

**SELL**

TP: Rs 1,665 | ▼ 7%

**V-MART RETAIL**

Retail

11 August 2020

## Lockdown blues; near-term outlook remains murky

**V-Mart Retail (VMART) reported a below-expected Q1FY21 – revenue plunged 83% YoY to Rs 781mn as SSSg dropped 85% in a lockdown-hit quarter. The company reported an operating loss of Rs 296mn (adj. for Ind-AS 116) stemming from negative operating leverage, which resulted in a pre-tax loss of Rs 384mn. Management is hopeful of recovery in Q3 led by the festival/marriage season and onset of winter. We slash our FY21 PAT estimate by 56% and roll over to a revised Sep'21 TP of Rs 1,665 (vs. Rs 1,630). Maintain SELL.**

Arun Baid

research@bobcaps.in

**Lockdown dents revenue growth:** VMART's revenue declined 83% YoY as same-store sales growth (SSSg) slumped 85% (volume SSSg down 84%). Per management, stores were open only for ~34% of days during the quarter which affected sales. The company continues to face operational challenges, with just ~75% of stores currently running due to localised lockdowns in many areas. Management expects demand to improve from Q3FY21 as the festival, marriage and winter seasons set in.

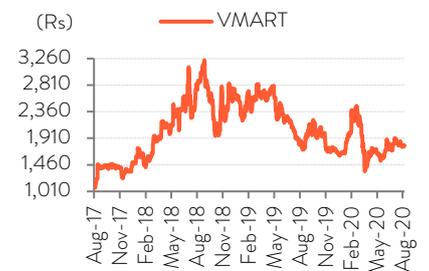
**Steep operating loss:** VMART reported an operating loss of Rs 296mn (adjusted for Ind-AS 116) due to negative operating leverage as sales plummeted, resulting in a pre-tax loss of Rs 384mn. The company has undertaken various cost control measures to cushion margins, such as rental renegotiation and employee cost rationalisation which should result in potential savings of ~Rs 180mn and ~Rs 300mn respectively in FY21.

**Maintain SELL:** We slash our FY21 earnings estimate by 56% (and pare FY22/FY23 forecasts by 3% each) due to continued Covid-19 headwinds, particularly in markets where VMART operates. On rollover, our TP stands revised to Rs 1,665 (from Rs 1,630) – we continue to value the stock at a 30x one-year forward P/E multiple and retain our SELL rating.

Ticker/Price	VMART IN/Rs 1,786
Market cap	US\$ 434.4mn
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



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	14,337	16,620	13,336	21,158	25,772
EBITDA (Rs mn)	1,336	2,138	1,719	2,946	3,618
Adj. net profit (Rs mn)	724	493	151	901	1,120
Adj. EPS (Rs)	39.9	27.2	8.3	49.6	61.7
Adj. EPS growth (%)	(5.8)	(31.8)	(69.5)	497.9	24.3
Adj. ROAE (%)	19.1	11.4	3.2	17.5	18.3
Adj. P/E (x)	44.8	65.7	215.1	36.0	28.9
EV/EBITDA (x)	23.9	14.9	18.7	10.7	8.5

Source: Company, BOBCAPS Research

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Important disclosures, including any required research certifications, are provided at the end of this report.



**FIG 1 – QUARTERLY PERFORMANCE (ADJUSTED FOR IND-AS 116)**

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
<b>Total revenues</b>	<b>781</b>	<b>4,533</b>	<b>(82.8)</b>	<b>3,329</b>	<b>(76.6)</b>
Total raw material consumed	540	3,142	(82.8)	2,377	(77.3)
% of sales	69.2	69.3	(13bps)	71.4	(221bps)
Employee expense	189	373	(49.4)	368	(48.6)
% of sales	24.2	8.2	1,595bps	11.0	1,314bps
Other expense	348	625	(44.3)	519	(32.9)
% of sales	44.6	13.8	3,082bps	15.6	2,902bps
Total expenditure	1,077	4,140	(74.0)	3,263	(67.0)
% of sales	138.0	91.3	4,664bps	98.0	3,995bps
<b>EBITDA</b>	<b>(296)</b>	<b>393</b>	<b>(175.4)</b>	<b>66</b>	<b>(550)</b>
% of sales	(38.0)	8.7	(4,664bps)	2.0	(3,995bps)
Depreciation	95	80	19.3	92	3.1
Other income	14	21	(33.1)	8	77.5
Interest cost	7	2	354.3	6	11.4
<b>PBT</b>	<b>(384)</b>	<b>333</b>	<b>(215.6)</b>	<b>(25)</b>	<b>1456.7</b>
Taxes	(117)	83	(241.5)	(20)	481.8
Effective tax rate (%)	30.5	24.9	559bps	81.6	(5,109bps)
<b>APAT</b>	<b>(267)</b>	<b>250</b>	<b>(207.0)</b>	<b>(5)</b>	<b>5773.5</b>

Source: Company, BOBCAPS Research

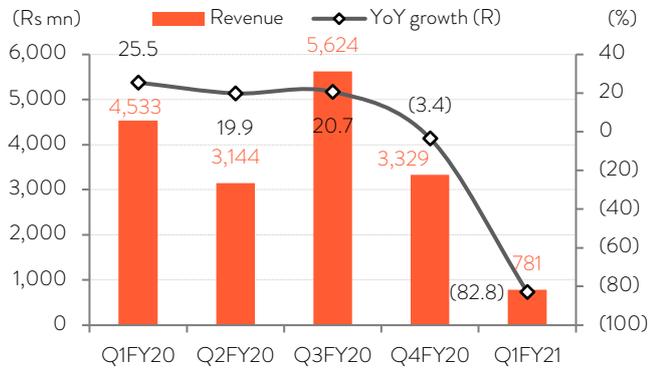
**FIG 2 – QUARTERLY PERFORMANCE (AS REPORTED)**

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
<b>Total revenues</b>	<b>781</b>	<b>4,530</b>	<b>(82.8)</b>	<b>3,327</b>	<b>(76.5)</b>
Total raw material consumed	540	3,142	(82.8)	2,377	(77.3)
% of sales	69.2	69.4	(16bps)	71.4	(221bps)
Employee expense	189	373	(49.4)	368	(48.6)
% of sales	24.2	8.2	1,594bps	11.0	1,314bps
Other expense	132	437	(69.7)	303	(56.4)
% of sales	17.0	9.7	730bps	9.1	784bps
Total expenditure	861	3,953	(78.2)	3,048	(71.7)
% of sales	110.3	87.2	2,308bps	91.6	1,877bps
<b>EBITDA</b>	<b>(81)</b>	<b>578</b>	<b>(113.9)</b>	<b>278</b>	<b>(129)</b>
% of sales	(10.3)	12.8	(2,308bps)	8.4	(1,869bps)
Depreciation	263	220	19.6	252	4.3
Other income	10	21	(51.1)	8	29.6
Interest cost	146	120	21.8	139	5.4
<b>PBT</b>	<b>(480)</b>	<b>259</b>	<b>(285.3)</b>	<b>(104)</b>	<b>358.9</b>
Taxes	(117)	83	(241.5)	(20)	481.8
Effective tax rate (%)	24.4	32.0	(756bps)	19.3	516bps
<b>APAT</b>	<b>(362)</b>	<b>176</b>	<b>(305.9)</b>	<b>(84)</b>	<b>329.6</b>
Add/(Less): extraordinary items	26	0	NA	0	NA
<b>RPAT</b>	<b>(336.4)</b>	<b>176</b>	<b>(291.1)</b>	<b>(84)</b>	<b>298.8</b>

Source: Company, BOBCAPS Research

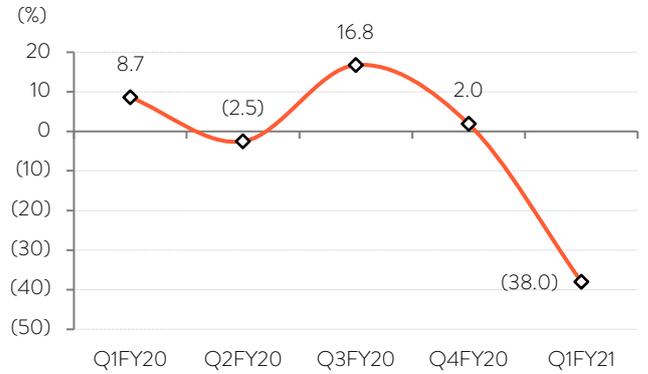
### QUARTERLY TRENDS

**FIG 3 – REVENUE & GROWTH**



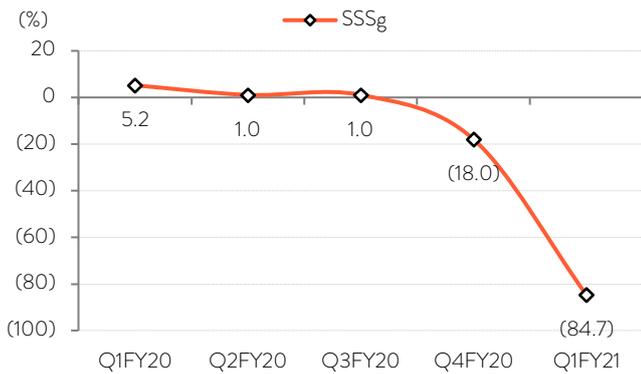
Source: Company, BOBCAPS Research

**FIG 4 – OPERATING MARGINS**



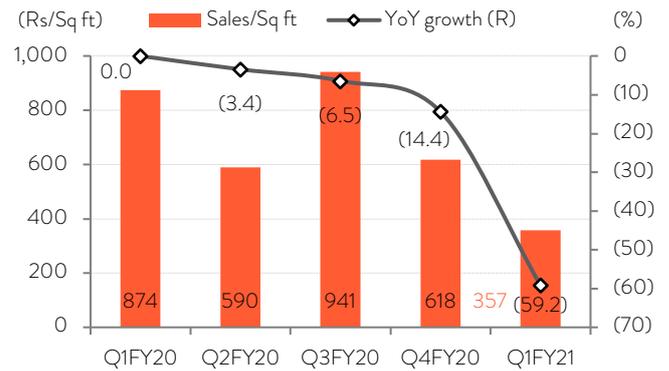
Source: Company, BOBCAPS Research

**FIG 5 – SAME-STORE SALES GROWTH, YOY**



Source: Company, BOBCAPS Research

**FIG 6 – REVENUE PER SQUARE FOOT PER MONTH**



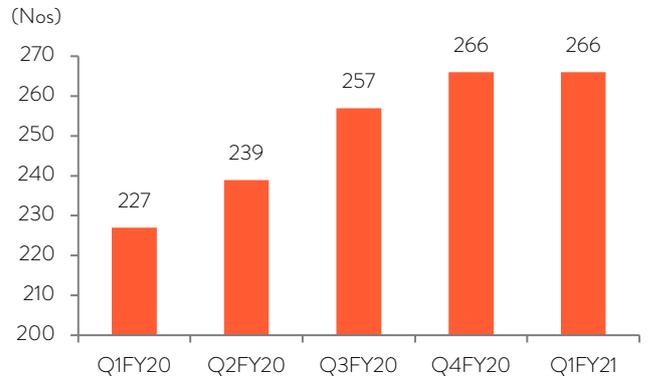
Source: Company, BOBCAPS Research

**FIG 7 – INVENTORY SHRINKAGE**



Source: Company, BOBCAPS Research

**FIG 8 – NUMBER OF STORES**



Source: Company, BOBCAPS Research

## Earnings call highlights

- VMART operated its stores only for 34% of the quarter due to the Covid-19 lockdown.
- Localised lockdowns continue in many of its markets, limiting the number of operational stores to just ~75% of the total at present.
- The company saw pent-up demand on days when stores were opened in Q1. Also, customers bought more leisure products during this time.
- VMART has started placing orders for the festival season and plans to introduce them in Q3.
- The company has made a ~Rs 280mn Covid-related provision towards inventory.
- Inventory shrinkage increased to 10.3% in Q1 due to lower sales. When sales normalise, management expects this level to return to ~1.5%.
- VMART was able to reduce inventory by Rs 0.5bn QoQ to ~Rs 4.3bn in Q1.
- The company has used only ~Rs 130mn of its working capital limit. It plans to regain its debt-free status by the end of FY21.
- The omni-channel is already operational and management expects 2-3% of revenues from this channel in FY22.
- No new stores are being added currently but the company will pursue any opportunity that offers good store locations. During the quarter, two stores were closed and two opened, thus keeping the store tally intact at 266.

## 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, tier-3 and tier-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 SSSg and margin headwinds.

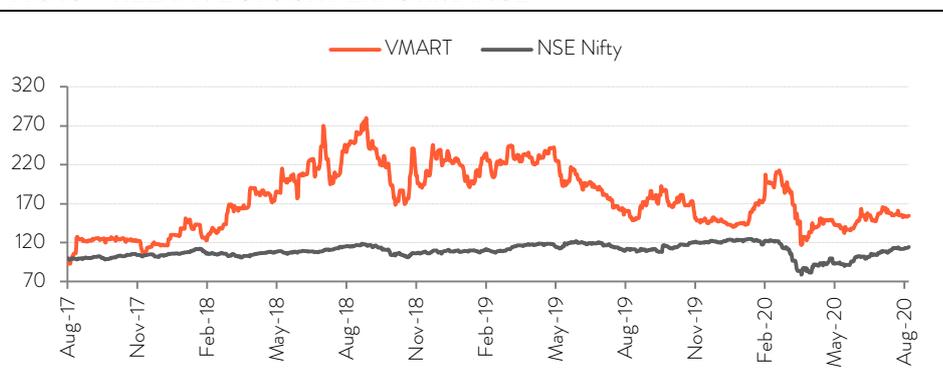
We slash our FY21 earnings estimate by 56% (and pare FY22/FY23 forecasts by 3% each) due to continued Covid-19 headwinds, particularly in markets where VMART operates (such as Uttar Pradesh and Bihar). On rolling valuations forward, we move to a revised Sep'21 target price of Rs 1,665 (from Rs 1,630) – we continue to value the stock at a 30x one-year forward P/E multiple and maintain SELL.

**FIG 9 – REVISED ESTIMATES**

(Rs mn)	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	13,336	21,158	25,772	14,264	21,234	26,178	(6.5)	(0.4)	(1.6)
EBITDA	1,719	2,946	3,618	1,973	2,966	3,688	(12.9)	(0.7)	(1.9)
PAT	151	901	1,120	339	927	1,158	(55.5)	(2.8)	(3.3)

Source: BOBCAPS Research

**FIG 10 – 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 Uttar Pradesh and Bihar,

- inability of organised rivals to ramp up in tier-2/3/4 cities, thereby enabling VMART to deliver better growth,
- above-expected traction in SSSg due to a strong Q3 season, and
- below-anticipated Covid-19 headwinds in its key states.

## 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>13,336</b>	<b>21,158</b>	<b>25,772</b>
EBITDA	1,336	2,138	1,719	2,946	3,618
Depreciation	(276)	(939)	(978)	(1,165)	(1,397)
EBIT	1,060	1,198	740	1,780	2,221
Net interest income/(expenses)	(16)	(548)	(557)	(616)	(787)
Other income/(expenses)	44	45	21	54	81
Exceptional items	0	0	0	0	0
EBT	1,088	695	204	1,218	1,514
Income taxes	(365)	(202)	(53)	(317)	(394)
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>151</b>	<b>901</b>	<b>1,120</b>
Adjustments	107	0	0	0	0
<b>Adjusted net profit</b>	<b>724</b>	<b>493</b>	<b>151</b>	<b>901</b>	<b>1,120</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Accounts payables	1,483	1,968	1,279	1,913	2,259
Other current liabilities	354	329	256	406	494
Provisions	169	183	133	212	258
Debt funds	219	10	20	25	25
Other liabilities	0	5,157	5,452	6,585	7,911
Equity capital	181	182	182	182	182
Reserves & surplus	3,911	4,408	4,543	5,414	6,488
Shareholders' fund	4,093	4,589	4,725	5,595	6,670
<b>Total liabilities and equities</b>	<b>6,318</b>	<b>12,236</b>	<b>11,865</b>	<b>14,736</b>	<b>17,617</b>
Cash and cash eq.	166	50	786	633	529
Accounts receivables	0	0	0	0	0
Inventories	3,290	4,779	3,507	4,637	5,649
Other current assets	443	473	404	640	631
Investments	607	79	700	1,000	1,300
Net fixed assets	1,622	1,713	1,773	2,272	2,838
CWIP	40	25	25	25	25
Intangible assets	33	37	37	37	37
Deferred tax assets, net	118	160	160	160	160
Other assets	0	4,921	4,472	5,332	6,449
<b>Total assets</b>	<b>6,318</b>	<b>12,236</b>	<b>11,865</b>	<b>14,736</b>	<b>17,617</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Net income + Depreciation	893	1,433	1,129	2,067	2,517
Interest expenses	16	548	557	616	787
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(356)	(1,046)	529	(504)	(521)
Other operating cash flows	(26)	(947)	(834)	(1,206)	(1,497)
<b>Cash flow from operations</b>	<b>526</b>	<b>(13)</b>	<b>1,381</b>	<b>973</b>	<b>1,286</b>
Capital expenditures	(489)	(614)	(412)	(916)	(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>(1,216)</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	119	44
<b>Cash flow from financing</b>	<b>200</b>	<b>25</b>	<b>388</b>	<b>89</b>	<b>(6)</b>
<b>Changes in cash and cash eq.</b>	<b>(30)</b>	<b>(116)</b>	<b>737</b>	<b>(154)</b>	<b>(104)</b>
<b>Closing cash and cash eq.</b>	<b>166</b>	<b>50</b>	<b>787</b>	<b>633</b>	<b>529</b>

**Per Share**

Y/E 31 Mar (Rs)	FY19A	FY20P	FY21E	FY22E	FY23E
Reported EPS	33.9	27.2	8.3	49.6	61.7
Adjusted EPS	39.9	27.2	8.3	49.6	61.7
Dividend per share	1.7	0.0	0.7	1.4	2.1
Book value per share	225.4	252.8	260.2	308.2	367.4

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20P	FY21E	FY22E	FY23E
EV/Sales	2.2	1.9	2.4	1.5	1.2
EV/EBITDA	23.9	14.9	18.7	10.7	8.5
Adjusted P/E	44.8	65.7	215.1	36.0	28.9
P/BV	7.9	7.1	6.9	5.8	4.9

**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	27.5	68.4	68.2
EBIT margin (EBIT/Revenue)	7.4	7.2	5.6	8.4	8.6
Asset turnover (Revenue/Avg TA)	242.6	179.1	110.7	159.1	159.3
Leverage (Avg TA/Avg Equity)	1.6	2.1	2.6	2.6	2.6
Adjusted ROAE	19.1	11.4	3.2	17.5	18.3

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

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	17.3	15.9	(19.8)	58.7	21.8
EBITDA	0.3	60.0	(19.6)	71.4	22.8
Adjusted EPS	(5.8)	(31.8)	(69.5)	497.9	24.3
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	9.3	12.9	12.9	13.9	14.0
EBIT margin	7.4	7.2	5.6	8.4	8.6
Adjusted profit margin	5.0	3.0	1.1	4.3	4.3
Adjusted ROAE	19.1	11.4	3.2	17.5	18.3
ROCE	18.1	19.1	11.7	25.4	26.7
<b>Working capital days (days)</b>					
Receivables	0	0	0	0	0
Inventory	120	131	167	103	108
Payables	44	43	51	32	34
<b>Ratios (x)</b>					
Gross asset turnover	7.1	6.0	3.8	5.1	5.0
Current ratio	1.8	2.1	2.8	2.3	2.2
Net interest coverage ratio	65.7	2.2	1.3	2.9	2.8
Adjusted debt/equity	0.0	0.0	(0.2)	(0.1)	(0.1)

Source: Company, BOBCAPS Research

## Disclaimer

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

**BUY** – Expected return >+15%

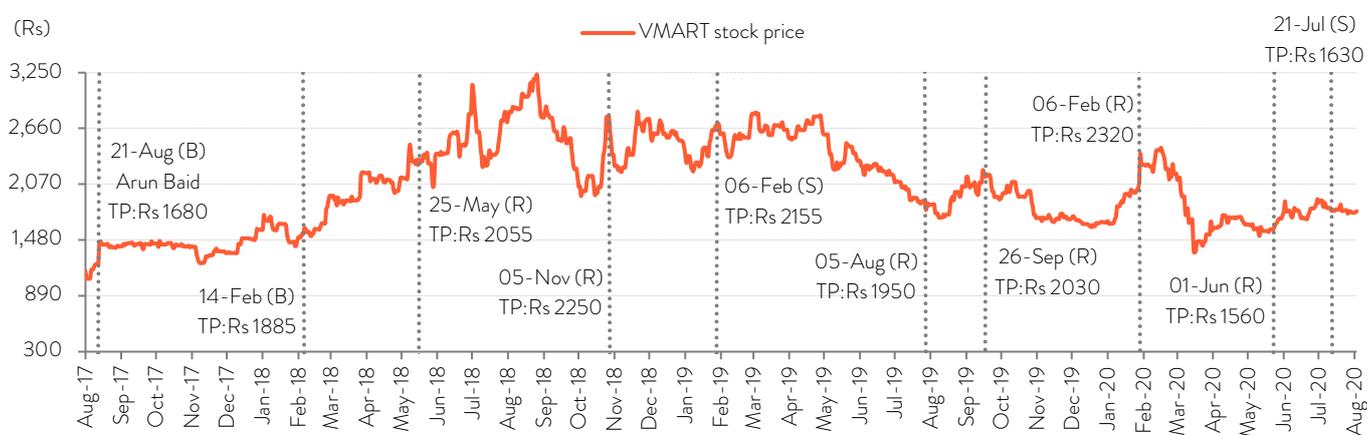
**ADD** – Expected return from >+5% to +15%

**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)

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): V-MART RETAIL (VMART IN)



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

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