January 9, 2023

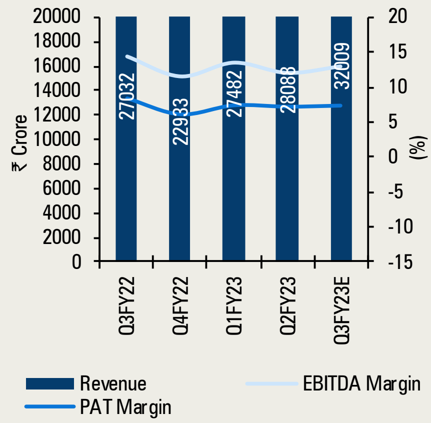
Gradual tapering of demand post strong festive season

Retail sector recorded a healthy performance in Q2FY23 on the back of a strong recovery in footfalls (surpassing pre-Covid levels) and pre-festive buying. Q3FY23 also started on a steady note with companies witnessing strong demand offtake during the festive season (Navratri-Diwali). However, demand momentum started waning off during November and December. Certain apparel retailers preponed their end of season sales (EOSS) by ~15 days during mid-December. We expect retail companies in our coverage universe to register double digit revenue growth (~15% excluding D-Mart) in Q3FY23. Trent and Reliance Retail are expected to be the fastest growing retailers with three-year CAGR of 25%+. With softening of key raw material prices, we expect companies to undertake price cuts of 3-5% on a sequential basis (but remain elevated YoY). EBITDA margins are expected to remain under pressure mainly due to higher operating expenses on the back of new store opening and investments in marketing spends. Hence, anticipate EBITDA margins to decline 140 bps YoY to 12.9%. Despite a challenging environment, retailers continued calibrated expansion of their store network with opening of 15 V-Mart stores, 22 Titan's Jewellery stores, 48 Titan watches and wearable stores, 25 Zudio stores, 40+ Bata Franchise stores and four D-Mart stores. The management's commentary on demand trends for spring summer 2023 (SS23) and healthy wedding season in Q4FY23 would be critical factors to watch.

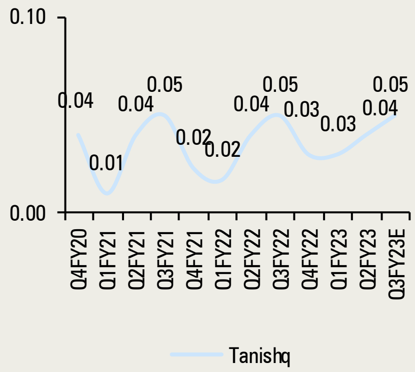
Amid mixed demand trends, Trent to outperform

Titan's jewellery division is expected to register early double digit revenue growth to the tune of 11% YoY in Q3FY23 (12% including CaratLane). Prima facie, the growth trajectory appears to have moderated but we believe the growth rate should be viewed in the context of a very strong base of Q3FY22 (the division had recorded 37% YoY growth). On three-year CAGR basis, revenue growth continues to be impressive at 21%. Watches segment (7% of revenue) reported 14% YoY revenue growth in Q3FY23 on the back of strong traction in the wearables segment. For Avenue Supermarts, consolidated revenues to grow 25% YoY (three-year CAGR: 19%). Revenue/sq ft for D-Mart expected to improve marginally by 2% YoY to ₹ 9130/sq ft but continues to remain below pre-Covid levels (Q3FY20: ₹ 9700/sq ft). Among apparel players, Trent, over the last few quarters has been reporting industry best revenue growth driven by healthy store additions and recovery in SSSG. We expect Trent to report 40% YoY revenue growth (three-year CAGR: 29%). For ABFRL, we expect Lifestyle brands to register 16% YoY growth whereas Pantaloons division is expected to register subdued growth of ~9%. Expect Bata to record 11% revenue growth with sneaker category (~20% revenues) to outperform formal category. For V-Mart (excluding Unlimited format), we bake in revenue per store at ₹ 2.1 crore (that is ~90% of pre-Covid levels). Demand for value fashion segment is expected to remain on softer side owing to inflationary pressure. Overall revenues for V-Mart are expected to increase 19% YoY driven by healthy store additions.

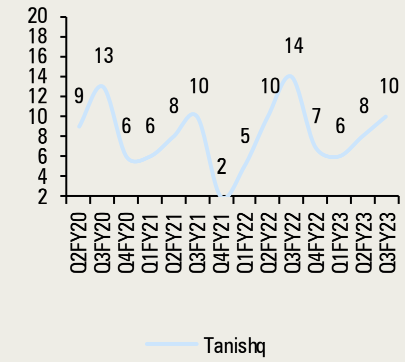
Topline & Profitability (Coverage Universe)



Space addition- million sq. ft. (QoQ)



Store addition –(QoQ) Tanishq (Titan)



Top Picks

Trent, Titan

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Estimates for Q3FY23E (₹ crore)

Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ	Q3FY23E	YoY	QoQ
Avenue Supermarts	11,504.0	24.8	8.1	1,012.4	16.8	13.5	646.5	17.0	-5.7
Bata India	930.5	10.6	12.1	230.8	36.8	43.3	100.1	38.4	96.0
Titan Company	11,353.3	13.1	23.9	1,543.8	7.1	23.8	1,072.5	6.0	28.4
Trent Ltd	1,886.9	40.0	4.0	337.7	15.8	26.2	134.7	1.4	-27.5
TTK Prestige	815.5	13.4	0.9	126.4	0.6	6.1	91.1	2.7	6.3
Page Industries	1,282.6	7.8	2.2	250.1	-0.3	5.1	170.5	-2.3	5.2
ABFRL	3,413.1	14.3	11.0	481.2	-17.3	21.3	81.4	-58.6	176.7
V-Mart	823.5	19.0	67.6	151.0	11.6	181.7	60.1	5.3	LP
Total	**32,009.2**	**18.4**	**14.0**	**4,133.3**	**7.0**	**22.5**	**2,357.0**	**3.2**	**16.4**

Source: Company, ICICI Direct Research.

Exhibit 1: Company Specific view

Company	Remarks
Bata India	Accelerated store openings and a decent festive season to be the key triggers for a steady topline show for Bata in Q3FY23. We expect Bata to register 11% YoY sales growth to ₹ 930.5 crore in Q3FY23. The company had added ~ 30 new franchises stores in Q2FY23. We expect it to open another 40 during the current quarter taking the total count to 393 franchisee stores. Sneaker category (~20% of sales) is expected to continue to outperform formal category. On the margin front, we expect gross margins to improve 380 bps YoY to 56.5% but remain below pre-Covid levels (~60% in Q3FY20) owing to change in channel and product mix. Expect EBITDA margins to expand 480 bps YoY to 24.8% with absolute EBITDA increasing by 37% YoY to ₹ 230.8 crore (~90% of pre-Covid levels).
Titan Company	Titan's has been a secular growth story with consistent market share gains from the unorganised players. However, on a very strong base of Q3FY22 (37% YoY growth), the growth trajectory is expected to moderate to a certain extent in Q3FY23. We expect Titan's jewellery division (including CaratLane) to register 12% YoY growth. While the company witnessed strong festive season during Navratri-Diwali season (~19% retail growth), November is expected to be a tad softer owing to sudden increase in gold prices and lack of festive events. Watches division is expected to continue its strong recovery on the back of new launches in the wearables space. Expect the division to report 14% YoY growth in Q3FY23 (three-year CAGR: 8%). Overall revenues expected to increase by 13% YoY to ₹ 11353 crore with a healthy three-year CAGR of 20%. Titan in Q3FY22 had recorded one of its highest ever margins of 14.4%, which was aided by inventory gains on price of diamonds. We expect EBITDA margins to normalise in Q3FY23 to 13.6%, with absolute EBITDA increasing by 7% YoY to ₹ 1544 crore. Subsequently, we expect PAT to increase by 6% YoY to ₹ 1072 crore
Trent Ltd	In the apparel retail space, Trent continues to be the outperformer with company registering industry best revenue growth in Q2FY23 (three-year CAGR: 30%) on the back of strong recovery in SSSG for Westside (20+%). and robust store addition trajectory for Zudio. While revenue trajectory is expected to remain robust, profitability could be under pressure owing to higher opex and pricing pressure (especially for Zudio format). We anticipate company to report 40% YoY revenue growth at ₹ 1886.9 crore (three-year CAGR: 29%) in Q3FY23. We believe Zudio to surpass ₹ 600 crore quarterly mark in Q3FY23. During the quarter, the company added 25 Zudio stores taking the total store count to 311. Gross margins over the last few quarters have been under pressure owing to higher RM prices (especially for Zudio format as it has taken limited price hikes). We expect gross margins to decline by 220 bps YoY to 49.9%. Owing to aggressive store additions we expect opex to have increased by 51% YoY. Hence, we expect EBITDA margins to decline by 370 bps YoY to 17.9%. Absolute EBITDA to increase 16% YoY to ₹ 338 crore (three-year CAGR: 30%)
Avenue Supermarts	On a favourable base we expect Avenue Supermarts to report a consolidated revenue growth of 25% YoY to ₹ 11504 crore (three-year CAGR:19%). The company is expected to maintain its trajectory of 19-20% CAGR witnessed in the previous four to five quarters. Store additions were subdued during the quarter with opening of four D-Mart Outlets (~ 0.2 million sq ft addition) taking the total store count to 306. We expect revenue per sq ft to increase by 2% YoY to ₹ 9130/sq ft (vs. pre-Covid levels: ₹ 9700/sq ft). Gross margin enhancement would be the critical factor to watch as the management in the previous quarter had indicated that inflationary stress was more acute at lower price points in discretionary non-FMCG categories. Expect gross margins to decline 20 bps YoY to 15.2%. We anticipate EBITDA margins to contract by 60 bps YoY to 8.8%. Absolute EBITDA to increase 17% YoY to ₹ 1012.4 crore (three-year CAGR: 19%). Subsequently, we expect PAT to grow 17% YoY to ₹ 646.5 crore

Source: Company, ICICI Direct Research

Exhibit 2: Company Specific views

ABFRL	Expect ABFRL to register mixed operational performance with decent show in lifestyle segment and weaker performance in Pantaloons segment. Post strong performance in October, demand tapered off in November owing to lower offtake. The company preponed EOSS by ~10 days to perk up revenues. We anticipate overall sales to increase by 14% YoY to ₹ 3413 crore mainly driven by 16% YoY growth in lifestyle segment (54% of sales). Revenue per sq ft for the segment is expected at ₹ 2380 (up 6% QoQ) with 50 new store additions. For Pantaloons, we expect segment to register single digit revenue growth of 9% YoY to ₹ 1158 crore as value fashion segment continues to be impacted owing to inflationary pressures. On the profitability front, EBITDA margins are expected to remain under pressure with higher investments (marketing and opex) for the new initiatives (ethnic, innerwear). Expect EBITDA margins to contract by 540 bps YoY to 14.1% with absolute EBITDA declining 17% YoY to ₹ 481 crore.
TTK Prestige	The revenue growth for Q3FY23 is expected to be driven by festive demand. Demand for mid-premium to premium products has been stronger compared to entry level products. Also, the revenue growth is expected to be driven by offline channels while the online channel contribution is expected to be flattish (due to company not resorting to excessive discounting like some of its peers). On the gross margin front we expect a decline as the company is still carrying some old high cost inventory. The impact of cooling of commodity prices is expected to be visible from Q4FY23 onwards. We anticipate revenue growth of 13% YoY to ₹ 815 crore driven by 12%, 13%, 15% YoY growth in cookers, cookware and appliances, respectively (three-year CAGR: 14%). We expect gross margins to decline 260 bps YoY to 39.8%. We expect EBITDA margins to decline 200 bps YoY to 15.5%. Absolute EBITDA is expected to remain flat YoY at ₹ 126 crore. Owing to higher other income, we expect PAT to increase 3% YoY to ₹ 91 crore
Page Industries	Higher than usual channel inventory levels in the industry could result in lower offtake from dealers, Further, the company is implementing the auto replenishment system (ARS) to improve inventory hygiene across the dealer distribution channels, which could subdue the volume growth in the near term. We anticipate Page will report YoY revenue growth of 8% to ₹ 1283 crore in Q3FY23E mainly driven by realisation growth of 10% YoY while volumes are expected to decline 2% YoY. We expect gross margins to improve 280 bps YoY to 56% (55.8% in Q2FY23). We anticipate EBITDA margins will decline 160 bps YoY in Q3FY23 to 19.5% on account of negative operating leverage. On the PAT front, we expect Page to report 2% YoY decline to ₹ 171 crore (net profit of ₹ 162 crore in Q2FY23)
V-Mart	V-Mart has a presence in the value segment, which is more price sensitive. Hence, a recovery has been tepid compared to other players. However, despite challenges, store additions continues to remain healthy with opening of 15 new V-Mart stores in Q3FY23 (35 net store openings on a YoY basis). Also, the management indicated demand continued to remain steady post festive season owing to pre-winter buying and a healthy wedding season. We bake in revenue per store at ₹ 2.1 crore (~90% of pre-Covid levels) and expect V-Mart format (excluding Unlimited revenues) to report YoY growth of 21% to ₹ 695 crore mainly supported by increased ASPs. We expect overall revenues (including Unlimited store format) to increase 19% YoY to ₹ 823 crore. Owing to price correction in certain categories, we expect gross margins to decline 120 bps YoY to 35.8%. Higher opex on the back of new store additions (up 21% YoY) to result in EBITDA margins declining 180 bps YoY to 18.3%. Absolute EBITDA is to increase 12% YoY to ₹ 151.0 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	1,300	1,730	Buy	46,211	17.6	10.2	6.0	4.9	-	436.7	101.1	72.5	266.2	80.3	40.3	32.3	4.3	14.1	28.6	32.0	-6.3	4.5	16.9	20.0
ABFRL	275	380	Buy	26,083	5.1	3.3	2.2	1.8	-	-	66.1	48.2	-	24.5	14.7	12.3	-8.9	5.1	13.6	16.6	-25.5	-3.9	7.4	9.7
Bata India	1,650	2,065	Buy	21,207	11.8	8.5	6.0	5.0	-	210.2	61.0	40.0	124.8	48.7	25.5	19.1	-5.9	9.6	36.5	42.3	-5.1	5.6	23.8	29.4
Titan Company	2,500	3,240	Buy	2,21,947	10.1	7.7	5.8	4.9	228.1	102.1	68.0	56.2	126.9	66.0	46.5	38.7	17.6	30.0	36.4	35.1	13.0	23.4	27.4	26.6
TTK Prestige	800	1,120	Buy	11,096	5.0	3.9	3.5	3.1	45.7	36.3	34.3	28.6	33.5	25.2	24.1	19.9	18.6	21.6	20.1	21.7	16.1	17.7	16.7	17.7
Page Industries	41,438	51,770	Hold	46,219	16.2	11.8	8.9	7.6	135.7	86.1	63.6	52.8	86.9	58.5	43.3	36.1	52.4	66.1	67.5	63.7	38.5	49.3	51.3	48.4
Avenue Supermarts	3,900	4,900	Hold	2,52,630	10.4	8.1	5.8	4.6	229.8	169.3	97.3	78.8	143.5	100.5	64.2	49.9	12.5	15.5	20.9	22.4	9.0	10.9	16.0	16.5
V-Mart	2,890	3,310	Buy	5,708	4.9	3.3	2.3	1.9	NA	490.8	78.8	56.1	40.2	27.1	16.4	14.0	6.0	10.3	19.0	21.4	-0.8	1.4	7.9	10.1

Source: Company, ICICI Direct Research

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