

BSE SENSEX 28,052
 S&P CNX 8,639

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Bloomberg	SHOP IN
Equity Shares (m)	82.2
M.Cap.(INRb)/(USDb)	30.7 / 0.5
52-Week Range (INR)	446 / 301
1, 6, 12 Rel. Per (%)	-5/-15/-6
Avg Val, INRm / Vol m	15
Free float (%)	32.9

Financials & Valuations (INR b)

Y/E Mar	2016	2017E	2018E
Net Sales	34.1	38.6	44.7
EBITDA	2.2	2.6	3.1
PAT	0.5	0.7	0.9
EPS (INR)	5.8	8.7	11.4
Gr. (%)	19.3	48.9	30.9
BV/Sh (INR)	95.6	104.7	113.6
RoE (%)	6.3	8.8	10.6
RoCE (%)	6.2	7.6	8.9
P/E (x)	64.0	43.0	32.9
P/BV (x)	3.9	3.6	3.3

Estimate change



TP change



Rating change



CMP: INR373 TP: INR365(-2%)

Neutral

Weak margin performance

- S/L results:** Shoppers Stop's (SHOP) sales grew 10.4% YoY (est. of +9%) to INR7.6b (Ind-AS). LTL sales grew 5.5%, with volumes up 5.7%. For stores less than five years/over five years old, LTL sales grew 11.2%/3%. EBITDA declined 56.4% YoY (est. of +9%) to INR74m, leading to net loss of INR136m (Ind-AS), compared to PAT of INR24m in 1QFY16.
- Gross margin contracted 130bp YoY** to 37.4%. Savings from lease rentals (-50bp) were offset by higher admin expenses (+40bp YoY) and staff costs (+20bp YoY). Thus, EBITDA margin contracted 150bp YoY to 1% (est. of flat margins), with EBITDA declining 56.4% to INR74m. Minuscule operating margins resulted in net loss of INR136m compared to small standalone PAT of INR24m in 1QFY16. In 1QFY17, SHOP opened 4 stores, taking its total store count to 81.
- HyperCITY performance highlights:** HyperCITY reported sales of INR2.7b (+6.7% YoY), with -0.5% LTL sales growth and 0.3% LTL volume growth. Net margin widened 250bp to 21.8%. Store EBITDA stood at INR28m compared to INR94m in 1QFY16, owing to higher store operating expenses. HyperCITY posted EBITDA and PAT loss of INR91m and INR257m, respectively.
- Concall highlights:** a) FY17 target SSS of 7-8% for SHOP and 7-8% for 2HFY17 for HyperCITY. b) HyperCITY – targeting positive store level as well as overall EBITDA margin by 4QFY17. c) Majority of new store additions for FY17 have already taken place in 1QFY17 for both SHOP and HyperCITY. d) Management believes that discounting is the new normal, not just in online but also offline. e) New government policies restricting online players have not been implemented well. f) Online strategy will primarily be focused on building omni-channel presence.
- Valuation and view:** Good monsoon forecasts, resultant recovery in sentiment and moderate inflation could raise demand going forward beyond 1HFY17. Results meanwhile continue to be highly disappointing, with losses now in SHOP's business as well. We cut our FY18 EPS by 13% to factor in poor results. Maintain **Neutral**, with a SOTP-based target price of INR365.

Quarterly performance

Y/E March	(INR Million)									
	FY16				FY17		FY16	FY17E	FY17	1QE
	1Q	2Q	3Q	4Q	1Q	FY16	FY17E	FY17	1QE	(%)
LTL Sales Gr %	12.7	0.1	17.4	5.9	5.5	9.0	10.0	5.0		
Dept Stores	73	74	76	77	81	77	84	80		
Net Sales	6,846	8,943	9,118	8,959	7,559	34,132	38,569	7,752	(2.5)	
YoY Change (%)	11.8	4.6	19.1	9.7	10.4	11.9	13.0	9.0		
Total Exp	6,677	8,333	8,405	8,437	7,485	31,960	36,008	7,395	1.2	
EBITDA	169	611	712	523	74	2,173	2,561	357	(79.4)	
Growth %	-45.2	10.0	33.0	6.5	-56.4	15.0	17.9	9.0		
Margins (%)	2.5	6.8	7.8	5.8	1.0	6.4	6.6	4.6		
Depreciation	199	309	211	258	372	977	1,048	213		
Interest	139	135	158	141	159	573	562	136		
Other Income	207	53	58	50	237	213	256	61		
PBT	37	220	402	174	-220	836	1,207	69	(419.5)	
Tax	16	91	166	72	-85	346	483	28		
Rate (%)	41.9	41.5	41.2	41.5	38.5	41.4	40.0	40.0		
Adjusted PAT	22	129	236	102	-136	490	724	41	(427.6)	
YoY Change (%)	188.1	-19.1	71.3	-1.2	-726.9	20.3	47.9	74.4		

E: MOSL Estimates

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Key Quarterly Charts

Exhibit 1: Quarterly Snapshot

Key metrics (%)	4QFY14	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17
Total Area (m sq ft)	3.9	4.0	4.2	4.2	4.2	4.2	4.2	4.3	4.3	4.4
Sales/sq ft - Shoppers Stop (INR)	2,168	1,703	2,354	1,985	2,176	1,858	2,333	2,338	2,300	1,927
Sales growth - ALL	18.7	12.9	18.0	7.1	9.0	15.7	3.5	17.2	8.0	9.8
Sales growth - dept	17.0	11.1	16.4	5.8	8.5	15.5	3.2	18.2	8.3	10.6
Same store sales growth - Dept	8.4	3.7	11.0	0.8	4.0	12.7	0.1	17.4	5.9	5.5
LTL Sales growth > 5 yr old store	3.8	(1.0)	7.0	(2.7)	3.3	13.3	(0.4)	17.6	5.0	3.0
LTL Sales growth < 5 yr old store	15.0	15.4	20.0	7.9	5.3	11.6	1.1	17.1	8.3	11.2
LTL Volume Growth (%)	6.5	5.4	7.2	(1.1)	(1.7)	10.6	(1.6)	15.9	5.4	5.7
Bought out	39.4	43.7	40.8	42.0	39.9	44.2	41.6	43.0	41.8	45.1
Consignment / SOR	57.9	53.8	56.9	55.5	58.0	53.9	56.6	55.2	56.4	53.2
Concession	2.7	2.6	2.3	2.5	2.0	1.9	1.8	1.8	1.8	1.7

Source: Company, MOSL

Exhibit 2: Shoppers Stop added 4 store in 1QFY17

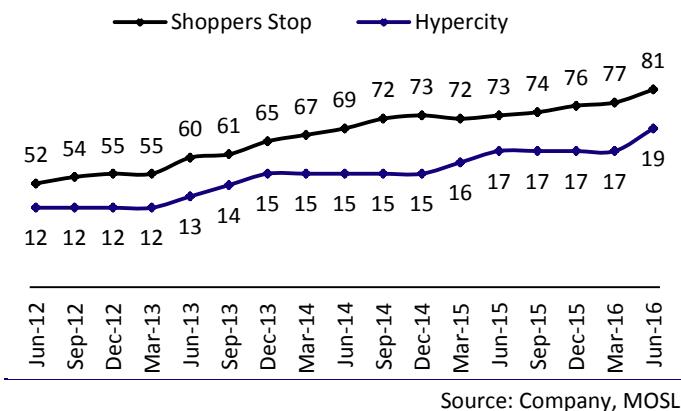


Exhibit 4: LTL volumes were up 5.7%

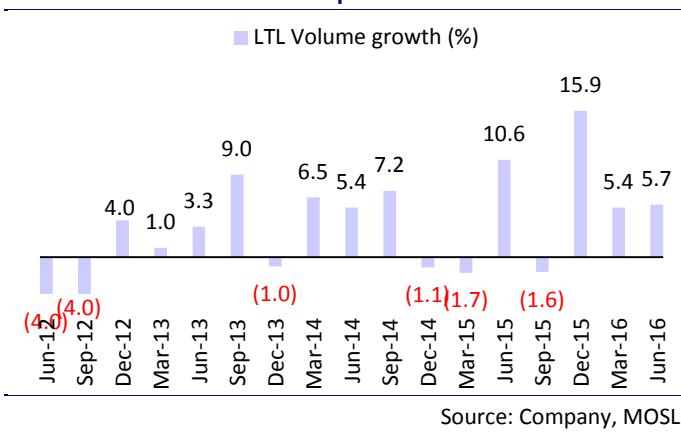


Exhibit 3: LTL sales grew 5.5% in 1QFY17

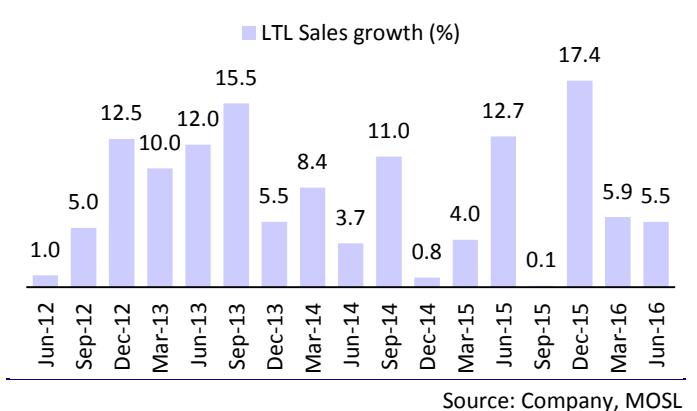


Exhibit 5: EBITDA margins contracted 150bp YoY

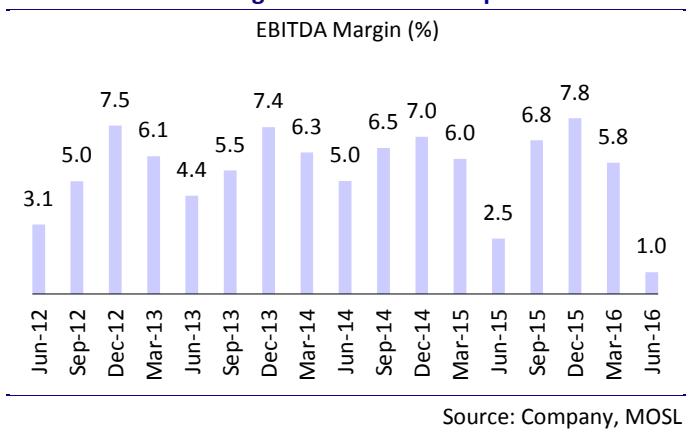
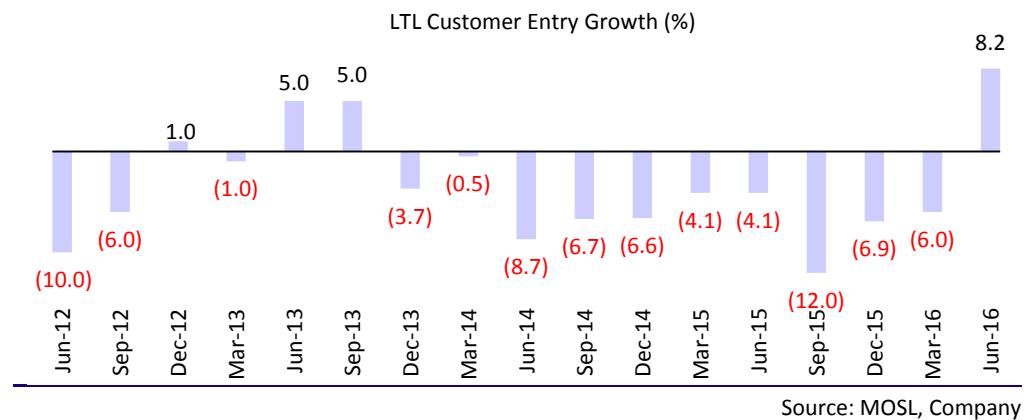


Exhibit 6: LTL Customer entry grew 8.2%**Shoppers Stop: LTL sales up 5.9% led by LTL volume growth of 5.4%**

- Sales, EBITDA and PAT growth came 10.4%, -56.4 and -726.9% vs. our expectations of 9%, 9% and 74%.
- SHOP's reported standalone sales growth of 10.4% YoY to INR7.6b. Like-to-like growth for the quarter stood at 5.5%
- EBITDA and PAT came in at INR74m and INR-136m vs. our expectations of INR357m and INR41m, respectively.
- Gross margin contracted by 130bps YoY to 37.4%.
- Higher Staff costs (up 20bps to 8.5%) and increase in admin costs (up 40bps to 17.2%) off-set by lower lease rent (down 50bps to 10.6%) led to EBITDA margin contraction of 150bps YoY to 1%.
- EBITDA posted 56% YoY decline to INR74m.
- Adj PAT declined to report a loss of INR136m (est. INR41m).
- During the quarter, it opened 4 SHOP store. Total retail space stood at 4.4msf.

Exhibit 7: HyperCITY Quarterly snapshot

INR m	1QFY15	2QFY15	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17
Net Sales	2,289	2,304	2,435	2,012	2,368	2,372	2,494	2,112	2,525
Gross Profit	509	516	552	458	536	527	566	469	590
Gross Margin (%)	22.2	22.4	22.7	22.7	22.6	22.2	22.7	22.2	23.3
Store EBITDA	78	91	93	54	95	55	71	(14)	28
% to sales	3.4	3.9	3.8	2.7	4.0	2.3	2.8	(0.7)	1.1
Company EBITDA	-16	2	2	-65	1	-41	(26.8)	(129.1)	(90.9)
% to sales	-0.7	0.1	0.1	-3.2	0.0	-1.7	(1.1)	(6.1)	(3.6)
PAT	-177	-164	-159	-252	-159	-207	-209	-354	-257
% to sales	-7.7	-7.1	-6.5	-12.5	-6.7	-8.7	-8.4	-16.7	-10.2
LTL sales growth (%)	-5.0	1.0	6.5	5.7	1.9	0.3	-0.8	2.1	-0.5
Stores	15	15	15	16	17	17	17	17	19
LTL volume Gr %	-7.0	-5.0	-2.0	-1.0	-6.0	-5.0	0.5	4.3	0.3
LTL Ticket Size Gr %	-1.0	6.0	9.0	7.0	8.0	2.0	-1.3	-1.0	-0.1

Source: Company, MOSL

HyperCITY: LTL volume grew 0.3%; Store level EBITDA posts marginal profit

- Another quarter of disappointment with quarterly loss at second highest all-time high of INR257m. Internals of HyperCITY were muted too with flat SSSG, Store EBITDA of INR 28m owing to higher store operating expenses. HyperCITY EBITDA losses stood at INR 91m, second highest since 1QFY12.

Key Concall Highlights

Shoppers Stop standalone business

- Loyalty program 4.3 mn customers contributing 77% of sales.
- - New stores are new design, cleaner in terms of navigation and also smaller 30000 sq feet or below.
- Eastern region continues to grow at double digits LTL and West 7.5%. North impacted by odd even implementation again in May.
- Lack of marriage season also impacted LTL sales growth. Renovation of 4 stores also affected YoY SSG.
- Apparel continues to grow faster than non-apparel. 40% of store is non-apparel for Shoppers stop.
- Home and jewelry segments witnessed degrowth. Management believes Home segment will see recovery from 3QFY17 onwards.
- Sales season slightly earlier by 3 days for loyalty customers, which led to better LTL sales but affected gross margins.
- Maintained 7-8% LTL sales growth for FY17.
- Next few quarters growth drivers are (a) monsoons reducing price inflation (b) festive season beginning; (c) marriage season (d) pay commission recommendation.
- Maintained 100 bp EBITDA margin improvement target in standalone for the full year. 1QFY17 EBITDA margins were down 150 bps YoY.
- FCF in Shopper Stop by end of year. Debt increase sequentially is mainly due to new store addition during the quarter. 2Q and 3Q are usually high cash generation quarters.
- Majority of new stores have already opened. 6 stores targeted in FY17 already opened 4.
- In new cities Shoppers Stop stores are over 40,000 sq feet in existing cities below 40,000 for second and third store which enables faster profitability.
- 5-8% stores go for renovation every year.
- Depreciation 80% higher YoY due to 4 new stores and acceleration depreciation on likely store closures in the next few quarters. Closing 2 stores 1 in Mulund and another in Delhi (Rajouri) and opening in adjacent areas Accelerated depreciation impact as well. as impact of new stores won't be there in rest of the year.

Strategy for Shoppers Stop

- In apparel focus on differentiated labels as well as private and exclusive brands.
- Beauty is a key area of focus in focus in non-apparel.
- Core customer 35-45 years range. Targeting younger and retain existing as well.

Global trends coming into India

- Speciality retail and fast fashion growing faster.
- Value fashion growing faster.
- Customer has less time, more money and more options to spend like travel.
- Key is to remain relevant in the changing world.

HyperCITY highlights

- Guidance of 7-8% LTL growth for 2HFY17 compared to flat for 1QFY17 for HyperCITY.
- Vashi store was closed for 2 weeks else would have reported positive SSSG of ~1.5%.
- Likely strong SSSG in 2HFY17.
- Believe that assortment will drive growth for HyperCITY. International food already 5% of sales. Localised region specific food will also aid growth.
- Fashion mix up for HyperCITY driving up gross margins.
- 2 new stores plus 2 stores less than 1 year affecting profitability as these are a substantial portion of 19 stores in operation.
- New HyperCITY at Panvel doing very well from day 1. Great sales per square feet. Also believe that there is great potential in the other new store at Noida.
- Positive EBITDA guidance by 4QFY17 maintained.
- 3 additions planned in FY17, 2 opened already so going forward margin pressure will be low.
- May close 1 HyperCITY store this year.

Competition from Online, Company's Online strategy

- Myntra and Jabong now coming together increases competitive intensity.
- Has not seen discounting by online retailers go down although advertising of the same may have reduced on TV.
- Even online sales are slowing down in 1QFY17 compared to 4QFY16.
- New online retail rules are not being implemented well'
- Shoppers Stop strategy will be mainly omnichannel unlike peers who are omni as well as online.
- Non apparel strength of physical stores and new exclusive brands for online will push online sales.
- The company has launched new app for android and IOS. Likely to double sales QoQ for next few quarters.
- Looking to migrate loyalty customers to omni channel as the main area of growth.
- Management believes that discounting is the new normal not just in online but also offline as well.

GST impact

- GST will get 100 bps set off on service tax.
- Revenue neutral rate 14%.
- At 18% price growth 4-5% not a huge impact on pricing. Average price increase is also 4-5% annually.
- Do not see substantial margin pressure arising from GST implementation.
- GST will help streamline entire supply chain in terms of lower delays.

Valuation and view

- Good monsoon forecasts, resultant recovery in sentiment and moderate inflation could perk up demand going forward beyond 1HFY17 but meanwhile results continue to be highly disappointing with losses now in the Shopper's Stop business as well. We cut our FY18 EPS by 13% to factor in poor results. Maintain **Neutral**, with a SOTP-based target price of INR365.

Exhibit 8: Cut our EPS for FY18 by 13.8%

	New		Old		Change	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Sales	38,569	44,740	39,016	45,171	-1.1%	-1.0%
EBITDA	2,561	3,109	2,616	3,345	-2.1%	-7.1%
PAT	724	948	756	1,100	-4.2%	-13.8%

Source: Company, MOSL

Financials and Valuations

Income Statement									(INR Million)
Y/E March	2011	2012	2013	2014	2015	2016	2017E	2018E	
Net Revenues	17,120	19,297	22,542	27,136	30,420	34,132	38,569	44,740	
Change (%)	22.2	12.7	16.8	20.4	12.1	12.2	13.0	16.0	
Total Expenditure	15,599	17,878	21,278	25,599	28,531	31,960	36,008	41,632	
EBITDA	1,521	1,419	1,264	1,537	1,889	2,173	2,561	3,109	
Change (%)	43.0	-6.7	-10.9	21.6	23.0	15.0	17.9	21.4	
Margin (%)	8.9	7.4	5.6	5.7	6.2	6.4	6.6	6.9	
Depreciation	310	377	507	618	858	977	1,048	1,220	
Int. and Fin. Charges	145	250	319	419	512	573	562	564	
Non-operational Income	72	187	172	134	177	213	256	256	
Profit before Taxes	1,138	978	610	634	696	836	1,207	1,581	
Change (%)	98.9	-14.0	-37.6	3.9	9.8	20.1	44.5	30.9	
Margin (%)	6.6	5.1	2.7	2.3	2.3	2.4	3.1	3.5	
Tax	387	335	211	257	288	346	483	632	
Tax Rate (%)	34.0	34.3	34.6	40.6	41.4	41.4	40.0	40.0	
Profit after Taxes	751	643	399	377	407	490	724	948	
Change (%)	79.9	-14.5	-37.9	-5.6	8.1	20.3	47.9	30.9	
Margin (%)	4.4	3.3	1.8	1.4	1.3	1.4	1.9	2.1	
Exceptionals	1	0	-7	-7	0	-238	0	0	
Reported PAT	752	643	392	370	407	252	724	948	
Balance Sheet									(INR Million)
Y/E March	2011	2012	2013	2014	2015	2016	2017E	2018E	
Share Capital	411	413	415	416	417	420	417	417	
Reserves	5,570	6,172	6,523	6,871	7,236	7,434	8,188	8,915	
Net Worth	5,981	6,585	6,938	7,287	7,653	7,854	8,605	9,332	
Loans	1,487	2,591	3,293	4,513	5,184	5,902	5,500	5,500	
Deferred Tax	-33	2	63	100	96	17	17	17	
Capital Employed	7,436	9,178	10,294	11,899	12,932	13,773	14,122	14,849	
Gross Block	5,056	6,440	7,212	8,467	9,684	10,675	12,099	13,588	
Less: Accum. Depn.	1,935	2,272	2,653	2,976	3,721	4,360	4,356	4,892	
Net Fixed Assets	3,121	4,168	4,559	5,490	5,963	6,315	7,744	8,696	
Capital WIP	446	298	274	319	142	280	150	150	
Prop. Lease Dep.&Other long term assets	1,068	2,503	2,833	3,012	3,423	3,666	3,407	3,952	
Investments	2,372	2,842	3,309	3,876	4,065	4,047	4,147	4,247	
Curr. Assets, L&A	3,428	2,844	3,374	3,892	4,310	4,774	5,202	5,671	
Inventory	1,511	2,120	2,438	2,955	3,296	3,859	3,882	4,278	
Account Receivables	160	192	204	260	223	237	278	324	
Cash and Bank Balance	26	71	117	87	49	53	156	81	
Loans and Advances	1,718	389	470	440	626	547	808	909	
Others	13	71	145	149	116	79	79	79	
Curr. Liab. and Prov.	3,000	3,477	4,056	4,689	4,971	5,309	6,528	7,868	
Account Payables	2,771	2,361	2,817	3,097	3,314	3,706	4,357	5,070	
Other Liabilities	159	1,023	1,136	1,519	1,582	1,556	2,001	2,576	
Provisions	70	93	103	73	75	47	170	222	
Net Current Assets	428	-633	-682	-798	-661	-535	-1,326	-2,197	
Application of Funds	7,436	9,178	10,294	11,899	12,932	13,773	14,122	14,849	

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2011	2012	2013	2014	2015	2016	2017E	2018E
Basic (INR)								
EPS	9.1	7.8	4.8	4.5	4.9	5.8	8.7	11.4
Cash EPS	12.9	12.4	11.0	12.1	15.4	17.8	21.6	26.4
BV/Share	72.8	80.1	84.4	88.7	93.1	95.6	104.7	113.6
DPS	0.8	0.8	0.8	0.8	0.7	0.0	1.7	2.3
Payout %	8.2	9.6	15.6	16.6	15.3	0.0	20.0	20.0
Valuation (x)								
P/E					76.4	64.0	43.0	32.9
Cash P/E					24.2	20.9	17.3	14.1
EV/Sales					1.0	1.0	0.8	0.7
EV/EBITDA					16.8	14.9	12.4	10.2
P/BV					4.0	3.9	3.6	3.3
Dividend Yield (%)					0.2	0.0	0.5	0.6
Return Ratios (%)								
RoE	16.6	10.2	5.9	5.3	5.5	6.3	8.8	10.6
RoCE	13.6	9.7	6.2	5.6	5.7	6.2	7.6	8.9
RoCE Adjusted for Inv	19.0	14.2	9.1	8.3	8.4	8.9	10.8	12.5
RoIC	19.7	13.0	7.9	7.7	7.4	7.8	9.5	11.3
Working Capital Ratios								
Debtor (Days)	3	4	3	3	3	3	3	3
Asset Turnover (x)	2.3	2.1	2.2	2.3	2.4	2.5	2.7	3.0
Leverage Ratio								
Debt/Equity (x)	0.2	0.4	0.5	0.6	0.7	0.8	0.6	0.6

Cash Flow Statement

Y/E March	2011	2012	2013	2014	2015	2016	2017E	2018E
(INR Million)								
Profit before tax	1,138	978	610	634	696	836	1,207	1,581
Add : Depreciation	68	337	381	324	744	639	-4	536
Interest	145	250	319	419	512	573	562	564
Direct Taxes Paid	387	335	211	257	288	346	483	632
Incr in WC	613	-1,107	-95	-86	175	122	-893	-797
Ch In DFA	13	35	60	37	-4	-79	0	0
Extra-ordinary Income	1	0	-7	-7	0	-238	0	0
CF from Operations	366	2,301	1,126	1,161	1,493	1,421	2,175	2,845
Incr in FA	650	1,235	749	1,299	1,041	1,128	1,295	1,489
Free Cash Flow	-284	1,067	377	-138	452	293	880	1,356
Investments	1,175	470	467	567	189	-18	100	100
CF from Invest.	1,825	1,705	1,216	1,866	1,230	1,110	1,395	1,589
Increase in networth	2,210	33	34	51	34	-50	196	0
Increase In debt	-506	1,103	703	1,220	671	718	-402	0
Interest Paid	145	250	319	419	512	573	562	564
Dividend Paid	70	72	73	73	75	0	170	222
Others	-34	-1,366	-210	-105	-419	-401	259	-545
CF from Fin. Activity	1,455	-552	135	674	-302	-307	-678	-1,331
Incr/Decr of Cash	-4	45	46	-30	-38	4	103	-74
Add: Opening Balance	30	26	71	117	87	49	53	156
Closing Balance	26	71	117	87	49	53	156	81

E: MOSL Estimates

Corporate profile

Company description

Shoppers Stop (SHOP) is one of the largest department store chains in India, with 73 stores and retail space of 4.2msf. The company is promoted by CL Raheja Group, one of the largest real estate groups in the country. SHOP has also entered specialty retail formats like Home Furnishing (Home Stop) and Beauty (Estee Lauder and M.A.C.). It also has presence in the high potential Hypermarket space through its 51% subsidiary, HyperCITY.

Exhibit 1: Sensex rebased

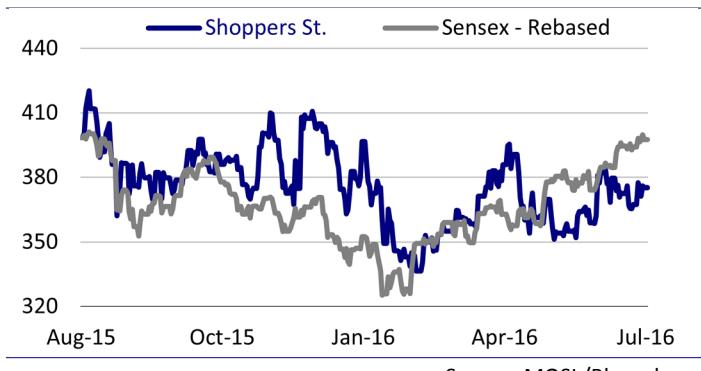


Exhibit 2: Shareholding pattern (%)

	Jun-16	Mar-16	Jun-15
Promoter	67.1	67.1	67.2
DII	13.2	13.1	13.4
FII	3.4	3.7	4.1
Others	16.3	16.1	15.3

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
RELIANCE CAPITAL TRUSTEE CO. LTD A/C	
RELIANCE EQUITY OPPORTUNITIES FUND	9.9
BIRLA SUN LIFE TRUSTEE COMPANY PRIVATE	
LIMITED AC BIRLA SUN LIFE 95 FUND	3.2
LO FUNDS - EMERGING CONSUMER	1.6
THE MASTER TRUST BANK OF JAPAN, LTD. AS	
TRUSTEE OF NISSAY INDIA EQUITY	
SELECTION MOTHER FUND	1.3

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Chandru L Raheja	Chairman
B S Nagesh	Vice Chairman
Govind Shrikhande	Managing Director
Prashant Mehta	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Avinash Bajaj	Deepak Ghaisas
Neel C Raheja	Nirvik Singh
Nitin Sanghavi	Ravi C Raheja
Abanti Sankaranarayanan	Gareth Thomas
Manish Chokhani	

*Independent

Exhibit 6: Auditors

Name	Type
Deloitte Haskins & Sells LLP	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY17	8.7	8.9	-2.2
FY18	11.4	13.2	-13.9

Source: Bloomberg

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