

## Shopper's Stop

STOCK INFO.	BLOOMBERG
BSE SENSEX: 12,219	SHOP IN
	REUTERS CODE
S&P CNX: 3,605	SHOP.BO

2 May 2006

**Neutral**
*Previous Recommendation: Buy*
**Rs570**

Equity Shares (m)	34.4
52-Week Range	650/331
1,6,12 Rel. Perf. (%)	-6/2/NA
M.Cap. (Rs b)	19.6
M.Cap. (US\$ b)	0.4

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	3GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/06A	6,345	238	6.9	27.7	82.1	6.9	8.6	12.0	3.0	39.4
03/07E	8,248	344	10.0	44.4	56.9	6.3	11.4	16.7	2.4	28.4
03/08E	11,413	434	12.6	26.1	45.1	5.7	12.9	18.7	1.7	20.9

- 4QFY06 standalone results were below expectations with PAT recording Rs73.6m versus our estimate of Rs79m. For FY06 reported PAT was Rs271m (our estimate: Rs288m).
- Standalone sales during the quarter increased 43%, with gross profit rising 45.4% as gross margins expanded 60bp. PBT jumped by 137% due to 92% increase in profits arising from operations and 717% increase in other income (from IPO funds). PAT increased 74% as the company came under the full tax rate of 33.6% versus 9.5% last year.
- Led by strong operational performance, FY06 sales and PBT increased by 41.4% and 94.1% respectively. However, PAT growth was constrained to 42.4% due to sharply higher taxes. EPS increased from Rs6.9 to Rs7.9.
- Operations continued to be robust with 17% 'same store' sales growth and increase in sales proportion of private label from 17.6% to 19%. Sales of higher-margin women's apparel and accessories increased to 50%.
- We are impressed with entry of Shopper's Stop into new formats such as Mother Care, Home Stop, Café Brio and MAC cosmetic stores, in addition to a trial commencement of the first Hypermart of the group's venture.
- Delay in the completion of properties, rising lease rentals and manpower costs and potential decline in other income from IPO funds are a medium term drag on financials. We are introducing consolidated numbers with an EPS of Rs10 for FY07 and Rs12.6 for FY08 which are lower than our earlier FY08 EPS estimates of Rs14.4. The upside to these estimates seems unlikely as we have taken into account benefits of the Home Stop and Mother Care rollouts. The stock has already crossed our target price. We downgrade the stock to **Neutral**.

**QUARTERLY PERFORMANCE**

(RS MILLION)

Y/E MARCH	FY05				FY06				FY05	FY06
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
<b>Net Sales</b>	<b>866</b>	<b>1,082</b>	<b>1,356</b>	<b>1,140</b>	<b>1,188</b>	<b>1,527</b>	<b>1,941</b>	<b>1,635</b>	<b>4,487</b>	<b>6,345</b>
YoY Change (%)	NA	NA	NA	NA	37.2	41.1	43.2	43.3	26.7	41.4
Total Exp	804	1,033	1,205	1,063	1,106	1,436	1,744	1,516	4,143	5,858
<b>EBITDA</b>	<b>62</b>	<b>50</b>	<b>151</b>	<b>78</b>	<b>82</b>	<b>91</b>	<b>197</b>	<b>119</b>	<b>344</b>	<b>487</b>
Margins (%)	7.1	4.6	11.1	6.8	6.9	5.9	10.1	7.3	7.7	7.7
Depreciation	-21	-25	-35	-26	-34	-47	-38	-41	-112	-166
Interest	-10	-11	-9	-8	-6	-5	-7	-8	-40	-28
Other Income	2	2	1	6	10	17	17	29	12	78
<b>PBT</b>	<b>33</b>	<b>15</b>	<b>108</b>	<b>50</b>	<b>52</b>	<b>55</b>	<b>168</b>	<b>99</b>	<b>204</b>	<b>371</b>
Tax	-3	-1	-9	-5	-16	-23	-56	-37	-17	-133
Rate (%)	7.9	7.3	7.9	9.1	31.1	41.4	33.2	37.9	8.4	35.7
<b>PAT</b>	<b>30</b>	<b>14</b>	<b>99</b>	<b>45</b>	<b>36</b>	<b>32</b>	<b>112</b>	<b>61</b>	<b>187</b>	<b>238</b>
YoY Change (%)	NA	NA	NA	NA	19.0	127.4	13.1	NA	-2.6	27.6
Minority Interest	2	2	0	-1	0	0	0	0	0	5
<b>Reported PAT</b>	<b>32</b>	<b>16</b>	<b>100</b>	<b>44</b>	<b>36</b>	<b>32</b>	<b>112</b>	<b>61</b>	<b>187</b>	<b>243</b>

E: M0St Estimates

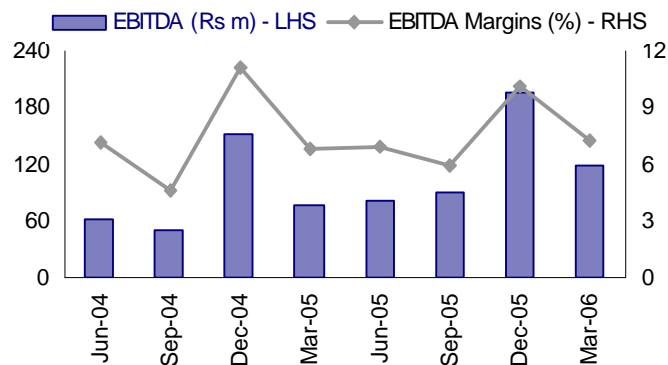
Amnish Aggarwal (AmnishAggarwal@MotilalOswal.com) Tel: +912239825404/Sidharth Shah (Sidharths@MotilalOswal.com); Tel: +912239825414

 © Motilal Oswal Securities Ltd., 3 Floor, Hoechst House Nariman Point, Mumbai 400 021 Tel: +91 22 39825500 Fax: 2281 6161 [www.MotilalOswal.com](http://www.MotilalOswal.com)

**Robust performance continues**

Shopper's Stop posted yet another quarter of robust numbers with 43% topline growth and 52% EBITDA increase. The performance appears encouraging given that the company charged Rs21m as store opening expenses. Gross margins improved 20bp while EBITDA margins increased by 50bp. Staff costs increased by 74% due to: (1) new store openings and (2) salary hikes undertaken to contain attrition in this high-growth industry. PAT increased 38% owing to levy of the full tax rate despite 365% increase in other income from Rs6m to Rs28.7m.

EBITDA MARGIN EXPANSION DRIVEN BY HIGHER PRIVATE LABEL SALES

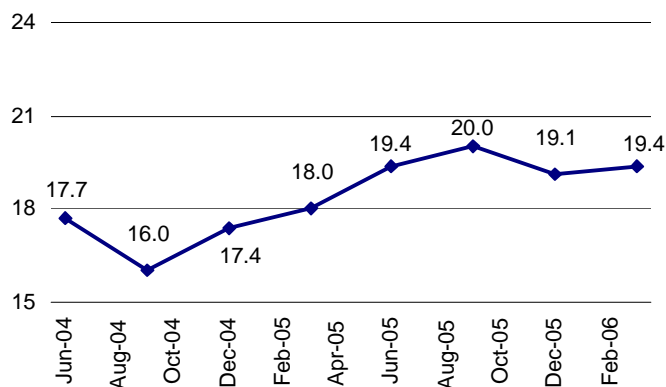


Source: Company/ Motilal Oswal Securities

**Private labels to drive margins**

Shopper's Stop has been disadvantaged by a lower proportion of private labels in the departmental store format compared with Pantaloon and Trent. The private label business offers 800bp higher gross margins than the branded stuff and is big margin driver in departmental stores. Trent and Pantaloon have 90% and 45% share of private labels in the departmental stores. The company has been successful in increasing the share of private labels to 19% during the current year. Plans include increasing share of private labels to 25% over the next two years. Although the trend is positive, we have assumed 23% share for private labels in our FY08 estimates.

PRIVATE LABEL CONTRIBUTION TO SALES INCREASING (%)



Source: Company/ Motilal Oswal Securities

**Launch of specialized new formats – a big profit driver**

Shopper's Stop has announced a slew of new specialized formats, which we believe could be a big profit driver post FY08. These include Mother Care, MAC, Home Stop and Café Brio. Along with Crossword bookstores, these provide an impressive range for specialized stores. Mother Care, Crossword, MAC and Café Brio are small format stores with an average size of 2,000-2,500 sq. ft. The company plans to have 50 Mother Care stores in five years. We expect Mother Care, Mac etc. to be margin drivers due to higher sales per square feet and profit margins.

Home Stop stores are large format stores with an average size of 33,000 sq. ft. Home Stop is likely to have higher margins but lower sales per square foot than the departmental store format. We expect the company to scale up to 8 Home Stops by 2008. Long term potential in Home Stop appears encouraging due to rising construction activity and purchasing power of the consumers. The initial response to the concept has been very encouraging and the company is increasing footage of higher margin furniture in the total offering.

### **Store rollout to be delayed – impact likely to reflect in FY09 numbers only**

Shopper's Stop plans to rollout 39 stores by 2008. The store rollout has been running behind schedule due to delays in getting malls ready in time. While we have assumed the company to roll out the targeted six stores during the current year, we have assumed nine new stores in FY08. Also, as the commissioning of the properties is now likely to be towards the end of FY08, the full impact of store rollout will be reflected in FY09 numbers only.

### **Hypercity Mart commences trial operations**

Shopper's Stop group commenced trial operations at the group's first Hypercity mall. The company proposes to open stores with an average size of 100,000 sq. ft. aimed at the mid-priced consumer. The hypermart is expected to store up to 60,000 to 70,000 SKUs with 20%-25% grocery, 15%-25% apparel and the remainder with general merchandise. The plans include setting up 3-4 stores in the forthcoming two years.

Shopper's Stop has option to acquire upto 51% stake in Hypercity Mart in one or more tranches by the end-2008. The cost will be its actual investment plus 10%. We expect the company to exercise this option once there is clarity on the success of the format and when the initial testing stage

is over. Acquisition of stake in the venture will be a positive, although it is already factored into the stock price, to an extent.

### **Lower estimates, introducing consolidated numbers**

We are:

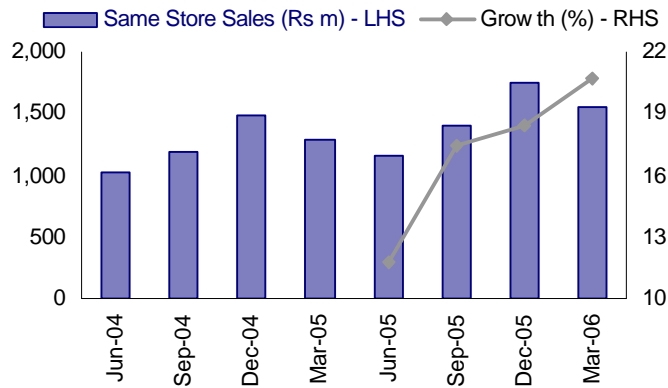
- (1) revising our estimates for delays in store rollout;
- (2) incorporating estimates for Mother Care and Home Stop;
- (3) introducing consolidated numbers which would reflect the full impact of Crossword bookstore, in which the company had increased its holding to 100%;
- (4) We expect Crossword bookstores to turnaround in FY07 due to delay in the breakeven of two large format stores commissioned in FY06.

### **Valuation and view**

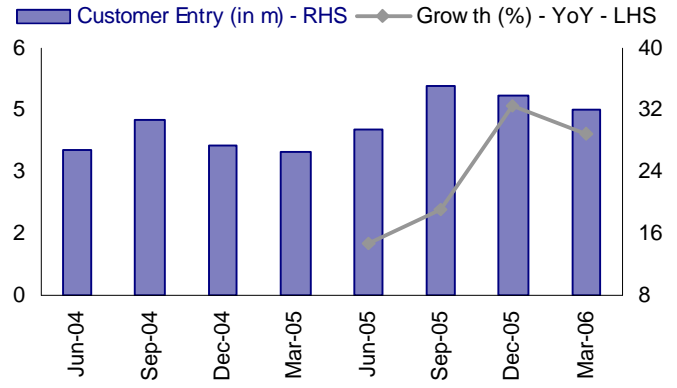
Delay in the completion of properties, rising lease rentals and manpower costs and potential decline in other income from IPO funds are a medium term drag on financials. We are introducing consolidated numbers with an EPS of Rs10 for FY07 and Rs12.6 for FY08 which are lower than our earlier FY08 EPS estimates of Rs14.4. The upside to these estimates seems unlikely as we have taken into account benefits of the Home Stop and Mother Care rollouts. The stock has already crossed our target price. We downgrade the stock to **Neutral**.

**Operating parameters depict steady growth**

**SAME STORE SALES GROWTH – 21% YOY GROWTH IN 4QFY06**



**CUSTOMER FOOTFALLS – 29% YOY GROWTH DURING 4QFY06**

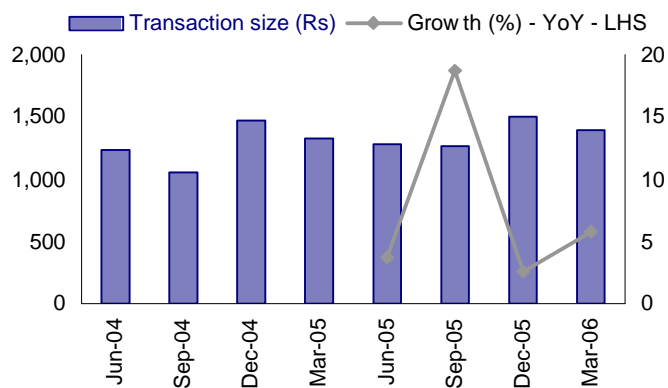


Source: Company/ Motilal Oswal Securities

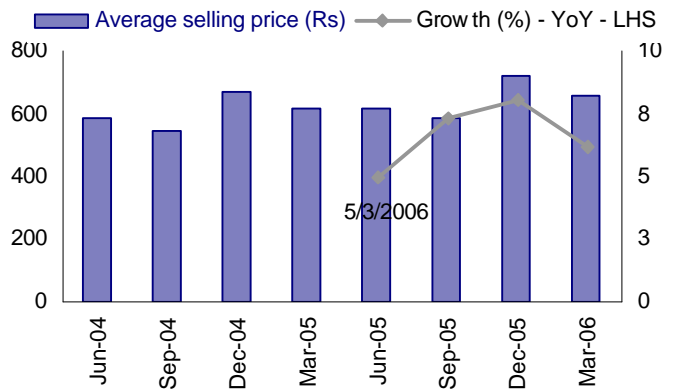
Same Store sales growth depicts an accelerating trend on YoY basis which will enable sales growth momentum and margin expansion during the coming year.

Shopper's Stop reported a healthy 29% increase in 4QFY06 customer's footfalls on YoY basis. Stable conversion ratio of 27% on much higher absolute footfalls reflects healthy long term trend.

**TRANSACTION SIZE – YOY INCREASE OF 6% IN 4QFY06**



**AVERAGE SELLING PRICE- YOY INCREASE OF 6.6% IN 4QFY06**



Source: Company/ Motilal Oswal Securities

The average transaction size has increased by 6% on YoY basis, which indicate rising sales of both high value premium product and consumer confidence.

4QFY06 average selling price per article has increased by 6.6% on YoY basis. This corroborates rising sales of women wear, accessories and leather products.

## Shopper's Stop: an investment profile

### Company description

Shopper's Stop, promoted by C.L. Raheja Group is one of the largest departmental store chains with retail space of approximately 1m square feet. It has entered new categories such as Books Retailing (crossword bookstore), Home Furnishing (Home Stop), Baby Care (Mothercare) and Food & Beverages (Café Brio). It has an option to acquire 51% stake in Hypercity Mall, Raheja group's Hypermart venture.

### Key investment arguments

- ☞ Shopper's Stop has entered new categories like Home Furnishing (Home Stop) and Baby Care (Mothercare), which have relatively lower levels of competition from other organized retail.
- ☞ Approximately 60% of Shopper's Stop revenues is contributed by its First Citizen members (members of its loyalty program), suggesting that the brand enjoys strong loyalty from its customers.

### Key investment risks

- ☞ Shopper's Stop does not have direct presence in the fast growing hypermarket format.
- ☞ High margin private labels account for 19% of revenues v/s 50% for Pantaloon Retail and 90% for Trent.

### Recent developments

- ☞ Opened standalone Mother Care stores.
- ☞ Launched the first Hypercity in Mumbai in May 2006.

### Valuation and view

- ☞ We have a consolidated EPS estimates of Rs10 for FY07 and Rs12.6 for FY08.
- ☞ The stock has already crossed our target price. We downgrade the stock to **Neutral**.

### Sector view

- ☞ We have a positive view on the sector. We expect the sector to clock revenue growth of 30%-35% CAGR over the next five years.
- ☞ Players with a strong hypermarket format and presence in a larger number of categories are likely to be winners.
- ☞ Ability to increase private labels, squeeze costs and extract higher margins from branded players will be a key factor in maintaining margins in the long term.

#### COMPARATIVE VALUATIONS

		SHOPPERS STOP	PANTALOOON RETAIL
P/E (x)	FY07E	55.7	40.4
	FY08E	44.1	25.8
EV/EBITDA (x)	FY07E	28.4	23.1
	FY08E	20.9	15.6
EV/Sales (x)	FY07E	2.4	1.6
	FY08E	1.7	1.1
P/BV (x)	FY07E	6.3	8.5
	FY08E	5.7	6.6

#### EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	10.0	11.2	-10.3
FY08	12.6	17.9	-29.6

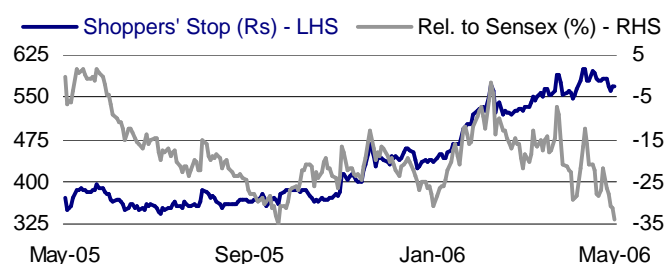
#### TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
570	-	-	Neutral

#### SHAREHOLDING PATTERN (%)

	MAR.06	DEC.05
Promoters	67.1	67.1
Domestic Institutions	13.7	11.6
FII's/FDIs	6.8	7.2
Others	12.5	14.1

#### STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(RS MILLION)					
Y/E March	2004	2005	2006	2007E	2008E
<b>Net Sales</b>	<b>4,237</b>	<b>4,487</b>	<b>6,345</b>	<b>8,248</b>	<b>11,413</b>
Change (%)		5.9	414	30.0	38.4
Total Expenditure	-4,000	-4,143	-5,858	-7,557	-10,457
<b>EBITDA</b>	<b>236</b>	<b>344</b>	<b>487</b>	<b>691</b>	<b>956</b>
Change (%)		45.5	417	419	38.3
Margin (%)	5.6	7.7	7.7	8.4	8.4
Depreciation	-95	-112	-166	-200	-262
Int. and Fin. Charges	-41	-40	-28	-28	-40
Other Income - Recurring	21	12	78	41	25
<b>Profit before Taxes</b>	<b>122</b>	<b>204</b>	<b>371</b>	<b>505</b>	<b>679</b>
Change (%)		67.9	819	36.0	34.6
Margin (%)	2.9	4.5	5.8	6.1	5.9
Tax	-10	-17	-133	-160	-245
Tax Rate (%)	-8.2	-8.4	-35.7	-31.8	-36.1
<b>Profit after Taxes</b>	<b>112</b>	<b>187</b>	<b>238</b>	<b>344</b>	<b>434</b>
Change (%)		67.5	27.7	44.4	26.1
Margin (%)	2.6	4.2	3.8	4.2	3.8
Extraordinary Items	0	0	0	0	0
<b>Reported PAT</b>	<b>112</b>	<b>187</b>	<b>238</b>	<b>344</b>	<b>434</b>

BALANCE SHEET					
(RS MILLION)					
Y/E March	2004	2005	2006E	2007E	2008E
Share Capital	274	274	344	344	344
Reserves	573	632	2,444	2,681	3,017
<b>Net Worth</b>	<b>847</b>	<b>906</b>	<b>2,758</b>	<b>3,024</b>	<b>3,360</b>
Minority Interest	50	62	0	0	0
Loans	602	901	550	100	380
Deferred Tax	0	1	27	59	108
<b>Capital Employed</b>	<b>1,500</b>	<b>1,870</b>	<b>3,335</b>	<b>3,184</b>	<b>3,849</b>
Gross Block	1,193	1,442	2,168	2,895	3,734
Less: Accum. Depn.	-353	-459	-625	-825	-1,087
<b>Net Fixed Assets</b>	<b>840</b>	<b>983</b>	<b>1,543</b>	<b>2,071</b>	<b>2,648</b>
Capital WIP	58	236	224	213	202
Goodwill	0	13	0	0	0
Investments	0	0	900	0	0
<b>Curr. Assets, L&amp;A</b>	<b>1,122</b>	<b>1,523</b>	<b>1,915</b>	<b>2,484</b>	<b>3,180</b>
Inventory	562	782	993	1,252	1,679
Account Receivables	62	65	83	101	139
Cash and Bank Balance	15	13	23	61	22
Others	483	663	817	1,070	1,339
<b>Curr. Liab. and Prov.</b>	<b>644</b>	<b>889</b>	<b>1,247</b>	<b>1,584</b>	<b>2,182</b>
Account Payables	621	827	884	1,083	1,494
Other Liabilities	22	31	304	422	588
Provisions	1	32	59	79	100
<b>Net Current Assets</b>	<b>478</b>	<b>634</b>	<b>668</b>	<b>900</b>	<b>999</b>
Miscellaneous Expenditure	124	4	0	0	0
<b>Application of Funds</b>	<b>1,500</b>	<b>1,870</b>	<b>3,335</b>	<b>3,184</b>	<b>3,849</b>

E: MOST Estimates

RATIOS					
Y/E March	2004	2005	2006	2007E	2008E
<b>Basic (Rs)</b>					
<b>EPS</b>	<b>3.2</b>	<b>5.4</b>	<b>6.9</b>	<b>10.0</b>	<b>12.6</b>
Cash EPS	6.0	8.7	11.8	15.8	20.3
BV/Share	24.6	26.4	80.2	88.0	97.8
DPS	0.0	1.0	1.0	1.3	1.0
Payout %	0.0	18.4	14.4	13.0	7.9
<b>Valuation (x)</b>					
P/E		102.6	80.4	55.7	44.1
Cash P/E		64.2	47.4	35.2	27.5
EV/Sales		4.6	3.0	2.4	1.7
EV/EBITDA		59.5	39.4	28.4	20.9
P/BV		21.2	6.9	6.3	5.7
Dividend Yield (%)		0.2	0.2	0.2	0.2
<b>Return Ratios (%)</b>					
RoE	13.2	20.6	8.6	11.4	12.9
RoCE	10.8	13.0	12.0	16.7	18.7
<b>Working Capital Ratios</b>					
Debtor (Days)	5	5	5	4	4
Asset Turnover (x)	2.8	2.4	19	2.6	3.0
<b>Leverage Ratio</b>					
Debt/Equity (x)	0.7	1.0	0.2	0.0	0.1

CASH FLOW STATEMENT					
(RS MILLION)					
Y/E DECEMBER	2005	2006E	2007E	2008E	
OP/(loss) before Tax	232	321	491	694	
Int./Div. Received	12	78	41	25	
Depreciation and Amort.	112	166	200	262	
Interest Paid	-40	-28	-28	-40	
Direct Taxes Paid	-17	-133	-160	-245	
(Incr)/Decr in WC	-158	-24	-194	-138	
<b>CF from Operations</b>	<b>141</b>	<b>380</b>	<b>350</b>	<b>558</b>	
Extraordinary Items	0	0	0	0	
(Incr)/Decr in FA	-427	-744	-716	-829	
(Pur)/Sale of Investments	0	-900	900	0	
<b>CF from Invest.</b>	<b>-427</b>	<b>-1,614</b>	<b>184</b>	<b>-829</b>	
Issue of Shares	0	1,667	0	0	
Incr/(Decr) in Debt	298	-351	-450	280	
Dividend Paid	-27	-34	-45	-34	
Others	14	-39	-1	-14	
<b>CF from Fin. Activity</b>	<b>285</b>	<b>1,243</b>	<b>-496</b>	<b>232</b>	
<b>Incr/Decr of Cash</b>	<b>-1</b>	<b>9</b>	<b>38</b>	<b>-39</b>	
Add: Opening Balance	15	13	23	61	
<b>Closing Balance</b>	<b>13</b>	<b>23</b>	<b>61</b>	<b>22</b>	

**N O T E S**



For more copies or other information, contact

**Institutional:** Navin Agarwal. **Retail:** Manish Shah, Mihir Kothari

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: [inquire@motilaloswal.com](mailto:inquire@motilaloswal.com)

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Motilal Oswal Securities Limited (*hereinafter referred as MOST*) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. MOST or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

MOST and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

**Disclosure of Interest Statement**

**Shopper's Stop**

- |  |    |
|--|----|
| 1. Analyst ownership of the stock            | No |
| 2. Group/Directors ownership of the stock    | No |
| 3. Broking relationship with company covered | No |

MOST is not engaged in providing investment-banking services.

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.