

Geared up for strong festive season!

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 91 departmental stores, 171 beauty format stores across 4.2 million sq ft and present in 47 cities

Q2FY23 Results: Reported one of its highest ever Q2 sales. Revenue recovery rate continued its upward trajectory with the company recording 119% revenue recovery rate in Q2FY23 vs. 113% in Q1FY23.

- On a favourable base, sales grew 60% YoY (7% QoQ) to ₹ 1008.2 crore
- With revenues normalising, operating overheads also reverted back to pre-Covid levels. Reported EBITDA margin of 16.6% vs. 11.2% in Q2FY22 (Q2FY20: 16.2%). Recorded one-time receivable write-off worth ₹ 5 crore
- Reported PAT was at ₹ 18.1 crore vs. net loss of ₹ 3 crore in Q2FY22 (Q2FY20: loss ₹ 5.4 crore)

What should investors do? SSL delivered one of the best returns in the retail sector in the last year with stock price appreciating more than 75%. However, in last five years, the stock was underperforming broader indices due to weak SSSG, muted store addition pace and lower share of private label brands (five-year CAGR: 8%).

- With the new management team in place, we expect SSL to revive its revenue trajectory and margin profile. 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 ₹ 940 i.e. 14x 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 (~15% of revenues)
- It has embarked on a healthy store addition plan with the opening of 12 departmental stores and 15 beauty stores in FY23E. Majority of the store addition is in Tier II/III cities. 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 scaling 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 a TP of ₹ 370

SHOPPERS STOP

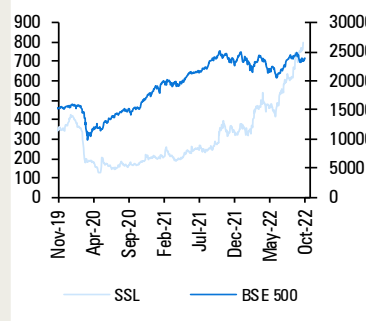
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	8,542.6
Total Debt (Mar-22) (₹ Crore)	193.9
Cash (Mar-22) (₹ Crore)	179.7
EV (₹ Crore)	8,556.8
52 week H/L	818/ 277
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

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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%	4,131.2	4,669.2	36.8%
EBITDA	253.3	549.4	53.4	267.5		724.9	844.0	77.6%
PAT	78.8	(140.9)	(275.2)	(86.7)		135.0	181.1	
EV/Sales (x)	1.9	2.6	6.0	4.1		2.5	2.1	
EV/EBITDA (x)	26.7	16.0	192.7	38.6		14.1	11.9	
RoCE (%)	11.6	4.7	(14.8)	(3.9)		15.7	17.6	
RoE (%)	8.1	-103.1	-151.5	-88.2		57.9	43.7	

Key takeaways of recent quarter & conference call highlights

- On the topline front, Shoppers Stop reported one of its highest ever Q2 sales with healthy growth of 60% YoY to ₹ 1008.2 crore (on a favourable base). The revenue recovery rate continued its upward trajectory with the company recording 119% revenue recovery rate in Q2FY23 vs. 113% in Q1FY23. Growth was partly driven by 10% increase in ASPs, which had minimal impact on volumes. SSSG recovered by ~10% in Q2FY23 vs. pre-Covid levels. Customer visits (online + offline) were at a record high of 40.8 million (mn) in Q2FY23 (Q2FY22: 25.3 mn, Q2FY20: 29.8 mn). Average transaction value improved 8% YoY to ₹ 4069. Owing to refurbishment of certain stores the company lost out on revenue worth ₹ 20 crore in Q2FY23. The stores are currently operational now
- It was a fruitful quarter for the company as it recorded its highest ever quarterly revenues from private label brands (₹ 192 crore up 52% vs. pre-Covid levels). Share of private label brands improved 340 bps (on base of Q2FY20) to 15.2% with apparel private label contributing at 21%. Kids segment continued to outperform with 47% volume and 93% revenue growth on a YoY basis. It also witnessed healthy traction for its men's ethnic wear brand 'Bandeya' (which grew 3x YoY) and women's wear brand 'Fratini'. With sustained investments in private labels coupled with new launches, the management expects the share of apparel private labels to inch up to 25-30% over the next three to four years
- Despite a significant jump in share of private label brands, gross margins remained flattish at 41.2% (up 300 bps YoY). Higher share of online sales (~5% vs. 1% in pre-Covid levels) and 60 bps inventory gain in the base quarter restricted margin expansion. However, with a steady rise in share of private labels, the management expects gross margins to improve, going forward. With revenues now normalising and new store openings, operating overheads also reverted back to pre-Covid levels. Other expenses and employee expenses grew 38% and 50% YoY, respectively in Q2FY23. Also, rental expenses grew 44% YoY in Q2FY23. SSL reported EBITDA margin of 16.6% vs. 11.2% in Q2FY22 (Q2FY20: 16.2%). On a pre-Ind-As 116 basis, EBITDA margins were at 5.9% vs. 5.5% in Q2FY20
- SSL, in H1FY23, added three new departmental stores taking the count to 91. It is on track to open another nine stores during the year with six stores already under fit-outs (highest in the last six to seven years). Capex for the same is estimated at ₹ 148 crore. Currently the average store size is ~ 40000-50000 square feet (sq ft) and the new stores that would be opened in Tier II cities would have an average size of 25000-30000 sq ft. Out of total 12 new stores, three are expected to be opened in metro and nine in Tier II-III cities

Q2FY23 conference call highlights:

- The management indicated that the demand trend was strong during the quarter and the momentum is continuing in October as well. The company recorded 35% revenue growth during the Puj festival in the eastern region
- On the store addition front, SSL is planning to open 12 new departmental stores out of which nine are expected to be opened in Tier 2 towns
- SSL's beauty segment registered a strong performance during Q2FY23 with 45% YoY growth to ₹ 185 crore. The company continues to improve its presence in the beauty segment as it believes that the segment provides a wide scalable opportunity
- It has launched 24 brands in the beauty segment and added 35 new SKUs in Arcelia. As a part of strengthening its beauty business, the company has obtained exclusive rights for retailing and distribution of leading international beauty brands for India from L'Oréal and Clarins. The company has launched two beauty stores during the quarter and is planning total addition of 15 beauty stores in FY23. SSL is planning to open a standalone boutique store from FY24 onwards
- On the EBITDA margin front, the management indicated it is targeting high single digit margin in the next three years and expecting to reach low double digit margin in the fourth year

Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	1,725.1	2,493.8	4,131.2	4,669.2
Growth (%)	-49.0%	44.6%	65.7%	13.0%
Cost of Goods Sold	1,065.1	1,503.4	2,389.6	2,690.1
Gross Margin (%)	38.3	39.7	42.2	42.4
Employee Expenses	257.5	269.3	371.8	420.2
Operating & Other Expenses	349.2	453.6	644.9	714.9
Total Operating Expenditure	1,671.7	2,226.3	3,406.3	3,825.2
EBITDA	53.4	267.5	724.9	844.0
Growth (%)	-90.3%	401.3%	171.0%	16.4%
Depreciation	384.7	352.0	360.4	399.4
Interest	220.0	205.4	209.0	230.6
Other Income	218.8	166.1	24.8	28.0
PBT (Before extraordinary item)	-332.5	-123.8	180.4	242.0
Extraordinary item	-22.4	-15.0	0.0	0.0
Total Tax	-79.7	-52.1	45.4	60.9
PAT	-275.2	-86.7	135.0	181.1
Minority Interest/Share of JV	0.0	0.0	0.0	0.0
PAT(after minority interest)	-275.2	-86.7	135.0	181.1
EPS (₹) (after minority interest)	-25.2	-7.9	12.3	16.5

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	135.0	181.1
Add: Depreciation	384.7	352.0	360.4	399.4
Add: Interest Expense	220.0	205.4	209.0	230.6
(Inc)/dec in Current Assets	322.9	-143.4	-798.6	-266.8
Inc/(dec) in CL and Provisions	-406.2	260.5	822.9	297.3
Others	-234.0	-108.0	0.0	0.0
CF from operating activities	12.2	479.8	728.7	841.6
(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
CF from investing activities	35.7	-113.5	-198.9	-153.0
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	-222.9	-249.4
CF from financing activities	-7.5	-374.6	-435.7	-460.0
Net Cash flow	40.4	-8.3	94.0	228.6
Opening Cash	1.3	41.6	33.3	127.3
Closing Cash	41.6	33.3	127.3	355.9

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	54.7	54.8	54.8	54.8
Reserve and Surplus	127.0	43.5	178.5	359.6
Total Shareholders funds	181.7	98.3	233.3	414.4
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
Total Liabilities	1,900.8	1,817.7	1,930.1	2,111.6
Assets				
Gross Block	1,262.1	1,346.0	1,546.0	1,696.0
Less: Acc Depreciation	761.0	899.0	1,055.2	1,224.8
Capital WIP	2.9	14.0	10.0	10.0
Total Fixed Assets	504.0	461.0	500.8	481.2
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	1,641.2	1,854.9
Debtors	34.8	38.2	56.6	64.0
Loans and Advances	240.5	186.6	330.5	373.5
Cash	41.6	33.3	127.3	355.9
Other Current Assets	226.0	259.7	262.3	264.9
Total Current Assets	1,390.2	1,525.2	2,417.8	2,913.2
Creditors	1,139.9	1,441.9	2,263.7	2,558.5
Other Current Liab. & Prov.	190.9	149.5	150.6	153.1
Total Current Liabilities	1,330.8	1,591.3	2,414.3	2,711.6
Net Current Assets	59.4	-66.1	3.5	201.6
Application of Funds	1,900.8	1,817.7	1,930.1	2,111.6

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹) (annualised)				
EPS	-25.2	-7.9	12.3	16.5
Cash EPS	10.0	24.2	45.2	53.0
BV	16.6	9.0	21.3	37.8
DPS	0.0	0.0	0.0	0.0
Cash Per Share	3.8	3.0	11.6	32.5
Operating Ratios				
EBITDA Margin (%)	3.1	10.7	17.5	18.1
PBT Margin (%)	-19.3	-5.0	4.4	5.2
PAT Margin (%)	-16.0	-3.5	3.3	3.9
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
Return Ratios (%)				
RoE	-54.6	-58.0	-50.0	-50.0
RoCE	-151.5	-88.2	57.9	43.7
RoCE	-14.8	-3.9	15.7	17.6
RoIC	-16.0	-4.2	17.9	22.2
Valuation Ratios (x)				
P/E	NA	NA	62.2	46.4
EV / EBITDA	192.7	38.6	14.1	11.9
EV / Net Sales	6.0	4.1	2.5	2.1
Market Cap / Sales	4.9	3.4	2.0	1.8
Price to Book Value	46.2	85.5	36.0	20.3
Solvency Ratios				
Debt/EBITDA	2.8	0.7	0.3	0.2
Debt / Equity	0.8	2.0	0.8	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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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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