Shoppers Stop Ltd

10 May 2023

Steady progress continues on strategic growth pillars

COMPANY UPDATE

Sector: Retail | **Rating: NR**

CMP: Rs 692 | **Target Price: NA**

Stock Info	
Sensex/Nifty	61,761/18,266
Bloomberg	SHOP IN
Equity shares (mn)	109.5
52-wk High/Low	Rs 819/ 403
Face value	Rs 5
M-Cap	Rs 82bn/USD 1bn
3-m Avg volume	USD 0.7mn

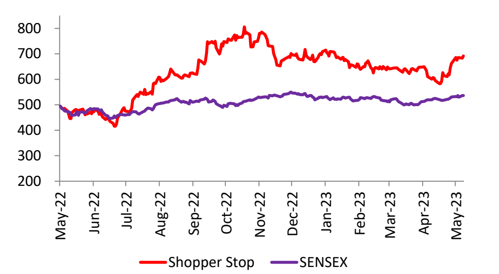
Financial Snapshot (Rs mn)

Y/E Mar	FY21	FY22	FY23
Sales	17,490	25,190	40,220
Growth (YoY)	-49.5	44.0	59.7
EBITDA Margin (%)	2.5	10.7	17.0
PAT	(2,670)	(470)	1,160
EPS (Rs)	(24.4)	(4.3)	10.6
EV/EBITDA (x)	188.3	30.7	14.1
EV/Sales	4.7	3.3	2.5

Shareholding Pattern (%)

	Mar23	Dec22	Sept22
Promoter	65.5	65.5	65.5
–Pledged	-	-	-
FII	6.8	7.0	6.7
DII	20.8	20.4	20.0
Others	6.9	7.1	7.7

Stock Performance (1-year)



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We hosted the management team of Shoppers Stop for an investor interaction to better understand the future business prospects. We see decent progress in the private brand strategy of the company where multiple brands like Stop, Life and Kashish are now gaining strong traction, especially in new stores. The addition of SS Beauty app and aggressive offline expansion in addition to commencement of distribution with premium beauty brands should drive strong growth in the beauty business as well. Both private brands and beauty should be margin accretive in our view. With the company having closed down loss-making stores, continuing to expand in non-metros and renovating old stores, sales throughput and store economics is picking up quite well across the board, further boosted by capex rationalization. While some business shifting to outright basis from consignment basis could be viewed as risk, we would not be concerned given better margins offsetting the impact of higher inventory cost in addition to solving availability issues especially in beauty segment. The company is expected to remain ahead of the curve on investments in technology to drive a seamless and premium shopping experience. The company looks set to deliver a high-teens revenue CAGR and significantly higher earnings CAGR led by a better mix and operating leverage. The stock is now trading at 12x FY24 EV/EBITDA on a consensus basis.

Private labels to trigger margin expansion: Company plans to take the private label contribution to 15-16% in FY24E and 20% by FY25E from the current 14%. The private brands contribution is +20% in new stores showcasing company's increased focus on private labels. In Apparels, the private label contribution stands at 20% which is expected to grow to 25-30% going ahead. Company plans to make higher marketing investments for private labels to trigger the purchase decisions of the customers. Under private label products, women category is 50%, men's at 30% and kids at 20%. The inventory turns in private brands are similar to other brands.

Compact store size leading to higher productivity: New departmental stores are compact in size in the range of 27,000-35,000 sq.ft driving higher productivity and higher returns while the size of a Beauty store is c. 1000-2000 sq.ft. However, Shopper Stop will soon be opening India's largest beauty store in Kolkata which is spread across 8,000 sq.ft which will become operational in 3QFY24. Company plans to add 10-12 departmental stores and 10-12 Beauty stores (7-8 Mono brands, 3-4 SS Beauty) in FY24E.

Beauty stores generating higher throughput: Capex per sq.ft for departmental stores has reduced from Rs 2,600-2,700 per sq.ft earlier to Rs 2,100-2,200 per sq.ft due to better designs and lower procurement cost. The renovation capex stands at Rs 1,500 per sq.ft. In case, the departmental store contains beauty space, the capex increases to Rs2,300 per sq.ft while the capex for a full-fledged SS Beauty store is as high as Rs 12,000-15,000 per sq.ft. Nonetheless, Beauty stores have a higher throughput of Rs 30,000-32,000 per sq.ft vs Rs 11,000-11,500 of a departmental store. Under Beauty stores, the capex requirement for Mono stores is higher. However, the performance of SS Beauty stores has been much better than mono stores due to a wide range of offerings. Departmental stores which consist beauty space, the sales per sq.ft for beauty is 50-60% higher compared to the remaining part of the store. Apparel contributes 58% to sales per sq.ft while non-apparel form 42%.

In the first year of operations, a departmental store operates at 8% EBITDA margin, while this number reaches double digits till the fifth year. Beauty stores generate marginally higher margins compared to departmental stores. The major investments involved for a store include capex, rental deposits (6 months of rent) and working capital (50% money invested through supplier credit, remaining 50% invested from Shoppers Stop). Additionally, the logistics cost of Beauty is lower due to the smaller product size.

Improved payback periods: 4 years ago, the payback period stood at 3.5 years which has improved to 2-2.5 years now. The payback period in Beauty is higher due to higher capex requirement.

High volume growth in initial period of store opening: During the 1st and 2nd year of store opening, volume growth is high. This growth tapers down until 5th and 6th year and again there is a slight volume surge in 8th and 9th year post renovation. For older mature stores, SSG growth is largely driven by ASP increase and less from volume growth.

Brand equity and therefore branded sales higher in men's category: On average, men shop twice a year while women shop 6 times a year. Brand loyalty among men is higher compared to women. The sales mix of private brand in men's is on the lower side at 11-12% while in women's category, sales mix for Indian wear stands at 52% and western wear at 25%.

Foray in value fashion: Company plans to foray in the value fashion to cater to the mass audience. For this, the company will open stores in the size range of 5,000-6,000 sq.ft. These stores are expected to generate Rs 50-60 mn sales per store while the margins will be low. Stores will operate on an asset light model.

Online business yet to turn profitable: Company is putting its best efforts to turn the online business profitable. The products which witness high traction online are then launched offline. The rate of repeat purchases is higher for Beauty category in online. Shoppers Stop has also recently come up with SS Beauty app which will be operational in 1-1.5 months.

Malls located in metros generate higher footfalls for stores: 60% of the total stores are in Metros. However, in the last 3 years, 70% of the store expansion was concentrated in Tier 1 & 2 cities. SS Beauty stores are better off in Metro & Tier 1 cities. The presence of stores in large malls is preferred due to higher walk-ins. In metro cities, mall locations are preferred while in North-Eastern states stores are mostly located in highstreets. Out of the 98 stores, only 11 stores are standalone.

Inventory method: SOR to OR ratio currently stands at 62:38 (vs 66:34 earlier). Beauty has been shifted from SOR to OR due to issues in logistics. Similarly, there has been a shift for premium products from SOR to OR. Due to this shift, there has been a 15-20 bps increase in gross margin.

Outlook: Company intends to increase ROCE above the 20% mark. Margins are expected to improve with growing contributions from private labels and beauty stores. ASP has been increasing sequentially driven by premiumization, and the company expects this trend to continue.

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