

**Top Sector Ideas: Retail**

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## Discretionary Under Pressure as Consumer Sentiments Remain Muted

- **Consumer demand remain tepid:** Discretionary demand, particularly in the value segment, continues to be subdued, especially in smaller towns (Tier 2/3/4), which are facing significant pressure.
- **Premium vs. Value:** While the premium segment continues to exhibit strength, the value segment, particularly in apparel, remains under pressure. However, Relaxo, within our coverage, has displayed sustained signs of recovery in rural areas. Looking ahead, there is an expectation of volume growth to accelerate in rural regions.
- **Store expansion continues:** Despite the subdued environment, most companies within our coverage universe have either maintained or increased their store opening guidance, particularly as they expand into smaller towns. This strategic move underscores the resilience of their long-term growth prospects.

## How Have Companies Performed In Q3FY24?

- **Mixed performance:** Retail companies have reported mixed performance, with premium retailers sustaining their growth momentum. However, value retailers continue to face pressure.
- **Rural growth is likely to pick up gradually:** Companies have highlighted that rural growth is likely to pick up gradually, led by increased government spending, easing inflation, and higher urban remittances.
- **Negative operating leverage:** EBITDA margins have faced pressure due to negative operating leverage stemming from subdued topline performance.

## What Makes the Retail Sector a Good Bet?

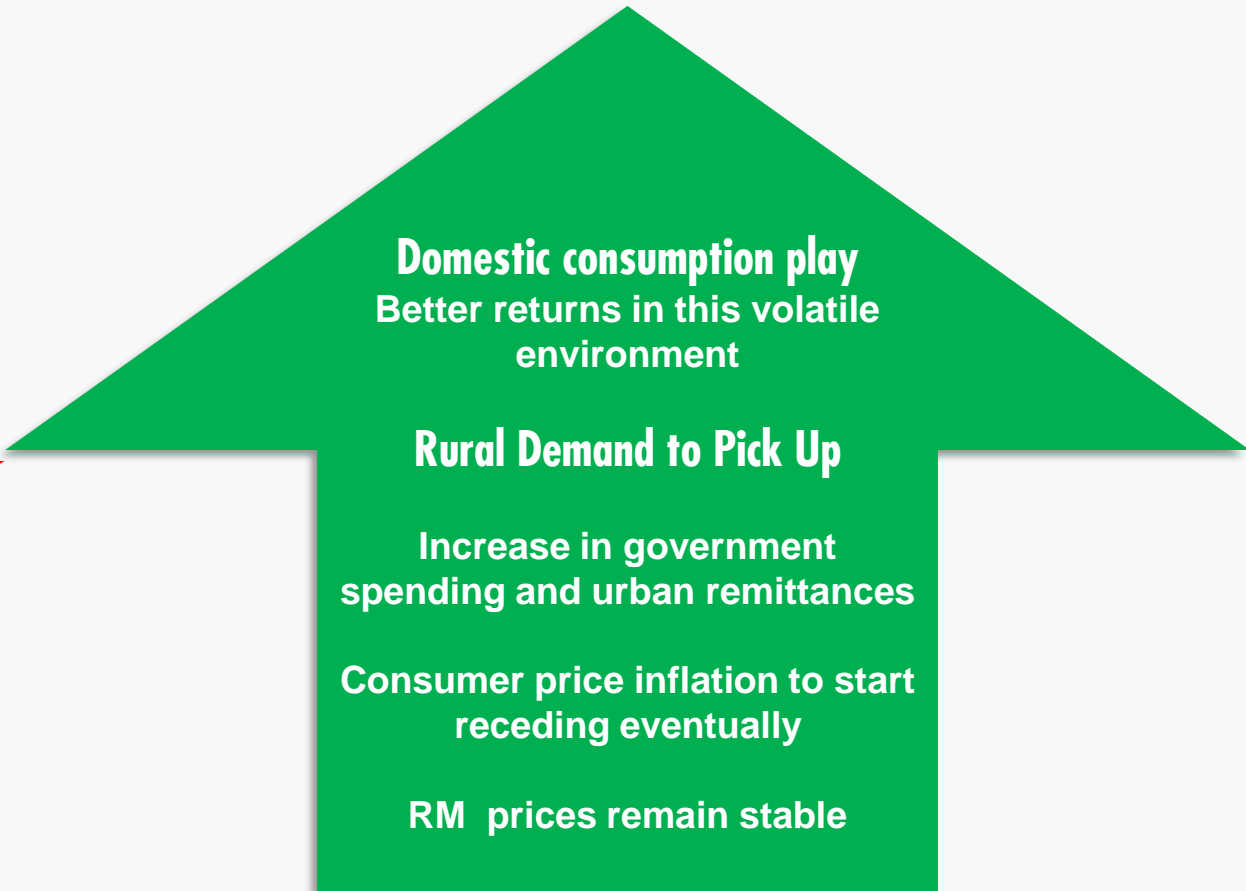
- **Rapid formalisation undergoing** – The Indian retail market, predominantly unorganized, presents significant opportunities in smaller cities and towns. Rising disposable incomes have fueled consumer preference for branded products.
- **Smaller cities provide huge headroom** – Smaller cities and towns are experiencing faster growth than metros across various categories such as apparels, QSR, and footwear. This trend is driven by higher aspirations for branded products and increased disposable income in these areas.
- **Structural Story to Continue**
  - ✓ **Higher disposable Income** – The average per capita income in India is \$2,200, and any increase in per capita income typically leads to higher spending, as the per capita expenditure on essential goods tends to remain constant.
  - ✓ **Increased participation of women in workforce** – Higher disposable income is leading to increased sales of women's wear overall.

# Short and Medium-term Outlook

Short term




Medium Term




**Key Monitorables – Rural recovery; Margins Guidance; Inflation Trajectory; Competitive Intensity**

# Top sector Ideas: **Retail**

Stock	Reco.	TP	Recommendation Rationale
 <p>Trent</p>	<p><b>BUY</b></p>	<p><b>Rs 4,050</b></p>	<ul style="list-style-type: none"> <li>✓ We anticipate robust revenue growth in the upcoming quarters driven by Trent's aggressive store expansion and ongoing efforts to refresh its product offerings, resulting in increased foot traffic. Additionally, the company's progress in enhancing profitability across all formats, narrowing losses at Star Bazaar, and gaining traction in its Inditex joint venture are encouraging developments.</li> </ul>

Note: The Target price is based on our Q3FY24 Result Update. Most of the stocks have reached their Q3FY24 Result Update Target Prices. We, however, remain positive on the stock's long-term prospects and recommend 'BUY on Dips'.

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Stock	Reco.	TP	Recommendation Rationale
 <p><b>Westlife Foodworld</b></p>	<p><b>BUY</b></p>	<p><b>Rs 930</b></p>	<ul style="list-style-type: none"> <li>✓ We continue to hold a positive outlook on WFL over the long term. Our confidence in the company's promising future is bolstered by its consistent track record of revenue and EBITDA growth, achieving 17% and 51% respectively over FY16-20. This growth was fueled by successful new product launches and cost rationalization initiatives, resulting in annual cost reductions of 100-200 basis points. Looking ahead, we anticipate WFL to sustain healthy Revenue and EBITDA growth of 15% CAGR each over FY23-26E (Post Ind. AS). This will be achieved by :             <ul style="list-style-type: none"> <li>✓ (a) Developing and expanding fast-growing categories such as McDelivery, McCafe, McBreakfast, and Fried Chicken.</li> <li>✓ (b) Leveraging McDelivery and other convenience platforms to capitalize on the fast-growing delivery channel; and</li> <li>✓ (c) The Management's ambitions to penetrate fast-growing smaller cities, raising store guidance to 40-45 stores/year from 25-30 stores previously, and transform regular stores into tech-savvy Experience of the Future (EOTF) stores for a superior customer experience.</li> </ul> </li> </ul>

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