

## Festive season, growth of private label share critical for improved performance...

Marred by store closures (revenue de-growth: Q1: 94%, Q2: 64%), high operating fixed costs, losses for SSL bloated to ₹ 200 crore in H1FY21 vs. ₹ loss of ₹ 38.0 crore in H1FY20. Hence, negative FCF of ₹ 256 crore translated to gross debt rising 30% to ₹ 283.7 crore. To strengthen the b/s, the company has proposed right issues worth ₹ 300 crore. Also, SSL is aiming to cut costs by ~ ₹ 450 crore in FY21E (achieved ~ ₹ 315 crore cost savings in H1FY21). Though revenue recovery is visible MoM, sales continues to be below pre-Covid levels. Non-metro cities are recovering faster (down 59% YoY) vs. stores in Metro cities (down 71% YoY). Similarly, standalone stores have seen better traction (down 57% YoY) vs. mall stores (down 67% YoY). E-commerce continues to gain traction with current share at 8% (up 600 bps YoY). The management expects recovery rate to pick up pace in the festive season. Re-opening of food outlets, movie theatres in certain states would also perk-up footfalls for its mall stores. The management highlighted that certain stores in the eastern region saw revenue recovery rate of ~75% owing to festive season. We expect FY21E to be a washout year with revenue de-growth of ~47% YoY. Among positives, Venugopal Nair (CEO - Westside at Trent since January 2020) has been appointed MD & CEO for three years with effect from November 6, 2020.

### Efforts to push private label brands, beauty segment

The company has re-jigged its product portfolio of private label brands through launch of sharper price point assortments (< ₹ 999) and enhanced product offerings such as sleepwear, loungewear and innerwear. In Q2FY21 share of private label brands inched up 370 bps YoY to 15.5% (partly driven by higher discounting to liquidate old inventory). The management indicated that new launches are witnessing positive traction with September witnessing revenue decline of 19% vs. third party brands declining 47%. Share of beauty brands dipped marginally by 70 bps YoY to 14.7%. The company has made additional tie-ups with various brands under fragrances, skincare and feminine hygiene segment during the quarter. In Q3FY21, the company is planning to add one private label in the beauty segment.

### Valuation & Outlook

SSL over the years has underperformed its peers on the back of muted store addition (net addition of four stores in FY17-20) and moderate SSSG (average SSSG of ~ 2% in FY17-20). To reverse the same, it has undertaken initiatives like revamping store models, changing product mix with higher emphasis on beauty segment and launch of new value private label brands to increase customer interest. SSL has a stringent working capital policy with negative working capital days. Infusion of capital through right issue and FCF generation by FY23E will translate into retirement of debt worth ~₹ 150.0 crore. It will also drive RoCE higher to 9.6% by FY23E. We await the new MD's strategic growth roadmap and would monitor the improvement in key parameters like SSSG and private label share. Over last one year, the stock has seen significant correction. Hence, we upgrade the stock from REDUCE to **HOLD** with a target price of ₹ 205 (6.5x EV/EBITDA).

#### Key Financial Summary

(₹ Crore)	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	3,381.0	1,795.1	3,284.6	3,630.1	2.4%
EBITDA	549.4	64.9	577.0	646.0	5.5%
PAT	(140.9)	(293.8)	19.4	41.3	
EV/Sales (x)	1.1	2.2	1.2	1.1	
EV/EBITDA (x)	6.6	61.5	7.1	6.2	
RoCE (%)	4.7	(13.8)	8.0	9.6	
RoE (%)	-103.1	-205.6	11.9	20.3	

## SHOPPERS STOP

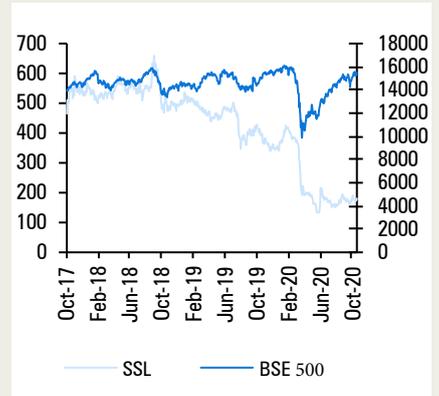
#### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	1,592.1
Totak Debt (Mar-20) (₹ Crore)	123.7
Cash & investments (Mar-20) (₹ Crore)	155.3
EV (₹ Crore)	1,560.5
52 week H/L	446/ 131
Equity Capital (₹ Crore)	44.0
Face Value (₹)	5.0

#### Key Highlights

- Certain stores in eastern region saw revenue recovery rate of ~75% owing to festive season
- Share of private labels inched up 370 bps in Q2FY21 to 15.5%

#### Price chart



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## Conference Call Highlights

- On the store operations front, in Maharashtra stores started operating from mid-August. The store operating hours are reaching near normal operating hours. Footfalls at stores have improved on a month on month basis but are still significantly lower than footfalls in a normal scenario. Standalone stores registered a lower decline in revenues than stores located in malls
- Home, watches and fragrance categories performed better while luggage, formal wear and makeup segments were drags during the quarter
- The management indicated a cost savings target of ₹ 450 crore in FY21, out of which ₹ 185 crore and ₹ 130 crore have already been accounted in Q1FY21 and Q2FY21, respectively. The management further added that around ₹ 200 crore savings would be structural and be carried over from next year onwards due to reduction in employee and other operating costs
- On the partnership with Amazon, all four distribution centres and 50 stores are connected to Amazon. Currently, private brands and watches portfolio is available on Amazon and the entire product portfolio will be made available in subsequent quarters
- Gross margins in Q2FY21 declined 560 bps YoY to 27.1% (non-GAAP) as the company made an inventory provision to the tune of ₹ 12 crore. Also, the company resorted to high discounts to sell its private labels that further negatively impacted gross margins
- First Citizen' (FC) customers contributed 83% to sales and has added 130,000 customers in Q2FY21 taking total count to 7.4 million as on September 2020
- 'Personal Shoppers' accounted for 14% of sales with 2.8x increase in average ticket size
- The management believes Q3FY21 will be critical from a demand recovery perspective as major festivals like Dussehra, Diwali and Christmas are all coming in the same quarter. Early pre festive trends from East India indicated a 25% decline in revenues. The management continues to be hopeful of revenue recovery gaining traction in the festive quarter
- The net borrowing of the company was at ₹ 215 crore. The company is targeting to be debt free by end of H1FY22 depending on the normalisation of demand scenario and infusion of capital through right issue
- The company has appointed Venugopal Nair as the new CEO. Mr Nair has a rich experience of 27 years in the retail industry. He has held leadership positions in Westside (as CEO and CCO) and Marks and Spencer's (as MD)

## Financial summary

Exhibit 1: Profit and loss statement		₹ crore			
(Year-end March)	FY20A	FY21E	FY22E	FY23E	
<b>Total operating Income</b>	<b>3,381.0</b>	<b>1,795.1</b>	<b>3,284.6</b>	<b>3,630.1</b>	
Growth (%)	-2.9%	-46.9%	83.0%	10.5%	
Cost of Goods Sold	1,967.6	1,158.8	1,915.1	2,115.5	
Gross Margin (%)	41.8	35.4	41.7	41.7	
Employee Expenses	321.9	251.3	295.6	319.4	
Operating & Other Expenses	542.0	320.1	497.0	549.2	
Total Operating Expenditure	2,831.5	1,730.2	2,707.6	2,984.1	
<b>EBITDA</b>	<b>549.4</b>	<b>64.9</b>	<b>577.0</b>	<b>646.0</b>	
Growth (%)	116.9%	-88.2%	789.6%	12.0%	
Depreciation	439.2	396.6	387.2	423.2	
Interest	194.4	226.1	193.4	200.2	
Other Income	33.5	179.5	29.6	32.7	
PBT (Before extraordinary item)	-50.7	-378.3	25.9	55.2	
Extraordinary item	-20.0	-10.0	0.0	0.0	
Total Tax	70.3	-94.6	6.5	13.9	
PAT	-140.9	-293.8	19.4	41.3	
Minority Interest/Share of JV	0.0	0.0	0.0	0.0	
<b>PAT</b>	<b>-140.9</b>	<b>-293.8</b>	<b>19.4</b>	<b>41.3</b>	
Growth (%)	-279%	108%	-107%	113%	
<b>EPS (₹)</b>	<b>-16.0</b>	<b>-27.2</b>	<b>1.8</b>	<b>3.8</b>	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement		₹ crore			
(Year-end March)	FY20A	FY21E	FY22E	FY23E	
Profit after Tax	-140.9	-293.8	19.4	41.3	
Add: Depreciation	439.2	396.6	387.2	423.2	
Add: Interest Expense	194.4	226.1	193.4	200.2	
(Inc)/dec in Current Assets	-168.3	257.2	-277.8	-112.1	
Inc/(dec) in CL and Provisions	279.3	-419.6	183.2	135.6	
Others	-33.1	0.0	0.0	0.0	
<b>CF from operating activities</b>	<b>570.6</b>	<b>166.6</b>	<b>505.4</b>	<b>688.2</b>	
(Inc)/dec in Investments	-107.0	144.0	12.3	-1.0	
(Inc)/dec in Fixed Assets	-200.0	-50.0	-210.0	-210.0	
(Inc)/dec in CWIP	20.5	-12.0	12.0	0.0	
Others	0.0	0.0	0.0	0.0	
<b>CF from investing activities</b>	<b>-286.5</b>	<b>82.0</b>	<b>-185.7</b>	<b>-211.0</b>	
Issue/(Buy back) of Equity	0.0	300.0	0.0	0.0	
Inc/(dec) in loan funds	83.7	76.3	-60.0	-90.0	
Less: Interest Expense	-194.4	-226.1	-193.4	-200.2	
Others	-188.9	-225.3	-199.5	-206.8	
<b>CF from financing activities</b>	<b>-299.6</b>	<b>-75.1</b>	<b>-452.9</b>	<b>-497.0</b>	
Net Cash flow	-15.5	173.5	-133.2	-19.8	
Opening Cash	16.7	1.3	174.7	41.5	
<b>Closing Cash</b>	<b>1.3</b>	<b>174.7</b>	<b>41.5</b>	<b>21.7</b>	

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet		₹ crore			
(Year-end March)	FY20A	FY21E	FY22E	FY23E	
<b>Liabilities</b>					
Equity Capital	44.0	54.0	54.0	54.0	
Reserve and Surplus	92.7	88.9	108.3	149.6	
Total Shareholders funds	136.6	142.9	162.3	203.6	
Total Debt	123.7	200.0	140.0	50.0	
Other LT Liabilities	2,067.8	2,067.8	2,067.8	2,067.8	
Deferred Tax Liability	-264.1	-277.3	-291.1	-305.7	
Minority Interest / Others	0.0	0.0	0.0	0.0	
<b>Total Liabilities</b>	<b>2,064.0</b>	<b>2,133.4</b>	<b>2,078.9</b>	<b>2,015.6</b>	
<b>Assets</b>					
Gross Block	1,179.9	1,229.9	1,439.9	1,649.9	
Less: Acc Depreciation	593.0	777.5	979.1	1,210.1	
Capital WIP	10.0	22.0	10.0	10.0	
Total Fixed Assets	596.9	474.4	470.8	449.8	
Investments	205.7	61.7	49.4	50.3	
Other Non-current Assets	1,325.7	1,325.7	1,325.7	1,325.7	
Inventory	1,223.9	983.6	1,214.9	1,292.9	
Debtors	35.1	29.5	45.0	49.7	
Loans and Advances	246.4	233.4	262.8	290.4	
Cash	1.3	174.7	41.5	21.7	
Other Current Assets	166.1	167.8	169.4	171.1	
Total Current Assets	1,672.7	1,589.0	1,733.6	1,825.9	
Creditors	1,496.7	1,082.0	1,259.8	1,392.4	
Other Current Liab. & Prov.	240.3	235.4	240.7	243.8	
Total Current Liabilities	1,737.0	1,317.4	1,500.6	1,636.1	
Net Current Assets	-64.3	271.6	233.0	189.8	
<b>Application of Funds</b>	<b>2,064.0</b>	<b>2,133.4</b>	<b>2,078.9</b>	<b>2,015.6</b>	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios					
(Year-end March)	FY20A	FY21E	FY22E	FY23E	
<b>Per share data (₹) (annualised)</b>					
EPS	-16.0	-27.2	1.8	3.8	
Cash EPS	33.9	9.5	37.6	43.0	
BV	15.5	13.2	15.0	18.9	
DPS	0.8	0.0	0.0	0.0	
Cash Per Share	0.1	16.2	3.8	2.0	
<b>Operating Ratios</b>					
EBITDA Margin (%)	16.3	3.6	17.6	17.8	
PBT Margin (%)	-1.5	-21.1	0.8	1.5	
PAT Margin (%)	-4.2	-16.4	0.6	1.1	
Inventory days	132.1	200.0	135.0	130.0	
Debtor days	3.8	6.0	5.0	5.0	
Creditor days	161.6	220.0	140.0	140.0	
<b>Return Ratios (%)</b>					
RoE	-103.1	-205.6	11.9	20.3	
RoCE	4.7	-13.8	8.0	9.6	
RoIC	5.2	-15.4	8.4	9.9	
<b>Valuation Ratios (x)</b>					
P/E	-11.3	-6.7	100.8	47.3	
EV / EBITDA	6.6	61.5	7.1	6.2	
EV / Net Sales	1.1	2.2	1.2	1.1	
Market Cap / Sales	0.5	1.1	0.6	0.5	
Price to Book Value	11.7	13.7	12.0	9.6	
<b>Solvency Ratios</b>					
Debt/EBITDA	0.2	3.1	0.2	0.1	
Debt / Equity	0.9	1.4	0.9	0.2	
Current Ratio	1.0	1.2	1.2	1.1	
Quick Ratio	0.3	0.5	0.3	0.3	

Source: Company, ICICI Direct Research

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Sell: <-15%



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