

April 7, 2021

Favourable base to aid revenue growth; localised lockdowns hampering pace of revenue recovery...

Improved consumer sentiments and festive boost enabled retail players to witness ~70-80% revenue recovery rate in Q3FY21. While January continued to witness decent demand offtake, rise in number of Covid cases and several restrictions in March, hampered growth aspirations of retail companies. On an adjusted base of Q4FY20 (normalised), average recovery rate for apparel retailers is expected to be in the range of 80-85%. We expect categories like jewellery, open footwear, athleisure wear, kitchen appliances to sustain healthy growth trajectory compared to apparels and other accessories. Rise in key commodity prices such as cotton/polyester yarn and aluminium would exert pressure on gross margins in Q4FY21E. However, cost rationalisation measures are expected to offset the negative impact, to a certain extent. Retail companies have stepped up their digital investments and are integrating online and offline channels to capture demand. Hence, they are better placed to withstand pandemic challenges than earlier.

Titan, Page, TTK to post strong revenue growth

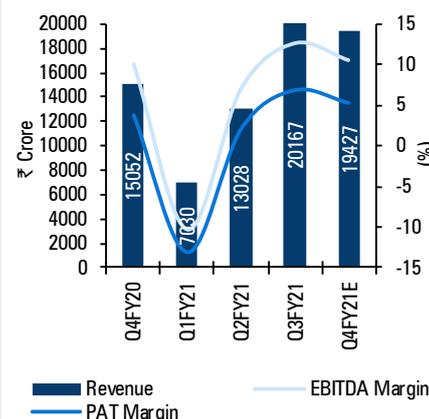
Among discretionary categories, we expect Titan's jewellery division to report robust revenue growth of 70% YoY in Q4FY21E (supported by benign base and large B2B order of gold coins). Revenue growth (excluding B2B sale) for Jan-Feb stood at healthy ~ 32%. Wedding jewellery has been the key growth driver during the quarter, coupled with softening of gold prices (6% QoQ) boosting demand. Titan's watches and wearable division is expected to report constant growth YoY in Q4FY21E. We expect Titan to report overall sales growth of 58% YoY in Q4FY21E. For Avenue Supermarts, certain home usage categories like apparel, footwear and travel were still not completely out of the woods, which has been a drag on its SSSG (January-February: ~6%). Also, localised restrictions on store operations resulted in SSSG for two year and older stores to decline 9.4% in the first 15 days of March. The company has accelerated store addition pace in Q4 by adding 13 D-Mart stores. Hence, we expect it to report 18% sales growth in Q4FY21E. Among lifestyle players, we expect Trent to outperform with sales growth of 12% in Q4FY21 (on an adjusted base recovery rate expected at ~90%). ABFRL is expected to report marginal sales growth of 1% (85% adjusted recovery rate) with addition of three Pantaloons stores. Business momentum in kitchen appliances segment continues to be healthy on the back of increased work from home trend and accentuated preference for home cooked food. On a low base of Q4FY20 (revenue de-growth of 21%) we expect TTK to report 35% revenue growth in Q4FY21E. Driven by strong demand for WFH athleisure wear & womenswear we expect Page to report healthy sales growth in Q4FY21.

Exhibit 1: Estimates for Q4FY21E

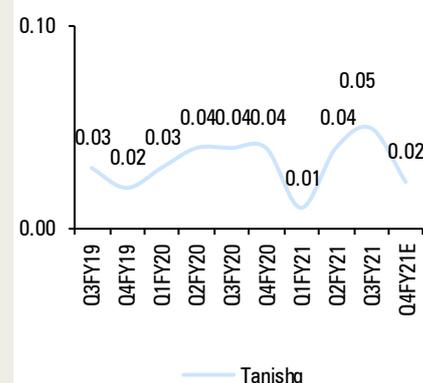
Company	Revenue			Change (%)			EBITDA			Change (%)			PAT			Change (%)		
	Q4FY21E	YoY	QoQ	Q4FY21E	YoY	QoQ	Q4FY21E	YoY	QoQ	Q4FY21E	YoY	QoQ	Q4FY21E	YoY	QoQ	Q4FY21E	YoY	QoQ
Avenue Supermarts	7,407.0	18.4	-1.8	488.9	17.1	-29.1	300.9	10.9	-32.7									
Bata India	613.6	-1.0	-0.2	120.3	-13.4	2.7	31.4	-16.7	21.7									
Titan Company	7,454.0	58.2	-2.2	881.7	44.0	4.0	578.2	68.5	9.1									
Trent Ltd	809.5	12.0	11.6	132.0	42.0	-26.7	33.7	1,185.7	-57.7									
TTK Prestige	518.2	35.1	-23.7	75.7	115.3	-36.0	54.5	161.3	-37.0									
Page Industries	787.6	45.5	-15.0	161.5	177.8	-28.6	106.4	243.1	-30.8									
ABFRL	1,837.3	1.1	-11.0	189.2	21.3	-48.6	-74.4	NA	PL									
Total	19,427.3	29.1	-3.7	2,049.1	35.6	-19.5	1,030.7	145.3	-25.8									

Source: Company, ICICI Direct Research.

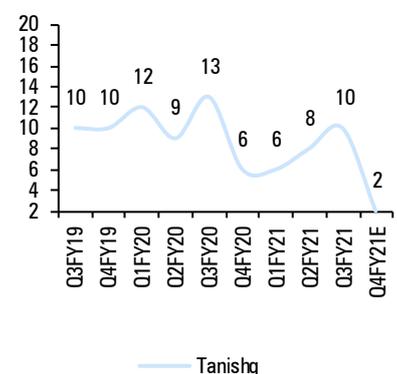
Topline & Profitability (Coverage Universe)



Space addition- million sq. ft. (QoQ)



Store addition -(QoQ) Tanishq (Titan)



Top Picks

Titan, Trent, ABFRL

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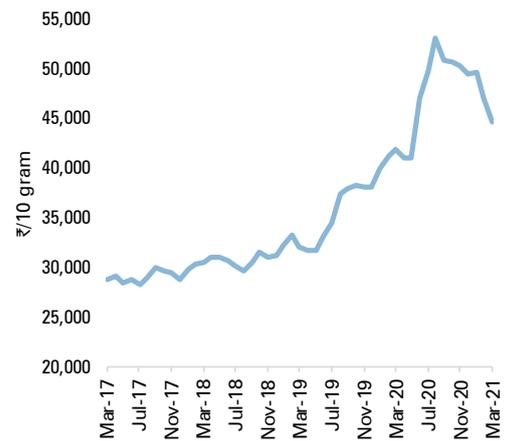
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Exhibit 2: Company Specific view

Company	Remarks
Bata India	Bata India witnessed a gradual recovery in revenues to ~ 75% in Q3FY21 on the back of new launches in open footwear category, enhanced distribution reach in Tier III-IV cities (through franchise route) and new omni-channel initiatives. On a favourable base of Q4FY20 (revenue decline of ~9%), we expect the company to report marginal revenue de-growth of 1% YoY to ₹ 614 crore in Q4FY21E. On an adjusted basis, recovery rate is expected at ~84% of pre-Covid levels in Q4FY21E. Gross margins are expected to stay under pressure owing to a change in product mix. We expect gross margins to contract ~580 bps YoY to 53.0% in Q4FY21E. Subsequently, we expect EBITDA margins to decline 280 bps YoY to 19.6% (up 60 bps sequentially). PAT is expected to decline 16% YoY to ₹ 31.4 crore (up 22% QoQ)
Titan Company	We expect Titan's jewellery division to end on a high note with revenue growth of 70% YoY in Q4FY21E (supported by favourable base and large B2B order for gold coins). Revenue growth (excluding B2B sale) for Jan-Feb stood at healthy ~ 32%. Wedding jewellery has been the key growth driver during the quarter, coupled with softening of gold prices (6% QoQ) boosting demand. We expect revenue from watches division to remain constant YoY. Overall revenues are expected to increase 59% YoY to ₹ 7454 crore. While studded ratio has witnessed a healthy recovery on a sequential basis, it continues to remain below pre-Covid levels. Also higher share of gold coins tend to drag overall margins. Hence, we expect gross margins to decline 540 bps YoY to 25.1%. Employee expenses are expected to increase by 19% YoY. However, with positive operating leverage kicking in, we anticipate EBITDA margins to decline by 120 bps YoY to 11.8%. On the back of a robust operational performance and high tax rate in the base quarter (~33%), we expect PAT to increase 69% YoY to ₹ 578 crore (up 9% sequentially)
Trent Ltd	Among apparel players, Trent in Q3FY21 had outperformed peers with sales reaching 83% in Q3FY21. Revenue trajectory improved further in January with sales recovering nearly 100% of pre-Covid levels. We expect the company (on a low base of Q4FY20) to report revenue growth of 12% YoY to ₹ 810 crore in Q4FY21E. Localised stringent rules in states such as Maharashtra (17% of total stores) are expected to have impacted revenue growth momentum in March. We expect gross margins to remain constant YoY at 46.9%. On account of positive operating leverage, we expect EBITDA margins to expand 340 bps YoY to 16.3% (Q3FY21: 24%). We expect PAT to come in at ₹ 33.7 crore (Q4FY20: ₹ 2.6 crore, Q3FY21: ₹ 79.6 crore)

Source: Company, ICICI Direct Research

Gold price trend



Source: Crisil Research, ICICI Direct Research

Exhibit 3: Company Specific views

Avenue Supermarts We expect Avenue Supermarts to report sales growth of 18% YoY to ₹ 7407 crore in Q4FY21E. It has added ~ 13 new D-Mart stores during the quarter. We believe certain home usage categories like apparel, footwear and travel were still not completely out of the woods, which has been a drag on its SSSG (January-February: ~6%). Localised restrictions on store operations is also expected to weigh on the performance for Q4FY21E. Gross margins are expected to decline 40 bps YoY to 13.2% owing to an increase in RM prices for certain non-FMCG categories. We expect EBITDA margins to remain constant YoY at 6.6%. Subsequently, we expect PAT to grow 11% YoY to ₹ 301 crore

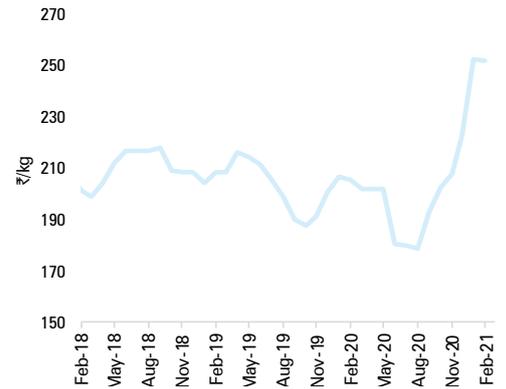
ABFRL On a favourable base of Q4FY20 (6% revenue decline), we anticipate ABFRL will report marginal revenue growth of 1% YoY to ₹ 1837 crore. On an adjusted basis, recovery rate is expected to reach ~85% YoY in Q4FY21E. Pantaloons division is expected to report revenue growth of 4% YoY whereas lifestyle brands are expected to witness 2% de-growth YoY. On account of significant cost saving measures, we expect the company to report EBTDA of ₹ 189.2 crore (Q4FY20: ₹ 156.1 crore, Q3FY21: ₹ 368.5 crore). Also, ABFRL has significantly reduced debt levels from ₹ 2593 crore in December to ~₹ 600 crore. Hence, we expect interest expense to decline 35% YoY in Q4FY21. Subsequently, we expect the company to report PBT loss worth ₹ 74 crore (Q4FY20: PBT loss ₹ 178 crore, Q3FY21: PBT ₹ 88.8 crore)

TTK Prestige Business momentum in kitchen appliances segment continues to be healthy on the back of increased work from home trend and accentuated preference for home cooked food. On a low base of Q4FY20 (revenue de-growth of 21%) we expect TTK to report 35% revenue growth to ₹ 518 crore in Q4FY21E. RM prices (aluminium), have seen significant surge during the quarter. Hence, in order to protect gross margins the company has taken price hikes in the range of 9-12% across product categories. We expect gross margins to decline marginally by 20 bps YoY to 43.4%. On account of positive operating leverage, we expect EBITDA margins to expand 540 bps YoY to 14.6%. We expect the company to report PAT of ₹ 54.5 crore (vs. ₹ 20.9 crore in Q4FY20 and ₹ 86.5 crore in Q3FY21)

Page Industries Driven by strong demand for WFH athleisure wear & womenswear we expect Page to report healthy sales growth in Q4FY21. We anticipate Page will report revenue growth of 46% YoY to ₹ 788 crore, driven by 36% growth in volumes and ~7% higher ASPs (owing to change in product mix). The growth is also supported by favourable base of Q4FY20 (revenue decline of 11%). Higher input prices (cotton yarn) may pressurise gross margins during the quarter. Hence, we expect gross margins to decline 135 bps YoY to 57.5%. On account of positive operating leverage, we expect EBITDA margins to improve substantially from 10.7% in Q4FY20 to 20.5%. However, on a sequential basis, EBITDA margins are expected to witness contraction (~24%). Subsequently, we expect the company to report PAT of ₹ 106.4 crore (vs. ₹ 31.0 crore in Q4FY20 and ₹ 153.7 crore in Q3FY21E)

Source: Company, ICICI Direct Research

Cotton yarn price trend



Source: Crisil Research, ICICI Direct Research

Exhibit 3: Valuation Summary

Sector / Company	CMP			M Cap (₹ Cr)	EV/Sales (x)				P/E (x)				EV/EBITDA (x)				RoCE (%)			RoE (%)				
	(₹)	TP(₹)	Rating		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E				
Trent	703	820	Buy	23,361	7.2	10.0	5.6	4.7	203.5	-	94.6	74.9	46.4	134.8	34.9	28.7	15.9	3.9	20.5	22.5	5.1	-3.8	10.7	12.3
ABFRL	190	225	Buy	16,096	2.1	3.8	2.1	1.8	-	-	67.1	46.4	39.5	-	30.5	24.3	6.5	-8.0	10.5	13.2	-6.0	-14.3	7.8	10.1
Bata India	1,390	1,680	Hold	17,865	5.5	9.4	5.2	4.4	54.6	-	44.4	34.7	20.4	73.2	18.9	15.6	28.2	-2.3	28.2	31.2	17.2	-1.8	19.2	21.6
Titan Company	1,525	1,830	Buy	1,35,387	6.3	6.6	4.9	4.1	88.4	148.0	61.0	49.1	53.9	81.0	39.6	32.1	28.7	16.5	32.4	33.2	22.5	12.4	24.2	24.8
TTK Prestige	7,280	8,030	Buy	10,100	4.9	4.8	4.1	3.6	54.7	53.6	39.7	34.6	38.2	36.9	28.0	24.5	17.1	15.5	19.1	19.6	14.1	13.1	15.8	16.2
Page Industries	29,514	31,500	Hold	32,920	11.1	12.3	9.1	7.8	95.9	104.0	63.3	52.5	61.6	65.7	42.3	35.4	55.7	46.8	64.4	64.4	41.9	36.7	49.8	49.6
Avenue Supermarts	2,844	3,130	Hold	1,84,226	7.3	7.5	5.1	4.1	141.6	168.5	90.3	70.9	85.0	106.1	58.5	45.4	16.4	12.3	19.4	20.9	11.7	9.0	14.4	15.5

Source: Company, ICICI Direct Research

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