

# UBS Investment Research

## Shoppers' Stop Ltd.

### Another bad result

#### ■ Revenue growth of 38%, same store sales up 19%

Revenue growth was 38% in the second quarter. Same store sales growth was 19% in the quarter despite four stores being partially renovated. One new 140,000 sq ft store was opened in Delhi taking the total to 23 Shoppers' department stores. Operating expenses increased 95% yoy. Higher employee expenses and higher rent (as a % of sales) have caused EBITDA to decline 16%. Operating margins are down from 8% to 4.8%.

#### ■ Higher depreciation, interest charge and tax – a break in profit growth

SSL has taken a Rs9mn charge in other expenses on provisions towards service tax on rentals. SSL's accelerated depreciation policy, lower interest income, and higher interest expenses caused PBT to decline by 84% yoy. PAT declined further on a tax charge from last year. PAT was down 99% yoy.

#### ■ New formats, store openings looking up

SSL has opened a new format – Arcelia in Pune. It is an interesting new format stocking jewellery, accessories and cosmetics. We expect two more SSL stores should open their doors in the second half of FY08. The company has planned eight store openings in FY09E. We have built these into our estimates. We now look to FY09E for a better operating outlook for the company.

#### ■ Valuation

Our price target of Rs550 is based on 10.9% WACC, with a 5.5% terminal growth assumption. We maintain our Neutral rating on the stock.

Highlights (Rsm)	03/06	03/07	03/08E	03/09E	03/10E
Revenues	6,304	8,197	12,041	16,568	21,253
EBIT (UBS)	399	535	533	884	1,183
Net Income (UBS)	243	259	310	523	701
EPS (UBS, Rs)	7.06	7.54	9.01	15.23	20.38
Net DPS (UBS, Rs)	1.50	1.50	2.00	3.00	4.00

Profitability & Valuation	5-yr hist av.	03/07	03/08E	03/09E	03/10E
EBIT margin %	4.8	6.5	4.4	5.3	5.6
ROIC (EBIT) %	-	17.2	12.0	15.1	16.1
EV/EBITDA (core) x	-	24.8	19.9	14.1	11.4
PE (UBS) x	-	77.6	57.1	33.8	25.2
Net dividend yield %	-	0.3	0.4	0.6	0.8

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs514.25 on 29 Oct 2007 22:31 EDT

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## Global Equity Research

India

Retailers, Apparel

12-month rating **Neutral**  
**Unchanged**

12m price target **Rs550.00/US\$13.99**  
**Unchanged**

Price **Rs514.25/US\$13.08**

RIC: SHOP.BO BBG: SHOP IN

29 October 2007

#### Trading data (local/US\$)

52-wk range	Rs730.00-446.80/US\$16.57-11.24
Market cap.	Rs17.9bn/US\$0.46bn
Shares o/s	34.8m (ORD)
Free float	33%
Avg. daily volume ('000)	2
Avg. daily value (Rsm)	1.1

#### Balance sheet data 03/08E

Shareholders' equity	Rs3.09bn
P/BV (UBS)	5.7x
Net Cash (debt)	(Rs2.05bn)

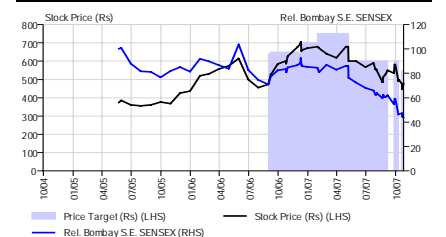
#### Forecast returns

Forecast price appreciation	+7.0%
Forecast dividend yield	0.4%
Forecast stock return	+7.4%
Market return assumption	11.9%
Forecast excess return	-4.5%

#### EPS (UBS, Rs)

	03/08E		03/07
	UBS	Cons.	Actual
Q1E	-	-	-
Q2E	-	-	-
Q3E	-	-	-
Q4E	-	-	-
03/08E	9.01	11.12	-
03/09E	15.23	15.23	-

#### Performance (Rs)



Source: UBS

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This report has been prepared by UBS Securities India Private Ltd  
ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 5.

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Table 1: Shoppers' Stop consolidated

Particulars	Q2 FY07	Q2FY08	Gr%
Net sales	2,010	2,774	38%
Cost of goods	1,313	1,740	33%
Employee cost	137	216	57%
Rent	153	247	62%
Op & Admin expenses	185	336	81%
Selling & Distribution cost	63	102	61%
Total expenses	1,852	2,640	43%
EBITDA	158.5	133.6	-16%
EBITDA M%	8.0%	4.8%	
PBT	126.1	19.7	-84%
PAT	80.2	0.6	-99%
Minority interest in Crossword		1.7	
RPAT	80.2	2.3	
EPS	2.3	0.07	
Cost of goods	65.2%	62.7%	
Employee cost	6.8%	7.8%	
Rent	0.0%	8.9%	
Op & Admini expenses	16.8%	12.1%	
Selling & Distribution cost	3.1%	3.7%	
Total expenses	92.0%	95.2%	

Source: Company data, UBS estimates

# Shoppers' Stop Ltd.

Income statement (Rsm)	03/03	03/04	03/05	03/06	03/07	03/08E	% ch	03/09E	% ch	03/10E	% ch
Revenues	2,687	3,493	4,595	6,304	8,197	12,041	46.9	16,568	37.6	21,253	28.3
Operating expenses (ex deprn)	(2,544)	(3,287)	(4,289)	(5,858)	(7,585)	(11,228)	48.0	(15,333)	36.6	(19,670)	28.3
EBITDA (UBS)	196	257	356	565	825	913	10.6	1,364	49.5	1,783	30.7
Depreciation	(58)	(95)	(112)	(166)	(290)	(380)	31.0	(480)	26.3	(600)	25.0
Operating income (EBIT, UBS)	138	163	244	399	535	533	-0.4	884	66.0	1,183	33.8
Other income & associates	0	0	0	0	0	0	-	0	-	0	-
Net interest	(32)	(41)	(40)	(28)	(50)	(45)	-10.1	(60)	33.3	(80)	33.3
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	106	122	204	371	485	488	0.6	824	69.0	1,103	33.9
Tax	0	(10)	(17)	(133)	(226)	(178)	-21.2	(301)	69.0	(403)	33.9
Profit after tax	106	112	187	238	259	310	19.5	523	69.0	701	33.9
Abnormal items (post-tax)	0	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	0	6	3	5	0	0	-	0	-	0	-
Net income (local GAAP)	106	118	189	243	259	310	19.5	523	69.0	701	33.9
Net Income (UBS)	106	118	189	243	259	310	19.5	523	69.0	701	33.9
Tax rate (%)	0	8	8	36	47	37	-21.6	37	0.0	37	0.0
Pre-abnormal tax rate (%)	0	8	8	36	47	37	-21.6	37	0.0	37	0.0
Per share (Rs)	03/03	03/04	03/05	03/06	03/07	03/08E	% ch	03/09E	% ch	03/10E	% ch
EPS (local GAAP)	3.09	3.43	5.51	7.06	7.54	9.01	19.5	15.23	69.0	20.38	33.9
EPS (UBS)	3.09	3.43	5.51	7.06	7.54	9.01	19.5	15.23	69.0	20.38	33.9
Net DPS	0.00	0.00	1.00	1.50	1.50	2.00	33.3	3.00	50.0	4.00	33.3
Cash EPS	4.78	6.19	8.76	11.89	15.98	20.07	25.6	29.19	45.5	37.84	29.6
BVPS	24.30	24.65	26.36	76.49	83.25	90.03	8.1	101.91	13.2	117.84	15.6
Balance sheet (Rsm)	03/03	03/04	03/05	03/06	03/07	03/08E	% ch	03/09E	% ch	03/10E	% ch
Net tangible fixed assets	660	898	1,219	1,388	1,735	2,712	56.3	3,825	41.0	4,818	26.0
Net intangible fixed assets	0	0	13	96	109	0	-	0	-	0	-
Net working capital (incl. other assets)	685	747	867	1,044	1,867	2,428	30.0	2,763	13.8	3,279	18.7
Other liabilities	0	0	0	0	0	0	-	0	-	0	-
Operating invested capital	1,345	1,645	2,098	2,529	3,711	5,140	38.5	6,588	28.2	8,096	22.9
Investments	109	9	4	0	0	0	-	0	-	0	-
Total capital employed	1,454	1,654	2,102	2,529	3,711	5,140	38.5	6,588	28.2	8,096	22.9
Shareholders' equity	835	847	906	2,629	2,861	3,094	8.1	3,503	13.2	4,050	15.6
Minority interests	0	50	62	0	0	0	-	0	-	0	-
Total equity	835	897	968	2,629	2,861	3,094	8.1	3,503	13.2	4,050	15.6
Net debt / (cash)	619	707	814	(126)	850	2,045	140.6	3,085	50.8	4,046	31.2
Debt deemed provisions	0	50	320	26	0	0	-	0	-	0	-
Total capital employed	1,454	1,654	2,102	2,529	3,711	5,140	38.5	6,588	28.2	8,096	22.9
Cash flow (Rsm)	03/03	03/04	03/05	03/06	03/07	03/08E	% ch	03/09E	% ch	03/10E	% ch
Operating income (EBIT, UBS)	138	163	244	399	535	533	-0.4	884	66.0	1,183	33.8
Depreciation	58	95	112	166	290	380	31.0	480	26.3	600	25.0
Net change in working capital	(32)	(97)	(158)	(24)	(703)	(548)	-22.0	16	-	(217)	-
Other (operating)	(10)	56	5	(140)	(16)	109	-	0	-	0	-
Operating cash flow	154	216	203	402	106	474	345.9	1,380	191.3	1,567	13.5
Net interest received / (paid)	(32)	(41)	(40)	(28)	(50)	(45)	-10.1	(60)	33.3	(80)	33.3
Dividends paid	0	0	(31)	(59)	(61)	(77)	25.4	(115)	50.0	(153)	33.3
Tax paid	0	(10)	(17)	(133)	(226)	(178)	-21.2	(301)	69.0	(403)	33.9
Capital expenditure	(238)	(333)	(433)	(335)	(637)	(1,357)	113.0	(1,593)	17.4	(1,593)	0.0
Net (acquisitions) / disposals	0	0	0	0	0	0	-	0	-	0	-
Other	(1)	94	0	0	0	0	-	0	-	0	-
Share issues	2	(40)	16	1,540	49	0	-	0	-	0	-
Cash flow (inc)/dec in net debt	(113)	(113)	(302)	1,387	(818)	(1,182)	44.5	(688)	-41.8	(662)	-3.8
FX / non cash items	(113)	26	195	(447)	(158)	(13)	-91.8	(352)	2614.0	(299)	-14.9
Balance sheet (inc)/dec in net debt	(227)	(88)	(107)	940	(976)	(1,195)	22.4	(1,040)	-13.0	(961)	-7.6
Core EBITDA	196	257	356	565	825	913	10.6	1,364	49.5	1,783	30.7
Maintenance capital expenditure	0	0	0	0	0	0	-	0	-	0	-
Maintenance net working capital	0	0	0	0	0	0	-	0	-	0	-
Operating free cash flow, pre-tax	196	257	356	565	825	913	10.6	1,364	49.5	1,783	30.7

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

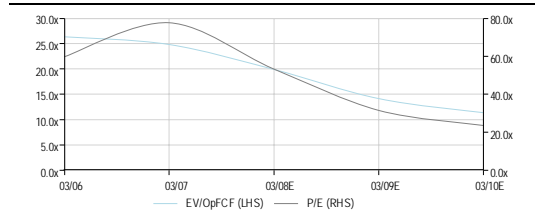
12-month rating **Neutral**

12m price target **Rs550.00**

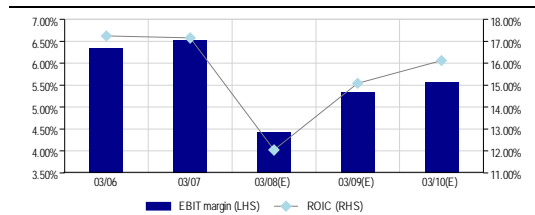
**Company profile**

Shoppers' Stop Ltd (SSL), 67%-owned by the CL Raheja group, one of India's most well-known department store brands. SSL also has book shops, under the Crossword brand, and home speciality stores, under the HomeStop brand. SSL has an option to take a 51% stake in HyperCity, the owner's new hypermarket venture, by 31 December 2008. SSL caters for the upper/middle classes in urban India.

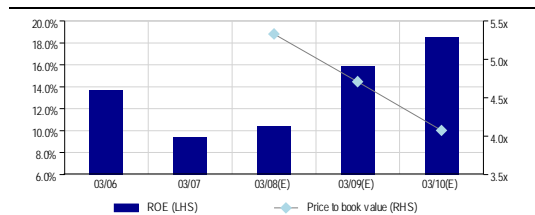
**Value (EV/OpFCF & P/E)**



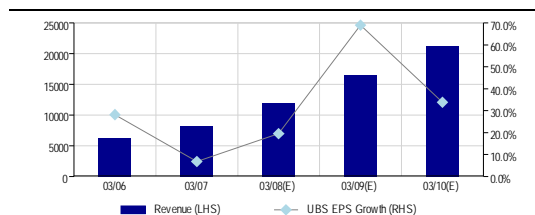
**Profitability**



**ROE v Price to book value**



**Growth (UBS EPS)**



Valuation (x)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
P/E (local GAAP)	-	59.8	NM	57.1	33.8	25.2
P/E (UBS)	-	59.8	77.6	57.1	33.8	25.2
P/CEPS	-	35.6	36.6	25.6	17.6	13.6
Net dividend yield (%)	-	0.4	0.3	0.4	0.6	0.8
P/BV	-	5.5	7.0	5.7	5.0	4.4
EV/revenue (core)	-	2.4	2.5	1.5	1.2	1.0
EV/EBITDA (core)	-	26.3	24.8	19.9	14.1	11.4
EV/EBIT (core)	-	NM	NM	NM	21.8	17.1
EV/OpFCF (core)	-	26.3	24.8	19.9	14.1	11.4
EV/op. invested capital	-	6.4	6.6	4.1	3.3	2.8

Enterprise value (Rsm)	03/06	03/07	03/08E	03/09E	03/10E
Average market cap	14,528	20,123	16,717	16,717	16,717
+ minority interests	0	0	0	0	0
+ average net debt (cash)	344	362	1,448	2,565	3,566
+ pension obligations and other	0	0	0	0	0
- non-core asset value	0	0	0	0	0
Core enterprise value	14,872	20,485	18,165	19,282	20,283

Growth (%)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
Revenue	30.9	37.2	30.0	46.9	37.6	28.3
EBITDA (UBS)	52.6	58.8	46.1	10.6	49.5	30.7
EBIT (UBS)	64.1	63.7	34.2	-0.4	66.0	33.8
EPS (UBS)	NM	28.2	6.8	19.5	69.0	33.9
Cash EPS	68.6	35.6	34.4	25.6	45.5	29.6
Net DPS	-	50.0	0.0	33.3	50.0	33.3
BVPS	33.3	190.2	8.8	8.1	13.2	15.6

Margins (%)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
EBITDA / revenue	7.2	9.0	10.1	7.6	8.2	8.4
EBIT / revenue	4.8	6.3	6.5	4.4	5.3	5.6
Net profit (UBS) / revenue	3.1	3.9	3.2	2.6	3.2	3.3

Return on capital (%)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
EBIT ROIC (UBS)	-	17.2	17.2	12.0	15.1	16.1
ROIC post tax	-	11.1	9.2	7.6	9.6	10.2
Net ROE	-	13.7	9.4	10.4	15.9	18.6

Coverage ratios (x)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
EBIT / net interest	5.9	14.2	10.7	11.8	14.7	14.8
Dividend cover (UBS EPS)	-	4.7	5.0	4.5	5.1	5.1
Div. payout ratio (% , UBS EPS)	-	21.2	19.9	22.2	19.7	19.6
Net debt / EBITDA	1.6	NM	1.0	2.2	2.3	2.3

Efficiency ratios (x)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
Revenue / op. invested capital	-	2.7	2.6	2.7	2.8	2.9
Revenue / fixed assets	-	4.6	4.9	5.3	5.1	4.9
Revenue / net working capital	-	6.6	5.6	5.6	6.4	7.0

Investment ratios (x)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
OpFCF / EBIT	1.5	1.4	1.5	1.7	1.5	1.5
Capex / revenue (%)	7.6	5.3	7.8	11.3	9.6	7.5
Capex / depreciation	3.0	2.0	2.2	3.6	3.3	2.7

Capital structure (%)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
Net debt / total equity	39.7	(4.8)	29.7	66.1	88.1	99.9
Net debt / (net debt + equity)	28.4	(5.0)	22.9	39.8	46.8	50.0
Net debt (core) / EV	-	2.3	1.8	8.0	13.3	17.6

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs514.25 on 29 Oct 2007 22:31 EDT Market cap(E) may include forecast share issues/buybacks.

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## ■ **Shoppers' Stop Ltd.**

Shoppers' Stop Ltd (SSL), 67%-owned by the CL Raheja group, one of India's most well-known department store brands. SSL also has book shops, under the Crossword brand, and home speciality stores, under the HomeStop brand. SSL has an option to take a 51% stake in HyperCity, the owner's new hypermarket venture, by 31 December 2008. SSL caters for the upper/middle classes in urban India.

## ■ **Statement of Risk**

The retail sector is closed to foreign competition, but this could change. The entry of large-format foreign retailers with skills in merchandising and supply chain management could affect the sales and margins of Indian companies, such as Shoppers' Stop.

## ■ **Analyst Certification**

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

## Required Disclosures

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### UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	55%	40%
Neutral	Hold/Neutral	36%	35%
Sell	Sell	9%	22%
UBS Short-Term Rating	Rating Category	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Buy	0%	29%
Sell	Sell	0%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2007.

### UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

**KEY DEFINITIONS**

**Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

**Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

**Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

**Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

**EXCEPTIONS AND SPECIAL CASES**

**US Closed-End Fund ratings and definitions are:** Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.

**UK and European Investment Fund ratings and definitions are:** Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Reduce: Negative on factors such as structure, management, performance record, discount.

**Core Banding Exceptions (CBE):** Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Companies Mentioned or Company Disclosure table in the relevant research piece.

**Company Disclosures**

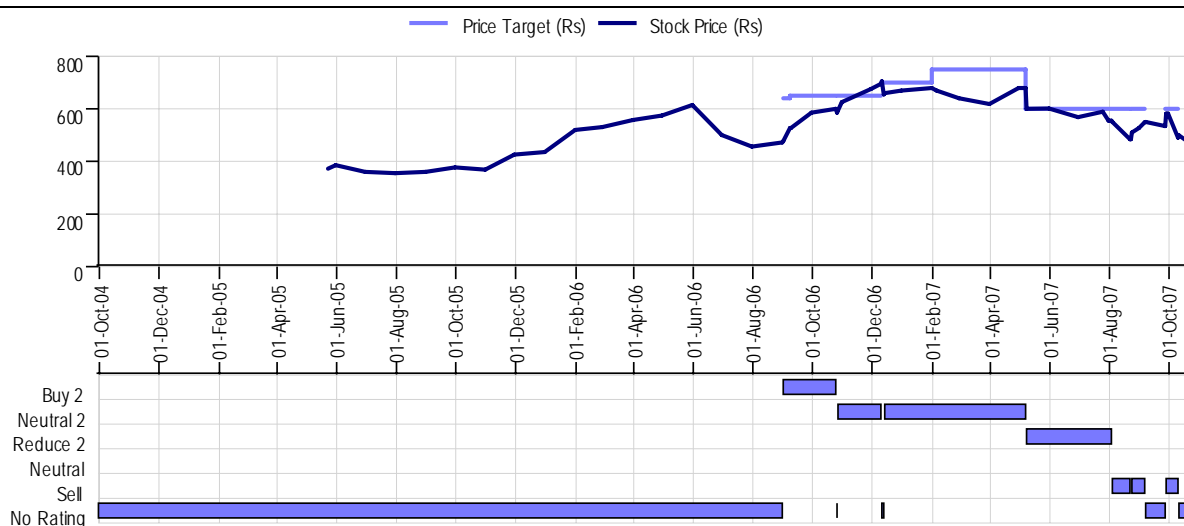
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Shoppers' Stop Ltd.	SHOP.BO	Neutral	N/A	Rs480.00	26 Oct 2007

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

**Shoppers' Stop Ltd. (Rs)**



Source: UBS; as of 26 Oct 2007

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.



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