

**SELL**

TP: Rs 1,630 | ▼ 9%

**V-MART RETAIL**

Retail

21 July 2020

## Tough times ahead – downgrade to SELL

The renewed lockdown in V-Mart Retail's (VMART) key markets of Bihar and UP (56% of total stores) will retard demand recovery. With Covid-19 spreading to tier-2/3 towns where the company has a strong presence, a potential extension of restrictions would derail sales not only in Q2 but also Q3 – seasonally the best quarter for the company due to the festive/marriage period. We trim FY21/ FY22 PAT by 5%/2% and roll to a new Jun'21 TP of Rs 1,630 (vs. Rs 1,560). Current valuations of 35.2x FY22E EPS look rich – cut from REDUCE to SELL.

Arun Baid

research@bobcaps.in

**Lockdown in key markets to derail growth:** VMART has 56% of its 266 stores located in Bihar (45 stores) and Uttar Pradesh (103 stores), states which are once again under lockdown. Bihar has announced a complete lockdown from 16-31 July whereas UP is shutting down only on weekends over 12-31 July. As a major chunk of retail sales occur on weekends, this partial lockdown in UP will hurt footfalls and revenues in Q2. Also, reimposition of restrictions in some parts of Assam, Orissa, West Bengal and J&K where the company has a store presence will further erode sales.

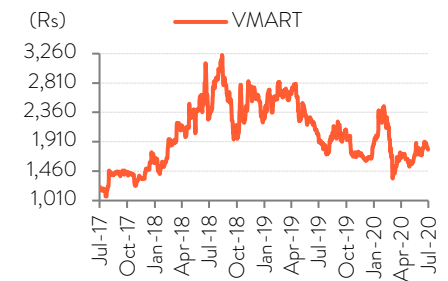
**Pandemic impact to undermine seasonally strong Q3:** Oct-Dec is seasonally the best quarter for VMART, typically contributing ~55% of full-year EBITDA given festival/marriage spends and the onset of winter. We believe the localised shutdowns will dampen sales not just in Q2 but also in Q3 as state authorities potentially extend restrictions on social gatherings to contain the pandemic.

**Downgrade to SELL:** The stock is trading at 35.2x FY22E EPS which looks expensive given the demand concerns. We cut our FY21/FY22 PAT estimates by 5%/2% and downgrade the stock from REDUCE to SELL. Rolling valuations forward, we have a revised Jun'21 TP of Rs 1,630, set at an unchanged 30x PER.

Ticker/Price	VMART IN/Rs 1,799
Market cap	US\$ 437.8mn
Shares o/s	18mn
3M ADV	US\$ 0.5mn
52wk high/low	Rs 2,545/Rs 1,200
Promoter/FPI/DII	51%/23%/26%

Source: NSE

## STOCK PERFORMANCE



## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P*	FY21E*	FY22E*	FY23E*
Total revenue (Rs mn)	14,337	16,620	14,264	21,234	26,178
EBITDA (Rs mn)	1,336	2,138	1,973	2,966	3,688
Adj. net profit (Rs mn)	724	493	339	927	1,158
Adj. EPS (Rs)	39.9	27.2	18.7	51.1	63.8
Adj. EPS growth (%)	(5.8)	(31.8)	(31.3)	173.5	24.9
Adj. ROAE (%)	19.1	11.4	7.1	17.3	18.2
Adj. P/E (x)	45.1	66.2	96.4	35.2	28.2
EV/EBITDA (x)	24.1	15.0	16.4	10.7	8.4

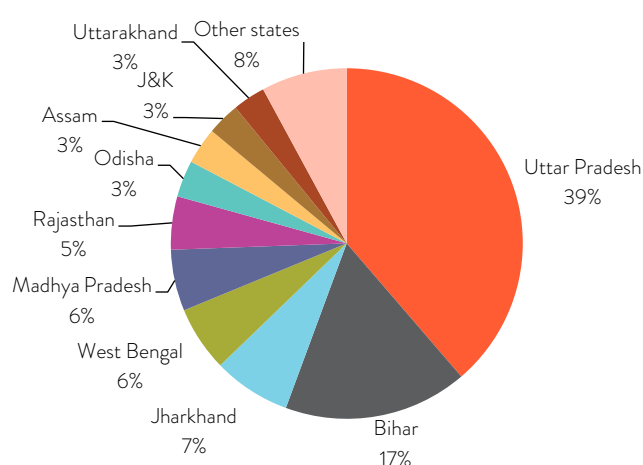
Source: Company, BOBCAPS Research | \*As per Ind-AS 116

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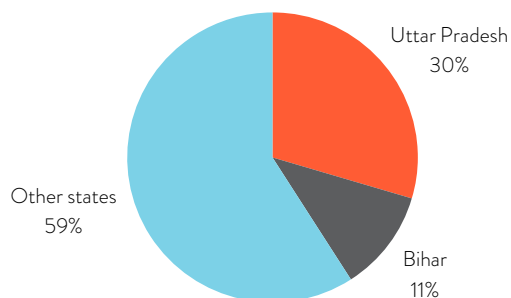
**FIG 1 – VMART STORE DISTRIBUTION AS OF MAR'20: UP & BIHAR ACCOUNTED FOR 56% OF TOTAL STORES**



State	No of stores
Uttar Pradesh	103
Bihar	45
Jharkhand	19
West Bengal	16
Madhya Pradesh	15
Rajasthan	13
Odisha	9
Assam	9
J&K	8
Uttarakhand	8
Other states	21
<b>Total</b>	<b>266</b>

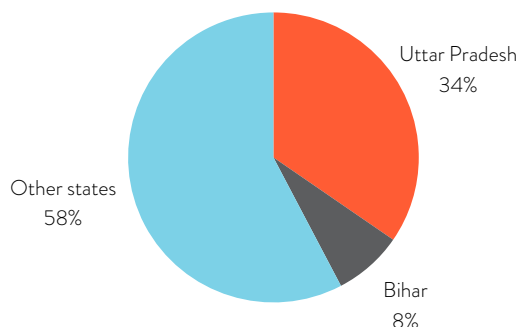
Source: Company, BOBCAPS Research

**FIG 2 – UP & BIHAR ACCOUNTED FOR 41% OF NET STORES ADDED IN FY19...**



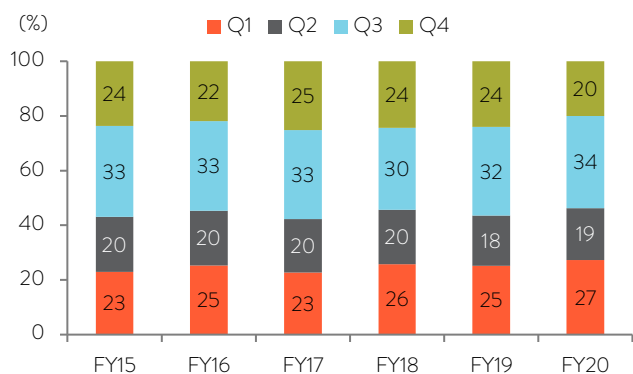
Source: Company, BOBCAPS Research

**FIG 3 – ...AND 42% OF NET STORES ADDED IN FY20**



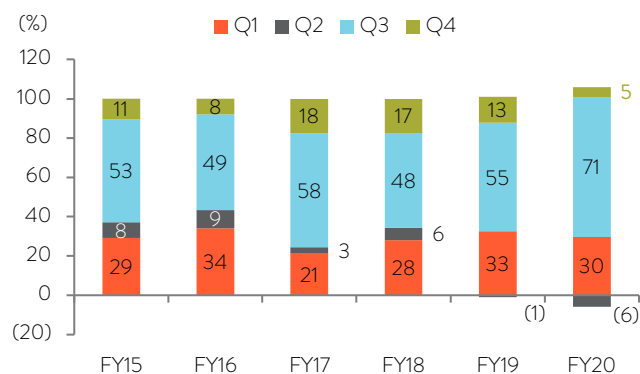
Source: Company, BOBCAPS Research

**FIG 4 – REVENUE BREAKUP: Q3 BRINGS IN AN AVERAGE ~33% OF YEARLY SALES**



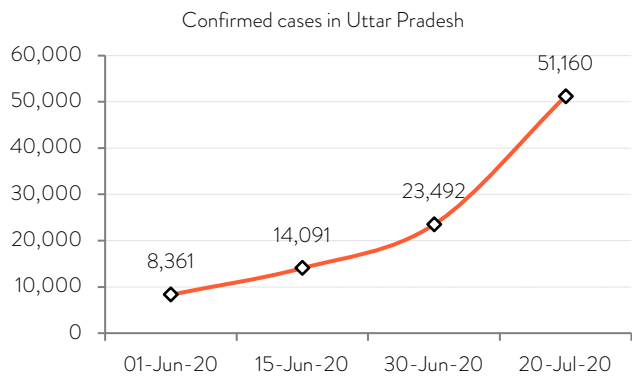
Source: Covid19India.org, BOBCAPS Research

**FIG 5 – EBITDA BREAKUP: Q3 BRINGS IN AN AVERAGE ~56% OF YEARLY EBITDA**



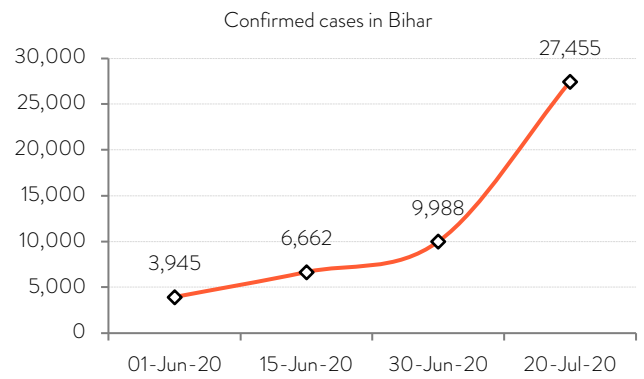
Source: Covid19India.org, BOBCAPS Research

**FIG 6 – CONFIRMED CORONAVIRUS CASES IN UTTAR PRADESH INCREASING AT A BRISK PACE...**



Source: Covid19India.org, BOBCAPS Research

**FIG 7 – ....AND IN BIHAR AS WELL**



Source: Covid19India.org, BOBCAPS Research

## Valuation methodology

VMART is a play on the growing organised apparel retail market, high aspirational demand and rising purchasing power of middle-class India. We expect the company to benefit from a strong, efficient business model and an early-mover advantage in tier-2/3/4 cities. But with several organised players expanding their footprint in VMART's markets and the pandemic exacting a severe toll on business, the company could face near-term headwinds to same-store sales growth and margins.

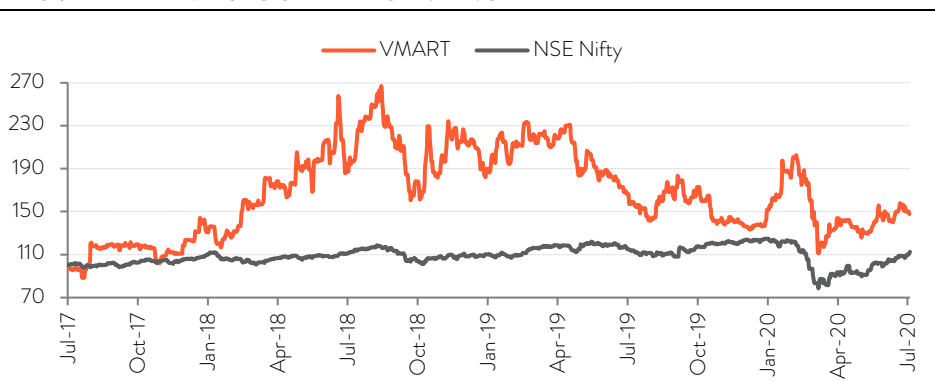
We cut our FY21/FY22 PAT estimates by 5%/2% considering renewed localised lockdowns in areas where VMART operates and downgrade the stock from REDUCE to SELL as current valuations of 35.2x FY22E EPS look expensive. On rollover, we move to a revised Jun'21 target price of Rs 1,630 (earlier Rs 1,560), set at an unchanged 30x FY22E EPS.

**FIG 8 – REVISED ESTIMATES**

(Rs mn)	New		Old		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	14,264	21,234	14,622	21,872	(2.4)	(2.9)
EBITDA	1,973	2,966	2,021	3,020	(2.4)	(1.8)
PAT	339	927	357	942	(5.1)	(1.5)

Source: BOBCAPS Research

**FIG 9 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

Upside risks to our estimates include:

- faster-than-anticipated demand revival post lifting of lockdown,
- above-expected demand from the company's key states of UP and Bihar,
- inability of organised rivals to ramp up in tier-2/3/4 cities, thereby enabling VMART to deliver better growth, and
- above-expected traction in SSSg due to a strong Q3 season.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20P*	FY21E*	FY22E*	FY23E*
<b>Total revenue</b>	<b>14,337</b>	<b>16,620</b>	<b>14,264</b>	<b>21,234</b>	<b>26,178</b>
EBITDA	1,336	2,138	1,973	2,966	3,688
Depreciation	(276)	(939)	(978)	(1,148)	(1,413)
EBIT	1,060	1,198	995	1,817	2,275
Net interest income/(expenses)	(16)	(548)	(557)	(618)	(791)
Other income/(expenses)	44	45	21	54	81
Exceptional items	0	0	0	0	0
EBT	1,088	695	458	1,253	1,565
Income taxes	(365)	(202)	(119)	(326)	(407)
Extraordinary items	(107)	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>616</b>	<b>493</b>	<b>339</b>	<b>927</b>	<b>1,158</b>
Adjustments	107	0	0	0	0
<b>Adjusted net profit</b>	<b>724</b>	<b>493</b>	<b>339</b>	<b>927</b>	<b>1,158</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20P*	FY21E*	FY22E*	FY23E*
Accounts payables	1,483	1,968	1,368	1,920	2,295
Other current liabilities	354	329	274	407	502
Provisions	169	183	143	212	262
Debt funds	219	10	20	25	25
Lease liabilities	0	5,157	5,452	6,601	7,944
Equity capital	181	182	182	182	182
Reserves & surplus	3,911	4,408	4,731	5,628	6,740
Shareholders' fund	4,093	4,589	4,913	5,810	6,922
<b>Total liabilities and equities</b>	<b>6,318</b>	<b>12,236</b>	<b>12,169</b>	<b>14,975</b>	<b>17,949</b>
Cash and cash eq.	166	50	786	751	569
Accounts receivables	0	0	0	0	0
Inventories	3,290	4,779	3,752	4,654	5,738
Other current assets	443	473	465	582	708
Investments	607	79	700	1,000	1,300
Net fixed assets	1,622	1,713	1,773	2,325	2,886
CWIP	40	25	25	25	25
Intangible assets	33	37	37	37	37
Deferred tax assets, net	118	160	160	160	160
Right to use	0	4,921	4,472	5,441	6,527
<b>Total assets</b>	<b>6,318</b>	<b>12,236</b>	<b>12,169</b>	<b>14,975</b>	<b>17,949</b>

Source: Company, BOBCAPS Research | \*As per Ind-AS 116

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY19A	FY20P*	FY21E*	FY22E*	FY23E*
Net income + Depreciation	893	1,433	1,317	2,076	2,571
Interest expenses	16	548	557	618	791
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(356)	(1,046)	340	(265)	(690)
Other operating cash flows	(26)	(947)	(834)	(1,223)	(1,515)
<b>Cash flow from operations</b>	<b>526</b>	<b>(13)</b>	<b>1,381</b>	<b>1,205</b>	<b>1,157</b>
Capital expenditures	(489)	(614)	(412)	(972)	(1,084)
Change in investments	(266)	528	(621)	(300)	(300)
Other investing cash flows	0	(42)	0	0	0
<b>Cash flow from investing</b>	<b>(755)</b>	<b>(128)</b>	<b>(1,033)</b>	<b>(1,272)</b>	<b>(1,384)</b>
Equities issued/Others	28	0	0	0	0
Debt raised/repaid	213	(209)	10	5	0
Interest expenses	(16)	(34)	(18)	(5)	(5)
Dividends paid	(44)	0	(15)	(31)	(46)
Other financing cash flows	18	268	412	61	96
<b>Cash flow from financing</b>	<b>200</b>	<b>25</b>	<b>388</b>	<b>31</b>	<b>45</b>
<b>Changes in cash and cash eq.</b>	<b>(30)</b>	<b>(116)</b>	<b>736</b>	<b>(35)</b>	<b>(182)</b>
<b>Closing cash and cash eq.</b>	<b>166</b>	<b>50</b>	<b>786</b>	<b>750</b>	<b>569</b>

**Per Share**

Y/E 31 Mar (Rs)	FY19A	FY20P*	FY21E*	FY22E*	FY23E*
Reported EPS	33.9	27.2	18.7	51.1	63.8
Adjusted EPS	39.9	27.2	18.7	51.1	63.8
Dividend per share	1.7	0.0	0.7	1.4	2.1
Book value per share	225.4	252.8	270.6	320.0	381.3

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20P*	FY21E*	FY22E*	FY23E*
EV/Sales	2.2	1.9	2.3	1.5	1.2
EV/EBITDA	24.1	15.0	16.4	10.7	8.4
Adjusted P/E	45.1	66.2	96.4	35.2	28.2
P/BV	8.0	7.1	6.6	5.6	4.7

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20P*	FY21E*	FY22E*	FY23E*
Tax burden (Net profit/PBT)	66.5	71.0	74.0	74.0	74.0
Interest burden (PBT/EBIT)	102.7	58.0	46.1	69.0	68.8
EBIT margin (EBIT/Revenue)	7.4	7.2	7.0	8.6	8.7
Asset turnover (Revenue/Avg TA)	242.6	179.1	116.9	156.5	159.0
Leverage (Avg TA/Avg Equity)	1.6	2.1	2.6	2.5	2.6
Adjusted ROAE	19.1	11.4	7.1	17.3	18.2

Source: Company, BOBCAPS Research | Note: TA = Total Assets | \*As per Ind-AS 116

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20P*	FY21E*	FY22E*	FY23E*
<b>YoY growth (%)</b>					
Revenue	17.3	15.9	(14.2)	48.9	23.3
EBITDA	0.3	60.0	(7.7)	50.3	24.4
Adjusted EPS	(5.8)	(31.8)	(31.3)	173.5	24.9
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	9.3	12.9	13.8	14.0	14.1
EBIT margin	7.4	7.2	7.0	8.6	8.7
Adjusted profit margin	5.0	3.0	2.4	4.4	4.4
Adjusted ROAE	19.1	11.4	7.1	17.3	18.2
ROCE	18.1	19.1	15.4	25.0	26.3
<b>Working capital days (days)</b>					
Receivables	0	0	0	0	0
Inventory	120	131	161	107	107
Payables	44	43	50	33	34
<b>Ratios (x)</b>					
Gross asset turnover	7.1	6.0	4.1	5.1	5.0
Current ratio	1.8	2.1	2.8	2.3	2.3
Net interest coverage ratio	65.7	2.2	1.8	2.9	2.9
Adjusted debt/equity	0.0	0.0	(0.2)	(0.1)	(0.1)

Source: Company, BOBCAPS Research | \*As per Ind-AS 116

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### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

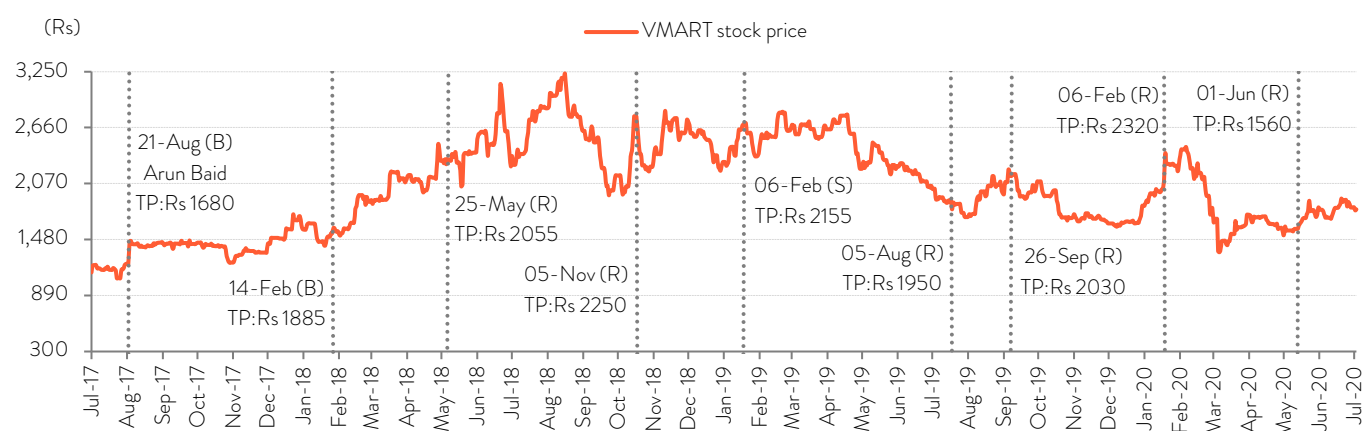
**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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

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