

Shoppers Stop

Q3FY14 Results: Increasing visibility of operating leverage;
Upgrade to BUY
RETAIL: Quarterly Update



PhillipCapital (India) Pvt. Ltd.

31 January 2014

Shoppers Stop Q3FY14 Results were marginally below estimates at the EBITDA and PAT level. Revenues from the departmental stores were marginally below our estimate. EBITDA margin sustained at 6.9%. Standalone PAT was further impacted by higher than estimated tax rate, which was at 43%. Hypercity's gross margins improved YoY (30 bps) led by higher share of apparel. Profitability was impacted by new store opening costs, Onetime cost towards exit from Consumer durable and IT (CDIT) products resulted in central cost going up 45% YoY. We have increasing visibility of the operating leverage which would kick in by FY16 and therefore expect EBITDA to double from FY14E levels. Upgrade to BUY.

Departmental Store performance impacted on a high base: LTL growth of 5.5% was led by (+3.9% in ASP) and LTL de-volume growth of 1% as compared to LTL of 4% in Q3FY13. EBITDA margins at 6.9% were inline with our estimates and were aided by higher share of apparel. Rentals as % of sales remained flat at 8.5% (it decreased in Q3) and Employee cost grew by 25% at 7.1% of sales. Debt levels have remained flat at Rs3,841 mn, while capex incurred in the quarter was Rs 430 mn.

Hypercity's performance drags due to one-offs & store openings: Hypercity reported revenue growth of 15% led by LTL growth (7% Ex-CDIT). LTL volume de-growth at 1%. Company has recorded Store level EBITDA positive from last 10 consecutive quarters at Rs 18 mn and company level EBITDA loss stood at Rs111 mn driven by 45% (YoY) increase in central costs (This includes one-off cost towards CDIT exit and change in IT vendor).

Management Outlook and Concall highlights: (a) The company is on track to achieve 8% EBITDA margin by FY16. b) Management stated that Q4FY14 LTL will be in the range of 7-8%. c) Deep discounting sale is affecting the entire market eco-system. Sale period (5/6 weeks) likely to be longer by a week for Shoppers Stop compared to usual. Share of discounted sale to total sales in FY14 ~24%. Shoppers have started the sales period earlier to align with the other competitors. d) Currently, 8 Hypercity stores are at the EBITDA level were positive and target to break even at company level in 6 quarters time. e) Debt levels will increase by Rs1 bn for FY15 from current levels for standalone entity. f) Company is targeting to take share of private label to 20% in 24 months in Departmental store format. g) The company is open to a foreign partner (for FDI) in Hypercity and awaiting clarification from FIPB on brown-field investments.

Outlook: We have increasing higher visibility of the operating leverage kicking in from FY16 largely led by better absorption of opex from the 31 stores opened from FY12-14. Moreover, with new store openings to taper from FY16 expect LTL EBITDA margin expansion of 69 stores to be reflected truly in FY16. Thus we expect FY16 EBITDA at Rs3.2 bn (7.2% Margins with potential to scale up to 9%) to be 2x of FY14E EBITDA as operating leverage kicks in. There is more clarity on Hypercity's business strategy and path to profitability. We roll over our estimates to FY16E and ascribe 12x EV/EBITDA to the standalone business and 0.75x multiple to Hypercity's sales to arrive at a target price of Rs496. **Upgrade to BUY.**

BUY

SHOP IN | CMP RS 383

TARGET RS 496 (29%)

Company Data

O/S SHARES (MN) :	83
MARKET CAP (RSBN) :	31.5
MARKET CAP (USDBN) :	0.5
52 - WK HI/LO (RS) :	454 / 318
LIQUIDITY 3M (USDMN) :	0.7
FACE VALUE (RS) :	5

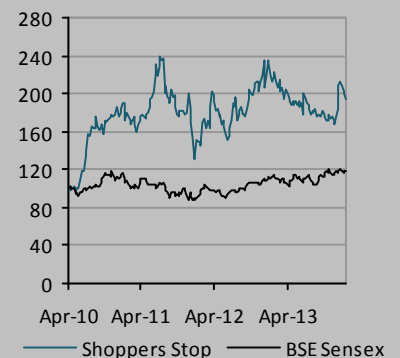
Share Holding Pattern, %

PROMOTERS :	67.5
FII / NRI :	9.1
FI / MF :	12.1
NON PROMOTER CORP. HOLDINGS :	7.5
PUBLIC & OTHERS :	4.0

Price Performance, %

	1mth	3mth	1yr
ABS	-8.9	12.2	-10.7
REL TO BSE	-6.3	13.5	-14.0

Price Vs. Sensex (Rebased values)



Source: PhillipCapital India Research

Other Key Ratios

Rs mn	FY14E	FY15E	FY16E
Net Sales	38,393	46,532	57,031
EBIDTA	1,185	1,889	3,202
Net Profit	-76	216	952
EPS, Rs	(0.9)	2.6	11.5
PER, x	(419.9)	147.4	33.4
EV/EBIDTA, x	32.4	20.5	11.6
P/BV, x	1.0	0.8	0.7
ROE, %	(1.5)	4.2	15.6
Debt/Equity (%)	141.5	145.3	130.8

Source: PhillipCapital India Research Est.

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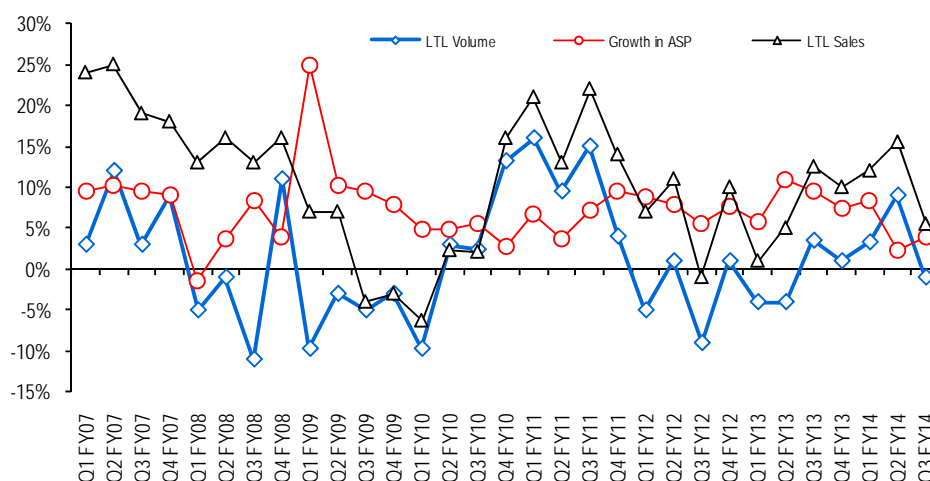
Quarterly Results

Rs Mn	Standalone		YoY Gwth	Comments
	Q3FY13	Q3FY14		
Income	6,531	7,613	17%	Growth led by 5.5% LTL sales
Gross Profit	2,321	2,782	20%	
Gross Margin	35.5%	36.5%		Margin improved aided by higher share of apparel and excise duty benefits
EBITDA	453	526	16%	
EBITDA Margin	6.9%	6.9%		Although improvement in Gross margins (100 bps) but offset by offset with the increase in staff cost (50bps) and opex (50 bps)
Depreciation	120	140	16%	
Interest	86	115	34%	
PBT	279	303	9%	Tax rate high at 43%
Tax	108	130	20%	
PAT	171	173	1%	
PAT Margin	2.6%	2.3%		

Source: Company, PhillipCapital India Research Estimates

Analysis of Q3FY14 Performance

Same-Store Sales Growth, Volume and ASP Movement



Source: Company, PhillipCapital India Research

Analysis of Standalone Results

Standalone Revenues grew by 17% YoY led by Same Store Sales (SSS) of 5.5% as against 15.5% in Q3FY14 and 12.5% in Q1FY13. ASP increased marginally by 3.9% YoY contributing to growth.

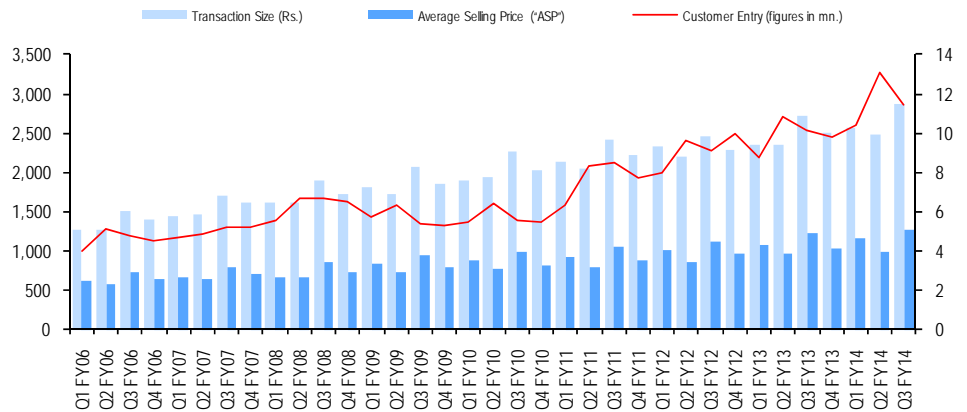
EBITDA margins at 6.9% remained flat (YoY). Gross margins expanded by 100 bps (YoY) largely on account of higher apparel share and excise duty benefits (up 210 bps YoY). Rentals as % of sales remained flat at 8.5% (it decreased in Q3) and Employee cost grew by 25% at 7.1% of sales. New store opening would have also impacted these costs. Inventory /sqft increased to Rs 796 as against Rs 732 in Q2FY13. However, cash operating cash generating continued to strong with Rs 774 mn generated during the quarter.

The company opened 4 shoppers stop stores (Raipur, Hyderabad & Chennai and Jaipur Airport), 2 MAC standalone, 2 Clinique during the quarter resulting in an addition of 0.192 msf.. The total area under Shoppers Stop (standalone) is now at 3.87 msf.

Operational Indicators quarterly

Most important operational indicators point towards weak consumer behaviour during the quarter was LTL de-growth in customer entry (-3.7%), however there is increase in transaction size (+6.6%) and increase in ASP (+6.5%) during the quarter. Moreover, LTL volume de-growth of 1% was reflective of the consumer sentiments.

Increase in customer entry and transaction size indicates improve consumer sentiments (QoQ)

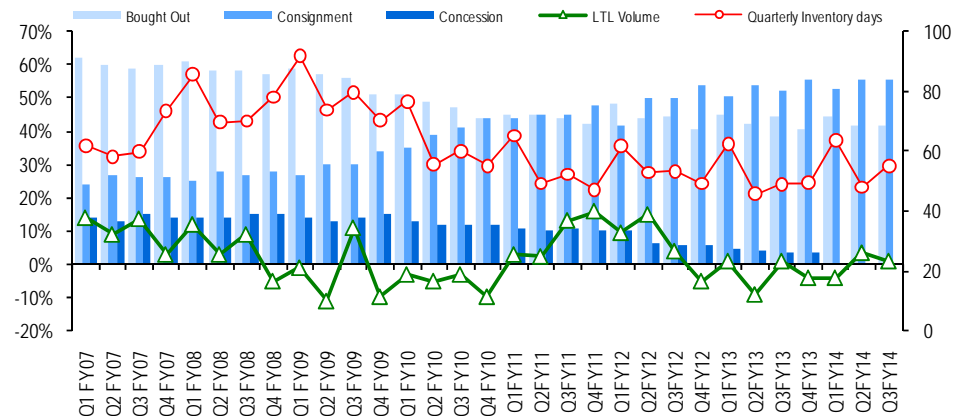


Source: Company, PhillipCapital India Research

Merchandise Mix and inventory

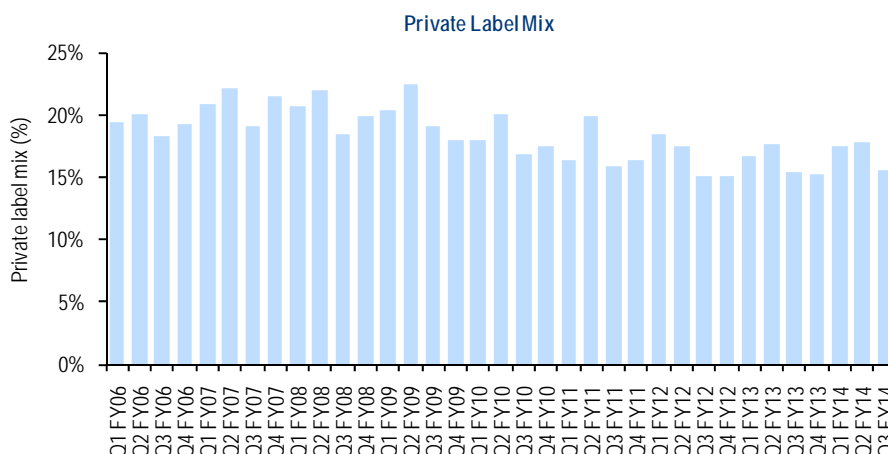
Inventory /sqft increased to Rs 796 as against Rs732 in Q3FY13. However, cash operating cash generating continued to strong with Rs 774 mn generated during the quarter.

Increase in inventory sequentially due to 4 new stores opened in Q3FY14



Source: Company, PhillipCapital India Research

Private label Mix remained flat (YoY)



Source: Company, PhillipCapital India Research

Highlights of conference call

On Shoppers Stop:

- Company has generated Rs960 mn cash and deployed Rs125 mn in Standalone and Rs500 mn in group entities
- Among the product categories, Apparel has performed well & jewellery has witnessed double digit de growth in volume and value.
- Management stated that Q4FY14 LTL will be in the range of 7-8%.
- During the quarter, company has witnessed better growth in Eastern and Northern part of the country, however Sothern part of country is the slowest. In Chennai particularly, 3 malls have come in last 1 year and hence supply higher than demand. Cannibalization effect also impacted Chennai business. Political situation in Hyderabad impacts business.
- Company is targeting to take share of private label to 20% in 24 months.
- Company wants to position itself to become an omni-channel retailer i.e. meeting customer needs seamlessly through offline or online channel.
- Debt levels will increase by Rs1 bn for FY15 from current levels.
- During the quarter, LTL growth is impacted on account of
 - Higher Base effect
 - Weak consumer sentiment due to economy slowdown
 - 85-90% stores in Malls – Block buster movie results in better business.
- Deep discounting sale is affecting the entire market eco-system. Sale season likely to be longer by a week for Shoppers Stop. Share of EoSs this year – 24%. Shoppers have started the sales period earlier to align with the other competitors.
- In FY 16 company should be tracking 8% EBITDA.
- Management stated that it is important to lock in space as foresee shortage of quality retail space as pipeline post FY15/16 is looking very slow.

On Hypercity:

- Company planning to open 3 new stores in FY15.
- Management stated that they are open to foreign partner to FDI in Hypercity and awaiting clarification from FIPB on brown-field investments.
- Central cost includes one time cost for exit of CDIT and change of IT vendor. Changed the IT provider – one time exit payment. New IT vendor will result in cost savings.
- Currently, 8 stores (previous quarter 7) at the EBITDA level were positive. and looking to break even at company level in 6 quarters time.

Analysis of Hypercity's Performance

- Hypercity's revenues grew by 15% YoY led by 1% SSS (7% adjusted for Ex-CDIT) as against 9% SSS in Q2FY14 and 11% in Q3FY13. LTL volume de-growth of at 1%.
- We highlight that during the quarter the net area under operation increased from 1.23 mn sq ft to 1.29 mn sq ft.
- Company has recorded Store level EBITDA positive from last 10 consecutive quarters at Rs 18 mn and company level EBITDA loss widened by 45% to Rs111 mn driven by 45% (YoY) increase in central costs. Central Costs- Service expenses growth is only 17%, the higher growth in expenses came from in pre-operating expenses and one time exit costs from CDIT category.

Hypercity's funding

The company incurred a loss of Rs251 mn during the quarter and we estimate that Rs270 mn of fresh capital was infused in the company during the period. We note that Hypercity's loans from Shareholders/group companies increased by Rs50 mn.

Particulars (Rs mn)	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14
Net worth – Beginning of quarter	81	77	62	93	46	46	38
Losses during the year/quarter	(214)	(209)	(236)	(219)	(247)	(258)	(251)
Net worth – End of quarter	77	68	62	93	46	38	58
Capital infusion	210	200	236	219	247	250	270

Source: PhillipCapital India Research

Hypercity Balance Sheet

Sources Of Funds	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14
Net worth	77	68	62	93	46	38	58
Loans from Shareholders / Group Companies	790	833	845	835	755	820	870
Loans	1,577	1,557	1,593	1,521	1,646	1,598	1,501
Total	2,445	2,457	2,500	2,449	2,447	2,456	2,429
Application of Funds							
Fixed Assets	1,676	1,663	1,600	1,617	1,717	1,750	1,786
Currents Assets , Loans and Advances	1,610	1,296	1,707	1,743	1,879	1,965	2,153
Less : Current Liabilities and Provisions	842	502	807	911	1,148	1,258	1,510
Net Current Assets	768	794	900	832	730	706	643
Total	2,445	2,457	2,500	2,449	2,447	2,456	2,429

Source: Company, PhillipCapital India Research

Hypercity Quarterly Performance

Rs Mn	Q3FY13	Q2FY14	Q3FY14	YOY	QOQ
Retail Sales (Net of VAT)	1,996	2,170	2,289	15%	2%
Gross Margin	422	470	492	16%	5%
Gross Margin%	21.2%	21.7%	21.5%		
DC Cost	26	30	28	8%	13%
Damages / Others	10	15	10	-3%	130%
Net Margin	386	425	454	18%	2%
Net Margin%	19.30%	19.60%	19.80%	3%	-1%
Store Operating Expenses	426	469	496.300	17%	7%
Other Retail Operating Income	57	57	61	7%	9%
Store EBITDA	17	13	18	8%	-53%
Store EBITDA % to Sales	0.80%	0.60%	0.79%		-54%
SO Expenses	89	139	129	45%	15%
COMPANY EBITDA	(72)	(126)	(111)	54%	35%
Exceptional Item					
Depreciation	82	47	52	-37%	-37%
Finance Charges	82	85	88	7%	6%
PAT	(236)	(258)	(251)	6%	4%

Source: Company, PhillipCapital India Research Estimates

Shoppers Stop Standalone Profit Model

INCOME	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E
Total Income	15,527	18,489	20,878	24,390	29,254	36,094	45,053
EXPENDITURE							
Less: Cost of consignment merchandise	943	1,297	1,577	1,831			
Cost of goods sold	9,965	12,187	13,672	15,906	18,869	23,281	28,969
Employee costs	920	990	1,276	1,611	2,077	2,563	3,064
Operating and administrative expenses	3,486	3,719	4,502	5,608	6,728	8,229	9,776
EBITDA	1,157	1,593	1,427	1,264	1,580	2,021	3,244
Interest charges	254	145	250	319	296	396	406
Depreciation	381	310	377	507	545	640	728
Other Income			178	172	172	172	172
PBT	521	1,137	978	610	739	985	2,110
Tax (credit)/Charge	164	386	335	211	295	354	739
Exceptional item	-	(1)	-	7	-	-	-
Loss from discontinuing operations	(2)	-	-	-	-	-	-
Profit from operating activities after tax	358	752	643	392	443	630	1,372
Minority Interest	1	0	0	0	1	1	1
NET (LOSS)/PROFIT FOR THE YEAR	359	752	643	392	442	629	1,371

Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY13	FY14E	FY15E	FY16E
Net sales	31,772	38,393	46,532	57,031
Growth, %	14	21	21	23
Total income	31,772	38,393	46,532	57,031
Raw material expenses	-20,789	-25,872	-31,229	-38,043
Employee expenses	-2,359	-2,077	-2,563	-3,064
Other Operating expenses	-7,663	-9,259	-10,851	-12,722
EBITDA (Core)	961	1,185	1,889	3,202
Growth, %	(8.3)	23.3	59.4	69.5
Margin, %	3.0	3.1	4.1	5.6
Depreciation	-791	-768	-864	-984
EBIT	171	418	1,025	2,218
Growth, %	(8.3)	23.3	59.4	69.5
Margin, %	3.0	3.1	4.1	5.6
Interest paid	-547	-696	-854	-931
Other Non-Operating Income	69	0	0	0
Pre-tax profit	-307	-279	172	1,287
Tax provided	-228	-295	-354	-739
Profit after tax	-535	-574	-183	548
Others (Minorities, Associates)	430	499	398	403
Net Profit	-105	-76	216	952
Growth, %	(155.0)	(27.7)	(385.0)	341.3
Net Profit (adjusted)	(105)	(76)	216	952
Unadj. shares (m)	83	83	83	83
Wtd avg shares (m)	83	83	83	83

Balance Sheet

Y/E Mar, Rs mn	FY13	FY14E	FY15E	FY16E
Cash & bank	268	336	536	2,594
Debtors	322	384	465	570
Inventory	3,698	4,583	4,754	3,743
Loans & advances	3,356	3,839	4,188	5,133
Total current assets	7,644	9,142	9,943	12,040
Gross fixed assets	9,991	12,343	14,413	16,348
Less: Depreciation	-3,570	-4,337	-5,202	-6,186
Add: Capital WIP	319	319	319	319
Net fixed assets	6,740	8,324	9,530	10,481
Non-current assets	987	987	987	987
Total assets	15,371	18,454	20,461	23,508
Current liabilities	5,271	6,422	7,706	9,291
Total current liabilities	5,271	6,422	7,706	9,291
Non-current liabilities	5,044	7,044	7,544	8,044
Total liabilities	10,316	13,467	15,250	17,335
Paid-up capital	415	415	415	415
Reserves & surplus	4,594	4,519	4,734	5,686
Shareholders' equity	5,055	4,986	5,211	6,172
Total equity & liabilities	15,371	18,453	20,462	23,509

Source: Company, PhillipCapital India Research Estimates

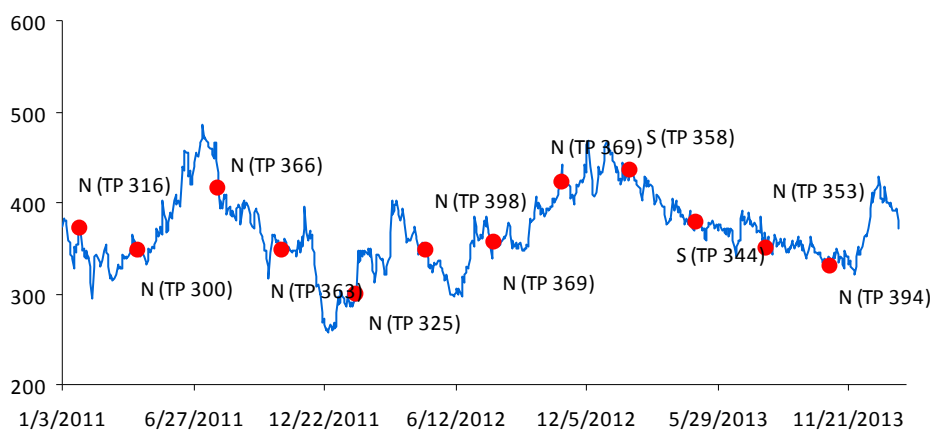
Cash Flow

Y/E Mar, Rs mn	FY13	FY14E	FY15E	FY16E
Pre-tax profit	-307	-279	172	1,287
Depreciation	791	768	864	984
Chg in working capital	-164	-280	682	1,546
Total tax paid	-167	-295	-354	-739
Cash flow from operating activities	152	-86	1,364	3,079
Capital expenditure	-1,049	-2,353	-2,070	-1,935
Cash flow from investing activities	-1,049	-2,352	-2,070	-1,935
Free cash flow	-897	-2,439	-706	1,144
Debt raised/(repaid)	625	2,000	500	500
Other financing activities	-49	1	0	0
Cash flow from financing activities	1,014	2,507	907	913
Net chg in cash	117	68	201	2,057

Valuation Ratios & Per Share Data

	FY13	FY14E	FY15E	FY16E
Per Share data				
EPS (INR)	(1.3)	(0.9)	2.6	11.5
Growth, %	(154.8)	(27.7)	(385.0)	341.3
Book NAV/share (INR)	60.4	59.5	62.1	73.5
FDEPS (INR)	(1.3)	(0.9)	2.6	11.5
CEPS (INR)	8.3	8.3	13.0	23.3
CFPS (INR)	1.0	(1.0)	16.4	37.1
Return ratios				
Return on assets (%)	(1.3)	(0.8)	1.9	5.2
Return on equity (%)	(2.1)	(1.5)	4.2	15.6
Return on capital employed (%)	(1.9)	(1.2)	2.9	8.5
Turnover ratios				
Asset turnover (x)	3.7	3.9	4.2	5.2
Sales/Total assets (x)	2.2	2.3	2.4	2.6
Sales/Net FA (x)	4.8	5.1	5.2	5.7
Working capital/Sales (x)	0.1	0.1	0.0	0.0
Fixed capital/Sales (x)	0.1	0.2	0.1	0.1
Working capital days	24.2	22.7	13.3	1.0
Liquidity ratios				
Current ratio (x)	1.4	1.4	1.3	1.3
Quick ratio (x)	0.7	0.7	0.7	0.9
Interest cover (x)	0.3	0.6	1.2	2.4
Total debt/Equity (%)	99.5	141.5	145.3	130.8
Net debt/Equity (%)	94.1	134.7	134.9	88.3
Valuation				
PER (x)	(303.5)	(419.9)	147.4	33.4
Price/Book (x)	6.3	6.4	6.2	5.2
EV/Net sales (x)	1.1	1.0	0.8	0.7
EV/EBITDA (x)	38.0	32.4	20.5	11.6
EV/EBIT (x)	38.0	32.4	20.5	11.6

Recommendation History



Source: PhillipCapital India Research

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