

V-Mart Retail

Second wave impacted momentum in core markets

On expected lines, the 2nd wave impacted V-Mart's performance in Q1FY22. Revenue grew 127.3%; yet EBITDA/APAT declined, with loss of Rs20mn/Rs287mn. Management indicated that its core rural markets were impacted severely, with only 51% operational days. June/July saw sharp rebound, drawing on better consumer sentiment, coupled with short wedding season, driving normal demand. Gradual recovery in footfalls (3.1mn), with robust conversion rate at 70.7% drove transaction size by 2.9%. To offset rising input prices, V-Mart took ~5% price increase. Further, tighter cost controls held gross margins at ~31%; however, lower scale of operations with rising other expenditure (+113.7%) and employee cost (+77.1%) led to EBITDA loss. Though we are positive on growth prospects, with gradual recovery in core markets and acquisition of Unlimited stores, we remain cautious. We cut our rating to ADD, with a revised target price of Rs3,439 (EV/EBITDA 20.75x FY23E).

Second wave impacted revenue momentum; yet, short marriage season drove demand

Q1 revenue grew 127.3% to Rs1.8bn owing to only 51% operational days. Its core rural markets in UP/Bihar/Jharkhand were impacted the most due to 2nd wave. However, management said June/July saw robust recovery, with demand near normalcy due to short wedding season. Gradual recovery in footfalls (3.1mn) with robust conversion rate at 70.7% saw transaction size rising by 2.9%, as few shoppers bought more items, in our view. Efforts on e-com-led omni channel initiatives started showing up in revenue contribution of ~1%. Management appears to be confident; yet, is cautiously optimistic of bettering the revenue momentum around the festive season. However, we expect normalcy by H2FY22.

Focus on tight cost control measures yielded good margins

Management said its cost-conscious culture helped in optimizing quality of store inventory by adding fresh stocks in the system in the fast-selling economy price range, lifting ticket size. To offset rising cotton prices, it took ~5% price increases in Q1. That said, gross margin remained flat at 31%; however, rise in other expenditure (+113.7%) and employee cost (+77.11%) led to EBITDA loss of Rs20mn. Lower scale of operations led to Rs287mn APAT loss. The company prudently cut its inventory to ~100 days, with 4.9% shrinkage.

Pace of growth to improve gradually; acquisition of Unlimited stores to provide scale

In Q1, V-Mart opened three new stores, taking the tally to 282. Management is upbeat on opening 40-45 store in FY22, post normalcy. The strategic acquisition of Unlimited (74 stores) in the South could establish its brand Pan-India; management appears confident of turning around Unlimited in one year. In Feb'21, V-Mart had raised Rs3.8bn through QIP to fund its acquisition (Rs1.5bn), own warehouse (Rs1.2bn), and omni-channel infrastructure. While we expect improvement in operational efficiency, driving margins, the company would report cash surplus in FY23, in our view.

Lean balance sheet provides comfort, but valuations fair

Despite Covid-19 derailing discretionary spends, impacting the fast fashion apparel category, we expect measured improvement in demand. Lean balance sheet with recent fund-raise owing to capex could strengthen V-Mart's aspirational cost savings, generating healthy return ratios. We are positive on growth prospects, and with national footprint, we assign 25% higher EV/EBITDA multiple to the 8-year average. However, with sharp run in stock price we cut our rating to ADD, with a revised target price of Rs3,439 (EV/EBITDA of 20.75x FY23E). Key risks – prolonged recovery in revenues due Covid uncertainty, longer breakeven in new stores, and renewed competition.

Financial and valuation summary

YE Mar (Rs mn)	1QFY22A	1QFY21A	YoY (%)	4QFY21A	QoQ (%)	FY21A	FY22E	FY23E
Revenues	1,774	781	127.3	3,519	(49.6)	10,739	17,488	27,254
EBITDA	(20)	(58)	nm	336	(105.8)	1,312	2,249	3,537
EBITDA margin (%)	(1.1)	(7.5)	nm	9.5	(1064bps)	12.2	12.8	13.0
Adj. Net profit	(287)	(336)	(14.6)	(15)	nm	(62)	663	1,142
Adj. EPS (Rs)	(14.6)	(18.5)	(21.3)	(0.7)	nm	(3.1)	33.7	58.0
EPS growth (%)					nm	nm	72.2	
PE (x)					nm	101.6	59.0	
EV/EBITDA (x)					49.0	28.9	19.1	
PBV (x)					8.2	8.1	7.2	
RoE (%)					(1.0)	8.0	13.0	
RoCE (%)					2.7	7.0	9.6	

Source: Company, Centrum Broking

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Result Update

India I Consumer

11 August, 2021

ADD

Price: Rs3,420

Target Price: Rs3,439

Forecast return: 1%

Market Data

Bloomberg:	VMART IN
52 week H/L:	4,085/1,700
Market cap:	Rs67.5bn
Shares Outstanding:	19.7mn
Free float:	53.2%
Avg. daily vol. 3mth:	56,116
Source: Bloomberg	

Changes in the report

Rating:	ADD; cut from BUY
Target price:	Rs3,439; cut by 7.6%
EPS:	FY22E: Rs33.7; unchanged FY23E: Rs58; unchanged

Source: Centrum Broking

Shareholding pattern

	Jun-21	Mar-21	Dec-20	Sep-20
Promoter	46.7	46.7	50.6	50.8
FII	23.4	24.4	22.6	23.2
DII	20.9	20.8	18.5	17.6
Public/other	9.1	8.2	8.3	8.5

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q1FY22	Actual Q1FY22	Variance (%)
Revenue	2,111	1,774	(16.0)
EBITDA	158	(20)	(112.4)
EBITDA margin (%)	7.5	-1.1	nm
PBT	(146)	(385)	nm
Adj. PAT	(109)	(288)	nm

Source: Bloomberg, Centrum Broking



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Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY22E New	FY22E Old	% chg	FY23E New	FY23E Old	% chg
Revenues	17,488	17,488	0.0	27,254	27,254	0.0
EBITDA	2,249	2,249	0.0	3,537	3,537	0.0
Margin (%)	12.9	12.9	0 bps	13.0	13.0	0 bps
PAT	663	663	0.0	1,142	1,142	0.0
EPS	33.6	33.6	0.0	58.0	58.0	0.0

Source: Centrum Broking

V-Mart versus Nifty Midcap 100

	1m	6m	1 year
VMART IN	10.0	14.7	91.8
Nifty Midcap 100	0.1	19.3	68.6

Source: Bloomberg, NSE

Key assumptions

YE Mar	FY22E	FY23E
Retail space Growth (%)	15.5	34.5
New store Addition	45	115

Source: Centrum Broking

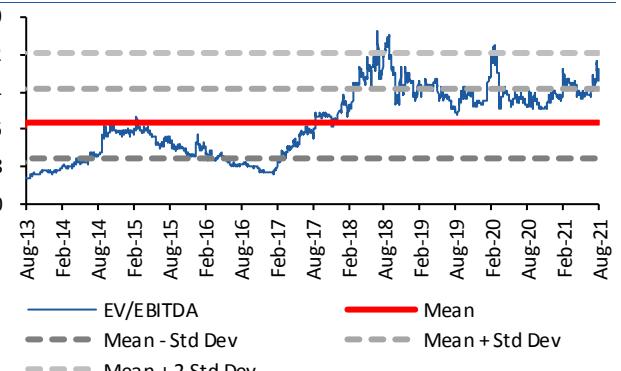
Valuations

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Valuations

FY 23E EBITDA (Mn)	3,537
Target EV/EBITDA (x) multiple	20.75
Enterprise Value (Mn)	73,397
Net Debt (Mn)	5,630
No. of shares outstanding (Mn)	19.7
Target Price (Rs./Share)	3,439

EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap (Rs bn)	CAGR (FY21-23E)			P/E (x)		EV/EBITDA (x)				ROE(%)		
		Sales	EBITDA	EPS	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
V-Mart	67.4	59.2	64.2	nm	nm	101.6	59.0	53.1	31.3	20.6	-1.0	8.0	13.0
Aditya Birla Fashion	176.4	38.9	67.6	nm	nm	Nm	73.6	38.4	19.2	13.7	-36.3	-3.6	8.3
Shoppers Stop	25.5	36.5	265.9	nm	nm	Nm	39.9	101.1	12.3	7.6	-286.6	-114.6	26.8
Trent	320.4	41.7	119.7	nm	nm	2,001.2	124.7	197.6	72.9	40.9	-6.2	-0.0	10.3
Avenue Supermarts	2,307.7	34.6	47.5	49.9	211.6	147.5	93.6	132.7	92.8	60.9	9.5	12.2	16.3

Source: Company, Centrum Broking

Conference call highlights

Overall outlook

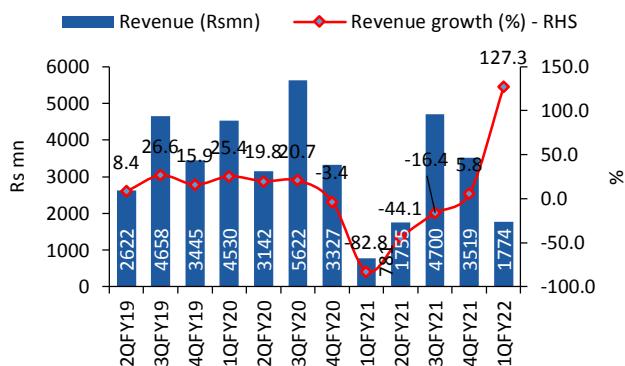
- Demand recovered in June and the recovery sustained in July in its core markets such as UP, Bihar, and Jharkhand. However, demand is still not back to June/July'19 levels.
 - T1/T2 cities performed better compared to T3/T4 towns. Impact of Covid was very high in rural markets. Unlike last year, there was no reverse migration.
 - Operations are still below normal levels, as there are weekend lockdowns in UP, alternate day operations in Bihar, and Jharkhand is also under strict restrictions.
 - Management expects normalcy by Q3FY22, led by festive sales and higher number of weddings.
- Kids wear and casual wear witnessed good pick-up in sales; management expects this to continue, going ahead.
- Footfalls during the quarter increased by 115%, while average selling price for fashion increased by 19%. Average bill size also increased by 3% YoY, signalling stronger recovery of consumer sentiment.
- Management expects revenue contribution from the online channel to improve from the current 1% to 5% over the next 2-3 years.
- V-Mart opened three stores in Q1, and closed the quarter with 282 stores.

Key interventions

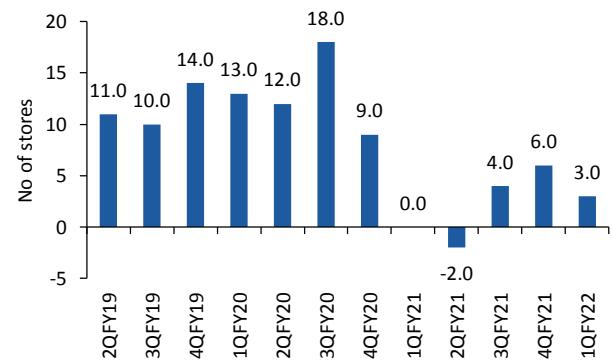
- The company is targeting increased full-priced sales during EOSS and clearing all old inventory.
- Remains cautiously optimistic; maintains guidance of 40+ store addition and 20-25% increase in retail space in FY22.
- Total investment planned for new warehouse is Rs1bn, of which Rs400-500mn has been incurred and ~Rs400mn will be incurred this year. The warehouse is expected to be operational in 12 months. Store expansion capex would be Rs500mn and acquisition of Unlimited will lead to further cash outlay of Rs1.5bn.
- Prudent inventory control measures led to 15% reduction YoY and also a 15% reduction from last quarter.

Revenue growth and margin outlook

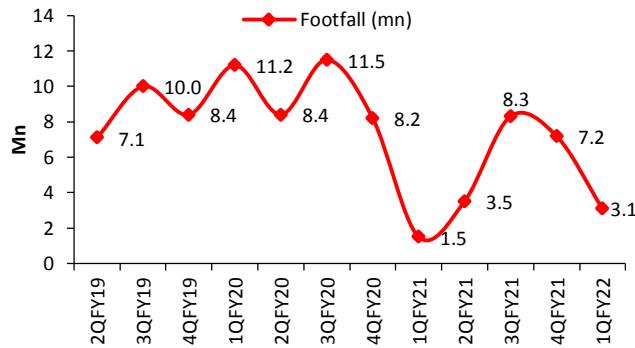
- Gross margin improved 20bp YoY to 31%.
- The company has strategically increased selling prices from March onwards to mitigate cost pressures. It has taken price hikes of 5-6%.
- EBITDA margin at -1.1% due to lack of operating leverage.
- All major costs like employee cost and rentals are largely fixed. The company is looking at marginal rental concessions from landlords.
- Employee cost increased on a YoY basis because of pay cuts and no variable pay in base quarter. This has not been repeated this year and there has also been a rise in minimum wages.
- At PAT level, the company had a loss of Rs287mn in Q1.

Exhibit 1: Revenue and revenue growth trend

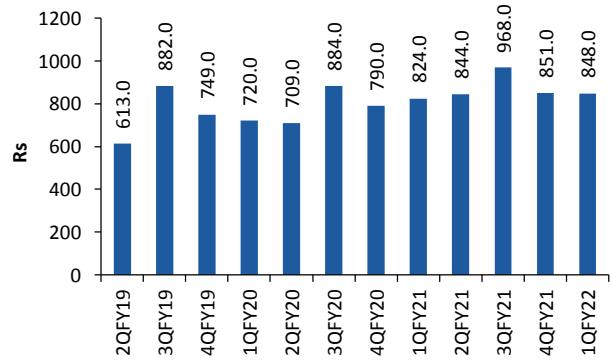
Source: Company, Centrum Broking

Exhibit 3: Store additions

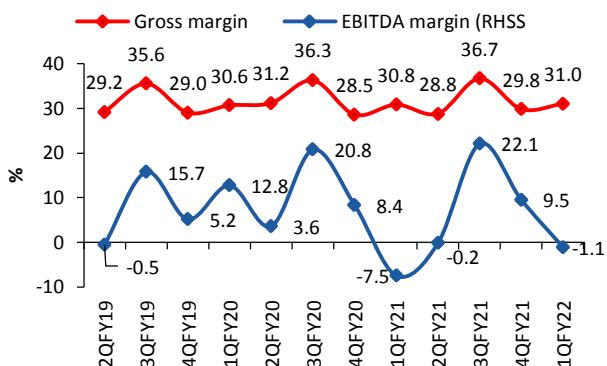
Source: Company, Centrum Broking

Exhibit 5: Footfall trend

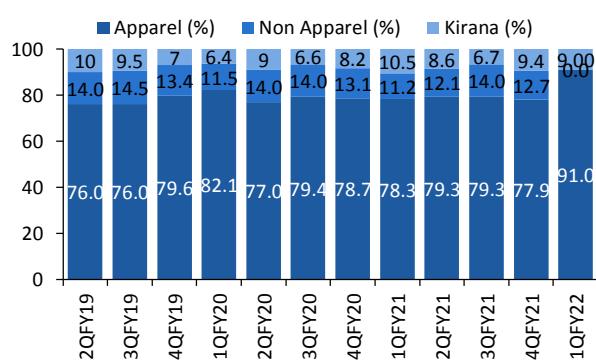
Source: Company, Centrum Broking

Exhibit 7: Average transaction size trend

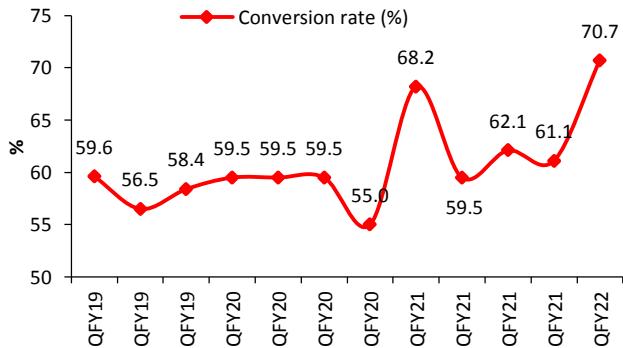
Source: Company, Centrum Broking

Exhibit 2: Gross margin and EBITDA margin trend

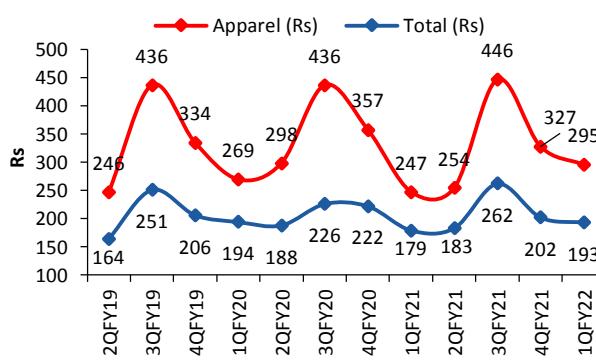
Source: Company, Centrum Broking

Exhibit 4: Sales-mix trend

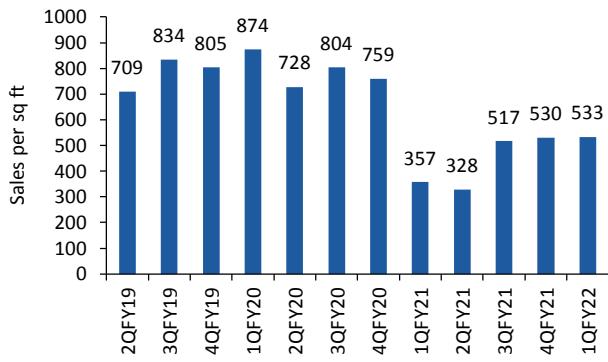
Source: Company, Centrum Broking

Exhibit 6: Conversion rate trend

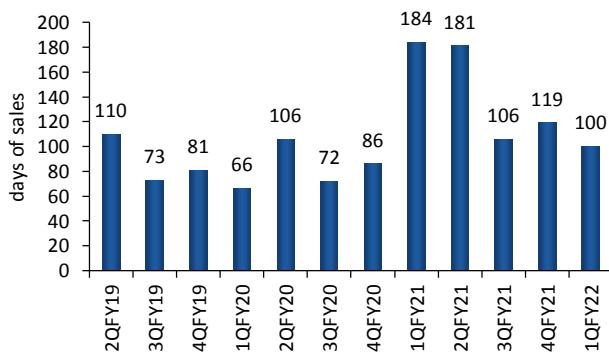
Source: Company, Centrum Broking

Exhibit 8: ASP Trend

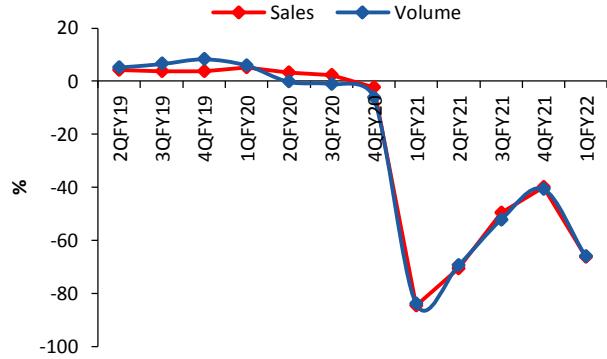
Source: Company, Centrum Broking

Exhibit 9: Sales per sq.ft. trend

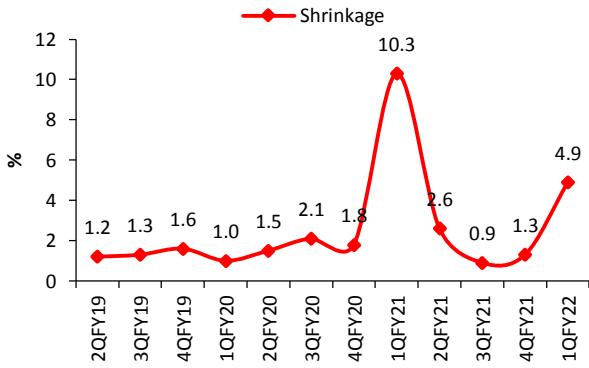
Source: Company, Centrum Broking

Exhibit 11: Total Inventory (Days of sales)

Source: Company, Centrum Broking

Exhibit 10: Same store sales and volume growth(%)

Source: Company, Centrum Broking

Exhibit 12: Shrinkage (% of sale)

Source: Company, Centrum Broking

Exhibit 13: Quarterly financials

Particulars (Rs mn)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Sales	3,142	5,622	3,327	781	1,755	4,700	3,519	1,774
Other Operating Income								
Total Income	3,142	5,622	3,327	781	1,755	4,700	3,519	1,774
Raw Material Consumed	2,162	3,581	2,377	540	1,250	2,975	2,470	1,224
Purchase of Stock-in-Trade								
Employee Expenses	390	406	368	189	300	325	355	334
Other Exp	476	467	303	110	208	362	358	235
Operating Profit (Core EBITDA)	113	1,168	278	-58	-3	1,038	336	-20
Depreciation	(223)	(245)	(252)	(263)	(257)	(254)	(256)	(255)
EBIT	-109	923	26	-321	-261	785	80	-274
Interest	(131)	(158)	(139)	(146)	(147)	(150)	(146)	(156)
Other Income	12	4	8	14	150	3	43	45
Other Excep. Items (restructuring, asset sales etc)	-	-	-	-	-	-	-	-
Profit Before Tax	-229	770	-104	-454	-257	637	-23	-385
Tax	(48)	188	(20)	(117)	(68)	(158)	8	98
Tax rate (%)	21.1	24.4	19.3	25.8	26.3	24.9	35.6	25.4
Profit After Tax	-180	582	-84	-336	-190	479	-15	-287
Less: Extraordinary expenses	(2)	(1)	3	(1)	(0)	(4)	2	(1)
Add/(Less) - Share in the profit/(loss) of associates								
Profit/(loss) from discontinued ops								
PAT attributable to shareholders	-182	582	-81	-337	-190	475	-13	-288
Adjusted PAT for the group	-182	582	-81	-337	-190	475	-13	-288
Growth (%)								
Net Sales	19.8	20.7	-3.4	-82.8	-44.1	-16.4	5.8	127.3
EBITDA	(900.0)	59.3	56.6	(110.1)	(103.0)	(11.1)	20.5	(66.5)
Adj. PAT	1,046.5	39.7	(230.8)	(291.1)	5.1	(17.8)	(82.5)	(14.6)
Margin (%)								
Gross Margin	31.2	36.3	28.5	30.8	28.8	36.7	29.8	31.0
EBITDA	3.6	20.8	8.4	(7.5)	(0.2)	22.1	9.5	(1.1)
EBIT	0.4	0.1	0.2	1.8	8.6	0.1	1.2	2.5
PAT (reported bef minority interest)	(5.7)	10.4	(2.5)	(43.1)	(10.8)	10.2	(0.4)	(16.2)

Source: Company Data, Centrum Broking

P&L					
YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenues	14,322	16,616	10,739	17,488	27,254
Operating Expense	11,136	12,223	7,776	12,469	19,584
Employee cost	1,257	1,536	1,169	1,997	2,761
Others	615	724	498	789	1,390
EBITDA	1,329	2,138	1,312	2,249	3,537
Depreciation & Amortisation	276	939	1,030	1,123	1,540
EBIT	1,053	1,198	282	1,126	1,997
Interest expenses	16	548	589	470	609
Other income	59	45	210	231	139
PBT	1,096	695	(97)	887	1,527
Taxes	382	202	(35)	223	385
Effective tax rate (%)	34.8	29.0	35.8	25.2	25.2
PAT	714	493	(62)	663	1,142
Minority/Associates	0	0	0	0	0
Recurring PAT	714	493	(62)	663	1,142
Extraordinary items	(102)	0	(3)	0	0
Reported PAT	613	493	(65)	663	1,142
Ratios					
YE Mar	FY19A	FY20A	FY21A	FY22E	FY23E
Growth (%)					
Revenue	17.3	16.0	(35.4)	62.8	55.8
EBITDA	0.1	60.8	(38.6)	71.4	57.3
Adj. EPS	(8.2)	(30.9)	nm	nm	72.2
Margins (%)					
Gross	32.4	32.2	32.8	32.8	32.9
EBITDA	9.3	12.9	12.2	12.8	13.0
EBIT	7.3	7.2	2.6	6.4	7.3
Adjusted PAT	5.0	3.0	(0.6)	3.8	4.2
Returns (%)					
ROE	18.9	11.4	(1.0)	8.0	13.0
ROCE	19.1	12.7	2.7	7.0	9.6
ROIC	20.8	12.9	1.8	7.7	11.3
Turnover (days)					
Gross block turnover ratio (x)	6.2	6.2	3.8	5.1	5.5
Debtors	0	0	0	0	0
Inventory	120	131	229	160	150
Creditors	59	56	98	70	65
Net working capital	54	61	223	164	120
Solvency (x)					
Net debt-equity	(0.2)	1.1	0.3	0.4	0.6
Interest coverage ratio	82.4	3.9	2.2	4.8	5.8
Net debt/EBITDA	(0.5)	2.4	1.7	1.3	1.6
Per share (Rs)					
Adjusted EPS	39.4	27.2	(3.1)	33.7	58.0
BVPS	225.7	253.1	418.8	420.1	474.0
CEPS	54.6	79.0	49.1	90.6	136.1
DPS	1.7	0.0	0.0	2.4	4.1
Dividend payout (%)	5.0	0.0	nm	7.0	7.0
Valuation (x)					
P/E	86.8	125.6	nm	101.6	59.0
P/BV	15.1	13.5	8.2	8.1	7.2
EV/EBITDA	46.1	31.4	49.0	28.9	19.1
Dividend yield (%)	0.0	0.0	0.0	0.1	0.1

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Equity share capital	181	182	197	197	197
Reserves & surplus	3,911	4,408	8,055	8,082	9,144
Shareholders fund	4,093	4,589	8,252	8,279	9,341
Total debt	0	5,167	5,678	6,677	8,831
Non Current Liabilities	111	61	73	73	73
Total liabilities	4,204	9,818	14,004	15,029	18,246
Gross block	2,296	2,674	2,835	3,441	5,000
Less: acc. Depreciation	(641)	(925)	(1,050)	(1,497)	(2,247)
Net block	1,655	1,749	1,785	1,944	2,752
Capital WIP	40	25	22	22	22
Net fixed assets	1,695	6,695	6,987	6,697	8,824
Non Current Assets	191	172	170	170	170
Investments	98	33	36	36	36
Inventories	3,290	4,779	4,283	6,012	8,993
Sundry debtors	0	0	0	0	0
Cash & Cash Equivalents	700	96	3,428	3,667	3,201
Loans & advances	1	0	5	5	5
Other current assets	225	301	1,102	1,102	1,102
Trade payables	1,483	1,968	1,917	2,569	3,994
Other current liab.	535	354	224	224	224
Provisions	97	97	121	121	121
Net current assets	2,101	2,757	6,558	7,873	8,963
Total assets	4,204	9,818	14,004	15,029	18,246
Cashflow					
YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Profit Before Tax	1,095	1,257	316	1,126	1,997
Depreciation & Amortisation	276	939	1,030	1,123	1,540
Net Change – WC	(275)	(1,091)	182	(1,077)	(1,556)
Direct taxes	(332)	(241)	(35)	(223)	(385)
Net cash from operations	763	863	1,493	948	1,597
Capital expenditure	(407)	(546)	1,981	(606)	(1,558)
Investments	(338)	551	(6,179)	0	0
Others	11	1	11	231	139
Net cash from investing	(734)	5	(4,188)	(375)	(1,419)
FCF	30	868	(2,695)	574	177
Issue of share capital	19	13	3,713	0	0
Increase/(decrease) in debt	(3)	8	(11)	0	0
Dividend paid	(44)	(37)	0	(46)	(80)
Interest paid	(16)	(548)	(589)	(41)	(145)
Others	0	(379)	(244)	(332)	(418)
Net cash from financing	(44)	(943)	2,869	(419)	(643)
Net change in Cash	(14)	(75)	174	154	(466)

Source: Company, Centrum Broking

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V-Mart Retail



Source: Bloomberg

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V-Mart Retail

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