

REDUCE

TP: Rs 2,030 | ▲ 2%

V-MART RETAIL

Retail

04 November 2019

Higher expenses drive operating loss

V-Mart Retail (VMART) reported below-expected revenue growth of 20% YoY to Rs 3.1bn in Q2FY20, with SSSg of 1% (volumes –8%). Despite better gross margins YoY, the company had an operating loss of Rs 79mn (adjusted for Ind-AS 116) due to higher other expenses and employee cost. Management retained guidance of ~25% area addition in FY20 but pared its EBITDA margin forecast to 8% from 9%. We cut FY20-FY22 PAT by 6-13% to build in the Q2 miss and roll to an unchanged Sep'20 TP of Rs 2,030. Maintain REDUCE.

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Revenue growth aided by area addition: VMART's revenue grew 19.9% YoY to Rs 3.1bn, with same-store sales growth (SSSg) of 1% (same-store volumes down 8%). Revenue growth was aided by area addition of ~25% YoY.

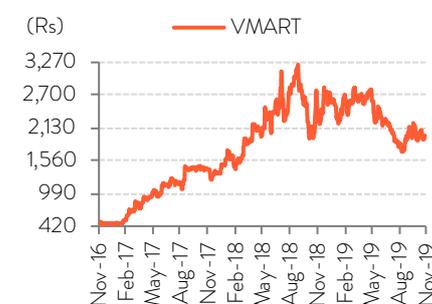
Management indicated that the Diwali season was average and is hopeful of better demand in the remainder of Q3 led by winter sales and wedding season demand. Guidance of adding 25% more area in FY20 was retained.

Operating and net losses: Despite 200bps YoY gross margin improvement, VMART reported an operating loss of Rs 79mn (adj. for Ind-AS 116) and a PBT loss of Rs 155mn due to slower sales and higher employee/other expenditure. Store addition inflated employee cost whereas other expenditure increased due to higher A&P and logistic costs. Lower discounting during end-of-season sales and better fashion sales aided gross margins.

Maintain REDUCE: Given the below-expected Q2 and continued demand headwinds, we scale back PAT estimates for FY20-FY22 by 6-13%. We like VMART for its strong growth potential, but see near-term risks to SSSg and margins from stiffer competition and a tepid demand environment. Rolling valuations forward, we have an unchanged Sep'20 TP of Rs 2,030.

Ticker/Price	VMART IN/Rs 1,998
Market cap	US\$ 511.2mn
Shares o/s	18mn
3M ADV	US\$ 0.6mn
52wk high/low	Rs 2,901/Rs 1,676
Promoter/FPI/DII	52%/28%/20%

Source: NSE

STOCK PERFORMANCE

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	12,224	14,337	17,995	22,165	27,568
EBITDA (Rs mn)	1,332	1,336	1,451	1,855	2,330
Adj. net profit (Rs mn)	768	724	857	1,085	1,367
Adj. EPS (Rs)	42.4	39.9	47.3	59.9	75.4
Adj. EPS growth (%)	101.0	(5.8)	18.4	26.7	26.0
Adj. ROAE (%)	24.9	19.1	19.0	20.0	20.8
Adj. P/E (x)	47.1	50.1	42.3	33.4	26.5
EV/EBITDA (x)	26.9	26.7	24.6	19.2	15.3

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE (EXCLUDING IND-AS116 IMPACT)

(Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)
Total revenues	3,144	2,622	19.9	4,533	(30.6)
Total raw material consumed	2,162	1,857	16.4	3,142	(31.2)
% of sales	68.8	70.8	(204bps)	69.3	(54bps)
Employee expense	390	301	29.7	373	4.5
% of sales	12.4	11.5	94bps	8.2	418bps
Other expense	670	479	40.0	625	7.3
% of sales	21.3	18.3	306bps	13.8	753bps
Total expenditure	3222	2636	22.2	4140	(22.2)
% of sales	102.5	100.5	196bps	91.3	1,117bps
EBITDA	(79)	(14)	456.2	393	NA
% of sales	(2.5)	(0.5)	(196bps)	8.7	(1,117bps)
Depreciation	78.5	66.7	17.6	79.6	(1.4)
Other income	11.8	10.4	12.9	20.8	(43.5)
Interest cost	9.2	1.9	384.7	1.5	499.8
PBT	(155)	(72)	113.7	333	NA
Taxes	(48)	(57)	(14.6)	83	NA
Effective tax rate (%)	31.3	78.2	(4,697bps)	24.9	637bps
APAT	(106)	(16)	NA	250	NA
Add/(Less): extraordinary items	0	(25)	NA	0	NA
RPAT	(106)	(40)	164.1	250	NA

Source: Company, BOBCAPS Research

FIG 2 – QUARTERLY PERFORMANCE (AS PER IND AS-116)

(Rs mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)
Total revenues	3,142	2,622	19.8	4,530	(30.7)
Total raw material consumed	2,162	1,857	16.4	3,142	(31.2)
% of sales	68.8	70.8	(204bps)	69.3	(54bps)
Employee expense	390	301	29.7	373	4.5
% of sales	12.4	11.5	94bps	8.2	418bps
Other expense	476	479	(0.5)	437	8.9
% of sales	15.1	18.3	(311bps)	9.6	550bps
Total expenditure	3028	2636	14.9	3953	(23.4)
% of sales	96.3	100.5	(420bps)	87.2	914bps
EBITDA	113	(14)	NA	578	NA
% of sales	3.6	(0.5)	414bps	12.8	(915bps)
Depreciation	222.6	66.7	233.7	220.0	1.2
Other income	11.8	10.4	12.9	20.8	(43.5)
Interest cost	131.1	1.9	6777.1	120.0	9.3
PBT	(229)	(72)	216.2	259	NA
Taxes	(48)	(57)	(14.6)	83	(158.4)
Effective tax rate (%)	21.1	78.2	(5,711bps)	32.0	(1,086bps)
APAT	(180)	(16)	NA	176	NA
Add/(Less): extraordinary items	0	(25)	NA	0	NA
RPAT	(180)	(40)	348.4	176	(202.5)

Source: Company, BOBCAPS Research

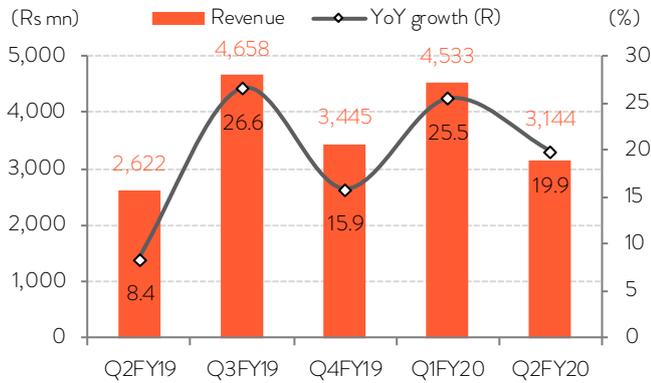
FIG 3 – IND AS-116 IMPACT ON QUARTERLY FIGURES

Increase/(decrease) in Net Profit (Rs mn)	Q2FY20
Other expenses	(193.8)
Finance cost	121.9
Depreciation	144.1
Other operating income	(1.9)
Profit before tax	(74.2)

Source: Company, BOBCAPS Research

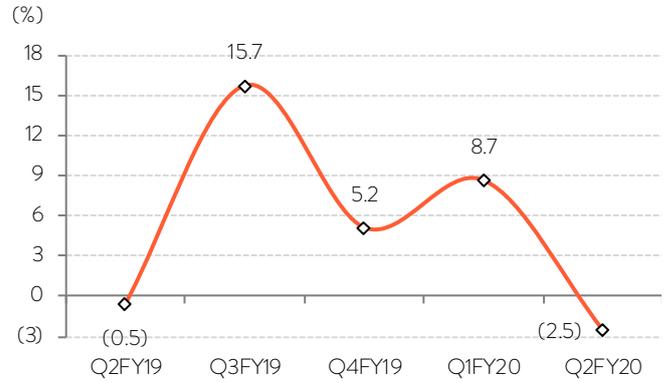
QUARTERLY TRENDS

FIG 4 – REVENUE & GROWTH



Source: Company, BOBCAPS Research

FIG 5 – OPERATING MARGINS



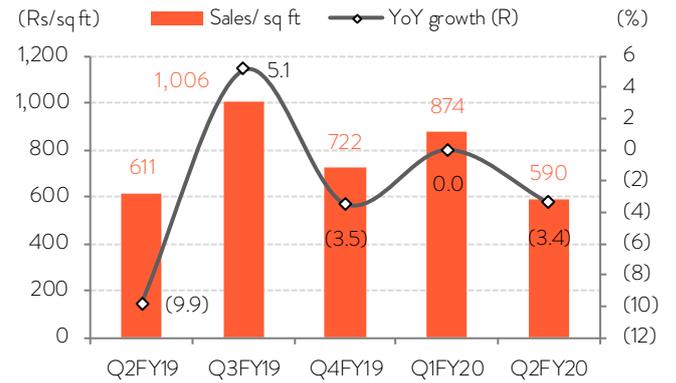
Source: Company, BOBCAPS Research

FIG 6 – SAME-STORE SALES GROWTH, YOY



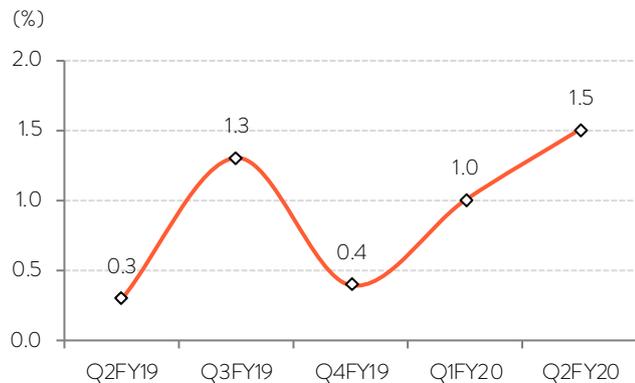
Source: Company, BOBCAPS Research

FIG 7 – REVENUE PER SQUARE FOOT/MONTH



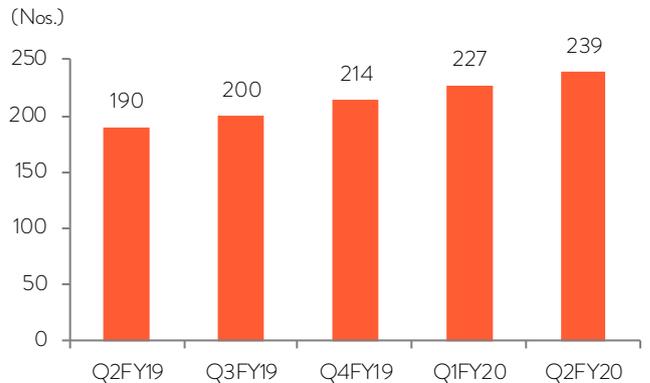
Source: Company, BOBCAPS Research

FIG 8 – INVENTORY SHRINKAGE



Source: Company, BOBCAPS Research

FIG 9 – NUMBER OF STORES



Source: Company, BOBCAPS Research

Earnings call highlights

- Market sentiment remained muted during the quarter, dampening sales.
- Value retailing is seeing increased traction and several national players such as Tata, Reliance and Birla are entering into markets where VMART operates.
- VMART's sales suggest consumers are turning more fashion conscious. Higher demand for fashion products aided segmental ASP growth of 16% YoY in Q2FY20.
- The company saw good demand during the festival period of 'pujas' in eastern markets such as West Bengal (Jul-Sep). However, Diwali sales were average and management is pinning hopes on the upcoming wedding and winter seasons.
- SSSg in Bihar was negative for the quarter due to floods in September. Also, sales from Kashmir stores were hampered by the ongoing political tensions.
- VMART believes the current slowdown is temporary and plans to add 25% more retail store area every year.
- The company now expects operating margins of ~8% in FY20 as compared to 9% earlier.
- Management highlighted that a reduction in EOSS (end-of-season-sale) discounts during the quarter aided gross margins.
- Inventory days went up by 6 days YoY in Q2 as the company prepared for the festival season and also for store openings in October. Management expects inventory days to normalise by the financial year end.
- Debt on books totaled ~Rs 750mn as of 30 September and is primarily on account of working capital. Management reiterated that expansion will continue to be funded only from cash flows generated by VMART and that the debt increase was temporary, with likely reduction by the year-end.
- The company has started test runs of online sales.

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, the company could face near-term SSSg and margin headwinds.

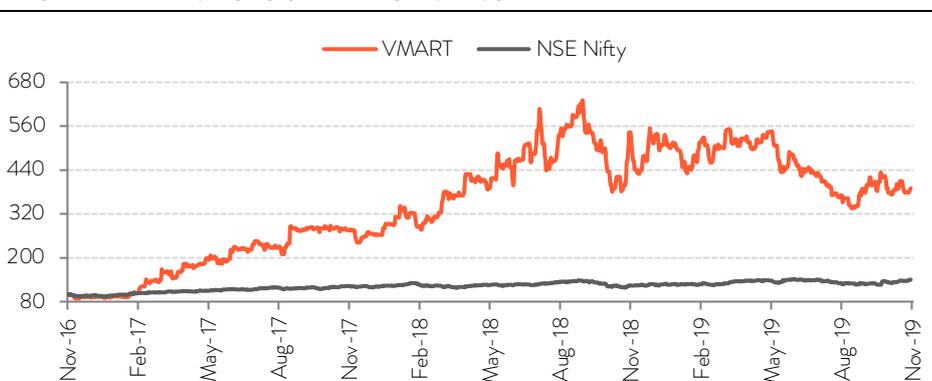
VMART reported a below-expected Q2FY20; with the demand environment remaining tepid and competition on the rise, we cut FY20-FY22 PAT estimates by 6-13%. Upon rolling valuations forward, our Sep'20 target price remains at Rs 2,030 (set at an unchanged 30x one-year fwd P/E).

FIG 10 – REVISED ESTIMATES

(Rs mn)	New			Old			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	17,995	22,165	27,568	18,109	22,216	27,850	(0.6)	(0.2)	(1.0)
EBITDA	1,451	1,855	2,330	1,631	1,933	2,442	(11.0)	(4.0)	(4.6)
PAT	857	1,085	1,367	986	1,150	1,462	(13.1)	(5.7)	(6.5)

Source: Company, BOBCAPS Research

FIG 11 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key upside risks to our estimates are:

- better-than-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; and
- above-expected traction in SSSg due to a strong winter season.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	12,224	14,337	17,995	22,165	27,568
EBITDA	1,332	1,336	1,451	1,855	2,330
Depreciation	(229)	(276)	(347)	(437)	(534)
EBIT	1,103	1,060	1,103	1,419	1,797
Net interest income/(expenses)	(15)	(16)	(23)	(37)	(42)
Other income/(expenses)	39	44	72	77	83
Exceptional items	0	0	0	0	0
EBT	1,127	1,088	1,151	1,459	1,838
Income taxes	(358)	(365)	(295)	(373)	(470)
Extraordinary items	9	(107)	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	777	616	857	1,085	1,367
Adjustments	(9)	107	0	0	0
Adjusted net profit	768	724	857	1,085	1,367

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	1,668	1,483	1,923	2,429	3,021
Other current liabilities	235	354	394	486	604
Provisions	116	169	180	222	276
Debt funds	6	219	350	430	500
Other liabilities	0	0	0	0	0
Equity capital	181	181	181	181	181
Reserves & surplus	3,293	3,911	4,720	5,747	7,044
Shareholders' fund	3,474	4,093	4,902	5,928	7,226
Total liabilities and equities	5,499	6,318	7,749	9,494	11,627
Cash and cash eq.	196	166	10	89	97
Accounts receivables	0	0	0	0	0
Inventories	3,071	3,290	3,993	4,919	6,118
Other current assets	317	443	543	671	839
Investments	340	607	900	900	1,050
Net fixed assets	1,447	1,655	2,144	2,757	3,364
CWIP	35	40	40	40	40
Intangible assets	0	0	0	0	0
Deferred tax assets, net	92	118	118	118	118
Other assets	0	0	0	0	0
Total assets	5,499	6,318	7,749	9,494	11,627

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	1,006	893	1,204	1,522	1,901
Interest expenses	15	16	23	37	42
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(400)	(356)	(314)	(414)	(603)
Other operating cash flows	(22)	(26)	0	0	0
Cash flow from operations	600	526	914	1,145	1,340
Capital expenditures	(397)	(489)	(836)	(1,050)	(1,140)
Change in investments	336	(266)	(293)	0	(150)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(61)	(755)	(1,129)	(1,050)	(1,290)
Equities issued/Others	20	28	0	0	0
Debt raised/repaid	(351)	213	131	80	70
Interest expenses	(15)	(16)	(23)	(37)	(42)
Dividends paid	(27)	(44)	(48)	(59)	(70)
Other financing cash flows	2	18	0	0	0
Cash flow from financing	(372)	200	59	(15)	(41)
Changes in cash and cash eq.	167	(30)	(156)	79	8
Closing cash and cash eq.	196	166	10	89	97

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	42.9	34.0	47.3	59.9	75.4
Adjusted EPS	42.4	39.9	47.3	59.9	75.4
Dividend per share	2.0	1.7	2.2	2.7	3.2
Book value per share	191.6	225.7	270.4	327.0	398.5

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	2.9	2.5	2.0	1.6	1.3
EV/EBITDA	26.9	26.7	24.6	19.2	15.3
Adjusted P/E	47.1	50.1	42.3	33.4	26.5
P/BV	10.4	8.8	7.4	6.1	5.0

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	68.2	66.5	74.4	74.4	74.4
Interest burden (PBT/EBIT)	102.1	102.7	104.4	102.8	102.3
EBIT margin (EBIT/Revenue)	9.0	7.4	6.1	6.4	6.5
Asset turnover (Revenue/Avg TA)	233.1	242.6	255.8	257.1	261.0
Leverage (Avg TA/Avg Equity)	1.7	1.6	1.6	1.6	1.6
Adjusted ROAE	24.9	19.1	19.0	20.0	20.8

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	22.0	17.3	25.5	23.2	24.4
EBITDA	60.9	0.3	8.6	27.9	25.6
Adjusted EPS	101.0	(5.8)	18.4	26.7	26.0
Profitability & Return ratios (%)					
EBITDA margin	10.9	9.3	8.1	8.4	8.5
EBIT margin	9.0	7.4	6.1	6.4	6.5
Adjusted profit margin	6.3	5.0	4.8	4.9	5.0
Adjusted ROAE	24.9	19.1	19.0	20.0	20.8
ROCE	23.0	18.1	17.2	18.2	19.0
Working capital days (days)					
Receivables	0	0	0	0	0
Inventory	127	120	109	109	108
Payables	55	44	38	39	39
Ratios (x)					
Gross asset turnover	6.2	7.0	6.7	6.1	5.8
Current ratio	1.8	1.8	1.6	1.6	1.6
Net interest coverage ratio	72.1	65.7	47.0	38.7	42.9
Adjusted debt/equity	(0.1)	0.0	0.1	0.1	0.1

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

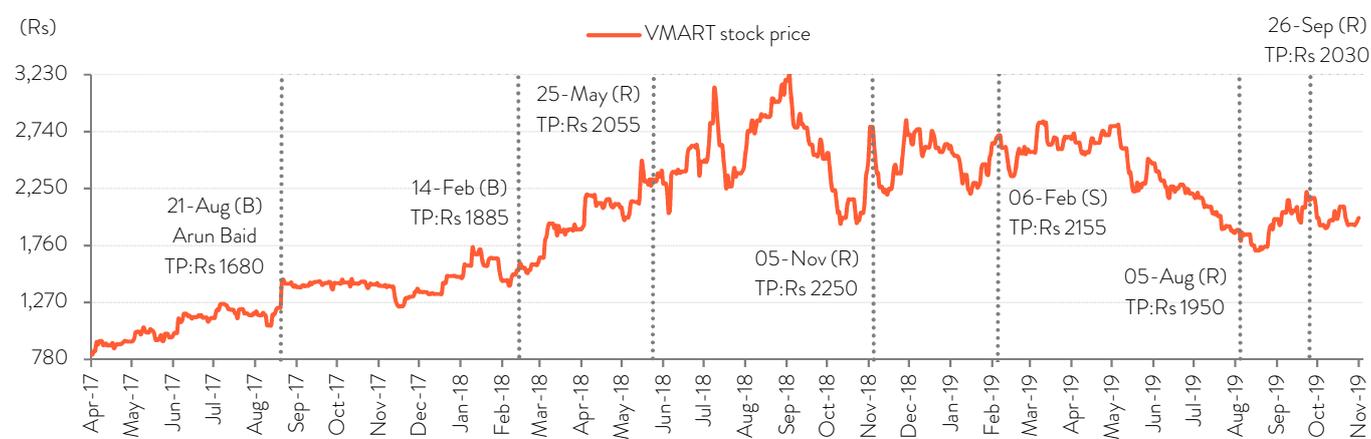
ADD – Expected return from >+5% to +15%

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)

HISTORICAL RATINGS AND TARGET PRICE: V-MART RETAIL (VMART IN)



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

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