CENTRUM

V-Mart Retail

Solid play - Meeting rural India's fashion aspiration

Initiating Coverage

India I Consumer

07 December 2020

Institutional Research

BUY

Price: Rs2,175
Target Price: Rs2,852
Forecast return: 31%

V-Mart has built its strong business model in the untapped markets with a focus to meet rural India's fashion aspiration and the tag-line, "value-fashion at affordable price" is crafting a solid business moat. Capitalising on the shift from unorganised apparel retailing, V-Mart has consciously targeted tier 2/3/4 cities locating ~78% of its stores using cluster-based strategy in high GDP growth states (UP/Bihar). Notably, these cities also offered lower operational costs, and higher store throughput resulted in healthy revenue/EBITDA/PAT CAGR of 19%/26%/12% over FY14-20 period. Factoring COVID-19 impact to be higher, we expect demand recovery in 2HFY21 to be led by strong rural income growth coupled with government's initiative on job creation in these markets. We initiate coverage on V-Mart with a strong Buy rating and target price of Rs2,852 (EV/EBITDA 17.8x FY23E).

Value retailer catering to fashion demand in smaller towns at affordable prices

In our view, India's value fashion is largely untapped offering vast potential in capturing shift in modern trade in rural India. Banking on this opportunity, V-Mart targets consumers in non-tier-1 towns providing merchandise at an affordable price (30-35% lower vs. competition). It has managed to control its operational cost (best in the industry) and sources 65% of merchandise from private labels with exclusive designs. This has helped V-Mart to remain ahead of national players and standalone traditional competition providing value proposition to aspirational consumers in the hinterland.

First mover advantage led by cluster-based strategy

V-Mart's first mover advantage stems from its cluster-based strategy, which has helped in understanding value seeking consumer behaviour and need for products. Nevertheless, it could gain customer loyalty and edge over competition. Moreover, we believe it has all the ingredients to deal with renewed competition (Zudio, V2 Retail, Pantaloons, etc.) as small towns provide vast potential for growth. Interestingly, we like its stance sticking to its fundamentals of preserving quality and price by tweaking costs.

Long term growth drivers in place, earnings growth to resume post normalcy

V-Mart registered revenue CAGR of 19% over FY14-20 period, however COVID-19 uncertainties resulted in slower recovery in 1HF21. We believe long term growth drivers are in place and revenue momentum will resume post normalcy as company plans store addition (25-30 per annum). Our field studies indicate V-Mart has strong consumer franchise and brand recall for its winning formula in providing value-for-money products. Further, despite lower gross margins 32.2%, the company generates industry leading EBITDA margins of 10%+. We have built CAGR EBITDA/PAT growth of 12.9%/42.4% over FY20-23E period.

Lean balance sheet, healthy return ratios provide valuation comfort

Remarkably, V-Mart has funded its growth from internal accruals in the past, and we expect it would generate OCF of Rs2.9 bn in FY23E. Further, COVID-19 drove its war on cost, leading to cut in working capital by 14 days in 1H FY21, generating healthy asset turnover and RoE/ROCE at 22.7%/17.3% in FY23E. We initiate coverage on V-Mart with strong Buy and TP of Rs2,852 (EV/EBITDA 17.8x FY23E). Key risks – continued slowdown due to COVID-19, longer break-even in store ramp-up, and renewed competition.

Financial and valuation summary

YE Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenues	14,322	16,616	12,046	21,035	25,426
EBITDA	1,329	2,138	1,132	2,424	3,080
EBITDA margin (%)	9.3	12.9	9.4	11.5	12.1
Adj. Net profit	714	493	(25)	1,089	1,425
Adj. EPS (Rs)	39.4	27.2	(1.4)	60.1	78.6
EPS growth (%)	(8.2)	(30.9)	nm	nm	30.9
PE (x)	54.1	78.3	nm	35.5	27.1
EV/EBITDA (x)	28.6	20.5	37.0	17.3	13.6
PBV (x)	9.4	8.4	8.4	6.9	5.6
RoE (%)	18.9	11.4	(0.6)	21.3	22.7
RoCE (%)	19.1	12.7	5.8	16.4	17.3

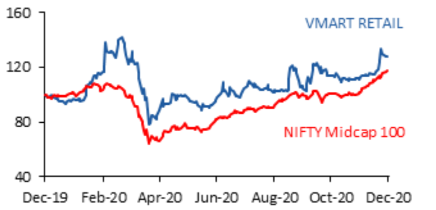
Source: Company, Centrum Broking

Market Data

Bloomberg:	VMART IN
52 week H/L:	2,545/1,200
Market cap:	Rs40.0bn
Shares Outstanding:	18.2mn
Free float:	49.1%
Avg. daily vol. 3mth:	301192

Source: Bloomberg

VMART relative to Nifty Midcap 100



Source: Bloomberg

Shareholding pattern

	Sep-20	Jun-20	Mar-20	Dec-19
Promoter	50.8	51.2	52.0	52.0
FIIs	23.2	23.1	23.5	26.1
DIIs	17.6	17.3	15.1	10.3
Public/other	8.5	8.5	9.4	11.7

Source: BSE

Consumer

Shirish Pardeshi
Analyst, Consumer
+91-22-4215 9634
shirish.pardeshi@centrum.co.in

Thesis Snapshot

V-Mart versus Nifty Midcap 100

	1m	6m	1 year
VMART IN	10.5	27.4	27.8
Nifty Midcap 100	13.5	42.7	20.7

Source: Bloomberg, NSE

Key assumptions

YE Mar	FY21E	FY22E	FY23E
Retail space Growth (%)	4.0	12.0	20.0
New store Addition	11	34	64

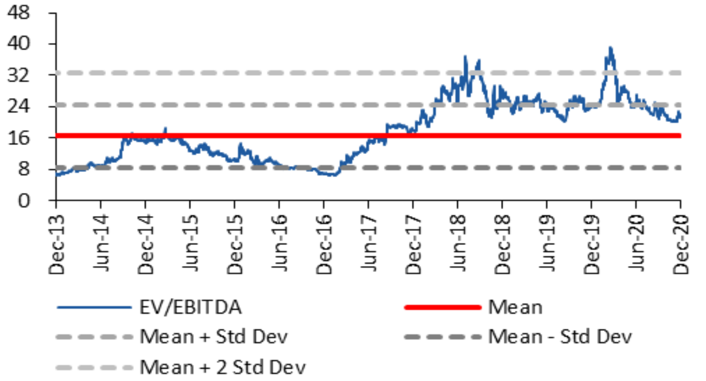
Source: Centrum Broking

Valuations

Remarkably, V-Mart has funded its growth from internal accruals in the past, and we expect it would generate OCF of Rs2.9 bn in FY23E. Further, COVID-19 drove its war on cost, leading to cut in working capital by 14 days in 1H FY21, generating healthy asset turnover and RoE/ROCE at 22.7%/17.3% in FY23E. We initiate coverage on V-Mart with strong Buy and TP of Rs2,852 (EV/EBITDA 17.8x FY23E). Key risks – continued slowdown due to COVID-19, longer break-even in store ramp-up, and renewed competition.

Valuations	
Sep 23E EBITDA (Mn)	3,080
Target EV/EBITDA (x) multiple	17.8
Enterprise Value (Mn)	54,884
Net Debt (Mn)	3,175
No. of shares outstanding (Mn)	18.2
Target Price (Rs./Share)	2,852

EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap (Rs mn)	CAGR (FY20-23E)			P/E (x)			EV/EBITDA (x)			ROE(%)		
		Sales	EBITDA	EPS	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
V-Mart Retail	**39,557**	**15.2**	**12.9**	**42.4**	**nm**	**35.5**	**27.1**	**37.0**	**17.3**	**13.6**	**-0.6**	**21.3**	**22.7**
Shoppers Stop	17,216	4.3	-5.2	-143.9	-16	-37	-234	25	8	8	-311.8	21.7	-94.1
Aditya Birla Fashion and Retail	1,32,985	5.2	6.0	-230.0	-33	103	45	73	15	13	-33.5	4.4	10.9
Trent Ltd	2,40,665	14.6	16.7	30.1	-109	111	102	116	36	27	-9.2	6.7	11.2
Avenue Supermarts	15,81,801	20.9	21.8	25.0	105	84	63	66	54	41	9.2	14.2	16.4

Source: Bloomberg, Company, Centrum Broking

Value retailer catering to demand in small towns

Priceless fashion at affordable price

V-Mart has built its business model in untapped rural markets to meet fashion aspiration

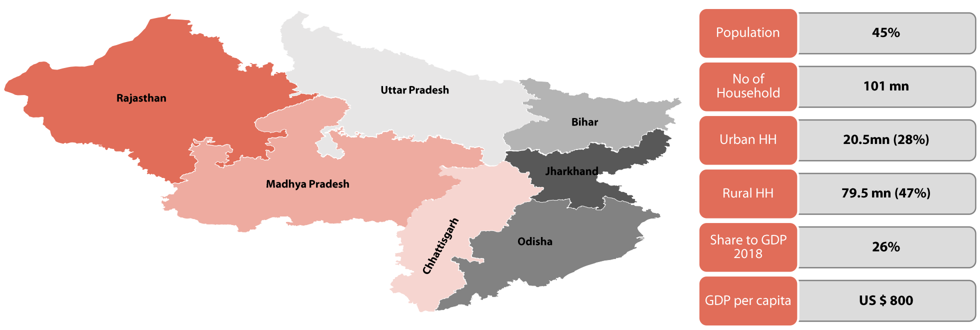
- *New Rural* at pivotal stage – delivering consistent growth
- Taking the road less travelled
- Solid play on rural India's shift to modern retail
- Focus on improving apparel merchandise mix – key winning formula
- Rising share of private label in apparel merchandise

In our view, India's value fashion is largely untapped offering vast potential in capturing shift in modern trade in rural India. Banking on this opportunity, V-Mart targets consumers in non-tier-1 towns, providing merchandise at an affordable price (30-35% lower than competition). The company has managed to control its operational cost (best in the industry) and sources 65% of its merchandise from private labels with exclusive designs. This has helped V-Mart to remain ahead of national players and standalone traditional competition, providing value proposition to aspirational consumers in the hinterland.

***New Rural* at pivotal stage – delivering consistent growth**

Our in-depth analysis reveals that the emerging hinterlands of Uttar Pradesh, Bihar, Jharkhand, Madhya Pradesh, Chhattisgarh, Odisha, and Rajasthan (*New Rural*) are at a pivotal stage and are likely to drive the next wave of growth for apparel retail companies. We believe these markets hold the potential to be game changers given their size, GDP growth, connectivity and changing consumption patterns and are also driven largely for value-for-money products.

Exhibit 1: *New Rural* states



Source: Centrum Broking

Why are they important?

New Rural accounts for 47% of India's rural households

New Rural states account for 101mn households or 42% of all-India households (2011 census). Interestingly, they account for 47% of rural households, but only 28% of urban households.

Earnings per household in *New Rural* states are low compared to the all-India average. They have high potential for further penetration, broadly hinting at higher consumption growth in the region.

Hinterland growth story

New Rural states reflect a high aspirational quotient across the segments of the consumption basket, reflecting a sizable opportunity for retail companies owing to a generational jump from basic to aspirational categories. According to our estimates, *New Rural* states account for 12-15% of the retail market.

Our research, however, indicates the value-fashion is picking up fast within these markets. We believe most retail companies would have charted out their growth strategies by rationalising apparel merchandise-mix using pricing and promotion strategies. According to our on the ground research, it is revealed that the aspirational youth in these markets are driven by value fashion. These discerning consumers are owed by indulgence and personal grooming categories as feel-good-look-good factor is on the rise. This aspect implies that these markets are very attractive as they hold tremendous growth potential for retail companies.

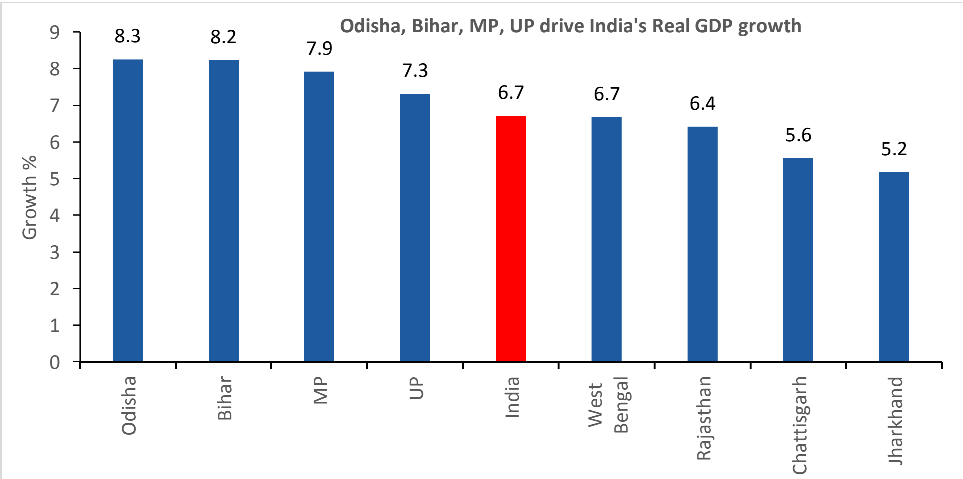
New Rural GDP – Outpacing all-India GDP

New Rural's growing contribution to national GDP

More importantly, the contribution of *New Rural* states to India's value-add has risen from 27% in 2015 to ~37% in 2019, while their GDP contribution in FY19 has moved up to 28% (previous 24%). Obviously, such high growth in these populous states with large agriculture production indicates high economic activity. Therefore, we believe growth in per capita income in *New Rural* could result in higher spend on consumption, making them attractive to retailers.

Following exhibit illustrates that considering CSO data, Odisha has reported fastest real GDP growth (constant terms) over FY15-20 period, CAGR 8.3%, followed by Bihar (8.2%), Madhya Pradesh (7.9%), Uttar Pradesh (7.3%) ahead of all-India average of 6.7%.

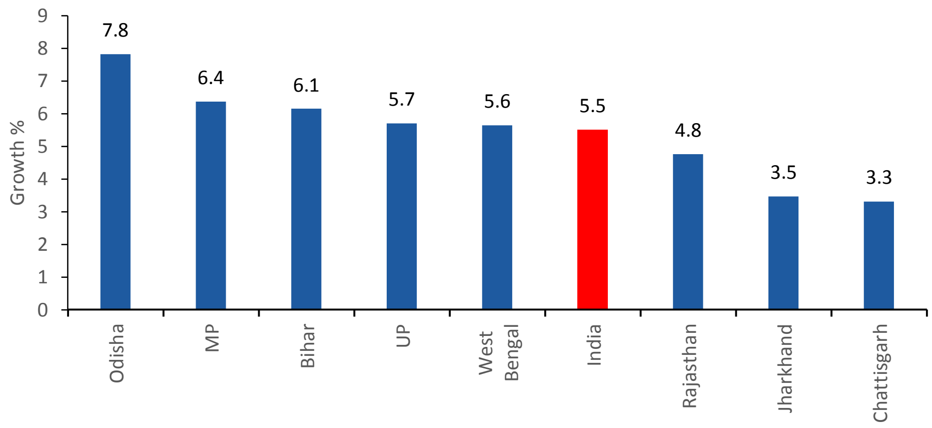
Exhibit 2: _New Rural_ real GDP growth outpacing India average (CAGR % FY15-20)



Source: Centrum Broking, CSO

Further, CSO data suggests that per capita (NSDP) at constant prices are rising faster in these states. Ostensibly, when we compare per capita (NSDP) over FY15-20 period, Odisha leads with CAGR 7.8%, followed by Madhya Pradesh (6.4%), Bihar (6.1%), Uttar Pradesh (5.7%) and West Bengal (5.6%) ahead of India average at 5.5%, while Rajasthan, Jharkhand and Chhattisgarh are trailing these states.

Exhibit 3: Per capita NSDP (CAGR % FY15-20)



Source: Centrum Broking, CSO

Taking the road less travelled

To capture untapped potential and shift to formal retail, V-Mart has been targeting markets by opening stores beyond metros and tier-1 cities. Its core objective is to deliver affordable fashion to the aspiring consumers in the hinterland. After witnessing success in tier-2 and tier-3 cities, it further expanded its footprint in tier-4 cities since FY17, and has a total of 32 stores as of FY20. We reckon, V-Mart is predominantly present in high GDP growth states (UP/ Bihar/ Jharkhand) in the North across small towns where migration from hinterland to tier 2/3 cities is enormous. Notably, in these towns, V-Mart was first of its kind to provide basic shopping experience of a modern trade in grabbing shopper's attention, which is missing in traditional standalone outlets or departmental stores that could not provide even a trial room for checking merchandise. In addition, its long working hours and modern store outfit in high traffic area acted as novelty concept on shopper's mind in small towns becoming preferred choice. Nonetheless, V-Mart operates 77% store network in *New Rural* states.

Exhibit 4: V-Mart stores are dominated in UP/Bihar

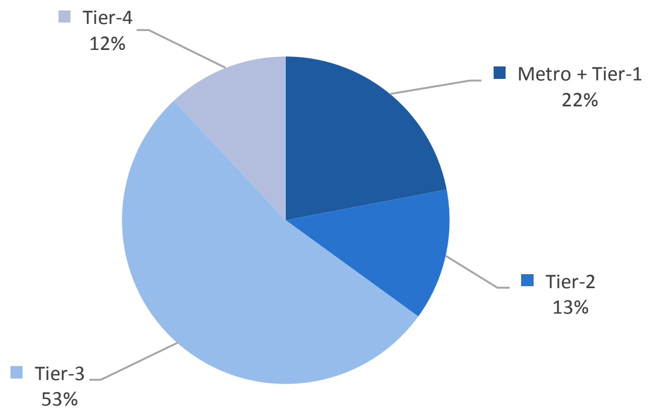
FY20 store split		
State	**No of stores**	**Stores (%)**
UP	103	39
Bihar	45	17
Jharkhand	19	7
Odisha	9	3
MP	15	6
Rajasthan	13	5
Rest	62	23
Total	**266**	**100**

Source: Company, Centrum Broking

Solid play on capturing rural India's shift to modern retail

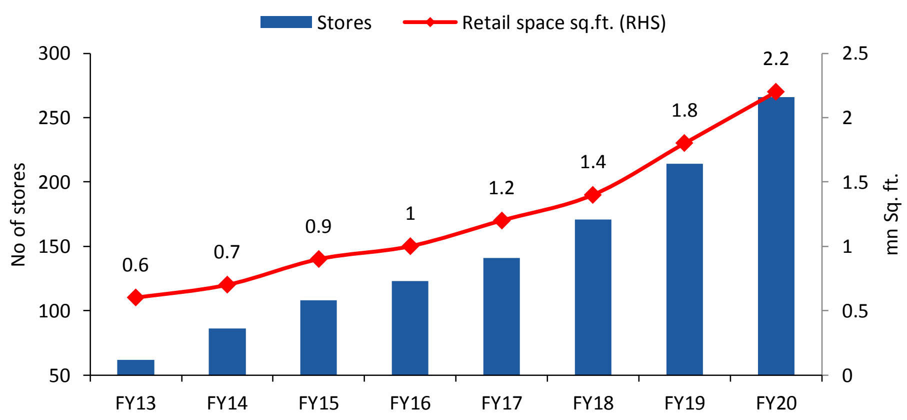
V-Mart has direct retail coverage through its own network of stores which grew at CAGR of 22% over FY13-20 (66 stores in FY13 to 266 in FY20) clocking average 6% same store sales growth (SSSG). It primarily operates in small towns, where it benefits from shift towards the organised retail segment. As on date, ~78% of the company's stores are located in tier 2/3/4 cities. In particular, apparel forms an essential aspect of the growing aspirational demand in hinterland and V-Mart has retained its focus on store expansion targeting such customer base, locating stores in high-street, proximity to residential areas, high footfall markets, schools colleges, etc. Moreover, it moved away from conventional retail store format, which operates with large size of 25-30K sq. ft., by opening stores with an average size of ~8,000 sq. ft. Remarkably, due to lower store size, V-Mart's shops appeared to be crowded during weekends grabbing shopper's attention in these small towns, making it a favourite destination for family shopping.

Exhibit 5: ~78% of V-Mart stores are located in Tier 2/3/4 Cities



Source: Company, Centrum Broking

Exhibit 6: Gradually rising store network

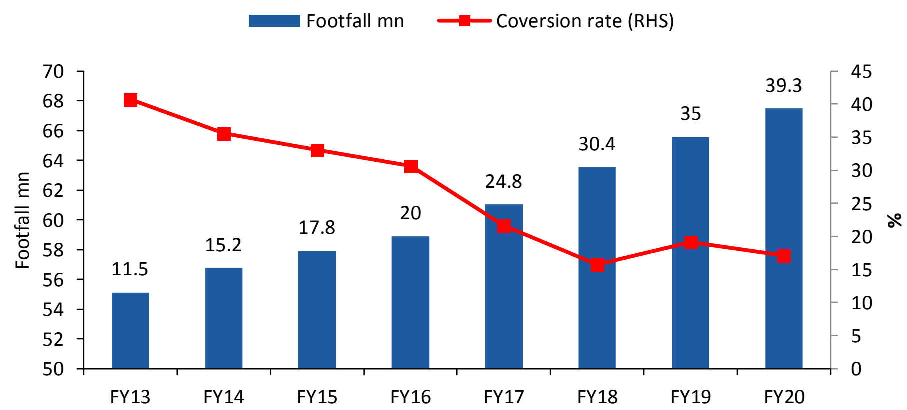


Source: Company, Centrum Broking

Store network built around developing rural India

V-Mart has also put lot of attention in specifying product displays and store layout, which has a bigger impact on footfalls, as touch-and-feel of merchandise drives impulse buying and quick decision making in apparel retail, according to industry experts. This has reflected in strong conversion rates compared to the competition. Though recently, overall conversion rates have dropped alluding to store opening in tier-1 cities, we notice tier 3/4 conversion rates are much stronger. Nevertheless, company has taken corrective measure in improving conversion rate in the near term.

Exhibit 7: Doubling footfalls in four years

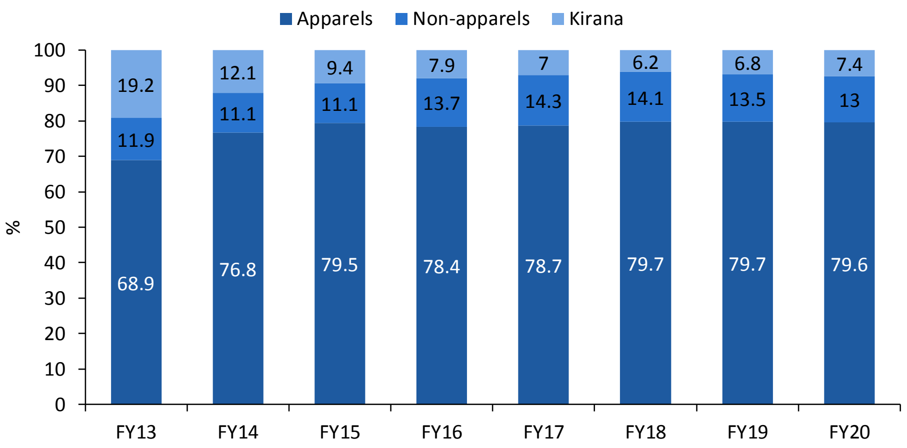


Source: Company, Centrum Broking

Focus on improving apparel product-mix – key winning formula

V-Mart operates in three major categories i.e. apparel, general merchandise and Kirana goods (FMCG and basic packaged staples). Over years V-Mart has perfected its unique selling proposition in providing exclusive range of products at affordable price, aiming preferred destination for family shopping in tier 2/3/4 cities in India. Remarkably, its contribution from apparel segment has risen steadily from 69% in FY13 to 80% in FY20. However, general merchandise, which includes non-apparel and home products account for ~13%. Nevertheless, basic staples and kirana contribution has declined to 7% now from the peak of 19% in FY13.

Exhibit 8: Apparel segment contribution climbing steadily



Source: Company, Centrum Broking

V-Mart's success mantra is "price-less-fashion"

V-Mart operates on simple philosophy of "price-less-fashion", catering to growing demand from aspiring middle income group in non-metro towns. Further, its marketing communication has been able to attract attention from youth (college kids) and young nuclear families migrating to bigger cities with a basic need of two/three pair of clothes in a year. In delivering its promise, V-Mart offers value proposition of its merchandise to such aspirational customers at a compelling price (average selling price for apparel Rs334/piece). Furthermore, over years, it has developed huge insights in understanding evolving needs of an aspirational customer in deciding value-fashion. The company admits that it follows fashion, which attracts younger generation rather than spending money on creating fashion that may be short lived. We found that V-Mart puts lot of thrust on studying customer behaviour before zeroing down on the location of a new store in any particular area. It follows singular attention in determining right merchandise and product mix in the store. As a result of this careful forecasting, it has been able to turnaround newer stores faster.

Exhibit 9: Product prices across categories – Men, Women, and Kids (Rs)

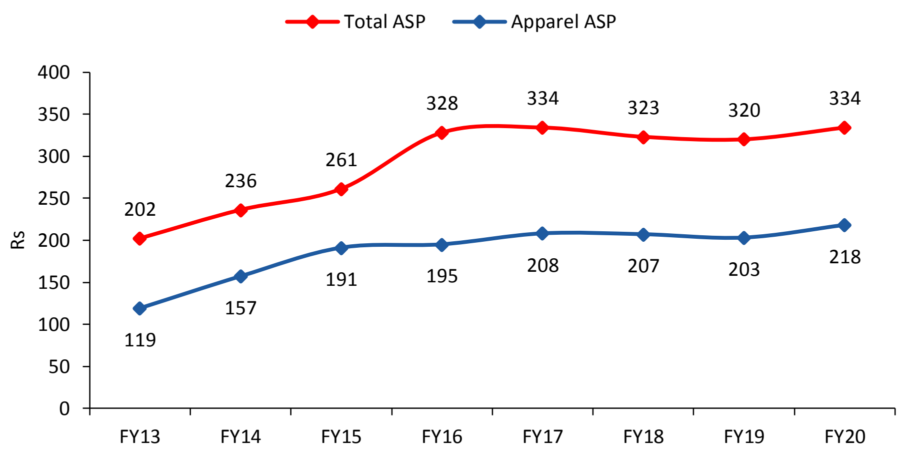
Type	Men	Women	Kids
Jeans	450-1599	399-999	399-999
T Shirts	99-599	99-799	79-699
Formal Shirts	249-749	99-799	199-999
Trousers	399-999	399-999	299-899
Kurta/ Kurtis	349-2099	299-799	249-399
Shoes	199-999	199-749	149-349

Source: Company, Centrum Broking

Our field studies suggest, whilst many retailers have copied V-Mart's success mantra of affordable fashion space and offering merchandise at lower price, they have not been able to retain footfalls and conversions in these cities. We believe V-Mart is credited with its consumer centric approach derived from deep understanding in specific region such as consumer preferences and meticulous planning in selecting merchandise mix.

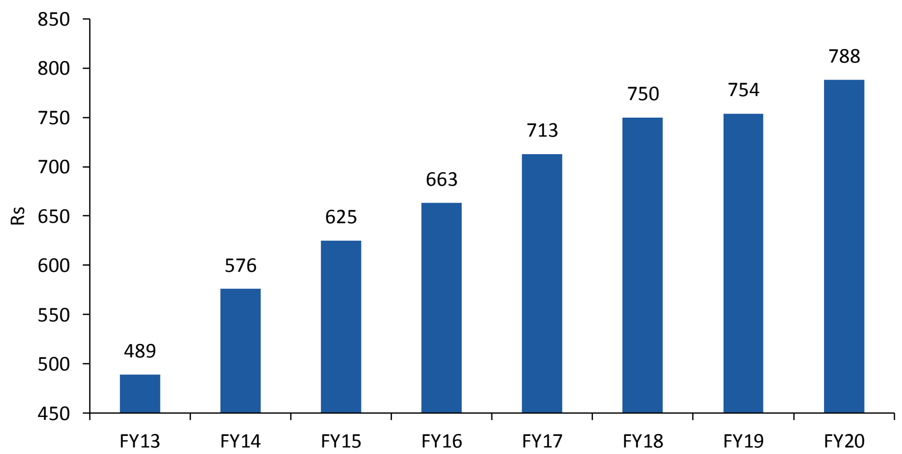
Given this, we have noticed, initiatives taken by the company to drive sales of high price merchandise during festive season and reduce discounts and promotion periods. This has reflected in the trend of growing average selling price for the company. Further, it has reported gradual change in transaction size as illustrated below.

Exhibit 10: Average selling price trend (Rs)



Source: Company, Centrum Broking

Exhibit 11: Gradually increasing transaction size (Rs)



Source: Company, Centrum Broking

Rising share of private label in apparel merchandise

Since its inception, V-Mart strategically decided to focus on apparel, which commands higher margins. It sources latest trend in fashion apparel from small suppliers spread across India using its high bargaining power, yet it avoids premium branded products. The company believes in selling fashion apparel merchandise at affordable prices, hence it has been refining its focus on marketing owned and private label merchandise manufactured by third party vendors. To name a few, Kidistan, Twist, Charcoal, Be-Princess, Flick, Desi mix, etc.

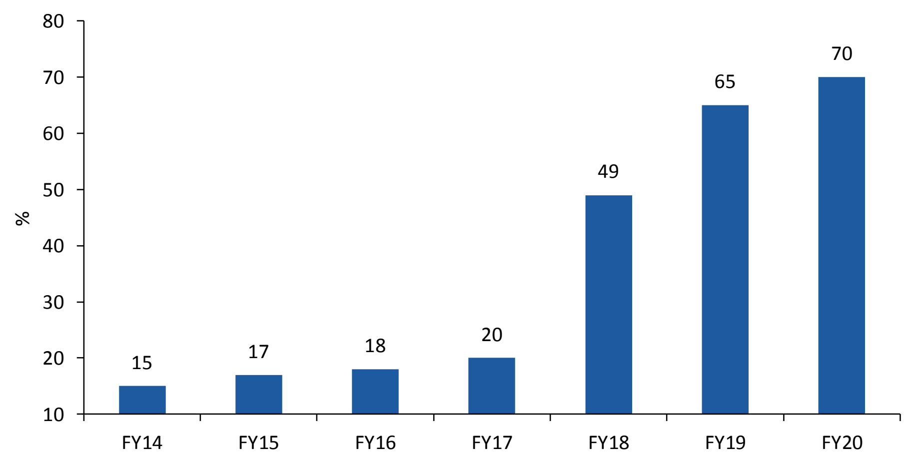
Exhibit 12: Private label spread

Source: Company, Centrum Broking

Given V-Mart's ideology - 'follow fashion', it does not create fashion apparels. It has employed a team of fashion professionals who understand fashion trends and monitor such changes in fashion in various markets. These professionals convert such trends into designs, which are then tailor-made to suit local consumer needs, which are shared with the suppliers. This helps V-Mart recognize the needs of consumer and offer them with right merchandise at right price. Once the design is finalised, the end consumer price range is fixed by the merchandising team.

As a consequence, V-Mart consciously increased proportion of private label in revenues steadily, from 20% in FY17 to 70% in FY20. We note its focus on private labels helps to reduce costs as well as to bring product exclusively under V-Mart banner. This has aided its attempt to provide various designs with price range to shoppers, at the same time retain its image of 'price-less-fashion', having edge over competition. Remarkably, V-Mart passes cost benefits occurred from suppliers to consumers whilst keep its margin secured.

Exhibit 13: Increasing share of private label (%)



Source: Company, Centrum Broking

First mover advantage, cluster-based strategy

Cluster-based strategy offers unique advantage

V-Mart has built its strategy by understanding needs of value seeking consumers

- Unique advantage of cluster-based strategy
- COVID-19 cuts pace of store expansion, to resume post normalcy
- Lower pace of store opening to improve SSG

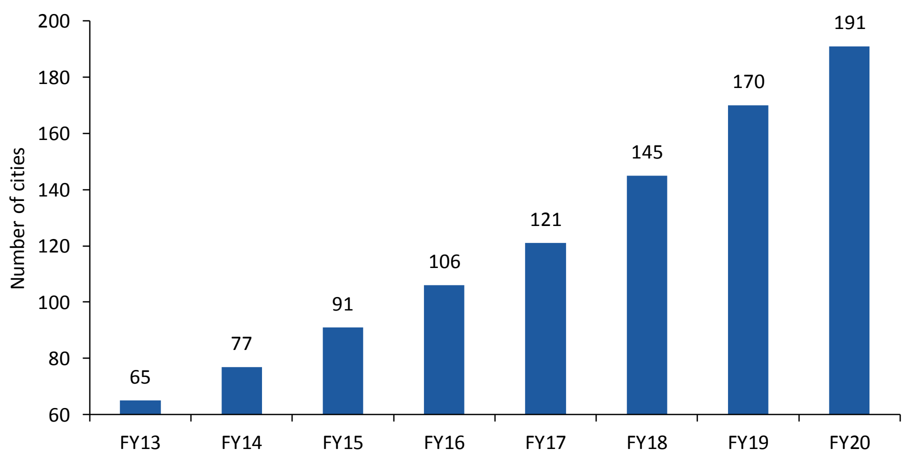
V-Mart's first mover advantage stems from its cluster-based strategy, which has helped in understanding value seeking consumer behaviour and need for products. Nevertheless, it could gain customer loyalty and edge over competition. Moreover, we believe it has all the ingredients to deal with renewed competition (Zudio, V2 Retail, Pantaloons, etc.), as small towns provide vast potential for growth. Interestingly, we like its stance to stick to its fundamentals preserving quality and price by tweaking costs.

Unique advantage of cluster-based strategy

V-Mart adopted a strategy by opening more stores within a radius of 150km. This served three main purposes: (1) enriches visibility, but reduces ad-spends, (2) enables seamless transportation of merchandise, restricting inventory losses and turn-around time (goods unsold in one store can be moved to another location in less than 3 hours), and (3) allows savings from bulk procurement as fashion trends in smaller towns do not change rapidly. Considering this, V-Mart draws better economies of scale in our view. Moreover, it could control its logistics, manpower and advertising costs, and at the same time attracts higher footfall due to better brand recall.

As on date, V-Mart operates in 191 cities in India. We reckon, its cluster-based strategy has enabled to open 149 stores (56% of 264 stores) in two large states, 103 stores in Uttar Pradesh, and 46 stores in Bihar, which makes up 40-42% of its revenues. However, depicting on its experience, it has extended same strategy by opening 26 stores in West Bengal and North east region, contributing ~18% of its revenues. We believe cluster focus has resulted in driving revenues for V-Mart and winning consumer loyalty.

Exhibit 14: V-Mart operation in India (no of cities)



Source: Company, Centrum Broking

Furthermore, we estimate V-Mart holds immense potential in penetrating more districts across regions to expand its area of operation. For example, V-Mart holds 195 stores across top five states viz. Uttar Pradesh, Bihar, Jharkhand, Madhya Pradesh and Rajasthan. We estimate, it covers ~65% out of 222 districts in these states and holds bigger scope to expand its footprint in future.

Exhibit 15: State wise store network

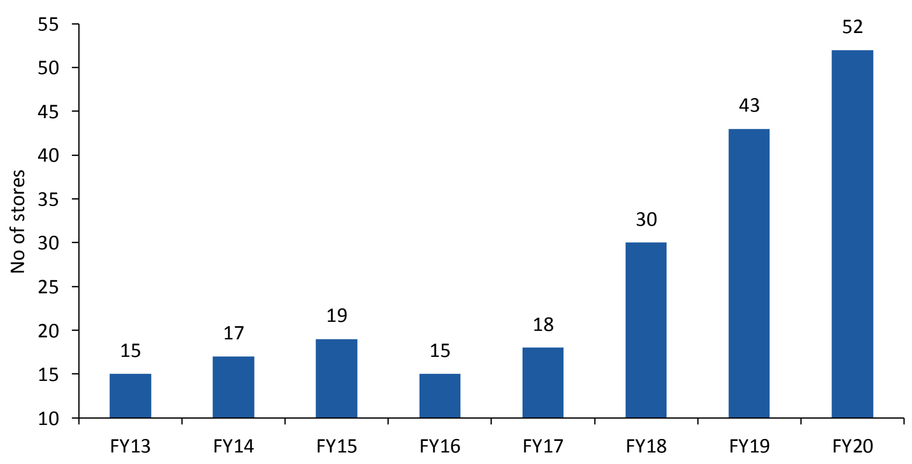
State	No of Districts	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Uttar Pradesh	75	41	50	53	59	72	85	103
Bihar	38	16	21	27	31	36	41	45
Jharkhand	24	4	7	7	8	14	17	19
Madhya Pradesh	52	4	4	4	4	6	8	15
Rajasthan	33	4	4	4	4	4	5	13
Jammu and Kashmir	22	1	1	1	2	3	5	8
Uttarakhand	13	3	5	5	5	6	8	8
Himachal Pradesh	12						2	3
Delhi	1	3	3	3	3	3	3	3
Punjab	22	4	4	4	3	3	3	4
Haryana	22	1	1	1	1	1	1	1
Chandigarh	1	1	1	1	1	1	1	1
Gujarat	33	7	7	7	6	6	6	6
West Bengal	23			2	4	6	12	16
Odisha	30			4	10	10	10	9
Assam	32						6	9
Meghalaya	11						1	1
Nagaland	12							1
Arunachal Pradesh	22							1
Total stores	**478**	**89**	**108**	**123**	**141**	**171**	**214**	**266**

Source: Company, Centrum Broking

COVID-19 cuts pace of store expansion, to resume post normalcy

We have noticed that in the past, the company had been adding 25% retail area every year. Nonetheless, COVID-19 uncertainties have pushed its same store sales growth down (-2.3%), suggesting weaker consumer sentiments and footfalls in its stores. Considering such reservations, V-Mart opened two stores and closed four totalling to 264 stores till September 2020. The management guided for cash conservation and lowered its guidance for pace of store expansion in FY21, however, it appears to be confident of adding 25-30 stores post normalcy. Moreover, we believe it will emerge strongly in its network expansion in tier-3-4 cities more prominently.

Exhibit 16: Store expansion trend (no. of stores)



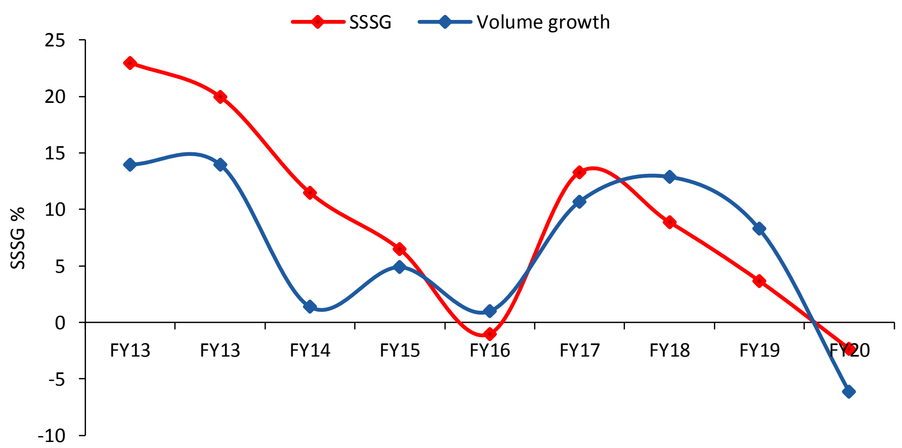
Source: Company, Centrum Broking

Lower pace of store opening to improve SSSG

Tracking past performance, we found that accelerated store expansion has affected SSSG for V-Mart. On one side, there is a benefit of driving revenues, on the other hand, it weakens SSSG in short term, hence balancing growth vs. steady increase in same store sales growth is a big challenge for V-Mart, in our view. Despite the company mastering the art of showcasing its merchandise (spread in ~8,000 sq. ft. store area), in reality attracting footfall and conversion rates holds the key.

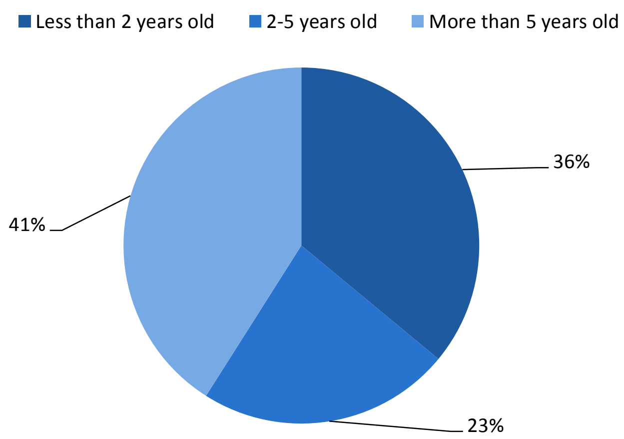
We believe with growing rural incomes, driven by higher than expected Rabi crop output, and government impetus on job creation for migrant workers in rural India will improve footfall, reflecting in better SSSG for the company. Further, we believe as compared to faster ramp up of new stores in UP/Bihar, the stores opened in other regions are taking bit longer to improve throughput. We consider steps taken by the management, such as improving product mix, store specific promotions and local advertising could result in reporting better SSSG in future.

Exhibit 17: Same store sales growth trend (%)



Source: Company, Centrum Broking

Exhibit 18: ~60% of stores are less than five years old



Source: Company, Centrum Broking

We expect 36% stores which are less than two years old in the system to provide higher SSSG to overall revenues as company plans to ramp up its turn-around quicker by changing merchandise mix in order to meet local taste and by planning attractive promotions.

Long term growth drivers are in place

We expect earnings growth to resume post normalcy

V-Mart has built its strategy by understanding needs of value seeking consumers

- Focus on high margin apparels merchandise
- Strong cost control in sourcing and inventory management
- Focus on faster break-even for stores
- Lower rentals owing to first mover advantage
- Strong footing to deal with rising competition in mass value fashion

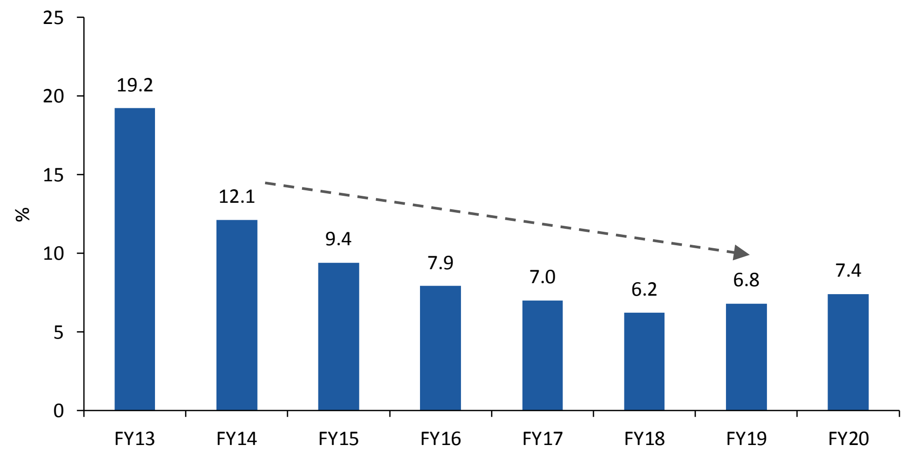
V-Mart's revenue grew at CAGR of 18.4% over FY17-20 period, yet COVID-19 uncertainties resulted in slower recovery, in our view. We believe long term growth drivers are in place and revenue momentum will resume post normalcy as company plans store addition (25-30 per annum). Our field studies indicate that V-Mart has strong consumer franchise and brand recall for its winning formula in providing value-for-money products. Further, despite lower gross margins at 32.2%, it generates industry leading EBITDA margins of 12.1%. We have built CAGR EBITDA/PAT growth 12.9%/42.4% over FY20-23E period.

Focus on high margin apparels

V-Mart has purposefully decided to focus on apparel merchandise, which commands higher profit margins. Based on latest fashion trend it sources such merchandise using better bargaining power by negotiating payment terms in favour of suppliers, yet it avoids branded premium merchandise. Moreover, high margin products in men and women segments form dominant share in the revenues, in our view.

Moreover, it sells basic staples and FMCG products under kirana segment, tactically to attract footfalls in high traffic residential areas. Furthermore, it sources such kirana products locally to cut its investments in the back end inventory. Notably, share of kirana has steadily declined to 7.4% in FY20 from 24% in FY12. Nevertheless, kirana offers lower gross margin at 14%, in our view.

Exhibit 19: Declining share of kirana (%)



Source: Company, Centrum Broking

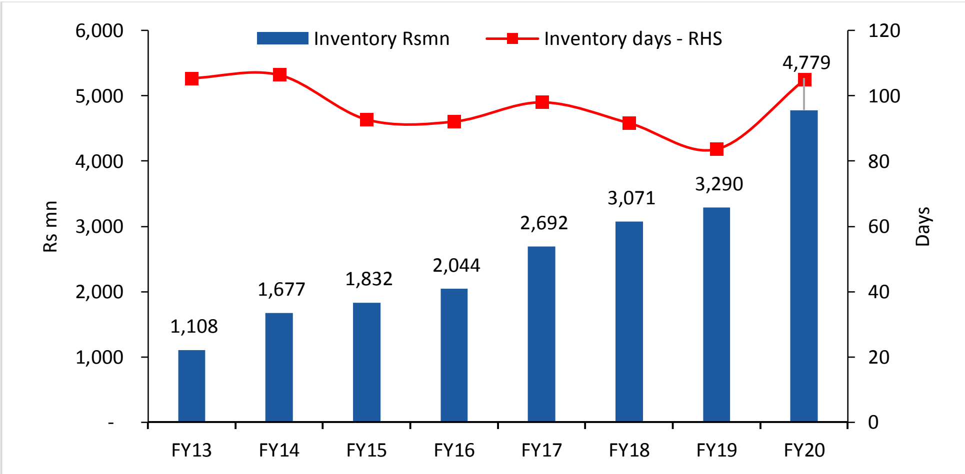
Strong cost control in sourcing and inventory management

Driving benefits from its cluster-based strategy, it generates lot of insights on anticipated buying patterns by the consumers, which are driven by festivities (Sankranti, Holi, Hindu New-year, Ram Navami, Raksha-Bandhan, Dassra, Diwali, Chat Pooja, etc.), strong winter season and special family occasions such as weddings. Considering this, V-Mart operates on three season cycle of four months each – summer, winter and festivals, wherein it builds its inventory 2-3 months in advance adhering to its promise of supplying latest fashion.

Since its inception, V-Mart has followed a guiding principal of 100% purchase of goods against the industry norm of 'selling goods on consignments', it has developed a strong network of suppliers across the nation who could meet V-Mart's requirement of quality merchandise and price range. We noticed, over the last decade using its bargaining power, the company has consolidated its supplier base from 2,000+ in FY11 to 500 now. Furthermore, it has been able to nurture a strong relationship with its suppliers, which has helped in deriving value out of mutual benefits.

In order to make the supply chain leaner, V-Mart strives to cut its supplier base every year. It periodically assess vendor management by evaluating parameters such as quality, timely delivery and cost reduction by tweaking its muscle for buying outright inventory paying in cash. These efforts have facilitated V-Mart in maintaining price of its merchandise. Notably, it passes such price reductions occurred out of price negotiations to end consumer after protecting its margin. As a result V-Mart has been able to reduce inventory days, however FY20 was an aberration as the country went into lock down affecting new store expansion and regular sales.

Exhibit 20: Reducing inventory (no. of days)



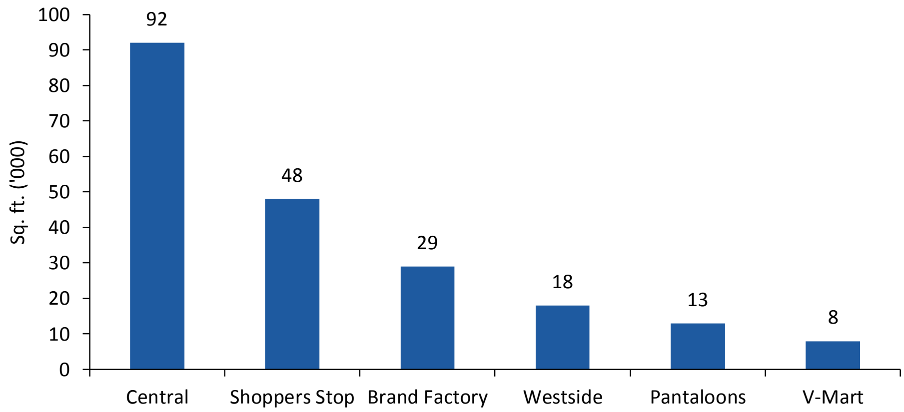
Source: Company, Centrum Broking

Focus on faster break-even for stores

Away from the industry concept of opening large stores to attract higher footfall followed by the national competition, V-Mart, since its inception has adopted a strategy of opening stores with lower size (8,000 to 8,500 sq. ft.) demonstrating super success in driving store economics. We note cost of setting up one store ranges between Rs11-13mn for interior and fitment, while inventory fill require additional Rs10mn. Remarkably, company has formed a policy of funding its store expansion through internal accruals rather than securing long term debt which results in faster break-even for the store.

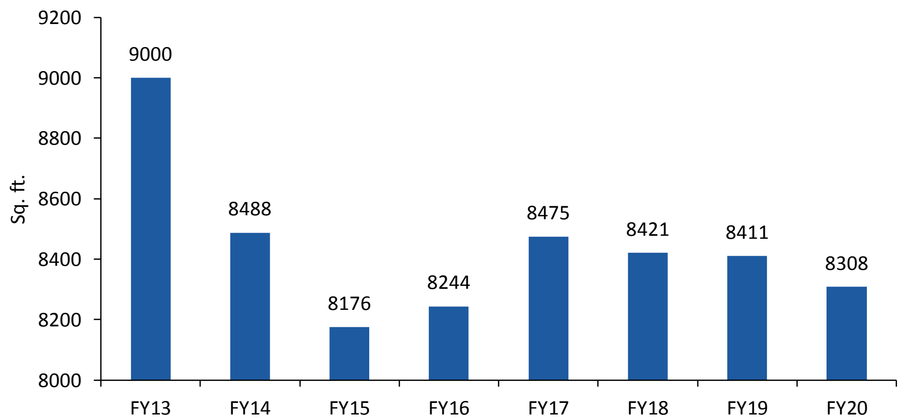
The key benefits derived from lower size of store are (1) optimum utilisation of space, (2) lower inventory fill up resulting higher sales per sq. ft., (3) better store management, (4) lower pilferage, and (5) lesser operational cost.

Exhibit 21: Average store size trend vs. competition ('000 sq. ft.)



Source: Centrum Broking

Exhibit 22: V-Mart operates smaller store size – avg. store size declining (sq. ft.)

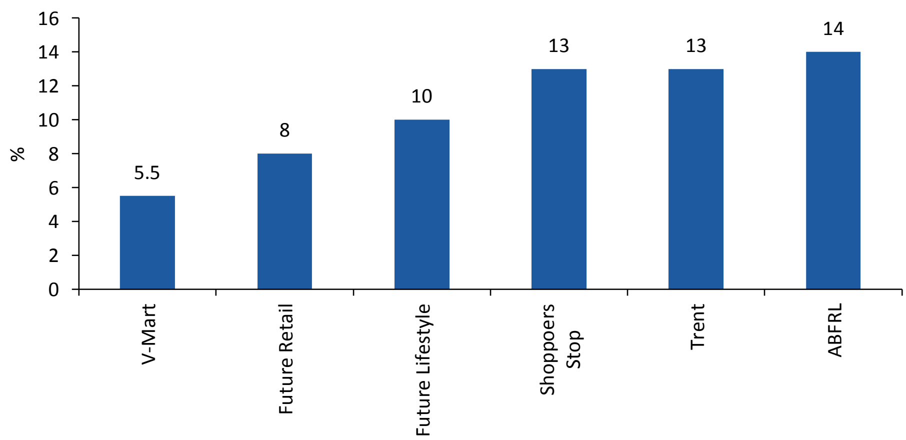


Source: Company, Centrum Broking

Lower rentals owing to first mover advantage

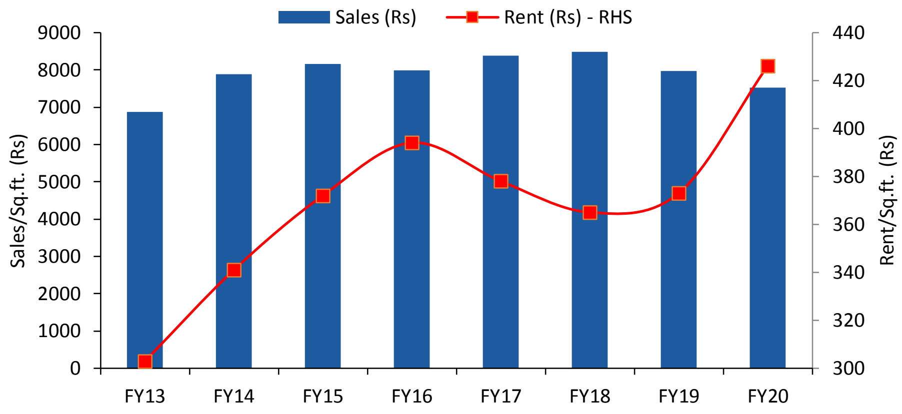
Owing to its breakthrough formula for lowest rentals, we have observed that V-Mart enters into long term contracts with landlords. Typically, these long leases are for 9-10 years and can be revoked by only V-Mart and not by the owner. Also, any escalations in rental clause are pre decided. This allows V-Mart to safeguard from any upsurge in land prices as well escalation in rentals. Considering this, V-Mart has been able to command low rentals for all its stores, much lesser than competition; rather it has mastered the art of securing such properties.

Exhibit 23: Rental as a % of revenues – V-Mart vs. competition



Source: Company, Centrum Broking

Exhibit 24: Sales per sq. ft. vs. rent per sq. ft. trend (Rs)



Source: Company, Centrum Broking

Exhibit 25: Indicative cost of setting up a new store

Head	Rsmn
Interior and permanent fixtures inside the store	12
Inventory	10
Total cost of setting up a store	**22**

Source: Company, Centrum Broking

As a result of this, V-Mart has been able to turnaround store break-even in less than three years from the opening of a new store. The following exhibit illustrates store level economics.

Exhibit 26: Store level expenses and EBITDA margin

Store expenses	%
Gross margin	32.0
Manpower	5.5
Rental	5.5
Power and electricity	3.0
Ad-spend	2.0
Store overheads	1.0
Total expenses	**17.0**
Store level EBITDA margin	**15.0**

Source: Company, Centrum Broking

Strong footing to deal with rising competition in mass value fashion

Our interaction with industry experts suggests, though value-fashion is not new, it is now redefining its positioning around affordable pricing. It is pertinent to note, as the customers become value conscious retention is a key as competition would offer similar products. V-Mart being first to work around this concept has been credited with vast understanding in building its business model around changing consumer needs in the hinterland. Further, it has emphasized on selecting store location, outlook and in-store experience with detailed planning in selecting locations, right kind of merchandise and local promotions.

Our ground research suggests competition is heating up in mass-value-fashion. Many players have shown aggression and trying their hands to deal with upcoming opportunity in tier 2/3/4 cities. Notably, Pantaloons opened its stores in tier-2 cities with lower ASP (private labels) trying to bridge gaps between V-Mart offerings. On the other hand, since FY18, Trent been has been expanding its network for its new venture Zudio, value fashion format catering to growing demand at reasonable prices. Moreover, Zudio has now expanded its store count to 88 and planning to accelerate further. We believe over years, using its cluster-based strategy, V-Mart has gained deep understanding in providing basic fashion at a reasonable price in its strongholds such as UP/ Bihar/ Jahrkhand.

Focus on building agile, future ready organisation

We note, recently V-Mart has made substantial investments in improving supply chain efficiencies, IT infrastructure, and data analytics in building internal capabilities for a future ready organisation. Since apparel retailing is all about inventory management of right merchandise and cut obsolete inventory loss, through such projects, V-Mart has put special thrust on employing technology and digitisation to cut flab in vendor management in creating lean supply chain. Moreover, it is now embarking on fast growing Omni channel opportunity.

Initiatives taken on building next generation V-Mart

Conspicuously, following actions have been taken by V-Mart recently on building next generation agile organisation.

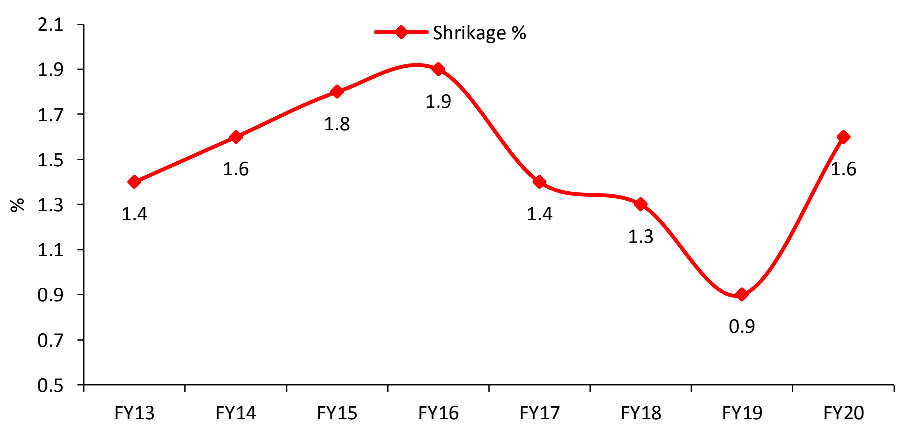
- Customer centric focus – thrust on product assortment by reorganising supplier base
- Streamlining e-commerce offering – Omni-channel initiative
- Reforming supply chain effectiveness

Customer centric focus – thrust on product assortment

Apparel retailing is one of the most complex businesses in India. Industry experts allude, selecting latest fashion/ design, coupled with different size (measure), variety, variability, and choice of colour preferences differ vastly by region. These forces further complicate sourcing patterns before picking up right supplier meeting its seasonal demand, in our view. Over years, V-Mart has perfected its sourcing model, through vendor management portal for increasing share of private label where it supplies product design. It has developed robust stock replenishment model, which reduces lead time, whilst V-Mart tracks real time performance such as order management, incidences of product return, price variations, etc. Grounded on these efforts, we reckon, over last decade it has been able to cut vendor base from 2,000+ to 500 in FY20.

Deriving benefits from reorganisation of its vendor base it has been able to expand its product assortment for its own, as well as exclusive private labels supplied by vendors. Further, it has also been able to control its shrinkages in our view. The following exhibit illustrates such trend; however FY20 was an exception due to one-time adjustment made towards provisioning COVID-19 impact.

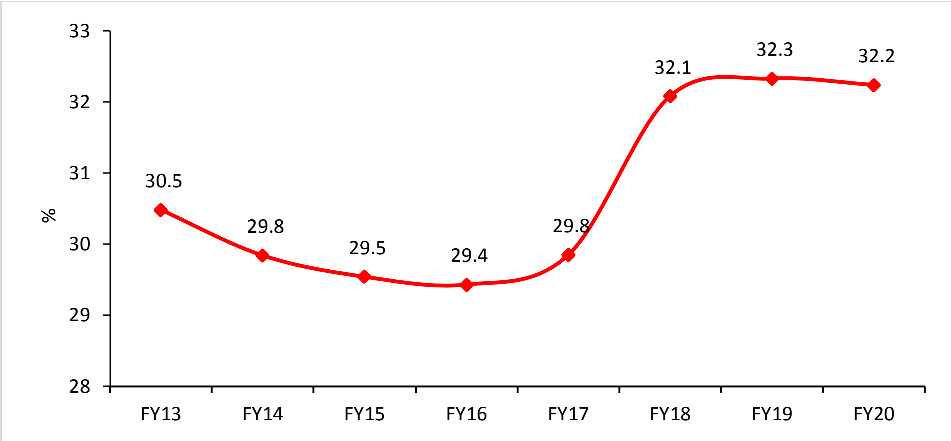
Exhibit 27: Reduction in shrinkages (%)



Source: Company, Centrum Broking

In addition, it has been able to improve its resultant gross margin based on redefining its procurement systems and processes. We believe since it is a continuous process, V-Mart would be able reap benefits for long term.

Exhibit 28: Improving gross margin (%)



Source: Company, Centrum Broking

Streamlining e-commerce offering – Omni-channel initiative

In the recent past, V-Mart has made an attempt in strengthening its senior management team by hiring Chief Operating Officer, Head of retail operation and Strategy head who would be responsible for spearheading the development and execution of long-term strategies with clear goal to drive its top-line and profitability. We note that the company is making efforts to fine tune its market understanding by bringing quality fashion to aspirational middle-class consumers.

Conversely, with senior management team in place it is consciously building middle-management team now. We expect, this would reinforce its commitment to bring in fresh thinking in terms of, product design, selection of better merchandise, improve processes and more importantly fashion marketing. Nonetheless, it has overhauled Zonal sales structure, quality assurance and visual merchandising teams to perfect its execution. More importantly, Zonal heads are responsible in driving store expansion, footfalls and store throughput as these are tied up with incentive structure. We believe merits of these changes would reflect in quality of ownership, driven by improved capabilities in dealing with national and regional competition.

Exhibit 29: Zonal sales structure

Zones	States covered
Zone 1	Uttar Pradesh
Zone 2	Bihar, Jharkhand
Zone 3	West Bengal, North East
Zone 4	Rest of north, West

Source: Company, Centrum Broking

Counting on these competencies and skill sets, it is now embarking on new business opportunity of e-commerce. V-Mart is in process of designing Omni-channel delivery platform. It is designing a seamless digital platform connecting new generation, online consumers with off-line store experience. It has heavily invested in data centre and data analytics team who could be nimbler and approachable in addressing customer demand and flawless service. It is further augmenting its offering by adding payment gateway at the point of sales which could provide seamless transaction for its customers.

Reforming supply chain effectiveness

In our deep understanding, V-Mart counts its success on providing crisp inventory in supplying mass-fashion merchandise in the hinterland. Though its cluster-based strategy has distinction, in reality managing vendors spread across India and inventory carrying costs are biggest bottle necks. We believe, retail is all about inventory management, as retailers are required to maintain adequate inventory to avoid stock out. In order to streamline its supply chain, V-Mart merged its warehouses at one location in Haryana creating a mother warehouse. However, with accelerated growth in store addition in next three years, we expect it would be required to invest in new warehouse to manage its operation.

We believe, as pace of store expansion was rapid, its mother warehouse had higher traffic from inward (from suppliers) and outward (to the stores) stock movement warrant investment in new warehouse. To fulfil its promise, ‘right merchandise at right place’ it has implemented automated stock replenishment model using hub-and-spoke prototype. Under this project, it has been able to cut its lead time and optimise its inventory holding and also control damages.

As a result of reforming its supply chain effectiveness, V-Mart has been able to reduce inventory days from 130 in FY13 to 105 days in FY20, which appears to be higher due to loss of sales in March 2020 accounting for COVID-19 lockdowns. Nevertheless, to our understanding, company is striving to bring down its inventory holding further.

Lean balance-sheet, healthy return ratios

Valuation comfort with rising operating cash-flows

- Store growth to be funded by internal accruals
- Calibrated growth strategy
- Visible growth momentum with profitability to continue
- Strong revenue/EBITDA growth to drive OCF of Rs863mn
- We expect ROE to trace healthily to 20.5% in FY23

V-Mart progressed its store expansion funding from internal accruals

Remarkably, V-Mart has funded its growth from internal accruals in the past, besides we expect it would generate OCF of Rs2.9bn in FY23E. Further, COVID-19 drove its war on cost, helping cut working capital further in 1H FY21, generating healthy asset turnover and RoE/ROCE 22.7%/17.3% in FY23E.

Store growth to be funded by internal accruals

V-Mart operates its stores in ~8,000 sq. ft. area, which requires overall capex of ~Rs22mn, bifurcating as Rs12mn on interior fixtures (Rs1,446 per sq. ft.) and Rs10mn on inventory fill (Rs1,205 per sq. ft.). It generates healthy revenues of Rs9,880 per sq. ft. or ~Rs82mn per year translating into healthy asset turnover. We observe per store inventory remains at Rs18mn, but with Rs10mn trade payables, net working capital per store remains at Rs8mn. It operates at a gross margin of ~32% with a merchandise mix of apparels (80%), which is lower than apparel industry leaders due to its strategy of offering products 30-35% cheaper than competition. However, its track record suggests, it earns healthy EBITDA of Rs8mn per store in reporting EBITDA margin of 10%. This explains its payback period of 2.7 years resulting in post-tax strong RoCE of 23%, much better than competition.

Exhibit 30: Indicative store level economics (assume store size of 8,300 sq.ft.)

	Per store (Rs mn)	Per sq.ft. (Rs)
Capex	12	1446
Working Capital	10	1205
Total Capex	22	2651
Break-even (in years)	2.7	2.7
Revenues	82	9880
Gross margin	26	3161
Gross margin (%)	32	32
Other operating cost	18	2169
EBITDA	8	993
EBITDA margin (%)	10	10
Depreciation	1	173
Depreciation rate (%)	12	12
EBIT	7	819
ROCE (Tax ~27%)	23	23

Source: Company, Centrum Broking

Calibrated growth strategy

V-Mart has reported 20% addition of stores every year; it has added 125 stores in last three years reaching a total of 266 in FY20. It has managed its store expansion in well calibrated manner, funding through internal accruals. While it relies on borrowings only for funding working capital requirement, we believe balanced growth and low leverage appear to be significant positive. Barring COVID-19 impact, we expect accelerated growth in store expansion post normalcy.

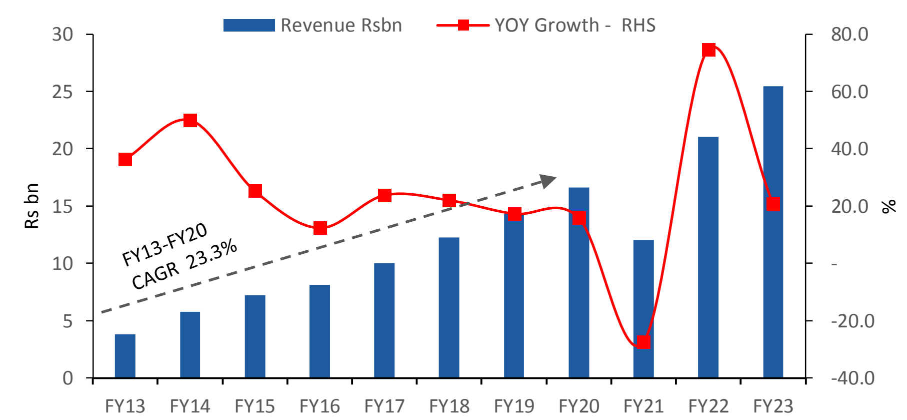
Management has maintained its guidance on retail space addition of 25% every year, except FY21. Furthermore, stores are opened with long leased properties with annual escalation clause of 3-4%, and we don't expect additional capex other than regular refurbishment of 20-25 store per year.

Visible growth momentum with profitability to continue

Given the COVID-19 impact, we have built 27.5% decline in revenues in FY21 driven by lower footfalls, and larger effect of store shutdowns in 1HFY21. Further, we envisage lower pace of opening new stores due to weaker consumer sentiment and management strategy to conserve cash in difficult times. Though we are optimistic on higher income growth in large agriculture dependent states such as UP/Bihar/Jharkhand, short term impact on revenues can't be ruled out. Furthermore, we expect value conscious customer to be blessing for V-Mart, impacting its revenues positively during festive season.

We have factored in revenue growth of 74.6% in FY22E and 20.9% in FY23E driven by normalcy in consumer behaviour and rapid pace of store expansion.

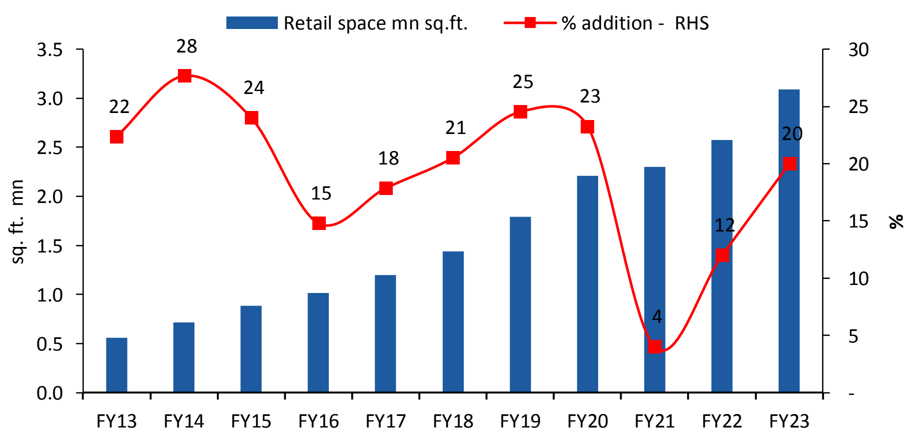
Exhibit 31: Revenue growth trend (Rsbn)



Source: Company, Centrum Broking

Also, the efforts put in by the company in terms of improving product mix and increasing private label contribution could reflect in higher transaction size and bill cuts. In addition, we expect technology interventions and data analytics could improve store efficiency. As a result, we expect average 6%+ SSSG over FY21-23E period. Nevertheless, its attempt to revamp non profitable stores by changing product mix or closing down should aid its SSSG in our view.

Exhibit 32: Store Addition and retail space addition (mn sq. ft.)



Source: Company, Centrum Broking

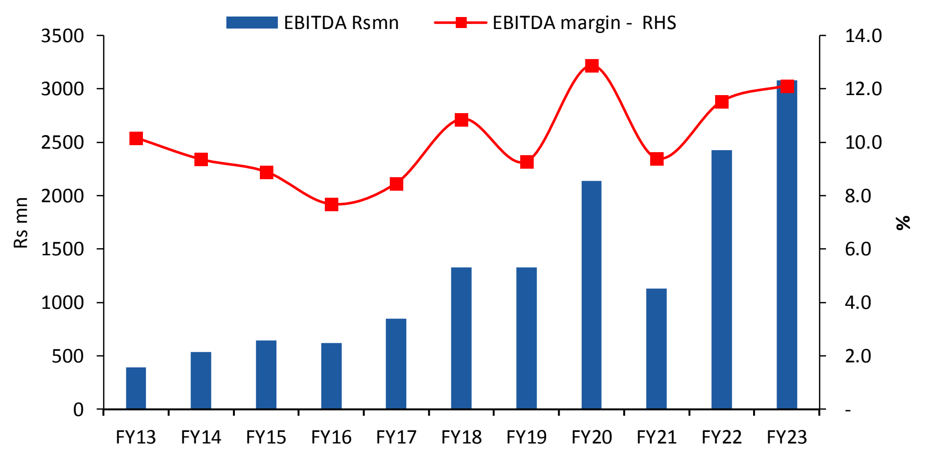
We reckon, pre COVID-19 pandemic, company had managed to report 22% increase in retail space addition, yet it maintains its guidance for growth of 20-25% in retail area. We strongly believe that the company will come back with its store addition agenda in tier 3/4 cities post normalcy. We expect store count to rise from 264 in September 2020 to reach 375 by FY23E, an increase of 111 stores.

Expect strong EBITDA margin by FY23E

V-Mart's EBITDA margins have remained in the range of 8-10%. Though its gross margins have expanded over years, its brand building efforts through ad-spends and ESOP costs could limit actual EBITDA. We have factored in 44% change in EBITDA over FY20-23E period.

We note, company's effort in reducing fixed costs by 50-55% in FY21, adopting cost control measure such as, (1) hard negotiations with landlords for store rentals, (2) more variable pay structure for its employee, (3) cut in discretionary spends, and (4) controlled capex on new store opening could surprise positively.

Exhibit 33: We expect EBITDA CAGR of 12.9% over FY20-23E



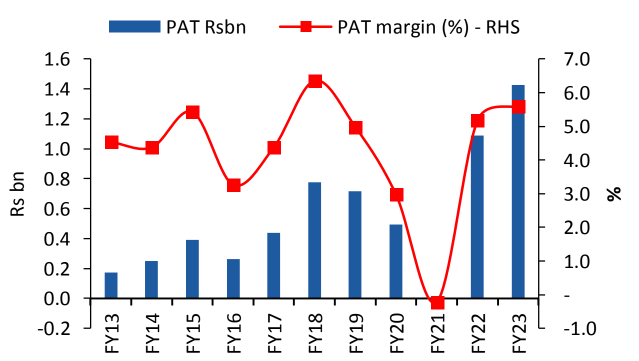
Source: Company, Centrum Broking

Strong balance sheet

Despite buoyant pace of store additions i.e. adding 20-25 per year, V-Mart has maintained healthy balance sheet with low debt in generating cash profits and better return ratios. Since it has a stated policy of funding growth through internal accruals, it would virtually remain zero debt company. Nonetheless, factors such as lower rentals (Rs30/35 per sq. ft.) for its store expansion in tier 3/4 cities add margin comfort.

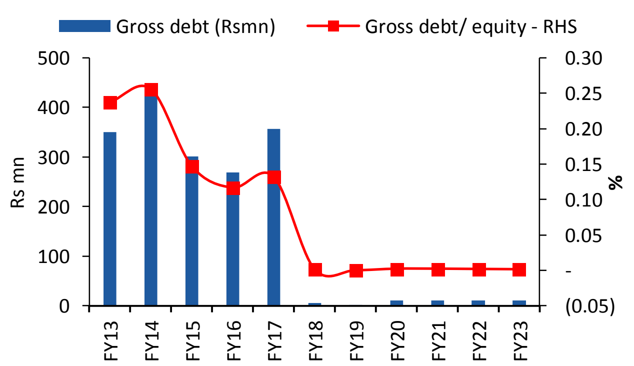
Given this we expect V-Mart to deliver Rs2.9bn OCF in FY23E.

Exhibit 34: We expect PAT CAGR 42.4% over FY20-23E



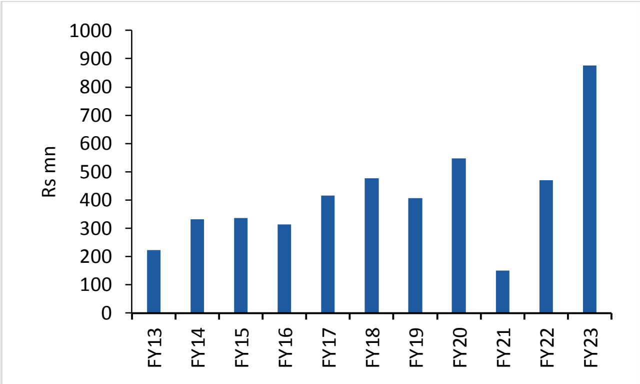
Source: Company, Centrum Broking

Exhibit 35: Lower gearing, practically zero debt



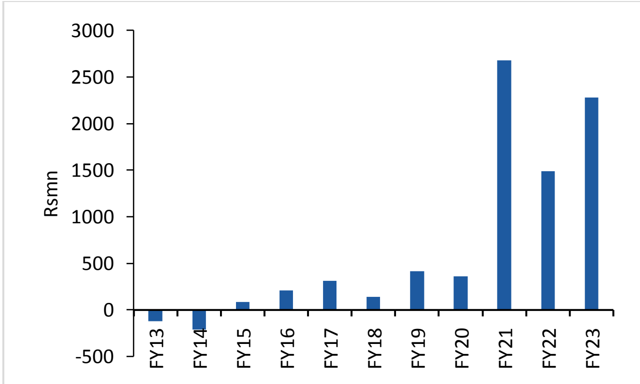
Source: Company, Centrum Broking

Exhibit 36: Coupled with low capex (Rsmn)



Source: Company, Centrum Broking

Exhibit 37: Expect to deliver healthy FCF (Rsmn)

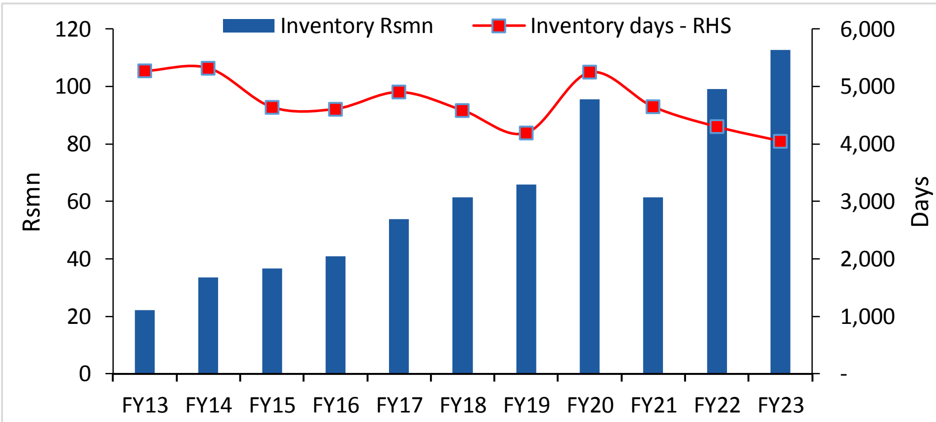


Source: Company, Centrum Broking

Improving working capital

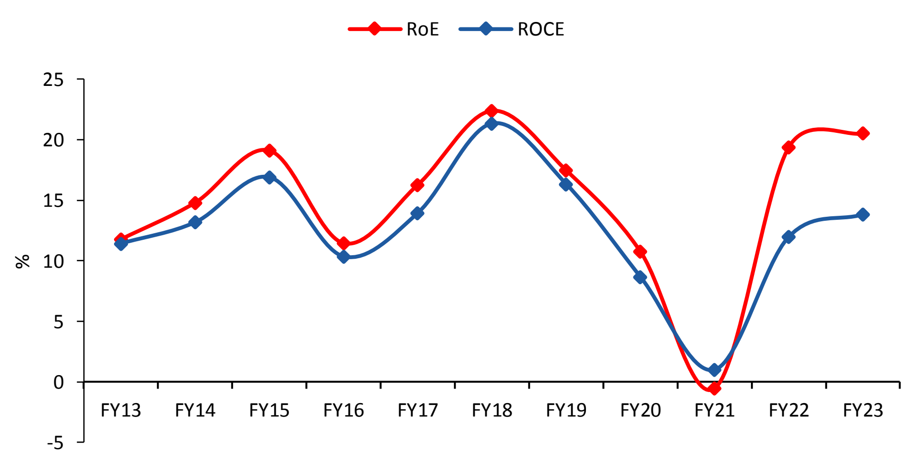
Adhering to its policy V-Mart operates on outright purchase of merchandise, unlike competition, which operates on consignment basis. Notably, it has been efficiently managing its working capital cycle, which has come down from 48 days in FY15 to 28 days in FY20. Despite holding the entire inventory on its books, V-Mart has been able to control its inventory ~90 days efficiently planning its seasonal merchandise.

Exhibit 38: Inventory cycle



Source: Company, Centrum Broking

Exhibit 39: Healthy return ratios (%)



Source: Company, Centrum Broking

Valuation

Strong Buy with Target price Rs2,852

Rising FCF, lean balance sheet provides valuation comfort

- Reasonable valuation EV/EBITDA 13.6x and 27.1x PE FY23E
- Industry leading EBITDA and proven business model warrants premium
- We assign 10% premium to 10-year average EV/EBITDA

V-Mart is credited with healthy earnings growth in normal time, yet COVID-19 impact would have higher rub-off effect on its growth. Considering it has robust business moat, which acts as competitive advantage, it had delivered strong SSSG (6%) and robust revenue/EBITDA/PAT growth CAGR of 19.4%/25.9%/11.9% over FY14-FY20 period. We expect V-Mart to deliver healthy SSSG growth, as two-third of its stores are yet to mature.

Nonetheless, we expect strong OCF to fund its growth momentum. We have factored in revenue/EBITDA/PAT CAGR of 15.2%/12.9%/42.4% over FY20-23E. In addition, we expect healthy RoE/ROCE at 22.7%/17.3% in FY23E driven by strong asset turnover.

Besides, its unique value proposition (strong rural play), first-mover advantage, and superior EBITDA margin amongst industry peers, we assign 10% premium to its 10-year average EV/EBITDA multiple. We initiative V-Mart with Buy rating and Target Price of Rs2,852.

Exhibit 40: Exhibit – Valuation summary

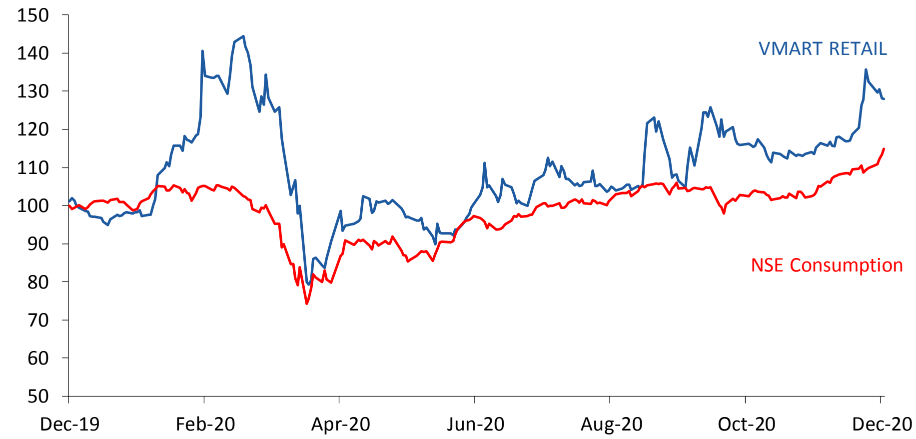
Particulars	
EBITDA	3,080
Multiple (x) 10% premium to 10 year average	17.8
Enterprise Value	54,884
Total Debt	6,571
Cash and Cash Equivalents	3,397
Net Debt	3,175
No. of shares outstanding (mn)	18.2
Target Price (Rs)	**2852**
Current Market Price (Rs)	2175
Upside/Downside (%)	**31.1**

Source: Centrum Broking

Exhibit 41: One year forward EV/EBITDA

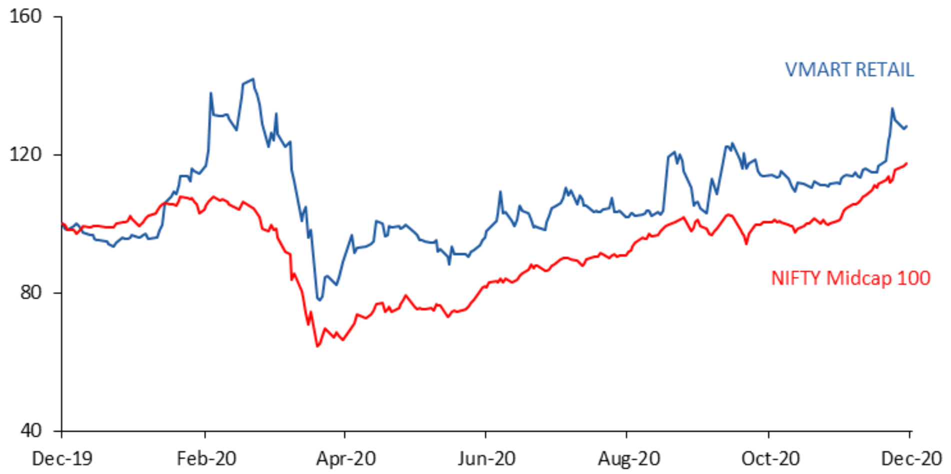
Source: Centrum Broking

Exhibit 42: V-Mart vs Nifty Consumption Index



Source: Centrum Broking

Exhibit 43: V-Mart vs Nifty midcap 100



Source: Centrum Broking

Key risks

- Prolonged demand recovery – The prolonged economic slowdown impacted by COVID-19 pandemic could weaken consumer sentiments. Further, restricted out-of-home movement by the shoppers, may lower discretionary spends and result in lower than expected demand.
- Unpredicted competition – In difficult times, competition may choose to undercut its merchandise prices in attracting footfall, this impact revenue growth and could affect margins.
- Longer than expected turnaround in newer stores – The company has been expanding its footprint in newer clusters such as East, North East regions, but slower growth in SSSG may impact overall company performance.

P&L

YE Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenues	**14,322**	**16,616**	**12,046**	**21,035**	**25,426**
Operating Expense	11,136	12,223	9,476	15,722	18,820
Employee cost	1,257	1,536	1,262	1,973	2,419
Others	615	724	176	916	1,107
EBITDA	**1,329**	**2,138**	**1,132**	**2,424**	**3,080**
Depreciation & Amortisation	276	939	1,035	1,078	1,205
EBIT	**1,053**	**1,198**	**96**	**1,346**	**1,875**
Interest expenses	16	548	586	629	710
Other income	59	45	464	372	260
PBT	**1,096**	**695**	**(25)**	**1,089**	**1,425**
Taxes	382	202	0	0	0
Effective tax rate (%)	34.8	29.0	0.0	0.0	0.0
PAT	**714**	**493**	**(25)**	**1,089**	**1,425**
Minority/Associates	0	0	0	0	0
Recurring PAT	**714**	**493**	**(25)**	**1,089**	**1,425**
Extraordinary items	(102)	0	0	0	0
Reported PAT	**613**	**493**	**(25)**	**1,089**	**1,425**

Ratios

YE Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Growth (%)					
Revenue	17.3	16.0	(27.5)	74.6	20.9
EBITDA	0.1	60.8	(47.1)	114.2	27.0
Adj. EPS	(8.2)	(30.9)	nm	nm	30.9
Margins (%)					
Gross	32.4	32.2	29.2	31.0	31.6
EBITDA	9.3	12.9	9.4	11.5	12.1
EBIT	7.3	7.2	0.8	6.4	7.4
Adjusted PAT	5.0	3.0	(0.2)	5.2	5.6
Returns (%)					
ROE	18.9	11.4	(0.6)	21.3	22.7
ROCE	19.1	12.7	5.8	16.4	17.3
ROIC	20.8	12.9	1.1	15.1	18.4
Turnover (days)					
Gross block turnover ratio (x)	6.2	6.2	4.3	6.4	6.1
Debtors	0	0	0	0	0
Inventory	120	131	168	101	111
Creditors	59	56	74	51	59
Net working capital	54	61	100	80	84
Solvency (x)					
Net debt-equity	(0.2)	1.1	0.7	0.6	0.5
Interest coverage ratio	82.4	3.9	1.9	3.9	4.3
Net debt/EBITDA	(0.5)	2.4	2.8	1.3	1.0
Per share (Rs)					
Adjusted EPS	39.4	27.2	(1.4)	60.1	78.6
BVPS	225.7	253.1	254.5	310.3	383.4
CEPS	54.6	79.0	55.7	119.5	145.0
DPS	1.7	0.0	0.0	4.2	5.5
Dividend payout (%)	5.0	0.0	nm	7.0	7.0
Valuation (x)					
P/E	54.1	78.3	nm	35.5	27.1
P/BV	9.4	8.4	8.4	6.9	5.6
EV/EBITDA	28.6	20.5	37.0	17.3	13.6
Dividend yield (%)	0.1	0.0	0.0	0.2	0.3

Source: Company, Centrum Broking

Balance sheet

YE Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Equity share capital	181	182	182	182	182
Reserves & surplus	3,911	4,408	4,432	5,445	6,770
Shareholders fund	4,093	4,589	4,614	5,626	6,952
Minority Interest	0	0	0	0	0
Total debt	0	5,167	5,107	5,573	6,571
Non Current Liabilities	111	61	61	61	61
Def tax liab. (net)	0	0	0	0	0
Total liabilities	**4,204**	**9,818**	**9,782**	**11,260**	**13,585**
Gross block	2,296	2,674	2,824	3,293	4,168
Less: acc. Depreciation	(641)	(925)	(1,268)	(1,668)	(2,174)
Net block	1,655	1,749	1,557	1,626	1,995
Capital WIP	40	25	25	25	25
Net fixed assets	1,695	6,695	6,105	6,307	7,370
Non Current Assets	191	172	172	172	172
Investments	98	33	33	33	33
Inventories	3,290	4,779	3,068	4,954	5,639
Sundry debtors	0	0	0	0	0
Cash & Cash Equivalents	700	96	1,884	2,319	3,397
Loans & advances	1	0	0	0	0
Other current assets	225	301	301	301	301
Trade payables	1,483	1,968	1,490	2,535	3,037
Other current liab.	535	354	354	354	354
Provisions	97	97	97	97	97
Net current assets	2,101	2,757	3,312	4,588	5,849
Total assets	**4,204**	**9,818**	**9,782**	**11,260**	**13,585**

Cashflow

YE Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit Before Tax	1,095	1,257	96	1,346	1,875
Depreciation & Amortisation	276	939	1,035	1,078	1,205
Net Interest	0	0	0	0	0
Net Change – WC	(275)	(1,091)	1,233	(841)	(183)
Direct taxes	(332)	(241)	0	0	0
Net cash from operations	**763**	**863**	**2,365**	**1,583**	**2,897**
Capital expenditure	(407)	(546)	(150)	(469)	(875)
Acquisitions, net	0	0	0	0	0
Investments	(338)	551	0	0	0
Others	11	1	464	372	260
Net cash from investing	**(734)**	**5**	**314**	**(97)**	**(615)**
FCF	**30**	**868**	**2,679**	**1,486**	**2,281**
Issue of share capital	19	13	0	0	0
Increase/(decrease) in debt	(3)	8	0	0	0
Dividend paid	(44)	(37)	51	(76)	(100)
Interest paid	(16)	(548)	(34)	(34)	(34)
Others	0	(379)	(907)	(941)	(1,070)
Net cash from financing	**(44)**	**(943)**	**(890)**	**(1,051)**	**(1,204)**
Net change in Cash	(14)	(75)	1,789	435	1,078

Source: Company, Centrum Broking

Company Profile

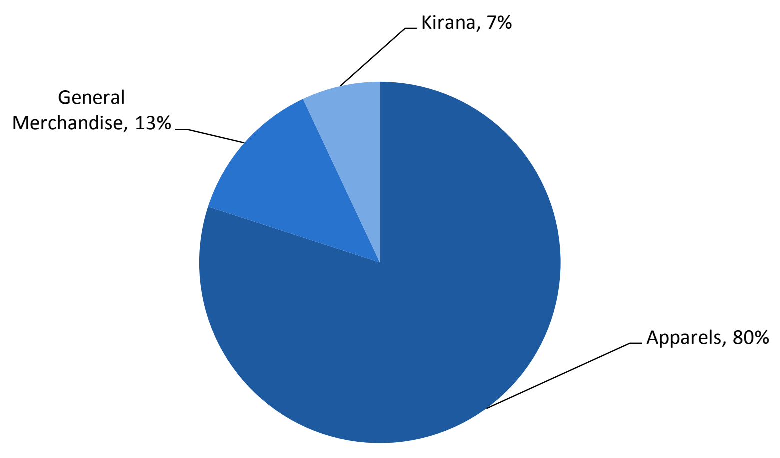
Founded as Varin Commercial Private Limited in 2002, the company entered in retail venture with its initial store in Gujarat in 2003. It operates on the philosophy of "price-less-fashion' driven by core strategy, which revolves around value-fashion at affordable price for aspirational consumers in tier 2/3 cities. V-Mart is a complete family retail store chain offering apparel, footwear and accessories for men, women and kids. The company also offers wide range of home furnishings, general merchandise, toys, tableware, utensils, and other home utility items. Its stores are located in North, East, North-East and Central India. As on date, it holds a network of 264 stores with 2.2 mn sq.ft area, spread across these geographies.

Exhibit 44: Company History

2002	**Founded as Varin Commercial Private Limited**
2003	Opened its initial store in Gujarat
2004	Entered Delhi market
2006	Change of name as V-Mart Retail Private Limited
2008	Changed to Public Limited company, secured growth capital from Naman Finance (Aditya Birla PE) and DB Corp
2011	Revenue crossed Rs2bn mark
2012	Expanded operation to 50 cities with 0.2mn sq.ft. retail area
2013	Initial Public Offering and listed on exchanges
2015	Collapsed distribution centre in Haryana
2016	Entered West Bengal and Odisha Market
2017	Revenue crossed Rs10bn mark
2018	Entry in tier -4 markets
2020	Crossed 266 stores with 2.2 mn sq.ft. retail area

Source: Company

Exhibit 45: Product segment contribution



Source: Company

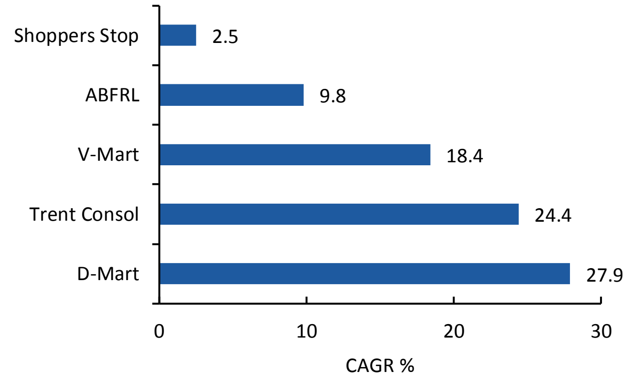
Exhibit 46: Key management personnel

Name	Designation	Details
Lalit Agarwal	Promoter and CMD	Lalit is a retail entrepreneur credited with pioneering the concept of organised value retailing in India, with focus on affordable fashion in non-metro cities. He is B.Com graduate from Mumbai University and Diploma holder in Financial Management from NMIMS, Mumbai.
Madan Agarwal	Promoter, Whole Time Director	With more than four decades of entrepreneurial experience in the fashion retail industry, he is a member and a guiding force for the company.
Aakash Moondhra	Independent Director	Member, The Chartered Accountants Of India and The Institute of Company Secretaries of India, B.Com from Delhi University; MBA from South Methodist University, Texas.
Murli Ramachandran	Independent Director	Murali, is a Management Consultant and CXO coach, specialising in transformation & strategy, performance improvement, leadership development and change management. Holds MS in Industrial Engineering from Columbia University.
Sonal Matoo	Independent Director	A lawyer with 20+ years of experience, specialises in preventing workplace harassment, diversity issues, mediations and negotiations. She is founder Director of Helping Hands, an NGO. She holds B.A., Ll.B (Hons) from National School of India University, Bangalore.
Govind S. Srikhande	Independent Director	Possesses rich cross-functional experience of more than three decades in the textiles, apparel and retail industry, he was previously MD at Shoppers Stop. Holds MBA in Marketing from Pune University and B.Tech in Textile from VJTI, Mumbai
Anand Agarwal	CFO	Member, The Chartered Accountants Of India and The Institute of Company Secretaries of India, B.Com (Hons) from Delhi University. Holds 20+ years, experience in retail, media, education and technology companies.

Source: Company

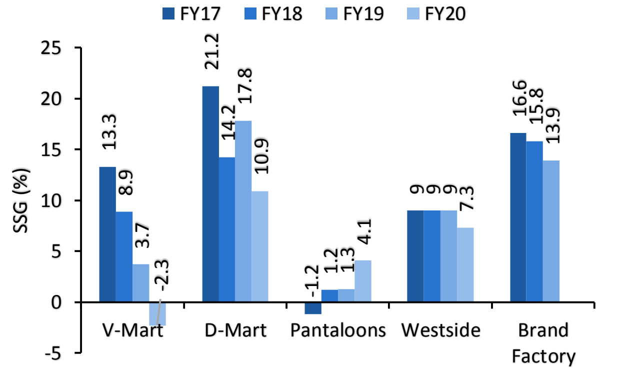
Annexures

Exhibit 47: Revenue CAGR (%) FY17-20



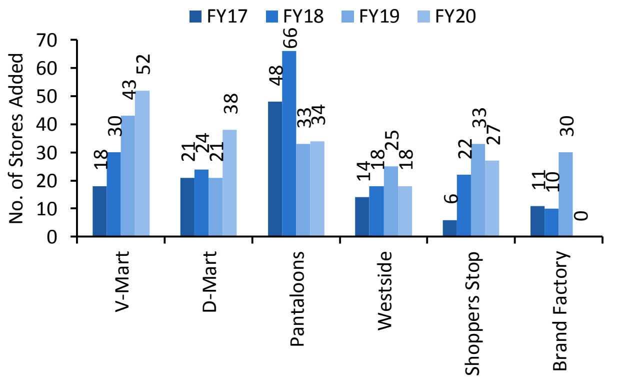
Source: Company, Centrum Broking

Exhibit 48: Same Store Sales Growth (%)



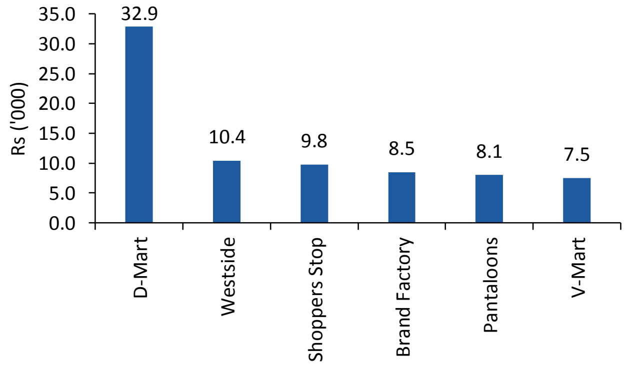
Source: Company, Centrum Broking

Exhibit 49: No. of Stores Added



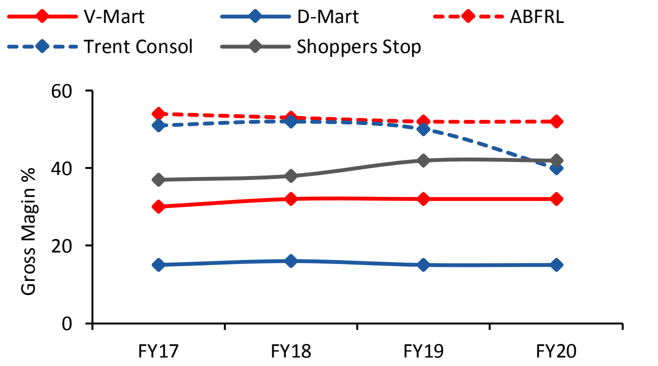
Source: Company, Centrum Broking

Exhibit 50: Revenue per sq. ft. FY20 (Rs.'000)



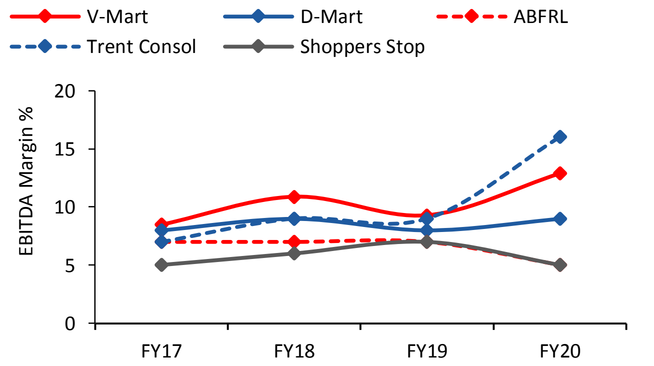
Source: Company, Centrum Broking

Exhibit 51: Apparel Retailers- Gross Margin Trend (%)



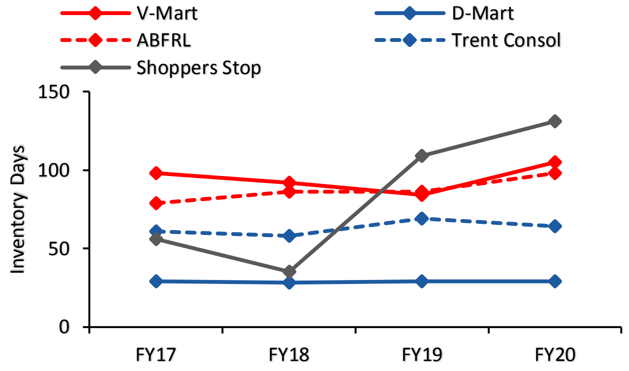
Source: Company, Centrum Broking

Exhibit 52: Apparel Retailers- EBITDA Margin Trend (%)



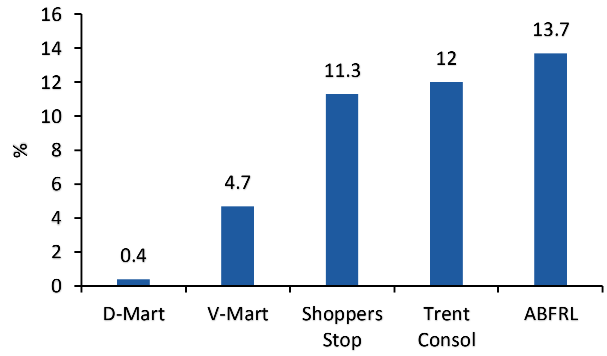
Source: Company, Centrum Broking

Exhibit 53: Inventory days higher for apparel retailers



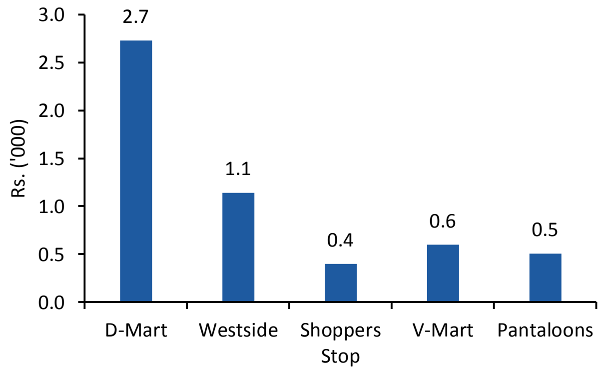
Source: Company, Centrum Broking

Exhibit 54: Rental as % of sales lower for V-mart



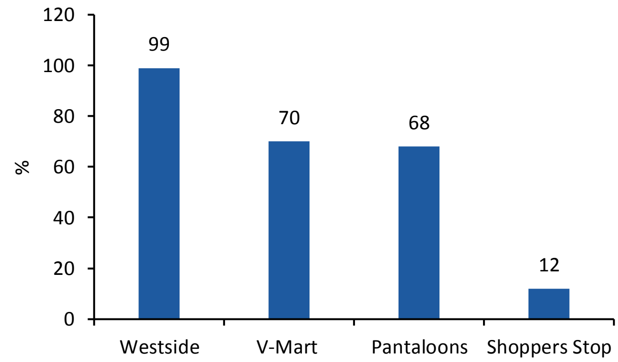
Source: Company, Centrum Broking

Exhibit 55: EBITDA per sq. ft.



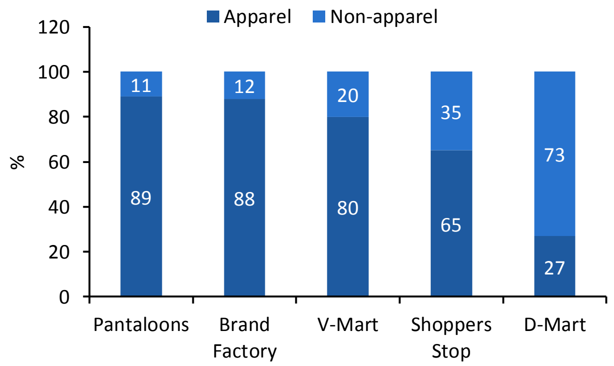
Source: Company, Centrum Broking

Exhibit 56: Contribution from private Label (%)



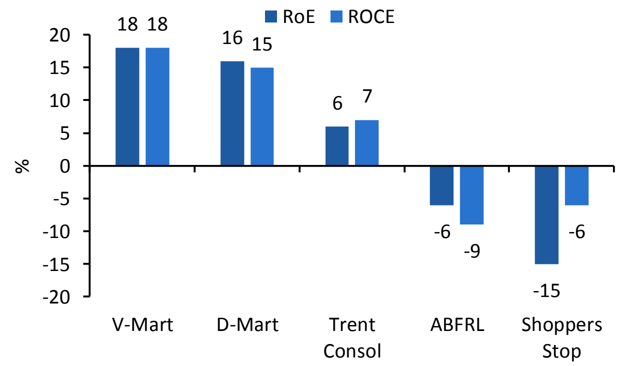
Source: Company, Centrum Broking

Exhibit 57: Product Mix



Source: Company, Centrum Broking

Exhibit 58: Return Ratios (%)



Source: Company, Centrum Broking

Disclaimer

Centrum Broking Limited ("Centrum") is a full-service, Stock Broking Company and a member of The Stock Exchange, Mumbai (BSE) and National Stock Exchange of India Ltd. (NSE). Our holding company, Centrum Capital Ltd, is an investment banker and an underwriter of securities. As a group Centrum has Investment Banking, Advisory and other business relationships with a significant percentage of the companies covered by our Research Group. Our research professionals provide important inputs into

the Group's Investment Banking and other business selection processes.

Recipients of this report should assume that our Group is seeking or may seek or will seek Investment Banking, advisory, project finance or other businesses and may receive commission, brokerage, fees or other compensation from the company or companies that are the subject of this material/report. Our Company and Group companies and their officers, directors and employees, including the analysts and others involved in the preparation or issuance of this material and their dependants, may on the date of this report or from, time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. Centrum or its affiliates do not own 1% or more in the equity of this company Our sales people, dealers, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. We may have earlier issued or may issue in future reports on the companies covered herein with recommendations/ information inconsistent or different those made in this report. In reviewing this document, you should be aware that any or all of the foregoing, among other things, may give rise to or potential conflicts of interest. We and our Group may rely on information barriers, such as "Chinese Walls" to control the flow of information contained in one or more areas within us, or other areas, units, groups or affiliates of Centrum. Centrum or its affiliates do not make a market in the security of the company for which this report or any report was written. Further, Centrum or its affiliates did not make a market in the subject company's securities at the time that the research report was published.

This report is for information purposes only and this document/material should not be construed as an offer to sell or the solicitation of an offer to buy, purchase or subscribe to any securities, and neither this document nor anything contained herein shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. This document does not solicit any action based on the material contained herein. It is for the general information of the clients of Centrum. Though disseminated to clients simultaneously, not all clients may receive this report at the same time. Centrum will not treat recipients as clients by virtue of their receiving this report. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Similarly, this document does not have regard to the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The securities discussed in this report may not be suitable for all investors. The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Persons who may receive this document should consider and independently evaluate whether it is suitable for his/ her/their particular circumstances and, if necessary, seek professional/financial advice. Any such person shall be responsible for conducting his/her/their own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this document.

The projections and forecasts described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. Projections and forecasts are necessarily speculative in nature, and it can be expected that one or more of the estimates on which the projections and forecasts were based will not materialize or will vary significantly from actual results, and such variances will likely increase over time. All projections and forecasts described in this report have been prepared solely by the authors of this report independently of the Company. These projections and forecasts were not prepared with a view toward compliance with published guidelines or generally accepted accounting principles. No independent accountants have expressed an opinion or any other form of assurance on these projections or forecasts. You should not regard the inclusion of the projections and forecasts described herein as a representation or warranty by or on behalf of the Company, Centrum, the authors of this report or any other person that these projections or forecasts or their underlying assumptions will be achieved. For these reasons, you should only consider the projections and forecasts described in this report after carefully evaluating all of the information in this report, including the assumptions underlying such projections and forecasts.

The price and value of the investments referred to in this document/material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. Future returns are not guaranteed and a loss of original capital may occur. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Centrum does not provide tax advice to its clients, and all investors are strongly advised to consult regarding any potential investment. Centrum and its affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk. Certain transactions including those involving futures, options, and other derivatives as well as non-investment-grade securities give rise to substantial risk and are not suitable for all investors. Please ensure that you have read and understood the current risk disclosure documents before entering into any derivative transactions.

This report/document has been prepared by Centrum, based upon information available to the public and sources, believed to be reliable. No representation or warranty, express or implied is made that it is accurate or complete. Centrum has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. The opinions expressed in this document/material are subject to change without notice and have no obligation to tell you when opinions or information in this report change.

This report or recommendations or information contained herein do/does not constitute or purport to constitute investment advice in publicly accessible media and should not be reproduced, transmitted or published by the recipient. The report is for the use and consumption of the recipient only. This publication may not be distributed to the public used by the public media without the express written consent of Centrum. This report or any portion hereof may not be printed, sold or distributed without the written consent of Centrum.

The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Neither Centrum nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

This document does not constitute an offer or invitation to subscribe for or purchase or deal in any securities and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. This document is strictly confidential and is being furnished to you solely for your information, may not be distributed to the press or other media and may not be reproduced or redistributed to any other person. The distribution of this report in other jurisdictions may be restricted by law and persons into whose possession this report comes should inform themselves about, and observe any such restrictions. By accepting this report, you agree to be bound by the fore going limitations. No representation is made that this report is accurate or complete.

The opinions and projections expressed herein are entirely those of the author and are given as part of the normal research activity of Centrum Broking and are given as of this date and are subject to change without notice. Any opinion estimate or projection herein constitutes a view as of the date of this report and there can be no assurance that future results or events will be consistent with any such opinions, estimate or projection.

This document has not been prepared by or in conjunction with or on behalf of or at the instigation of, or by arrangement with the company or any of its directors or any other person. Information in this document must not be relied upon as having been authorized or approved by the company or its directors or any other person. Any opinions and projections contained herein are entirely those of the authors. None of the company or its directors or any other person accepts any liability whatsoever for any loss arising from any use of this document or its contents or otherwise arising in connection therewith.

Centrum and its affiliates have not managed or co-managed a public offering for the subject company in the preceding twelve months. Centrum and affiliates have not received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for service in respect of public offerings, corporate finance, debt restructuring, investment banking or other advisory services in a merger/acquisition or some other sort of specific transaction.

As per the declarations given by them, Mr. Shirish Pardeshi, research analyst and and/or any of his family members do not serve as an officer, director or any way connected to the company/companies mentioned in this report. Further, as declared by him, he has not received any compensation from the above companies in the preceding twelve months. He does not hold any shares by him or through his relatives or in case if holds the shares then will not to do any transactions in the said scrip for 30 days from the date of release.

While we would endeavour to update the information herein on a reasonable basis, Centrum, its associated companies, their directors and employees are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Centrum from doing so.

Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or Centrum policies, in circumstances where Centrum is acting in an advisory capacity to this company, or any certain other circumstances.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Centrum Broking Limited or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market.

Ratings definitions

Our ratings denote the following 12-month forecast returns:

Buy – The stock is expected to return above 15%.

Add – The stock is expected to return 5-15%.

Reduce – The stock is expected to deliver -5-+5% returns.

Sell – The stock is expected to deliver <-5% returns.

V-Mart Retail

Source: Bloomberg

Disclosure of Interest Statement		
1	Business activities of Centrum Broking Limited (CBL)	Centrum Broking Limited (hereinafter referred to as "CBL") is a registered member of NSE (Cash, F&O and Currency Derivatives Segments), MCX-SX (Currency Derivatives Segment) and BSE (Cash segment), Depository Participant of CDSL and a SEBI registered Portfolio Manager.
2	Details of Disciplinary History of CBL	CBL has not been debarred/ suspended by SEBI or any other regulatory authority from accessing /dealing in securities market.
3	Registration status of CBL:	CBL is registered with SEBI as a Research Analyst (SEBI Registration No. INH000001469)

		V-Mart Retail
4	Whether Research analyst's or relatives' have any financial interest in the subject company and nature of such financial interest	No
5	Whether Research analyst or relatives have actual / beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the document.	No
6	Whether the research analyst or his relatives has any other material conflict of interest	No
7	Whether research analyst has received any compensation from the subject company in the past 12 months and nature of products / services for which such compensation is received	No
8	Whether the Research Analyst has received any compensation or any other benefits from the subject company or third party in connection with the research report	No
9	Whether Research Analysts has served as an officer, director or employee of the subject company	No
10	Whether the Research Analyst has been engaged in market making activity of the subject company.	No
11	Whether it or its associates have managed or co-managed public offering of securities for the subject company in the past twelve months;	No
12	Whether it or its associates have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months;	No
13	Whether it or its associates have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months;	No

Member (NSE and BSE). Member MSEI (Inactive)

Single SEBI Regn No.: INZ000205331

Depository Participant (DP)
CDSL DP ID: 120 – 12200
SEBI REGD NO.: CDSL: IN-DP-CDSL-661-2012

PORTFOLIO MANAGER

SEBI REGN NO.: INP000004383

Research Analyst
SEBI Registration No. INH000001469

Mutual Fund Distributor
AMFI REGN No. ARN- 147569

Website: www.centrum.co.in
Investor Grievance Email ID: investor.grievances@centrum.co.in

Compliance Officer Details:
Ashok D Kadambi
(022) 4215 9937; Email ID: compliance@centrum.co.in

Centrum Broking Ltd. (CIN :U67120MH1994PLC078125)

Registered Office Address
Bombay Mutual Building,
2nd Floor, Dr. D. N. Road,
Fort, Mumbai - 400 001

Corporate Office & Correspondence Address
Centrum House
6th Floor, CST Road, Near Vidya Nagari Marg, Kalina, Santacruz (E), Mumbai 400 098.
Tel: (022) 4215 9000 Fax: +91 22 4215 9344

Centrum Broking Institutional Equities Team Details			
Nischal Maheshwari	**CEO**	**nischal.maheshwari@centrum.co.in**	**+91-22-4215 9841**
Research Analyst	**Sector**	**E-mail**	**Phone number**
Gaurav Jani	BFSI	gaurav.jani@centrum.co.in	+91-22-4215 9110
Milind S Raginwar	Cement & Metals	milind.raginwar@centrum.co.in	+91-22-4215 9201
Shirish Pardeshi	FMCG	shirish.pardeshi@centrum.co.in	+91-22-4215 9634
Ashish Shah	Infra & Aviation	shah.ashish@centrum.co.in	+91-22-4215 9021
Madhu Babu	IT	madhu.babu@centrum.co.in	+91-22-4215 9855
Probal Sen	Oil & Gas	Probal.sen@centrum.co.in	+91-22-4215 9001
Cyndrella Carvalho	Pharma	cyndrella.carvalho@centrum.co.in	+91-22-4215 9643
Sparsh Chhabra	Economist	sparsh.chhabra@centrum.co.in	+91-22-4215 9035
Joaquim Fernandes	Quant	Joaquim.Fernandes@centrum.co.in	+91-22-4215 9363
Equity Sales	**Designation**	**Email**	**Phone number**
Rajesh Makharia	Director	rajesh.makharia@centrum.co.in	+91-22-4215 9854
Paresh Shah	MD	paresh.shah@centrum.co.in	+91-22-4215 9617
Anil Chaurasia	Sr. VP	anil.chaurasia@centrum.co.in	+91-22-4215 9631
Himani Sanghavi	AVP	himani.sanghavi@centrum.co.in	+91-22-4215 9082
Saahil Harwani	Associate	saahil.harwani@centrum.co.in	+91-22-4215 9623