

## Festive season enables sharper recovery...

SSL reported better than expected revenue recovery rate to the tune of ~71% in Q3FY21 vs. our estimation of 65%. The revenue recovery rate is impressive given the fact that it lagged peers with recovery rate of mere 35% in Q2FY21. Revenue for the quarter declined by 28.8% YoY to ₹ 707.6 crore with footfalls reaching 50% of pre-covid levels vs. mere 20% in Q2FY21. Non-metro cities (Tier-II/III cities) continued to recover at a faster pace (down 23% YoY) vs. stores in metro cities (down 39% YoY). Eastern regions performed better with trends sustaining in January as well. Omni-channel strategies continue to be the key thrust with digital sales at 3x YoY and 1.75x QoQ (6% of sales, up 430 bps YoY). Deep discounting (liquidation of private label inventory) and inventory provision (₹ 3.5 crore) resulted in gross margin contraction of 400 bps YoY to 38.6%. Quarterly cash burns declined significantly owing to cost saving initiatives (achieved ~₹ 75 crore in Q3) with PBT losses narrowing down significantly to ₹ 27.7 crore vs. ₹ loss of ₹ 136.5 crore in Q2FY21 (PBT: ₹ 62.9 crore in Q3FY20). Going ahead, management remains cautiously optimistic on demand recovery and expects normalcy by Q2FY22E.

## Key thrust in enhancing share of private label brands

Share of private label brands improved 220 bps YoY to 13.4% in Q3FY21. Over the years, share of private label brands have lingered in the range of 13-15%. In a bid to boost the share, company has re-jigged its product portfolio of private label brands through launch of sharper price point assortments (< ₹ 999) and enhanced product offerings such as sleepwear, loungewear and innerwear. We believe the new MD (former Westside CEO) would bring in his expertise in the private label brands domain and focus on enhancing the share of private labels. Company targets to increase the share to 20% over the next two years. E-commerce continues to gain robust traction with current share at ~6% from 1.5%. Currently 50 departmental stores are connected with amazon and ~61000 SKUS (up from 15000) are listed online. With sustained investments in digital space, company targets omni-channel to contribute 15-20% of revenues in the next 2-3 years.

## Valuation & Outlook

For YTD FY21, negative FCF stood at ₹ 305 crore. In a bid to strengthen the b/s, the company had proposed right issues worth ₹ 300 crore which was fully subscribed. Subsequently, company retired debt worth ₹ 125 crore and is net cash positive of ₹ 46.0 crore as on December 2020. Management expects to open 10-11 stores in FY22E, with addition of ~ 2.5 lakh sq. ft. It is also looking to shut 5-7 unviable stores in FY22E. Of the targeted ₹ 450 crore cost savings in FY21E, company has already achieved ~ ₹ 390 crore in YTD FY21. We believe certain cost rationalisation measures to be structural in nature which should aid profitability in coming years. We broadly maintain our earnings estimates for FY22/23E and expect RoCE to improve steadily to ~10% by FY23E. MD's strategic growth roadmap with improvement in key parameters like SSSG and private label share would be critical factors to watch out for. We maintain **HOLD** rating on the stock with a target price of ₹ 228 (7.0x FY23E EV/EBITDA).

## Key Financial Summary

(₹ Crore)	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	3,381.0	1,721.4	3,258.4	3,600.6	2.1%
EBITDA	549.4	30.8	578.8	647.8	5.6%
PAT	(140.9)	(299.0)	20.6	42.5	
EV/Sales (x)	1.1	2.5	1.3	1.2	
EV/EBITDA (x)	6.9	137.0	7.4	6.5	
RoCE (%)	4.7	(15.5)	8.1	9.7	
RoE (%)	-103.1	-217.2	13.0	21.2	

## SHOPPERS STOP

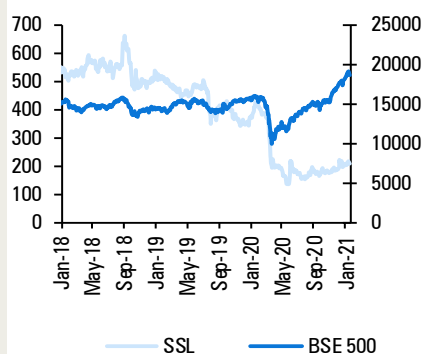
### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	2,275.5
Totak Debt (Mar-20) (₹ Crore)	123.7
Cash (Mar-20) (₹ Crore)	155.3
EV (₹ Crore)	2,243.9
52 week H/L	423/ 124
Equity Capital (₹ Crore)	44.0
Face Value (₹)	5.0

### Key Risks

- Re-imposition of lockdown restrictions leading to store closures or restricted movement of people negatively impacting store footfalls leading to lower in-store sales of discretionary products
- Higher-than-expected share of private labels can lead to better than estimated margin profile

### Price Chart



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## Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Total operating Income</b>	<b>3,381.0</b>	<b>1,721.4</b>	<b>3,258.4</b>	<b>3,600.6</b>
Growth (%)	-2.9%	-49.1%	89.3%	10.5%
Cost of Goods Sold	1,967.6	1,111.7	1,899.9	2,098.3
Gross Margin (%)	41.8	35.4	41.7	41.7
Employee Expenses	321.9	258.2	286.7	309.7
Operating & Other Expenses	542.0	320.7	493.0	544.8
Total Operating Expenditure	2,831.5	1,690.6	2,679.6	2,952.8
<b>EBITDA</b>	<b>549.4</b>	<b>30.8</b>	<b>578.8</b>	<b>647.8</b>
Growth (%)	116.9%	-94.4%	1779.3%	11.9%
Depreciation	439.2	396.6	387.2	423.2
Interest	194.4	226.1	193.4	200.2
Other Income	33.5	206.6	29.3	32.4
PBT (Before extraordinary item)	-50.7	-385.3	27.5	56.8
Extraordinary item	-20.0	-10.0	0.0	0.0
Total Tax	70.3	-96.3	6.9	14.3
PAT	-140.9	-299.0	20.6	42.5
Minority Interest/Share of JV	0.0	0.0	0.0	0.0
<b>PAT(after minority interest)</b>	<b>-140.9</b>	<b>-299.0</b>	<b>20.6</b>	<b>42.5</b>
Growth (%)	-279%	112%	-107%	106%
<b>EPS (₹) (after minority interest)</b>	<b>-16.0</b>	<b>-27.3</b>	<b>1.9</b>	<b>3.9</b>

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	-140.9	-299.0	20.6	42.5
Add: Depreciation	439.2	396.6	387.2	423.2
Add: Interest Expense	194.4	226.1	193.4	200.2
(Inc)/dec in Current Assets	-168.3	308.4	-316.8	-111.0
Inc/(dec) in CL and Provisions	279.3	-464.2	217.6	134.3
Others	-33.1	0.0	0.0	0.0
<b>CF from operating activities</b>	<b>570.6</b>	<b>167.9</b>	<b>502.0</b>	<b>689.2</b>
(Inc)/dec in Investments	-107.0	144.0	12.3	-1.0
(Inc)/dec in Fixed Assets	-200.0	-50.0	-210.0	-210.0
(Inc)/dec in CWIP	20.5	-12.0	12.0	0.0
Others	0.0	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>-286.5</b>	<b>82.0</b>	<b>-185.7</b>	<b>-211.0</b>
Issue/(Buy back) of Equity	0.0	10.7	0.0	0.0
Inc/(dec) in loan funds	83.7	26.3	-10.0	-90.0
Less: Interest Expense	-194.4	-226.1	-193.4	-200.2
Others	-188.9	64.0	-199.5	-206.8
<b>CF from financing activities</b>	<b>-299.6</b>	<b>-125.1</b>	<b>-402.9</b>	<b>-497.0</b>
Net Cash flow	-15.5	124.8	-86.5	-18.8
Opening Cash	16.7	1.3	126.1	39.5
<b>Closing Cash</b>	<b>1.3</b>	<b>126.1</b>	<b>39.5</b>	<b>20.7</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	44.0	54.7	54.7	54.7
Reserve and Surplus	92.7	82.9	103.5	146.0
Total Shareholders funds	136.6	137.6	158.2	200.7
Total Debt	123.7	150.0	140.0	50.0
Other LT Liabilities	2,067.8	2,067.8	2,067.8	2,067.8
Deferred Tax Liability	-264.1	-277.3	-291.1	-305.7
Minority Interest / Others	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>2,064.0</b>	<b>2,078.1</b>	<b>2,074.8</b>	<b>2,012.8</b>
<b>Assets</b>				
Gross Block	1,179.9	1,229.9	1,439.9	1,649.9
Less: Acc Depreciation	593.0	777.5	979.1	1,210.1
Capital WIP	10.0	22.0	10.0	10.0
Total Fixed Assets	596.9	474.4	470.8	449.8
Investments	205.7	61.7	49.4	50.3
Other Non-current Assets	1,325.7	1,325.7	1,325.7	1,325.7
Inventory	1,223.9	943.2	1,205.2	1,282.4
Debtors	35.1	28.3	44.6	49.3
Loans and Advances	246.4	223.8	260.7	288.0
Cash	1.3	126.1	39.5	20.7
Other Current Assets	166.1	167.8	169.4	171.1
Total Current Assets	1,672.7	1,489.1	1,719.4	1,811.6
Creditors	1,496.7	1,037.6	1,249.8	1,381.1
Other Current Liab. & Prov.	240.3	235.3	240.7	243.7
Total Current Liabilities	1,737.0	1,272.8	1,490.5	1,624.7
Net Current Assets	-64.3	216.3	229.0	186.9
<b>Application of Funds</b>	<b>2,064.0</b>	<b>2,078.1</b>	<b>2,074.8</b>	<b>2,012.8</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹) (annualised)</b>				
EPS	-16.0	-27.3	1.9	3.9
Cash EPS	33.9	8.9	37.3	42.6
BV	15.5	12.6	14.5	18.3
DPS	0.8	0.0	0.0	0.0
Cash Per Share	0.1	11.5	3.6	1.9
<b>Operating Ratios</b>				
EBITDA Margin (%)	16.3	1.8	17.8	18.0
PBT Margin (%)	-1.5	-22.4	0.8	1.6
PAT Margin (%)	-4.2	-17.4	0.6	1.2
Inventory days	132.1	200.0	135.0	130.0
Debtor days	3.8	6.0	5.0	5.0
Creditor days	161.6	220.0	140.0	140.0
<b>Return Ratios (%)</b>				
RoE	-103.1	-217.2	13.0	21.2
RoCE	4.7	-15.5	8.1	9.7
RoIC	5.2	-17.0	8.5	10.0
<b>Valuation Ratios (x)</b>				
P/E	-13.0	-7.6	110.5	53.5
EV / EBITDA	7.0	139.8	7.6	6.7
EV / Net Sales	1.1	2.5	1.3	1.2
Market Cap / Sales	0.5	1.3	0.7	0.6
Price to Book Value	13.4	16.5	14.4	11.3
<b>Solvency Ratios</b>				
Debt/EBITDA	0.2	4.9	0.2	0.1
Debt / Equity	0.9	1.1	0.9	0.2
Current Ratio	1.0	1.2	1.2	1.1
Quick Ratio	0.3	0.4	0.3	0.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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