

CMP: ₹ 590

Target: ₹ 705 (19%)

Target Period: 12 months

BUY

July 27, 2022

## Store addition and omni channel focus to aid growth

**About the stock:** Shoppers Stop (SSL) is one of India's leading departmental stores and has undergone various structural changes with focus on enhancing its share of private label brands and beauty portfolio, accelerating growth through digital channels and providing better shopping experience through 'personal shoppers'

- Operates 90 departmental stores and 171 beauty format stores spread across 4.2 million sq. ft. and present in 47 cities

**Q1FY23 Results:** Owing to strong wedding season and wardrobe refresh, revenue recovery rate surpassed pre-covid levels for the first time in Q1FY23 (113% of pre-covid levels).

- On a favourable base sales grew by 368% YoY (33% QoQ) to ₹ 941.9 crore
- With revenues normalising, operating overheads too reverted back to pre-covid levels. Reported EBITDA margin of 17.2% vs. -31.2% in Q1FY22 (Q1FY20: 16.6%).
- Reported PAT worth ₹ 22.8 crore vs. net loss of ₹ 117.7 crore (Q1FY20: PAT ₹ 2.4 crore).

**What should investors do?** Stock price has underperformed the broader indices over the last five years on account of weak SSSG, muted store addition pace and lower share of private label brands.

- With the new management team in place, we expect SSL to revive its revenue trajectory and margin profile. Stock price has appreciated ~78% on a YTD basis. Despite recent run-up, reasonable valuations prompt us to remain positive on the stock and maintain **BUY**

**Target Price and Valuation:** We value SSL at ₹ 705 i.e. 11.5x FY24E EV/EBITDA

### Key triggers for future price performance:

- We believe the new MD (former Westside CEO) would bring in his expertise in the private label brands domain and focus on enhancing the share of high margin private label brands (~14% of revenues).
- It has embarked on a healthy store addition plans with opening of 12 departmental stores and 15 beauty stores in FY23E. Majority of the store addition in Tier II/III cities. The capex for the same is expected to be ₹ 150 crore which will be funded mainly through internal accruals.
- Management expects steady SSSG growth of 9-11% in the near term
- Key thrust on accelerating investments in omni-channel with long term target of channel contributing 20% of sales from current ~5%
- Higher focus on beauty segment (currently ~16% of revenues) through scale up of its own private brand Arcelia.

**Alternate Stock Idea:** Apart from SSL, in our retail coverage we also like ABFRL

- ABFRL has charted out growth strategies to become a ~US\$2.8 billion entity by FY26E, translating into 15% CAGR in FY20-26. BUY with TP of ₹ 360

## SHOPPERS STOP

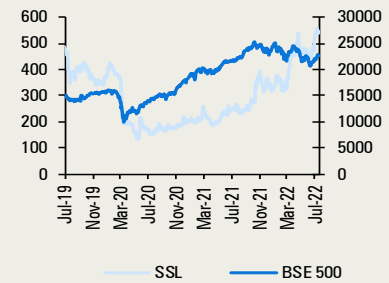
### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	6,461.7
Totak Debt (Mar-22) (₹ Crore)	193.9
Cash (Mar-22) (₹ Crore)	179.7
EV (₹ Crore)	6,475.9
52 week H/L	605/ 226
Equity Capital (₹ Crore)	54.8
Face Value (₹)	5.0

### Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	65.5	65.4	65.5	65.6	65.6
FII	5.8	5.8	5.9	4.3	6.4
DII	19.9	20.0	20.1	19.8	20.4
Others	8.8	8.8	8.4	10.3	7.6

### Price Chart



### Recent event & key risks

- To add 12 new stores in FY23E
- Key Risk:** (i) Lower discretionary spend can subdue sales (ii) Delay in expansion of store network.

### Research Analyst

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### Key Financial Summary

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	

## Key takeaways of the recent quarter & Concall highlights

- Shoppers Stop reported healthy operational performance in a disruption free quarter. Owing to strong wedding season and wardrobe refresh, revenue recovery rate surpassed pre-covid levels for the first time in Q1FY23 (113% of pre-covid levels). On a favourable base, revenue grew by 368% YoY (up 33% QoQ) to ₹ 941.9 crore. The management indicated that revenue growth (as per Non GAAP) could have been higher by 500 bps if not for postponement of EOSS by ~10 days.
- Customer footfalls have now reached near pre-covid levels with average basket value higher by ~31% to ₹ 4344. ASP's too have increased ~15% on account of better traction in bridge to luxury and premium categories. SSSG on the volume front have remained flattish compared to pre-covid levels.
- Share of private label brands improved 100 bps QoQ to 14.3% with apparel private label contributing at 20.6%. Gross margins improved 210 bps QoQ (up 350 bps YoY) to 42.2%. With revenues normalising, operating overheads too reverted back to pre-covid levels. Other expenses and employee expenses grew by 95% and 33% YoY, respectively in Q1FY23. Also inflationary pressure and absence rental concession led to increase in rental expenses by ~80% YoY. The management expects operating overheads to sustain at ₹ 340-350 crore on a quarterly basis for FY23E (including rental expenses). SSL reported EBITDA margin of 17.2% vs. -31.2% in Q1FY22 (Q1FY20: 16.6%).
- Company during the quarter added two new departmental stores taking the count to 90. Going forward, the company expects to add 12-15 new departmental stores (~10 in Tier II/III cities) in FY23E (highest in the last 6-7 years). The capex for the same is estimated at ₹ 148 crore. Currently the average store size is ~ 40000-50000 square feet and the new stores that would be opened in Tier II cities would have an average size of 25000-30000 square feet. The management plans to renovate 8 stores in FY23 with capex of ₹ 53 crore.
- Omni-channel strategies continue to be the key thrust, however on a high base, revenue from digital sales grew by 29% YoY to ₹ 55 crore (~5% of overall sales). Company invested ~ ₹ 16 crore in FY22 and plans to invest ₹ 40 crore in 9MFY23E, primarily in technology, such as Site Personalization, Hyperlocal deliveries etc.
- Beauty format continues to perform well with revenue growth of 321% YoY to ₹ 190 crore. Beauty brands contribution to business improved 300 bps YoY to 16.0% in Q1FY23 (as compared to pre-covid levels).

### Q1FY23 conference call highlights:

- On the demand front the management indicated that the company registered a strong performance during Q1FY23 inspite of End of Season Sales (EOSS) being delayed by 10 days in Q1FY23 v/s Q1FY20. The revenues grew 8% compared to pre-covid and would have registered an additional growth of around 5% if the EOSS would have not been delayed. The revenue momentum of Q1FY23 is continuing in July as well and the company is witnessing good demand for its products.
- Wardrobe reboot and steady recovery post covid has led to increased importance of implementation of Omni channel by various retailers. SSL has been the front runner with respect to investing in omni channel and has benefited from its investments made in the omni channel. The company continues to invest on analytics, data and content to engage with the customers in a better way and cater to the customer needs and aspirations. The company continues to invest around ₹ 40-50 crore annually in strengthening its omni channel presence.

- Over the next three years, the company plans to maintain the FY23 (12-15) run rate in store opening and already has a robust store pipeline for next two years and is working on the third year store opening pipeline which it believes it will be able to achieve.
- Share of private label brands improved 100 bps QoQ to 14.3% with apparel private label contributing at 20.6%. The private label registered its highest ever sales in any quarter. Kids segment grew by 181% over pre covid level while women and Indian wear grew 4x over pre covid level. In new stores, Private label share for apparel is ~ 30%.
- SSL is enhancing its focus on the beauty business. It currently has 7 beauty stores of which majority were opened recently. The revenue ramp up from these stores should be seen in the next few quarters. Also the company is looking to enter into partnership with renowned brands to open exclusive brand outlets. Further the company is planning to provide some exclusive brands in the SS beauty store format. The management indicated that beauty segment was growing faster than overall retail and inspite of competition from existing and new players there is enough headroom for sustained long term growth. The company has one private label 'Arcelia' in the beauty segment. It has presence in bath and body segment, fragrances and deodorants and is expected to launch lips and foundation products. Arcelia has grown 8x on YoY basis but the overall contribution to the revenues is still insignificant.
- Among the apparel product categories, western women wear and menswear grew higher due to back to work trend. Luggage category also performed well owing to higher travel for business and leisure purposes. Women's ethnic wear which was severely impacted during the pandemic is witnessing recovery and has performed reasonably well
- The management indicated that the lease rental inflation was 15% in every 3 years and on an annual basis the lease rental inflation was close to 5%
- First Citizen loyalty customers continued to demonstrate a strong growth trajectory with offline accounting for 80% (up by 261 bps YoY) of revenues and online 38% (up by 305 bps YoY). The First Citizen Black Card customer segment performed exceptionally well with the First Citizen Black Card customers' quarterly spend was typically 4x that of the First Citizen members. The company enrolled 6x new First Citizen members in Q1FY23 v/s Q1FY22 and 5x more premium black card members.

## Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Total operating Income</b>	<b>1,725.1</b>	<b>2,493.8</b>	<b>3,856.1</b>	<b>4,446.1</b>
Growth (%)	-49.0%	44.6%	54.6%	15.3%
Cost of Goods Sold	1,065.1	1,503.4	2,208.0	2,544.3
Gross Margin (%)	38.3	39.7	42.7	42.8
Employee Expenses	257.5	269.3	354.8	409.0
Operating & Other Expenses	349.2	453.6	609.7	680.7
Total Operating Expenditure	1,671.7	2,226.3	3,172.4	3,634.0
<b>EBITDA</b>	<b>53.4</b>	<b>267.5</b>	<b>683.7</b>	<b>812.1</b>
Growth (%)	-90.3%	401.3%	155.6%	18.8%
Depreciation	384.7	352.0	351.2	399.4
Interest	220.0	205.4	209.0	230.6
Other Income	218.8	166.1	38.6	44.5
PBT (Before extraordinary item)	-332.5	-123.8	162.1	226.6
Extraordinary item	-22.4	-15.0	0.0	0.0
Total Tax	-79.7	-52.1	40.8	57.0
PAT	-275.2	-86.7	121.3	169.5
Minority Interest/Share of JV	0.0	0.0	0.0	0.0
<b>PAT(after minority interest)</b>	<b>-275.2</b>	<b>-86.7</b>	<b>121.3</b>	<b>169.5</b>
<b>EPS (₹) (after minority interest)</b>	<b>-25.2</b>	<b>-7.9</b>	<b>11.1</b>	<b>15.5</b>

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	-275.2	-86.7	121.3	169.5
Add: Depreciation	384.7	352.0	351.2	399.4
Add: Interest Expense	220.0	205.4	209.0	230.6
(Inc)/dec in Current Assets	322.9	-143.4	-663.5	-292.3
Inc/(dec) in CL and Provisions	-406.2	260.5	671.7	325.9
Others	-234.0	-108.0	0.0	0.0
<b>CF from operating activities</b>	<b>12.2</b>	<b>479.8</b>	<b>689.6</b>	<b>833.1</b>
(Inc)/dec in Investments	77.8	-18.5	-2.9	-3.0
(Inc)/dec in Fixed Assets	-82.1	-83.9	-200.0	-150.0
(Inc)/dec in CWIP	7.1	-11.1	4.0	0.0
Others	33.0	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>35.7</b>	<b>-113.5</b>	<b>-198.9</b>	<b>-153.0</b>
Issue/(Buy back) of Equity	10.7	0.1	0.0	0.0
Inc/(dec) in loan funds	26.3	43.9	-3.9	20.0
Less: Interest Expense	-220.0	-205.4	-209.0	-230.6
Others	175.4	-213.1	-215.3	-249.4
<b>CF from financing activities</b>	<b>-7.5</b>	<b>-374.6</b>	<b>-428.1</b>	<b>-460.0</b>
Net Cash flow	40.4	-8.3	62.6	220.1
Opening Cash	1.3	41.6	33.3	95.9
<b>Closing Cash</b>	<b>41.6</b>	<b>33.3</b>	<b>95.9</b>	<b>316.0</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	54.7	54.8	54.8	54.8
Reserve and Surplus	127.0	43.5	164.8	334.4
Total Shareholders funds	181.7	98.3	219.6	389.2
Total Debt	150.0	193.9	190.0	210.0
Other LT Liabilities	1,911.6	1,899.5	1,899.5	1,899.5
Deferred Tax Liability	-342.4	-374.0	-392.6	-412.3
Minority Interest / Others	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>1,900.8</b>	<b>1,817.7</b>	<b>1,916.5</b>	<b>2,086.4</b>
<b>Assets</b>				
Gross Block	1,262.1	1,346.0	1,546.0	1,696.0
Less: Acc Depreciation	761.0	899.0	1,053.6	1,223.2
Capital WIP	2.9	14.0	10.0	10.0
Total Fixed Assets	504.0	461.0	502.4	482.8
Investments	127.9	146.4	149.3	152.3
Other Non-current Assets	1,209.6	1,276.4	1,276.4	1,276.4
Inventory	847.2	1,007.5	1,531.9	1,766.3
Debtors	34.8	38.2	52.8	60.9
Loans and Advances	240.5	186.6	308.5	355.7
Cash	41.6	33.3	95.9	316.0
Other Current Assets	226.0	259.7	262.3	264.9
Total Current Assets	1,390.2	1,525.2	2,251.3	2,763.7
Creditors	1,139.9	1,441.9	2,113.0	2,436.2
Other Current Liab. & Prov.	190.9	149.5	150.0	152.6
Total Current Liabilities	1,330.8	1,591.3	2,263.0	2,588.9
Net Current Assets	59.4	-66.1	-11.7	174.9
<b>Application of Funds</b>	<b>1,900.8</b>	<b>1,817.7</b>	<b>1,916.5</b>	<b>2,086.4</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹) (annualised)</b>				
EPS	-25.2	-7.9	11.1	15.5
Cash EPS	10.0	24.2	43.1	51.9
BV	16.6	9.0	20.1	35.5
DPS	0.0	0.0	0.0	0.0
Cash Per Share	3.8	3.0	8.8	28.9
<b>Operating Ratios</b>				
EBITDA Margin (%)	3.1	10.7	17.7	18.3
PBT Margin (%)	-19.3	-5.0	4.2	5.1
PAT Margin (%)	-16.0	-3.5	3.1	3.8
Inventory days	179.3	147.5	145.0	145.0
Debtor days	7.4	5.6	5.0	5.0
Creditor days	241.2	211.0	200.0	200.0
<b>Return Ratios (%)</b>				
RoE	-151.5	-88.2	55.2	43.6
RoCE	-14.8	-3.9	14.4	16.5
RoIC	-16.0	-4.2	16.2	20.4
<b>Valuation Ratios (x)</b>				
P/E	NA	NA	52.8	37.8
EV / EBITDA	155.4	31.1	12.1	9.9
EV / Net Sales	4.8	3.3	2.1	1.8
Market Cap / Sales	3.7	2.6	1.7	1.4
Price to Book Value	35.2	65.2	29.2	16.5
<b>Solvency Ratios</b>				
Debt/EBITDA	2.8	0.7	0.3	0.3
Debt / Equity	0.8	2.0	0.9	0.5
Current Ratio	1.0	1.0	1.0	1.1
Quick Ratio	0.4	0.3	0.3	0.4

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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