop	-12.8	10.1	43.0	97.5

As on 13 December 2022 Source: Ace Equity, EISEC Research

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Y/E Mar (Rsmn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY20	34,639	-3.2%	5,515	15.9%	-1,322	NA	-15.0	6.2%	-45.9	11.3
FY21	17,589	-49.2%	540	3.1%	-2,672	-102%	-30.4	6.2%	-22.7	141.4
FY22	26,275	49.4%	3,780	14.4%	-724	73%	-8.2	3.8%	-83.9	20.4
FY23E	33,451	27.3%	4,930	14.7%	1,110	NA	12.6	11.3%	54.7	15.4
FY24E	37,411	11.8%	5,681	15.2%	1,919	73%	21.8	15.7%	31.6	13.2

Source: Company, EISEC Research Estimates

EISEC Research is also available on Bloomberg and Thomson Reuters

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Shoppers Stop

SS is a mid to premium market retailer, with a product offering ranging from apparel, footwear, accessories, jewelry, grooming and beauty products to luggage.

Background

SS was started in October 1991 by the K Raheja group. Today, it has 266 stores, of which 91 are department stores, 139 are beauty stores, 11 are Home Stop stores and 25 airport stores. The stores are across 48 cities and have a carpet area of 3.8 mn sq ft.

77% of SS sales come from its loyal customers, for whom it has formed a loyalty club called First Citizen. SS runs special sales and discount schemes for its First Citizen customers. There were 9.2mn First Citizen customers as at Q2FY23 end. This figure is up from 7.8mn First Citizen customers as at Q1FY22 end, a growth of 18% over 5 quarters.

Promoter

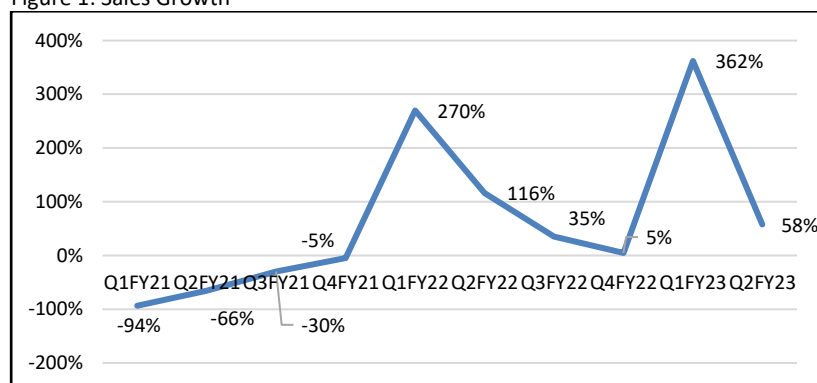
The promoter of SS is K. Raheja Corp and other companies owned by the Raheja family of Neel Chandru Raheja and Ravi Chandru Raheja. It is amongst India's biggest hospitality and real estate players.

SS has turned around

This is visible from the following charts:

- Sales growth is strong

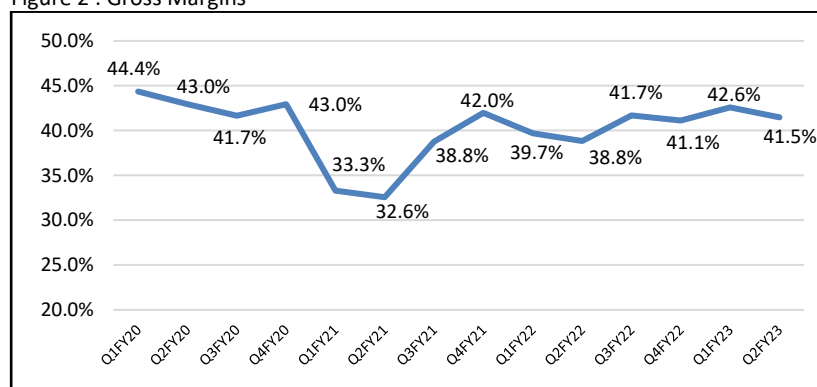
Figure 1: Sales Growth



Source : Company, EISEC Research

- Gross margins are improving

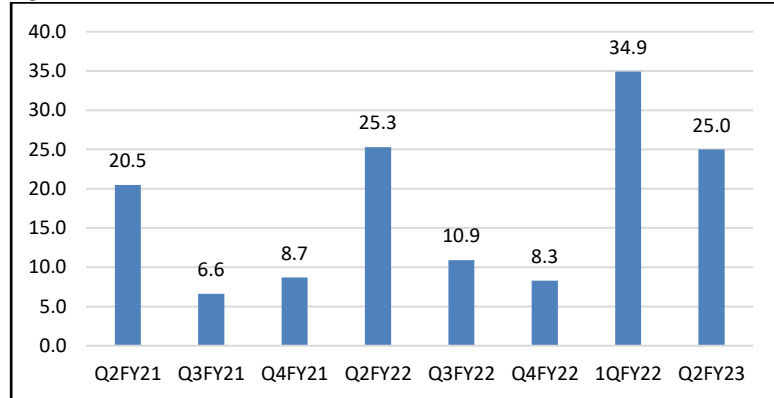
Figure 2 : Gross Margins



Source : Company, EISEC Research

- Footfalls (the number of customers visiting SS stores) are improving – These had dipped quite significantly, but are now on the recovery path – in Q2FY23, footfall was 25 mn, flat yoy.

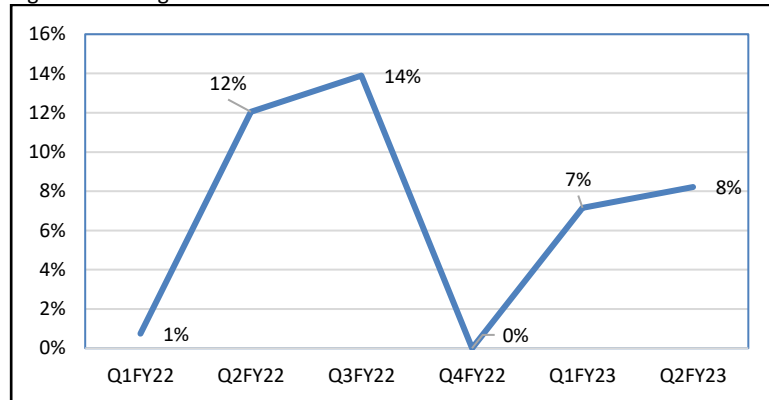
Figure 3: Footfalls



Source : Company, EISEC Research

- Average transaction value or the amount a customer spends per billing (ATV) is holding up – ATV has been going up for SS. For example, in Q2FY23, its ATV was Rs 4069, up 8% yoy.

Figure 4: Average Transaction Value



Source : Company, EISEC Research

SS has reinvented its strategy till it hit the right spot

Over the last 5 years, SS has been aggressive in trying to bring the business back on track. The changes have been highlighted below:

Sold loss making businesses

1. Sold Hypercity to Future Retail in 2017. Hypercity was a big drag on SS's financials.
2. Sold Crossword in 2021 to Agarwal Book House. Though small, Crossword too was making losses.

Has changed strategy to enter the Tier 2 & 3 towns, which are seeing fast growth, from earlier focusing on the Tier 1 towns

1. SS has developed a strategy for Tier 2, Tier 3.

Is focusing on Beauty, a fast-growing segment

1. Has set up a Beauty personal product brand, Arcelia.
2. Is setting up SS Beauty stores – stores that sell only Beauty products.
3. Is increasing its association with more international and Indian brands so that it becomes a preferred destination for beauty shopping.

Changed its offering and pricing in personal products several times till it hit the right spot

Has made investments

1. Has invested in SAP and other software to be able to better track online customer preferences. This has helped it to improve its offerings even for the physical stores.

What SS has done to differentiate itself

To differentiate itself and grow business in a fragmented industry, SS has focussed on:

1. Its supply chain, so that it can offer fresher products.
2. Has set up a design studio, so that it can get current fashions quickly to the customer.
3. Has got personal assistants in place to assist shoppers.
4. Is promoting its First Citizen customers (contribute 77% of sales).

Growth plans

For FY23, SS plans to open 12 department stores and 15 beauty stores. Besides,

1. Capex will be funded through internal resources.
2. Some of the capex is also shared by the landlord. The quantum shared by the landlord varies quite significantly between different properties and different locations. There are instances where the entire capex is borne by the landlord or the developer.
3. The size of department stores is coming down from 40,000sqft to 25-30,000sqft.

About Shoppers Stop

Shareholding

The details of the shareholding are indicated in the following table:

Figure 5: Shareholding Pattern

Particulars	% Holding
Promoter Group	65.6
Mutual Funds / UTI	19.8
Financial Institutions / Banks	0.0
Insurance Companies	0.0
Alternate Investment Funds	0.0
Foreign Portfolio investors	6.7
Public	7.9
Total Shareholding	100.00

Source: Ace Equity, EISEC Research

Board of Directors

Name	Designation	Profile
B.S. Nagesh	Customer Care Associate, Chairman and Non-Executive Director	He has been involved with Shoppers Stop and its group companies since its inception in 1991, as the first employee. As part of his personal philosophy of 'Learn, Earn and Return', he stepped out of the day-to-day roles of the business as Managing Director of the Company in 2009.
Manish Chokhani	Independent and Non-Executive Director	A Chartered Accountant and an MBA from London Business School, Manish is one of India's most respected financial experts and investors. He was the CEO of Enam Securities, India's leading investment bank.
Ravi C. Raheja	Non-Executive Director	An alumnus of the London Business School, Ravi has 27+ years of comprehensive experience across real estate, retail and hospitality. At the helm of the most significant growth strategies, Ravi is actively involved in charting the future growth of K Raheja Corp and each of its businesses.
Neel C. Raheja	Non-Executive Director	Neel Raheja began his odyssey with the family empire at the young age of 18. With a strong background in finance, a degree in Law from the Mumbai University, and an alumnus of the Harvard Business School, Boston, Massachusetts (OPM Program), Neel has extended the Company beyond the realms of real estate. Working his way to the top, he has earned his place at the helm of the Company, scaling it to new heights.
Venu Nair	Customer Care Associate, MD and CEO	He is an International Retail Leader with 28 years of rich and varied experience in the Retail and Apparel Industry across South Asia and Europe. Prior to joining Shoppers Stop he was the CEO of Westside at Trent Limited.
Deepak Ghasias	Independent and Non-Executive Director	Deepak, a qualified Chartered Accountant, Cost Accountant and Company Secretary and an alumnus of the London Business School, leads strategy development, visioning and conceptualisation of breakthrough business models for Gencoval Group, in the field of healthcare and biotechnology.
Christine Kasoulis	Independent and Non-Executive Director	Christine Kasoulis is a successful Omni-channel retail director with 32 years of experience, primarily at the John Lewis Partnership, where she held the positions of Director for the Home Division, followed by Director for the Fashion and Beauty Division.
Nirvik Singh	Independent and Non-Executive Director	Nirvik brings to the Board his keen sense of marketing communications and 30+ years of experience in the industry. He is the Global COO & President International of Grey Group, a leading global marketing communications network — overseeing Europe, Latin America, Asia Pacific, Middle East and Africa.
Robert Bready	Independent and Non-Executive Director	Robert is a freelance retail expert with 28+ years of experience in fashion retail, both online and offline. He built his career across different functions in buying and merchandising while moving his way from mid-size family-owned River Island to blue-chip multinational brand Arcadia Group

Source: Company, EISEC Research

Key management personnel

Name	Designation
Venu Nair	Managing Director and CEO
Venkatesh Raja	Chief Human Resource Officer
Karunakaran Mohan Sundaram	Chief Financial Officer
Devdas Nair	Chief Supply Chain Office
Sreekanth Chetlur	Chief E-commerce Officer
Neeraj Nagpal	Chief Business Officer - Brands & Supply Chain

Source: Company, EISEC Research

Why invest in Shoppers Stop?

The investment arguments in SS' favour are the following:

1. SS has been able to develop brand 'Shoppers Stop' which is perceived as a mid to premium brand.
2. SS has been able to restructure itself by selling loss making businesses, which it was not able to turn around, namely Hypercity and Crossword.
3. SS used the opportunity of COVID to restructure its costs and has managed to turn to profits.
4. There are strong industry tailwinds. SS has been able to identify them and has made a success of them
 - a. Case in point being the Beauty business.
 - b. There is strong growth that is visible in Tier2 & Tier3. SS has reworked its strategy to enter these cities.
5. Given the trend towards premiumisation, there is strong case for SS' margins to improve over time.

To sum up, SS comes across as a dynamic organisation which embraces emerging trends, is not averse to restructuring. SS is an organisation that is constantly thinking how to better itself.

The only reason SS is not a Buy in our recommendation is its valuation – it is trading at a P/E of 31.6x FY24 and so looks fully priced.

Peer Comparison

The entire retailing sector has gone through a difficult time in the past 3 years because of COVID. These 2 years have been used by all to restructure their operations specially the terms of trade with their supplier. Also restructured are lease agreements.

Going forward, there are some tailwinds for the sector :

1. Shift from the unorganized to the organized sector expected to continue.
2. Consumer preference shifting towards mid to premium apparel, accessories, watches etc.
3. There is a jump in demand for stylish footwear – retailers have tied up with suppliers of such footwear to cater to this demand.
4. Consumer preference in Beauty shifting towards mid to premium brands giving retailers a chance to sell merchandise of global brands as well as develop in-house brands.
5. Across the sector, companies are trying to reinvent themselves to cater to the changing customer preferences.
6. We believe that as sales pick up, the benefits will flow to the bottomline as costs have been restructured.

Company Name	Net Sales (Rs. Mn.)			EBITDA (Rs. Mn.)			PAT (Rs. Mn.)			EBITDA Margin %			PAT Margin %		
	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
Shoppers Stop	34,639	17,589	26,275	5,515	540	3,780	-1,322	-2,672	-724	15.9%	3.1%	14.4%	-3.82%	-15.19%	-2.75%
Aditya Birla Fashion & Retail	98,375	61,128	94,044	12,566	5,822	11,384	1,630	6,725	-1,087	38.70%	37.70%	44.20%	1.7%	11.0%	-1.2%

Source: Ace Equity, EISEC Research

Company Name	Mcap Rs mn	CAGR FY17-22			ROE (%)			RoCE (%)			Dividend Payout		
		Revenue	EBITDA	PAT	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
Shoppers Stop	71,316	-11.8%	16.7%	43.4%	NA	NA	NA	6.2%	NA	3.8%	0.0%	0.0%	0.0%
Aditya Birla Fashion & Retail	2,92,846	3.5%	18.5%	NA	-11.9%	-35.3%	-3.0%	13.1%	6.6%	6.7%	0.0%	0.0%	0.0%

Source: Ace Equity, EISEC Research

Valuation

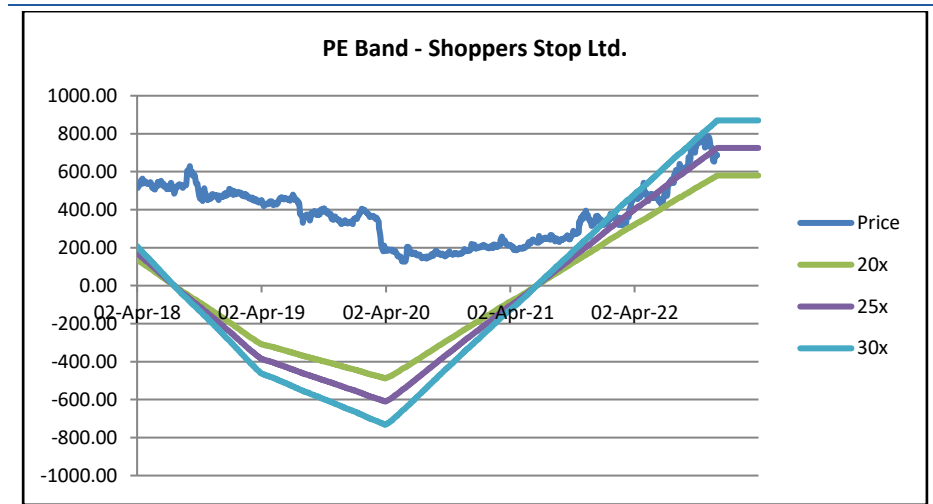
The Shoppers Stop brand is a well-known and respected brand. Shoppers Stop has been able to understand customer demand and cater to it. For example:

1. It now services the Tier 2 & Tier 3 towns much more than in the past. Tier 2 & Tier 3 towns are seeing faster growth than Tier 1 towns.
2. It is tying up with brands in the Beauty segment to cater to demand.
3. It has changed its assortment as per need.

Yet, Shoppers Stop has demonstrated performance that it not steady. For this reason, we attribute a FY24 P/E of 30.

Shoppers Stop is currently trading at P/E of 31.6x on FY24 basis. We value the stock based on P/E methodology and assign multiple of 30x (2-year forward) on FY24E PAT of Rs2,555mn to arrive at a target price of **Rs 654** per share, which is potential downside of ~5.0% from current market price and recommend **“HOLD”** on the stock.

Figure 9: 2-year forward P/E chart



Source: Ace Equity, Company, EIS Research

Financials Consolidated

Income Statement	FY20	FY21	FY22	FY23E	FY24E
YE March (Rs mn)					
Revenues	34,639	17,589	26,275	33,451	37,411
% Growth	-3.2%	-49.2%	49.4%	27.3%	11.8%
Operating Expenses	20,065	10,763	15,060	19,167	21,324
% of sales	57.9%	61.2%	57.3%	57.3%	57.0%
Personnel	3,346	2,651	2,725	2,998	3,298
% of sales	9.7%	15.1%	10.4%	9.0%	8.8%
Other expenses	5,052	3,635	4,709	6,356	7,108
% of sales	14.6%	20.7%	17.9%	19.0%	19.0%
EBITDA	5,515	540	3,780	4,930	5,681
EBITDA Margin (%)	15.9%	3.1%	14.4%	14.7%	15.2%
Other Income	342	2143	590	753	299
Depreciation & Amortization	4,503	3,922	3,548	3,218	2,445
Extraordinary Items	-643	-	-	-	-
EBIT	712	1,240	822	2,465	3,535
Finance cost	1,973	2,230	2,066	986	977
PBT	(1,261)	(3,469)	(1,244)	1,480	2,559
Tax-Total	704	-797	-520	370	640
Reported PAT	-1,965	-2,672	-724	1,110	1,919
Minority Interest	0	0	0	0	0
Adjusted PAT	-1,322	-2,672	-724	1,110	1,919
PAT Margin	-5.7%	-15.2%	-2.8%	3.3%	5.1%

Source: Company, EISEC Research Estimates

Key Ratios	FY20	FY21	FY22	FY23E	FY24E
YE March					
Growth Ratios (%)					
Net Sales	-3.2%	-49.2%	49.4%	27.3%	11.8%
EBITDA	124.5%	-90.2%	600.2%	30.4%	15.2%
Adjusted Net Profit	NA	-102.1%	72.9%	NA	72.9%
Margin Ratio (%)					
EBITDA Margin	15.9%	3.1%	14.4%	14.7%	15.2%
PBT margins	-3.6%	-19.7%	-4.7%	4.4%	6.8%
PAT Margin	-3.8%	-15.2%	-2.8%	3.3%	5.1%
Return Ratios					
ROCE	6.2%	NA	3.8%	11.3%	15.7%
ROIC	6.8%	NA	1.1%	8.0%	14.7%
Turnover Ratios (days)					
Gross Block Turnover (x)	1.5	0.8	1.2	1.5	1.6
Inventory	131	178	140	110	105
Debtors	16.0	6.4	4.4	16.0	10.0
Creditors	160	239	200	200	120
Cash Conversion Cycle	-13.7	-55.1	-56.0	-74.0	-5.0
Solvency ratio (x)					
Net Debt-Equity	2.2	0.7	2.4	0.2	-0.1
Gross Debt/EBITDA	2.3	1.1	2.8	0.4	0.1
Current ratio	0.9	0.9	0.8	0.8	0.9
Per share (Rs.)					
Basic EPS (reported)	-15.0	-30.4	-8.2	12.6	21.8
BV	7.8	13.9	8.6	21.2	43.1
CEPS	28.9	14.2	32.1	49.2	49.6
DPS	1.5	0.0	0.0	0.0	0.0
Dividend Payout (%)	-6.7%	0.0%	0.0%	0.0%	0.0%
Valuation					
P/E	-45.6	-22.6	-83.4	54.4	31.4
P/BV	87.5	49.4	79.5	32.3	15.9
EV/EBITDA	11.2	140.6	20.3	15.3	13.2
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company, EISEC Research Estimates

Balance Sheet	FY20	FY21	FY22	FY23E	FY24E
YE March (Rs mn)					
Capital	440	547	548	548	548
Reserves & Surplus	249	673	212	1,321	3,240
Shareholders' Funds	689	1,220	759	1,869	3,788
Minority Interest	0	0	0	0	0
Total Loan Funds	1,554	1,288	2,159	788	488
Lease liability	20,771	19,198	18,995	18,995	18,995
Total Liabilities	23,021	21,712	21,913	21,659	23,278
Gross Block	9,540	2,707	3,722	4,222	4,922
Accumulated Dep.	4,476	445	545	663	801
Net Block	5,064	2,262	3,177	3,559	4,121
Intangible assets	863	825	684	800	800
Capital WIP	102	29	140	100	100
Right of use assets	13,422	12,165	12,764	12,764	12,764
Total fixed assets	19,349	17,208	17,233	15,632	14,687
Investments	1,905	1,278	1,460	1,460	1,460
Other non-current assets	4,248	5,088	5,502	9,032	7,856
Total non-current Assets	6,255	6,387	7,102	10,591	9,416
Inventories	12,392	8,561	10,075	10,081	10,762
Short term loans & advances	977	568	130	1004	748
Sundry Debtors	1,522	308	315	1,466	1,025
Cash & Bank Balances	43	421	328	349	701
Other current Assets	169	2,294	2,642	2,600	169
Total Current Assets	15,103	12,153	13,490	15,500	13,405
Sundry Creditors	15,218	11,525	14,418	18,329	12,300
Other current liabilities	2,357	2,447	1,409	1,650	1,845
Provisions	111	63	86	86	86
Total Current Liabilities	17,686	14,035	15,913	20,064	14,230
Net Current Assets	-2,583	-1,883	-2,423	-4,564	-825
Total Assets	23,021	21,712	21,912	21,659	23,278

Source: Company, EISEC Research Estimates

Cash Flow	FY20	FY21	FY22	FY23E	FY24E
YE March (Rs mn)					
Operating profit before WC changes	5,215	2,683	4,370	5,683	5,980
Changes in working capital	834	(322)	446	2,163	(3,388)
Cash flow from operations	5,345	3,158	5,337	7,476	1,953
Capex	(1,220)	118	159	(1,460)	(1,500)
Long term advances	(83)	(859)	1,615	(2,970)	392
Other non-current assets	(2,153)	27	(2,037)	(560)	784
Others	(1,807)	(304)	(3,790)	(110)	-
Cash flow from investments	(4,584)	(391)	(4,236)	(5,099)	(325)
Cash flow from financing	(893)	(2,389)	(1,195)	(2,356)	(1,277)
Net change in cash	(131)	378	(94)	21	352

Source: Company, EISEC Research Estimates

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