ICICI direct Research

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Strong performance expected in pre-festive quarter

The retail sector recorded a strong Q1FY23 performance on the back of healthy footfalls (surpassing pre-Covid levels) as it was the first non-disrupted quarter in two years with strong demand owing to consumers refreshing their wardrobes. We expect healthy growth momentum to sustain in Q2FY23 on the back of end of season sale in July, festive demand in the latter period of the quarter (second half of September). While our interactions with companies indicated that August was relatively softer due to no major events, revenue traction improved rapidly from September onwards and continues to be strong in October also. On a favourable base we expect retail coverage companies to post revenue growth of 30% YoY (three-year CAGR: 19%). To negate inflationary pressure, retailers across categories have taken price hikes of 12-15% in recent times. Higher ASPs did have an impact on volumes for value fashion such as V-Mart. Mid-premium to premium segments (ABFRL, SSL) were more or less insulated. We expect similar demand trend to continue in Q2FY23. Q2 generally tends to have lower margins due to EOSS period (higher discounting). With higher rental and marketing expenses, we expect EBITDA margins to fall 70 bps QoQ to 12.8% (flattish YoY). During the quarter, retailers continued calibrated expansion of their store network with opening of eight D-Mart stores, 25 Titan's Jewellery stores, 38 Titan EyeCare, 12 Zudio stores and 14 V-Mart stores.

Titan, ABFRL to deliver strong revenue growth…

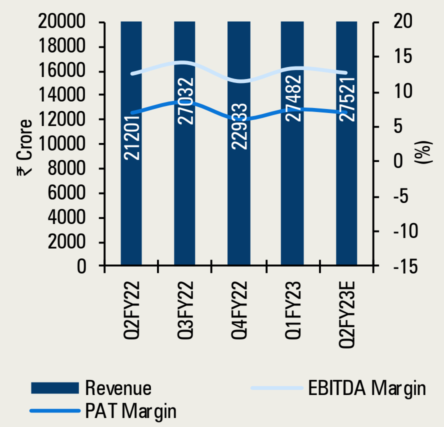
Titan's has been a secular growth story with consistent market share gains in jewellery space. Overall jewellery segment (including CaratLane) is expected to register healthy 17% revenue growth (three-year CAGR: 28%). Excluding gold bullion sale (₹ 192 crore in base quarter) growth is expected at 20%. The growth is impressive considering the previous quarter (Q2FY22) had a high base, which had elements of pent-up demand and spill over purchases of a Covid disrupted Q1FY22. Watches segment also witnessed strong demand with revenue growth of 20% YoY in Q1FY23 (three-year CAGR: 5%). Avenue Supermarts' consolidated revenues may grow 36% YoY (three-year CAGR: 20%) in Q2FY23E. Revenue/sq ft for D-Mart is expected to improve marginally QoQ to ₹ 8400/sq ft but continues to remain below pre-Covid levels (Q2FY20: ₹ 9100/sq ft. 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 anticipate Trent will report 68% YoY revenue growth (three-year CAGR: 28%). For ABFRL, we expect Pantaloons division to report revenue recovery of 119% of pre-Covid levels while lifestyle brands are expected to grow 28% over Q2FY20 levels. Page has more than doubled its distribution reach over the pandemic period (to 120000+ touchpoints) and placed higher focus on new categories such as athleisure and kidswear. This has translated into superior growth rates over the last few quarters. We expect trajectory for Page to sustain in Q2 and register 16% revenue growth.

Estimates for Q2FY23E (₹ crore)

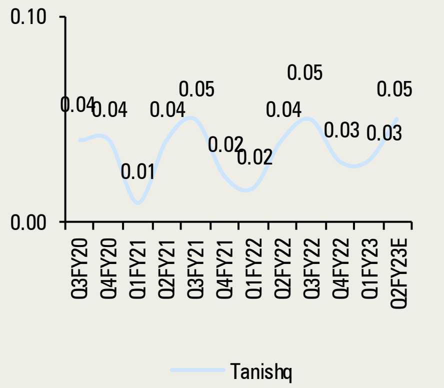
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ
Avenue Supermarts	10,605.0	36.2	5.6	996.9	49.1	-1.1	643.6	54.1	0.1
Bata India	838.2	36.5	-11.2	212.9	78.8	-13.3	92.7	150.4	-23.0
Titan Company	8,800.4	17.4	-6.8	1,136.8	17.4	-5.0	764.9	19.3	-3.2
Trent Ltd	1,714.3	68.0	3.7	296.6	34.0	-2.5	100.7	-20.0	-1.9
TTK Prestige	846.6	4.7	41.2	135.5	-0.2	63.3	96.9	-1.7	68.2
Page Industries	1,252.7	15.6	-6.6	266.8	14.3	-10.4	182.0	13.4	-12.1
ABFRL	3,013.7	46.7	4.8	440.0	40.3	-6.1	68.7	1,249.3	-27.3
V-Mart	491.4	45.4	-21.0	50.9	146.5	-42.6	-8.4	-	PL
Total	**27,562.2**	**30.0**	**0.3**	**3,536.4**	**31.9**	**-4.2**	**1,941.2**	**31.8**	**-4.6**

Source: Company, ICICI Direct Research.

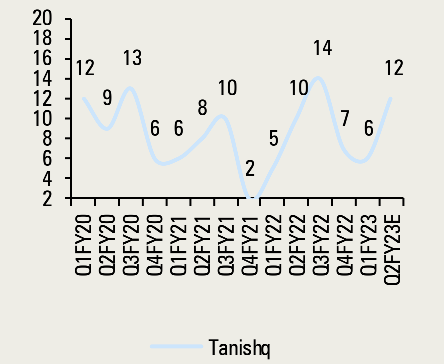
Topline & Profitability (Coverage Universe)



Space addition- million sq. ft. (QoQ)



Store addition –(QoQ) Tanishq (Titan)



Top Picks

Titan, ABFRL

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Result Preview

ICICI Securities – Retail Equity Research

Exhibit 1: Company Specific view

Company	Remarks
Bata India	We expect Bata to report normalised Q2 after a gap of nearly two years of Covid led disruption. Re-opening of offices and schools, coupled with Bata's recent strategy of focusing on sneaker category (~20% of sales) are expected to propel revenue growth ahead of pre-Covid levels in Q2FY23. On a favourable base, we expect revenue to increase 36% YoY (three-year CAGR: 5%) to ₹ 837 crore. We expect gross margins to improve 420 bps YoY to 57.1% (Q1FY23: 56.7%) on account of calibrated price hikes and better product mix. On account of positive operating leverage, we expect the company to report 600 bps YoY improvement in EBITDA margins to 25.4% (Q1FY23: 26.1%, three-year CAGR: 5%). We expect the company to report PAT of ₹ 93 crore in Q1FY23 vs. PAT of ₹ 37 crore in Q1FY22 (Q1FY23 : PAT of ₹ 120 crore)
Titan Company	Despite being a non-festive quarter, Titan is expected to report yet another strong show. Overall jewellery segment (including CaratLane) expected to register 17% revenue growth (three-year CAGR: 28%) Excluding gold bullion sale (₹ 192 crore in the base quarter) growth is expected at 20%. The company continues to gain market share as it posts industry leading topline growth in the jewellery segment. Watches segment is expected to register healthy revenue growth of 20% (three-year CAGR: 5%). Overall revenues are expected to increase 17% YoY to ₹ 8800 crore (three year CAGR: 24%). We expect gross margins to improve 150 bps YoY to 26.5% as studded sales were higher than the overall division driven by good activations and better contribution from high value purchases. However, higher employee and marketing expenses to restrict EBITDA margin expansion (flattish YoY at 12.9%). On account of a healthy operational performance, we expect PAT to grow 19% YoY to ₹ 765 crore
Trent Ltd	In the apparel retail space, Trent continues to be the outperformer with the company registering industry best revenue growth in Q1FY23 on the back of strong recovery in SSSG for Westside (24%). and robust store addition trajectory for Zudio. While revenue trajectory is expected to remain robust, profitability could be under pressure owing to significantly higher margins recorded in Q2FY22. On a favourable base, we expect the company to report 68% YoY revenue growth at ₹ 1714 crore (three-year CAGR: 28%) in Q2FY23. Expect Zudio to surpass ₹ 500 crore quarterly mark in Q2FY23. During the quarter, the company added 12 Zudio stores. Gross margins and EBITDA margins generally tend to be lower in Q2 mainly owing to EOSS (average gross margins in Q2: 45-48%). Q2FY22 was an unusual quarter wherein the company had recorded 52%+ gross margins. We expect margins to revert back to pre-Covid levels. Hence, we expect gross margins to decline 420 bps YoY to 47.9%. Ensuing EBITDA margins are expected at 17.3% (Q2FY22: 21.7%, Q1FY23: 18.4%). Absolute EBITDA is expected to increase 34% YoY to ₹ 297 crore (three-year CAGR: 30%)
Avenue Supermarts	On a favourable base we expect Avenue Supermarts to report a consolidated revenue growth of 36% YoY to ₹ 10605 crore (QoQ growth of 6%, three-year CAGR:20%). With opening of eight new D-mart outlets (~ 0.5 million sq ft addition), we expect revenue per sq ft to improve 1% QoQ to ₹ 8400/sq. ft. (vs. pre-Covid levels: ₹ 9100/sq. ft.). Gross margin enhancement would be the critical factor to watch as the management, in the previous quarter, had indicated at a healthy recovery in GM & apparel segment (not completely out of the woods though). We expect gross margins to improve 70 bps YoY to 15.6%. Furthermore, owing to positive operating leverage, we expect EBITDA margins to improve 80 bps YoY to 9.4%. Absolute EBITDA is expected to increase 49% YoY to ₹ 996.9 crore (three-year CAGR: 24%). We expect PAT to grow 54% YoY to ₹ 645 crore (three-year CAGR: 26%)

Source: Company, ICICI Direct Research

Exhibit 2: Company Specific views

ABFRL	We expect ABFRL to register healthy topline growth driven by strong recovery in Pantaloons segment (~119% of pre-Covid levels) and healthy SSSG for lifestyle brands. We expect overall revenues to increase 47% YoY to ₹ 3013.7 crore (~131% of pre-Covid levels, three-year CAGR: 10%). On the segmental front, expect lifestyle segment (53% of sales) to report revenue growth of 39% YoY (128% of pre-Covid levels) whereas for Pantaloons, we expect revenue growth of 64% YoY. On account of EOSS period, we expect gross margins to decline sequentially by 160 bps to 54% (up 80 bps YoY). Also investments in new segments (ethnic wear) are expected to result in the company reporting EBITDA margins of 14.6% (down 170 bps QoQ). Absolute EBITDA is expected to increase at a three-year CAGR of 9% to ₹ 440 crore. Ensuing PAT is expected at ₹ 69 crore (Q2FY22; ₹ 6 crore., Q1FY23: ₹ 94 crore)
TTK Prestige	Revenue growth for Q2FY23 is expected to be moderate on account of a high base of Q2FY22, which was the best ever Q2 in the company's history. Demand for mid-premium to premium products has been stronger compared to entry level products. On the gross margin front, owing to old high cost inventory the margin is expected to remain flattish. The impact of cooling of commodity prices is expected to be visible from Q3FY23 onwards. We anticipate revenue growth of 4.7% YoY to ₹ 847 crore driven by 6%, 7%, 3% YoY growth in cookers, cookware and appliances, respectively (three-year CAGR: 14%). We expect gross margins to remain flat YoY at 40%. However, we expect EBITDA margins to decline 80 bps YoY to 16% on account of lower operating leverage. Absolute EBITDA is expected to remain flat YoY at ₹ 135.5 crore. Consequently, we expect PAT to decline 2% YoY to ₹ 96 crore
Page Industries	The company has expanded its multi brand outlet (MBO) network during the pandemic and added close to 55000 outlets with current MBO network of around 120000 outlets. Page has entered newer geographies and tier-3 and tier -4 towns. 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 16% to ₹ 1252.7 crore in Q2FY23E mainly driven by strong demand for its products and expanded distribution reach. Volumes are expected to increase 8% YoY while realisation is expected to be higher by 7% (due to price hikes taken in FY22 and change in product mix). We expect gross margins to remain flattish YoY at 54.7% (54.5% in Q1FY23). We anticipate EBITDA margins will decline 20 bps YoY in Q2FY23 to 21.3%. Subsequently, we expect Page to report a 13% YoY increase in net profit to ₹ 182 crore (net profit of ₹ 207 crore in Q1FY23)
V-Mart	V-Mart has a presence in the value segment, which is more price sensitive and hence recovery has been tepid compared to other players. We expect V-Mart format (excluding Unlimited revenues) to report YoY growth of 16% (three year CAGR of 5%) to ₹ 365 crore mainly driven by the higher price (company has taken price hike in range of 15-20%) and healthy store openings (added 14 stores in Q2 and 25 in H1FY23). Since the target audience is price sensitive, higher prices are expected to subdue volumes for Q2FY23. We expect overall revenues (including Unlimited store format) to increase 45% YoY to ₹ 491 crore. Owing to price correction in certain categories, we expect gross margins to decline 270 bps QoQ to 34.6%. Employee and other expenses are expected to be higher YoY due to integration of Unlimited format. We expect the company to report EBITDA margins of 10.4% (Q2FY22: 6.2%, Q1FY23: 15.1%). Consequently, we expect it to report net loss of ₹ 8.4 crore (Q2FY22: loss of ₹ 14 crore)

Source: Company, ICICI Direct Research

Exhibit 3: Valuation Summary

Sector / Company	CMP			M Cap	EV/Sales (x)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
	(₹)	TP(₹)	Rating	(₹ Cr)	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Trent	1,450	1,665	Buy	51,543	19.7	11.4	7.2	6.0	-	487.0	122.5	82.7	297.2	89.6	46.3	36.7	4.3	14.1	29.4	33.1	-6.3	4.5	15.7	19.8
ABFRL	340	370	Buy	31,902	6.2	4.1	2.7	2.3	-	-	73.1	58.3	-	30.0	16.9	14.6	-8.9	5.1	14.4	16.7	-25.5	-3.9	8.2	9.9
Bata India	1,780	2,225	Buy	22,878	12.8	9.2	6.7	5.5	-	226.7	54.5	40.8	135.1	52.7	25.0	20.0	-5.9	9.6	40.0	41.8	-5.1	5.6	27.4	29.5
Titan Company	2,720	3,080	Buy	2,41,478	11.0	8.3	6.4	5.4	248.2	111.1	78.4	61.9	138.2	71.9	53.3	42.5	17.6	30.0	34.8	35.2	13.0	23.4	26.3	26.7
TTK Prestige	990	1,130	Buy	13,731	6.2	4.9	4.4	3.9	56.5	45.0	41.0	35.2	41.6	31.4	29.0	24.7	18.6	21.6	20.8	21.7	16.1	17.7	17.2	17.7
Page Industries	53,600	52,680	Hold	59,785	21.0	15.3	11.5	9.9	175.5	111.4	80.0	67.2	112.7	75.8	54.6	46.0	52.4	66.1	69.0	64.2	38.5	49.3	52.5	48.8
Avenue Supermarts	4,465	5,050	Hold	2,89,229	11.9	9.3	6.9	5.3	263.1	193.8	118.9	88.3	164.5	115.1	74.7	56.1	12.5	15.5	20.6	23.0	9.0	10.9	15.1	16.9
V-Mart	2,890	3,465	Buy	5,708	4.9	3.3	2.2	1.9	NA	490.8	83.7	49.5	40.2	27.1	16.8	13.4	6.0	10.3	20.1	24.5	-0.8	1.4	7.5	11.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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