

# Shoppers Stop (SHOSTO)

CMP: ₹ 265

Target: ₹ 310 (17%)

Target Period: 12 months

August 1, 2021



BUY

## Green shoots of sharper recovery visible...

**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 84 departmental stores and 127 beauty format stores spread across 4.4 million sq ft and is present in 47 cities

**Q1FY22 Results:** Covid induced lockdowns significantly disrupted the quarter but headline numbers beat consensus estimates.

- Revenue de-grew 70% QoQ to ₹ 201.1 crore (Q1FY21: ₹ 53.9 crore)
- The company achieved operational cost savings worth ₹ 140 crore (vs. Q1FY20 levels), which reduced the quarterly cash burns, to certain extent
- EBITDA losses were at ₹ 113.2 crore vs. ₹ 62.8 crore in Q4FY21. During Q1FY22, the company reported negative FCF worth ₹ 110 crore
- SSL's liquidity position remains fairly stable with cash & investments worth ₹ 96 crore and debt worth ₹ 195 (net debt ₹ 19 crore, D/E: 0.1x)

**What should investors do?** The 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. Reasonable valuations prompt us to be positive on the stock and maintain **BUY**

**Target Price and Valuation:** We value SSL at ₹ 310 i.e. 8x FY23E 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 private labels
- The company expects to ramp up space through addition of 20 stores (10 departmental stores) in FY22E (capex: ₹ 100 crore for FY22E)
- SSL undertook cost optimisation initiatives in FY21 of which it expects ~45% to be sustainable in nature. This would aid margins, going forward, with lower breakeven sales for new stores
- Key thrust on accelerating investments in omni-channel with long term target of channel contributing 20% of sales from current ~6%

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

- Inherent strength of brands (Westside, Zudio, Star, Zara) and proven business model position Trent as a preferred pick
- BUY with a target price of ₹ 1,060

### Key Financial Summary

Financials	FY19	FY20	FY21E	5 year CAGR (FY15-FY20)	FY22E	FY23E	3 year CAGR (FY20-FY23E)
Net Sales	3,481.3	3,381.0	1,725.1	1.0%	2,507.1	3,707.4	3.1%
EBITDA	253.3	549.4	53.4		300.1	689.6	7.9%
PAT	78.8	(140.9)	(275.2)		(150.2)	77.5	
EV/Sales (x)	0.7	1.3	2.8		2.0	1.3	
EV/EBITDA (x)	9.3	7.9	89.8		16.5	7.0	
RoCE (%)	11.6	4.7	(14.8)		(4.7)	13.0	
RoE (%)	8.1	-103.1	-151.5		-477.9	71.1	

Source: Company, ICICI Direct Research

## SHOPPERS STOP

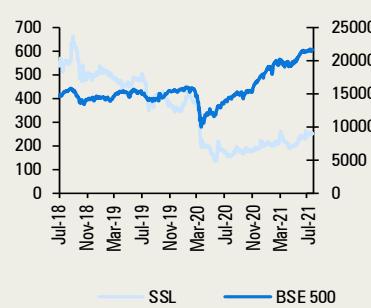
### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	2,899.1
Total Debt (Mar-21) (₹ Crore)	150.0
Cash (Mar-21) (₹ Crore)	169.5
EV (₹ Crore)	2,879.6
52 week H/L	290/ 144
Equity Capital (₹ Crore)	54.7

### Shareholding pattern

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	63.9	65.5	65.5	65.5	65.5
FII	6.6	5.6	5.6	5.8	5.8
DII	19.4	19.7	19.8	19.9	19.9
Others	10.2	9.3	9.2	8.8	8.8

### Price Chart



### Recent event & key risks

- To add 20 new stores in FY22
- Key Risk:** (i) Extended lockdown can lower sales (ii) Delay in expansion of store network.

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## Key takeaways of recent quarter & conference call highlights

- Covid induced lockdowns derailed the revenue recovery trajectory for Shoppers Stop in Q1FY22. Despite a challenging scenario, SSL has reported a decent performance. Revenue in Q1FY22 de-grew 70% QoQ to ₹ 201.1 crore (Q1FY21: ₹ 53.9 crore)
- As lockdowns continued to ease from the second half of June the recovery rate gradually improved from 49% in June and ~71% in July (for stores that are currently operational)
- Share of private label brands improved 120 bps QoQ to 14.2% (private brand contribution to apparel: 21.6%). Launched new brand 'Bandeya' (range of men's Indian wear) during the quarter. In a bid to boost the share, 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. The progress on MD's strategic growth roadmap with improvement in key parameters like SSSG and private label share would be critical factors to watch
- Beauty format recovered better than departmental stores in Q1FY22 with fragrance and makeup segments leading the recovery. Beauty brands contribution to business improved 280 bps YoY to 19.2% in Q1FY22
- Omni-channel strategies continue to be the key thrust with digital sales growth of 4x YoY (18% of overall sales)
- Enhancement of revenue share of private labels and consequent improvement in margin profile would be the key triggers for re-rating of the stock. We expect RoCE to improve steadily to ~13% by FY23E

## Financial Summary

Exhibit 1: Profit and loss statement				₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Total operating Income</b>	<b>3,381.0</b>	<b>1,725.1</b>	<b>2,507.1</b>	<b>3,707.4</b>
Growth (%)	-2.9%	-49.0%	45.3%	47.9%
Cost of Goods Sold	1,967.6	1,065.1	1,494.2	2,123.2
Gross Margin (%)	41.8	38.3	40.4	42.7
Employee Expenses	321.9	257.5	290.8	333.7
Operating & Other Expenses	542.0	349.2	421.9	560.9
Total Operating Expenditure	2,831.5	1,671.7	2,206.9	3,017.8
<b>EBITDA</b>	<b>549.4</b>	<b>53.4</b>	<b>300.1</b>	<b>689.6</b>
Growth (%)	116.9%	-90.3%	462.5%	129.8%
Depreciation	439.2	384.7	399.8	413.9
Interest	194.4	220.0	201.2	220.3
Other Income	33.5	218.8	120.1	48.2
PBT (Before extraordinary item)	-50.7	-332.5	-180.7	103.6
Extraordinary item	-20.0	-22.4	-15.0	0.0
Total Tax	70.3	-79.7	-45.5	26.1
PAT	-140.9	-275.2	-150.2	77.5
Minority Interest/Share of JV	0.0	0.0	0.0	0.0
<b>PAT(after minority interest)</b>	<b>-140.9</b>	<b>-275.2</b>	<b>-150.2</b>	<b>77.5</b>
Growth (%)				LP
<b>EPS (₹) (after minority interest)</b>	<b>-16.0</b>	<b>-25.2</b>	<b>-13.7</b>	<b>7.1</b>

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				₹ crore
(Year-end March)	FY20	FY21E	FY22E	₹ crore
Profit after Tax	-140.9	-275.2	-150.2	77.5
Add: Depreciation	439.2	384.7	399.8	413.9
Add: Interest Expense	194.4	220.0	201.2	220.3
(Inc)/dec in Current Assets	-168.3	322.9	-145.0	-455.7
Inc/(dec) in CL and Provisions	279.3	-406.2	97.2	443.9
Others	-33.1	-234.0	0.0	0.0
<b>CF from operating activities</b>	<b>570.6</b>	<b>12.2</b>	<b>402.9</b>	<b>699.9</b>
(Inc)/dec in Investments	-107.0	77.8	102.3	-0.5
(Inc)/dec in Fixed Assets	-200.0	-82.1	-120.0	-150.0
(Inc)/dec in CWIP	20.5	7.1	-7.1	0.0
Others	0.0	33.0	0.0	0.0
<b>CF from investing activities</b>	<b>-286.5</b>	<b>35.7</b>	<b>-24.8</b>	<b>-150.5</b>
Issue/(Buy back) of Equity	0.0	10.7	0.0	0.0
Inc/(dec) in loan funds	83.7	26.3	50.0	-100.0
Less: Interest Expense	-194.4	-220.0	-201.2	-220.3
Others	-188.9	175.4	-237.3	-229.7
<b>CF from financing activities</b>	<b>-299.6</b>	<b>-7.5</b>	<b>-388.4</b>	<b>-549.9</b>
Net Cash flow	-15.5	40.4	-10.3	-0.6
Opening Cash	16.7	1.3	41.6	31.4
<b>Closing Cash</b>	<b>1.3</b>	<b>41.6</b>	<b>31.4</b>	<b>30.8</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				₹ crore
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	44.0	54.7	54.7	54.7
Reserve and Surplus	92.7	127.0	-23.3	54.3
Total Shareholders funds	136.6	181.7	31.4	109.0
Total Debt	123.7	150.0	200.0	100.0
Other LT Liabilities	2,067.8	1,911.6	1,911.6	1,911.6
Deferred Tax Liability	-264.1	-342.4	-359.6	-377.5
Minority Interest / Others	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>2,064.0</b>	<b>1,900.8</b>	<b>1,783.4</b>	<b>1,743.0</b>
<b>Assets</b>				
Gross Block	1,179.9	1,262.1	1,382.1	1,532.1
Less: Acc Depreciation	593.0	761.0	940.7	1,142.9
Capital WIP	10.0	2.9	10.0	10.0
Total Fixed Assets	596.9	504.0	451.4	399.1
Investments	205.7	127.9	25.6	26.1
Other Non-current Assets	1,325.7	1,209.6	1,209.6	1,209.6
Inventory	1,223.9	847.2	1,030.3	1,371.2
Debtors	35.1	34.8	34.3	50.8
Loans and Advances	246.4	240.5	200.6	296.6
Cash	1.3	41.6	31.4	30.8
Other Current Assets	166.1	226.0	228.3	230.6
Total Current Assets	1,672.7	1,390.2	1,524.9	1,980.0
Creditors	1,496.7	1,139.9	1,236.4	1,676.0
Other Current Liab. & Prov.	240.3	190.9	191.6	195.9
Total Current Liabilities	1,737.0	1,330.8	1,428.0	1,871.8
Net Current Assets	-64.3	59.4	96.9	108.2
<b>Application of Funds</b>	<b>2,064.0</b>	<b>1,900.8</b>	<b>1,783.4</b>	<b>1,743.0</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹) (annualised)</b>				
EPS	-16.0	-25.2	-13.7	7.1
Cash EPS	33.9	10.0	22.8	44.9
BV	15.5	16.6	2.9	10.0
DPS	0.8	0.0	0.0	0.0
Cash Per Share	0.1	3.8	2.9	2.8
<b>Operating Ratios</b>				
EBITDA Margin (%)	16.3	3.1	12.0	18.6
PBT Margin (%)	-1.5	-19.3	-7.2	2.8
PAT Margin (%)	-4.2	-16.0	-6.0	2.1
Inventory days	132.1	179.3	150.0	135.0
Debtor days	3.8	7.4	5.0	5.0
Creditor days	161.6	241.2	180.0	165.0
<b>Return Ratios (%)</b>	<b>-25.7</b>	<b>-54.6</b>	<b>-25.0</b>	<b>-25.0</b>
RoE	-103.1	-151.5	-477.9	71.1
RoCE	4.7	-14.8	-4.7	13.0
RoIC	5.2	-16.0	-4.8	13.4
<b>Valuation Ratios (x)</b>				
P/E	NA	NA	NA	37.4
EV / EBITDA	7.9	89.8	16.5	7.0
EV / Net Sales	1.3	2.8	2.0	1.3
Market Cap / Sales	0.7	1.7	1.2	0.8
Price to Book Value	17.1	16.0	92.2	26.6
<b>Solvency Ratios</b>				
Debt/EBITDA	0.2	2.8	0.7	0.1
Debt / Equity	0.9	0.8	6.4	0.9
Current Ratio	1.0	1.0	1.1	1.1
Quick Ratio	0.3	0.4	0.3	0.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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