



Top Sector Ideas: Retail

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Discretionary under Pressure as Consumer Sentiment Remain Muted

✓ *Financial Performance*

- **Consumer demand remain tepid:** The discretionary demand remains tepid with a greater impact seen on QSR, while value segment has seen some recovery.
- **Premium vs. Value segment:** While the premium segment remains strong, the value segment saw some recovery but remain a mixed bag.
- **Store expansion continues:** Despite muted environment, most companies in our coverage universe have maintained/increased store opening guidance as they move into smaller towns and long-term growth levers remain strong.

How Have Companies Performed In Q4FY24?

- **Retail companies** have reported mixed performance, with premium retailers sustaining their growth momentum, while value retailers saw gradual recovery. However, QSR continued to remain under pressure.
- Companies have highlighted that rural growth is likely to pick up gradually, driven by increased government spending, easing inflation, and increased urban remittances. EBITDA margins have experienced pressure due to negative operating leverage resulting from subdued topline performance.

What Makes the Retail Sector a Good Bet?

- **Rapid formalisation undergoing** – The Indian retail market is largely unorganized with large-scale opportunities in smaller cities and towns. With increasing disposable income, consumers are opting for branded products.
- **Smaller cities provide huge headroom** – Smaller cities and towns are growing faster than metros across categories – Apparel, QSR, Footwear, etc. as these cities and towns have higher aspirations for branded products and an increase in disposable income is further aiding this growth.
- **Structural Story to Continue**
 - ✓ **Higher disposable Income** – Average Per-capita income in India is \$2,200 and any increase in per-capita income will reflect in higher spending as per-capita expense on essential goods remains constant.
 - ✓ **Increased participation of women in the workforce** – Higher disposable income is resulting in higher sales of overall women's wear.

Short and Medium-term Outlook

Short term

Demand

Slowdown in discretionary spends

Margins

Recovery in margins will be gradual

Domestic Consumption Play
expected to deliver better returns in this volatile environment

Rural Demand to Pick Up

Increase in government spending and urban remittances

Consumer price inflation to start receding eventually

RM prices remain stable

Medium Term

Key Monitorables – Demand recovery; Margins Guidance; Inflation Trajectory; Competitive Intensity

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Stock	Reco.	TP	Recommendation Rationale
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Trent


BUY

Rs 4,800

- ✓ We expect strong revenue growth in the coming quarters, driven by Trent's focus on rapid store expansion and continued assortment renewal, which will lead to higher overall footfall. Additionally, the improvement in the earnings profile across all formats, the reduction in losses at Star Bazaar, and the improved traction at the Inditex JV are also positive signs for the company.


Note: The Target price is based on our Q4FY24 Result Update. Most of the stocks have reached their Q4FY24 Result Update Target Prices. We, however, remain positive on the stock's long-term prospects and recommend 'BUY on Dips'.

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 <p>Westlife Foodworld</p>	BUY	Rs 980	<ul style="list-style-type: none"> ✓ We maintain our positive outlook on WFL on a longer-term basis. Our confidence in the company's strong future prospects is supported by its strong execution track record of Revenue/EBITDA growth of 17%/51% over FY16-20. This was driven by new product launches and cost rationalization programs (100-200bps cost reduction each year). We expect the company to deliver healthy Revenue/EBITDA growth of 15%/15% CAGR over FY23-26E (Post Ind. AS) through: ✓ (a) Developing and expanding fast-growing categories such as McDelivery, McCafe, McBreakfast and Fried Chicken. ✓ (b) Leveraging McDelivery and other convenience platforms to capitalize on the fast-growing delivery channel; and ✓ (c) Management's ambitions to penetrate fast-growing smaller cities, raising store guidance to 40-45 stores/year from 25-30 stores previously, and transform regular stores into tech-savvy Experience of the Future (EOTF) stores for a better customer experience.

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 <p>Relaxo Footwear</p>	BUY	Rs 950	<ul style="list-style-type: none"> ✓ The company's revenue de-grew by ~2% YoY to Rs 747 Cr, owing to the decline in overall volumes, down 4% YoY. However, this was partly offset by improved realisation by 3% YoY. Moreover, the company reported a beat on EBITDA which grew by 2% YoY to Rs 120 Cr while margins stood at 16.1%, up 68 bps YoY. This was led by sharp improvement in gross margins which were up 812bps YoY to 60.3% on account of lower RM and improved realization. ✓ We believe the worst is behind the company as – 1) Demand environment is likely to pick up in the coming quarters with good monsoons, especially in rural, 2) softening/stable raw material prices will aid gross margin expansion, 3) The company is regaining its lost market share from unorganised players as more sales are in open footwear, 4) BIS implementation will give better footing to organised players, and 5) It is focusing more on premiumisation by increasing the share of a fast-growing sports and athleisure category.

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