May 6, 2020

Revival in discretionary segment to be elongated…

The Indian retail sector is facing unprecedented circumstances owing to the Covid-19 outbreak leading to nationwide lockdown by the Centre as well as several state governments. Given the magnitude of Covid-19 impact in India till date, especially in high revenue generating urban zones, we anticipate the situation may not ease until festive season. Hence, we bake in revenue disruption for the next six months. Gradual store openings may witness limited operations owing to supply disruptions and implementation of social distancing norms. We have collated certain key highlights in our interaction with management over the outlook of the retail sector in the near term. We expect companies with strong balance sheet and promoter pedigree to tide over the current situation better than small peers.

Key highlights

- Apparel retailers are anticipating complete loss of spring-summer season (SS) sales as retailers expect sales to happen only after June. This is a critical season for retailers in terms of profitability as full pricing sales takes place across categories
- Retailers sitting on large inventory pile will restrict them from placing fresh orders (focus on liquidating existing inventory for upcoming autumn-winter season). Hence, we expect a contraction of gross margins in FY21E (bake in 100-200 bps gross margin decline in FY21E)
- In the near term, e-commerce is expected to be a clear beneficiary. Hence, companies have been enhancing their digital initiatives. Currently, e-commerce accounts for 5-10% contribution for most brands. E-commerce sales may grow faster but would be inadequate to compensate for loss of in-store sales. E-commerce companies have been engaging with customers and analysing demand trends that indicate there is stable consumer demand for apparels in the market
- Majority of branded players have a prominent presence in metro/urban cities (65-70% of the total carpet area). Most 'red zones' are centred around urban areas, which implies stringent implementation of lockdown measures. Retailers are still seeking clarity on gradual opening of standalone stores. While small branded stores (500-1000 sq ft) may be the first ones to open, large format stores such as Westside and Pantaloons (20000+sq ft) may be the last ones to operate as they cater to larger number of footfalls, which state/government authorities may not allow in the near term
- Companies have been in constant negotiations with mall owners and high street landlords to shift from a fixed rental cost model to revenue sharing model. However, malls are under severe stress as majority have availed lease rental discounting facility

Valuation and outlook

Given the prolonged pain anticipated in the retail industry, we further revise our revenue and earnings estimates downwards for FY21E on the back of a significant decline in revenues in H1FY21. Revenue recovery during festive season (Q3FY21) would be immensely critical for the struggling retail industry. In a volatile industry scenario, with uncertainty prevailing owing to external factors, investors should look beyond the near term negative impact on profitability of companies with strong balance sheet, brand patronage and good promoter pedigree as these companies would have the wherewithal to capture the growth opportunities once the business environment normalises.

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Exhibit 1: Recommendation change

	Old			New		Upside (%)
Company	Target Price	Rating	CMP	Target Price	Rating	
Bata	1480	Buy	1275	1450	Hold	14%
Titan	1220	Buy	880	1150	Buy	31%
Trent	610	Buy	465	560	Buy	20%
Avenue Supermarts	2330	Buy	2140	2330	Hold	9%
Aditya Birla Fashion	225	Buy	105	140	Buy	33%
Page Industries	22750	Hold	17300	18100	Hold	5%

Source: Company, ICICI Direct Research

Stock specific comments

Bata: Q1 generally tends to be a critical period for Bata as it derives ~ 28% of annual revenues, mainly owing to sale of school shoes. With complete shutdown of stores in April/May, we expect a sharp deceleration in revenue growth in Q1FY21E. Majority of Bata stores are standalone stores (outside malls). Hence, gradual store openings may result in certain pent up demand for low ticket size items. The combined impact of near complete revenue loss during the initial two lockdowns and phased revenue revival with easing of curbs would lead to substantial loss of revenue during the period. Factoring in the same, we cut our estimates sharply for FY21E. However, we expect a recovery in FY22E, translating into revenue and EBITDA CAGR of 8% and 11%, respectively, in FY20-22E.

Over the longer term Bata continues to remain a preferred pick owing to its strong balance sheet (healthy cash and bank balance of ₹ 839.0 crore and negative working capital cycle). The share of premium products for Bata is now at ~50% while it's continuous pursuit of premiumisation of product portfolio would maintain the positive margin growth trajectory, going ahead. We believe that with its strong brand patronage and pan-India retail reach, Bata India should be able to revive its revenue growth trajectory as and when the impact of the Covid-19 is phased out. We have a **HOLD** recommendation on the stock with a revised target price of **₹ 1450** (40x FY22E EPS).

Exhibit 2: Change in estimates

		FY20E			FY21E			FY22E	
(₹Crore)	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	3,074.9	3,074.9	0.0	3,198.8	2,828.9	-11.6	3,695.9	3,554.8	-3.8
EBITDA	507.4	507.4	0.0	521.4	364.9	-30.0	657.9	620.3	-5.7
EBITDA Margin (%)	16.5	16.5	0 bps	16.3	12.9	-340 bps	17.8	17.5	-35 bps
PAT	383.9	383.9	0.0	387.9	266.6	-31.3	492.3	466.0	-5.3
EPS (₹	29.9	29.9	0.0	30.2	20.7	-31.3	38.3	36.3	-5.3

Source: Company, ICICI Direct Research

Exhibit 3: Key Financial Summary

₹crore	FY19	FY20E	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	2,928.4	3,074.9	2,828.9	3,554.8	7.5%
EBITDA	477.3	507.4	364.9	620.3	10.6%
PAT	329.7	383.9	266.6	466.0	10.2%
P/E (x)	49.5	42.5	61.2	35.0	
EV/Sales (x)	5.3	5.0	5.4	4.2	
EV/EBITDA (x)	32.4	30.2	41.8	24.1	
RoCE (%)	23.7	21.6	13.5	22.1	
RoE (%)	18.9	18.9	12.2	19.0	

Source: Company, ICICI Direct Research

Avenue Supermarts: The company is expected to report healthy Q4FY20 owing to consumer's tendency to stock essential commodities and groceries to provide for contingences in the event of intensification of Covid-19 outbreak in India (various food retailers witnessed a surge in March sales). However, we expect revenue growth trajectory decelerate in FY21E owing to various operational issues such as shortage of labour and supply chain issues. Furthermore, the company said that nearly 50% of stores remained shut based on directives of local authorities. The company continued to sell only essential items such as grocery and FMCG, while it has stopped sales of general merchandise and apparels (28% of topline having better gross margin profile). We anticipate a significant surge in average bill size to partially negate the impact of decline in customer footfalls. Factoring in the same, we revise our estimate downwards for FY21E.

Over the years, DMart has proven to be a resilient business model generating superior RoCE of 23% and fixed asset turnover ratio of 4.1x. The infusion of funds into the business (₹ 4100 crore) would provide Avenue Supermarts the ammunition to enhance its store expansion pace resulting in higher revenue and profitability (we reduce the capex intensity in FY21E, factoring in lower store additions). Due to the recent run-up in stock price, we downgrade a notch from BUY to **HOLD**, with a target price of **₹ 2330** (43.0x F22E EV/EBITDA).

Exhibit 4: Change in estimates

	FY 21E			FY 22E		
(₹Crore)	Old	New	% Change	Old	New	% Change
Revenue	32,120.1	29,072.0	-9.5	41,389.7	39,472.1	-4.6
EBITDA	2,730.2	2,325.8	-14.8	3,600.9	3,434.1	-4.6
EBITDA Margin (%)	8.5	8.0	-50 bps	8.7	8.7	0 bps
PAT	1,921.0	1,647.6	-14.2	2,458.3	2,354.8	-4.2
EPS (₹	29.8	25.6	-14.1	38.2	36.6	-4.3

Source: Company, ICICI Direct Research

Exhibit 5: Key Financial Summary

₹crore	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	15,033.2	20,004.5	25,789.2	29,072.0	39,472.1	23.7%
EBITDA	1,352.8	1,633.3	2,166.3	2,325.8	3,434.1	25.9%
PAT	787.8	902.4	1,406.2	1,647.6	2,354.8	29.4%
P/E (x)	170.3	152.1	97.6	86.0	60.2	
EV/Sales (x)	9.1	6.9	5.3	4.7	3.5	
EV/EBITDA (x)	101.4	84.4	63.6	59.3	40.4	
RoCE (%)	24.7	23.4	25.2	17.3	20.8	
RoE (%)	17.3	16.2	20.1	12.9	15.6	

Source: Company, ICICI Direct Research

Titan: Complete shutdown of stores in the second half of March led to revenue de-growth in Q4FY20. Revenue from jewellery division declined 5% YoY due to lost sales in March (recorded impressive growth of 16.5% in Jan-Feb). Despite headwinds, Tanishq continued to outperform the industry with sustained market share gains (jewellery industry declined ~20% YoY in Q4FY20). We expect the impact to be more severe in H1FY21 as consumers may refrain from spending on high ticket items post lockdown. Festive demand and pent-up wedding jewellery (~25% of sales) demand in Q3FY21 would be the key monitorable. Despite the tough scenario, Titan added highest number of Tanishq stores in a year (40) taking total store count to 327 as on FY20. We expect store addition momentum to decelerate in FY21E, as it focuses on maintaining liquidity to tide over uncertainties.

Titan has been the market leader in the Indian jewellery market and has grown at a robust pace compared to a decline at the industry level. **It has a consistent margin profile owing to strong pricing power in terms of higher making charges compared to peers across various gold cycles.** It has consistently exhibited its ability to gain market share amid a tough industry scenario. Robust balance sheet (30%+ RoCE and virtually debt free status) and asset light distribution model have enabled it to outpace peers in terms of store addition. Over the longer term, we expect Titan to be a key beneficiary as India's gold market continues to strive towards regulation and standardization. We continue to maintain our **BUY** recommendation on the stock with a revised target price of **₹ 1150** (48.0x F22E EPS).

Exhibit 6: Change in estimates

	FY20E			FY21E			FY22E		
(₹Crore)	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	21,057.0	21,057.0	0.0	22,572.8	19,687.0	-12.8	27,987.8	26,239.7	-6.2
EBITDA	2,144.1	2,144.1	0.0	2,261.0	1,810.4	-19.9	3,092.7	2,899.5	-6.2
EBITDA Margin (%)	10.2	10.2	0 bps	10.0	9.2	-82 bps	11.1	11.1	0 bps
PAT	1,521.5	1,521.5	0.0	1,622.7	1,302.5	-19.7	2,246.2	2,126.5	-5.3
EPS (₹	17.1	17.1	0.0	18.3	14.7	-19.8	25.3	24.0	-5.3

Source: Company, ICICI Direct Research

Exhibit 7: Key Financial Summary

(₹Crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	16,119.8	19,778.5	21,057.0	19,687.0	26,239.7	11.6
EBITDA	1,644.7	2,136.5	2,144.1	1,810.4	2,899.5	16.3
PAT	1,130.1	1,404.2	1,521.5	1,302.5	2,126.5	18.2
EPS (₹	12.7	15.8	17.1	14.7	24.0	
P/E (x)	69.9	56.3	51.9	60.7	37.2	
EV/Sales (x)	4.9	3.9	3.7	4.0	2.9	
EV/EBITDA (x)	47.7	36.5	36.5	43.3	26.4	
RoCE (%)	29.3	32.4	27.5	20.1	27.6	
RoE (%)	22.2	23.2	21.6	16.3	21.9	

Source: Company, ICICI Direct Research

Trent: In the apparel space, Trent has been a consistent outperformer with industry best same store sales growth (for Westside format). Over the last three quarters, the company recorded 30%+ revenue growth on the back of aggressive store addition pace, coupled with healthy SSSG. The revenue trajectory is expected to get significantly derailed in FY21E owing to store closures impacting SSSG growth and declaration in momentum of square feet addition. With Westside being a large format store (15000+ sq ft), reopening may take longer compared to other standalone stores. Furthermore, we expect EBITDA margins to be under pressure owing to liquidation of unsold inventory and negative operating leverage.

Westside continues to be one of the most successful, established franchises, deriving 97% of share of revenues from private label brands. Higher promoter commitment signifies positive momentum in core business performance metrics. Furthermore, being a net cash positive company, it would be in a better position to tide over the current turbulent market scenario. We lower our revenue and profit estimates owing to the Covid-19 impact and revise our target price to **₹ 560** based on SOTP valuation.

Exhibit 8: Change in estimates

	FY20E			FY21E			FY22E		
(₹Crore)	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	3,322.3	3,322.3	0.0	3,902.5	3,214.5	-17.6	5,148.4	4,575.0	-11.1
EBITDA	281.8	281.8	0.0	301.9	198.0	-34.4	488.2	425.4	-12.9
EBITDA Margin (%)	8.5	8.5	0 bps	7.7	6.2	-158 bps	9.5	9.3	-18 bps
PAT	128.1	128.1	0.0	154.1	61.1	-60.3	302.7	269.8	-10.9
EPS (₹	3.6	3.6	0.0	4.3	1.7	-60.0	8.5	7.6	-10.9

Source: Company, ICICI Direct Research

Exhibit 9: Key Financial Summary

(₹Crore)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	2,157.5	2,630.2	3,322.3	3,214.5	4,575.0	17.3%
EBITDA	201.2	227.7	281.8	198.0	425.4	22.9%
PAT	87.0	94.9	128.1	61.1	269.8	
EV/Sales (x)	7.5	6.2	5.0	5.3	3.8	
EV/EBITDA (x)	80.2	71.2	59.5	86.1	40.4	
RoCE (%)	10.0	10.1	9.0	5.8	12.4	
RoE (%)	5.5	5.8	4.8	2.3	9.4	

Source: Company, ICICI Direct Research

ABFRL: The company temporarily shut down all its stores and factories from March 23, 2020 to abide by government regulations related to the lockdown. ABFRL is awaiting more clarity on MHA notification as to where the stores can open. Even if the stores are reopened, various issues such as supply chain disruption and shortage of labour issues would still persist. Inventory levels are higher than usual in Q4FY20. However, since it has moved to 12 seasons cycle period, the impact of inventory loss would be minimised. The management is in constant negotiations with mall developers to shift from fixed cost rental model to revenue sharing model for the next nine months. Among our retail coverage universe, we expect earnings of ABFRL to be impacted the most owing to high leverage compared to peers. We anticipate D/E ratio to escalate from 1.2x in FY19 to 1.4x in FY21E. However, we believe that with its strong brand patronage and large distribution reach it will be able to revive its revenue growth post normalisation of scenario and improvement in retail footfalls.

ABFRL combines Madura's portfolio of leading lifestyle brands (Allen Solly, Van Heusen, Louis Philippe and Peter England) with Pantaloons' forte of largest value fashion retailer. Over the years, Pantaloons has witnessed a significant upgradation of margin profile, from ~4% in FY15 to 10.1% in Q3FY20 (9.0% in YTD FY20). We bake in revenue and EBITDA CAGR of 7%/13% in FY20-22E. High FCF generation in FY22E is expected to bring down debt equity level (1.0x by FY22E). ABFRL witnessed significant de-rating (stock price down ~40%) in the past one month. We maintain **BUY** rating with a revised target price of **₹ 140** (1.3x FY22E EV/sales).

Exhibit 10: Change in estimates

	FY 20E			FY 21E			FY 22E		
(₹Crore)	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	8,702.8	8,702.8	0.0	9,140.0	8,130.3	-11.0	10,575.3	9,886.3	-6.5
EBITDA	545.7	545.7	0.0	590.6	425.0	-28.0	764.0	694.3	-9.1
EBITDA Margin (%)	6.3	6.3	0 bps	6.5	5.2	-123 bps	7.2	7.0	-20 bps
PAT	105.8	105.8	0.0	158.5	45.2	-71.5	300.6	270.1	-10.1
EPS (₹	1.4	1.4	0.0	2.0	0.6	-70.8	3.9	3.5	-10.0

Source: Company, ICICI Direct Research

Exhibit 11: Key Financial Summary

(₹Crore)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	7,172.1	8,117.7	8,702.8	8,130.3	9,886.3	7%
EBITDA	500.3	554.1	545.7	425.0	694.3	13%
PAT*	117.8	321.2	105.8	45.2	270.1	
P/E (x)	70.8	26.0	79.0	184.8	30.9	
EV/Sales (x)	1.4	1.2	1.2	1.3	1.0	
EV/EBITDA (x)	20.2	18.0	19.0	24.6	14.6	
RoCE (%)	8.5	10.7	9.7	7.4	14.8	
RoE (%)	10.8	22.5	6.9	2.9	14.6	

Source: Company, ICICI Direct Research. FY19 PAT includes deferred tax asset worth ₹ 193 crore

Page Industries: FY20 was a challenging year for Page Industries with dual headwinds of tepid consumer demand and high competitive intensity impacting the performance. Q1 is a critical period for Page as it contributes ~29% of annual revenues and 31% of EBITDA. With a total shutdown of stores in Q1FY21, we anticipate a sharp deceleration in revenue growth in FY21E. Given the discretionary nature of the business, we expect an elongated period of weak performance. Furthermore, liquidity issues at the dealer level may result in de-stocking of inventory. We anticipate a sharp spike in working capital cycle (from ~110 days in FY20 to 145 days in FY21E) mainly owing to higher inventory days. We build in revenue and EBITDA CAGR of 5% and 8%, respectively, in FY20-22E. Page Industries has a capital efficient business model with strong balance sheet and stringent working capital requirements. We continue to maintain **HOLD** recommendation on the stock with a revised target price of **₹ 18100** (48.0x FY22E EPS).

Exhibit 10: Change in estimates

	FY20E			FY21E			FY22E		
(₹Crore)	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	3,098.5	2,965.8	-4.3	3,505.7	2,646.9	-24.5	3,985.3	3,263.0	-18.1
EBITDA	576.1	517.2	-10.2	685.6	387.2	-43.5	816.0	604.8	-25.9
EBITDA margin (%)	18.6	17.4	-115 bps	19.6	14.6	-493 bps	20.5	18.5	-194 bps
PAT	402.8	358.9	-10.9	492.3	252.3	-48.7	590.2	420.6	-28.7
EPS (₹	361.1	321.8	-10.9	441.3	226.2	-48.7	529.1	377.1	-28.7

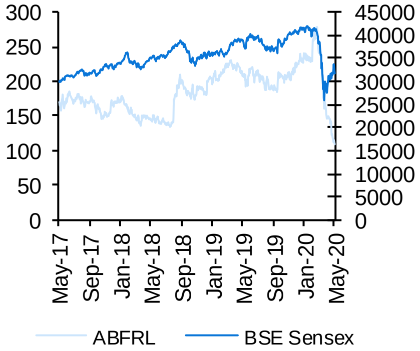
Source: Company, ICICI Direct Research

Exhibit 11: Key Financial Summary

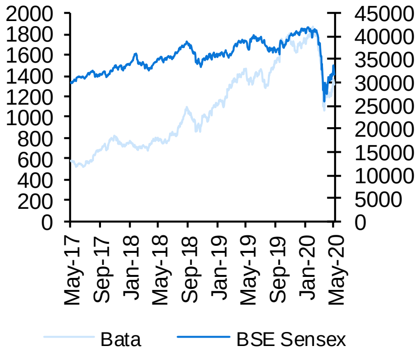
₹crore	FY19	FY20E	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	2,852.2	2,965.8	2,646.9	3,263.0	4.9%
EBITDA	617.0	517.2	387.2	604.8	8.1%
PAT	394.0	358.9	252.3	420.6	8.3%
P/E (x)	49.0	53.8	76.5	45.9	
EV/Sales (x)	6.8	6.5	7.3	5.9	
EV/EBITDA (x)	31.3	37.4	49.9	31.8	
RoCE (%)	69.1	48.0	29.8	42.5	
RoE (%)	50.8	39.2	23.1	33.4	

Source: Company, ICICI Direct Research.

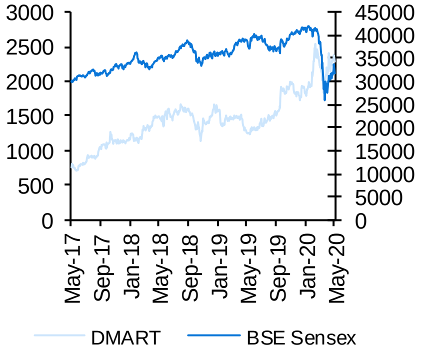
ABFRL



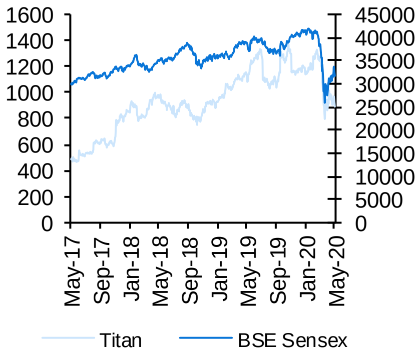
Bata



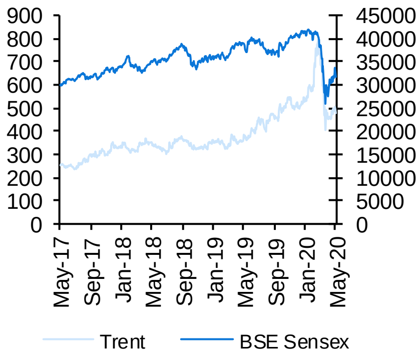
Avenue Supermarts



Titan



Trent



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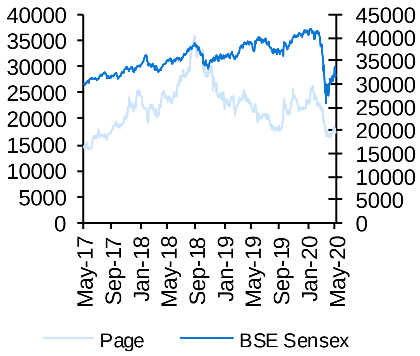

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