

BSE Code: 532638 **NSE Code:** SHOPERSTOP **Reuters Code:** SHOP.BO **Bloomberg Code:** SHOP:IN

Shoppers Stop Limited (SSL), an Indian department store chain promoted by the K Raheja Corp Group, was established in 1991 with its first store in Mumbai. With an unparalleled collection of leading international and national brands, the store is the pioneer in Indian retail industry providing an international shopping experience to its customers. The company operates through its chain of stores namely, Crossword Bookstores, HomeStop, Mothercare, Estèe Lauder, MAC and Clinique.

Investment Rationale

Indian retail space is well poised to steal the highlights backed by favourable interplay of demographic and economic factors. Despite the recent slowdown, the retail sector posted robust performance. The volume of trade in the Indian retail market is expected to grow at 7% CAGR in CY11-20E, from \$470 billion to \$850 billion, while the traditional retail is expected to reach \$650 billion by CY20E at 5% CAGR. Further the long term prospects of organised retailing is all set to post healthy growth over the ensuring years, the share of organised retail market is anticipated to rise to 24% in CY20E as opposed to 5.5% in CY11.

The central government is in discussions with states on Foreign Direct Investment (FDI) proposal, and is likely to prepare an enabling policy framework, for allowing FDI into multi-brand retail that in turn will stimulate investment in the Indian retail sector. The proposed move is likely to help the likes of US-based Walmart and UK's Tesco, which want to invest in the Indian retail sector.

Expects to achieve a topline of ₹30 billion in next 2 years on aggressive expansion drive- SSL plans to achieve a store target of 200 on consolidated basis in the next 2-3-years. Currently, SSL has over 150 stores across its three major formats—Shoppers Stop Dept., Crossword and Hypercity. The aggressive expansion is expected to help the company to clock a topline of ₹33 billion in the next 2 years from the ₹21 billion it posted in FY12.

The company has redefined retail in India by launching its First Citizen Club. SSL has a very loyal and captive customer base in form of its First Citizen Club. In FY12, First Citizen Club had a customer base of more than 2.5mn customers, up 24% from about 2.02mn in FY11. Going ahead, we estimate the First Citizen Club to post a CAGR of 22% over FY12-14E to 3.72mn consumers in FY14E from 2.5mn in FY12.

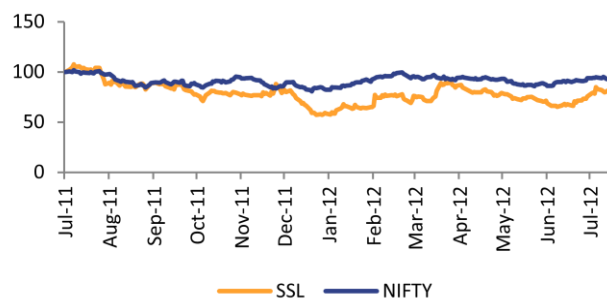
Market Data

Rating	BUY
CMP (₹)	384
Target (₹)	462
Potential Upside	20%
Duration	Long Term
52 week H/L (₹)	504.8/250.2
All time High (₹)	787
Decline from 52WH (%)	23.9
Rise from 52WL (%)	53.5
Beta	0.6
Mkt. Cap (₹ mn)	31,703.0

Fiscal Year Ended

	FY11A	FY12A	FY13E	FY14E
Net Sales (₹mn)	17,838.4	20,836.2	26,045.3	33,077.5
Net Profit (₹mn)	751.8	642.6	953.5	1,416.2
Share Capital	410.8	412.8	412.8	412.8
EPS (₹)	9.2	7.8	11.5	17.2
PE (x)	42.0	49.3	33.2	22.4
P/BV (x)	5.3	4.8	4.3	3.7
OPM (%)	8.4	6.8	7.5	8.2
EBITM (%)	6.7	5.0	5.8	6.6
NPM (%)	4.2	3.0	3.6	4.2

One year Price Chart



Shareholding Pattern	Mar'12	Dec'11	Diff.
Promoters	67.9	67.9	-
FII	13.6	11.7	1.9
DII	6.5	7.4	(0.9)
Others	12.0	13.0	(1.0)

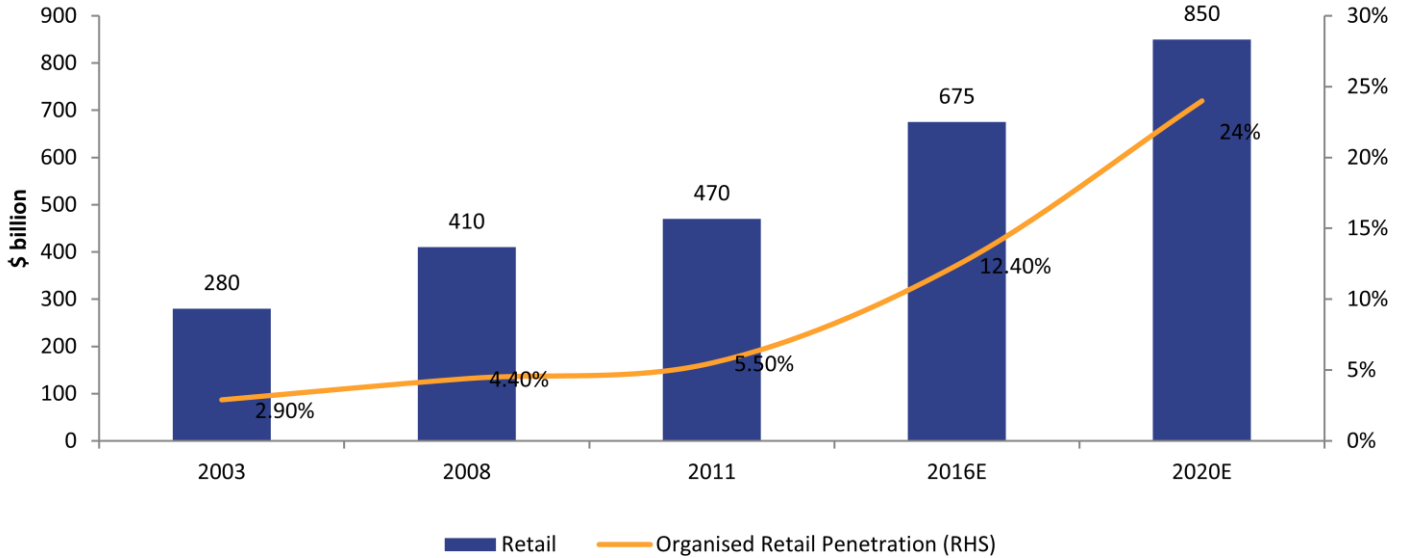


Opportunity canvas is getting bigger in organised retailing

The retail scenario in the Indian market is primarily fragmented with conventional family-run stores (also called mom-and-pop stores); this model is dominant in the sector, which accounts for over 94% of the gross retail business. Although organised retailing in the Indian market is still trying to make its mark, comparative to other developing and developed nations, in the past few years, the sector has managed to grab a considerable share. However, the Indian retail industry needs to cover a long way to match its international counterparts. With increasing economic stability and ample choices, today, India is on the verge of a huge retail boom. The country has already reached the prestigious fifth spot for the retail market worldwide. The volume of trade in the Indian retail market is expected to grow at 7% CAGR in CY11-20E, from \$470 billion to \$850 billion, while the traditional retail is expected to reach \$650 billion by CY20E at 5% CAGR. The share of organised retail market is anticipated to rise to 24% in CY20E as opposed to 5.5% in CY11. Consequently, the organised retail sector is expected to grow at 25% CAGR to \$220 billion in CY11-CY20E. Moreover, the organised retailing is preparing for maximum number of large format malls and branded retail stores in South India, followed by North, West, and the East in the next couple of years. Tier II cities, including Noida, Amritsar, Kochi, and Gurgaon, are upcoming as the favourite destinations for the retail industry with their huge potential. It indicates that a retailer with just 1% share in the Indian organised retail sector will have the capacity to revenues around \$8.5 billion in CY20E.

The retail industry is expected to post 7% CAGR from \$470 billion to \$850 billion during CY11-20E respectively.

Rising penetration of organised retail



The share of organised retail is expected to jump upto 24% by CY20E from 5.5% currently.

We believe the Indian retail sector presents a significant growth opportunity for the organised retail market, driven by robust economic outlook (GDP growth of 6% in FY13E and 7% (+/- 0.25) in FY14E as per The Economic Survey), rapid urbanisation and the emergence of the middle class would be key growth drivers for the industry. According to McKinsey Global Institute (MGI), the number of middle class households in India is expected to increase fourfold to 147 million in 2030 (from 32 million in 2008), making them the biggest consumer group. The total retail spending is estimated to double in the next five years. Of this, organized retail—currently growing at a CAGR of 22%—is estimated to be 21% of total retail expenditure.



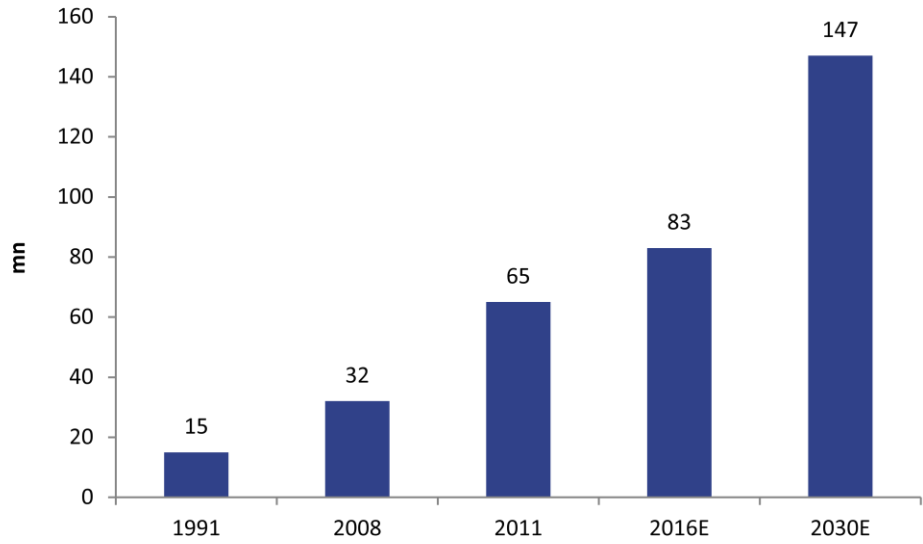
India's unique demography makes it an attractive market for companies operating in retail.

India has a large and aspirational middle-class of 75 million households or 300 million individuals

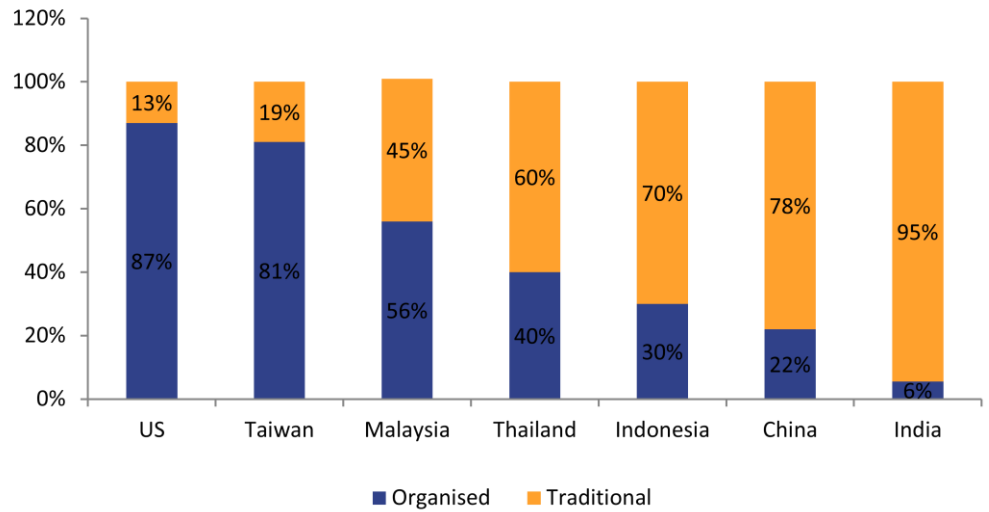
Organised retail in India is largely restricted to urban regions with consumer exposure to modern retailing formats such as malls and standalone stores, etc., for specific product categories.

The food and grocery segment is the highest contributor to the retail sector with maximum contribution coming from traditional retailing.

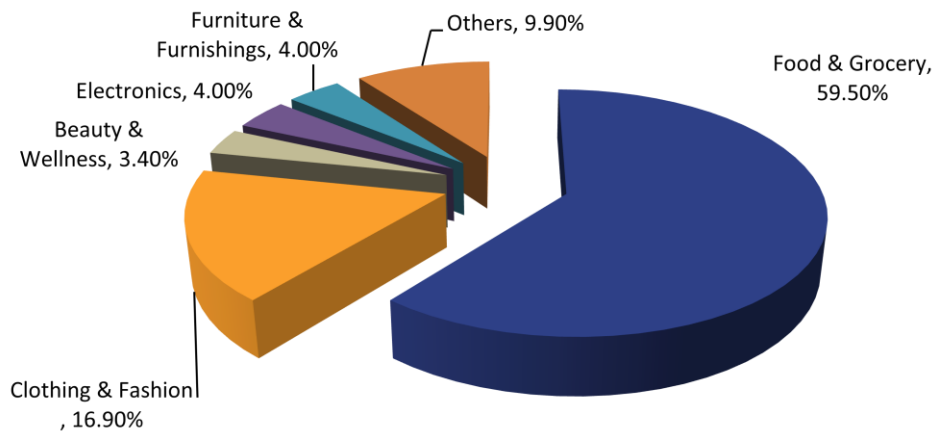
Middle Class household (mn)



Comparative penetration of organised retail



Market Segments





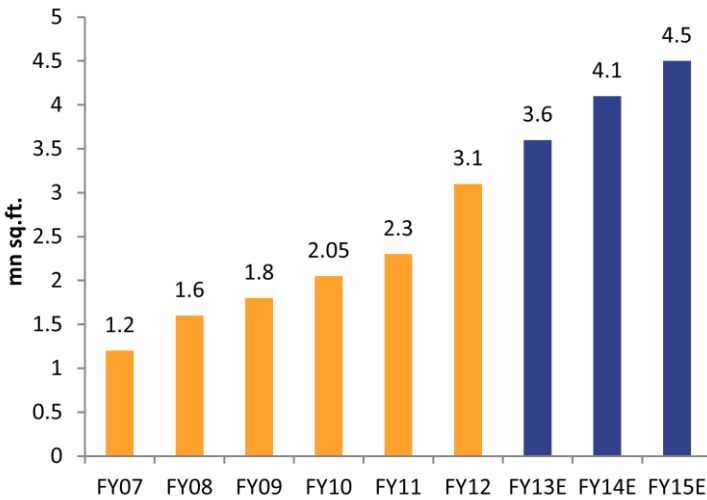
Aggressive expansion to fuel future growth

Organised retail was at a beginner’s stage when Shoppers Stop entered the business in 1990’s. To its credential Shoppers Stop carries over 2 decade of vast experience in organised retail business with Pan India presence. The group has over 150 stores spread across 23 cities, comprising of 51 Shoppers Stop Dept., 44 Crossword stores, 12 Hypercity store, 11 Home Stop, 5 Mother care and 35 MAC Clinique. The strategically located stores in multiple locations, helps the company to avoid cannibalization of sales. To create a leadership position in the sector and gain from first mover advantage, it expanded aggressively over the past five years and still going strong to increase its chargeable space from 1.2 million sq ft in FY07 to 3.1 million sq ft in FY12, a CAGR of 27%.

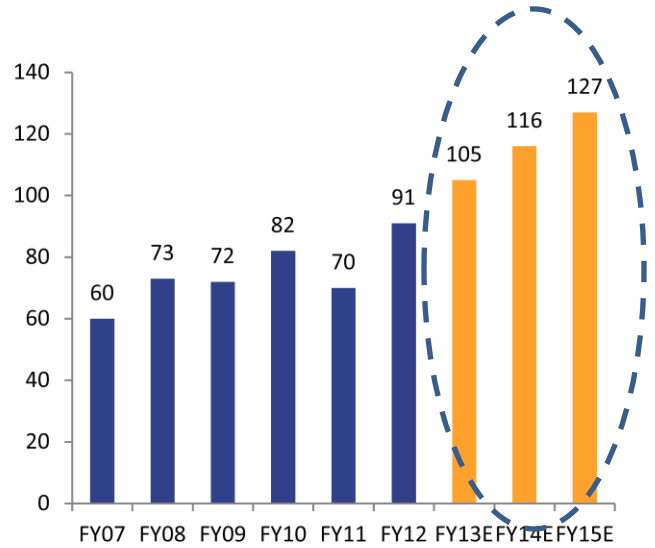
SSL is setting up stores at a fast pace, added 7 HomeStop stores, Mothercare added 11 stores, MAC added 3 stores, Crossword added 20 stores and Hypercity added 3 stores during the FY12 period. On standalone basis SSL is likely to open over 24 more stores in the next fiscal. The aggressive expansion comes at a time when sales slowdown is likely to erode the company’s margins.

SSL would take its total retail space by 1.5x by FY15E to 4.5 mn sq.ft. from 3.1 mn sq.ft. currently.

Total gross floor area to reach 4.5mn sq.ft. by FY15



Standalone Stores expansion



Apart from physical stores, SSL also has an online shopping option via, e-store www.shoppersstop.com. Customers can stop for leading brands and can even avail cash-on-delivery payment option for greater convenience.

We believe the expected increase in penetration of organised retail in the total retail pie and the rise in SSL’s target consumer base in Tier I and Tier II cities present a significant opportunity for the company to improve its presence in the domestic market. As a result, we expect SSL to aggressively add new stores under Shoppers Stop (departmental stores) format in the next two or three years. We estimate that the company will open about 35 Shoppers Stores in FY13E-15E, increasing its total retail space by ~1.5x from 3.1mn sq ft to 4.5mn sq.ft. during FY12-15E.



Beginner's advantage

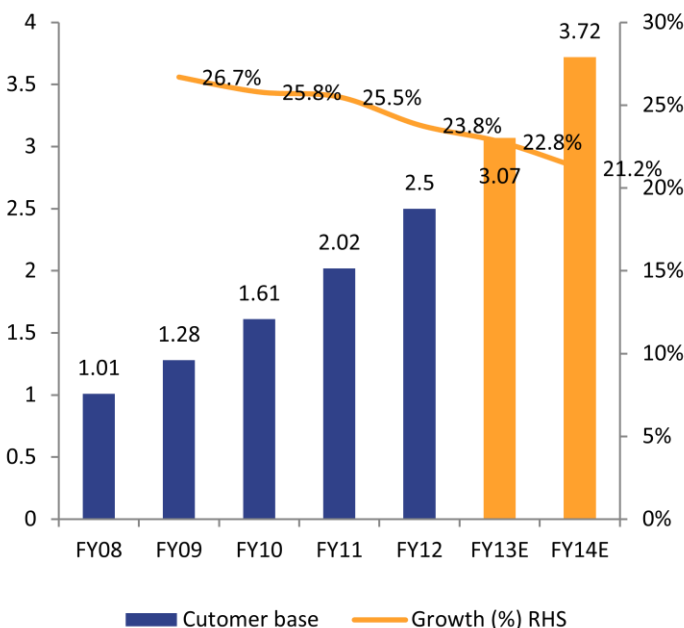
Shoppers Stop Ltd, has redefined retail in India, taking it to the next level. From being just the sale of goods to consumers, the company has created a unique aura around retail and turned it into an experience, an indulgence. The pioneer of organized retail in India, Shoppers Stop Ltd., has been instrumental in bringing about a retail revolution in the country and has become the highest benchmark for the industry.

SSL has a very steadfast and captive customer base in form of its First Citizen Club. In FY12, First Citizen Club had a customer base of more than 2.5mn customers, up 24% from about 2.02mn in FY11. SSL offers special privileges to its First Citizens like reward points on the purchases, which are convertible against other merchandise, exclusive schemes, benefits and promotions, extended and exclusive shopping hours (especially during the festive season), special previews before the sale periods, invitations to exclusive events, home delivery of altered merchandise and exclusive First Citizens' lounge. SSL has also gone a step further, by launching mobile application for its First Citizens' lounge. The SSL also benefits from good location in terms of presence in areas with healthy purchasing power and presence of upwardly mobile aspirational population. Especially during slowdown, loyal members play key sales driver insulating the company from major impact. Also, the company gets early mover advantage in terms of better rental deal, as initially the competition is less. SS has additional benefit in the form of its promoter's background, as its promoters are well established players in real estate segment. The Club contributed around 73% to Top-line in FY11 and around 72% in FY12 which indicates consumers' confidence and SSL's increasing loyalty base. Going ahead, we estimate the First Citizen Club to post a CAGR of 23% over FY11-14E to 3.72mn consumers in FY14E from 2.5mn in FY12 vis-à-vis its Top-line CAGR of 23% over the mentioned period. We estimate the First Citizens Club to contribute around 74% and 76% of the company's Top-line in FY13E and FY14E, respectively.

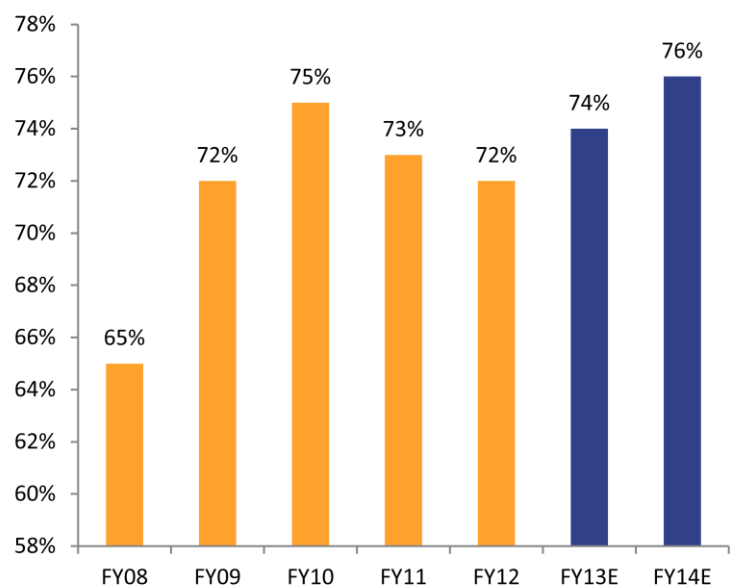
Shoppers Stop is pioneer in organised retail and has redefined it.

First citizen contribution to total sales would stay above 75% during FY13E and FY14E respectively.

First citizen members (mn)



First citizen contribution to total sales (%)



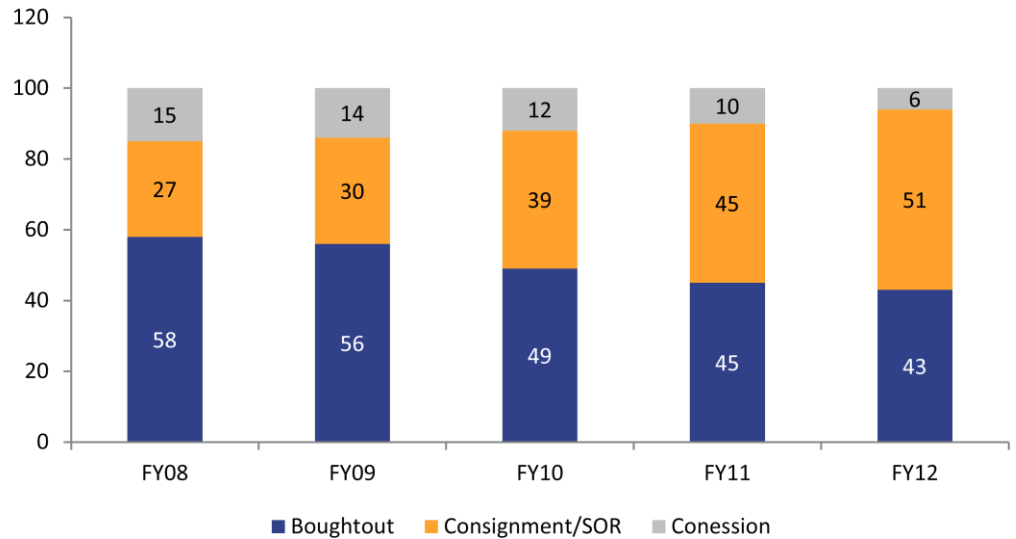


SSL has able to keep its inventory days at 48 days, one of the lowest in industry.

Cost control measures would enhance its profitability

Over last 3-4 yrs, Shopper Stop has been competent to line up its trading model in the favour of consignment sales, with consignment sales contributing 51% of FY12 sales as compared to 27% in FY08. Further, the bought-out segment has reduced from 58% to 43% during FY12, whilst sustaining gross margin. This has led to a sharp dip in its working capital and inventory days from 90 days in FY08 to 48 days in FY12 on the back of declining inventories. As SSL is a lifestyle retailer, it does not require higher levels of stock and hence can manage its inventory levels more efficiently. However, there is a peak limit to proportion of consignment sales, as consignment sales commands less margins and hence SSL need to properly balance the margin on one end and consignment sales on other hand, so that the company can create profitable sustainable business model. Hence, we believe, the company will continue to focus on the current trading model and further reduction in inventory days due to incremental consignment sales is not feasible.

Impressive trading model would keep inventory days under check



Private labels contribute over 15.9% to the total sales during FY12.

Private Labels contribute around 16% to Top-line

SSL has a range of Private Labels across men's casual wear to formals to women's wear. SSL earns around 35% net margins on Private Labels, but it has not been able to capitalize on the growing demand for Private Labels in the apparels segment with Private Labels contributing a mere 16% to its total sales. In comparison, Private Labels contribute around 80% of Pantaloon's total sales.

SSL's Private Labels registered Sales growth of 9% in FY12, but contribution from the same dipped albeit marginally to 15.9% in FY12 v/s 17.4% during FY11, respectively. Though Private Label sales are anticipated to follow SSL's Net Sales' trend, we expect contribution from them to plateau to around 20% till FY14E. We estimate SSL's Private Label Sales to post CAGR of 11% over FY12-14E to ₹3,312.9 million to ₹4,081.8 million.



A glimpse of FDI policy

Growing liberalization of the FDI policy in the past decade has been one of the key factors for transforming India from a closed economy into one of the favored destinations for foreign investments. The GoI has relaxed the Foreign Direct Investment (FDI) guidelines for the Retail industry permitting 51% in Multi-brand retail and raised the FDI limits in Single brand retailing from 51% to 100%. GoI had earlier relaxed the FDI norms for Cash-n-carry wholesale trading permitting 100%. The relaxation comes at a time when global retailers are facing headwinds in their home countries and thus scouting for new emerging markets, while domestic players, on the other hand, are burdened with piling debt. Further, it is expected that international retailers, especially in the hypermarket format, to establish their footprint over the next one to two years, although after the resolution of the associated political issues. However, the opening-up of FDI norms in the sector is backed by certain caveats such as:

- ✓ minimum investment of US\$100 mn by the foreign retailer with 50% of the said investments in backend infrastructure and supply chain management operations
- ✓ sourcing of atleast 30% of products / raw materials from the small scale industries
- ✓ retailer's stores to be opened only in cities with atleast 1 mn population
- ✓ in case of procurement of farm produce, the GoI would enjoy the right of first procurement.

Parameters	Multi Brand Retail	Single Brand Retail
Ownership/ investment requirement	Minimum investment of US\$ 100 million by the foreign investor	The foreign investor should be an owner of the brand
Investment towards back-end infrastructure	At least 50% of the investment by the foreign company to be in back-end infrastructure	-
Location of stores	Stores to be restricted to cities with a population of one million or more	-
Sourcing	At least 30% of manufactured items procured should be through domestic small and medium enterprises (SMEs)	30% sourcing would mandatorily have to be done from domestic SMEs and cottage industries artisans and craftsmen

Opening up of FDI in multi-brand retail and further extension into single brand retail in India could potentially be a mixed blessing for domestic players. While initially the small indigenous retailers' business would be impacted once modern retail enters the locality, this adverse impact is expected to be short-lived and to weaken over time. While this long awaited move is not expected to have an immediate impact on the Indian retail sector, it is expected to reap benefits in the medium to long-term as the increased equity via FDI route is likely to lead to an improvement in the capital structure of these companies, help partly fund future capex needs and, critically, provide them use best practices towards sourcing and working-capital management, in turn improving liquidity over the medium to long term.



Balance Sheet

(₹million)	FY11A	FY12A	FY13E	FY14E
Equity Capital	410.8	412.8	412.8	412.8
Reserves & Surplus	5570.2	6172.2	6,981.2	8,253.0
Shareholders' Fund	5,981.0	6,585.0	7,394.0	8,665.8
Loan Funds	1,487.5	2,191.0	1,781.3	1,062.1
Deferred Tax Liability	-32.5	2.0	2.0	2.0
Capital Employed	7,436.00	8,778.00	9,177.3	9,729.9
Net Fixed Assets	3,456.0	4,465.8	5,235.7	5,871.3
Investments	2,371.9	2,842.1	2,842.1	2,842.1
Net Current Assets	1608.1	1470.1	1,099.5	1,016.5
Capital Deployed	7,436.0	8,778.00	9,177.3	9,729.9

Key Ratios

	FY11A	FY12A	FY13E	FY14E
EBIDTA Margin (%)	8.4	6.8	7.5	8.2
Net profit Margin (%)	4.2	3.0	3.6	4.2
RoCE (%)	16.3	12.1	16.6	22.8
RoE (%)	12.6	9.8	12.9	16.3
EPS (₹)	9.2	7.8	11.5	17.2
P/E	42.0	49.3	33.2	22.4
BV (₹)	72.8	79.8	89.6	105.0
PBV	5.3	4.8	4.3	3.7
EV/EBIDTA	21.7	23.5	16.8	11.8
EV/Sales	1.9	1.6	1.3	1.0

Profit & Loss Account

(₹million)	FY11A	FY12A	FY13E	FY14E
Net Sales	17,838.4	20,836.2	26,045.3	33,077.5
Other op. Income	241.2	288.4	417.0	450.0
Total Income	18,079.6	21,124.6	26,462.3	33,527.5
Expenses	16,558.4	19,685.6	24,478.0	30,762.0
EBIDTA	1,521.2	1,439.0	1,984.3	2,765.5
<i>Margin %</i>	<i>8.4</i>	<i>6.8</i>	<i>7.5</i>	<i>8.2</i>
Depreciation	310.0	377.2	462.0	543.0
EBIT	1,211.2	1,061.8	1,522.3	2,222.5
Interest	73.4	83.8	99.1	108.7
Profit before Tax	1,137.8	978.0	1,423.2	2,113.8
Taxes	386.0	334.7	469.6	697.5
Net Profit	751.8	642.6	953.5	1,416.2

Valuation and view

At the CMP, Shoppers Stop (SSL) is trading at a P/E of 33.2x FY13E EPS of ₹11.5 and 22.4x FY14E EPS of ₹17.2. With an established brand name, aggressive space expansion plans and improved profitability, we expect SSL's earnings to grow at 23% CAGR in FY11-14E. We have valued the stock at ₹462/share using the EV/sales methodology at 1.5x FY13E sales. We recommend a "BUY" on the stock with a price objective of ₹462.



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