

Retailers witnessing subdued demand

We had recently conducted channel checks and management meetings for retail companies. Our key observation is that many lifestyle companies are experiencing softness in demand across product categories. Stores witnessed liquidation of old, piled-up inventories, and companies have introduced fresh summer collections. The clean-up in inventory and softening of RM prices could serve as key levers for improvement over time.

Expect flattish to lower single-digit SSSG

January has been soft, but February was slightly better, benefiting from the wedding season and partly from the extended winter season. Further, the management expects March to be better, due to Holi and Eid celebrations, coupled with election spending. End-of-season sale (EOSS) continued for the same timeframe compared to the previous year. Ethnic companies are experiencing a subdued demand environment as the quarter sees fewer weddings despite having more wedding dates available. Metro/Tier 1 cities/towns continue to outperform Tier 2/3 locations.

We have covered

- **Value retailers** – V-Mart/V2/Pantaloons expect lower to mid single-digit SSSG
- **Indian wear** - Manyavar/SSKL expect stagnant or declining same-store-sales (SSS).
- **LFS** - We have covered Shoppers Stop and Intune and expect flattish or declining SSS for the quarter. Although Intune is performing relatively better, its current contribution of 1% to the revenue mix is not significant enough to impact Shoppers Stop's overall performance.
- **Premium segment** continues to experience trends consistent with the broader industry slowdown, with expectations of flattish SSSG.

Maintaining momentum: store additions to persist despite challenges

Despite the subdued environment, companies continue to add stores at 10-15% rate. Traditionally, the last quarter tends to be robust for retailers in terms of store expansions. We anticipate continued store additions for all players in our coverage. However, V-Mart is expected to close down some of its loss-making stores, potentially resulting in a net closure for the company in 4QFY24.

No major price cuts

Raw material costs have broadly stabilized and some companies have already passed on these costs to customers by implementing price cuts in previous quarters. In the current quarter, we do not expect any major price cuts by companies. With old piled-up inventories nearly cleared, companies have rolled out fresh summer collections. The combined benefits of price cuts and RM moderation could support demand recovery over the next two to three quarters.

Valuation

- MOFSL's retail coverage companies have corrected 15-40% from their respective 52-week highs, barring TRENT/DMART. However, we still expect subdued demand recovery in the apparel space. Valuations of retail companies are determined by growth visibility and disciplined capital allocation.
- We prefer TRENT/ DMART/METRO (Buy), given the ability to deliver higher growth compared to peers. Additionally, we like RAYMOND, which could benefit from the demerger of its real estate and lifestyle business.
- We maintain our Neutral rating on both V-MART and MANYAVAR, due to a slowdown in performance. However, recovery in SSSG would act as a positive catalyst for the stocks.
- Historically, Shoppers Stop has experienced modest growth, resulting in a lower valuation compared to peers. However, its recent foray into the value segment with the introduction of 'Intune' could potentially lead to higher productivity, which enables healthy store profitability. The aggressive store expansion plan, coupled with higher productivity, could serve as a key lever for growth and lead to a re-rating of the company going forward.
- Conversely, ABFRL, following a string of aggressive investments over the past three years, is facing challenges in terms of EBITDA and PAT growth. The company has invested in multiple new businesses that are presently loss making or are yet to stabilize. We believe that in the short term, ABFRL may experience earnings volatility due to these aggressive investments.

Exhibit 1: Snapshot of details on retail coverage universe (INR b)

	Reco	M.Cap	CMP (INR)	Revenue			PAT			P/E			EV/EBITDA		
				FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Retail															
DMART	Buy	2,858	4,412	508	640	802	26	36	48	112	80	60	69	50	38
Apparel															
Trent	Buy	1,416	1,289	120	161	204	10	14	18	146	101	78	78	56	44
ABFRL	Neutral	224	236	138	158	182	-6	-6	-6	NM	NM	NM	19	18	15
V-MART	Neutral	41	2,098	28	31	36	-1	0	0	NM	NM	149	28	18	15
Shoppers Stop	Neutral	109	772	42	48	55	1	1	1	93	51	54	15	13	11
Vedant Fashions	Neutral	231	953	14	16	19	4	5	6	57	45	37	35	29	23
Raymond	Buy	123	1,853	87	96	109	7	8	10	19	15	13	10	9	7
Footwear															
Metro Brands	Buy	299	832	24	29	35	3	4	5	95	72	56	45	35	28
Campus Activewear	Buy	70	229	15	16	19	1	1	2	85	58	44	35	27	21
Relaxo	Neutral	208	835	30	34	40	2	3	4	96	73	55	48	38	30
Bata India	Neutral	177	1,374	35	38	42	3	4	5	59	45	33	23	20	16

Source: MOFSL, Company

Key highlights:

1. V-MART RETAIL

- **Expect low to mid single-digit SSSG** in 4QFY24, supported by the extended winter season until the end of February and the introduction of fresh merchandise in stores.
- **Witnessing good footfalls, led by the marriage season. Further, the management expects Holi and Eid celebrations to further help in recovery.**
- The company is focusing on **reducing the store-level inventory** to 100-120 days from 180 days (during Covid). The clearance of old piled-up inventories is nearly complete, with renewed **focus on maintaining fresh inventories moving forward.**
- The company has not witnessed any price cuts in the current quarter and also does not expect to increase the prices in the near term.
- **Price comps with peers:** V-Mart's average prices are now on par with V2. The company implemented price cuts in CY23. Prices remain at a premium to Vishal Mega Mart/ 1 India Family Mart.
- **Integrating Limeroad app with store:** The company has integrated QR codes (directing toward LR app) for every product. This feature assists customers in locating the same product in different sizes/color within the LR app.
 - i. Extra bonus/commission to an employee for pushing a customer on every online sale order.
- The company is **aggressively targeting store adds**, especially in states such as MP/UP/RJ/Orissa/Jharkhand.
 - ii. Stores in Metro/T1 cities continue to do well as compared to those in T3/T4 cities.

2. V2 RETAIL

- V2 is doing better than its peers, especially in the Eastern region and Bihar.
- The company has **increased the capacity of stores**, by increasing the shelf life which led to high sales.
 - i. It has raised the 5ft racks to 7ft racks in some of the stores and implementing the same in other stores as well.
 - ii. This allows the company to keep more inventory/SKUs than its peers.
- V2/V-Mart caters to customers earning around INR15k pm.

3. PANTALOONS

- Markdowns have improved, and the company is replenishing inventory every 15 days to maintain the freshness in the store.
- Pantaloons operates with a distinct supply chain compared to other ABFRL brands.

4. SHOPPERS STOP

- **Expects to clock weak/flattish SSSG in the near term**; however, discounting has reduced in private labels.
- **Intune: On track to open ~10 stores in 4QFY24**, with all stores being COCO and increased focus on the South/West regions.
- Intune is currently an apparel brand, and hence, no beauty/footwear products are sold in the store.
- Zudio is a youth-focused store; Intune is a young family (with kids) store with 26-27% sales from kids wear.

5. VEDANT FASHION

- Despite an increase in the number of wedding dates, the actual number of weddings is lower than anticipated. Overall, we expect SSS to remain stagnant or slightly decline in 4QFY24.
- Metro/Tier 1 locations are outperforming Tier 2/Tier 3 areas. Additionally, according to management, unorganized players are experiencing more significant impacts compared to Vedant.

6. TASVA

- The company has **reduced the ASP** by 5-10% and is selling at a slight premium compared to Manyavar and Ethnix by Raymond.
- TASVA is planning to introduce a women's Indian collection to be displayed in its existing stores. This new product line will not be integrated with any existing brands (e.g., combining TASVA with TCNS, Sabyasachi, Masaba).
- **The company manages inventory** for both COCO/FOFO stores.
- TASVA is focused on a pastel color collection and offers a maximum of 2-3 colors, whereas Manyavar provides a broader range of colors.

7. SAI SILK KALAMANDIR

- The management expects demand recovery to remain weak in 4QFY24 and 1QFY25. However, owing to a lower base in 1QFY24, the SSS may not decline. Also, the management expects flat revenue/EBITDA/PAT for FY24.
- Store count stands at 60 (6.5 Lakh sqft in 15 cities) and the management expects to add 10 stores in 1HFY25 and additional 6-7 stores in 2HFY25. Targets to end FY25 area with 7.4-7.5 Lakh sqft.

8. INDIAN TERRAIN

- The management expects **demand to remain weak** in 4QFY24 as well.
- EOSS was subpar in 4QFY24 and therefore has been overextended by most of the players.
- The majority of old stock has been cleared in the retail channel, with **fresh stock now being released**.

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