

Retail footprint expansion to aid revenue 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 96 departmental stores and 177 beauty format stores spread across 4.0+ million sq ft and present in 47 cities

Q3FY23 Results: SSL reported highest ever Q3 sales with revenues being 14% higher than pre-Covid levels. Store additions have been healthy with opening of five new departmental stores.

- On a favourable base sales grew 19% YoY (12% QoQ) to ₹ 1131.7 crore
- With revenues normalising, new store openings, operating overheads also reverted to pre-Covid levels. EBITDA margins declined 50 bps YoY to 18.7%
- PAT was further boosted by higher other income. Subsequently, net profit grew 24% YoY to ₹ 62.1 crore

What should investors do? SSL has delivered one the best returns in the retail sector in the last one year with stock price appreciating more than 75%. However, over the last five years the stock was underperforming the broader indices on account of weak SSSG, muted store addition pace and lower share of private label brands (five-year CAGR: 5%).

- With the new management team in place, we expect SSL to revive its revenue trajectory and margin profile. Reasonable valuations prompt us to remain positive on the stock and maintain **BUY**

Target Price and Valuation: We value SSL at ₹ 850 i.e. 13x 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 plans with opening of 12 departmental stores and 15 beauty stores in FY24E. 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
- The management expects steady SSSG growth of 5-10% 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%
- Foray into beauty distribution channel to solidify its overall beauty segment offerings. Expects to clock in ₹ 500 crore sales by FY25E

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 ₹ 380.

SHOPPERS STOP

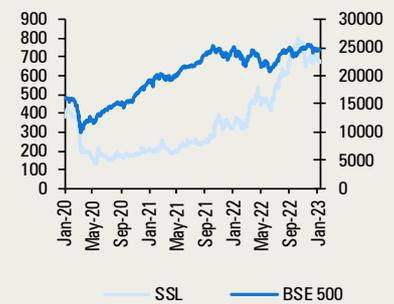
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	7,118.8
Totak Debt (Mar-22) (₹ Crore)	193.9
Cash (Mar-22) (₹ Crore)	179.7
EV (₹ Crore)	7,133.0
52 week H/L	820/ 302
Equity Capital (₹ Crore)	54.8
Face Value (₹)	5.0

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	65.5	65.6	65.6	65.5	65.5
FII	5.9	4.3	6.4	6.7	7.0
DII	20.1	19.8	20.4	20.0	20.4
Others	8.4	10.3	7.6	7.8	7.1

Price Chart



Recent event & key risks

- To add 12 new stores in FY24E
- 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)		137.2	181.1	
EV/Sales (x)	1.6	2.3	5.2	3.6		2.2	1.9	
EV/EBITDA (x)	22.7	14.1	168.7	33.8		12.3	10.3	
RoCE (%)	11.6	4.7	(14.8)	(3.9)		15.3	17.6	
RoE (%)	8.1	-103.1	-151.5	-88.2		58.3	43.5	

Key takeaways of recent quarter & conference call highlights

- On the topline front, Shoppers Stop reported one of its highest ever Q3 sales with healthy growth of 19% YoY to ₹ 1131.7 crore (on a favourable base). The company accelerated its store addition trajectory with opening of five new stores taking the total count to 96 Departmental stores (~3.9 million sq ft). Revenue per store came in at ~ ₹ 12 crore. SSSG was muted at 1% compared to pre-Covid levels (16% YoY). Customer visits (offline + online) was down marginally YoY to 38.6 million but average transaction value was up 10% YoY to ₹ 4616. This is the eleventh consecutive quarter of increase in ATV. The management highlighted that Diwali season was strong in terms of demand and post Diwali demand was muted for next three weeks. It picked up again in December led by traction in sales of winter wear. The steady momentum has continued in January
- With revenues normalising and new store openings, operating overheads also reverted to pre-Covid levels. Other expenses and employee expenses grew 19% and 30% YoY, respectively, in Q3FY23. Reported EBITDA margins declined 50 bps YoY to 18.7%. Rental expenses grew ~30% YoY to ₹ 109 crore. Opex per store (pre-Ind AS 116) was at ₹ 3.9 crore vs. ₹ 3.8 crore in Q3FY20
- As on 9MFY23, the company has opened eight departmental store taking the count to 96 (3.9 million sq ft). The company is on track to open another five stores in Q4FY23 and is expected to exit FY23 with 100+ stores. This is its highest ever store openings in a financial year over the last decade. 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 company has forayed into the beauty distribution business and formed a subsidiary Global SS Beauty for the same. The company has entered into tie ups with 12 global luxury and bridge to luxury beauty brands. The company is planning to launch products from L'Oréal soon and will be continuously adding more brands to its portfolio. The company is aiming to scale up the business to ₹ 500 crore revenues by FY25. The management indicated that gross margin in the beauty distribution business was between 32% and 35%**
- On the size of revenue of its private label brands the management highlighted that out of nine brands, two brands are more than ₹ 100 crore+ and three more brands could cross more than ₹ 100 crore in the next 12-18 months. The share of private labels was at 14% of total revenues and 20% of apparel revenues. Kashish & Bandeya were top two occasion wear brands during Pujo, Diwali and contributed ~50% of total ethnic business

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	2,406.1	2,690.1
Gross Margin (%)	38.3	39.7	41.8	42.4
Employee Expenses	257.5	269.3	355.3	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	369.3	399.4
Interest	220.0	205.4	209.0	230.6
Other Income	218.8	166.1	41.3	28.0
PBT (Before extraordinary item)	-332.5	-123.8	188.0	242.0
Extraordinary item	-22.4	-15.0	0.0	0.0
Total Tax	-79.7	-52.1	50.8	60.9
PAT	-275.2	-86.7	137.2	181.1
Minority Interest/Share of JV	0.0	0.0	0.0	0.0
PAT(after minority interest)	-275.2	-86.7	137.2	181.1
EPS (₹) (after minority interest)	-25.2	-7.9	12.5	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	137.2	181.1
Add: Depreciation	384.7	352.0	369.3	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	739.9	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	-231.9	-249.4
CF from financing activities	-7.5	-374.6	-444.7	-460.0
Net Cash flow	40.4	-8.3	96.3	228.6
Opening Cash	1.3	41.6	33.3	129.5
Closing Cash	41.6	33.3	129.5	358.2

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	180.7	361.9
Total Shareholders funds	181.7	98.3	235.5	416.6
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	1,932.4	2,113.9
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	129.5	358.2
Other Current Assets	226.0	259.7	262.3	264.9
Total Current Assets	1,390.2	1,525.2	2,420.0	2,915.4
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	5.8	203.9
Application of Funds	1,900.8	1,817.7	1,932.4	2,113.9

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	12.5	16.5
Cash EPS	10.0	24.2	46.2	53.0
BV	16.6	9.0	21.5	38.0
DPS	0.0	0.0	0.0	0.0
Cash Per Share	3.8	3.0	11.8	32.7
Operating Ratios				
EBITDA Margin (%)	3.1	10.7	17.5	18.1
PBT Margin (%)	-19.3	-5.0	4.5	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	58.3	43.5
RoCE	-14.8	-3.9	15.3	17.6
RoIC	-16.0	-4.2	17.5	22.2
Valuation Ratios (x)				
P/E	NA	NA	51.9	39.3
EV / EBITDA	168.7	33.8	12.3	10.3
EV / Net Sales	5.2	3.6	2.2	1.9
Market Cap / Sales	4.1	2.9	1.7	1.5
Price to Book Value	39.1	72.4	30.2	17.1
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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Reduce: -15% to -5%;

Sell: <-15%



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