

Shoppers Stop

BSE SENSEX 62,970
S&P CNX 18,691

CMP: INR793 TP: INR800 (+1%) Neutral

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SHOPPERS STOP

Bloomberg	SHOP IN
Equity Shares (m)	109
M.Cap.(INRb)/(USDb)	86.7 / 1.1
52-Week Range (INR)	827 / 449
1, 6, 12 Rel. Per (%)	4/11/57
12M Avg Val (INR M)	110
Free float (%)	34.6

Financials & Valuations(INR b)

Y/E March	FY23	FY24E	FY25E
Sales	40.0	45.6	52.0
EBITDA	7.0	8.2	9.6
Adj. PAT	1.2	1.7	2.4
EBITDA Margin (%)	17.5	18.0	18.5
Adj. EPS (INR)	14.5	20.8	28.3
EPS Gr. (%)	NM	43.4	36.1
BV/Sh. (INR)	24.7	44.5	71.7

Ratios

Net D:E	9.7	4.0	2.3
RoE (%)	73.4	54.5	45.1
RoCE (%)	11.5	12.5	13.3
Payout (%)	0.0	0.0	0.0

Valuations

P/E (x)	54.6	38.1	28.0
EV/EBITDA (x)	15.8	12.7	10.6
EV/Sales (x)	2.8	2.3	2.0
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	3.8	8.5	7.0

'InTune', SHOP aims to create a new growth engine

Shoppers Stop (SHOP) has recently entered into the fast-fashion value retail segment with the launch of 'InTune' stores. The smaller, youth-centric family store has a very trendy look and offers sharp pricing below INR999. With InTune, SHOP aims to create a new growth engine.

Foray into fast-fashion value apparel category

SHOP has entered into the fast-fashion value format with 'InTune' brand. It has opened two stores in Hyderabad (GSM Mall and DSL Virtue Mall) spread across ~5,000sqft carpet area. They offer an extensive range of affordable fashion options for the entire family, completely consisting of private labels. Targeting the youth, the product category is mainly tilted toward casual wear, with limited offerings under the formal wear category, similar to Zudio. Competing with formats like Zudio, the product pricing will be sharp, ranging between INR169 and INR999 with an ASP of ~INR500.

Sharper pricing to ensure healthy store economics

Value fashion stores, with an average store size of 4,500-5,000sqft, may garner average store revenue of about INR60-70m, which is equal to an average revenue of about INR12,000-13,000 per sqft. Gross margins are expected to be in the range of 30-35%, which is the typical range for value fashion retailers. With low gross margins, it is challenging to achieve double-digit EBITDA margin at the store level. It is only possible if the rent is INR50-60/sqft or revenue/productivity is high. Zudio's key success factor is that its revenue per sqft is over INR15,000, which enables healthy store level profitability.

Focus on gradual expansion

In the initial pilot phase, SHOP plans to open 5-7 stores in Mumbai and other cities to check product acceptance. Depending on the traction, it may gradually expand this category in different cities. Thus, in FY24, it may monitor store operations. Once it has perfected the business model, it may expand aggressively. Accordingly, any material contribution may come FY25 onward.

Weak market conditions persist

Our on-the-ground channel check indicates weak demand across lifestyle categories like apparel and footwear for both premium and value segment retailers. As highlighted in our [retail day report](#), most retailers are hinting at flat or lower SSSG. Further, an early EOSS has also been widely initiated by all brands, unlike last year when it was started by the end of June. However, lower RM prices should cushion margins and possibly soften ASPs, which may revive demand by 2HFY24.

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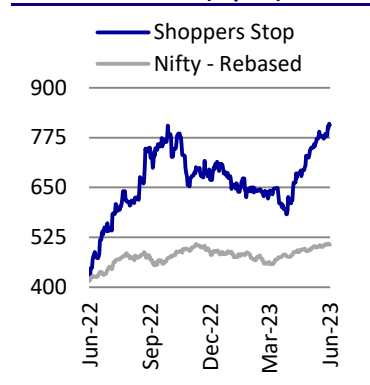
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Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	65.5	65.5	65.6
DII	20.8	20.4	19.8
FII	6.8	7.0	6.1
Others	6.9	7.1	8.5

Stock Performance (1-year)**Valuation and View**

- The company has received healthy responses to its recent initiatives of: 1) opening smaller stores (30k sqft vs. existing average of 50k sqft) to improve store efficiency; 2) growing Private Label mix; and 3) focusing on the high-growth and margin-accretive Beauty segment.
- A healthy recovery in SSSG and steady store addition guidance of 12/15 in the departmental/Beauty segments should aid revenue growth. Further, the contribution from the beauty distribution segment and the value format should help SHOP achieve its target of doubling revenue by FY26.
- A healthy balance sheet, net debt of INR53m (Excluding Lease Liabilities) as on Mar'23, and strong FCF generation capability of INR4-5b could provide comfort on funding the footprint expansion.
- However, persistent demand pressures, particularly in the Tier 2 markets where the company has planned its expansion activities, and increased competition from the newly launched 'Centro' may pose risks.
- The stock is currently trading at 10.6x EV/EBITDA and 28x P/E on FY25E, building EBITDA/PAT CAGRs of 17%/41% over FY23-25E.
- We value SHOP at 11x FY25E EV/EBITDA to arrive at a TP of INR800. We reiterate our **Neutral** rating on the stock.

Exhibit 1: Valuation based on FY25E

	Methodology	Driver (INR b)	Multiple	Fair Value (INR b)	Value/sh (INR)
Standalone (Shoppers Stop)	EV/EBITDA	10	11	110	1,005
Total Enterprise Value				110	1,005
Less Net debt				23	206
Equity Value				88	800
Shares o/s (m)				109.7	
CMP (INR)					793
Upside (%)					1

Source: MOFSL, Company

Exhibit 2: Store economics for Zudio (FY23, INR m)

	Per Store	Total Per sqft
Average store size		7,000
Capex	17	2,480
Inventory	18	2,520
Total	35	5,000
Payback (in years)	2.2	2.2
Revenue	121	17,275
Gross Profit	42	5,976
Gross margin (%)	35	35
Other expenses	26	3,690
Store Level EBITDA	16	2,287
Margin (%)	13	13

Source: MOFSL, Company

Exhibit 3: Details for “InTune” format

Particulars	INR
Average Store size (Sqft)	~5,000
Product Pricing	169-999
ASPs	500
Revenue per store (INR m)	60-70
Revenue per sqft (INR)	12,000-13,000
Gross Margins (%)	30-35

Source: MOFSL, Company

Exhibit 4: Store exteriors

Source: MOFSL, Company

Exhibit 5: Store exteriors

Source: MOFSL, Company

Exhibit 6: Product offerings



Source: MOFSL, Company

Exhibit 7: Product offerings



Source: MOFSL, Company

Exhibit 8: Product offerings



Source: MOFSL, Company

Exhibit 9: Product offerings



Source: MOFSL, Company

Financials and valuations – standalone

Standalone - Income Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	35,915	34,813	33,810	17,251	24,938	39,984	45,562	51,964
Change (%)	-1.6	-3.1	-2.9	-49.0	44.6	60.3	14.0	14.0
Raw Materials	22,134	20,272	19,676	10,651	15,034	23,274	26,426	30,009
Employees Cost	3,013	3,145	3,219	2,575	2,693	3,493	3,982	4,539
Lease Rentals	3,597	3,863	560	0	0	0	0	0
Other Expenses	5,054	5,000	4,860	3,492	4,536	6,229	6,971	7,795
Total Expenditure	33,799	32,280	28,315	16,717	22,263	32,996	37,379	42,343
% of Sales	94.1	92.7	83.7	96.9	89.3	82.5	82.0	81.5
EBITDA	2,116	2,533	5,494	534	2,675	6,988	8,184	9,621
Margin (%)	5.9	7.3	16.3	3.1	10.7	17.5	18.0	18.5
Depreciation	1,119	1,351	4,392	3,847	3,520	3,816	4,148	4,512
EBIT	997	1,182	1,102	-3,313	-844	3,172	4,035	5,109
Int. and Finance Charges	362	124	1,944	2,200	2,054	2,092	2,272	2,509
Other Income	160	179	335	2,188	1,661	561	561	561
PBT bef. EO Exp.	796	1,237	-507	-3,325	-1,238	1,641	2,324	3,161
EO Items	-504	0	-200	-224	-150	-20	0	0
PBT after EO Exp.	292	1,237	-707	-3,549	-1,388	1,621	2,324	3,161
Total Tax	176	449	703	-797	-521	429	585	796
Tax Rate (%)	60.2	36.3	-99.5	22.5	37.5	26.4	25.2	25.2
Minority Interest	0	0	0	0	0	0	0	0
Reported PAT	116	788	-1,409	-2,752	-867	1,192	1,739	2,366
Adjusted PAT	765	1,001	-1,609	-2,976	-717	1,212	1,739	2,366
Change (%)	-213.0	30.8	-260.8	84.9	-75.9	-269.2	43.4	36.1
Margin (%)	2.1	2.9	-4.8	-17.3	-2.9	3.0	3.8	4.6

Standalone - Balance Sheet

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	440	440	440	547	548	548	548	548
Total Reserves	9,094	9,337	926	1,270	435	1,771	3,510	5,875
Net Worth	9,534	9,776	1,366	1,817	983	2,320	4,058	6,424
Total Loans	874	0	21,915	20,054	20,934	23,527	25,087	28,362
Lease Liabilities			20,678	19,116	18,995	22,487	23,148	23,148
Deferred Tax Liabilities	-198	-320	-2,641	-3,424	-3,740	-3,312	-3,312	-3,312
Capital Employed	10,210	9,457	20,640	18,447	18,177	22,535	25,833	31,474
Gross Block	9,282	9,907	11,457	11,923	14,913	13,432	12,448	14,488
Less: Accum. Deprn.	2,804	3,959	5,930	6,912	10,432	8,820	9,933	11,224
Net Fixed Assets	6,478	5,948	5,527	5,011	4,481	4,612	2,515	3,264
Right to use assets			13,257	12,096	12,764	16,361	17,003	17,460
Capital WIP	182	351	443	29	140	339	339	339
Total Investments	3,176	2,935	2,057	1,279	1,464	734	734	734
Curr. Assets, Loans&Adv.	7,592	15,199	16,727	13,902	15,240	20,629	28,936	36,596
Inventory	3,284	10,535	12,239	8,472	10,075	14,863	15,604	17,796
Account Receivables	437	444	351	348	382	304	346	395
Cash and Bank Balance	52	167	13	416	321	254	8,201	12,948
Loans and Advances	3,818	4,052	4,125	4,666	4,462	5,208	4,786	5,458
Curr. Liability & Prov.	7,218	14,977	17,370	13,870	15,913	20,139	23,694	26,919
Account Payables	4,886	12,542	14,967	11,399	14,419	18,259	19,910	22,610
Other Current Liabilities	2,252	2,341	2,295	2,409	1,409	1,841	3,745	4,271
Provisions	79	93	108	62	86	39	39	39
Net Current Assets	374	222	-643	32	-673	490	5,242	9,677
Appl. of Funds	10,210	9,456	20,640	18,447	18,177	22,535	25,834	31,475

E: MOFSL Estimates

Financials and valuations – standalone

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	9.2	12.0	-19.3	-35.6	-8.6	14.5	20.8	28.3
Cash EPS	22.6	28.2	33.3	10.4	33.6	60.2	70.5	82.4
BV/Share	114.2	117.1	16.4	21.8	11.8	27.8	48.6	76.9
DPS	0.8	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	67.8	9.8	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E	86.5	66.2	-41.1	-22.2	-92.4	54.6	38.1	28.0
Cash P/E	35.1	28.2	23.8	76.1	23.6	13.2	11.2	9.6
P/BV	6.9	6.8	48.5	36.5	67.4	28.5	16.3	10.3
EV/Sales	2.0	2.0	2.7	6.2	4.3	2.8	2.3	2.0
EV/EBITDA	33.3	27.5	16.7	199.4	40.2	15.8	12.7	10.6
Dividend Yield (%)	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	23.2	11.1	43.8	-6.6	25.8	38.1	79.9	64.8
Return Ratios (%)								
RoE	8.9	10.4	-28.9	-187.0	-51.2	73.4	54.5	45.1
RoCE	3.9	8.6	17.3	-3.9	2.3	11.5	12.5	13.3
RoIC	5.0	11.8	18.2	-14.7	-3.2	12.5	16.0	22.5
Working Capital Ratios								
Fixed Asset Turnover (x)	3.9	3.5	3.0	1.4	1.7	3.0	3.7	3.6
Asset Turnover (x)	3.5	3.7	1.6	0.9	1.4	1.8	1.8	1.7
Inventory (Days)	33	110	132	179	147	136	125	125
Debtor (Days)	4	5	4	7	6	3	3	3
Creditor (Days)	50	132	162	241	211	167	160	159
Leverage Ratio (x)								
Current Ratio	1.1	1.0	1.0	1.0	1.0	1.0	1.2	1.4
Interest Cover Ratio	2.8	9.5	0.6	-1.5	-0.4	1.5	1.8	2.0
Net Debt/Equity	-0.2	-0.3	14.5	10.1	19.5	9.7	4.0	2.3

Standalone - Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	796	1,237	-707	-3,549	-1,388	1,621	2,324	3,161
Depreciation	1,119	1,351	4,392	3,847	3,520	3,816	4,148	4,512
Interest & Finance Charges	362	124	1,944	2,200	2,054	2,092	2,272	2,509
Direct Taxes Paid	-356	-565	-422	124	210	-36	-585	-796
(Inc)/Dec in WC	1,341	-24	538	-575	899	-1,683	3,200	318
CF from Operations	3,261	2,124	5,745	2,046	5,295	5,810	11,359	9,704
Others	-43	-24	-101	-1,948	-1,403	-188	-561	-561
CF from Operating incl EO	3,218	2,100	5,644	99	3,892	5,622	10,798	9,144
(Inc)/Dec in FA	-1,179	-1,123	-1,786	-823	-1,067	-1,444	-2,040	-2,040
Free Cash Flow	2,039	977	3,858	-724	2,824	4,178	8,758	7,104
(Pur)/Sale of Investments	456	-224	-1,033	578	-55	796	0	0
Others	229	-864	421	-721	-666	-365	63	62
CF from Investments	-494	-2,211	-2,397	-965	-1,788	-1,013	-1,977	-1,978
Issue of Shares	1,814	11	0	2,960	25	27	0	0
Inc/(Dec) in Debt	-4,062	-398	-400	1,500	-773	-1,102	898	0
Interest Paid	-378	-124	-1,944	-2,195	-2,056	-2,094	-2,272	-2,509
Dividend Paid	-75	-80	-80	0	0	0	0	0
Others	0	0	-1,809	-558	0	-2,203	7	-403
CF from Fin. Activity	-2,701	-591	-4,232	1,707	-2,804	-5,372	-1,367	-2,911
Inc/Dec of Cash	23	-702	-986	841	-701	-763	7,454	4,254
Opening Balance	30	869	998	-425	1,022	1,017	747	8,694
Closing Balance	52	167	12	416	321	254	8,201	12,948
Less: Other bank balance/ Overdraft	816	831	-437	605	696	493	493	493
Net closing balance/ (Overdraft)	869	998	-425	1,022	1,017	747	8,694	13,441

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