

SELL

TP: Rs 1,750 | ▼ 11%

V-MART RETAIL

Retail

11 November 2020

Seasonal weakness exacerbated by pandemic

V-Mart Retail (VMART) reported a Q2FY21 revenue decline of 44% YoY to Rs 1.8bn in a seasonally dull quarter compounded by the lockdown. The company incurred an operating loss of Rs 119mn (adj. for Ind-AS 116) as gross margins shrank 245bps YoY and employee cost/sales increased. Management stated that demand was improving with unlocking and it is hopeful of better winter-wear and festive season sales. We cut FY21 EPS by 8% (FY22/FY23 unchanged) and roll forward to a new Dec'21 TP of Rs 1,750 (vs. Rs 1,665). Retain SELL.

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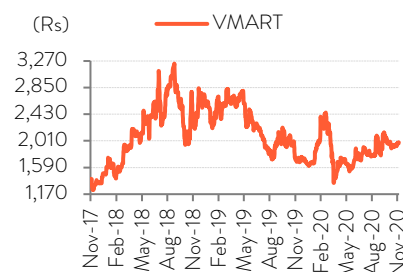
Revenues decline: VMART's revenue dropped 44% YoY to Rs 1.8bn as same-store sales growth (SSSg) slumped 50% (volume SSSg down 48%) due to a shift in the festive season from Q2 to Q3 and muted 79% store capacity utilisation amid pandemic restrictions. Management stated that the demand climate was improving as unlocking progresses, which could aid a better Q3 led by winter sales, festival and wedding season demand. The company is seeing better demand in its core tier-2/3 geographies as compared to tier-1 cities.

Ticker/Price	VMART IN/Rs 1,968
Market cap	US\$ 480.6mn
Shares o/s	18mn
3M ADV	US\$ 0.8mn
52wk high/low	Rs 2,545/Rs 1,200
Promoter/FPI/DII	51%/23%/26%

Source: NSE

Operating and net losses: VMART reported an operating loss of Rs 119mn (adj. for Ind-AS 116) and a PBT loss of Rs 217mn due to a gross margin decline of 245bps YoY and higher employee expense (+470bps YoY). Gross margin contracted in Q2 owing to extended end-of-season sales to clear summer inventory and higher stock shrinkage. Management expects costs to normalise in Q3 as employee salary cuts were rolled back from September and as most other costs needed to aid sales will also return to pre-Covid levels.

STOCK PERFORMANCE



Source: NSE

Maintain SELL: Given the below-expected Q2, we scale back PAT estimates for FY21 by 8% (FY22/FY23 largely unchanged). We like VMART for its strong growth potential but see near-term risks to same-store sales growth due to a tepid demand environment – retain SELL with a revised TP of Rs 1,750.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	14,337	16,620	13,336	21,158	25,772
EBITDA (Rs mn)	1,336	2,149	1,742	2,996	3,749
Adj. net profit (Rs mn)	724	485	139	895	1,114
Adj. EPS (Rs)	39.9	26.7	7.7	49.3	61.4
Adj. EPS growth (%)	(5.8)	(32.9)	(71.3)	542.4	24.5
Adj. ROAE (%)	19.1	11.2	3.0	17.4	18.2
Adj. P/E (x)	49.4	73.6	256.4	39.9	32.1
EV/EBITDA (x)	26.4	16.4	20.3	11.8	9.3

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE (ADJUSTED FOR IND-AS116)

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Total revenues	1,755	3,144	(44.2)	781	124.8	2,536	7,676	(67.0)
Total raw material consumed	1,250	2,162	(42.2)	540	131.5	1,790	5,305	(66.2)
% of sales	71.2	68.8	245bps	69.2	204bps	70.6	69.1	151bps
Employee expense	300	390	(23.0)	189	59.0	489	763	(35.9)
% of sales	17.1	12.4	470bps	24.2	(708bps)	19.3	9.9	934bps
Other expense	323	670	(51.7)	348	(7.1)	671	1,294	(48.1)
% of sales	18.4	21.3	(289bps)	44.6	(2,618bps)	26.5	16.9	962bps
Total expenditure	1,874	3,222	(41.8)	1,077	74.0	2,951	7,362	(59.9)
% of sales	106.8	102.5	426bps	138.0	(3,121bps)	116.4	95.9	2,046bps
EBITDA	(119)	(79)	50.8	(296)	(60)	(415)	314	(232.1)
% of sales	(6.8)	(2.5)	(426bps)	(38.0)	3,121bps	(16.4)	4.1	(2,046bps)
Depreciation	93	78	18.5	95	(2.1)	188	158	18.9
Other income	4	12	(66.1)	14	(71.4)	18	33	(45.0)
Interest cost	9	9	(2.6)	7	28.6	16	11	48.4
PBT	(217)	(155)	40.1	(384)	(43.6)	(601)	178	(437.8)
Taxes	(68)	(48)	40.0	(117)	(42.2)	(185)	34	(636.5)
Effective tax rate (%)	31.3	31.3	(2bps)	30.5	76bps	30.8	19.4	1,139bps
APAT	(149)	(106)	40.2	(267)	(44.3)	(416)	143	(390.1)
Add/(Less): extraordinary items	167	0	NM	0	NM	167	0	NM
RPAT	18	(106)	(117.4)	(267)	(106.9)	(249)	143	(273.4)

Source: Company, BOBCAPS Research

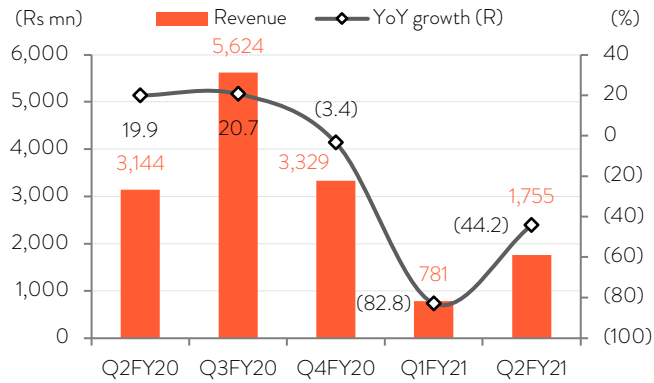
FIG 2 – QUARTERLY PERFORMANCE (AS REPORTED)

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Total revenues	1,755	3,142	(44.1)	781	124.8	2,536	7,672	(66.9)
Total raw material consumed	1,250	2,162	(42.2)	540	131.5	1,790	5,305	(66.2)
% of sales	71.2	68.8	241bps	69.2	204bps	70.6	69.1	147bps
Employee expense	300	390	(23.0)	189	59.0	489	763	(35.9)
% of sales	17.1	12.4	469bps	24.2	(708bps)	19.3	9.9	716bps
Other expense	229	476	(51.8)	132	73.3	362	913	(60.4)
% of sales	13.1	15.2	(209bps)	17.0	(389bps)	14.3	11.9	116bps
Total expenditure	1,780	3,028	(41.2)	861	106.6	2,641	6,981	(62.2)
% of sales	101.4	96.4	501bps	110.3	(892bps)	104.2	91.0	1,041bps
EBITDA	(25)	113	(121.8)	(81)	(69)	(105)	691	(115.2)
% of sales	(1.4)	3.6	(501bps)	(10.3)	892bps	(4.2)	9.0	(1,041bps)
Depreciation	257	223	15.6	263	(2.1)	520	443	17.6
Other income	4	12	(66.1)	10	(60.8)	14	33	(56.5)
Interest cost	147	131	11.9	146	0.4	293	251	16.6
PBT	(425)	(229)	85.7	(480)	(11.4)	(904)	30	(3,108.0)
Taxes	(68)	(48)	40.0	(117)	(42.2)	(185)	34	(636.5)
Effective tax rate (%)	15.9	21.1	(520bps)	24.4	(850bps)	20.5	114.7	(9,872bps)
APAT	(357)	(180)	97.9	(362)	(1.5)	(719)	(4)	16,219.6
Add/(Less): extraordinary items	167	0	NM	26	545	193	0	NM
RPAT	(190)	(180)	5.1	(336)	(43.6)	(526)	(4)	11,833.1

Source: Company, BOBCAPS Research

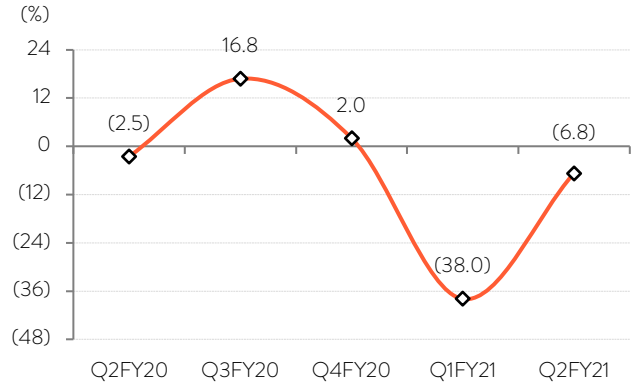
QUARTERLY TRENDS

FIG 3 – REVENUE & GROWTH



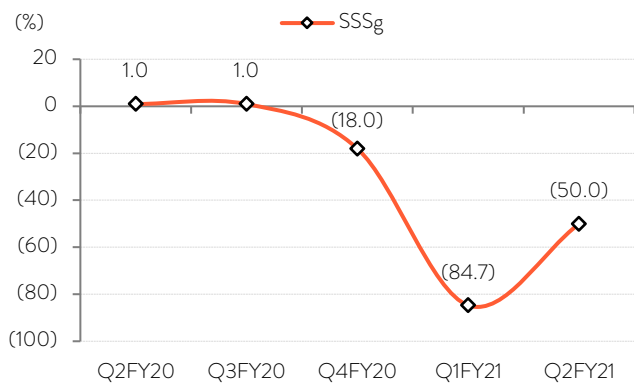
Source: Company, BOBCAPS Research

FIG 4 – OPERATING MARGINS



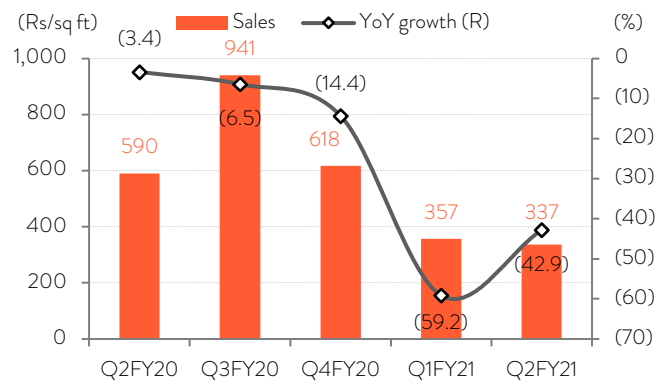
Source: Company, BOBCAPS Research

FIG 5 – SAME-STORE SALES GROWTH, YOY



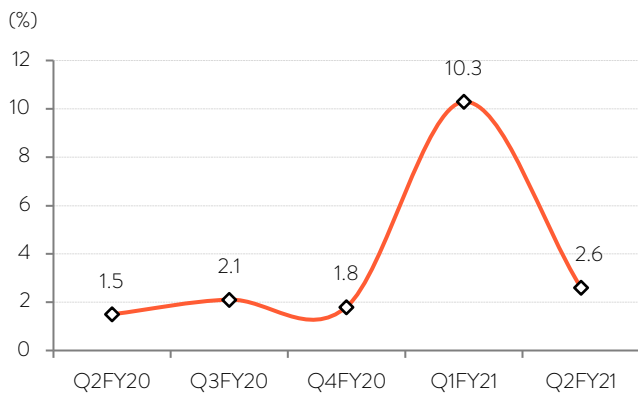
Source: Company, BOBCAPS Research

FIG 6 – REVENUE PER SQUARE FOOT PER MONTH



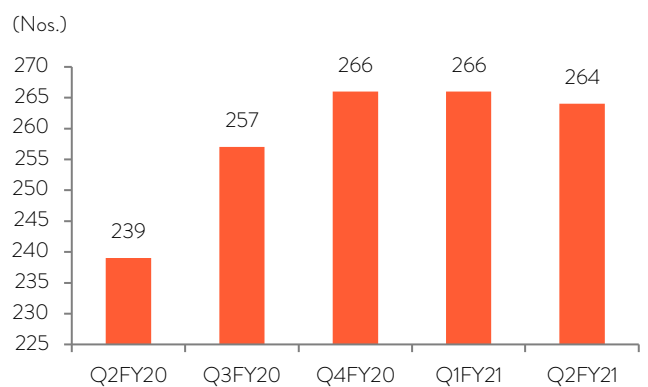
Source: Company, BOBCAPS Research

FIG 7 – INVENTORY SHRINKAGE



Source: Company, BOBCAPS Research

FIG 8 – NUMBER OF STORES



Source: Company, BOBCAPS Research

Earnings call highlights

- Stores operated at 79% utilisation in Q2FY21 due to the Covid-19 lockdown which affected sales.
- With progressive unlocking, VMART is now running at 95% utilisation. The company is hopeful of demand recovery during the ongoing festival season and given onset of an early winter in North India, it expects a better Q3.
- In Q2, VMART ran an extended EOSS (end-of-season sale) to clear excess summer inventory. This has enabled it to bring fresh merchandise into stores.
- Tier-2-and-below markets are doing better than tier-1 markets.
- The company generated savings of Rs 190mn on lease negotiations with landlords in H1. Most of these savings have already been accounted for though some may spill over into Q3.
- Salary cuts have been restored from September and management expects other expenses to normalise in Q3 too.
- Only ~20% of the working capital limit has been used.
- No decision has been made regarding the proposed Rs 5bn fund-raising for which approvals are in place.
- Payable days have been reduced so as to help vendors and will be kept at lower levels.
- During the quarter, 2 stores were closed, thus taking the store tally to 264. In Q3 so far, the company has opened 7 stores.
- The omni-channel is already operational and contributes just 1% of revenue for the company.

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.

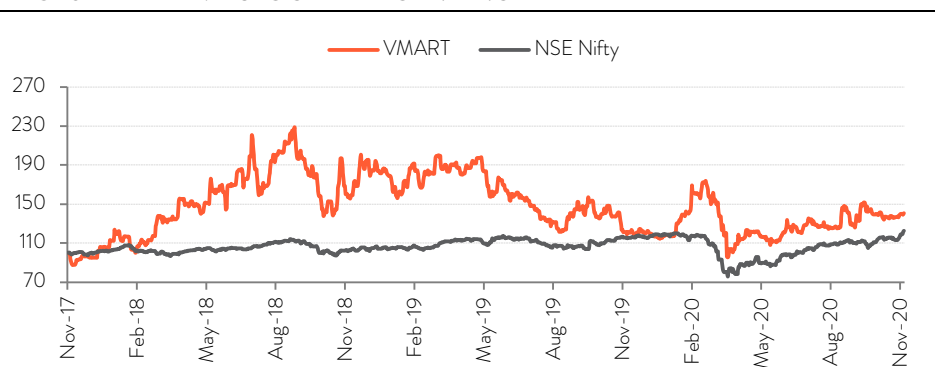
We cut our FY21 earnings estimate by 8% (FY22/FY23 forecasts largely unchanged) to incorporate the tepid H1. On rolling valuations forward, we move to a revised Dec'21 target price of Rs 1,750 (from Rs 1,665) – we continue to value the stock at a 30x one-year forward P/E multiple and maintain SELL.

FIG 9 – REVISED ESTIMATES

(Rs mn)	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenues	13,336	21,158	25,772	13,336	21,158	25,772	0.0	0.0	0.0
EBITDA	1,742	2,996	3,749	1,719	2,946	3,618	1.4	1.7	3.6
PAT	139	895	1,114	151	901	1,120	(7.6)	(0.7)	(0.6)

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, and
- above-expected demand from the company's key states of Uttar Pradesh and Bihar.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	14,337	16,620	13,336	21,158	25,772
EBITDA	1,336	2,149	1,742	2,996	3,749
Depreciation	(276)	(939)	(1,018)	(1,218)	(1,510)
EBIT	1,060	1,210	724	1,777	2,239
Net interest income/(expenses)	(16)	(548)	(558)	(616)	(787)
Other income/(expenses)	44	32	21	42	46
EBT	1,088	694	187	1,203	1,497
Income taxes	(365)	(209)	(48)	(308)	(383)
Extraordinary items	(107)	8	0	0	0
Reported net profit	616	493	139	895	1,114
Adjustments	107	(8)	0	0	0
Adjusted net profit	724	485	139	895	1,114

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	1,483	1,968	1,279	1,913	2,259
Other current liabilities	354	328	256	406	494
Provisions	169	183	133	212	258
Debt funds	219	11	20	25	25
Equity capital	181	182	182	182	182
Reserves & surplus	3,911	4,408	4,532	5,396	6,464
Shareholders' fund	4,093	4,589	4,713	5,578	6,646
Total liabilities and equities	6,318	7,080	6,401	8,133	9,682
Cash and cash eq.	166	50	45	153	60
Inventories	3,290	4,779	3,507	4,637	5,649
Other current assets	443	473	404	640	631
Investments	607	79	700	500	650
Net fixed assets	1,622	1,477	1,524	1,981	2,471
CWIP	40	25	25	25	25
Intangible assets	33	37	37	37	37
Deferred tax assets, net	118	160	160	160	160
Total assets	6,318	7,080	6,401	8,133	9,682

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	893	1,433	1,158	2,113	2,624
Interest expenses	16	548	558	616	787
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(356)	(1,047)	530	(504)	(521)
Other operating cash flows	(26)	(947)	(834)	(1,206)	(1,497)
Cash flow from operations	526	(14)	1,410	1,020	1,393
Capital expenditures	(489)	(546)	(412)	(916)	(1,084)
Change in investments	(266)	528	(621)	200	(150)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(755)	(18)	(1,033)	(716)	(1,234)
Equities issued/Others	28	0	0	0	0
Debt raised/repaid	213	(209)	9	5	0
Interest expenses	(16)	(34)	(18)	(5)	(5)
Dividends paid	(44)	0	(15)	(31)	(46)
Other financing cash flows	18	158	(358)	(166)	(202)
Cash flow from financing	200	(84)	(382)	(196)	(252)
Changes in cash and cash eq.	(30)	(116)	(5)	108	(93)
Closing cash and cash eq.	166	50	45	153	60

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	33.9	27.2	7.7	49.3	61.4
Adjusted EPS	39.9	26.7	7.7	49.3	61.4
Dividend per share	1.7	0.0	0.7	1.4	2.1
Book value per share	225.4	252.8	259.6	307.2	366.1

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	2.5	2.1	2.7	1.7	1.4
EV/EBITDA	26.4	16.4	20.3	11.8	9.3
Adjusted P/E	49.4	73.6	256.4	39.9	32.1
P/BV	8.7	7.8	7.6	6.4	5.4

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	66.5	69.9	74.4	74.4	74.4
Interest burden (PBT/EBIT)	102.7	57.4	25.9	67.7	66.9
EBIT margin (EBIT/Revenue)	7.4	7.3	5.4	8.4	8.7
Asset turnover (Revenue/Avg TA)	242.6	248.1	197.8	291.1	289.3
Leverage (Avg TA/Avg Equity)	1.6	1.5	1.4	1.4	1.5
Adjusted ROAE	19.1	11.2	3.0	17.4	18.2

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	17.3	15.9	(19.8)	58.7	21.8
EBITDA	0.3	60.9	(18.9)	71.9	25.1
Adjusted EPS	(5.8)	(32.9)	(71.3)	542.4	24.5
Profitability & Return ratios (%)					
EBITDA margin	9.3	12.9	13.1	14.2	14.5
EBIT margin	7.4	7.3	5.4	8.4	8.7
Adjusted profit margin	5.0	2.9	1.0	4.2	4.3
Adjusted ROAE	19.1	11.2	3.0	17.4	18.2
ROCE	18.1	19.0	11.5	25.6	27.1
Working capital days (days)					
Receivables	0	0	0	0	0
Inventory	120	131	167	104	108
Payables	44	44	51	32	35
Ratios (x)					
Gross asset turnover	7.1	7.2	5.2	6.5	6.1
Current ratio	1.8	2.1	2.3	2.1	2.1
Net interest coverage ratio	65.7	2.2	1.3	2.9	2.8
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

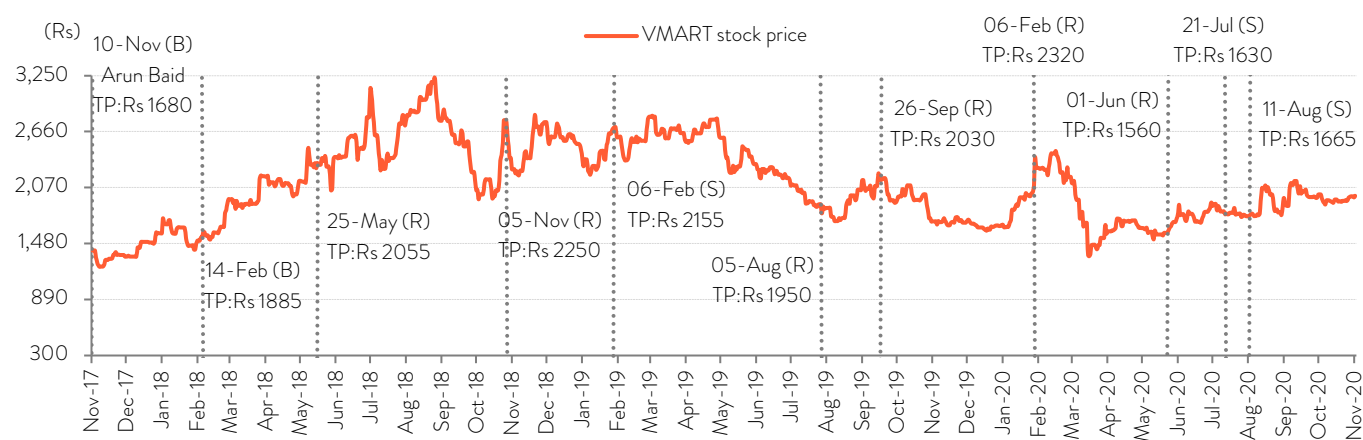
ADD – Expected return from >+5% to +15%

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)

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



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

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