

19 July 2024

India | Equity Research | Q1FY25 results review

Shoppers Stop

Branded Apparel

Core business struggles while emerging ones shine

Shoppers Stop's (SHOP) result was unimpressive. We understand that there is a general slowdown in the sector; however, SHOP's accelerated underperformance in private labels (a key strategic pillar – over the last six quarters); -12% YoY in revenue, is concerning. Key positives in the result include: (1) Relative outperformance in beauty (which continues to grow ahead of overall revenue). (2) On track scaling up of the value-retail franchise, Intune (at Zudio / Max equivalent price points). We believe, while incremental success for SHOP hinges on its fast-growth franchises – INTUNE / SSBeauty, it would be imperative for the company to revisit its departmental store business model, especially its private label strategy to solve for growth amidst rising competition in the industry. Downgrade to **HOLD**.

Unexciting revenue print

Revenue grew 5.3% YoY driven by a 3% YoY increase in the average selling price (ASP), implying a slip in volume growth and flat SSSG. Demand for the quarter was soft, impacted by fewer wedding days (14 days) and extended general election season. Average transaction value (ATV) grew 5% (to INR 4,890) with premium brands contribution rising to 57% vs. 54% (YoY) and item per ticket (IPT) increasing 2%. Revenue from private label (12% contribution) stood flat while from beauty segment (17% contribution) grew 5% YoY. In the beauty segment, fragrance outperformed with 19% YoY sales growth (17% revenue share). In private label, overall contribution is at 12% with apparels 18% (1.1% lower on account of brands discontinuation and space rationalisation) driven by improved full price sell through for SS24. Revenue contribution from the loyalty program (First Citizen) stands at 80% of sales (67% repeat/13% new members). Added 2 department and 9 INTUNE stores.

Weak demand and negative operating leverage pinch margins

Gross margin contracted 171bps YoY to 40.6% (impact of demand stress) while EBITDA margin contracted by 381bps YoY to 13.7% (impact of negative operating leverage). EBITDA declined by 17.5% YoY due to 21.3% YoY increase in other expenses (escalation in rent cost and other operating expenses). The company reported PBT loss of INR 315mn.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	39,984	42,132	46,013	54,846
EBITDA	6,988	7,116	7,702	9,304
EBITDA Margin (%)	17.5	16.9	16.7	17.0
Net Profit	1,192	739	1,323	1,833
EPS (INR)	10.9	6.7	12.0	16.7
EPS % Chg YoY	(268.9)	(33.9)	64.5	38.6
P/E (x)	70.5	106.6	64.8	46.7
EV/EBITDA (x)	15.5	15.8	13.6	9.6
RoCE (%)	9.8	7.3	9.1	12.3
RoE (%)	72.1	26.6	34.3	34.4

Varun Singh

varun.singh@icicisecurities.com

+91 22 6807 7649

Manoj Menon

manoj.menon@icicisecurities.com

Karan Bhuwania

karan.bhuwania@icicisecurities.com

Akshay Krishnan

akshay.krishnan@icicisecurities.com

Market Data

Market Cap (INR)	86bn
Market Cap (USD)	1,024mn
Bloomberg Code	SHOP IN
Reuters Code	SHOP.BO
52-week Range (INR)	920 /616
Free Float (%)	34.0
ADTV-3M (mn) (USD)	1.0

Price Performance (%)	3m	6m	12m
Absolute	9.6	12.2	0.9
Relative to Sensex	(0.7)	(0.3)	(19.3)

Earnings Revisions (%)	FY25E	FY26E
Revenue	(7.4)	(7.9)
EBITDA	(7.4)	(7.9)
EPS	(7.1)	(7.5)

Previous Reports

01-05-2024: [Q4FY24 results review](#)19-01-2024: [Q3FY24 results review](#)

Valuation and risks

We have cut our EPS estimates by 7.1% / 7.5% for FY25/FY26. We model revenue/ EBITDA/PAT CAGRs of 14% / 14% / 51% over FY24–26E. We downgrade SHOP to **HOLD** (from Add) with a DCF-based revised target price of INR 750 (earlier INR 780).

Key downside risks: (1) slower-than-expected pick-up in discretionary consumption. (2) Rise in competition from private label retailers. (3) Underperformance in beauty led by competition from online retailers. (4) Execution challenges.

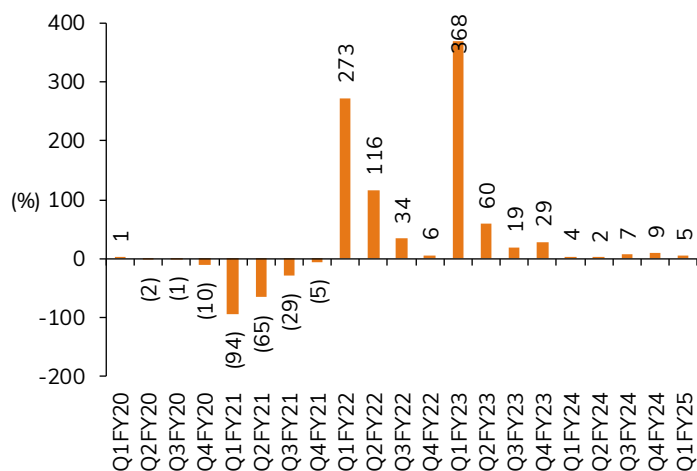
Key upside risks: Success in private label and beauty business.

Exhibit 1: Q1FY25 results review

(INR mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Revenues	10,337	9,816	5.3	9,997	3.4
COGS	6,141	5,664	8.4	5,946	3.3
Gross profit	4,196	4,152	1.1	4,051	3.6
Gross Margin (%)	40.6	42.3	-171 bps	40.5	7 bps
Employee expenses	1,001	966	3.7	913	9.6
% of net sales	9.7	9.8	-15 bps	9.1	55 bps
Other Expenses	1,774	1,463	21.3	1,497	18.6
% of net sales	17.2	14.9	226 bps	15.0	219 bps
EBITDA	1,421	1,723	-17.5	1,641	-13.4
EBITDA Margin (%)	13.7	17.6	-381 bps	16.4	-267 bps
Depreciation	1,167	1,050	11.1	1,118	4.4
EBIT	254	673	-62.3	523	-51.48
Other Income	35	73	-51.2	346	-89.8
Interest Expenses	604	541	11.6	568	6.3
PBT	-315	204	-253.9	301	-204.6
Taxes	-89	55		69	-229.9
Adjusted PAT	-225	149	-250.7	232	-197.1
Extra-ordinary items	0	0		16	
Reported PAT	-225	149	-250.7	216	-204
EPS	-2.0	1.4	-250.3	2.0	-204

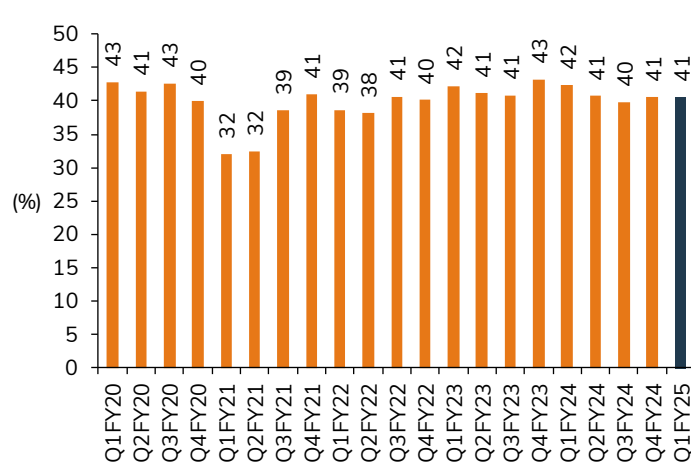
Source: Company data, I-Sec research

Exhibit 2: Revenue growth (%)

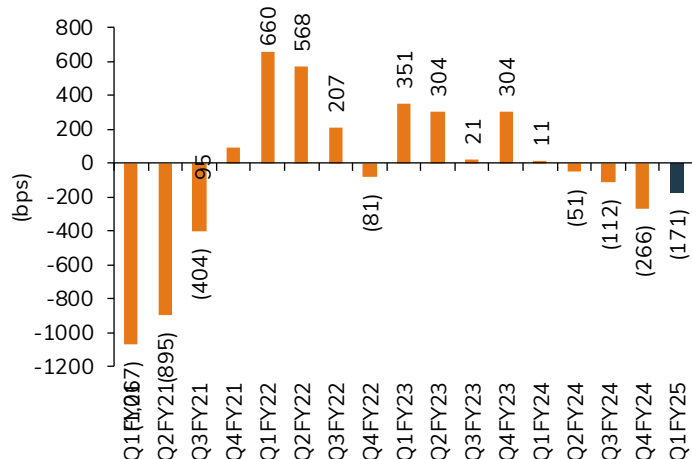


Source: Company data, I-Sec research

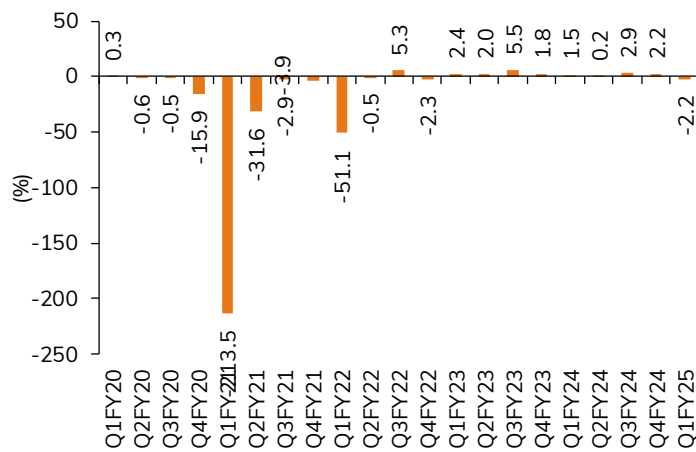
Exhibit 3: Gross margin (%)



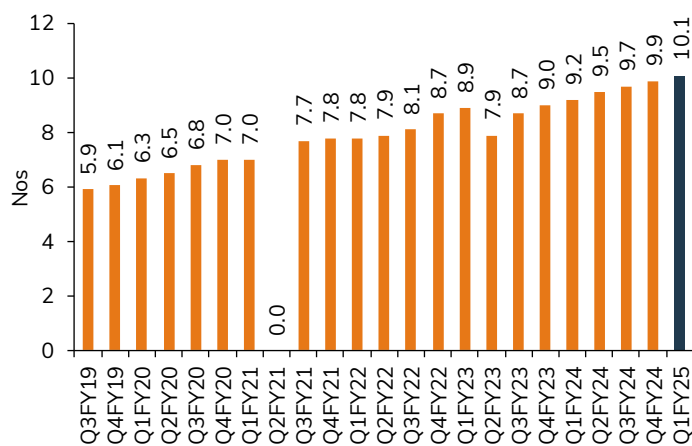
Source: Company data, I-Sec research

Exhibit 4: Gross margin (bps YoY)

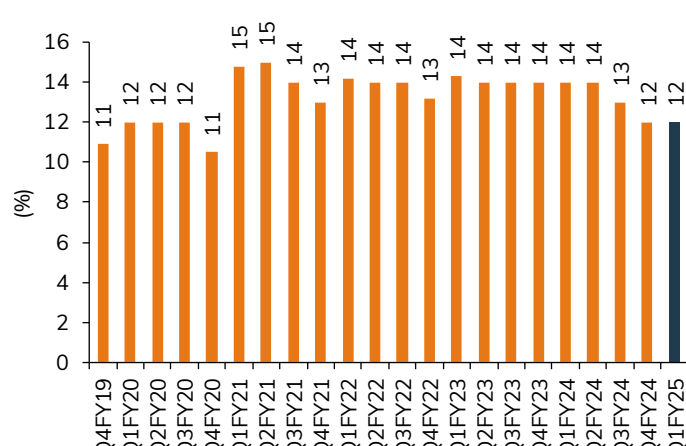
Source: Company data, I-Sec research

Exhibit 5: PAT margin (%)

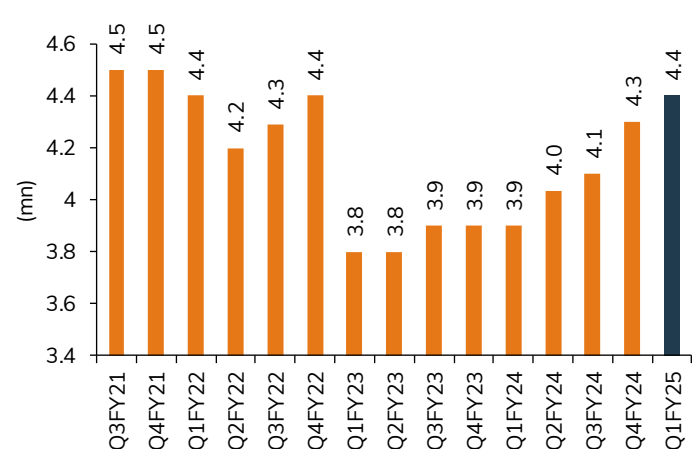
Source: Company data, I-Sec research

Exhibit 6: First Citizen member count (mn)

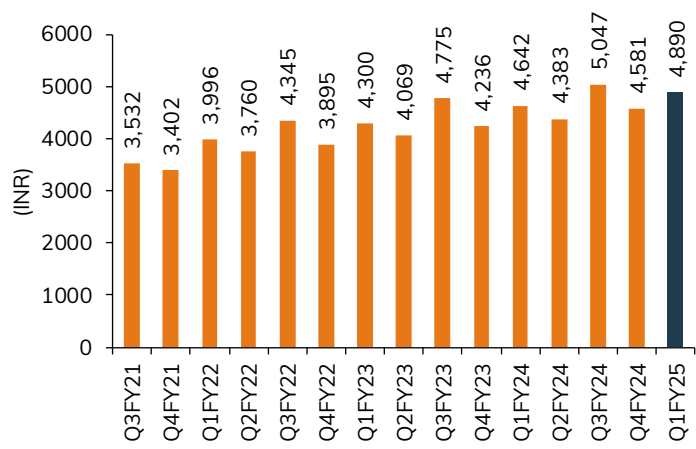
Source: Company data, I-Sec research

Exhibit 7: Private + Exclusive Brand

Source: Company data, I-Sec research

Exhibit 8: Store sq.ft (mn)

Source: Company data, I-Sec research

Exhibit 9: ATV (INR)

Source: Company data, I-Sec research

Exhibit 10: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	65.6	65.6	65.0
Institutional investors	28.8	29.6	29.0
MFs & others	20.5	20.7	21.0
FIs and Banks	0.0	0.0	0.0
Insurance Cos.	1.4	1.4	-
FIIIs	6.9	7.5	8.0
Others	5.6	4.8	6.0

Source: Bloomberg, I-Sec research

Exhibit 11: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 12: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	39,984	42,132	46,013	54,846
Operating Expenses	32,996	35,016	38,311	45,542
EBITDA	6,988	7,116	7,702	9,304
EBITDA Margin (%)	17.5	16.9	16.7	17.0
Depreciation & Amortization	3,816	4,361	4,325	4,991
EBIT	3,172	2,754	3,377	4,313
Interest expenditure	2,092	2,236	2,393	2,687
Other Non-operating Income	561	557	780	819
Recurring PBT	1,641	1,076	1,764	2,444
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	429	272	441	611
PAT	1,212	804	1,323	1,833
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	(20)	(65)	-	-
Net Income (Reported)	1,192	739	1,323	1,833
Net Income (Adjusted)	1,192	739	1,323	1,833

Source Company data, I-Sec research

Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	23,920	25,874	23,430	36,203
of which cash & cash eqv.	250	162	(3,831)	3,906
Total Current Liabilities & Provisions	20,111	21,830	21,192	33,838
Net Current Assets	3,810	4,044	2,238	2,365
Investments	730	554	5,804	13,304
Net Fixed Assets	20,970	25,747	19,389	18,355
ROU Assets	-	-	-	-
Capital Work-in-Progress	340	211	140	140
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax Assets	-	-	-	-
Total Assets	25,850	30,556	27,571	34,164
Liabilities				
Borrowings	23,530	27,317	20,940	20,940
Deferred Tax Liability	-	-	-	-
provisions	-	-	-	-
other Liabilities	-	-	2,168	7,027
Equity Share Capital	2,320	3,240	4,463	6,197
Reserves & Surplus	-	-	-	-
Total Net Worth	2,320	3,240	4,463	6,197
Minority Interest	-	-	-	-
Total Liabilities	25,850	30,556	27,571	34,164

Source Company data, I-Sec research

Exhibit 14: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	10,252	12,068	9,997	10,337
% growth (YOY)	1.7	6.6	9.1	5.3
EBITDA	1,598	2,154	1,641	1,421
Margin %	16	18	16	14
Other Income	105	33	346	35
Extraordinaries	49	-	16	-
Adjusted Net Profit	18	356	216	(225)

Source Company data, I-Sec research

Exhibit 15: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	5,622	6,164	5,853	17,121
Working Capital Changes	(1,683)	(1,116)	(2,187)	7,610
Capital Commitments	(1,456)	(1,738)	(3,167)	(3,957)
Free Cashflow	4,166	4,426	2,686	13,165
Other investing cashflow	936	372	(5,250)	(7,500)
Cashflow from Investing Activities	(520)	(1,367)	(8,417)	(11,457)
Issue of Share Capital	29	98	0	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(1,102)	(628)	(6,377)	-
Dividend paid	-	-	-	-
Others	(4,299)	(4,447)	5,445	2,171
Cash flow from Financing Activities	(5,372)	(4,977)	(1,031)	2,072
Chg. in Cash & Bank balance	(270)	(180)	(3,595)	7,737
Closing cash & balance	(57)	(236)	(3,831)	3,906

Source Company data, I-Sec research

Exhibit 16: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	11.1	7.3	12.0	16.7
Adjusted EPS (Diluted)	10.9	6.7	12.0	16.7
Cash EPS	45.7	46.4	51.4	62.1
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	21.2	29.5	40.6	56.4
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	60.3	5.4	9.2	19.2
EBITDA	161.2	1.8	8.2	20.8
EPS (INR)	(268.9)	(33.9)	64.5	38.6
Valuation Ratios (x)				
P/E	70.5	106.6	64.8	46.7
P/CEPS	17.1	16.8	15.2	12.6
P/BV	36.8	26.4	19.2	13.8
EV / EBITDA	15.5	15.8	13.6	9.6
P / Sales	2.1	2.0	1.9	1.6
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	41.8	40.8	40.6	40.7
EBITDA Margins (%)	17.5	16.9	16.7	17.0
Effective Tax Rate (%)	26.1	25.3	25.0	25.0
Net Profit Margins (%)	3.0	1.9	2.9	3.3
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	1.1	1.1	1.2	1.3
Net Debt / EBITDA (x)	6.8	7.0	5.9	5.4
Profitability Ratios				
RoCE (%)	9.8	7.3	9.1	12.3
RoE (%)	72.1	26.6	34.3	34.4
RoC (%)	11.5	8.8	11.1	14.7
Fixed Asset Turnover (x)	2.1	1.8	2.0	2.9
Inventory Turnover Days	114	144	146	163
Receivables Days	3	6	6	7
Payables Days	149	174	157	228

Source Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Prabodh Avadhoot](mailto:Mr.Prabodh.Avadhoot) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
