

January 6, 2021

## Festive season expected to revitalise recovery rates

We expect revenue recovery rates of fashion and lifestyle retailers to perk up in Q3FY21E to 65-75% from 45-55% in Q2FY21. In October-November recovery trajectory improved to ~75% owing to strong pent-up demand driven by festive buying. Various retail players indicated that tier-III and IV towns saw positive YoY growth in November. Furthermore, online sales gained robust traction with sales tracking 1.5-2x pre-Covid levels, supported by a low base. As per our channel checks, consumption demand post festive season may have softened a bit in December. Companies continue to channelise existing inventory in a bid to reduce fresh buys. Categories such as jewellery, open footwear, athleisure wear and kitchen appliances sustained recovery at a swifter pace compared to apparels and other accessories. Food & grocery retailers are expected to report positive growth YoY in Q3FY21E. We expect companies in our retail universe to report marginal revenue growth in Q3FY21E, with Titan, Page Industries and TTK Prestige expected to perform relatively better in the discretionary space.

### Jewellery segment glitters for Titan...

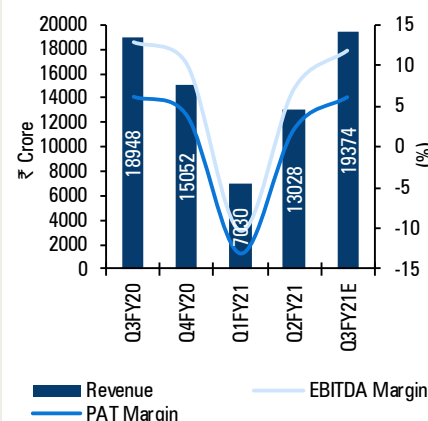
Among discretionary categories, Titan's jewellery division saw fastest recovery with the division reporting ~15% YoY sales growth in the quarter. The quality of growth is superior given it is driven by a revival in studded jewellery (though lower than previous year levels) and healthy traction in wedding jewellery. Recovery rate for watches & wearable division reached 88% in Q3FY21E (up from 55% in Q2FY21). We expect Titan to report overall sales growth of 15% YoY in Q3FY21E (including gold bullion sale worth ₹ 334 crore). For Avenue Supermarts, its core 'food & FMCG' segment (currently ~77% of sales) reverted to the growth path with positive trajectory seen across all stores. Discretionary categories (GM & apparels) were slow to recover but are gradually picking up pace. Hence, we expect Avenue Supermarts to report revenue growth of 8% YoY. For branded apparel players, revenue recovery rate had reached ~70% in October. The rate further accelerated in November due to healthy festive demand and onset of wedding season. Trent had outperformed other lifestyle players with sales reaching 55% of pre-Covid levels (vs. peers 40-45%) in Q2FY21. Hence, we expect Trent, ABFRL, Bata to report revenue de-growth of 23%, 30%, 32%, respectively, in Q3FY21E. For TTK Prestige, festive season demand has been quite strong (~15% growth in October) while growth rate continued to be healthy in November also. The supply chain issues faced in Q2FY21 are largely behind and capacities are operating at optimum utilisation levels. We expect TTK to report revenue growth of 12.2% YoY in Q3FY21E. The Page Industries management had indicated double digit topline growth in September was expected to sustain in the festive season. We expect Page to report revenue growth of 12% YoY driven by higher realisations (shift in product mix towards athleisure wear).

Exhibit 1: Estimates for Q3FY21E

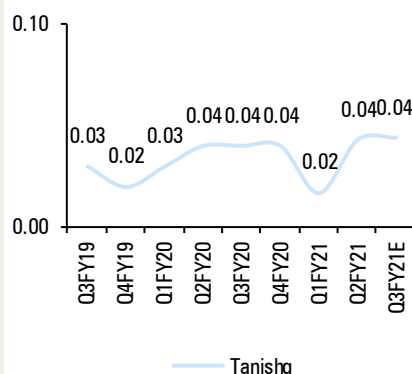
| Company           | Revenue         |            | Change (%)  |                | EBITDA      |              | Change (%)     |            | PAT          |         | Change (%) |     |
|-------------------|-----------------|------------|-------------|----------------|-------------|--------------|----------------|------------|--------------|---------|------------|-----|
|                   | Q3FY21E         | YoY        | QoQ         | Q3FY21E        | YoY         | QoQ          | Q3FY21E        | YoY        | QoQ          | Q3FY21E | YoY        | QoQ |
| Avenue Supermarts | 7,340.0         | 7.8        | 38.0        | 605.9          | 1.5         | 83.9         | 405.0          | 5.5        | 104.0        |         |            |     |
| Bata India        | 564.4           | -32.0      | 53.4        | 114.0          | -56.5       | 528.3        | 27.1           | -79.6      | LP           |         |            |     |
| Titan Company     | 7,490.7         | 14.8       | 64.5        | 898.1          | 18.4        | 186.9        | 579.1          | 22.0       | 232.8        |         |            |     |
| Trent Ltd         | 669.7           | -23.0      | 48.1        | 99.8           | -42.0       | 1,464.7      | 7.5            | -86.0      | LP           |         |            |     |
| TTK Prestige      | 612.8           | 12.2       | 3.8         | 96.2           | 15.9        | 11.8         | 69.6           | 14.3       | 12.0         |         |            |     |
| Page Industries   | 890.7           | 12.2       | 20.0        | 187.9          | 35.4        | 14.0         | 125.4          | 44.1       | 13.0         |         |            |     |
| ABFRL             | 1,806.0         | -30.0      | 77.0        | 274.5          | -33.0       | LP           | -36.4          | NA         | NA           |         |            |     |
| <b>Total</b>      | <b>19,374.3</b> | <b>2.3</b> | <b>48.7</b> | <b>2,276.4</b> | <b>-6.0</b> | <b>148.3</b> | <b>1,177.3</b> | <b>1.5</b> | <b>334.6</b> |         |            |     |

Source: Company, ICICI Direct Research.

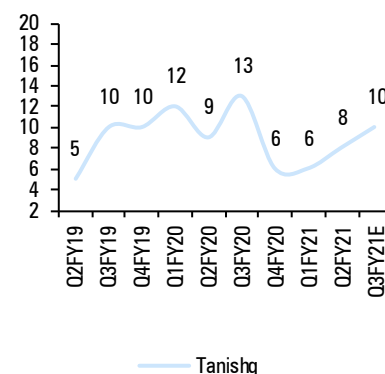
### Topline & Profitability (Coverage Universe)



### Space addition- million sq. ft. (QoQ)



### Store addition -(QoQ) Tanishq (Titan)



### Top Picks

Trent, TTK Prestige

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**Exhibit 2: Company Specific view**

| Company       | Remarks   |
|---------------|---|
| Bata India    | <p>We expect revenue recovery rate for Bata to improve from 50% in Q2FY21 to ~70% in Q3FY21E. A gradual pick-up in demand for formal wear shoes and new launches in categories like open sandals and styles are key factors for volume recovery. Enhanced distribution reach in Tier III/IV cities through franchise route is expected to aid in revenue recovery. We expect Bata to report revenue de-growth of 32% YoY to ₹ 564.4 crore. Owing to unfavourable product mix, we expect gross margins to fall 670 bps YoY to 54.0% (Q2FY21: 50%). Owing to cost rationalisation measures, we expect Bata to report EBITDA margin of 20.2% (Q2FY21: 4.9%, Q3FY20: 31.6%). Subsequently, we expect the company to report PAT of ₹ 27.1 crore vs. net loss of ₹ 44.3 crore in Q2FY21 (Q3FY20: ₹ 116 crore PAT)</p>   |
| Titan Company | <p>Titan witnessed healthy traction across its business formats during the comparable festive season (Dussehra to Diwali) in Q3FY21E. Jewellery segment reported robust revenue growth of 15% during the 30 day festive season. The momentum has sustained post the festive season as well. Higher demand for wedding jewellery and revival in share of studded ratio augurs well for Titan. The watches division also witnessed a healthy recovery with revenue recovery rate reaching 88% in Q3FY21E. We expect the jewellery division to report revenue growth of 14% YoY (excluding bullion sale worth ₹ 334 crore) while watches segment is expected to report revenue de-growth of 12% YoY in Q3FY21E. Overall revenues (including gold bullion sales) are expected to increase 15% YoY to ₹ 7490.7 crore. Owing to change in product mix, we expect gross margins to decline 240 bps YoY to 23.1%. However, owing to cost saving initiatives, we expect EBITDA margins to improve 40 bps YoY to 12.0%. We expect investments in marketing spends to accelerate in Q3FY21E to ₹ 149 crore (Q1FY21: ₹ 21.0 crore, Q2FY21: ₹ 61.0 crore). On the back of a strong operational performance, we expect PAT to increase 22% YoY to ₹ 579.1 crore</p> |
| Trent Ltd     | <p>Among apparel players in our coverage universe, Trent outperformed other players with sales reaching 55% of pre-Covid levels (vs. peers: 40-45%) in Q2FY21. Given the inherent strength of the brands, the recovery rate reached ~70% in October. We expect the rate to have further improved during the festive season. We expect revenue to decline 23% YoY to ₹ 669.7 crore. Owing to higher share of Zudio in revenue mix and higher discounting, we expect gross margins to decline 173 bps YoY to 48.9%. Significant cost rationalisation measures are expected to aid profitability recovery. EBITDA margins are expected to come in at 14.9% (Q2FY21: 1.4%, Q3FY20: 20%). We expect the company to report net profit of ₹ 7.5 crore vs. net loss of ₹ 48.1 crore (Q3FY20: PAT of ₹ 55.7 crore)</p>   |

Source: Company, ICICI Direct Research

**Exhibit 3: Company Specific views**

|                   |  |
|-------------------|--|
| Avenue Supermarts | <p>We expect Avenue Supermarts to report double digit revenue growth in Q3FY21E. The management had indicated that its core 'food &amp; FMCG' segment reverted to a positive growth trajectory whereas GM &amp; apparel categories are nearing their pre-Covid levels owing to strong demand in festive season. We expect sales to increase 7.8% YoY to ₹ 7340 crore (up 38% QoQ). Owing to a decline in share of GM &amp; apparel, we expect gross margins to contract 60 bps YoY to 14.7%. We expect EBITDA margins to decline 50 bps YoY to 8.4% (up 210 bps QoQ). On the back of higher other income and lower finance cost, we expect PAT to grow 6% YoY to ₹ 405 crore</p>   |
| ABFRL             | <p>We expect the overall recovery rate for ABFRL to get enhanced from 45% in Q2FY21 to 70% in Q3FY21E. On the segmental front, we expect revenue from lifestyle brands to decline 28% YoY. Introduction of new category lines like work from home (WFH), athleisure are expected to assist in revenue recovery (Lifestyle brands predominantly cater to formal wear). For Pantaloons division, we expect revenue to decline 34% YoY. E-commerce is expected to continue to grow at a rapid pace, with omni-channel coverage now reaching 50%+ of Pantaloons network. We expect overall revenue to decline 30% YoY to ₹ 1806 crore. On the back of significant cost saving initiatives, we expect PBT losses to narrow down to ₹ 38 crore vs. loss of ₹ 333 crore sequentially (Q3FY20: PBT ₹ 98.1 crore)</p> |
| TTK Prestige      | <p>The recovery in demand for kitchen and home appliances has been robust. The company was unable to cope up with demand in Q2FY21 owing to slow ramp up of its own capacities coupled with supply chain constraints at the vendor's end. With supply side issues mostly resolved, we expect TTK to report a healthy quarter. We expect TTK Prestige to report revenue growth of 12.2% YoY to ₹ 612.8 crore. The company has taken 4-6% price hikes on certain product categories to offset increase in RM prices. We expect gross margins to remain constant YoY at 42% in Q3FY21. On account of cost control measures, we expect EBITDA margins to expand 50 bps YoY to 15.7%, with absolute EBITDA increase of 16% YoY to ₹ 96.2 crore. Subsequently, we expect PAT to increase 14% YoY to ₹ 70 crore</p> |
| Page Industries   | <p>The company registered a revenue recovery of ~95% in Q2FY21. The revenue trajectory has been on an upward trend on a MoM basis, with August sales reaching pre-Covid levels while from September it witnessed double digit growth. We believe the momentum has sustained during the festive season as well. We anticipate Page will report revenue growth of 12.3% YoY to ₹ 890.7 crore with average realisations increasing 8% YoY to ₹ 198/share (mainly owing to higher share of athleisure wear). We expect a tight leash on operating expenses to result in superior EBITDA margin of 21% (up 360 bps YoY) in Q3FY21E. Subsequently, PAT is expected to grow 44% YoY to ₹ 125 crore</p>  |

Source: Company, ICICI Direct Research

**Exhibit 3: Valuation Summary**

| Sector / Company  | CMP    |        |        | M Cap<br>(₹ Cr) | EPS (₹) |       |       |       | P/E (x) |       |       |       | EV/EBITDA (x) |       |       |       | RoCE (%) |       |       |       | RoE (%) |       |       |       |
|-------------------|--------|--------|--------|-----------------|---------|-------|-------|-------|---------|-------|-------|-------|---------------|-------|-------|-------|----------|-------|-------|-------|---------|-------|-------|-------|
|                   | ₹      | TP(₹)  | Rating |                 | FY20    | FY21E | FY22E | FY23E | FY20    | FY21E | FY22E | FY23E | FY20          | FY21E | FY22E | FY23E | FY20     | FY21E | FY22E | FY23E | FY20    | FY21E | FY22E | FY23E |
| Bata India        | 1,674  | 1,680  | Hold   | 21,512          | 25.4    | -0.9  | 32.6  | 40.0  | 65.8    | NA    | 51.3  | 41.8  | 23.3          | 71.4  | 21.1  | 17.8  | 28.2     | -0.1  | 28.8  | 30.8  | 17.2    | -0.6  | 19.7  | 21.3  |
| Titan Company     | 1,575  | 1,660  | Hold   | 139,821         | 16.9    | 8.4   | 23.7  | 28.6  | 93.1    | 186.4 | 66.5  | 55.0  | 54.5          | 94.0  | 41.8  | 34.9  | 28.7     | 14.2  | 31.8  | 32.0  | 22.5    | 10.6  | 23.9  | 24.0  |
| Trent             | 681    | 820    | Buy    | 24,235          | 3.5     | -2.4  | 7.4   | 9.4   | 197.2   | NA    | 91.6  | 72.6  | 44.5          | 129.4 | 33.5  | 27.6  | 15.9     | 4.4   | 20.5  | 22.4  | 5.1     | -3.7  | 10.7  | 12.3  |
| ABFRL             | 167    | 210    | Buy    | 12,944          | -1.0    | -7.9  | 2.2   | 3.5   | NA      | NA    | 76.3  | 48.4  | 32.8          | -     | 29.9  | 23.2  | 6.5      | -17.4 | 8.6   | 11.7  | -6.0    | -26.0 | 6.2   | 8.9   |
| TTK Prestige      | 6,224  | 7,100  | Buy    | 8,627           | 133.0   | 123.1 | 169.4 | 197.3 | 46.8    | 50.6  | 36.8  | 31.5  | 31.6          | 33.4  | 25.0  | 21.5  | 17.1     | 14.1  | 17.9  | 18.8  | 14.1    | 12.0  | 14.9  | 15.6  |
| Page Industries   | 28,637 | 26,985 | Hold   | 31,930          | 307.7   | 218.1 | 433.7 | 509.1 | 93.1    | 131.3 | 66.0  | 56.2  | 57.6          | 76.0  | 41.9  | 35.9  | 55.7     | 33.5  | 56.7  | 56.6  | 41.9    | 25.8  | 43.5  | 43.4  |
| Avenue Supermarts | 2,949  | 2,765  | Hold   | 190,944         | 20.1    | 14.7  | 30.8  | 38.9  | 146.8   | 200.7 | 95.7  | 75.9  | 79.7          | 112.4 | 55.6  | 43.6  | 16.4     | 10.8  | 19.2  | 20.6  | 11.7    | 7.9   | 14.2  | 15.2  |

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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