

BUY

TP: Rs 3,620 | ▲ 30%

V-MART RETAIL

Retail

19 October 2022

LimeRoad deal positive but profitability could suffer

- Value fashion marketplace LimeRoad.com acquired for Rs 0.7bn in a bid to strengthen online presence
- Management plans to invest Rs 1.5bn to scale up the newly acquired business and make it profitable
- We are not consolidating the business now but expect losses and investments to put pressure on profitability; retain BUY, TP Rs 3,620

Ruchitaa Maheshwari
 research@bobcaps.in

LimeRoad acquired for Rs 0.7bn: In a bid to strengthen its online presence in tier-2/3 markets, VMART has acquired online value fashion marketplace LimeRoad for Rs 0.7bn. Of this, Rs 311mn will be paid to LimeRoad for settling the company's liabilities. VMART will directly settle the remaining liabilities of Rs 362mn, besides taking over assets worth Rs 146mn. The current CEO and COO of LimeRoad will remain at the helm and run the business as an independent unit under VMART.

About LimeRoad: Founded in 2012, LimeRoad offers unbranded styles and fashion-related content to its 17mn value buyers. The business model is designed to serve a semiurban and rural ('Bharat') client base, with fast web speeds and a light app to ensure a smooth online customer experience. Buyers in the states of Maharashtra, Karnataka, Uttar Pradesh and West Bengal are the top revenue contributors. Women account for 65% of revenue and have a strong presence in the Rs 500-1,000 segment.

LimeRoad financials: Given severe competition from the likes of Flipkart, Amazon and Ajio, the business has been struggling with revenue showing a consistent decline from Rs 1.8bn in FY20 to Rs 693mn in FY22. However, EBITDA loss has reduced to ~Rs 150mn in FY22 from Rs 340mn in FY20.

Sound synergies: VMART plans to invest Rs 1.5bn to help scale up the LimeRoad business and achieve profitability. If executed well, we believe VMART has the potential to become a unique omnichannel value retailer with its offline expertise, product and quality depth and LimeRoad's online consumer and community strengths.

Expect pressure on profitability: We are positive on VMART in the long run but see mounting pressure on financials as (1) the company is undergoing a difficult phase due to weak consumer sentiments and heightened competitive intensity, (2) LimeRoad remains lossmaking at the EBITDA level, and (3) additional investments by VMART over the next two years could impact profitability. Our back-of-the-envelope calculations suggest the deal will dilute VMART's blended FY24E EBITDA by ~15%. For now, we maintain our BUY rating and TP of Rs 3,620, set at 21x FY24E EV/EBITDA vs. the stock's 5Y median multiple of 28x EV/EBITDA.

Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	VMART IN/Rs 2,782
Market cap	US\$ 666.0mn
Free float	54%
3M ADV	US\$ 1.5mn
52wk high/low	Rs 4,849/Rs 2,407
Promoter/FPI/DII	46%/18%/36%

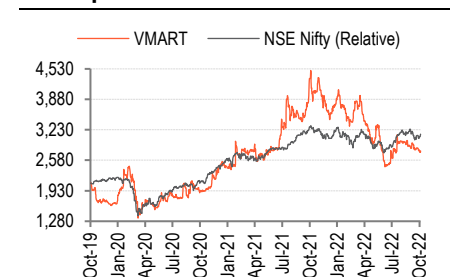
Source: NSE | Price as of 18 Oct 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	16,662	19,490	24,768
EBITDA (Rs mn)	2,043	2,437	3,379
Adj. net profit (Rs mn)	116	281	706
Adj. EPS (Rs)	5.9	14.2	35.8
Consensus EPS (Rs)	5.9	59.2	90.2
Adj. ROAE (%)	1.4	3.3	7.8
Adj. P/E (x)	471.0	195.4	77.6
EV/EBITDA (x)	25.8	21.3	15.7
Adj. EPS growth (%)	(134.3)	141.0	151.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Management call takeaways

About the deal

- VMART has acquired LimeRoad for a total consideration of Rs 0.7bn intended entirely towards settling the latter's liabilities (no exit fee being paid). Of this, Rs 311mn will be paid to LimeRoad while VMART will directly settle the remaining liabilities of Rs 362mn. The company will also acquire assets worth Rs 146mn.
- VMART plans to invest a total of Rs 1.5bn to enable LimeRoad to scale up operations and achieve sustained profitability. Of this, the company aims to invest Rs 600mn-700mn over the next two years in the platform, not exceeding 15-20% of EBITDA. Most of the investment will be expensed through the income statement.
- Suchishree Mukherjee, founder of LimeRoad, and the key management team will continue to run the online marketplace as a separate business unit within VMART.

About LimeRoad

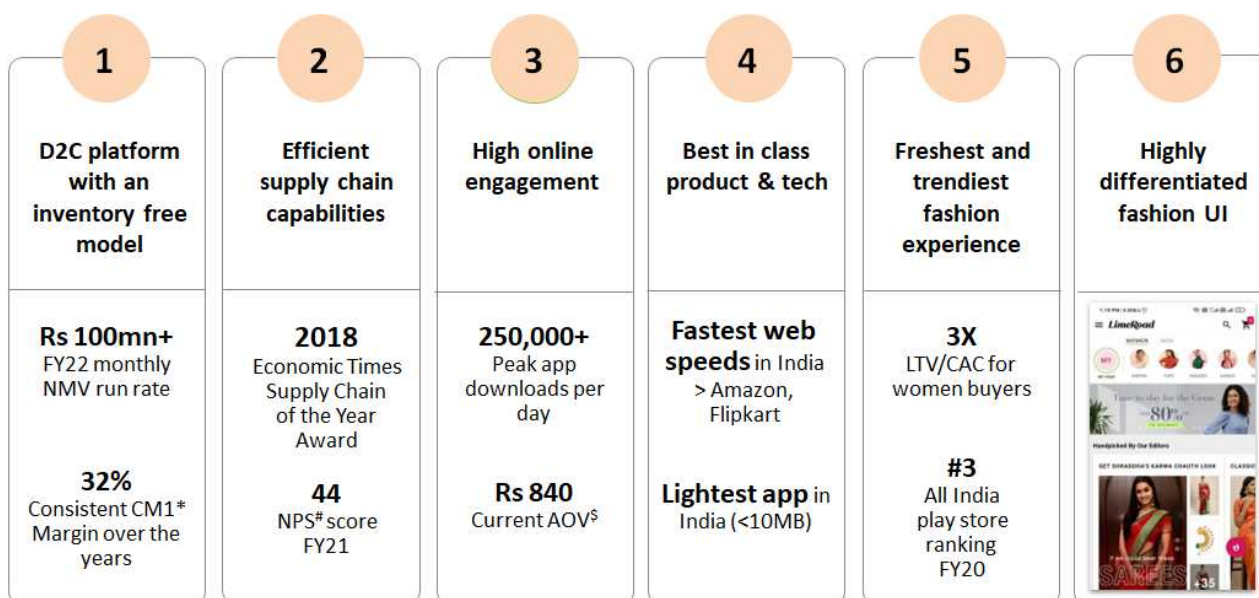
- As per VMART, LimeRoad.com is an attractive, value-focused fashion and lifestyle online direct-to-consumer platform. At its peak, LimeRoad delivered 250,000+ app downloads per day, had a No. 3 All India Shopping Play Store ranking, and achieved gross merchandise value (GMV) of Rs 7bn+ at consistently strong margins, post marketing costs.
- Women contribute 65% of the business, with a strong presence in the Rs 500-1,000 segment. Currently, LimeRoad clocks average order value (AOV) of Rs 840. The business has also clocked consistent contribution margins (CM1= revenue minus logistics costs) of 32% over the years. It has an asset-light model with zero capex, zero inventories and a negative working capital cycle.
- The company was awarded supply chain of the year by Economic Times in 2018, and clocked a net promoter score (NPS) of 44 in FY21.
- Per VMART, LimeRoad has a strong team and technology backbone, with a monthly revenue run-rate of Rs 100mn that can be scaled to Rs 500mn.

Strong synergies

- LimeRoad and VMART both target customers with household income of less than Rs 0.5mn and derive sizable revenue from products with average selling price under Rs 499.
- Both have a strong customer base in Uttar Pradesh, a majority of their customers are located outside of metro/tier-1 cities, and both expect to derive further synergies in the women's wear category.
- LimeRoad has a customer base totalling 17mn with a repeat order rate of 60% (NPS of 44). Maharashtra, Karnataka, Uttar Pradesh and West Bengal are its top revenue contributors and will complement VMART's offline business in these states. In addition, VMART expects its stores to garner more orders online while LimeRoad will benefit from last-mile capabilities.

- Women’s wear is an area of strength for LimeRoad, contributing 59% of its FY22 revenue. This will help VMART expand in a segment it has found difficult to penetrate thus far – women’s wear currently contributes just 27% of FY22 revenue.
- VMART indicated that it has 20 years of expertise in understanding the value customer, is able to deliver high-quality products at value prices, has a strong footprint in tier-2/3/4 cities through a growing network of 410 stores, and a track record of delivering shareholder returns. The company plans to combine these capabilities with LimeRoad’s online fashion expertise, ability to spot emerging trends, logistics efficiency, technology and data to transform the way latest trends are delivered to aspirational consumers.
- Management believes LimeRoad will help solve the trust and quality issues for value customers online and work with VMART to translate emerging trends into product depth, through owned direct-to-consumer brands – in turn driving higher repeat footfalls at VMART stores over time.

Fig 1 – About LimeRoad



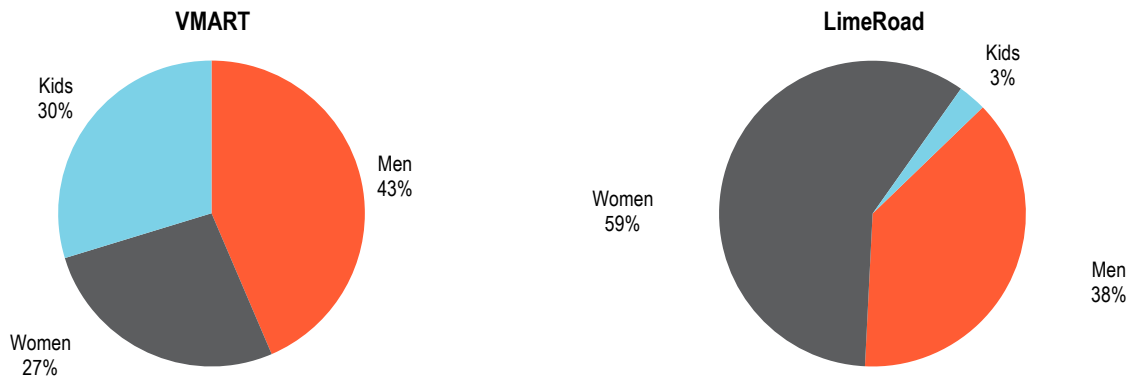
Source: Company, BOBCAPS Research | CM1 = Revenue – Logistics Cost, #NPS – Net Promoter Score, \$ AOV – Average Order Value, UI: User Interface

Fig 2 – VMART and LimeRoad: Key metrics, FY22

Parameters	VMART	LimeRoad
Monthly Footfall	3.2mn across 400+ stores	18mn online visitors, web + app
Registered Customer Base	33mn (Offline First)	17mn (Digitally Native)
Channel Sales Mix	>98% offline, 2% online	100% online, >97% on mobile
Metros/Tier 1 : Non-metros (%)	30 : 70	35 : 65
ASP mix of units sold [<Rs 400 : Rs 500-899 : Rs 899+] (%)	56 : 30 : 14	30 : 37 : 33
Sales breakup by Product Category		
- Apparels (%)	80	85
- Home & Kitchen (%)	10	1
- Others (%)	10	14
Core Customer Profile	Tier 2+ mindset, 15-35 years, household income <Rs 500,000 per year	Tier 2+ mindset; 18-40 years, household income <Rs 500,000 per year
Gross Margin / CM1 (Revenue – Logistics Cost) (%)	34+	~32

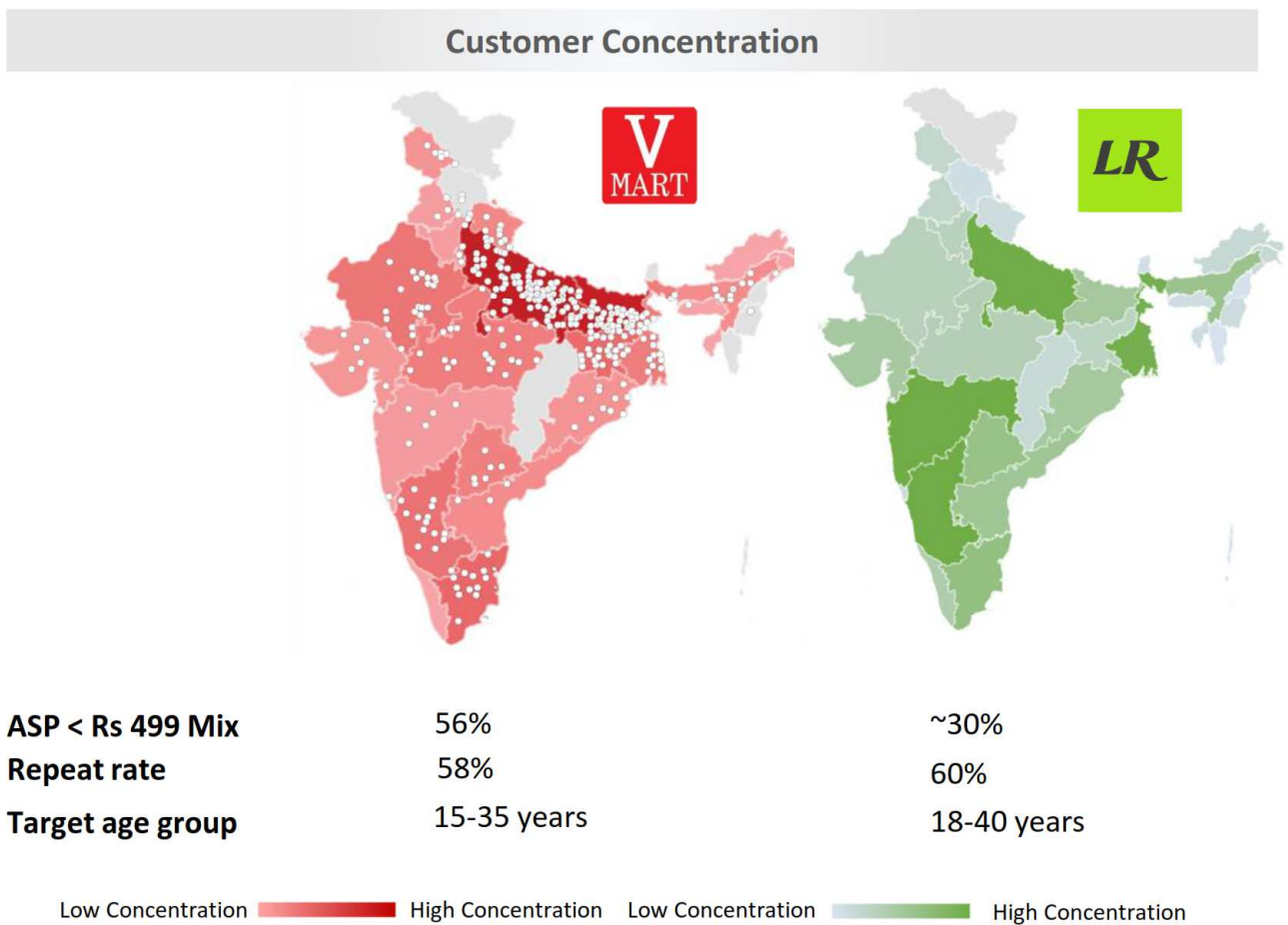
Source: Company PPT

Fig 3 – Customer bifurcation, FY22



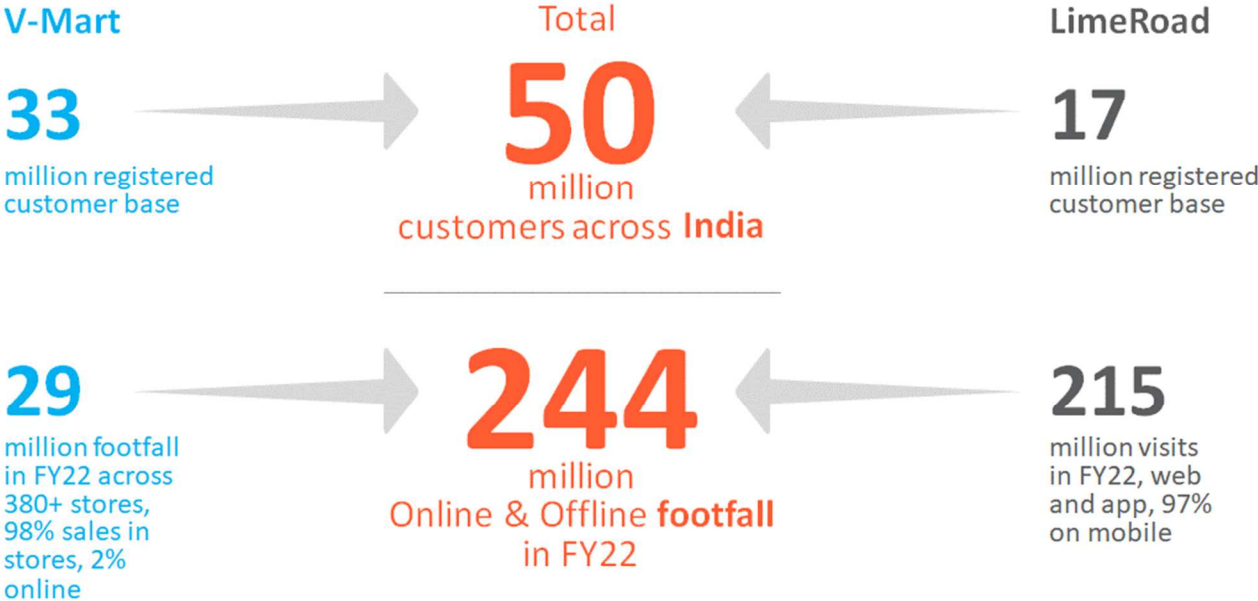
Source: Company, BOBCAPS Research

Fig 4 – Customer concentration, FY22



Source: Company, BOBCAPS Research

Fig 5 – Deal synergies: Acquisition to boost digital channel sales, omnichannel offering, footfalls and customer base



Source: Company, BOBCAPS Research

Valuation methodology

If executed well, we believe VMART has the potential to become a unique omnichannel value retailer with its offline expertise, product and quality depth and LimeRoad's online consumer and community strengths. We are positive on VMART in the long run but see mounting pressure on financials as (1) the company is undergoing a difficult phase due to weak consumer sentiments and heightened competitive intensity, (2) LimeRoad remains lossmaking at the EBITDA level, and (3) additional investments by VMART over the next two years could impact profitability. Our back-of-the-envelope calculations suggest the deal will dilute VMART's blended FY24E EBITDA by ~15%. For now, we maintain our BUY rating and TP of Rs 3,620, set at 21x FY24E EV/EBITDA vs. the stock's five-year median multiple of 28x EV/EBITDA.

Key risks

Key downside risks to our estimates are:

- slower turnaround at Unlimited stores,
- increasing losses from the newly acquired LimeRoad,
- inability to pass on the rise in raw material price,
- more store closures than anticipated,
- slower pace of store addition amid a sluggish economy, and
- below-expected demand from the company's key states of Uttar Pradesh and Bihar.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Total revenue	16,620	10,755	16,662	19,490	24,768
EBITDA	2,149	1,192	2,043	2,437	3,379
Depreciation	(939)	(1,030)	(1,307)	(1,409)	(1,622)
EBIT	1,210	162	736	1,029	1,758
Net interest inc./(exp.)	(548)	(589)	(772)	(716)	(878)
Other inc./(exp.)	32	53	140	65	70
Exceptional items	0	0	0	0	0
EBT	694	(374)	104	377	949
Income taxes	(209)	35	12	(97)	(243)
Extraordinary items	8	278	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	493	(62)	116	281	706
Adjustments	(8)	(278)	0	0	0
Adjusted net profit	485	(340)	116	281	706

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Accounts payables	1,968	1,917	2,906	2,937	3,732
Other current liabilities	328	224	421	427	543
Provisions	183	195	150	195	248
Debt funds	11	0	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	182	197	197	198	198
Reserves & surplus	4,408	8,055	8,299	8,561	9,268
Shareholders' fund	4,589	8,252	8,496	8,759	9,465
Total liab. and equities	7,080	10,587	11,973	12,318	13,988
Cash and cash eq.	50	275	351	848	364
Accounts receivables	0	0	0	0	0
Inventories	4,779	4,283	6,682	6,141	7,600
Other current assets	473	573	1,154	1,068	1,357
Investments	79	3,895	1,248	1,348	1,448
Net fixed assets	1,477	1,260	2,060	2,436	2,741
CWIP	25	22	64	64	64
Intangible assets	37	28	28	28	28
Deferred tax assets, net	160	253	386	386	386
Other assets	0	0	0	0	0
Total assets	7,080	10,587	11,973	12,318	13,988

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash flow from operations	(14)	865	(819)	1,540	518
Capital expenditures	(546)	(406)	(2,149)	(1,016)	(1,060)
Change in investments	528	(3,816)	2,646	(100)	(100)
Other investing cash flows	0	0	(134)	0	0
Cash flow from investing	(18)	(4,222)	364	(1,116)	(1,160)
Equities issued/Others	0	3,713	0	0	0
Debt raised/repaid	(209)	(11)	0	0	0
Interest expenses	(34)	(2)	0	0	0
Dividends paid	0	0	(18)	(18)	0
Other financing cash flows	158	(119)	(51)	24	87
Cash flow from financing	(84)	3,582	(68)	6	87
Chg in cash & cash eq.	(116)	225	(523)	430	(555)
Closing cash & cash eq.	50	275	(249)	781	293

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22A	FY23E	FY24E
Reported EPS	25.0	(3.1)	5.9	14.2	35.8
Adjusted EPS	24.6	(17.2)	5.9	14.2	35.8
Dividend per share	0.0	0.0	0.8	0.8	0.0
Book value per share	232.9	418.8	431.1	444.5	480.3

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22A	FY23E	FY24E
EV/Sales	3.3	5.1	3.2	2.7	2.1
EV/EBITDA	25.3	45.7	25.8	21.3	15.7
Adjusted P/E	113.0	(161.4)	471.0	195.4	77.6
P/BV	11.9	6.6	6.5	6.3	5.8

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22A	FY23E	FY24E
Tax burden (Net profit/PBT)	69.9	90.8	112.0	74.4	74.4
Interest burden (PBT/EBIT)	57.4	(230.8)	14.1	36.7	54.0
EBIT margin (EBIT/Revenue)	7.3	1.5	4.4	5.3	7.1
Asset turnover (Rev./Avg TA)	248.1	121.7	147.7	160.5	188.3
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.3	1.4	1.4
Adjusted ROAE	11.2	(5.3)	1.4	3.3	7.8

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22A	FY23E	FY24E
YoY growth (%)					
Revenue	15.9	(35.3)	54.9	17.0	27.1
EBITDA	60.9	(44.5)	71.4	19.3	38.7
Adjusted EPS	(32.9)	(170.0)	(134.3)	141.0	151.7
Profitability & Return ratios (%)					
EBITDA margin	12.9	11.1	12.3	12.5	13.6
EBIT margin	7.3	1.5	4.4	5.3	7.1
Adjusted profit margin	2.9	(3.2)	0.7	1.4	2.9
Adjusted ROAE	11.2	(5.3)	1.4	3.3	7.8
ROCE	19.0	2.5	8.8	8.9	14.4
Working capital days (days)					
Receivables	0	0	0	0	0
Inventory	131	229	183	183	154
Payables	44	74	60	63	57
Ratios (x)					
Gross asset turnover	7.2	3.9	3.9	3.4	3.6
Current ratio	2.1	2.2	2.4	2.3	2.1
Net interest coverage ratio	2.2	0.3	1.0	1.4	2.0
Adjusted debt/equity	0.0	0.0	0.0	(0.1)	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

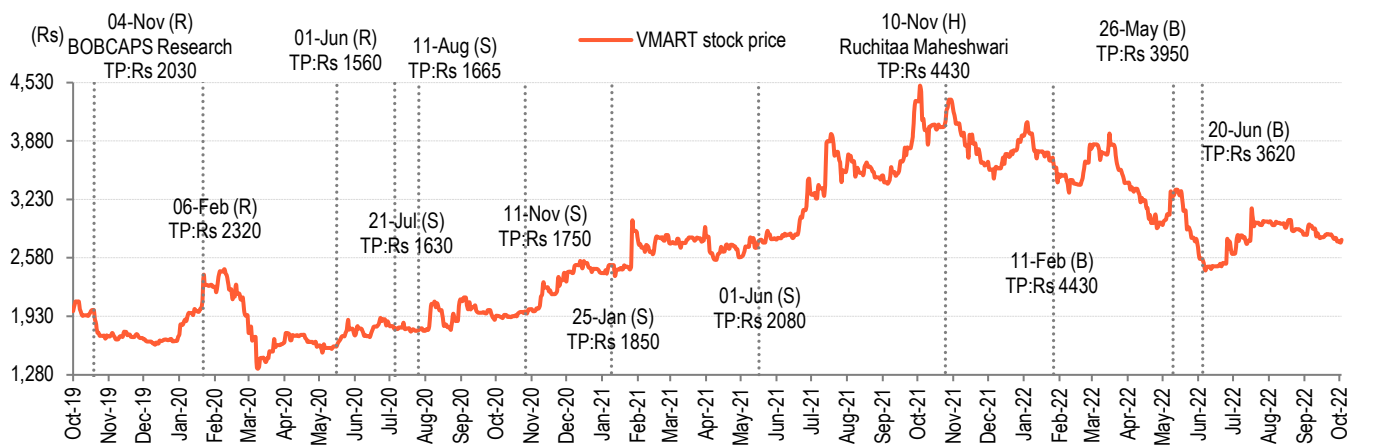
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): V-MART RETAIL (VMART IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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