

BUY

TP: Rs 3,620 | ▲ 23%

V-MART RETAIL

| Retail

| 09 August 2022

Growth off low base but yet to retrace to pre-Covid levels

- Q1 revenue grew 230% YoY to Rs 5.9bn (80% from VMART, 20% from Unlimited stores); 3.8% growth (ex-Unlimited) vs. Q1FY20
- EBITDA margin expanded 16ppt to 15.1% owing to higher gross margin in Unlimited business, lower discounts and better operating leverage
- We retain BUY with an unchanged TP of Rs 3,620, set at 21x FY24E EV/EBITDA

Ruchitaa Maheshwari
research@bobcaps.in

Revenue muted vs. Q1FY20 pre-Covid levels: As highlighted in our VMART update of 20 June, **Near-term pain gets accentuated**, Q1FY23 was subdued due to a mix of rising competition from national conglomerates in tier-2/3 cities, muted sentiment in smaller towns amid rising inflation, a drop-off in Uttar Pradesh and Bihar sales owing to communal disruptions, and price hikes. VMART reported just 3.8% revenue growth (ex-Unlimited) compared to pre-Covid levels in Q1FY20 with a 28% drop in sales per sqft. The company took a ~20% price hike in Q1, passing on the entire cost inflation to consumers. This aided gross margin expansion but dented volumes as lower income customers postponed purchases, in line with our expectations.

Optically a good quarter: On a YoY basis, VMART's revenue grew 230% to Rs 5.9bn (+28% QoQ) on a low Covid-hit base, further supported by the wedding and festive season, price hikes and lower discounts. The acquisition of Unlimited also contributed to profitable growth. A like-to-like comparison (ex-Unlimited) indicates 165% YoY revenue growth.

Unlimited contribution aids margin expansion: Footfalls fell by 9% and sales per sqft declined 28% compared to Q1FY20. However, higher gross margin contribution from South India stores, lower discounts and cost control aided a healthy 126% increase in EBITDA over pre-Covid levels to Rs 0.9bn with 640bps margin expansion to 15.1%. Gross margin expanded by 660bps over Q1FY20 to 37% on the back of lower discounting, price hikes and merchandise changes.

Near-term headwinds but solid long-term prospects: While VMART faces rising competition in tier-2/3 cities, muted near-term demand in smaller towns and volume headwinds due to price hikes, we believe its structural long-term story remains intact amid the shift from unorganised to modern retail. We continue to value the stock at 21x FY24E EV/EBITDA vs. its 5Y median of 24x, and retain our TP of Rs 3,620. Maintain BUY.

Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	VMART IN/Rs 2,949
Market cap	US\$ 729.5mn
Free float	54%
3M ADV	US\$ 1.2mn
52wk high/low	Rs 4,849/Rs 2,407
Promoter/FPI/DII	46%/18%/36%

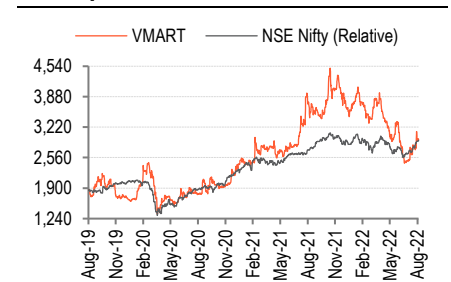
Source: NSE | Price as of 8 Aug 2022

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)	499.2	207.1	82.3
EV/EBITDA (x)	27.4	22.7	16.6
Adj. EPS growth (%)	(134.3)	141.0	151.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Earnings call highlights

- **Demand outlook:** Management indicated that inflation has impacted lower income households, and VMART continuous price hikes has led toning down of consumer spends in the value fashion segment. Per management, demand weakness will persist in Q2. Further, the company has initiated roll-back of price hikes to drive consumer spends.
- **28% lower sales per sqft:** Sales per sqft were down 28% from Q1FY20 levels to Rs 626 as consumers postponed their purchases amid price hikes by the company to pass on rising costs, complete pass-along of the expected GST levy, and rising pressure on household budgets. Growing competition intensity also affected sales. Sales per sqft in South India are currently 15% lower than the rest of India.
- **Key markets bit struggling:** VMART's major markets of UP, Bihar, Jharkhand and West Bengal are at risk of a weak monsoon, which can dampen sales growth from these regions. However, the impact will be lower as lower as two consecutive lower monsoons makes a larger impact.
- **Store addition in Q1:** The company added 11 new stores and closed nil during Q1, taking the overall store count to 391. Of these, VMART stores stood at 314 and Unlimited at 77.
- **60 or more store addition targets on track in FY23:** VMART plans to add 60 or more stores in total in FY23, of which 20% will be Unlimited stores in South and 80% will be VMART spread across 5 zones namely North, UP, Bihar, East and South. The company will have major store concentration in Andhra and Telangana in South apart from UP & Bihar. The capex per store will be about Rs 11-12mn plus working capex of Rs 6-8mn, totaling Rs 1bn. Plus, capex on new warehouse is Rs 700-800mn for FY23. The capex will be largely funded through internal accruals.
- **Same-store sales volume:** VMART's SSSg stood at 124% in Q1FY23 compared to 103% in Q1FY22.
- **Price hikes:** Due to an increase in cotton prices, the company has taken a ~20% price hike in Q1FY23. The increase in price hikes and overall increase in inflation has forced consumers to postpone their purchases. Per management, the company has initiated a price correction to the tune of 5-6% to increase the consumer spends from the entry level consumers and the fresh inventory will be available from 15th August.
- **Digital initiatives:** Online business contributes ~2% of revenue which management expects will rise to ~10% in the next 3-5 years. The company has revamped its online platform with significant technology upgrades, leading to an enhanced customer experience, and parallelly launched its products on Amazon and Myntra. Its digital and physical stores have the same merchandise and price points, but the digital platform is more conducive to experiments. About 80% of the schemes available on third-party portals are also on offer on its own portal.

Going forward, VMART expects to create a different product line for its physical stores and online stores. The company is also in the process of enabling vendors to list their products directly on its online portal in a year's time, for which VMART

will earn a margin on sales. As the company is striving to drive conversion from unorganised to organised platforms, it has lower margin flexibility and hence currently runs in-house (as opposed to outsourced) delivery services. As of now, the business is not a profitable venture.

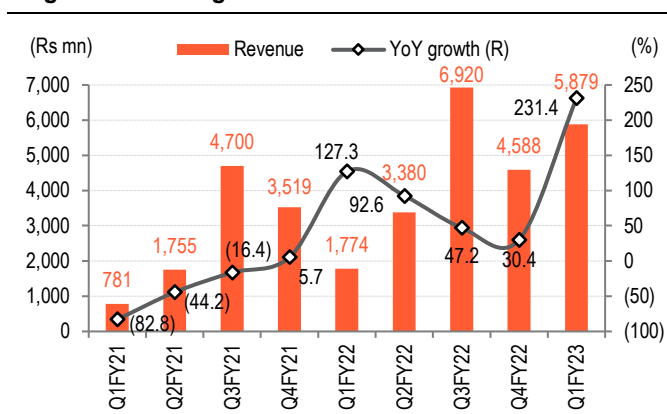
- **Other operational highlights:** (a) Average selling price for the fashion segment increased by 25% YoY to Rs 370 in Q1FY23 and transaction size grew 17% YoY to Rs 994. (b) Shrinkage stood at 0.05% vs. 4.9% in Q1FY22. (c) Inventory days rose to 104 vs. 100 the previous year. (d) Conversion rate declined to 62.2% vs. 70.7% in Q1FY22. (e) Monthly sales/sqft climbed by 17% to Rs 626 in Q1FY23.

Fig 1 – Quarterly performance

(Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	FY22	FY21	YoY (%)
Total revenues	5,879	1,774	231.4	4,588	28.1	16,662	10,755	54.9
Total raw material consumed	3,686	1,224	201.2	2,985	23.5	10,911	7,236	50.8
% of sales	62.7	69.0	(629bps)	65.1	(237bps)	65.5	67.3	(179bps)
Employee expense	552	334	65.2	511	8.1	1,796	1,169	53.7
% of sales	9.4	18.8	(945bps)	11.1	(174bps)	10.8	10.9	(9bps)
Other expense	753	235	220.0	589	28.0	1,911	2,102	(9.1)
% of sales	12.8	13.3	(46bps)	12.8	(2bps)	11.5	19.5	(808bps)
Total expenditure	4,992	1,794	178.3	4,085	22.2	14,618	10,507	39.1
% of sales	84.9	101.1	(1,619bps)	89.0	(412bps)	87.7	97.7	(996bps)
EBITDA	887	(20)	n.m.	503	76	2,043	248	724.4
EBITDA margin (%)	15.1	(1.1)	1619bps	11.0	412bps	12.3	2.3	996bps
Depreciation	402.4	254.7	58.0	376.0	7.0	1,307.0	366.0	257.1
Other income	40.9	45.1	(9.3)	27.9	46.5	139.6	53.0	163.3
Interest cost	247.2	155.9	58.6	235.2	5.1	771.9	23.0	3256.2
PBT	278	(385)	n.m.	(80)	n.m.	104	(88)	n.m.
Taxes	74	(98)	n.m.	(54)	(236.9)	(12)	(35)	(64.1)
Effective tax rate (%)	26.5	25.4	109bps	67.4	(4,084bps)	(12.0)	39.3	(5,125bps)
APAT	205	(287)	n.m.	(26)	n.m.	116	(54)	n.m.
Add/(Less) Extraordinary items	0	0	-	0	-	0	278	-
RPAT	205	(287)	n.m.	(26)	n.m.	116	224	(48.1)

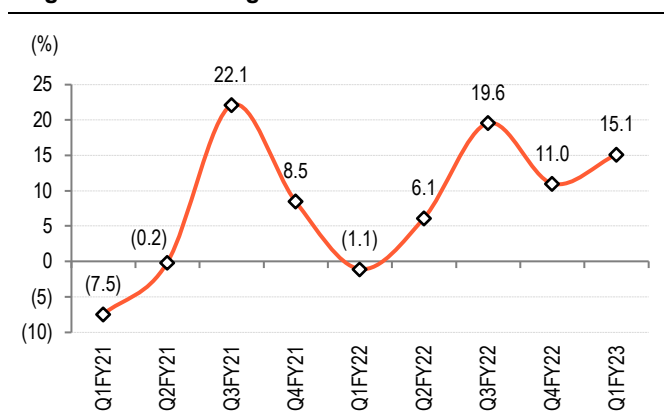
Source: Company, BOBCAPS Research

Fig 2 – Revenue growth



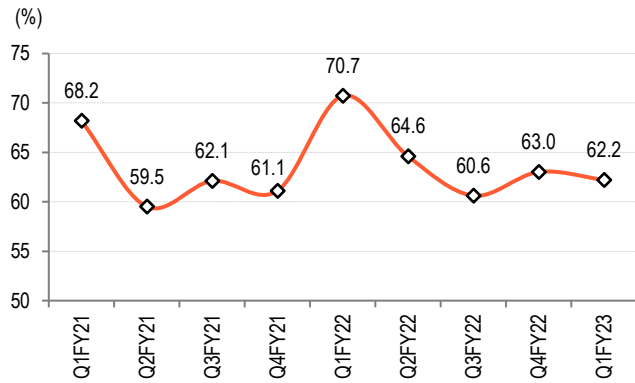
Source: Company, BOBCAPS Research

Fig 3 – EBITDA margin trend



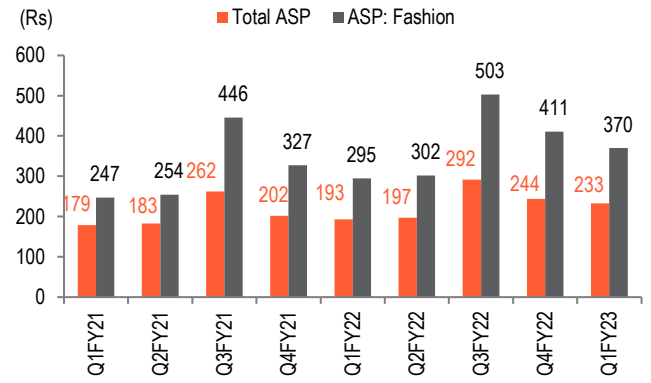
Source: Company, BOBCAPS Research

Fig 4 – Conversion rate



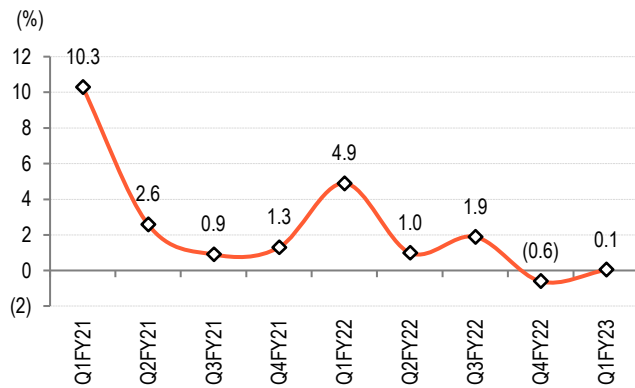
Source: Company, BOBCAPS Research

Fig 5 – Total ASP and Fashion ASP



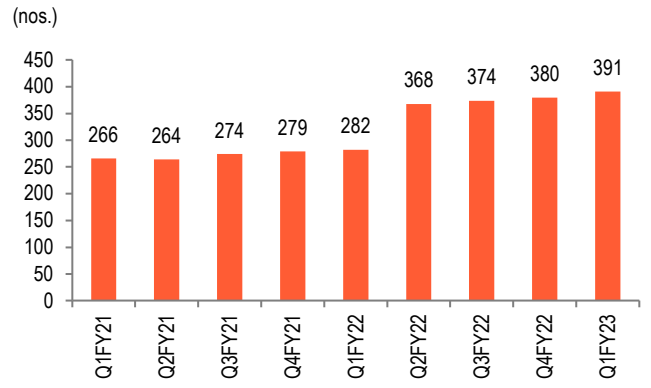
Source: Company, BOBCAPS Research

Fig 6 – Inventory shrinkage



Source: Company, BOBCAPS Research

Fig 7 – Number of stores



Source: Company, BOBCAPS Research

Valuation methodology

While VMART faces rising competition in tier-2/3 cities, muted near-term demand in smaller towns and volume headwinds due to price hikes, we believe its structural long-term story remains intact amid the shift from unorganised to modern retail. We continue to value the stock at 21x FY24E EV/EBITDA vs. its five-year median of 24x, and retain our TP of Rs 3,620. Maintain BUY.

Key risks

Key downside risks to our estimates are:

- slower turnaround at Unlimited stores,
- 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	3.5	5.4	3.4	2.8	2.3
EV/EBITDA	26.8	48.5	27.4	22.7	16.6
Adjusted P/E	119.8	(171.1)	499.2	207.1	82.3
P/BV	12.7	7.0	6.8	6.6	6.1

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%

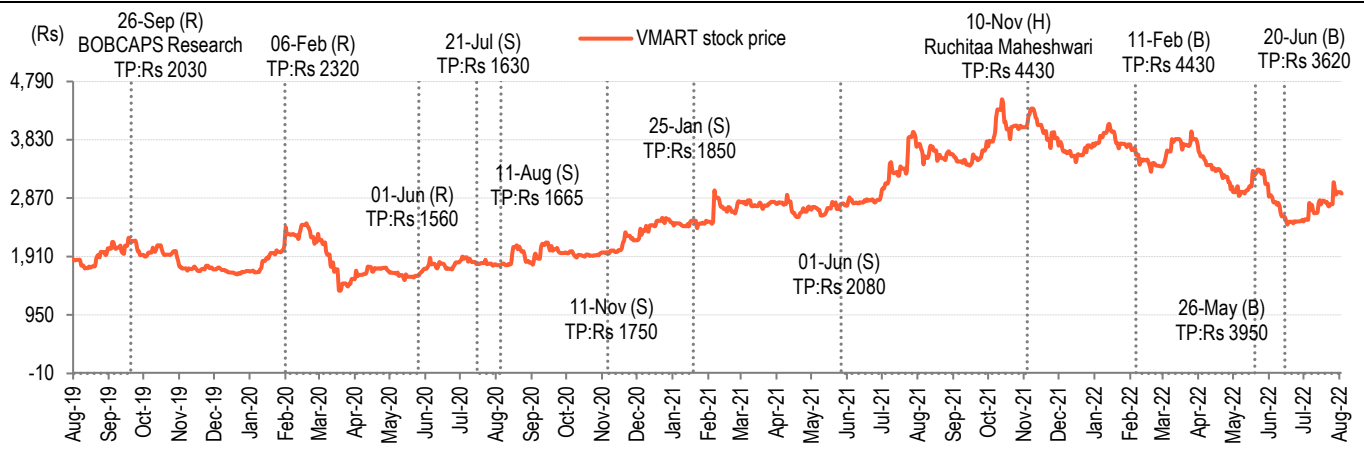
HOLD – Expected return from -6% to +15%

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

Rating distribution

As of 31 July 2022, out of 119 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 71 have BUY ratings, 26 have HOLD ratings, 5 are rated ADD*, 1 is rated REDUCE* and 16 are rated SELL. Of these, 2 companies rated BUY and 1 rated ADD have been investment banking clients in the last 12 months. (*Our ADD and REDUCE ratings are in the process of being migrated to the new recommendation structure.)

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017. BOBCAPS CIN Number: U65999MH1996GOI098009.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions 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. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this 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. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may 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 and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency 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. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.