

## Q4FY2023 Results Review

Sector: Consumer Discretionary

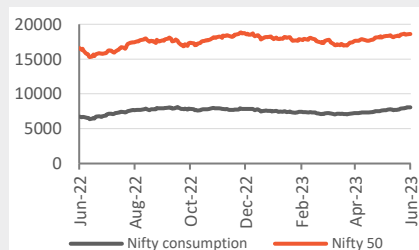
Sector View: Positive

## Our Coverage Universe

Companies	CMP (Rs)	Reco./ View	PT (Rs)
Aditya Birla Fashion and Retail	207	Buy	225
Shoppers Stop	791	Neutral	855
Trent	1,600	Buy	UR
Titan Company	2,878	Buy	2,950
Bata India	1,578	Buy	1,775
Relaxo Footwear	909	Buy	1,005
Jubilant Foodworks	490	Buy	600
Devyani International	179	Buy	215
Restaurant Brands Asia	110	Buy	150
Indian Hotels Company	389	Buy	425
Lemon Tree Hotels	93	Positive	116
Chalet Hotels	435	Positive	530
Wonderla Holidays	551	Buy	570
Arvind	128	Hold	135
Himatsingka Seide	105	Positive	129
KPR Mill	610	Buy	685
SP Apparels	419	Positive	443
Welspun India	98	Hold	115
PVR	1,450	Buy	1,800
Zee Entertainment	198	Buy	210

Source: Company, Sharekhan Research;  
UR – Under Review

## Price chart



Source: NSE; Sharekhan Research

## Summary

- In Q4FY2023, branded apparels and retail companies registered double-digit revenue growth on a low base of Q4FY2022 (affected by Omicron); same-store-sales remained under pressure. EBITDA margins fell due to higher operating expenses. Revival likely by festive season.
- As expected, hotels outperformed, clocking a double-digit revenue growth versus Q4FY20 on the back of better occupancies and a double-digit rise in room rentals. Strong operating leverage and cost-saving measures drove up margins. Strong growth momentum is likely to sustain.
- Textile companies saw performance improve q-o-q as capacity utilisation picked up. EBITDA margins too rose sequentially on lower input costs. We expect performance to improve in the quarters ahead.
- Preferred Picks –**  
**Branded apparel and retail:** Titan, Relaxo Footwear  
**Textile:** SP Apparels, KPR Mill and Himatsingka Seide  
**Out-of-home discretionary:** Chalet hotels, Indian Hotels Company Limited (IHCL) & Restaurant Brand Asia (RBA)

In Q4FY2023, branded apparel & retail companies posted double digit revenue growth on low base of Q4FY2022, affected by Omicron (resulting in a disruption in business for 45 days). However, like-for-like same-store sales growth (SSSG) remained muted in Q4FY2023 due to slowdown in the discretionary demand impacted by inflation. EBITDA margins of branded apparel & retail companies were lower due to normalisation of the cost. Among retailers, Trent outperformed with a strong like-for-like growth during the quarter. Sharekhan's branded apparel, retail & footwear universe's revenues grew by 33% y-o-y while EBITDA margins decreased by 154 bps to 11%. Hotels posted yet another quarter of strong performance with revenues and EBITDA growing double-digit compared with Q4FY2020 (pre-covid levels). QSR companies posted double-digit revenue growth on strong store expansion while SSSG remained muted. Sharekhan's hospitality & QSR universe revenues grew by 41% y-o-y and EBITDA margins expanded by 510 bps y-o-y to 25.5%. Textile companies witnessed sequential improvement in the margins due to a reduction in raw material and supply costs.

- Branded apparel/retail & QSR posted relatively muted performance:** In Q4FY2023, branded apparel & retail companies witnessed double-digit revenue growth on low base of Q4FY2022 (affected by Omicron) while same store sales remained continued to remain under pressure due to higher inflation put pressure on discretionary categories. EBITDA margins for branded apparel/footwear companies was lower due to normalisation of cost (including rentals). Trent outperformed peers with a 75% revenue growth driven by mix of higher like-for-like growth and store addition. In the jewellery space, Titan registered resilient performance with 33% revenue growth and stable margins. QSR companies posted muted same-store-sales but strong store expansion aided in double-digit revenue growth for companies like Devyani International and RBA.
- Hotels outperformed; posted strong performance versus Q4FY2020:** Hotel companies posted strong performance in Q4FY2023 with occupancies and ARRs remaining high y-o-y driven by strong room demand led by domestic leisure travel and recovery in the corporate & MICE segment. Indian Hotels Company Ltd (IHCL) and Lemon Tree Hotels (part of our discretionary coverage) registered robust revenue growth of 1.8x and 2.1x vs. Q4FY2022 and 15% and 13% on a 3-years CAGR basis. EBITDA margins for both companies stood high at 33% and 55% respectively. Further, amusement company Wonderla Holidays registered the highest-ever footfalls of 8 lakhs in a quarter. It's revenues grew by 70% y-o-y; EBITDA margins stood at 43% and achieved PAT growth of 1.7x y-o-y.
- Textiles – Sequentially good quarter:** Sharekhan's textile universe performance remained muted on y-o-y basis with revenue decline for most companies while same was better on sequential basis due to improved capacity utilisation. Reduction in the input cost led to sequential improvement in gross margins and EBITDA margins of most textile companies under our coverage.

**Outlook – Hospitality to maintain momentum; Slow recovery for QSR and Retail:** Organic same-store-sales for retail/QSR companies would be muted due to weak consumer sentiments and revenue growth would be largely driven by strong store expansion. We expect discretionary spends to gradually improve and see strength prior to the upcoming festive season. Overall Q1FY2024 is expected to be another muted quarter for retail and QSRs. Easing inflation is also good for improvement in sentiments. Hotel companies would continue to post strong performance as room demand is expected to stay ahead of room supply over the next 3-4 years. Textile companies will gain momentum from Q2FY2024 with global retail shelves getting empty. Margins will improve in the quarters ahead due to reduction in the raw material prices and supply costs.

## Valuation and preferred picks

Among retailers, we like Titan because of its consistent resilient performance in uncertain environment and focused strategies leading to steady growth in key businesses in the coming years. After a relevant price correction in portfolio, Relaxo footwear is geared to post good recovery in volume growth in FY2024. This along with better margins will help earnings to grow in strong doubled digits in FY2024. Among hotels, we continue to like Indian Hotels Company while we have recently initiated viewpoint coverage on Chalet Hotels, which will benefit from current upcycle in the hotel industry. In the QSR space, we like Restaurant Brands Asia due to 1) expected strong growth in the India business 2) recovery in Indonesia business and 3) discounted valuations post sharp fall in the stock price. Further, in the textile space, we like SP Apparels, KPR Mill and Himatsingka Seide which are expected to post improved performance in the coming quarters while long-term growth prospects for textile industry are intact due to China + 1 factor and expected FTA signing with UK & Europe.

**Leaders for Q4FY23:** Wonderla Holidays, Trent, Lemon Tree Hotels and Shoppers Stop

**Laggards for Q4FY23:** Welspun India, ABFRL and Jubilant Foodworks

## Preferred Picks:

- Branded apparel and retail:** Titan and Relaxo Footwear
- Textile:** SP Apparels, KPR Mills and Himatsingka Seide
- Out-of-home discretionary:** IHCL, Chalet Hotels and Restaurant Brand Asia

## Q4FY2023 result snapshot

Companies	Net sales (Rs. crore)			EBITDA margin (%)			Adjusted PAT (Rs. crore)		
	Q4FY23	Q4FY22	y-o-y (%)	Q4FY23	Q4FY22	y-o-y (%)	Q4FY23	Q4FY22	y-o-y (%)
<b>Branded Apparel, Retail &amp; Footwear</b>									
Aditya Birla Fashion and Retail	2,879.7	2,282.8	26.1	6.7	16.3	-96.4	-196.9	30.8	-
Shoppers Stop	916.5	709.9	29.1	17.1	10.8	633	16.3	-16.1	-
Trent	2,077.2	1,185.3	75.3	10.2	12.9	-264	105.1	75.0	40.1
Titan Company	10,360.0	7,796.0	32.9	10.5	10.2	33	736.0	567.0	29.8
Bata India	778.6	665.2	17.0	23.4	24.4	-99	65.6	63.0	4.2
Relaxo Footwear	764.9	698.2	9.6	15.4	15.9	-49	63.3	62.9	0.6
<b>Total</b>	<b>17,777</b>	<b>13,337</b>	<b>33.3</b>	<b>11.0</b>	<b>12.5</b>	<b>-154</b>	<b>789</b>	<b>783</b>	<b>0.9</b>
<b>Hospitality &amp; QSR</b>									
Jubilant Foodworks	1,252.3	1,157.9	8.2	20.1	25.0	-488	62.4	116.5	-46.4
Devyani International	755.0	590.7	27.8	20.0	24.3	-421	59.9	77.9	-23.1
Restaurant Brands Asia	514.0	399.8	28.6	5.3	5.1	27	-80.0	-56.4	-
Indian Hotels Company	1,625.4	872.1	86.4	32.9	18.2	-	302.0	63.4	-
Lemon Tree Hotels	253.1	119.5	111.7	55.4	18.1	-	59.3	-39.5	-
Wonderla Holidays	98.6	58.1	69.6	42.9	34.5	846	28.5	8.5	-
<b>Total</b>	<b>4,498</b>	<b>3,198</b>	<b>40.7</b>	<b>25.5</b>	<b>20.4</b>	<b>510</b>	<b>432</b>	<b>170</b>	<b>-</b>
<b>Textile</b>									
Arvind	1,880.8	2,197.0	-14.4	10.1	10.8	-69	83.3	103.2	-19.3
Himatsingka Seide	689.7	764.8	-9.8	17.7	13.1	457	4.6	8.0	-42.8
KPR Mill	1,949.7	1,449.9	34.5	16.4	23.2	-675	209.6	219.8	-4.7
SP Apparels	275.2	253.9	8.4	15.5	16.4	-82	20.5	25.3	-18.8
Welspun India	2,153.9	2,227.1	-3.3	13.0	10.2	278	129.1	51.0	-
<b>Total</b>	<b>6,949</b>	<b>6,893</b>	<b>0.8</b>	<b>13.7</b>	<b>13.7</b>	<b>7</b>	<b>447</b>	<b>407</b>	<b>9.7</b>
<b>Media &amp; Entertainment</b>									
PVR	1,143.2	537.1	112.8	23.1	18.6	449	-322.6	-105.5	-
Zee Entertainment	2,112.1	2,322.9	-9.1	7.2	20.9	-	17.1	261.9	-93.5
<b>Total</b>	<b>3,255</b>	<b>2,860</b>	<b>13.8</b>	<b>12.8</b>	<b>20.5</b>	<b>-774</b>	<b>-305</b>	<b>156</b>	<b>-</b>
<b>Grand total</b>	<b>32,480</b>	<b>26,288</b>	<b>23.6</b>	<b>13.8</b>	<b>14.7</b>	<b>-89</b>	<b>1,363</b>	<b>1,517</b>	<b>-10.1</b>

Source: Company, Sharekhan Research

## Three-year revenue and EBITDA CAGR

Rs. crore

Companies	Net sales (Rs. crore)			EBITDA (Rs. crore)		
	Q4FY23	Q4FY20	3yr CAGR	Q4FY23	Q4FY20	3yr CAGR
<b>Branded Apparel, Retail &amp; Footwear</b>						
Aditya Birla Fashion and Retail	2,879.7	1,831.9	16.3	192.8	150.3	8.7
Shoppers Stop	916.5	709.2	8.9	157.1	76.6	27.0
Trent	2,077.2	722.8	42.2	212.0	88.0	34.1
Titan Company	10,360.0	4,711.5	30.0	1,089.0	612.5	21.1
Bata India	778.6	619.7	7.9	182.1	138.8	9.5
Relaxo Footwear	764.9	540.6	12.3	118.0	96.2	7.0
<b>Total</b>	<b>17,777</b>	<b>9,136</b>	<b>24.8</b>	<b>1,951</b>	<b>1,162</b>	<b>18.8</b>
<b>Hospitality &amp; QSR</b>						
Jubilant Foodworks	1,252.3	897.9	11.7	252.2	169.5	14.2
Indian Hotels Company	1,625.4	1,063.0	15.2	535.5	207.9	37.1
Lemon Tree Hotels	253.1	176.1	12.8	140.3	63.9	30.0
Wonderla Holidays	98.6	42.4	32.5	42.3	5.1	102.8
<b>Total</b>	<b>4,498</b>	<b>2,179</b>	<b>27.3</b>	<b>1,149</b>	<b>446</b>	<b>37.0</b>
<b>Textile</b>						
Arvind	1,880.8	1,641.6	4.6	190.8	157.6	6.6
Himatsingka Seide	689.7	434.6	16.6	122.1	59.8	26.9
KPR Mill	1,949.7	873.9	30.7	320.3	137.9	32.4
SP Apparels	275.2	168.4	17.8	42.7	17.8	34.0
Welspun India	2,153.9	1,617.3	10.0	279.0	249.1	3.8
<b>Total</b>	<b>6,949</b>	<b>4,736</b>	<b>13.6</b>	<b>955</b>	<b>622</b>	<b>15.3</b>
<b>Media &amp; Entertainment</b>						
PVR	1,143.2	645.1	21.0	263.9	172.7	15.2
Zee Entertainment	2,112.1	1,951.1	2.7	151.7	-283.9	-
<b>Total</b>	<b>3,255</b>	<b>2,596</b>	<b>7.8</b>	<b>416</b>	<b>-111</b>	<b>-</b>
<b>Grand total</b>	<b>32,480</b>	<b>18,647</b>	<b>20.3</b>	<b>4,470</b>	<b>2,120</b>	<b>28.2</b>

Source: Company, Sharekhan Research

## Valuations

Company	CMP (Rs)	EV/EBITDA (x)			P/E (x)			Reco.	Price Target (Rs.)
		FY23	FY24E	FY25E	FY23	FY24E	FY25E		
Branded Apparel, Retail & Footwear									
Aditya Birla Fashion and Retail	207	18.4	16.4	11.5	-	-	61.8	Buy	225
Shoppers Stop	791	14.6	12.4	9.3	71.6	60.1	27.1	Neutral	855
Trent	1,600	37.2	29.5	24.0	-	71.2	51.5	Buy	UR
Titan Company	2,878	53.0	44.4	36.6	78.0	65.4	53.9	Buy	2,950
Bata India	1,578	25.4	20.0	16.5	62.8	44.4	34.8	Buy	1,775
Relaxo Footwear	909	67.2	50.0	36.5	-	98.0	63.3	Buy	1,005
Hospitality & QSR									
Jubilant Foodworks	490	29.6	24.1	19.3	80.3	60.3	42.3	Buy	600
Devyani International	179	33.1	24.0	18.0	72.9	62.3	40.4	Buy	215
Restaurant Brands Asia	110	48.3	21.1	14.8	-	-	-	Buy	150
Indian Hotels Company	389	28.5	21.6	18.0	52.7	44.5	35.3	Buy	425
Lemon Tree Hotels	93	16.8	14.6	10.4	52.8	43.6	25.8	Positive	116
Chalet Hotels	435	17.1	11.8	9.5	62.2	29.6	21.0	Positive	530
Wonderla Holidays	551	13.6	12.7	10.8	20.9	20.5	17.7	Buy	570
Textile									
Arvind	128	5.6	4.9	3.9	9.3	8.0	5.9	Hold	135
Himatsingka Seide	105	13.8	7.2	5.8	-	7.4	4.6	Positive	129
KPR Mill	610	17.2	12.9	10.4	25.8	20.0	16.0	Buy	685
SP Apparels	419	8.1	5.5	3.9	13.0	8.9	6.5	Positive	443
Welspun India	98	15.4	8.4	2.9	48.8	17.2	13.2	Hold	115
Media & Entertainment									
PVR	1,450	48.9	13.0	10.2	-	24.8	17.8	Buy	1,800
Zee Entertainment	198	16.8	10.5	8.4	32.7	20.0	16.1	Buy	210

Source: Company, Sharekhan Research; UR – Under Review

## Q4FY2023 Consumer Discretionary earnings review

### Revision in estimates

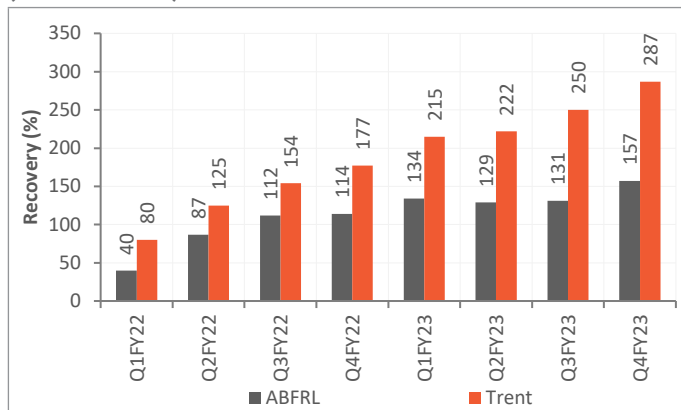
Companies	Change in estimates	Reason	Current Reco	Previous Reco	Price Target (Rs.)
<b>Branded Apparel, Retail &amp; Footwear</b>					
Aditya Birla Fashion and Retail (ABFRL)	Revised downwards	We have reduced estimates for FY2024 and FY2025 to factor in lower-than-expected core EBIDTA margins and sluggish growth in the core businesses for next two years. Further, the new businesses will take time to become profitable as large spends are done on media and other investments.	Buy	Buy	225
Shoppers Stop	Revised downwards	We maintain our estimates at EBITDA level but have moderately lowered our estimates at PAT level in FY2024 and FY2025 to factor in higher interest & depreciation expenses.	Neutral	Positive	855
Trent	Revised downwards	We have reduced our earnings estimates for FY2024 and FY2025 to factor in lower-than-earlier-expected EBIDTA margins.	Buy	Buy	UR
Titan Company	Broadly maintained	We have broadly maintained our earnings estimates for FY2024 and FY2025 with Q4 performance coming largely in line with estimates while the management is optimistic of achieving good growth in core jewellery business and improved growth in eyecare business in the coming years.	Buy	Buy	2,950
Bata India	Broadly maintained	We have broadly maintained our earnings estimates for FY2024 and FY2025 and will keenly monitor the performance in the quarters ahead. Premiumisation should help the company deliver good margins in the coming years.	Buy	Buy	1,775
Relaxo Footwears	Fine tuned	We have fine-tuned our earnings estimates for FY2024/25E to factor in little better-than-expected volume growth and higher EBIDTA margins in Q4FY2023.	Buy	Buy	1,005
<b>Hospitality &amp; QSR</b>					
Jubilant Foodworks (JFL)	Revised downwards	We have reduced our earnings estimates for FY2024 and FY2025 to factor little lower like-for-like sales growth.	Buy	Buy	600
Devyani International	Revised downwards for FY2024; broadly maintained for FY2025	We have lowered our earnings estimates for FY2024 to factor in little lower SSSG and lower margins while we have broadly maintained it for FY2025.	Buy	Buy	215
Restaurant Brands Asia	Revised downwards	We have reduced our earnings estimates for FY2024 and FY2025 to factor in little lower ADS than earlier expected.	Buy	Buy	150
Indian Hotels Company (IHCL)	Fine tuned	We have fine-tuned our earnings estimates for FY2024E/FY2025E to factor in better-than-expected operating performance.	Buy	Buy	425
Lemon Tree Hotels	Broadly maintained for FY2024; Revised upwards for FY2025	We have maintained our earnings estimates for FY2024, while we have increased the estimates for FY2025 to factor in incremental revenue and margins from Aurika, Mumbai.	Positive	Positive	116

**Revision in estimates**

Companies	Change in estimates	Reason	Current Reco	Previous Reco	Price Target (Rs.)
Wonderla Holidays	Revised upwards for FY2024; broadly maintained for FY2025	We have raised our earnings estimates for FY2024 to factor in higher footfalls of 33.1 lakh in FY2023 versus the expected 30 lakh footfalls while we have broadly maintained it for FY2025.	Buy	Buy	570
<b>Textile</b>					
Arvind	Broadly maintained	We have broadly maintained our earnings estimates for FY2024 / FY2025. We will review the company's performance in the coming quarters to make any changes in the estimates.	Hold	Hold	135
Himatsingka Seide	Revised upwards	We have raised our earnings estimates for FY2024E and FY2025E to factor in little high capacity utilisation in key segments and better-than-expected EBIDTA margins.	Positive	Neutral	129
KPR Mill	Revised upwards	We have raised our earnings estimates for FY2024 and FY2025 to factor in higher sales growth than earlier expected in the garments business (led by higher realisation growth) and sugar business (to factor in higher ethanol revenues).	Buy	Buy	685
SP Apparels	Revised upwards	We have raised our earnings estimates for FY2024 and FY2025 to factor in better prospects for the garments division and improvement in EBIDTA margins.	Positive	Positive	443
Welspun India	Revised upwards	We increase our earnings estimates for FY2023, FY2024 and FY2025 to factor in better-than-expected performance in Q4 and little higher than earlier expected EBIDTA margins.	Hold	Hold	115
<b>Media &amp; Entertainment</b>					
PVR	Revised downwards	We have revised our FY24-25 earnings estimate downwards to incorporate financials of the merged company.	Buy	Buy	1,800
Zee Entertainment	Revised downwards	We have revised our FY24-25 earnings estimates downwards to factor Q4FY23 weak operating margin performance.	Buy	Buy	210

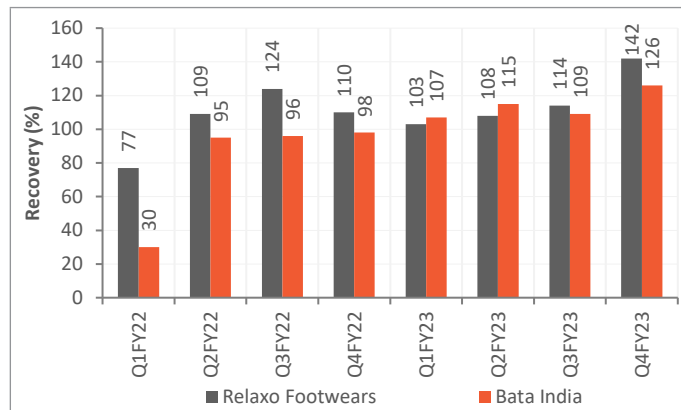
Source: Company, Sharekhan Research; UR – Under Review

### Branded apparel companies' growth momentum sustained (vs. Q4FY2020)



Source: Company, Sharekhan Research

### Steady performance by footwear companies (vs. Q4FY2020)



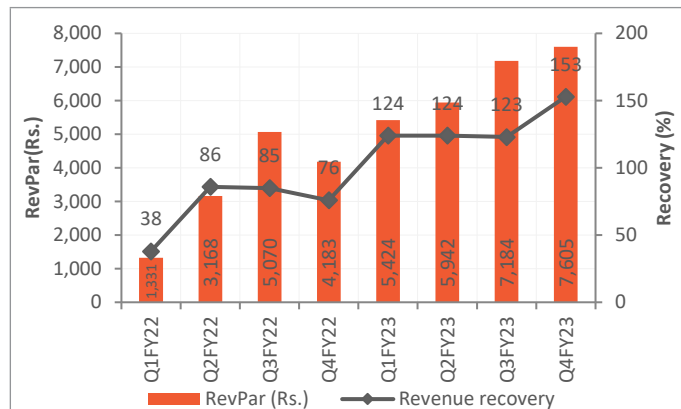
Source: Company, Sharekhan Research

### Strong growth in Titan's jewellery sales (vs. Q4FY2020)



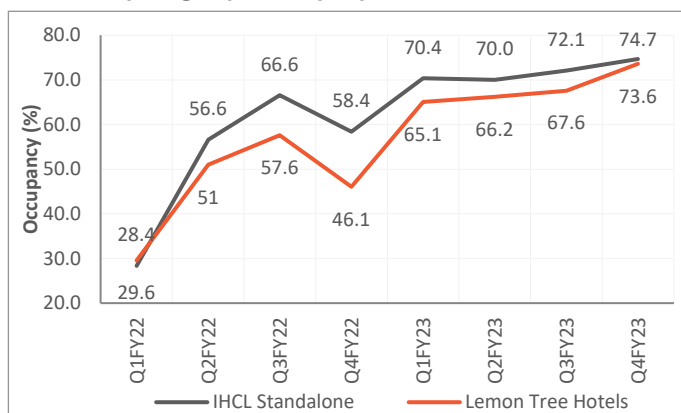
Source: Company, Sharekhan Research

### IHCL RevPar registered strong recovery (vs. Q4FY2020)



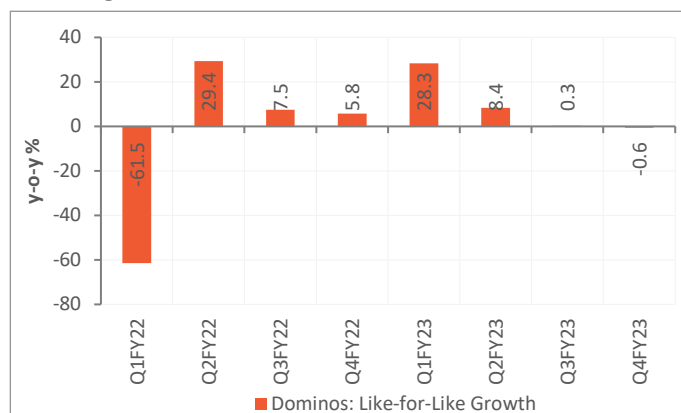
Source: Company, Sharekhan Research

### Hotel occupancy improved q-o-q



Source: Company, Sharekhan Research

### Quarterly trend in Dominos: Like-for-Like Growth



Source: Company, Sharekhan Research

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.



## 3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✗	✗	✓
	+ Positive	= Neutral	- Negative

## What has changed in 3R MATRIX

	Old		New
RS	✗	↔	✓
RQ	✗	↔	✓
RV	✗	↓	✗

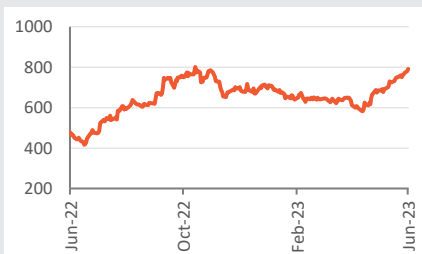
## Company details

Market cap:	Rs. 8,676 cr
52-week high/low:	Rs. 819 / 403
NSE volume: (No of shares)	0.83 lakh
BSE code:	532638
NSE code:	SHOPERSTOP
Free float: (No of shares)	3.8 cr

## Shareholding (%)

Promoters	65.5
FII	7.0
DII	20.8
Others	6.7

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	15.7	22.6	12.9	66.3
Relative to Sensex	14.0	18.6	12.6	53.5

Sharekhan Research, Bloomberg

## Shoppers Stop Ltd

## Downgrade to Neutral with limited upside

## Consumer Discretionary

## Sharekhan code: SHOPERSTOP

Reco/View: Neutral



CMP: Rs. 791

Upside potential: 8%



↑ Upgrade

↔ Maintain

↓ Downgrade

## Summary

- Shoppers Stop Limited (SSL) posted a strong return of 22% (since our last update on April 27, 2023) capping the upside from current levels. We advise investors to partially book profits in the stock and wait for better entry opportunity.
- Channel checks suggest sustained slowdown in the branded apparel and retail space during April-May which will lead to a muted Q1.
- However, we expect double-digit revenue growth in FY2024 (mid-single-digit SSSG growth) driven by strategic pillars, premiumisation and store additions with expected recovery in the consumer sentiments prior to festive season. EBITDA margins are likely to be higher in FY2024 aided by better mix, rent negotiations and optimisation of discounts.
- Stock is currently trading at 12.4x/9.3x its FY2024E/FY2025E EV/EBITDA with unfavourable risk reward. We downgrade our view on the stock to Neutral from Positive earlier with an upside of 8%.

**Shoppers Stop Limited (SSL) is focusing on its key strategic pillars of increasing contribution from private labels, strong growth in First Citizen membership, scale-up in the beauty brands business and omni-channel performance to drive consistent double-digit growth in the medium to long term. EBITDA margins are expected to improve with better operating leverage in the coming years. The company has paid all its term loans and its net debt on books is negligible. SSL aims to improve RoIC and RoNW, targeting 20-23% RoIC in 2-3 years. The company has reported significant reduction in capex spend, with capex per sq ft reduced by 35%. However, the recent run-up in the stock price has factored in all the positives, thereby capping the near-term upside. Hence, it is advisable to do partial profit booking while waiting for better entry opportunity to enter the stock with strong growth prospects in long run.**

- Q1FY2024 likely to be soft; likely pick-up from Q3 prior to festive season:** With slowdown in the demand in the premium segment (especially in tier-2 and -3 towns), we expect revenue growth to moderate to high single digit to low double digit in H1FY2024 with muted same-store-sales growth. According to industry data, March and April saw single digit growth for branded apparel category. With large part of festive season falling in H2, we expect growth to be much better in the second half of the year. Overall, we expect SSL to clock double-digit revenue growth in FY2024 with strategic pillar providing good support to the growth.
- EBITDA margins to improve in FY2024:** EBITDA margins are expected to be higher in FY2024 with the rise in rent expenses to be mitigated through higher revenues driven by strategic pillars. Margin to improve due to better mix (higher private brands), rent negotiations, optimisation of discounts and since new stores are smaller in size, it will aid in profitability and also expenses towards smaller stores will be lower which will help to keep costs lower.
- Capital allocation strategy in place:** The company has paid all its term loans and its net debt on books is negligible. SSL aims to improve RoIC and RoNW, targeting 20-23% RoIC over the next 2-3 years. The company has reported significant reduction in capex spend, with capex per sq. ft. reduced by 35%. The company has guided that bulk procurement would lead to further reduction in capex spend per sq. ft. and negotiating rent with landlords would also help in reducing the cost. The capex requirement per sq. ft. is at Rs. 2,200 (without beauty) – 2,300 (with beauty) for new stores.

## Our Call

**View – Downgrade to Neutral with unfavorable risk reward:** The stock price has moved up by 22% since our last update on April 27, 2023 capping the upside from current levels. We advise investors to do partial profit booking in the stock and wait for better entry opportunity in the stock. Long-term growth prospects are intact with strategic pillars expected to drive double-digit revenue growth and consistent improvement in margins in the near to long term. However, in view of near-term slowdown in the discretionary consumption and unfavorable risk reward, we downgrade our view on the stock to Neutral from Positive earlier with an upside of 8%.

## Key Risks

Any quick recovery in the discretionary consumption will lead to better-than-expected performance in the coming quarters, which might act as a risk to our rating on the stock.

## Valuation (Standalone)

	Rs cr			
Particulars	FY22	FY23	FY24E	FY25E
Revenue	2,493.8	3,998.4	4,584.6	5,453.2
EBITDA margin (%)	10.7	17.5	17.8	18.7
Adjusted PAT	-86.7	119.3	144.4	320.5
Adjusted EPS (Rs.)	-6.5	11.1	13.2	29.2
P/E (x)	-	71.6	60.1	27.1
P/BV(x)	88.2	37.4	23.1	12.5
EV/EBITDA	24.4	14.6	12.4	9.3
RoNW (%)	-	73.4	47.5	59.7
RoCE (%)	2.4	9.9	10.9	18.0

Source: Company; Sharekhan estimates



## Outlook and Valuation

### ■ Sector Outlook – Long term growth prospects intact

Branded retail and apparel companies posted strong performance in FY2023, led by low base of FY2022, impacted by Covid-led disruption. We expect growth to be muted in H1FY2024 but expect it to recover prior to the festive season. Branded retail and apparel companies are likely to benefit from steady demand for premium products and better consumer sentiments in urban markets/metros in the quarters ahead. In the medium-long term, market share gains, higher traction on the e-commerce platform, a strong retail space expansion strategy, and sustained expansion of product portfolio will help branded apparel and retail companies to post consistent growth. Better operating leverage and improved efficiencies would help branded apparel and retail companies to post higher margins in the coming years.

### ■ Company Outlook – Multi-pronged strategy for growth

SSL expects to achieve mid double-digit revenue growth in FY2024 (mid single-digit SSSG growth) on account of multiple drivers of strategic pillars (private brands and beauty business), premiumisation, and store additions. EBITDA margin is expected to be higher in FY2024, aided by a better mix, rent negotiations and optimisation of discounts. The company has reported significant reduction in capex spend, with capex per sq. ft. reducing 35% and expects cost to go down further. This will lead to better profitability ratios in the coming years. With the company planning to add stores using internal accruals, the company's balance sheet is expected to remain strong.

### ■ Valuation – Downgrade to Neutral with unfavorable risk reward

The stock price has moved up by 22% since our last update on April 27, 2023 capping the upside from current levels. We advise investors to do partial profit booking in the stock and wait for better entry opportunity in the stock. Long-term growth prospects are intact with strategic pillars expected to drive double-digit revenue growth and consistent improvement in margins in the near to long term. However, in view of near-term slowdown in the discretionary consumption and unfavorable risk reward, we downgrade our view on the stock to Neutral from Positive earlier with an upside of 8%.

#### Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Aditya Birla Fashion	-	-	61.8	18.4	16.4	11.5	4.1	3.5	7.1
Trent	-	71.2	51.5	37.2	29.5	24.0	14.5	18.4	21.4
Shoppers Stop	71.6	60.1	27.1	14.6	12.4	9.3	9.9	10.9	18.0

Source: Company, Sharekhan estimates

## About company

SSL is India's leading premier retailer of fashion and beauty brands established in 1991. The company has progressed from being a single-brand shop to a fashion and lifestyle store for families. An experienced, professional management supported by world-class systems and practices and a talented pool of associates with a shared passion for making every shopper's visit memorable have helped SSL to grow from a single store in 1991 to the largest chain of department stores in India. Spread across 98 department stores, the company also operates seven premium home concept stores, 142 specialty beauty stores of M.A.C., Estée Lauder, Bobbi Brown, Clinique, Jo Malone, Too Faced, and SS Beauty, and 23 airport doors, occupying an area of 3.9 mn sq. ft.

## Investment theme

With a new CEO at the helm of its operations, SSL is focusing on gaining its lost ground in the next two to three years. Higher sales from private labels, repeat sales from First Citizen customers, and new store addition with a lower store size (25,000-30,000 sq. ft.) will help the company to achieve strong revenue growth with improved footfalls in the coming years. This along with cost-saving initiatives would help profitability to substantially improve by FY2025. With strategies in place, revenue and PAT are expected to report a CAGR of 17% and 64%, respectively, over FY2023-FY2025E.

## Key Risks

- Any impact on footfalls due to a weak demand environment will act as a key risk to our earnings estimates in the near to medium term.
- Increased share of private labels is one of the key growth pillars for the company. Any sluggish increase in the contribution of private labels would result in a unfavourable mix.

## Additional Data

### Key management personnel

B.S. Nagesh	Chairman and Non-Executive Director
Venugopal G Nair	MD and CEO
Karunakaran Mohanasundaram	Chief Financial Officer
Vijay Kumar Gupta	Company Secretary and Compliance Officer

Source: Company Website

### Top 7 shareholders

Sr. No.	Holder Name	Holding (%)
1	Aditya Birla Sun Life AMC Ltd.	6.31
2	Nippon Life India AMC	4.54
3	Amazon.com NV Investment Holding	4.01
4	DSP investment managers Pvt. Ltd.	2.24
5	Kotak Mahindra AMC	2.17
6	L & T Mutual Fund Trustee Ltd.	1.48
7	Tata Asset Management Pvt. Ltd.	1.28

Source: Bloomberg (Old data)

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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