ICICI direct Research

September 5, 2022

Solid Q1FY23 print; geared up for strong festive season

Buoyed by strong wedding/festive season and a normalised quarter after a gap of two years, lifestyle retailers displayed a strong show with robust topline growth. **Revenue recovery rate for most apparel players was the highest in Q1FY23 (115-140%). On a favourable base, our retail coverage universe reported revenue growth of 146% YoY with impressive three-year CAGR of 17% in Q1FY23**. Most companies undertook a price hike in the range of 12-15% (YoY) to offset a spike in RM inflation. While price hikes did have an impact on price sensitive audience (ASP<₹ 400, V-Mart & Relaxo witnessed volume de-growth), mid-premium to premium segments (ABFRL, SSL) were more or less insulated**. Despite inflationary pressures, our retail coverage universe maintained EBITDA margins at pre-Covid levels of 14%.** Companies postponed EOSS period and reduced discounting days as demand continued to be strong throughout Q1FY23. Retail sector appears to be on the cusp of delivering strong sustained revenue growth driven by improved consumer sentiment, wardrobe refresh and increased spend on discretionary purchases as consumer wallet share on non-essentials had remained subdued for last two years.

Disruption free quarter leads to robust performance in Q1FY23

For Q1FY23, **Trent continued to be the outperformer with sales more than doubling vs. pre-Covid levels (three-year CAGR 29%).** The industry leading revenue growth was mainly owing to sustained robust trajectory of store addition pace (2x stores vs. pre-Covid levels) and is also supported by healthy SSSG for Westside format (24% over pre-Covid levels). **For Titan, its jewellery division continued to gain market share with an impressive three-year revenue CAGR of 24%.** One of the key positives during the quarter was share of studded ratio surpassing pre-Covid levels with contribution increasing 400 bps YoY to 26.0% (yields higher margins). **For ABFRL, overall revenue recovery rate in Q1FY23 reached 139% of pre-Covid levels (I-direct estimate: 131%).** The accelerated trajectory was on the back of robust growth in Lifestyle brands (Allen Solly, Van Heusen, Louis Philippe and Peter England) with revenues increasing 249% YoY (three year CAGR: 15%). **Owing to strong wedding season and wardrobe refresh, revenue recovery rate for Shoppers Stop surpassed pre-Covid levels for the first time in Q1FY23 (113% of pre-Covid levels).** Customer footfalls have now reached pre-Covid levels with average basket value up ~31% to ₹ 4344. **Avenue Supermarts (D-Mart) revenue grew at a three-year CAGR of 20% during the quarter.** The management highlighted that recovery in GM & apparel categories (yields better gross margins) was encouraging and witnessed better traction than the previous quarter (but still remains below pre-Covid levels).

Well poised to capture long term growth opportunity

We expect the revenue of companies in our coverage universe to grow at a CAGR of 26% in FY22-24E (CAGR of ~17% from pre-Covid market in FY20) driven by healthy space addition pipeline coupled with higher focus on omni-channel play (physical + online). Over the last two years, retail sector stocks have witnessed a re-rating with prices of retail stocks in our coverage universe have appreciated ~2x over last three years with a three year CAGR of 26%. Trent, Avenue Supermarts, Titan have been outperformers with three-year stock return CAGR of 46%, 45% and 35%, respectively. **We expect premium valuations for the retail sector to sustain given India's retail long term growth prospects. Key top picks: ABFRL, Titan, Shoppers Stop and Trent.**

Sector Top picks

Company	CMP	Target Price	Upside (%)
ABFRL (ADIFAS)	310.0	370.0	19.4
Titan (TITIND)	2620.0	3080.0	17.6
Trent (TRENT)	1400.0	1665.0	18.9
Shoppers Stop (SHOSTO)	615.0	740.0	20.3

Sector View: Positive

Retail stocks have been outperforming broader markets mainly on the back of

- Stronger than anticipated revenue recovery post Covid related disruptions
- Robust store addition pipeline in FY23, supported by healthy balance sheets

Key Risks

(i) Significant increase in raw material cost can subdue the margins

(ii) Lower than expected store addition can negatively impact the expected revenue growth

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Sector Update

ICICI Securities – Retail Equity Research

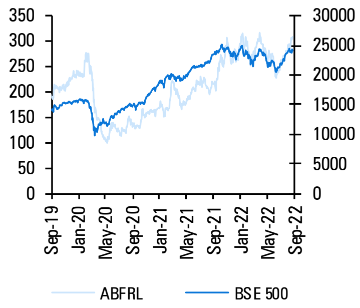
Company specific views:

Aditya Birla Fashion & Retail (ADIFAS)

ABFRL combines Madura's portfolio of leading power brands (Allen Solly, Van Heusen, Louis Philippe and Peter England) with Pantaloons' forte of largest value fashion retailer. Overall revenue recovery rate reached 139% of pre-Covid levels in Q1FY23 mainly driven by strong show in lifestyle brands. New category launches in active wear and casual wear and robust store additions in last three years (540+ stores) have fuelled growth. Revenue recovery for Pantaloons (36% of sales) was lagging lifestyle brands owing to a larger share of mall stores (~ 58%) that had prolonged restrictions. With first normalised quarter after a gap of two years, the segment displayed a strong performance in Q1FY23 with sales growth of 367% YoY (115% of pre-Covid levels). Demand trends continue to be strong with major drivers being strong wedding season and revival of formal portfolio with opening up of offices. Ethnic space continues to be the next growth engine for ABFRL with the business currently operating at an annual run rate of ₹ 400 crore. ABFRL has aggressive store addition plans for FY23E with 75+ Pantaloons store and 400+ (franchisee) lifestyle brand stores. The recent announcement of fund raising worth ₹ 2195 crore (equity + warrants) to GIC, would enable ABFRL to meet its long term capital needs and improve its competitive positioning.

The stock price of ABFRL has appreciated ~63% over the last three years. ABFRL has strengthened its balance sheet through recent equity infusion and right issue with net debt declining sharply from ₹ 2500 crore (in FY20) to ~₹ 650 crore. We believe ABFRL with lighter balance sheet and strong bouquet of brands is well placed to accelerate the pace of store addition and revenue growth. **We reiterate our BUY rating with a target price of ₹ 370 (2.5x EV/sales FY24E).**

Price Chart



Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	29,087.0
Total Debt (Mar-22) (₹ Crore)	1,232.3
Cash (Mar-22) (₹ Crore)	121.1
EV (₹ Crore)	30,198.2
52 week H/L	321 / 189

Exhibit 1: Financial summary for ABFRL

Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-FY22)	FY23E	FY24E	2 year CAGR (FY22-FY24E)
Net Sales	8,117.7	8,787.9	5,249.0	8,136.2	4.1%	12,158.7	14,269.7	32%
EBITDA	554.1	1,211.8	554.9	1,099.9		1,927.7	2,284.2	44%
PAT*	321.2	(163.0)	(673.1)	(108.7)		441.0	591.5	
EV/Sales (x)	3.2	3.0	5.7	3.7		2.5	2.1	
EV/EBITDA (x)	46.2	21.9	-	27.5		15.5	13.3	
RoCE (%)	10.7	10.2	(8.9)	5.1		14.4	16.7	
RoE (%)	22.5	-15.3	-25.5	-3.9		8.2	9.9	

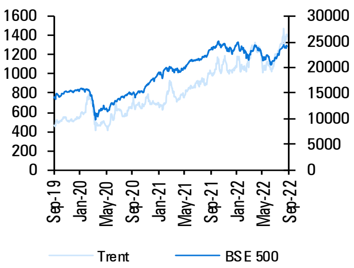
Source: Company, ICICI Direct Research

Trent Ltd (TRENT)

Trent's Q1FY23 revenue print was a strong beat on our/consensus estimates. On a three-year CAGR basis, revenue growth was at 29%, which is the highest among other lifestyle retailers (revenue recovery rate of 215% of pre-Covid levels vs. industry average of 115-140%). The industry leading revenue growth is mainly owing to sustained robust trajectory of store addition pace (more than doubled its store presence). The growth during the quarter was also driven by healthy same stores sales growth (SSSG) for Westside format (~72% of revenues), which was at 24% in Q1FY23. Zudio (~28% of sales) continues to gain market share in the value fashion space with robust growth. Zudio stores have multiplied ~6x in the last three years with subsequent revenues also increasing ~6x during the same period. Westside continues to be one of the most capital efficient fashion brand generating 25%+ RoCE (100% private label brands). We pencil in 227 new store additions between Westside and Zudio for FY23-24E. In the long run, the company aims to grow its revenue at a CAGR of 25%+

Trent has been an exceptional performer with the stock price more than tripling in the last three years. Robust performance during challenging times and industry leading performance will continue to warrant premium valuations for Trent. **Hence, we maintain our BUY rating on the stock and value Trent at ₹ 1665 based on SOTP valuations.**

Price Chart



Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	49,765.8
Total Debt (Mar-22) (₹ Crore)	497.4
Cash (Mar-22) (₹ Crore)	610.5
EV (₹ Crore)	49,652.7
52 week H/L	1522/ 953
Equity Capital (₹ Crore)	35.5
Face Value (₹)	1.0

Exhibit 1: Financial summary for Trent

Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	2,630.2	3,486.0	2,593.0	4,498.0	20.0%	7,127.4	8,584.5	38.1%
EBITDA	227.7	544.0	171.9	573.9		1,109.7	1,393.3	55.8%
PAT	97.0	122.8	(146.2)	105.8	13.0%	420.6	623.6	
EV/Sales (x)	17.9	14.1	19.0	11.0		7.0	5.7	
EV/EBITDA (x)	206.2	90.5	286.9	86.5		44.7	35.4	
RoCE (%)	10.1	15.9	4.3	14.1		29.4	33.1	
RoE (%)	5.9	5.1	-6.3	4.5		15.7	19.8	

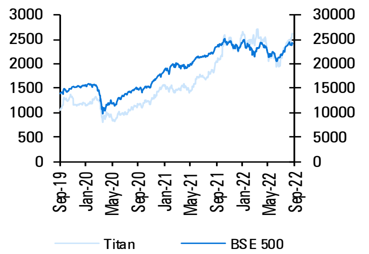
Source: Company, ICICI Direct Research

Titan Company (TITIND)

Titan has, over the years, withstood challenges and emerged as a resilient player. Despite Covid related challenges, Titan's jewellery division (85% of revenues) has recorded an impressive 17% revenue CAGR during FY18-22, whereas overall industry during the same period has shown zero to marginal growth. Sustained market share gains without compromising on the balance sheet strength (FY22: RoCE 33%, cash & investments: ₹ 1500+ crore) has led to P/E multiple expansion over the last couple of years. The company has chalked out its aspiration to grow jewellery revenues by 2.5x by FY27 (implied CAGR: 20%). It has huge headroom for growth with current market share <6% in ₹ 4 lakh crore market. Estimated revenue and earnings CAGR of 24% and 34%, respectively, in FY22-24E, coupled with healthy RoCE (33%+), makes Titan one of the best compounding stories.

Titan has been a consistent compounder with the stock price increasing at 26% CAGR in the last three years. Titan is a structural growth story and appears to be a key beneficiary of the unorganised to organised shift in the Indian jewellery market. **We value Titan at ₹ 3080 i.e. 70x FY24E EPS.**

Price Chart



Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	2,32,599.9
Debt (FY22) (₹ Crore)	518.0
Cash & investments (FY22) (₹ Crore)	1,572.8
EV (₹ Crore)	2,31,545.2
52 week H/L	2767 / 1825
Equity Capital (₹ Crore)	88.8
Face Value (₹)	1

Exhibit 2: Financial summary for Titan

Financials	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	21,051.5	21,644.0	28,799.0	17.0	37,362.0	44,503.9	24.3
EBITDA	2,466.6	1,724.0	3,341.0	23.0	4,515.6	5,628.8	29.8
PAT	1,501.4	973.0	2,173.0	26.0	3,079.1	3,903.3	34.0
EPS (₹)	16.9	11.0	24.5		34.7	44.0	
P/E (x)	154.9	239.1	107.0		75.5	59.6	
EV/Sales (x)	11.1	10.6	8.0		6.2	5.2	
EV/EBITDA (x)	94.4	133.0	69.2		51.3	40.9	
RoCE (%)	28.7	17.6	30.0		34.8	35.2	
RoE (%)	22.5	13.0	23.4		26.3	26.7	

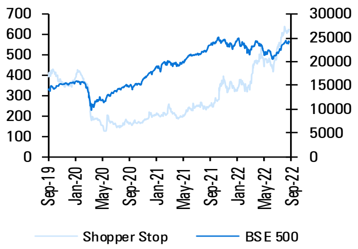
Source: Company, ICICI Direct Research

Shoppers Stop (SHOSTO)

Shoppers Stop (SSL) is one of India's leading departmental stores (90 stores) and has undergone various structural changes with focus on enhancing its share of private label brands and beauty portfolio. We believe the new MD (former Westside CEO) would bring in his expertise in the private label brands domain and focus on improving the share of high margin private label brands (~14% of revenues). It has embarked on a healthy store addition plans with opening of 12 stores in FY23E and steady SSSG of 9-11% in the near term. The company's liquidity position remains fairly stable with cash & investments worth ₹ 183 crore and debt worth ₹ 175 crore (net surplus ₹ 8 crore, D/E: 0.3x). With healthy store addition pipeline and sustained investments in omni-channel, we expect the revenue trajectory to further improve, going forward.

The stock price of SSL has appreciated ~55% over the last three years. SSL currently trades at reasonable valuations (~2x FY24E EV/Sales). **We maintain BUY rating and ascribe value of ₹ 740 (12.0x EV/EBITDA).**

Price Chart



Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	6,735.5
Totak Debt (Mar-22) (₹ Crore)	193.9
Cash (Mar-22) (₹ Crore)	179.7
EV (₹ Crore)	6,749.7
52 week H/L	647/ 241
Equity Capital (₹ Crore)	54.8
Face Value (₹)	5.0

Exhibit 3: Financial summary for Shoppers Stop

Financials	FY19	FY20	FY21	FY22E	5 year CAGR (FY17-FY22)	FY23E	FY24E	2 year CAGR (FY22-FY24E)
Net Sales	3,481.3	3,381.0	1,725.1	2,493.8	-7.0%	3,856.1	4,446.1	33.5%
EBITDA	253.3	549.4	53.4	267.5		683.7	812.1	74.2%
PAT	78.8	(140.9)	(275.2)	(86.7)		121.3	169.5	
EV/Sales (x)	1.5	2.1	4.8	3.3		2.1	1.8	
EV/EBITDA (x)	20.4	13.1	155.4	31.1		12.1	9.9	
RoCE (%)	11.6	4.7	(14.8)	(3.9)		14.4	16.5	
RoE (%)	8.1	-103.1	-151.5	-88.2		55.2	43.6	

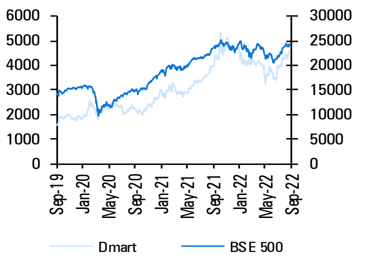
Source: Company, ICICI Direct Research

Avenue Supermarts (AVESUP)

Avenue Supermarts reported strong revenue growth of 93.7% YoY to ₹ 10038.1 crore (three-year CAGR: 20%) in Q1FY23. The company added 10 new D-Mart outlets taking the total store count to 294 with total business area now crossing 12 million sq ft. Over the last three years, the company expanded its square feet addition by an impressive three-year CAGR of 24% with average size of new stores being bigger (~50000+ vs. average 39000 sq ft). The new larger stores have never got an opportunity to function in normal circumstances over the last two years. Hence, the revenue throughput per sq ft has remained below pre-Covid levels (Q1FY20: ₹ 9200, Q1FY22: ₹ 3405, Q1FY23: ₹ 8300). With the scenario now normalising and with scale kicking in, we expect the trajectory for gross margin and RoCE to improve in the ensuing quarters. We model revenue, earnings CAGR of 32%, 48%, respectively, in FY22-24E.

ASL has been a consistent compounder with the stock price increasing at 35% CAGR in the last five years. D-Mart continues to remain India's most profitable low cost retailer, a strong play on India's retail growth story and a key beneficiary of the unorganised to organised segment shift. However, a recent run-up in the stock price, prompts us to revise our rating a notch lower from BUY to **HOLD with a revised target price of ₹ 5050 (6.0x EV/Sales). We await a better entry price-point.**

Price Chart



Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	2,94,735.4
Total Debt (FY22) (₹ crore)	-
Cash & Investment (FY22) (₹ crore)	1,575.1
EV (₹ crore)	2,93,160.3
52 Week H / L	5900 / 3185
Equity Capital (₹ crore)	647.8
Face Value (₹)	10.0

Exhibit 4: Financial summary for Avenue Supermarts

Finacials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	20,004.5	24,870.2	24,143.1	30,976.3	21.1%	42,033.5	54,148.8	32.2%
EBITDA	1,633.3	2,128.3	1,743.1	2,498.5	20.6%	3,858.7	5,133.3	43.3%
PAT	902.4	1,301.0	1,099.4	1,492.4	25.5%	2,432.5	3,273.9	48.1%
P/E (x)	314.7	226.6	268.1	197.5		121.2	90.0	
EV/Sales (x)	14.2	11.7	12.1	9.5		7.0	5.4	
EV/EBITDA (x)	174.1	137.0	167.6	117.3		76.1	57.1	
RoCE (%)	23.4	16.4	12.5	15.5		20.6	23.0	
RoE (%)	16.2	11.7	9.0	10.9		15.1	16.9	

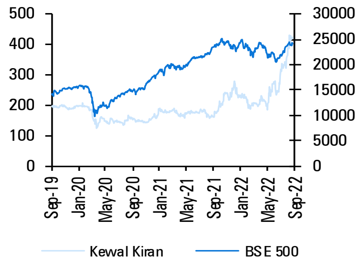
Source: Company, ICICI Direct Research

Kewal Kiran Clothing (KEWKIR)

KKCL is a branded apparel player with a strong bouquet of brands (owned brands 'Killer', 'Lawman Pg 3', 'Integriti' and 'Easies') across various price points. The company's product portfolio is primarily focused on men's casual wear and the company has also entered the women's and kids wear. On the financial front, KKCL has exhibited consistent double digit margins with a healthy balance sheet and strong return ratios. KKCL continues to be one of the most profitable branded apparel players in India with strong presence in branded menswear category. From a strategy perspective, the company is planning to continue its asset light store, expansion which would be driven by franchisee outlets across India. Also the company is expanding its presence in select national chain stores and e-commerce platforms that would enable it to acquire newer set of customers. The company is looking to accelerate revenue growth by fortifying its product bouquet with addition of jackets and winter wear apparel to garner higher market share in Northern India. KKCL is enhancing focus on its own digital and e-commerce platform to capitalise strength of its portfolio of brands and also provide an omni-channel access across its Exclusive Brand Outlets (EBO) network. We believe the company possesses a diversified product and brand bouquet and strong distribution network, which would enable it to achieve sustained revenue growth over medium to long term. Recent initiatives of the company are positive for providing the required thrust to its revenue trajectory and we expect the company to register revenue, earnings CAGR of 16%, 21% in FY22-24E, respectively with return ratios in excess of 20%+.

KKCL's stock price has appreciated by 145% in the last one year (three year CAGR of 28%). The company has a healthy b/s with debt free status and strong liquidity (cash and investments of ~ ₹ 335 crore in FY22). The company is pursuing accelerated growth across various distribution channels (EBO, multi brand outlet, national chain stores and e-commerce) to capture higher wallet share of the customer. **We maintain BUY rating on the stock with a target price of ₹ 500 (26x FY24E EPS).**

Price Chart



Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	2,601.4
Debt (FY22) (₹ Crore)	76.6
Cash & Investments (FY22)	337.6
EV (₹ Crore)	2,340.4
52 week H/L	441/ 162
Equity Capital (₹ Crore)	61.6
Face Value (₹)	2

Exhibit 5: Financial summary for KKCL

Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	502.4	529.7	302.7	-7.8%	607.6	709.7	823.9	16.4%
EBITDA	112.3	95.1	18.7	-24.9%	100.0	127.5	151.5	23.1%
Adjusted PAT	80.3	73.0	19.4	-14.3%	81.7	99.7	119.0	20.7%
P/E (x)	32.4	35.6	134.0		31.9	26.1	21.9	
EV/EBITDA (x)	21.4	25.4	125.8		23.4	18.6	15.7	
RoCE (%)	19.9	16.3	2.5		16.8	20.4	22.4	
RoE (%)	18.7	16.4	4.5		17.1	19.6	21.6	

Source: Company, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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