

January 7, 2022

Pent up demand to spur revenues to pre-Covid level

As per our channel checks, apparel retail players have witnessed one of their best festive season sales on the back of healthy pent-up demand and strong wedding season. In the pre-festive quarter (Q2FY22), the revenue recovery rate had already inched up to 80-100% of pre-Covid levels. We expect companies in our coverage universe to report 100%+ pre-Covid sales in Q3FY22 led by robust growth in companies like Trent, Titan and ABFRL. On a favourable base of Q3FY21, we expect our coverage universe to report revenue growth of 28% YoY in Q3FY22. In a bid to negate inflationary pressure (all-time high yarn prices), apparel retailers are expected to have taken price hikes in the range of 15-20%. Positive operating leverage and certain rationalisation of fixed overheads are expected to mostly negate inflationary pressure on margins YoY. Hence, we expect our retail coverage universe to report EBITDA growth of 37% YoY. During the quarter, we expect store addition trajectory to accelerate with opening of 13 Westside stores, 20 Pantaloons stores, 14 Tanishq stores and 10 V-Mart stores.

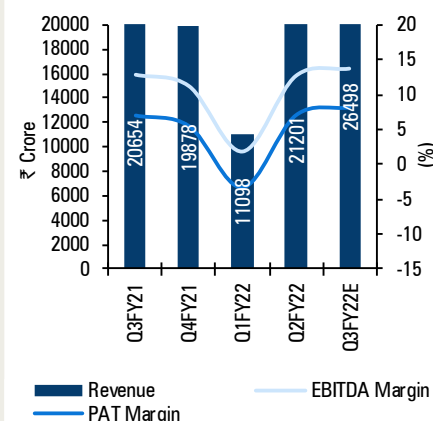
Jewellery, apparel to benefit from festive, wedding demand

Titan's jewellery division continues to gain market share with better than industry performance. Buoyancy in jewellery demand driven by festive and wedding related purchases in October and November enabled significant revenue growth during the quarter. We expect Titan's jewellery revenues to grow 30% YoY (up 36% YoY, excluding bullion sales). Improvement in studded share compared to the corresponding quarter of the previous year would aid in enhancing the profitability of the jewellery segment. The watches segment also witnessed strong growth momentum with multi brand channels, both online and offline, registering good growth during the quarter, mainly on the back of the Titan brand. Titan's eyewear division also reported revenue growth of 27% YoY on the back of network expansion and increased demand for international brands. For Avenue Supermarts, easing of Covid-19 related restrictions and festive buying are expected to result in YoY revenue growth of 22%. Revenue/store is expected at ~ ₹ 35 crore vs. ₹ 34 crore in Q3FY20 (~100% of pre-Covid levels). We expect strong revenue recovery for fashion retailers in the range of 100-135% of pre Covid level. We expect Trent, ABFRL, V-Mart and Bata to report revenue recovery rate of 135%, 112%, 105%, 98%, respectively. For TTK Prestige, healthy demand for kitchen appliances, which was witnessed during the Onam festival (in September) continued its momentum till the Diwali festival. We expect topline growth of 13% driven by 15%, 12%, 13% YoY growth in cookers, cookware and appliances, respectively.

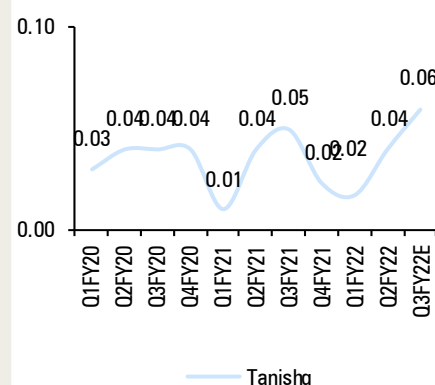
Estimates for Q3FY22E (₹ crore)										
Company	Revenue		Change (%)		EBITDA		Change (%)		PAT	
	Q3FY22E	YoY	QoQ	Q3FY22E	YoY	QoQ	Q3FY22E	YoY	QoQ	
Avenue Supermarts	9,205.0	22.0	18.2	914.8	32.8	36.8	601.6	34.6	44.0	
Bata India	811.2	32.0	32.1	160.6	37.3	35.0	66.8	159.0	80.6	
Titan Company	9,896.6	29.9	32.1	1,262.9	303.5	30.5	868.7	402.2	35.5	
Trent Ltd	1,182.4	63.0	15.9	283.8	57.7	28.2	141.5	77.7	12.6	
TTK Prestige	770.0	13.3	-4.8	130.1	10.1	-4.2	95.2	10.1	-3.5	
Page Industries	1,115.8	20.4	2.9	241.0	6.6	3.2	166.3	8.0	3.6	
ABFRL	2,892.0	39.3	40.8	511.9	40.4	63.3	141.1	141.0	2,672.0	
V-Mart	625.3	33.0	85.0	122.8	18.0	484.7	59.7	25.0	LP	
Total	26,498.3	28.3	25.0	3,627.9	37.1	35.4	2,141.0	49.8	45.4	

Source: Company, ICICI Direct Research.

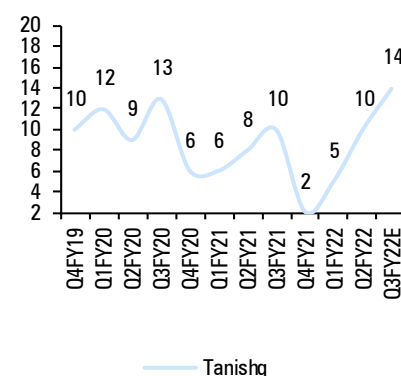
Topline & Profitability (Coverage Universe)



Space addition- million sq. ft. (QoQ)



Store addition –(QoQ) Tanishq (Titan)



Top Picks

Trent, ABFRL, Titan

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Exhibit 1: Company Specific view

Company	Remarks
Bata India	<p>Formal and fashion footwear were the most impacted categories, which dragged the performance for Bata in FY21. We expect revenue recovery rate in Q3FY22 to improve to 98% of pre-Covid levels, driven by festive buying and gradual reopening of schools. We expect revenue to increase 32% YoY to ₹ 811 crore (on a favourable base). We expect gross margins to improve 120 bps YoY to 52.7%. On account of positive operating leverage, we expect the company to report EBITDA margins of 19.8% (vs. 19.1% in Q3FY21). PAT is expected at ₹ 66.8 crore vs. PAT of ₹ 26 crore in Q3FY21</p>
Titan Company	<p>On account of a healthy festive and wedding season demand, we expect Titan's jewellery division to report one of its best quarterly performances. We expect revenue from jewellery segment to increase 30% YoY (up 37% YoY, excluding bullion sales worth ₹ 340 crore in base quarter). We expect watches division to surpass pre-Covid levels in Q3FY22 with revenue growth of 28% YoY. Overall revenues are expected to increase 30% YoY (36% YoY, excluding gold bullion sale) to ₹ 8939.1 crore. We expect recovery in share of studded ratio to enhance gross margins by 110 bps YoY to 24.0%. Subsequently expect EBITDA margins to improve 160 bps YoY to 12.4%. On account of a healthy operational performance, we expect the company to report PAT growth of 64% YoY to ₹ 869 crore</p>
Trent Ltd	<p>In the apparel retail space, Trent was the best performer with revenues already surpassing pre-Covid levels (~125% of pre-Covid levels) in pre-festive quarter (Q2FY22). We expect healthy momentum to sustain in Q3FY22 driven by healthy footfall recovery and strong store addition pace (~50 new stores to be added). We anticipate the company will report 36% revenue growth in Q3FY22 over the base of Q3FY20 to ₹ 1182 crore (up 16% QoQ). Trent had recorded one of its highest ever gross margins in Q3FY21 owing to reversal in inventory provisioning and lower discounting. Hence on a high base, we expect gross margins to contract 240 bps YoY to 54.0% (but still higher than pre-Covid levels). We expect EBITDA margins to decline 80 bps YoY to 24.0%, with absolute EBITDA increasing 58% YoY to ₹ 284 crore</p>
Avenue Supermarts	<p>Easing of Covid-19 related restrictions and festive demand is expected to result in improved profitability for Avenue Supermarts (D-Mart) in Q3FY22. We expect consolidated revenues to increase 22% YoY (18% QoQ) to ₹ 9205 crore. The company during the quarter, added 17 stores taking the total store count to 246 outlets. We expect gross margins to improve 20 bps YoY to 15.7% (up 80 bps QoQ) owing to improved product mix (higher proportion of general merchandise and apparel). On account of positive operating leverage, we expect EBITDA margin expansion of 80 bps YoY (130 bps QoQ) to 9.9%. Consequently, we anticipate PAT growth of 35% YoY to ₹ 602 crore</p>

Source: Company, ICICI Direct Research

Exhibit 2: Company Specific views

ABFRL	Reopening of entire store network coupled with strong festive demand is expected to lead to strong recovery for ABFRL. We expect Lifestyle brands and Pantaloons to record 112% and 108% recovery rate, respectively, of pre Covid level in Q3FY22E. Overall revenues are expected to increase 39% YoY to ₹ 2892.0 crore. We expect EBITDA margin to remain flattish at 17.7% (post Ind-AS 116). EBITDA is expected to increase 40% YoY to ₹ 512 crore. Consequently, we expect PAT to increase by 2.4x YoY to ₹ 141 crore
TTK Prestige	TTK witnessed healthy sales in the Onam season and the momentum continued in Q3FY22 driven by festive buying. The company launched a special campaign to commemorate the festive season from mid-September to end of November 2021 under which it offered discounts and gifts to consumers buying multiple products across product categories. We anticipate revenue will increase 13% YoY to ₹ 770 crore driven by 15%, 12%, 13% YoY growth in cookers, cookware and appliances, respectively. We expect the gross margin to decline 50 bps YoY to 41%. Consequently, we expect EBITDA margins to decline 50 bps YoY to 16.9%. On account of steady operational performance, we expect PAT to increase 10% YoY to ₹ 95 crore
Page Industries	The company continues to focus on its core innerwear business with all product categories witnessing strong growth since Q2FY22. Among product categories, menswear is witnessing strong demand while its athleisure/outerwear business is growing at a faster pace owing to continued trend of work from home across various industries. The company has expanded its multi brand outlet (MBO) network by more than 60% during the pandemic and added close to 35000 stores with current MBO network of around 100000 outlets. Driven by strong demand for WFH athleisure wear and expanded distribution reach, we anticipate Page will report YoY revenue growth of 20% to ₹ 1116 crore in Q3FY22E. Volumes are expected to increase 18% YoY while realisation is expected to be higher by 2% to ₹ 198 per piece (owing to change in product mix). We expect gross margins to decline 70 bps YoY to 54.7% (54.8% in Q2FY22). We expect EBITDA margins to decline 280 bps YoY (on a high base) from 24.4% in Q3FY21 to 21.6% in Q3FY22E as employee and other expenses revert to normal levels. Subsequently, we expect Page to report 8% YoY growth in net profit to of ₹ 166 crore (net profit of ₹ 160 crore in Q2FY22)
V-Mart	With increase in total store operational days and festive demand, we expect the recovery rate for V-Mart to reach pre-Covid levels. The company, during the quarter, added 10 new V-Mart stores (YTD addition of 22 stores) taking the total store count to 378 stores (including 74 'Unlimited' stores). We expect revenue to increase 33% YoY to ₹ 625 crore. We expect gross margins to decline 150 bps YoY ~ 35.2% owing to increase in raw material cost (cotton yarn/fabric). Further, we expect increase in expenses to lead to 250 bps decline in EBITDA margin to 19.6%. We expect the company to report YoY EBITDA growth of 18% to ₹ 122.8 crore. Consequently, we expect PAT to increase 25% YoY to ₹ 59.7 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	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E
Trent	1,085	1,330	Buy	38,568	10.9	14.7	8.8	6.5	314.1	-	212.8	109.2	69.9	221.7	60.8	41.7	15.9	4.3	18.3	24.3	5.1	-6.3	7.4	13.0
ABFRL	291	360	Buy	27,285	2.8	5.4	3.4	2.5	-	-	-	65.5	20.7	-	25.8	15.5	10.2	-8.9	5.9	20.6	-15.3	-25.5	-1.9	12.8
Bata India	1,857	2,380	Buy	23,868	7.5	13.3	8.8	6.3	73.0	-	139.7	48.2	27.6	141.3	40.5	22.3	28.2	-5.9	14.8	32.1	17.2	-5.1	9.1	22.5
Titan Company	2,630	2,850	Buy	2,33,488	11.1	10.6	8.1	6.7	155.5	240.0	103.0	79.2	94.7	133.6	67.2	52.7	28.7	17.6	32.1	33.3	22.5	13.0	24.1	25.1
TTK Prestige	1,005	1,420	Buy	13,939	6.7	6.3	5.3	4.6	75.5	57.4	50.0	41.4	52.8	42.2	35.5	29.6	17.1	18.6	19.9	21.4	14.1	16.1	16.5	17.7
Page Industries	42,990	43,850	Hold	47,951	16.2	16.8	13.4	10.8	139.7	140.8	104.6	73.8	89.9	90.2	69.0	49.9	55.7	52.4	56.6	66.2	41.9	38.5	43.9	51.0
Avenue Supermarts	4,750	5,750	Hold	3,07,691	12.2	12.6	9.7	6.9	236.5	279.9	188.0	123.5	143.0	175.1	117.8	77.9	16.4	12.5	16.2	20.8	11.7	9.0	11.8	15.3
V-Mart	3,745	5,120	Buy	7,372	4.1	6.5	4.0	2.6	137.9	NA	188.2	58.3	31.7	53.0	32.6	19.3	27.0	6.0	13.6	24.8	10.7	-0.8	4.5	12.9

Source: Company, ICICI Direct Research

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