



Shoppers Stop Ltd (SSL) – Near term pain, Long term growth story intact

SSL has posted 3QFY12 results and the numbers were below expectation. Key highlights of result are as follow:

Key Highlights

- Standalone net sales for SSL increased by 9.2% YoY to ₹ 5418.3 mn. The moderation in topline growth was mainly due to decline in LTL sales growth of 1%. This was mainly led by 9% decline in LTL volume partially offset by increase in ASP by 8%. Apparel sales (contributes 57.2% to the topline) were impacted due to ~18% YoY increase in prices. Apparel prices are likely to soften in 1HFY13E and management expect healthy volume growth in 3QFY13E. On the positive side, gross margin improved marginally by 10 bps YoY to 35.4% and contribution of Bought out/Concession sales declined to 50.3% as compared to 55.2% in 3QFY11, implying declining inventory risk.
- EBITDA declined by 19.7% YoY to ₹ 413.5 mn mainly due to increase in employee cost, rental expense and other operating expense by 31.4%, 20.4% and 18.5% YoY to ₹ 331.3 mn, ₹ 471.6 mn and ₹ 701.5 mn respectively. This increase in operating expenses were due to opening of 6 SS stores in the qtr, which leads to front loading of employee, rental and operating cost. Overall, EBITDA margin declined by 275 bps YoY to 7.6%.
- Interest cost increased by 204.8% YoY to ₹ 75.5 mn due to increase in debt led by new store capex and increase in working capital requirement. Standalone debt as of 31st Dec 2011 stood at ₹ 2875.2 mn as compared to that of ₹ 1487.2 mn on 31st March 2011. Overall, PAT declined by 30.8% YoY to ₹ 192.9 mn.
- Hypercity:** For 3QFY12, Hypercity posted net sales of ₹ 1976.2 mn (up 29.3% YoY), EBITDA of ₹ -111.3 mn (down 26.8% YoY) and PAT of -245.1 mn (down 34.1% YoY). The LTL sales growth was 12%, with LTL volume growth of 18% and decline in ASP of 6%. Out of total 12 stores, 5 stores were EBITDA positive in 3QFY12 with store EBITDA of ₹ 7.9 mn as compared to loss of ₹ 13.4 mn in 3QFY11.

Outlook: We have revised our estimates based on the existing economic and business scenario. Going ahead, we expect healthy sales traction in Shoppers Stop, as the new stores gets ramp-up. However, operating overheads will take 15-20 months to get fully absorbed and hence will keep overall EBITDA margin under pressure. We expect sales and EBITDA to grow at CAGR of 23.4% and 22.1% during FY11-FY14E period respectively. We expect the company to post EBITDA margin of 7.0%, 7.5% and 7.9% in FY12E, FY13E and FY14E respectively. Overall, we expect PAT to grow at CAGR of 22.3% during FY11-FY14E. We have assumed 8 store addition each in FY13E and FY14E.

Hypercity is progressing well and is expected to be EBITDA positive at company level in next 12-15 months.

Valuations: At CMP, the stock is trading at P/E ratio of 40.4x and 30.7x FY12E and FY13E earnings respectively. Our fair value of the stock based on SOTP methodology comes to ₹ 298/share. We have valued standalone SSL on DCF valuation method, 51% stake in Hypercity on EV/sales multiple of 1.0x and all equity investments as on FY11 balance sheet on book value. **We have revised our rating from Accumulate to Neutral. Upside risk to stock price in the near term could be policy change as regards the FDI in multi-brand retail (the favorable change at the centre, i.e probable change in UPA constituents post results of the ongoing state elections could possibly lead to this policy change). The stock will continue to command the perceived acquisition premium in anticipation of the favorable outcome. We will revisit our rating post outcome of this event.**

Standalone Financial Snapshot (₹ mn)

In ₹ mn	Sales	YoY (%)	EBITDA	YoY (%)	Adj.PAT	YoY (%)	EPS (₹)	YoY (%)	EBITDA (%)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)	P/B (x)
FY11	18,417	22.6	1,521	34.0	751	54.0	9.1	27.2	8.3	16.6	20.4	35.5	18.5	4.5
FY12E	20,564	11.7	1,439	(5.4)	663	(11.7)	8.0	-12.1	7.0	10.5	14.7	40.4	20.6	4.0
FY13E	27,216	32.3	2,041	41.8	872	31.5	10.6	31.5	7.5	12.5	15.9	30.7	14.6	3.6

Source: Company, ABML Research

Rating	Closing Price (₹)	Target Price (₹)	Upside / Downside %
Neutral	324.8	298	(8.3)

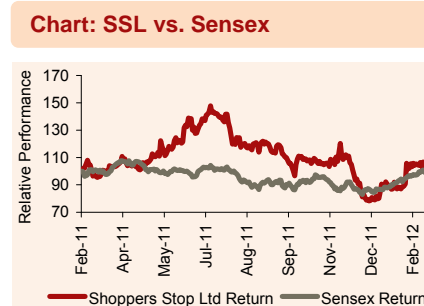
Source: ABML Research

Company Data	
BSE Code	532638
NSE Code	SHOPERSTOP
Equity Capital (₹ mn)	412.4
Face Value (₹)	5
Market Cap (₹ bn)	26.8
Avg Daily Volume (Qty)	264532
52 week H/L (₹)	504.9/250.3

Source: NSE, BSE

Shareholding (%)			
Holders	Dec 11	Sept 11	Jun 11
Promoters	67.9	67.9	68.2
FII's	11.7	12.9	13.2
MFs/Banks & FI's	7.4	6.5	6.6
Public & Others	13.0	12.6	12.1

Source: BSE



Source: Capitaline

Analyst Details	
Sunny Agrawal	
022-42333458	
sunny.agrawal@adityabirla.com	



Standalone Financial Results (3Q FY12)

Particulars (₹ mn)	3QFY12	3QFY11	YoY%	2QFY12	QoQ%
Net Sales (incl operating income)	5418.3	4961.2	9.2	5371.6	0.9
COGS	3500.3	3210.0	9.0	3562.6	-1.7
as a % of Net Sales	64.6	64.7		66.3	
Gross Profit	1917.9	1751.2	9.5	1809.0	6.0
as a % of Net Sales	35.4	35.3		33.7	
Employee Cost	331.3	252.1	31.4	316.4	4.7
as a % of Net Sales	6.1	5.1		5.9	
Lease Rent and Hire Charges	471.6	391.8	20.4	430.9	9.4
as a % of Net Sales	8.7	7.9		8.0	
Other Operating and Admin	701.5	592.1	18.5	674.1	4.1
as a % of Net Sales	12.9	11.9		12.5	
Total Expenditure	5004.8	4446.1	12.6	4984.1	0.4
EBITDA	413.5	515.1	-19.7	387.5	6.7
as a % of Net Sales	7.6	10.4		7.2	
Other income	45.9	21.7	111.8	51.5	-10.9
as a % of Net Sales	0.8	0.4		1.0	
Depreciation & Amortization	93.7	88.0	6.5	87.9	6.7
PBIT	365.7	448.8	-18.5	351.2	4.1
Interest Expense	75.5	24.8	204.8	56.9	32.7
PBT	290.1	424.0	-31.6	294.3	-1.4
as a % of Net Sales	5.4	8.5		5.5	
Tax Expenses	97.2	145.4	-33.1	98.5	-1.2
Tax rate %	33.5	34.3		33.5	
PAT	192.9	278.6	-30.8	195.8	-1.5
as a % of Net Sales	3.6	5.6		3.6	
EO Gain/(loss)	0.0	0.0		0.0	
Adjusted PAT	192.9	278.6	-30.8	195.8	-1.5
EPS - Basic	2.3	2.4	-1.3	2.4	-1.3
EPS - Diluted	2.3	2.4	-1.3	2.4	-1.3

Source: Company data, ABML Research

Estimate Variance

Particulars (₹ mn)	FY12E - New	FY12E - Earlier	% Chg	FY13E - New	FY13E - Earlier	% Chg
Net Sales	20564	21205	-3.0	27216	27448	-0.8
EBITDA	1439	1654	-13.0	2041	2278	-10.4
PAT	663	725	-8.5	872	1094	-20.3

Source: ABML Research, Company data

Recommendation summary

Date	Reports	Rating	Last Closing Price (₹)	Target Price (₹)	Upside/Downside %
21 st Oct 2011	Initiating Coverage	Neutral	353.9	344.0	(2.9)
25 th Nov 2011	Event Update - FDI	Neutral	372.3	344.0	(8.3)
14 th Dec 2011	Company Update (1QFY12)	Accumulate	307.5	344.0	11.8
24 th Feb 2012	Result Update (3QFY12)	Neutral	324.8	298.0	(8.3)

Source: ABML Research



Standalone Financials – Shoppers Stop Ltd (SSL)

Profit & Loss				
In ₹ million	FY10	FY11	FY12E	FY13E
Net sales	15,024	18,417	20,564	27,216
YoY (%)	12.2	22.6	11.7	32.3
COGS	9842.6	12186.7	13428.4	17744.6
Gross Profit	5,181.0	6,229.9	7,135.8	9,471.0
GPM (%)	34.5	33.8	34.7	34.8
Total expenses	4,046	4,709	5,696	7,430
Employee Cost	876	990	1,296	1,606
Lease rent	1,377	1,523	1,830	2,422
Other operating and admin	1,793	2,196	2,571	3,402
EBIDTA	1,135	1,521	1,439	2,041
YoY (%)	161.4	34.0	(5.4)	41.8
EBIDTA (%)	7.6	8.3	7.0	7.5
Depreciation	310	310	371	457
Other income	38	72	181	5
EBIT	862	1,283	1,249	1,589
Interest	224	145	252	297
Extraordinary income/(expenses)	19	1	0	0
PBT	657	1,138	997	1,291
(-) Tax	154	387	334	419
Tax/ PBT (%)	23.5	34.0	33.5	32.4
PAT	502	752	663	872
Adjusted PAT	488	751	663	872
YoY (%)	(224.8)	54.0	(11.7)	31.5

Balance Sheet				
In ₹ million	FY10	FY11	FY12E	FY13E
Equity capital & Warrants	349	411	412	412
Reserves	2,740	5,570	6,204	6,980
Net worth	3,089	5,981	6,616	7,392
Total Debt	1,993	1,487	2,887	3,062
Deferred tax	(46)	(33)	(33)	(33)
Total liabilities	5,037	7,436	9,471	10,422
Asset Block	2,987	3,568	4,568	5,299
Investments	1,197	2,372	2,725	2,725
Current assets	3,550	4,496	5,790	6,591
Inventories	1,499	1,511	1,832	2,135
Debtors	109	160	142	175
Cash	30	26	88	78
Loans and advances	1,911	2,785	3,715	4,191
Other Current Assets	0	13	13	13
Current liabilities	2,696	3,000	3,612	4,193
Creditors	2,529	2,771	3,373	3,944
Provisions	79	96	105	116
Other current liabilities	88	133	133	133
Net current assets	853	1,496	2,178	2,398
Miscellaneous expenses	0	0	0	0
Total assets	5,037	7,436	9,471	10,422

Key Ratios				
	FY10	FY11	FY12E	FY13E
EPS - Basic (₹)	7.2	9.1	8.0	10.6
EPS - Diluted (₹)	7.2	9.1	8.0	10.6
Adjusted EPS - Diluted(₹)	7.0	9.1	8.0	10.6
CEPS (₹)	11.6	12.9	12.5	16.1
Book value (₹)	44.2	72.8	80.2	89.6
Dividend per share (₹)	0.8	0.8	0.8	1.0
Net debt-equity (x)	0.6	0.2	0.4	0.4
Interest Coverage (EBIT/Int charges)	3.8	8.8	5.0	5.3
ROACE	18.2	20.4	14.7	15.9
ROAE	18.0	16.6	10.5	12.5
Valuations				
PE (x)	46.5	35.5	40.4	30.7
Cash PE (x)	27.9	25.1	25.9	20.1
Price/book value (x)	7.3	4.5	4.0	3.6
Dividend yield (%)	0.2	0.2	0.2	0.3
P/sales (x)	1.5	1.4	1.3	1.0
EV/sales (x)	1.6	1.5	1.4	1.1
EV/EBITDA (x)	21.7	18.5	20.6	14.6

Cash Flow				
In ₹ million	FY10	FY11	FY12E	FY13E
Net profit	657	1,138	997	1,291
Depn and w/o	310	310	371	457
Change in working cap	(46)	(176)	621	230
Other income	38	72	181	5
Others	47	(180)	(334)	(419)
Operating cash flow	1,023	1,372	233	1,095
Other income	37	72	181	5
Capex	(665)	(1,113)	(1,371)	(1,189)
Investments	(222)	(1,175)	(353)	0
Others	(279.6)	(658.7)	0.0	0.0
Investing cash flow	(1,129)	(2,874)	(1,543)	(1,184)
Dividend	0	(61)	(72)	(97)
Equity	10	2,210	45	0
Debt	(263)	(356)	1,400	175
Others	233	(295)	0	0
Financing cash flow	(21)	1,497	1,372	78
Net change in cash	(127)	(4)	62	(11)
Opening cash	155	28	26	88
Closing cash	28	26	88	78

Source: ABML Research, Company data



Research Team

Vivek Mahajan

Head of Research

022-42333522

vivek.mahajan@adityabirla.com

Hemant Thukral

Head – Derivatives Desk

022-42333483

hemant.thukral@adityabirla.com

Fundamental Team

Avinash Nahata	Head of Fundamental Desk	022-42333459	avinash.nahata@adityabirla.com
Akhil Jain	Metals & Mining	022-42333540	akhil.jain@adityabirla.com
Sunny Agrawal	FMCG/Cement	022-42333458	sunny.agrawal@adityabirla.com
Sumit Jatia	Banking & Finance	022-42333460	sumit.jatia@adityabirla.com
Shreyans Mehta	Construction/Real Estate	022-42333544	shreyans.m@adityabirla.com
Dinesh Kumar	Information Technology/Auto	022-42333531	dinesh.kumar.k@adityabirla.com
Pradeep Parkar	Database/Production	022-42333597	pradeep.parkar@adityabirla.com

Quantitative Team

Rizwan Khan	Technical and Derivative Strategist	022-42333454	rizwan.khan@adityabirla.com
Jyoti Nangrani	Sr. Technical Analyst	022-42333454	jyoti.nangrani@adityabirla.com
Raghuram	Technical Analyst	022-42333537	raghuram.p@adityabirla.com
Rahul Tendolkar	Derivatives Analyst	022-42333532	rahul.tendolkar@adityabirla.com
Amit Somani	Derivative Analyst	022-42333532	amit.somani@adityabirla.com

Advisory Support

Indranil Dutta	Advisory Desk – HNI	022-42333494	indranil.dutta@adityabirla.com
Suresh Gardas	Advisory Desk	022-42333535	suresh.gardas@adityabirla.com
Sandeep Pandey	Advisory Desk	022-30442104	sandeep.pandey@adityabirla.com

ABML research is also accessible in Bloomberg at ABMR



Our Rating Methodology

Stock Ratings	Absolute Returns (R)
Buy	$R > 15\%$
Accumulate	$5\% < R \leq 15\%$
Neutral	$-5\% < R \leq 5\%$
Reduce	$-10\% < R \leq 5\%$
Sell	$R \leq -10\%$

Disclaimer:

This document is not for public distribution and is meant solely for the personal information of the authorised recipient. No part of the information must be altered, transmitted, copied, distributed or reproduced in any form to any other person. Persons into whose possession this document may come are required to observe these restrictions. This document is for general information purposes only and does not constitute an investment advice or an offer to sell or solicitation of an offer to buy / sell any security and is not intended for distribution in countries where distribution of such material is subject to any licensing, registration or other legal requirements.

The information, opinion, views contained in this document are as per prevailing conditions and are of the date of appearing on this material only and are subject to change. No reliance may be placed for any purpose whatsoever on the information contained in this document or on its completeness. Neither Aditya Birla Money Limited (ABML) nor any person connected with it accepts any liability or loss arising from the use of this document. The views and opinions expressed herein by the author in the document are his own and do not reflect the views of Aditya Birla Money Limited or any of its associate or group companies. The information set out herein may be subject to updating, completion, revision, verification and amendment and such information may change materially. Past performance is no guarantee and does not indicate or guide to future performance.

Nothing in this document is intended to constitute legal, tax or investment advice, or an opinion regarding the appropriateness of any investment, or a solicitation of any type. The contents in this document are intended for general information purposes only. This document or information mentioned therefore should not form the basis of and should not be relied upon in connection with making any investment. The investment may not be suited to all the categories of investors. The recipients should therefore obtain your own professional, legal, tax and financial advice and assessment of their risk profile and financial condition before considering any decision.

Aditya Birla Money Limited, its associate and group companies, its directors, associates, employees from time to time may have various interests/ positions in any of the securities of the Company(ies) mentioned therein or be engaged in any other transactions involving such securities or otherwise in other securities of the companies / organisation mentioned in the document or may have other potential conflict of interest with respect of any recommendation and / related information and opinions.

Analyst holding in the stock: NIL