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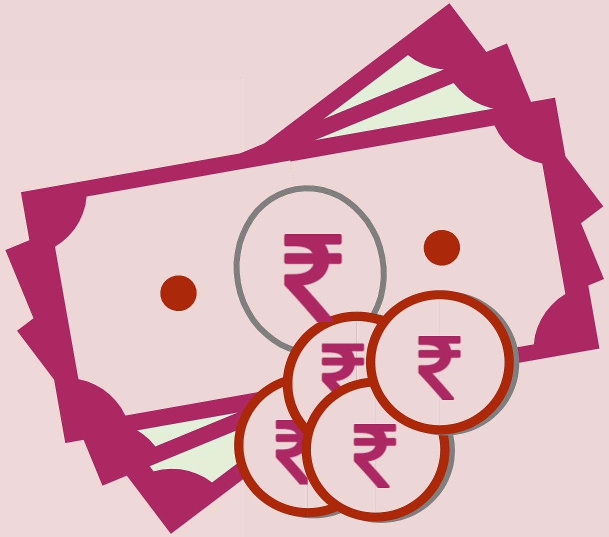

Top Conviction Ideas: Retail

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Discretionary Under Pressure as Consumer Sentiment Remains Muted

✓ *Financial Performance*

- **Consumer demand remains tepid:** Discretionary demand remains subdued, with a more pronounced impact on QSR and footwear. However, value retailer V-Mart performed relatively better and remains optimistic about future growth.

- **Premium vs. value segment:** While the premium, luxury, and value segments remain strong, urban consumption, footwear, and QSR continue to face pressure.

- **Store expansion continues:** Despite the muted environment, most companies in our coverage have maintained or even increased their store opening guidance as they expand into smaller towns, supported by strong long-term growth levers.

- **EBITDA margins have experienced pressure** due to negative operating leverage resulting from subdued topline performance.

Retail Sector: Outlook

What Makes the Retail Sector a Good Bet?

- **Rapid formalisation undergoing –** The Indian retail market remains largely unorganised, presenting significant opportunities in smaller cities and towns. With rising disposable income, consumers are increasingly shifting towards branded products.

- **Smaller cities provide huge headroom –** Smaller cities and towns are witnessing faster growth than metros across categories such as apparel, QSR, and footwear. This trend is driven by rising aspirations for branded products and increasing disposable income, further supporting overall growth.

- **Structural Story to Continue**
  - ✓ **Higher disposable Income –** India's average per-capita income stands at $2,200, and any increase in income is likely to translate into higher discretionary spending, as per-capita expenditure on essential goods remains largely constant.
  - ✓ **Increased participation of women in the workforce** – Higher disposable income is driving increased sales in the women's wear segment.

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Short and Medium-term Outlook

Short term

Demand:

Slowdown in discretionary spends

Margins:

Recovery in margins will be gradual

Domestic Consumption Play:

Likely to deliver better returns in this volatile environment

Rural Demand to Pick Up:

Increase in government spending and urban remittances

Consumer price inflation to start receding eventually

RM prices remain stable

Medium Term

Key Monitorables – Demand recovery; Margins Guidance; Inflation Trajectory; Competitive Intensity

Top Conviction Ideas: Retail

Stock	Reco.	TP	Recommendation Rationale
TRENT LIMITED A TATA Enterprise Trent	BUY	Rs 7,100*	✓ We expect strong sales growth to continue in the coming quarters, supported by Trent's aggressive store expansion and ongoing assortment renewal, which should drive higher footfall. Additionally, improved earnings across all formats, reduced losses at Star Bazaar, and increasing traction at the Inditex JV are positive indicators for the company. ✓ In recent years, Trent has implemented its playbook for the Star business, focusing on private labels, which is proving beneficial and is expected to be a key growth driver. Further, its expansion into the UAE, the launch of Zudio Beauty, and its recent entry into the fast-growing LGD jewellery segment are likely to contribute to long-term growth. ✓ Given these factors, we remain positive on Trent from a mid- to long-term perspective.

Note: The Target price is based on our Q3FY25 Result Update. We remain positive on the stock's long-term prospects and recommend 'BUY on Dips.'

Top Conviction Ideas: Retail

Stock	Reco.	TP	Recommendation Rationale
Ethos	BUY	Rs 3,070*	✓ Ethos' strong and consistent performance over the past several quarters underscores its promising future. Key growth drivers include: 1) Sustained demand in the premium and luxury watch segment, 2) Expansion into the fast-growing CPO segment, 3) Rising contribution from high-margin exclusive brands, 4) Diversification into the luxury luggage and jewellery segments, and 5) Significant potential for margin and ROCE expansion. ✓ With these factors in play, the company is expected to achieve a robust revenue CAGR of 33% and PAT growth of 38% over FY24-27E. At the current CMP, Ethos is trading at 44x/32x its FY26/27E EPS. Given its improving earnings visibility and enhanced return profile, the stock presents an attractive opportunity within the Smallcap space.

Note: The Target price is based on our Q3FY25 Result Update. We remain positive on the stock's long-term prospects and recommend 'BUY on Dips.'

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