

Shoppers Stop

Store sales perk up

After registering flattish same-store sales in Q3FY10, Shoppers Stop (SHOP) has clocked a sharp recovery in growth for January and February at 12–14% YoY. Further, the management does not see any significant rise in overheads, implying a steady operating margin of 7.5–8% going ahead. On the expansion front, SHOP's programme of adding 12–14 departmental stores and 4–6 Hypercity outlets over the next two years remains intact. The company also intends to raise Rs 1bn through a QIP to fund an increase in its Hypercity stake to 51%. We maintain our Hold rating on the stock with a target of Rs 380.

Same-store sales up 12–14% YoY: An improvement in overall consumer sentiment, higher footfalls at stores and an increased ticket size of purchases enabled SHOP to ring in the New Year with a strong 12–14% growth in same-store sales (for January and February). This contrasts with the lacklustre 2.2% increase seen in Q3FY10. In the medium term, the management expects growth to settle at 5–7% as upcoming stores will partly cannibalise revenues from existing outlets.

Margins to hold firm at 7.5–8%: Cost-cutting measures supported a substantial improvement in EBITDA margin during 9MFY10 (up 440bps YoY) to 7.4%. The management does not expect any material increase in operating overheads and thus sees steady EBITDA margins of 7.5–8% going ahead. In a potential boost to profitability, steps are being taken to increase the lucrative private label revenue share from ~18% currently to ~20%.

Expansion plans intact: The management continues to focus on its departmental store format and intends to add 6–7 Shoppers Stop stores each year (28 currently) over the next two years, with a revenue growth target of 22–25% for this period. Further, it aims to roll out 2–3 Hypercity stores each year (7 currently) and foresees a significant increase in revenue and EBITDA contribution from this chain led by increased operational scale.

QIP proceeds to fund stake accretion in Hypercity: SHOP has recently issued 4mn warrants to promoters (~Rs 1.2bn) and plans to raise an additional Rs 1bn through a QIP over the next 6–9 months. The QIP proceeds will primarily be utilised for increasing its stake in Hypercity from 19% currently to 51% (option expiring in June '10).

Maintain Hold rating: We have a target price of Rs 380 for the stock based on a valuation of 12x FY11E EV/EBITDA for SHOP and 0.3x FY11E P/Sales for its 19% stake in Hypercity. We maintain our Hold rating on the stock.

What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 372	Rs 380	HOLD	MEDIUM

BSE	NSE	BLOOMBERG
532638	SHOPERSTOP	SHOP IN

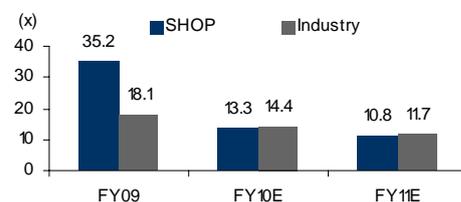
Company data

Market cap (Rs mn / US\$ mn)	12,409 / 267
Outstanding equity shares (mn)	35
Free float (%)	33.9
Dividend yield (%)	0.4
52-week high/low (Rs)	416 / 85
2-month average daily volume	79,574

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
SHOP	372	14.6	6.8	43.5
Sensex	16,994	6.6	(1.4)	5.4

EV/EBITDA comparison



Valuation matrix

(x)	FY09	FY10E	FY11E	FY12E
P/E @ CMP	-	31.2	22.6	18.3
P/E @ Target	(34.1)	33.4	24.1	19.5
EV/EBITDA @ CMP	35.2	13.3	10.8	9.3

Financial highlights

(Rs mn) YE Mar	FY09	FY10E	FY11E	FY12E
Revenue	13,356	14,602	18,042	21,903
Growth (%)	16.0	9.3	23.6	21.4
Adj net income	(389)	443	612	756
Growth (%)	(27.0)	165.2	23.2	16.0
FDEPS (Rs)	(11.1)	11.4	15.7	19.4
Growth (%)	NA	NA	38.2	23.5

Profitability and return ratios

(%) YE Mar	FY09	FY10E	FY11E	FY12E
EBITDA margin	3.0	7.4	7.4	7.0
EBIT margin	(1.7)	5.3	5.6	5.4
Adj PAT margin	(2.9)	3.0	3.4	3.4
ROE	(14.3)	13.8	14.1	14.8
ROIC	(4.9)	11.7	13.0	14.0
ROCE	(2.9)	11.6	12.1	13.0





Standalone financials

Profit and Loss statement

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Revenues	13,356	14,602	18,042	21,903
Growth (%)	16.0	9.3	23.6	21.4
EBITDA	407	1,079	1,329	1,542
Growth (%)	(27.0)	165.2	23.2	16.0
Depreciation & amortisation	631	308	327	354
EBIT	(224)	771	1,002	1,187
Growth (%)	(236.7)	(443.4)	30.0	18.5
Interest	256	212	158	131
Other income	86	56	69	71
EBT	(643)	615	914	1,128
Income taxes	(6)	172	301	372
Effective tax rate (%)	1.0	28.0	33.0	33.0
Extraordinary items	(248)	-	-	-
Min into / inc from associates	-	-	-	-
Reported net income	(637)	443	612	756
Adjustments	(248)	-	-	-
Adjusted net income	(389)	443	612	756
Growth (%)	(657.7)	(214.0)	38.2	23.5
Shares outstanding (mn)	34.9	38.9	38.9	38.9
FDEPS (Rs) (adj)	(11.1)	11.4	15.7	19.4
Growth (%)	(657.2)	(202.2)	38.2	23.5
DPS (Rs)	-	-	-	-

Cash flow statement

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Net income + Depreciation	(6)	751	939	1,110
Non-cash adjustments	-	-	-	-
Changes in working capital	754	(643)	63	(465)
Cash flow from operations	749	107	1,002	645
Capital expenditure	(815)	(484)	(593)	(683)
Change in investments	(167)	-	-	-
Other investing cash flow	(17)	-	-	-
Cash flow from investing	(999)	(484)	(593)	(683)
Issue of equity	1	1,218	117	-
Issue/repay debt	348	(300)	(400)	-
Dividends paid	-	(0)	-	-
Other financing cash flow	-	-	-	-
Change in cash & cash eq	99	541	127	(38)
Closing cash & cash eq	157	699	825	787

Economic Value Added (EVA) analysis

Y/E March	FY09	FY10E	FY11E	FY12E
WACC (%)	12.7	12.7	12.7	12.7
ROIC (%)	(4.9)	11.7	13.0	14.0
Invested capital (Rs mn)	4,384	5,071	5,273	6,067
EVA (Rs mn)	(771)	(49)	14	80
EVA spread (%)	(17.6)	(1.0)	0.3	1.3

Balance sheet

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Cash and cash eq	157	699	825	787
Accounts receivable	113	47	52	68
Inventories	1,450	1,611	1,993	2,335
Other current assets	1,789	1,898	2,165	2,409
Investments	974	974	974	974
Gross fixed assets	4,035	4,519	5,111	5,794
Net fixed assets	2,355	2,531	2,797	3,125
CWIP	232	232	232	232
Intangible assets	-	-	-	-
Deferred tax assets, net	-	-	-	-
Other assets	117	-	-	-
Total assets	7,188	7,992	9,038	9,932
Accounts payable	2,517	2,077	2,759	2,858
Other current liabilities	130	146	180	219
Provisions	15	-	-	-
Debt funds	2,078	1,778	1,378	1,378
Other liabilities	-	-	-	-
Equity capital	349	389	389	389
Reserves & surplus	2,100	3,603	4,332	5,088
Shareholder's funds	2,448	3,991	4,721	5,477
Total liabilities	7,188	7,992	9,038	9,932
BVPS (Rs)	70.2	102.7	121.5	140.9

Financial ratios

Y/E March	FY09	FY10E	FY11E	FY12E
Profitability & Return ratios (%)				
EBITDA margin	3.0	7.4	7.4	7.0
EBIT margin	(1.7)	5.3	5.6	5.4
Net profit margin	(2.9)	3.0	3.4	3.4
ROE	(14.3)	13.8	14.1	14.8
ROCE	(2.9)	11.6	12.1	13.0
Working Capital & Liquidity ratios				
Receivables (days)	3	2	1	1
Inventory (days)	63	57	54	54
Payables (days)	89	86	73	70
Current ratio (x)	1.3	1.9	1.7	1.8
Quick ratio (x)	0.1	0.3	0.3	0.3
Turnover & Leverage ratios (x)				
Gross asset turnover	3.7	3.4	3.7	4.0
Total asset turnover	1.9	1.9	2.1	2.3
Interest coverage ratio	(0.9)	3.6	6.4	9.1
Adjusted debt/equity	0.8	0.4	0.3	0.3
Valuation ratios (x)				
EV/Sales	1.1	1.0	0.8	0.7
EV/EBITDA	35.2	13.3	10.8	9.3
P/E	-	31.2	22.6	18.3
P/BV	5.1	3.5	2.9	2.5



Quarterly trend

Particulars	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
Revenue (Rs mn)	3,558	3,360	2,939	3,960	4,023
YoY growth (%)	9.6	8.0	1.2	11.2	13.1
QoQ growth (%)	(0.1)	(5.6)	(12.5)	34.7	1.6
EBITDA (Rs mn)	229	136	152	267	389
EBITDA margin (%)	6.4	4.0	5.2	6.7	9.7
Adj net income (Rs mn)	44	(108)	25	121	116
YoY growth (%)	183	NA	NA	NA	NA
QoQ growth (%)	NA	NA	NA	NA	NA

DuPont analysis

(%)	FY08	FY09	FY10E	FY11E	FY12E
Tax burden (Net income/PBT)	48.0	60.4	72.0	67.0	67.0
Interest burden (PBT/EBIT)	88.4	286.6	79.8	91.2	95.0
EBIT margin (EBIT/Revenues)	1.4	(1.7)	5.3	5.6	5.4
Asset turnover (Revenues/Avg TA)	187.4	190.4	192.4	211.9	230.9
Leverage (Avg TA/Avg equity)	207.7	259.0	235.7	195.5	186.0
Return on equity	2.4	(14.3)	13.8	14.1	14.8

Company profile

Shoppers Stop (SHOP) is one of the leading departmental stores in the Indian retail space. At present, the company has 27 Shoppers Stop stores and also has a presence through other retail formats targeting women, infant-wear, books & stationery, F&B and airport retailing. The company also has a 19% stake in the hypermarket store, Hypercity, with an option to increase it to 51% by June '10.

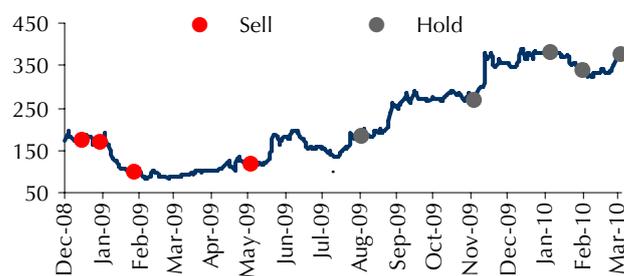
Shareholding pattern

(%)	Jun-09	Sep-09	Dec-09
Promoters	68.5	68.5	68.5
FII's	10.2	5.1	5.4
Banks & FI's	8.6	9.9	10.8
Public	12.7	16.5	15.4

Recommendation history

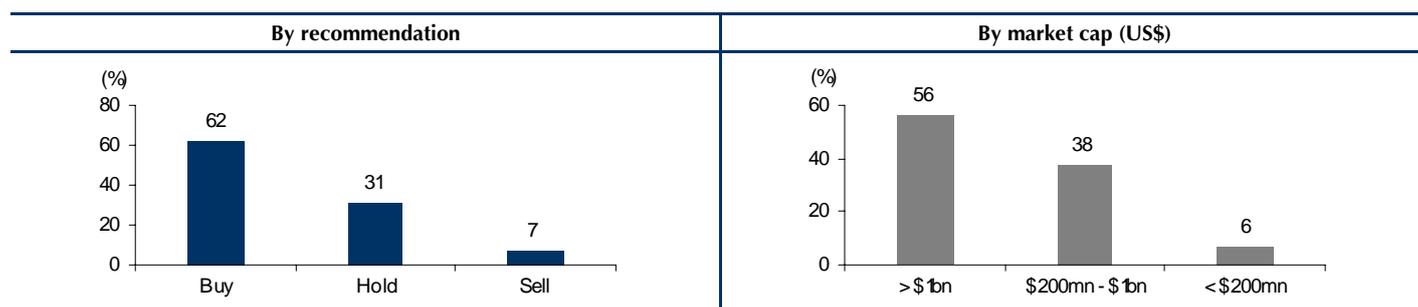
Date	Event	Reco price	Tgt price	Reco
18-Dec-08	Initiating Coverage	175	133	Sell
2-Jan-09	Quarterly Preview	168	141	Sell
29-Jan-09	Results Review	96	89	Sell
4-May-09	Results Review	116	89	Sell
3-Aug-09	Results Review	182	167	Hold
3-Nov-09	Results Review	266	284	Hold
6-Jan-10	Quarterly Preview	378	380	Hold
1-Feb-10	Results Review	336	380	Hold
8-Mar-10	Company Update	372	380	Hold

Stock performance





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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