

Shoppers Stop

'Intune'—the only exciting thing to watch out for

If one zooms out and assesses STOP's historical performance; it's been among the weaker retailers in our apparel retail pack. Its decadal revenue CAGR of ~6% is largely premiumization-led with no volume (bill cut) growth to speak of. This is despite it scaling its Beauty segment during this phase. Capital allocation has historically been poor (despite a negative WC cycle, cash generation just about covered capital needs; money raised has primarily been used to pare debt over FY17-23). Intune (value fashion) offers some glimmer of hope to resurrect fortunes in terms of growth and return profile. However, execution is key (upside baked in already). We build in revenue/PBT CAGR (FY23-26) of 13/12% respectively and have a DCF-based TP of INR600/sh., implying 39x P/E 18x EV/EBITDA (FY26) respectively.

- No volume growth to speak of for a decade:** Over FY13-23, STOP virtually has no volume growth to speak of (bill cuts: ~9mn in FY23). FY24 is also likely to be flat volume-wise. This is despite STOP scaling its Beauty segment over the same period. Revenue growth (5% CAGR) has largely been premiumisation-led (ASP/ticket size growth: 4/6% resp). Doesn't this story look Bata-esque? Customer footfall growth has been a mere 1.3% over FY13-23 (and lower than FY14 levels). While the company has scaled up the expansion of its department stores since FY22 and is focused on improving store efficiency by optimising store sizes, gains have been hard to come by.
- Long-term capital allocation has been poor:** Despite a negative WC cycle, STOP's core cash generation (CFO + other income: INR10.4bn) has just about been enough to cover the company's (i) working capital, (ii) CAPEX, and (iii) interest payment needs over FY17-23. The cumulative INR4.8bn equity raise has been mainly utilised to pay down debt (INR4.6bn) over FY17-23 and the company has 2/4% revenue/EBITDA (pre-IND AS 116) CAGR to show for it over FY17-24E. FCFE generated over FY17-23 stands at -INR3bn. We suspect cash generation is likely to weaken as (1) creditor days remain elevated at 171 and may need some soothing of nerves of vendors and (2) capex is likely to be elevated (due to the addition of 15-17 department stores, 16 Beauty stores, 60 in-tune stores in FY25, according to guidance). Note: STOP has liquidated three-fourths of its investment INR2.8bn bounty from FY18 to date (unutilised: INR740mn). Hence, any shortfall in internal accruals could lead to additional borrowings.
- Intune—the growth driver:** STOP's foray into value fashion via its Intune format seems to be the only hope for improvement in cash generation. If executed well, the format offers high sales density potential and an asset/WC-light mode of expansion (A la Zudio). Intune's initial response (Dombivli and Vashi store) is encouraging. Key takes - Intune stores operate under a retail space area of ~4,650-5000 sq. ft. (excluding 300 - 350 sq. ft. warehouse) and typically clock monthly revenue of ~INR 5.5mn (i.e., INR ~13,750 revenue/ sq. ft). Note: The Dombivli Store is currently tracking ~INR 25,800 revenue/ sq. ft. Assortment targets the entire family (Kids/ Men/ Women – 24/36/40%). Estimated inventory days for 'Intune' stores range between 45-60 days (Dombivli store – 30 days). Assortment ranges between 16,000 - 23,000 articles per store aggregating to INR 6.5-10mn. The company offers year-round bundle discounts rather than a single product discount which leads to lower inventory days. Zudio currently has an edge over Intune in terms of offerings as it offers an extra set of SKU range in footwear, lingerie, cosmetics and winterwear. Intune price points are similar to that of Zudio. We build in 338% revenue CAGR over FY24-26E for Intune (% of revenue - 0.75% in FY24E to 10.5% in FY26E).

SELL

CMP (as on 26 Mar 2024)	INR 755
Target Price	INR 600
NIFTY	22,005

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 600	INR 580
EBITDA %	FY25E	FY26E

KEY STOCK DATA

Bloomberg code	SHOP IN
No. of Shares (mn)	110
MCap (INR bn) / (\$ mn)	84/1,032
6m avg traded value (INR mn)	81
52 Week high / low	INR 890/574

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	10.0	12.1	20.1
Relative (%)	8.1	2.3	(5.9)

SHAREHOLDING PATTERN (%)

	Sep-23	Dec-23
Promoters	65.55	65.55
FIs & Local MFs	21.56	21.97
FPIs	6.78	6.85
Public & Others	6.11	5.63
Pledged Shares	6.44	6.44

Source : BSE

Pledged shares as % of total shares

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- **Margins likely to be stable:** STOP reported 37.3/5% gross (non-GAAP)/EBITDA margin over 9MFY24 (at the lower end of its typical 5-7% historical range) as cost inflation outpaced improvement in store productivity. We broadly expect STOP margins to be in the 5-7% (Built-in ~6% by FY26) as demand normalisation benefits could get counter-balanced by Intune's rising skew. Key Risk: The space in which Intune operates (value fashion) is highly competitive and the slightest drop in sales density could break margins.
- **Outlook:** STOP's scale recovery and focus on store expansion and value retail are certainly encouraging; inventory management needs work though. Long-term risks of business relevance/longevity remain as the company directly contends with deep-pocketed e-tailers. Execution of brand 'Intune' remains key for furthering growth. We build in revenue/PBT CAGR (FY23-26) of 13/12% respectively and have a DCF-based TP of INR600/sh., implying 39x P/E and 18x EV/EBITDA (FY26) respectively.

Financial Summary (INR mn)

	FY22	FY23	FY24	FY25	FY26
Net Sales	24,938	39,984	41,946	49,686	57,644
EBITDA	(234)	2,827	2,462	3,113	3,516
APAT	(717)	1,213	622	1,104	1,687
Dil. EPS (Rs/sh)	(6.6)	11.1	5.7	10.1	15.4
P/E (x)	(113.9)	67.3	131.3	74.0	48.4
EV/EBITDA (x)	(280.8)	23.2	26.3	20.8	18.0
ROE (%)	(9.4)	15.6	6.7	10.0	12.3
ROCE (%)	(6.1)	17.4	6.9	10.1	12.1

Aggressive CAPEX plans and poor core cash generation history will lead to a continuation of poor capital allocation in future

Particular (INR mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	Total
Sources of Funds								
Cash from Operations (excl. WC change)	2,071	2,234	2,688	5,528	550	2,783	7,341	23,194
Less : Lease Rental	-	-	-	1,809	558	1,210	2,205	5,782
: Interest on Lease Liability	-	-	-	1,878	1,869	1,784	1,956	7,488
Other Income	204	103	47	16	35	65	31	501
Sub Total (A)	2,275	2,337	2,736	1,857	-1,843	-147	3,210	10,425
Loan Repayment by Subsidiaries	508	942	-80	-32	-150	98	197	1,483
Net Proceeds from Issue of Capital	9	1,814	11	0	2,960	25	29	4,847
Total (B)	2,792	5,093	2,666	1,825	967	-25	3,436	16,755

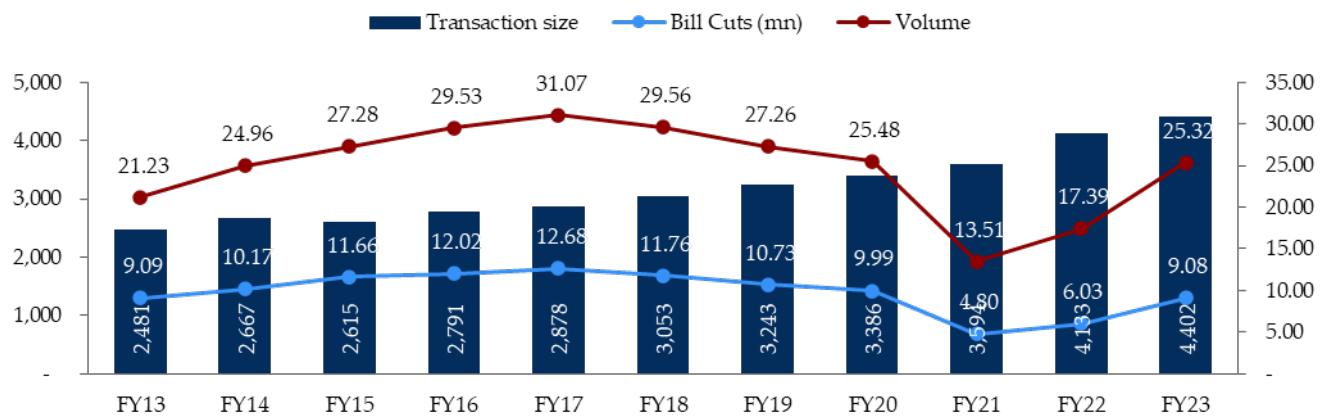
Application of Funds	FY17	FY18	FY19	FY20	FY21	FY22	FY23	Total
Working Capital	509	-985	588	-116	451	-1,109	1,719	1,058
Net Capex	1,063	1,179	1,123	1,786	823	1,067	1,444	8,486
Investments -								
- in subsidiary	502	-656	-	-46	-577	-26	-19	-822
- others	-	200	224	1,078	-291	138	-1,026	324
Other investing cash flows	-	-	0	-	290	75	349	714
Borrowings Repayment	527	4,062	398	400	-1,500	-438	1,102	4,551
Dividend	-	75	80	80	-	-	-	235
Interest	581	378	124	65	325	272	138	1,884
Net Change in cash	-391	840	130	-1,423	1,446	-5	-270	326
Total (C)	2,792	5,093	2,666	1,825	967	-25	3,436	16,755

As a % of Source of Funds (A)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	Total
WC + Capex	69	8	63	90	-69	28	99	92
Interest Payments	26	16	5	4	-18	-185	4	18
Total	95	24	67	93	-87	-157	103	110

Source: Company, HSIE Research

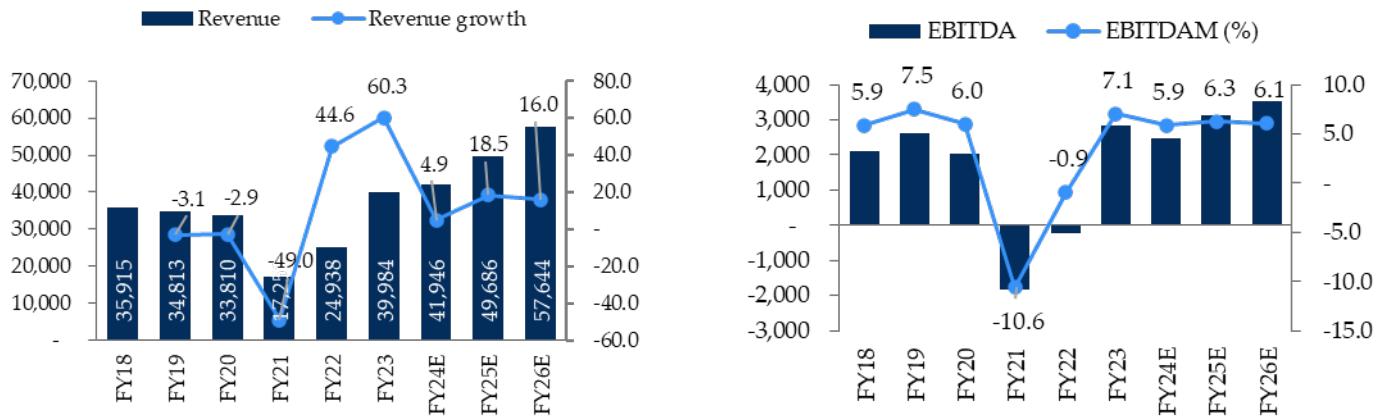
Story in Charts

Revenue growth is merely a factor of growth in transaction size (5.9/7.9% CAGR over FY13-23/19-23) in a scenario where bill cuts and volume have shown -4.1/-1.8% CAGR over FY19-23



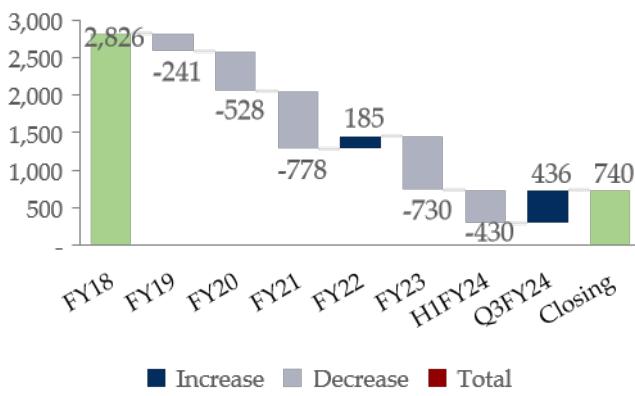
Source: Company, HSIE Research

2.6% revenue and EBITDA CAGR over FY18-24E define the company's poor operating performance; factored 17.2/19.5% revenue/EBITDA CAGR over FY24E-26E



Source: Company, HSIE Research

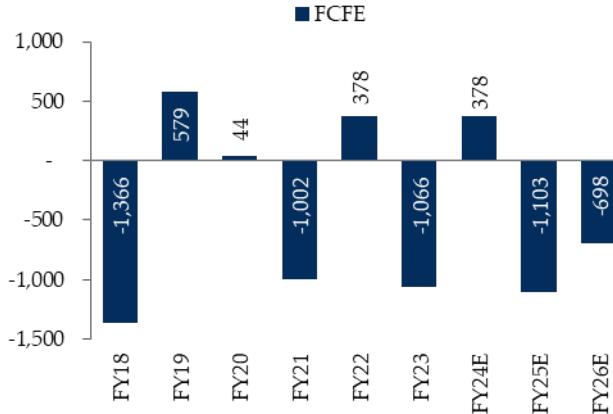
Historically weak cash generation has led to liquidation of investments over the years



Source: Company, HSIE Research

Source: Company, HSIE Research

Reported subdued Pre IND-AS FCFE over last several years



Source: Company, HSIE Research

Other income includes plenty of non-cash items, which if eliminated, reduces the other income to a handful amount only

Particular (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23
Other Income (Reported)	160	179	335	2,188	1,661	561
<i>Less: Adjustments -</i>						
Lease deposits matured at amortized cost	-67	-64	-120	-110	-108	-108
Covid related concession				-1,741	-1,076	
Lease life remeasurement				-160	-280	-340
Earlier yr provision reversed						-183
Other Income (Adjusted)	94	115	54	56	136	70

Source: Company, HSIE Research

Estimated Capex directed by management for FY25 (breakup)

Particular (Rs mn)	INR mn
Departmental store (15-17 store)	1,000
Beauty doors (16 stores)	250
Intune (60 stores)	550
Renovation of stores	400
Sub Total	2,200
IT, Distribution and Logistics (Capex)	225
Total Capex	2,425
Deposits to landlords	500
Total Capex (incl. Deposits)	2,925

Source: Company, HSIE Research

Income Statement

Year End (March)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	34,813	33,810	17,251	24,938	39,984	41,946	49,686	57,644
Growth (%)	(3.1)	(2.9)	(49.0)	44.6	60.3	4.9	18.5	16.0
COGS	20,272	19,676	10,651	15,034	23,274	24,626	29,220	33,957
Employee Expense	3,145	3,219	2,575	2,693	3,493	3,838	4,447	5,044
A&P Expense	707	593	220	408	671	704	849	1,013
Rent Expense	3,863	560	196	583	1,001	1,029	1,169	1,299
Other Expenses	4,293	4,267	3,076	3,545	4,557	4,571	5,315	6,109
EBITDA	2,533	5,494	534	2,675	6,988	7,178	8,686	10,221
EBITDA Growth (%)	19.7	116.9	(90.3)	401.3	161.2	2.7	21.0	17.7
EBITDA Margin (%)	7.3	16.3	3.1	10.7	17.5	17.1	17.5	17.7
Pre IND AS EBITDA	2,615	2,035	(1,821)	(234)	2,827	2,462	3,113	3,516
Pre IND AS EBITDA Growth (%)	23.6	(22.2)	(189.5)	(87.1)	(1,306.4)	(12.9)	26.4	13.0
Pre Ind AS EBITDA Margin (%)	7.5	6.0	(10.6)	(0.9)	7.1	5.9	6.3	6.1
Depreciation	1,351	4,392	3,847	3,520	3,816	4,340	4,906	5,484
EBIT	1,182	1,102	(3,313)	(845)	3,172	2,838	3,780	4,737
EBIT - Pre IND AS	1,264	(287)	(3,500)	(1,608)	1,548	969	1,454	1,677
Other Income (Including EO Items)	179	135	1,964	1,511	541	253	188	206
Interest	124	1,944	2,200	2,054	2,092	2,250	2,474	2,660
Interest - Pre IND AS	124	65	331	270	135	94	94	94
PBT	1,237	(707)	(3,549)	(1,388)	1,621	841	1,494	2,283
Total Tax	449	703	(797)	(521)	429	220	390	596
RPAT before share of associate earnings	788	(1,409)	(2,752)	(867)	1,193	622	1,104	1,687
RPAT	788	(1,409)	(2,752)	(867)	1,193	622	1,104	1,687
Exceptional (gain)/loss	-	200	224	150	20	-	-	-
Adjusted PAT	788	(1,209)	(2,528)	(717)	1,213	622	1,104	1,687
APAT Growth (%)	27.0	(253.6)	109.0	(71.6)	(269.2)	(48.7)	77.5	52.8
Adjusted EPS (Rs)	9.0	(13.7)	(26.9)	(6.6)	11.1	5.7	10.1	15.4
EPS Growth (%)	27.0	(253.6)	95.4	(75.6)	(269.2)	(48.7)	77.5	52.8

Source: Company, HSIE Research

Balance Sheet

Year End (March)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
SOURCES OF FUNDS								
Share Capital - Equity	440	440	547	548	548	548	548	548
Reserves	9,337	926	1,270	435	1,771	3,046	4,954	7,962
Total Shareholders Funds	9,776	1,366	1,817	983	2,320	3,594	5,502	8,510
Minority Interest								
Long Term Debt	-	-	938	896	208	208	208	208
Short Term Debt	400	1,237	1	1,043	832	832	832	832
Total Debt	400	1,237	938	1,939	1,041	1,041	1,041	1,041
Lease Liabilities			20,678	19,116	18,995	22,487	22,957	23,998
TOTAL SOURCES OF FUNDS	10,176	23,281	21,871	21,917	25,847	27,591	30,540	34,001
APPLICATION OF FUNDS								
Net Block	5,948	5,527	5,011	4,470	4,655	5,030	5,430	5,645
CWIP	351	443	29	140	296	296	296	296
Other Non-current Assets	671	15,898	15,520	17,191	20,440	20,632	21,390	21,719
Total Non-current Assets	6,970	21,867	20,560	21,801	25,391	25,958	27,116	27,660
Inventories	10,535	12,239	8,472	10,075	14,863	16,052	18,742	21,428
Debtors	444	351	348	382	304	319	377	438
Other Current Assets	4,052	4,125	4,666	3,787	4,440	4,657	5,517	6,400
Cash & Equivalents	2,752	2,069	1,695	1,785	988	2,019	2,044	3,397
Total Current Assets	17,784	18,784	15,180	16,029	20,594	23,047	26,681	31,663
Creditors	12,542	14,967	11,399	14,419	18,259	19,500	21,056	22,849
Other Current Liabilities & Provs	2,035	2,403	2,471	1,495	1,880	1,914	2,200	2,473
Total Current Liabilities	14,577	17,370	13,870	15,913	20,139	21,414	23,256	25,322
Net Current Assets	3,207	1,414	1,311	115	456	1,633	3,425	6,341
TOTAL APPLICATION OF FUNDS	10,176	23,281	21,871	21,917	25,847	27,591	30,540	34,001

Source: Company, HSIE Research

Cash Flow Statement

Year ending March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	1,237	(707)	(3,549)	(1,388)	1,621	841	1,494	2,283
Non-operating & EO Items	(24)	(101)	(1,948)	(1,403)	(188)	(253)	(188)	(206)
Interest Expenses	124	1,944	2,200	2,054	2,092	2,250	2,474	2,660
Depreciation	1,351	4,392	3,847	3,520	3,816	4,340	4,906	5,484
Working Capital Change	(24)	538	(575)	899	(1,683)	4	(1,766)	(1,563)
Tax Paid	(565)	(422)	124	210	(36)	(220)	(390)	(596)
OPERATING CASH FLOW (a)	2,100	5,644	99	3,892	5,622	6,962	6,530	8,062
Capex	(1,123)	(1,741)	(246)	(1,042)	(1,424)	(1,868)	(2,059)	(2,054)
<i>Free Cash Flow (FCF)</i>	977	3,903	(147)	2,850	4,197	5,094	4,471	6,007
Investments	(224)	(1,078)	291	(138)	1,026	400	-	-
Non-operating Income	(33)	(16)	(405)	87	(121)	253	188	206
INVESTING CASH FLOW (b)	(1,380)	(2,835)	(360)	(1,093)	(520)	(1,214)	(1,871)	(1,849)
Debt Issuance/(Repaid)	(522)	(2,344)	(695)	(1,618)	(3,196)	(2,250)	(2,474)	(2,660)
<i>FCFE</i>	455	1,559	(842)	1,232	1,002	2,844	1,997	3,347
Share Capital Issuance	11	0	107	1	1	-	-	-
Dividend	(80)	(80)	-	-	-	-	-	-
Others	-	(1,809)	(558)	(1,210)	(2,205)	(2,066)	(2,160)	(2,201)
FINANCING CASH FLOW (c)	(591)	(4,232)	(1,145)	(2,828)	(5,400)	(4,316)	(4,634)	(4,860)
NET CASH FLOW (a+b+c)	130	(1,423)	(1,407)	(29)	(298)	1,431	25	1,353
EO Items, Others								
Closing Cash & Equivalents	171	40	128	125	99	4,153	6,107	8,525

Source: Company, HSIE Research

KEY RATIOS

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
PROFITABILITY (%)								
GPM	41.8	41.8	38.3	39.7	41.8	41.3	41.2	41.1
EBITDA Margin	7.3	16.3	3.1	10.7	17.5	17.1	17.5	17.7
EBIT Margin	3.4	3.3	(19.2)	(3.4)	7.9	6.8	7.6	8.2
APAT Margin	2.3	(3.6)	(14.7)	(2.9)	3.0	1.5	2.2	2.9
RoE	8.2	(21.7)	(158.9)	(51.2)	73.4	21.0	24.3	24.1
RoIC (or Core RoCE)	10.1	18.4	(12.2)	(2.4)	10.4	8.3	10.3	11.8
RoCE	8.4	20.5	(3.8)	2.2	11.5	8.5	10.1	11.3
RoE*	8.2	(9.3)	(29.4)	(9.4)	15.6	6.7	10.0	12.3
RoIC*	10.8	(64.5)	(30.9)	(12.6)	18.6	8.4	11.2	10.5
RoCE*	8.4	(30.3)	(21.7)	(6.1)	17.4	6.9	10.1	12.1
EFFICIENCY								
Tax Rate (%)	36.3	(138.7)	24.0	42.1	26.1	26.1	26.1	26.1
Fixed Asset Turnover (x)	4.0	3.3	1.7	2.5	3.9	3.4	3.5	3.5
Inventory (days)	110	132	179	147	136	140	138	136
Debtors (days)	5	4	7	6	3	3	3	3
Other Current Assets (days)	42	45	99	55	41	41	41	41
Payables (days)	132	162	241	211	167	170	155	145
Other Current Liab & Provs (days)	21	26	52	22	17	17	16	16
Cash Conversion Cycle (days)	5	(7)	(8)	(24)	(5)	(3)	10	19
Net D/E (x)	(0.2)	(0.6)	(0.4)	0.2	0.0	(0.3)	(0.2)	(0.3)
Interest Coverage (x)	9.5	0.6	(1.5)	(0.4)	1.5	1.3	1.5	1.8
PER SHARE DATA (Rs)								
EPS	9.0	(13.7)	(26.9)	(6.6)	11.1	5.7	10.1	15.4
CEPS	24.3	36.2	14.0	25.6	46.0	45.3	54.9	65.5
Dividend	0.8	-	-	-	-	-	-	-
Book Value	111.1	15.5	19.3	9.0	21.2	32.8	50.3	77.8
VALUATION								
P/E (x)	83.9	(54.6)	(28.0)	(114.6)	67.8	132.2	74.4	48.7
P/BV (x)	6.8	48.3	38.9	83.6	35.4	22.9	14.9	9.7
EV/EBITDA (x)*	24.4	32.0	(35.9)	(282.6)	23.4	26.4	20.9	18.1
EV/Revenues (x)	1.8	1.9	3.8	2.7	1.7	1.6	1.3	1.1
OCF/EV (%)	3.3	8.7	0.2	5.9	8.5	10.7	10.0	12.7
FCF/EV (%)	1.5	6.0	(0.2)	4.3	6.3	7.8	6.9	9.4
FCFE/Mkt Cap (%)	0.7	2.4	(1.3)	1.9	1.5	4.3	3.0	5.1
Dividend Yield (%)	0.1	-	-	-	-	-	-	-

Source: Company, HSIE Research

1 Yr Price Movement**Rating Criteria**

BUY:	>+15% return potential
ADD:	+5% to +15% return potential
REDUCE:	-10% to +5% return potential
SELL:	>10% Downside return potential

Disclosure:

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