

Shoppers Stop Limited

INR: 389

Like to Like sales back on track

HOLD



Price Outlook (INR): 394

Same store sales growth rebound- Sales of Shoppers Stop Limited (SSL) increased 28.2% y-o-y to Rs 424.1 crore in-line with our expectations of Rs. 429.1 crore on the back of a) 16% increase in same store sales growth and b) increase in transaction size (\uparrow 11.4% y-o-y to Rs. 2,022). During the quarter company added 0.11mn sq ft taking the total retail space to 2.04mn sq. ft. (\uparrow 6% q-o-q) thus bringing its expansion plans back on track. Company's sales were driven mainly by its stores < 5 years, where like-to-like sales increased 28% y-o-y, while like-to-like sales growth of stores > 5 years increased by 9% y-o-y which came as a major booster for the company. Company plans to add ~1 mn sq. ft. in the next 2 years and take the total retail space to ~3 mn sq.ft and is looking at adding 18 new stores.

Operating margin jump by 409 bps - During the quarter, the company registered EBITDA of Rs. 15.0 crore as against a loss of 1.9 crore during Q4FY09 on account of decline in sales and marketing expenses; however on a q-o-q basis margin declined by 358 bps on account of a) decline in gross margin by 497 bps and increase in employee expenses by 175 bps; partially offset by decline in other operating expenses and S&D expenses. Gross margin decline on account of a) decline in private label mix by 1% q-o-q and b) decline in sales of apparels by 1% q-o-q. During the quarter company's bought out merchandise mix declined to 44% compared to 51% in Q4FY09, thus indicating company's plan to de-risk its business model by relying less on the bought out model and focussing on consignment or concession model. We expect the operating margin to stabilise at 5-5.5% levels by FY12E as against management guidance of 7-8%.

Decline in interest costs boost profitability - SSL reported net profit of Rs. 12.6 crore in Q4FY10 as compared to loss of Rs. 24.5 crore in Q4FY09 mainly on account of better operating performance and decline in interest outflow. Interest expenditure declined by 31.1% y-o-y to Rs. 3.5 crore while on a q-o-q basis it decline by 18.1%. We expect the net profit margin to improve marginally despite improvement in operating margin mainly on account of increase in debt for capex and higher working capital cycle requirement.

Our View - We believe SSL has been able to drive footfalls and improve its conversion ratio; additionally Like-to-like sales have witnessed strong growth for stores greater than as well as less than 5years signalling a change in consumer sentiment across segments. Operating margin are likely to be under pressure on account of anticipated increase in operating expenses; however company's focus on consignment /concession model is likely to act as a cushion on margin. Further, profitability is likely to improve due to the revival in fashion retailing segment and cooling of interest costs. SSL has been able to successfully turnaround its operations and has been delivering steady performance over the past couple of quarters. We expect company to deliver 19% growth in FY11 and similar growth in FY12 on the back of store expansion and improving like-to-like sales growth. At the CMP of Rs. 389 the stock is trading at a P/E of 21.0x its FY12E EPS of Rs. 19.1 and 9.8x its FY12E EV/EBITDA in-line with its peers. We value the company at 11x its FY12E EV/EBITDA and arrive at a target price of Rs 393.6 and therefore recommend a HOLD to the stock .

Key Financials

Rs. Crore

	FY09	FY10E	FY11E	FY12E
Net Sales	1343.6	1,522.0	1,820.4	2,207.6
EBITDA	(12.9)	72.4	94.7	154.5
Net Profit	(63.7)	37.9	43.7	74.6
EPS	(18.3)	9.7	11.2	19.0
P/E	-	35.2	34.1	21.0
EV/EBITDA	-	20.6	15.8	9.7
RoE (%)	-	12.3	12.4	17.5
RoCE (%)	-	6.9	8.9	15.0

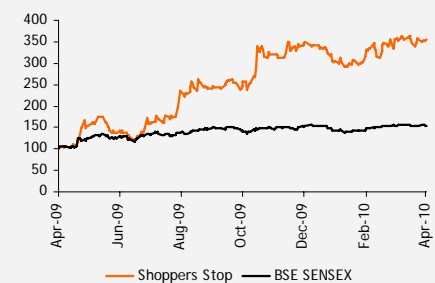
Source: Company Data, KRC Research

Market Data	May 5, 2010
Shares outs (Cr)	3.9
Equity Cap (Rs. Cr)	39.0
Mkt Cap (Rs. Cr)	1,358
52 Wk H/L (Rs)	416 / 71
Avg Vol (1yr avg)	33,741
Face Value (Rs)	10.0
Bloomberg Code	SHOP IN

Market Info:

SENSEX	17,087
NIFTY	5,125

Price Performance



Share Holding pattern (%)

Particulars	Mar-10	Dec-09	Chg
Promoters	68.5	68.5	0.0
Institutions	11.0	10.8	0.2
FII	4.9	5.3	(0.4)
Public/Others	15.6	15.4	0.2
Total	100.0	100.0	

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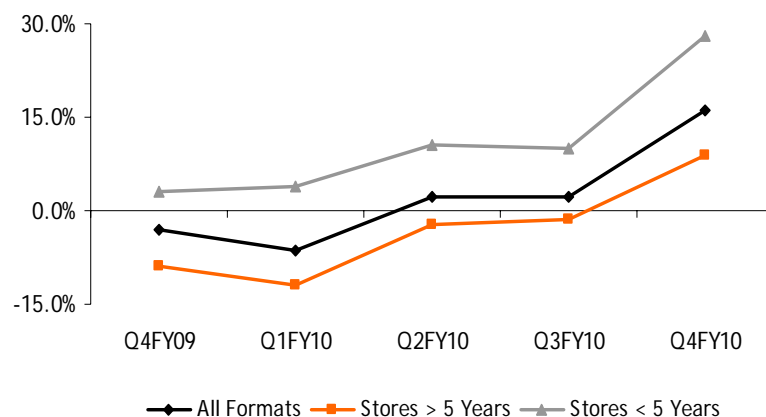
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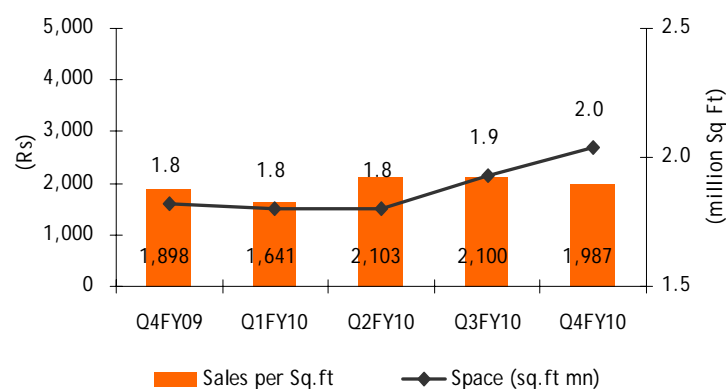
Like-to-like sales growth for stores greater than 5 years back on track

Same Store Sales Growth



Space addition back on track; however sales per sq. ft fails to match up.

Retail space and Sales per sq. ft.



Q4FY10 Result Analysis

(Rs In Crore)

	Q4FY10	Q4FY09	Y-o-Y	Q3FY10	Q-o-Q	
Net Sales	424.2	330.8	28.2%	424.1	0.0%	Space addition and like -to like sales drove the top-line growth.
Expenses	(409.2)	(332.7)	23.0%	(394.0)	3.9%	Gross margin remained flat on account of muted private label sales
EBITDA	15.0	(1.9)	-905.3%	30.2	-50.4%	
Depreciation	(7.0)	(28.1)	-75.3%	(15.4)	-54.8%	Depreciation costs declined on account of change in accounting policy.
Interest expense	(3.5)	(5.1)	-31.1%	(4.3)	-18.1%	Interest cost decline on account of repayment of debt y-o-y
Other Income	9.3	6.1	52.7%	14.1	-33.9%	
PBT	13.8	(29.0)	-	24.5	-43.8%	
Tax	(1.2)	(2.7)	-	(10.9)	-89.2%	
Minority Interest	0.1	7.2	-	0.0	665.0%	
PAT	12.7	(24.5)	-	13.6	(6.9)%	
Basic EPS	3.6	(7.0)	-	3.9		
EBIDTA margin	3.5	(0.6)	409 bps	7.1%	(358 bps)	
Net Profit Margin	3.0	(7.4)	1038 bps	3.2%	(22 bps)	

Source: Company Data, KRC Research

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Rating Legend

Our Rating	Upside
Strong Buy	More than 25%
Buy	15% - 25%
Hold	10% - 15%
Reduce	Nil - 10%
Sell	Less than 0%

Other Stocks in the sector under our active coverage: Retailing & Infrastructure

Ticker	Company	Recommendation	As of	Return	Bmk	Outper	BARR
Summary	Coverage 8	Avg Rating: 3.8		-0.78%	28.71%	-29.49%	
JKIL	IN J Kumar Infraprojects Ltd	buy	02/17/10	8.97%	54.18%	-45.21%	3rd
AHLU	IN Ahluwalia Contracts Ltd	hold	02/02/10	10.14%	57.39%	-47.25%	
IVRC	IN IVRCL Infrastructures & Projects Ltd	hold	02/01/10	29.84%	51.06%	-21.22%	
PUNJ	IN Punj Lloyd Ltd	hold	02/01/10	-106.64%	-14.85%	-91.79%	
PEC	IN Patel Engineering Ltd	buy	01/28/10	159.34%	51.88%	107.46%	
JPA	IN Jaiprakash Associates Ltd	hold	01/21/10	-2.81%	32.01%	-34.82%	
CCON	IN C&C Constructions Ltd	hold	11/06/09	-114.96%	-11.84%	-103.12%	
JMCP	IN JMC Projects (India)	buy	08/12/09	9.87%	9.87%	0.00%	1st

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