

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

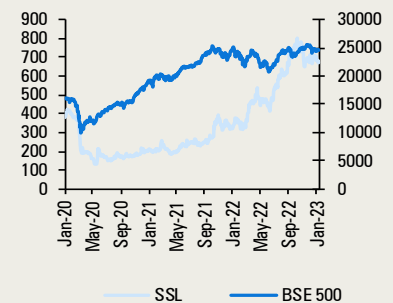
Particulars

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.

Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

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

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Bharat Chhoda, MBA, Cheragh Sidhwa, MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.