April 11, 2023

Low base effect to aid moderate quarter…

As per our channel checks, demand for the lifestyle segment started waning off during January-February as pent-up demand for discretionary spending reduced. Also, owing to higher inflation, consumers' share of wallet towards discretionary appears to have declined (mainly in non-Tier I cities). We expect Titan, Trent to buck the current trend owing to continued momentum in network expansion. Among categories, value fashion continues to be the most impacted with softer performance expected in V-Mart and Pantaloons (ABFRL). On a favourable base, we expect our retail coverage universe to report revenue growth of 21% in Q4FY23 (down 14% QoQ). EBITDA margins are expected to remain under pressure mainly on account of higher operating expenses on the back of new store opening and investments in marketing spends. Hence, we anticipate EBITDA margins to decline 120 bps YoY to 10.4%. Despite a challenging environment, retailers continued calibrated expansion of their store network with opening of 9 V-Mart stores, 31 jewellery stores of Titan, 52 Titan watches and wearable stores, 38 Zudio stores, 35+ Bata Franchise stores and four D-Mart stores. The management's commentary on demand trends for spring summer 2023 (SS23) and healthy wedding season would be a critical factor to watch.

Titan, Trent to outperform amid tapering demand

Titan's jewellery division (including Carat Lane) is expected to register growth of 23.6% YoY driven by buyer growth, both new and repeat and higher ticket size. January, February saw continuance of strong consumer purchase intent that was visible during the festive season. However, a sudden spike in gold prices led to a relative softening of demand in March. On a three-year CAGR basis (excluding bullion sales), revenue growth continues to be impressive at 25%. Watches and wearables division registered strong growth of 41% on a YoY basis led by strong traction in analogue watches segment and tripling of revenues from wearables segment. For Avenue Supermarts, consolidated revenues are expected to increase 20% YoY (three-year CAGR of 19%) in Q4FY23. Revenue/sq ft for D-Mart is expected at ₹ 7600, which is ~8-10% below pre-Covid levels.

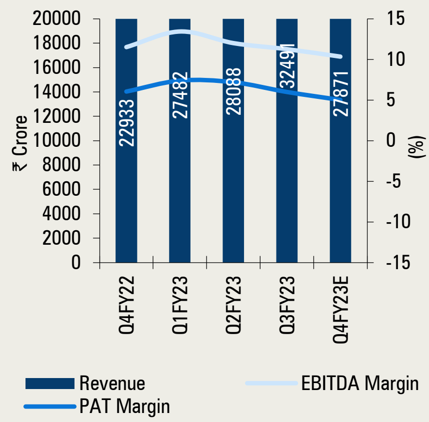
Among apparel players, Trent, over the last few quarters, has been reporting industry best revenue growth driven by healthy store additions and recovery in SSSG. We expect Trent to report 62% YoY revenue growth (three-year CAGR: 38%). For ABFRL, we expect Lifestyle brands to report 20% YoY revenue growth whereas Pantaloons division is expected to report growth of ~17%. Expect Bata to record 11% revenue growth with sneaker category (~20% revenues) to outperform formal category. For V-Mart (including Unlimited) we expect revenues to rise 25% mainly driven by store addition and higher average selling price (ASP). Demand for value fashion segment is expected to remain on the softer side owing to inflationary pressure.

Estimates for Q4FY23E (₹ crore)

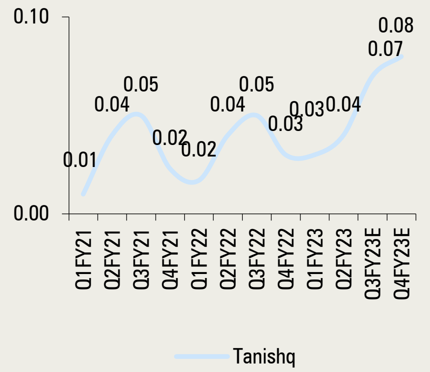
Company	Revenue	Change (%)		EBITDA	Change (%)		PAT	Change (%)	
	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ	Q4FY23E	YoY	QoQ
Avenue Supermarts	10,587.0	20.5	-8.5	815.2	10.3	-15.5	493.0	15.5	-16.4
Bata India	738.4	11.0	-18.0	168.4	3.8	-18.3	53.3	-15.6	-35.9
Titan Company	9,337.6	19.8	-19.6	1,060.0	33.5	-21.3	706.6	33.8	-22.5
Trent Ltd	1,920.1	62.0	-11.6	232.3	52.5	-30.8	85.2	13.9	-47.0
TTK Prestige	680.4	5.1	4.3	100.7	-4.8	29.8	73.9	-6.6	28.6
Page Industries	1,181.1	6.3	-3.5	218.5	-18.2	13.4	144.2	-24.4	16.5
ABFRL	2,853.1	25.0	-20.5	256.8	-31.2	-41.1	-116.8	PL	PL
V-Mart	572.9	24.9	-30.4	37.2	-26.0	-64.1	-37.4	NA	PL
Total	**27,870.5**	**21.5**	**-14.2**	**2,889.1**	**9.3**	**-21.1**	**1,402.0**	**0.8**	**-28.2**

Source: Company, ICICI Direct Research.

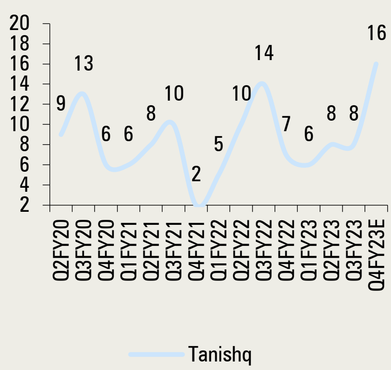
Topline & Profitability (Coverage Universe)



Space addition- million sq. ft. (QoQ)



Store addition –(QoQ) Tanishq (Titan)



Top Picks

Trent, Titan

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Exhibit 1: Company Specific view

Company	Remarks
Bata India	The business environment continues to be challenging with demand in the mass category footwear continuing to remain sluggish owing to inflationary pressure. We expect Bata to report 11% YoY sales growth to ₹ 738 crore in Q4FY23 driven by wedding demand and increase in sales of premium products. The company continues to expand its network through franchisee stores and added 39 new franchisee stores. We expect it to open another 30 during the current quarter taking total count to 423 franchisee stores. Sneaker category (~20% of sales) is expected to continue to outperform formal category. On the margin front, we expect gross margins to be down 160 bps YoY to 56% but remain below pre-Covid levels (~59% in Q4FY20) owing to a change in channel and product mix. We expect EBITDA margins to decline 160 bps YoY to 22.8% owing to higher operating expenses due to increased spending on marketing and technology enhancement. Absolute EBITDA is expected to increase 4% YoY to ₹ 168 crore. However, owing to increased interest (up 19% YoY) and depreciation (up 7% YoY) , PAT is expected to decline 16% YoY to ₹ 53 crore
Titan Company	Titan's has been a secular growth story with consistent market share gains from unorganised players. Despite a sharp surge in gold prices during the quarter, Titan's jewellery space recorded healthy growth of 23% YoY in Q4FY23E (excluding gold bullion sale in the base quarter: ₹ 375 crore). Growth was also aided by partially disrupted base quarter. The key highlight during the quarter was more than 40% YoY growth in the watches and wearable segment. Overall revenues are expected to increase 20% YoY to ₹ 9337.6 crore with a healthy three-year CAGR of 25%. Expect gross margins to improve 60 bps YoY to 25.8% on account of enhanced product mix (high value studded). Anticipate EBITDA margins to improve 120 bps YoY to 11.4%. PAT is expected to increase 34% YoY to ₹ 706.6 crore (three-year CAGR: 27%)
Trent Ltd	In the apparel retail space, Trent continues to be the outperformer with the company registering industry best revenue growth on the back of strong recovery in SSSG for Westside (15+%). 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). On a favourable base, we expect the company to report 61% YoY revenue growth at ₹ 1920.9 crore (three-year CAGR: 38%) in Q4FY23. During the quarter, it added 38 Zudio stores taking the total store count to 364. 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 420 bps YoY to 44.9%. Owing to aggressive store additions we expect opex to have increased by 48% YoY. Hence, we expect EBITDA margins to decline 75 bps YoY to 12.1%. Absolute EBITDA to increase 53% YoY to ₹ 232.3 crore (three-year CAGR: 36%)
Avenue Supermarts	On a favourable base, we expect Avenue Supermarts to report consolidated revenue growth of 21% YoY to ₹ 10587 crore (three-year CAGR: 19%). The company is expected to maintain its trajectory of 19-20% CAGR witnessed in the previous five to six quarters. Store addition was robust as the company added 18 new stores in Q4FY23 (FY23: 40) taking the total store count to 324. We expect revenue per sq ft at ₹ 7600, which is ~8-10% below pre-Covid levels 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 14.8%. We anticipate EBITDA margins will contract 70 bps YoY to 7.7%. Absolute EBITDA is expected to increase 10.3% YoY to ₹ 815.2 crore. Subsequently, expect PAT to grow 16% YoY to ₹ 493 crore

Source: Company, ICICI Direct Research

Exhibit 2: Company Specific views

ABFRL	We expect margins to remain under pressure for ABFRL owing to higher spends in marketing expense and negative operating leverage. Our channel checks indicate muted sales growth during the quarter with Pantaloons being impacted owing to a slowdown in value fashion segment. On a favourable base, we expect revenue to grow 25% YoY to ₹ 2853 crore. Revenues for Lifestyle segment is expected to increase 20% YoY (three-year CAGR: 15%), whereas Pantaloons division is expected to increase 17% YoY (three-year CAGR: 8%). Ethnic segment (6% of sales) is expected to record 78% YoY growth. We expect the company to report multi-year low margins to the tune of 9% (down 730 bps YoY). Absolute EBITDA is expected to decline 31% YoY to ₹ 256.8 crore
TTK Prestige	Demand in Q4FY23E has been better than preceding two quarters, which were impacted by high inflation and lower wallet share for the kitchen appliances (post waning of pandemic effect) and an higher base of FY22. We expect demand for mid-premium to premium products to be stronger compared to entry level products. On the gross margin front, we expect an improvement due to extinguishing of high cost inventory of earlier quarters and the impact of cooling of commodity prices leading to easing of raw material cost. We anticipate revenue growth of 5.1% YoY to ₹ 680 crore driven by 6%, 4%, 5% YoY growth in cookers, cookware and appliances, respectively. We expect gross margins to improve 40 bps YoY to 41%. However, owing to higher other expenses, we expect EBITDA margins to decline 154 bps YoY to 14.8% (QoQ improvement of 290 bps). Absolute EBITDA is expected to decline 4.8% YoY at ₹ 101 crore. Consequently, we expect PAT to decline 6.6% YoY to ₹ 74 crore (QoQ growth of 29%)
Page Industries	The company is implementing auto replenishment system (ARS) (expected to be completed in Q4FY23) to improve inventory hygiene across the dealer distribution channels, which could subdue volume growth in the near term. We anticipate Page will report YoY revenue growth of 6% to ₹ 1181 crore in Q4FY23E mainly driven by volume growth of 4% YoY while average realisations are expected to increase 2% YoY. We expect gross margins to decline 343 bps YoY to 56% (52.4% in Q3FY23). We anticipate EBITDA margins will decline 550 bps YoY to 18.5% in Q4FY23 on account of high base and negative operating leverage. On the PAT front, we expect Page to report 24% YoY decline in net profit to ₹ 144 crore (net profit of ₹ 124 crore in Q3FY23)
V-Mart	V-Mart has a presence in the value segment, which is more price sensitive. Hence, the recovery has been tepid compared to other players. However, despite challenges, store additions continues to remain healthy with opening of nine new stores in Q4FY23 (opened 17 stores and closed eight). Consumption has been muted in the key markets (UP, Bihar and Uttarakhand) for the company. We bake in revenue per store at ₹ 1.4 crore and expect V-Mart format (excluding Unlimited revenues) to report YoY growth of 15% to ₹ 444 crore mainly supported by higher ASPs. We expect overall revenues (including Unlimited store format) to increase 25% YoY to ₹ 573 crore. We expect gross margins to decline 343 bps YoY to 31.5% on account of price reductions done by the company. EBITDA margins are likely to decline 447 bps YoY to 6.5% owing to higher opex cost due to expenses incurred on integration of recently acquired Limeroad business. Absolute EBITDA is expected to decline 26% YoY to ₹ 37.2 crore. Higher interest (up 17% YoY) and depreciation (up 27% YoY) is expected to lead the company to report a net loss of ₹ 37 crore compared to a net loss of ₹ 2.6 crore in Q4FY22

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	1,340	1,730	Buy	47,633	18.2	10.6	5.8	4.9	-	450.1	95.2	70.4	274.5	82.8	41.2	32.2	4.3	14.1	29.0	32.7	-6.3	4.5	18.3	20.8
ABFRL	220	340	Buy	20,867	4.1	2.7	1.7	1.4	-	-	89.0	41.9	-	19.8	12.7	10.0	-8.9	5.1	10.9	16.5	-25.5	-3.9	4.5	9.3
Bata India	1,406	1,640	Hold	18,071	9.9	7.2	5.2	4.4	-	179.1	57.8	42.9	105.3	41.2	22.8	18.4	-5.9	9.6	34.5	37.5	-5.1	5.6	21.9	24.8
Titan Company	2,590	3,030	Buy	2,29,937	10.5	7.9	5.9	5.1	236.3	105.8	69.0	59.1	131.5	68.4	47.3	40.7	17.6	30.0	36.9	34.6	13.0	23.4	27.8	26.1
TTK Prestige	716	980	Buy	9,931	3.5	3.4	3.0	2.6	32.5	37.4	30.2	25.6	22.5	25.9	20.8	17.6	21.6	16.6	18.9	20.0	17.7	13.9	15.5	16.4
Page Industries	36,396	37,550	Hold	40,596	14.2	10.4	8.0	7.1	119.2	75.7	65.6	53.3	76.3	51.3	43.5	35.5	52.4	66.1	60.4	59.6	38.5	49.3	45.3	44.5
Avenue Supermarts	3,460	4,000	Hold	2,24,128	8.9	9.2	7.2	5.1	172.3	203.9	150.2	90.2	103.8	127.1	89.1	58.9	16.4	12.5	15.5	20.1	11.7	9.0	10.9	15.4
V-Mart	2,183	2,560	Hold	4,311	3.6	2.5	1.8	1.5	NA	370.7	153.2	63.4	29.6	20.3	14.1	11.6	6.0	10.3	14.9	19.2	-0.8	1.4	3.2	7.2

Source: Company, ICICI Direct Research

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