Shoppers' Stop

22nd Mar 2010

Key Take Away

CMP	377
Recommendation	Not Rated

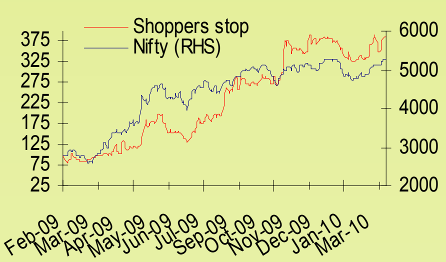
Scrip Details

Market Cap (Rs crores)	1304
P/E (x) - FY10E	51.78
Equity Capital (Rs crores)	34.6
Face Value (Rs)	10
52 Week High/Low (Rs)	415/90
Website: www.shoppersstop.com	
NSE Code	SHOPERSTOP
Sensex	17578
Nifty	5263

Shareholding Pattern (%)

As on 31st December 2009	(%)
Promoters	68.51
MFs, FIs & Banks	10.76
FIIs	5.32
Other Bodies corporate	7.39
Public and others	8.02

Comparative Price Movement



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Retail sector had seen a set back as many others have in the recent financial crisis. The sector is looking up once again as key players draw up their game plans to cash in on the improved economic outlook. Estimated GDP for FY11 is pegged at 8.5%. This along with slew of liberal budgetary policies announced leaves the end consumer prosperous with higher disposable income in their hands. One of the major beneficiaries from this turnaround in the overall retail market is Shopper's Stop, which has presence in Tier-1 and Tier-2 cities and cater to the mid-market to luxury goods segments. Currently the share of organised retail in the overall retail sector pie stands at a paltry 6%. This offers humongous opportunity for the players if they get the trick right. We feel Shoppers Stop is decently placed to tap the retail growth opportunity in India.

We recently met Mr. Sanjay Chakravarti, Senior GM- Finance & Accounts to get his perspectives on the industry and latest updates on the Company. Key takeaways from the company visit are as follows:

Business outlook - The Company sees 8-8.5% range as sustainable operating margins, on a longer term horizon. The main pressure would come from wage cost component. Talking about the expansion which the company is planning, about 60-70% would be on revenue share basis. Thus, this will help control the rentals. Also, the company is expanding into Tier 2 cities. Typically in metros and Tier 1 cities, the power costs are higher. Thus, there would be savings in the power costs.

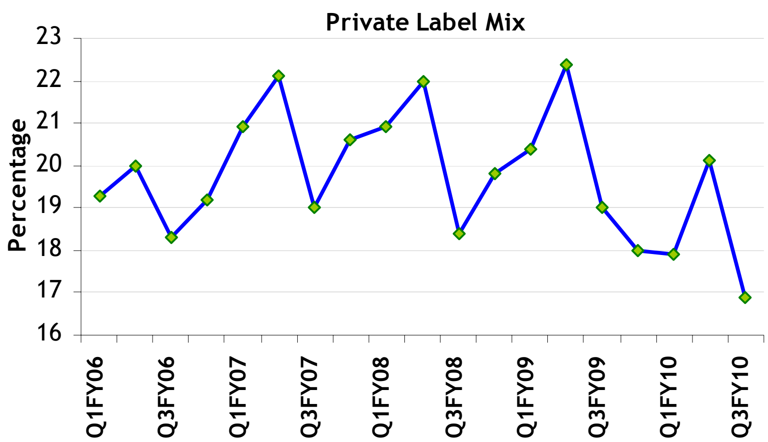
Expansion Plans - The Company expects to open 3 stores in Q4FY10. This will be followed by 10 stores in 2010-11 taking the total store count to 41 in a year from now. The company requires about Rs 1800 per square feet for a 50000 square feet store. Considering that the stores are of the 50-55000 sq.ft. size, there will be need of Rs 10 crore a store or Rs 130 crore till the end of 2010-11. Internal accruals are expected to meet this fund requirement. The fund raising through the QIP route will help Shoppers' Stop acquire Hypercity stake (from 19%to 51%).

Premiumization - The Company is steadily tying up with exclusive foreign brands, in line with its strategy to offer premium lifestyle products to the shoppers. The company has resorted to premiumization of products by launching of international brands and this strategy has helped the company to ease the pressure on margins due to the reduction in private label sales.

Same-Store-sales (SSS) - A declining trend has been prominent in SSS area, where the numbers have steadily fallen. One of the reasons has been cannibalization in the sense that while the company is opening new stores across the country, in some cities where the company already has presence, opening up of new stores have taken some business away from the older stores. Going ahead the company expects to see a SSS growth of 5-8%, primarily driven by the newer stores with older stores continuing to face a lower or dip in growth. The new stores that the company is planning to open will in two years time, help SSS growth go up to double digits.

Private labels

The private labels, which are the in-house brands, also offer higher margins as against retailing of external brands. It also requires the maximum amount of cash investment, as it is an in-house brand. With the adverse economic environment last year along with delayed right issue of the company and dried liquidity compelled the company to go slow on private labels. The Company shifted focus on consignment concession which can be done with a brand as it takes away a lot of pressure off cash. It undertook recalibration of inventory holding under the private label segment in Q4FY09. Thus, the share of the private label came down to 16.9% in Q3FY10 from 22.4% in Q2FY09. Lower inventory off-take led the company to undertake this exercise. The private label mix seems to have seen the worst. With this, the immediate backend integration seems to have settled down.



HyperCity

In the Hypercity format, Company opened its 5th store recently. Two more stores are expected to be added in the current financial year. The hypermarket is profitable at the operational levels. The company has a 19% stake in the hypermarket store, Hypercity, with an option to increase it to 51% by June '10. The Company intends to raise its holdings and for the same a QIP issue of Rs 160 crores is planned of which 25% is expected to be contributed by the promoters.

If board approves to increase the stake then company needs Rs 160 crore. The Company is planning to raise money through issuing warrants.

Mothercare – DLF JV

Mothercare and DLF have signed a contract for expansion of standalone stores of Mothercare, the Company intends to setup Mothercare stores in Shop-in-Shop format only. The reported revenues of Q3FY10 include Rs 6.6 crore of consideration for relinquishments of future development rights of Mother Care standalone operations.

Third Quarterly Review - Key Highlights

For the quarter ended December 2009, consolidated net profit stands at Rs 13.60 crore compared to a loss of Rs 3.3 crore in the corresponding pervious period, after accounting for minority interest. Total income from operations increased by 11.2% to Rs 393.4 crore. Operating profit margins expanded by 525 bps to 11.2% resulting operating profit to increase by 108.5% to Rs 44.22 crore. Debt as on books as on 31st December 2009 is Rs 210 crore.

Shoppers' Stop (Cons)	Q3FY10	Q3FY09	% Chg.	Q3FY10	Q2FY10	% Chg.
Net Sales	**372.7**	**342.2**	**8.9**	**372.7**	**374.9**	**-0.6**
Net Raw Mat adj. for stock	230.5	210.1	9.7	230.5	245.1	-6.0
Personnel	21.6	23.7	-8.9	21.6	22.0	-2.0
Operating & administrative	84.5	86.0	-1.7	84.5	80.3	5.3
Selling & Distribution Expns	12.6	12.6	-0.6	12.6	9.3	35.6
Total expenditure	349.2	332.5	5.0	349.2	356.7	-2.1
Operating Profit	**37.6**	**21.2**	**77.4**	**37.6**	**25.4**	**48.4**
OPM (%)	*9.7*	*6.0*		*9.7*	*6.6*	
Depreciation	15.4	17.2	-10.4	15.4	7.9	94.7
PBT	**24.5**	**-3.4**	**-828.8**	**24.5**	**12.0**	**104.3**
PBT (%)	*4.6*	*-1.0*		*4.6*	*3.1*	
Profit after Tax	**13.6**	**-3.3**	**-516.8**	**13.6**	**8.8**	**55.2**
PAT (%)	*3.5*	*-0.9*		*3.5*	*2.3*	
Minority Interest	**0.0**	**-3.7**	**-100.3**	**0.0**	**7.7**	**-0.9**
Reported PAT	**13.6**	**0.5**	**2864.3**	**13.6**	**868.5**	**0.6**
Equity Share capital	34.6	34.9	-0.9	34.6	34.6	0.0
EPS (Rs.)	**3.9**	**0.1**	**2891.3**	**3.9**	**2.5**	**56.5**

Financials

Income Statement	FY2005	FY2006	FY2007	FY2008	FY2009
Own merchandise (including concession sales)	423.77	629.50	825.63	1111.15	1306.51
Consignment merchandise	108.45	83.22	87.05	85.70	101.58
Other Retail operating income	7.60	11.63	14.56	19.21	22.58
% of Sales	25.6	13.2	10.5	7.7	7.8
Net Sales	**539.82**	**724.35**	**927.24**	**1216.06**	**1430.66**
Less: Value Added Tax	11.4	31.6	39.1	55.5	64.5
Less: Cost of consignment merchandise	79.8	58.2	61.2	61.4	73.2
Revenue from Gaming Business	0.0	0.0	1.1	4.5	6.4
Other income	**448.7**	**634.5**	**828.0**	**1103.7**	**1299.4**
EXPENDITURE :					
Net Raw Materials & purchase of FG	282.08	403.52	522.96	688.90	814.74
% of net sales	52.25	55.71	56.40	56.65	56.95
Operating and administrative expenses	101.12	138.66	176.87	278.94	373.52
% of net sales	18.73	19.14	19.08	22.94	26.11
COGS	**383.2**	**542.2**	**699.8**	**967.8**	**1188.3**
% of net sales	70.99	74.85	75.47	79.59	83.06
Employee Cost	31.12	43.62	60.04	80.86	95.02
% of net sales	5.77	6.02	6.47	6.65	6.64
Total Expenditure	414.32	585.80	759.87	1048.69	1283.28
Operating Profit (EBITDA)	**34.38**	**48.68**	**68.14**	**55.01**	**16.11**
% of net sales	6.37	6.72	7.35	4.52	1.13%
Depreciation	11.19	16.58	28.68	43.54	76.81
% of net sales	2.07	2.29	3.09	3.58	5.37
EBIT	**23.19**	**32.10**	**39.46**	**11.47**	**-60.70**
% of net sales	4.30	4.43	4.26	0.94	-4.24
Interest	3.97	2.81	5.00	13.09	29.24
% of average debt	8.8	3.7	5.2	7.8	12.4
Earnings before Tax	**19.22**	**29.29**	**34.46**	**-1.62**	**-89.94**
% of net sales	3.56	4.04	3.72	-0.13	-6.29
Other Income	1.17	7.78	12.72	8.83	7.85
PBT (before extraordinary items)	**20.39**	**37.07**	**47.18**	**7.21**	**-82.09**
% of net sales	3.78	5.12	5.09	0.59	-5.74
Share in Joint Venture	0.00	0.00	-0.26	0.00	0.00
PBT	**20.39**	**37.07**	**46.92**	**7.21**	**-82.09**
Current Tax	1.72	13.25	22.59	1.24	-0.10
% of PBT	8.43	35.74	47.88	17.22	0.12
Profit After Tax	**18.67**	**23.82**	**24.33**	**5.97**	**-81.99**
% of net sales	3.46	3.29	2.62	0.49	-5.73
Minority Interest	-0.26	-0.45	0.00	3.32	-18.34
Share of profit from Associates					
PAT after minority interest & Ass share	**18.93**	**24.27**	**24.33**	**2.65**	**-63.65**
	3.51	3.35	2.62	0.22	-4.45
Net profit reported	**18.93**	**24.27**	**24.33**	**2.65**	**-63.65**

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Balance Sheet	FY2005	FY2006	FY2007	FY2008	FY2009
Share Capital	27.42	34.38	34.83	34.86	34.87
General Reserves	*0.00*	*1.36*	*2.67*	*3.01*	*0.00*
Securities Premium Account:	*57.05*	*203.73*	*208.30*	*208.91*	*208.96*
Employees' Stock Options:	*0.46*	*0.79*	*0.92*	*0.96*	*1.01*
P&L A/c	*5.66*	*22.65*	*39.36*	*35.54*	
Total Reserves & Surplus	63.17	228.52	251.24	248.42	209.96
Net Worth	**90.59**	**262.91**	**286.07**	**283.28**	**244.83**
Secured Long term Loans	58.07	60.87	130.39	124.08	212.51
Unsecured Long term Loans	32.00	2.60	0.04	83.06	53.41
Total Debt	**90.08**	**63.47**	**130.43**	**207.14**	**265.91**
Deferred Tax Liability	0.07	0.36	4.12	1.69	
MINORITY INTEREST	6.2			-3.3	-21.6
Capital Employed	**186.98**	**326.73**	**420.62**	**488.81**	**489.11**
Gross Block	144.21	186.62	233.88	368.38	459.01
Less : Accum. Depreciation	45.92	56.45	84.28	127.20	195.23
Net Block	**98.29**	**130.17**	**149.60**	**241.17**	**263.77**
Capital Work in Progress	23.62	8.66	21.43	35.53	23.66
GOODWILL ON CONSOLIDATION	1.26	9.63	10.92	10.92	10.92
Investments			0.01	19.01	30.41
Share in Joint Venture			2.8		
Current Assets, Loans & Advances					
Inventory	62.94	73.70	115.39	182.21	158.49
Sundry Debtors	6.48	9.26	12.79	8.81	16.62
Cash and Bank Balance	1.49	113.79	102.13	13.63	21.85
Loans and Advances	66.70	76.54	146.87	201.13	228.61
Less : Current Liab. & Prov.					
Liabilities	71.03	89.15	135.22	216.27	288.69
Provisions for tax	3.15	5.88	6.11	7.33	1.71
W/Cap without Cash	61.94	64.48	133.72	168.55	113.33
Net Current Assets	**63.44**	**178.27**	**235.85**	**182.18**	**135.18**
DEFERRED TAX ASSET					0.07
PROFIT AND LOSS ACCOUNT					25.10
MISCELLANEOUS EXPENDITURE	0.38				
Total Assets	**186.98**	**326.73**	**420.61**	**488.81**	**489.11**

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