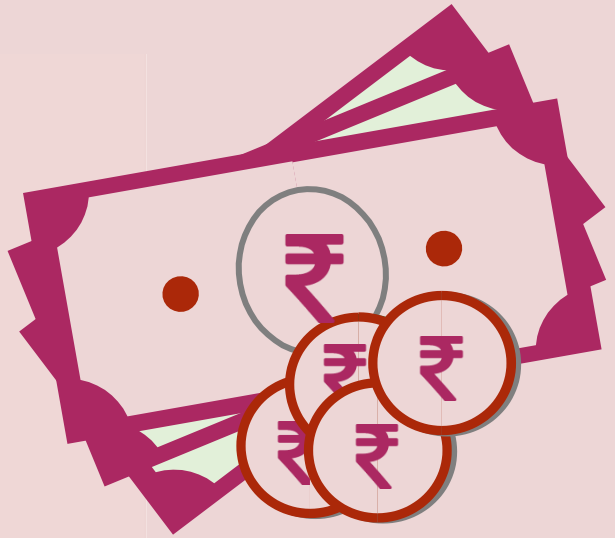
AXIS DIRECT

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Top Conviction Ideas: Retail

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Retail Sector: Q2FY27 Review

Demand Remains Resilient

✓ *Financial Performance*

- **Demand Recovery Broadens:** The Indian retail sector reported healthy revenue growth in Q2FY27, supported by improving demand, premiumisation and store expansion. However, profitability remained mixed due to higher employee costs, operating expenses and product mix. The quarter also witnessed a shift in the festive calendar, with a significant part of the festive demand moving from Q2 to Q3FY27. This impacted reported same-store sales growth (SSSG) for several retailers, particularly those exposed to discretionary consumption. Adjusting for the festive shift, underlying demand remained encouraging. QSR demand improved sequentially, while footwear witnessed a gradual recovery, supported by premiumisation at Bata and improved realisations at Relaxo. Going ahead, volume recovery, store productivity and premium demand will remain key growth drivers.
- **Store Expansion Continues:** Retailers continued to expand their store networks, with a greater focus on Tier II and Tier III markets, where organised retail penetration remains relatively low and long-term growth potential is strong. Management commentary remains positive on the demand outlook, supported by strong brand equity, a wide retail footprint, higher marketing investments and continued focus on cost efficiency.
- **Margin performance was mixed,** although select retailers reported EBITDA expansion on the back of better operating efficiency, tighter cost control and backend optimisation.
- **Outlook:** We remain positive on the long-term outlook for organised retail, supported by premiumisation, rising disposable incomes and the shift towards organised formats. The festive season moving into Q3FY27 is expected to support near-term demand. Companies with strong brands, healthy store productivity and disciplined expansion are better positioned to drive sustainable growth. However, rising operating costs, online competition and execution risks remain key monitorables.

Retail Sector: Q2FY27 Review

How Have Companies Performed In Q2FY27?

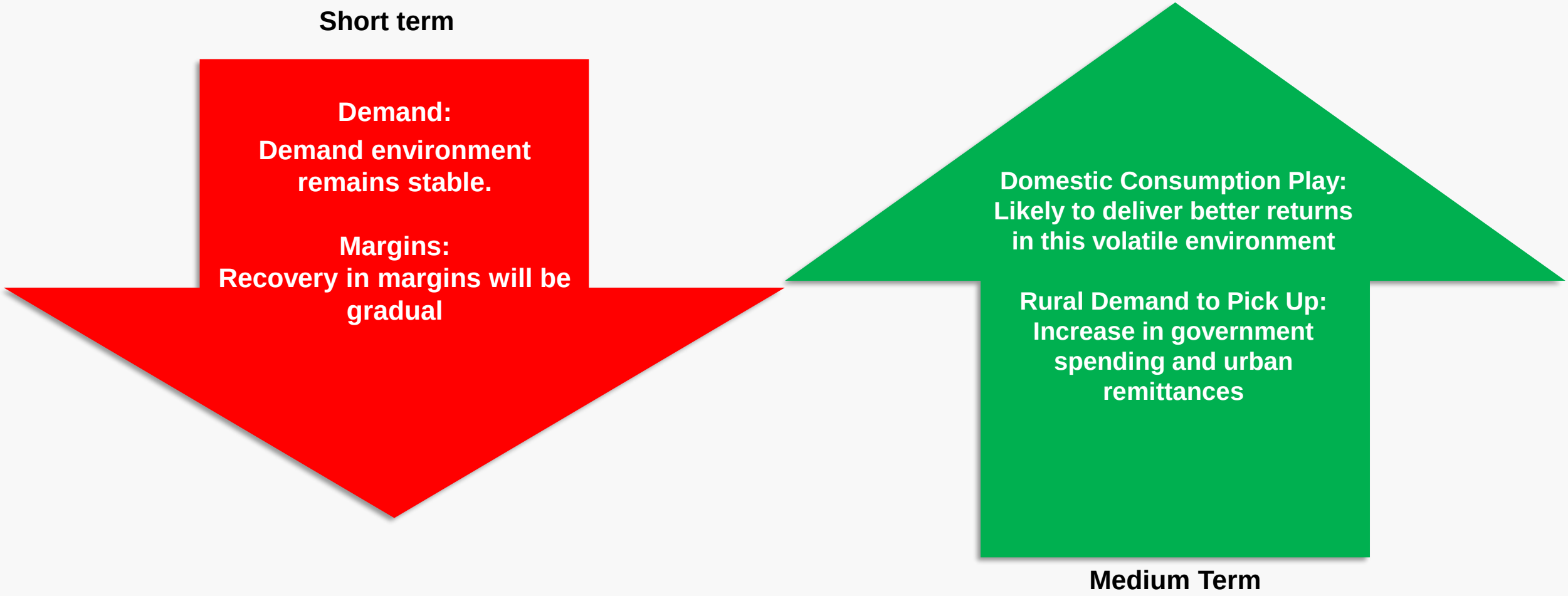
- **Organised retail continued to report healthy revenue growth in Q2FY27,** supported by store expansion, improving consumer demand, premiumisation and better store productivity. Value fashion and established retail formats remained relatively resilient, with V-Mart reporting 18% YoY revenue growth, while festive-adjusted SSSG of 11% indicated healthy underlying demand. Trent continued to outperform with 23% revenue and 30% EBITDA growth. DMart also delivered healthy revenue growth. However, profitability remained mixed, as rising employee costs, rentals and operating expenses impacted margins across select retailers. Companies with higher sales density and better operating leverage were relatively better positioned to sustain profitability. Luxury retail continued to outperform, with Ethos reporting 30.1% revenue growth, driven by strong volume growth and premium watch demand. Footwear witnessed a gradual recovery, although margin improvement remained limited.
- **Demand recovery remains gradual but encouraging,** with premiumisation and improving discretionary spending supporting organised retail. The shift in the festive calendar from Q2 to Q3FY27 impacted reported SSSG for several retailers, while underlying demand remained relatively healthy. Retailers continue to focus on disciplined store expansion, cost efficiencies and inventory management. Overall, management commentary remains constructive, although consumer spending is expected to recover gradually and margin performance is likely to remain mixed across the sector.
- **QSR players** also witnessed an improvement in demand momentum, supported by better same-store sales growth and recovery in customer footfalls, although profitability continued to be influenced by food and operating costs.

Retail Sector: Outlook

What Makes the Retail Sector a Good Bet?

- **Rapid Formalisation Underway:** India’s retail landscape remains predominantly unorganised, offering substantial headroom for growth in smaller towns and emerging markets. As disposable incomes rise and demand gradually recovers—supported by income tax cuts, GST revisions—consumer preference continues to shift decisively toward branded offerings.
- **Smaller Cities Providing 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. Furthermore, the recent revision of the GST rate reduction is expected to boost discretionary demand.
- **Increased Participation of Women in the Workforce:** Higher disposable income is driving increased sales in the women's wear segment.

Short and Medium-term Outlook



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

Top Conviction Ideas: Retail

Stock	Reco.	TP	Recommendation Rationale
V-Mart Retail Ltd	BUY	Rs 820*	✓ **Resilient Performance:** V-Mart reported 18% YoY revenue growth in Q2FY27, driven by 3% SSSG and 5% SSVG, while festive-adjusted like-for-like growth stood at 11%, indicating healthy demand. ASP declined 2%, while apparel ASP remained flat. Unlimited continued its strong momentum, with revenue and EBITDA growing 25% and 38%, respectively. Lime Road also reported 55% NMV growth, with losses narrowing 32%. Footfalls and average bill value increased 36% and 15%, respectively, reflecting healthy customer traction. ✓ **Expansion Strategy:** The company added 22 net stores in Q2FY27, taking its total store count to 613, with over 100 additions targeted for FY27. The focus remains on improving store productivity and maintaining rent discipline. H1FY27 capex increased to Rs 85 Cr from Rs 60 Cr last year, primarily towards store expansion, refurbishments and technology investments. ✓ **Positive Long-term View:** V-Mart is well-placed to benefit from rural recovery and market share gains from unorganised players. Strong footfalls, disciplined cost control, and steady store expansion should aid performance, while the recent announcement on GST rate cut is likely to spur consumption and boost discretionary spending.

*Note: The Target price is based on our Q2FY27 Result Update Report. We remain positive on the stock's long-term prospects and recommend 'BUY on Dips.'

Top Conviction Ideas: Retail

Stock	Reco.	TP	Recommendation Rationale
Trent Ltd	BUY	Rs 3,220*	✓ **Strong Performance:** Trent reported 22.5% YoY revenue growth in Q2FY27, supported by resilient demand and premiumisation. Emerging categories contributed over 21% to revenue, while the fashion portfolio recorded mid-single-digit like-for-like growth. EBITDA margin expanded 99bps to 18.2%, driven by improved gross margins, efficient sourcing and disciplined inventory management. ✓ **Store Expansion**: Trent added 17 Zudio and 10 Westside stores in Q2FY27, taking its network to 999 Zudio, 311 Westside and 32 other lifestyle stores. Expansion remains focused on strengthening existing markets and entering Tier II/III cities, supported by healthy consumer demand. ✓ **Outlook:** Trent's long-term growth outlook remains strong, supported by rapid store expansion, premiumisation and continued market share gains in organised retail. Improving margins, strong private-label offerings and new growth avenues such as UAE expansion, Zudio Beauty and LGD jewellery are expected to drive sustainable growth. The recent stock correction offers an attractive entry point for long-term investors.

*Note: The Target price is based on our Q2FY27 Result Update Report. We remain positive on the stock's long-term prospects and recommend 'BUY on Dips.'

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