

HOLD

TP: Rs 4,430 | ▲ 5%

V-MART RETAIL

| Retail

| 10 November 2021

Well placed to capture value fashion opportunity; raise to HOLD

- Q2FY22 revenue grew 93% YoY to Rs 3.4bn, marking 107% recovery vs. pre-Covid (Q2FY20) levels on consolidation of 74 ‘Unlimited’ stores
- EBITDA up 82% to Rs 206mn with margin up 250bps to 6.1% vs. Q2FY20
- Upgrade from SELL to HOLD with rollover to a new Sep’22 TP of Rs 4,430 (vs. Rs 2,080)

Ruchitaa Maheshwari

researchreport@bobcaps.in

Revenue recovery led by healthy store opening and Unlimited consolidation:

VMART’s Q2FY22 revenue grew 93% YoY to Rs 3.4bn with a 107% sales recovery over Q2FY20 on consolidation of the 74 acquired ‘Unlimited’ stores from September. A like-to-like comparison that excludes Unlimited still shows 100% recovery from pre-Covid levels. The acquired outlets give VMART access to six new states in South India, an established warehouse, supply chain logistics, skilled front-end operations and a product development team.

Turnaround at Unlimited: Management intends to gradually move to VMART branded stores following the ‘One Nation One Brand’ philosophy, with sharper price point offerings, better quality fabric, improved variety and own private labels. The target is to drive up footfalls/volume growth and store productivity over the next 2-3 years.

Operational highlights: Q2 is traditionally a subdued quarter impacted by end-of-season sales and lower margins. However, given the sales rebound and better supply chain management initiatives, VMART posted an EBITDA margin of 6.1% (+250bps vs. Q2FY20) with EBITDA at Rs 206mn (+82% over Q2FY20). Gross margin expanded 190bps YoY (-48bps vs. Q2FY20) to 30.7%, but employee cost/other expenses increased 39%/99% YoY (+6%/-13% vs. Q2FY20). A rental benefit of Rs 83mn (Rs 167mn benefit in Q2FY21) has been netted off from rent expenses.

Poised for recovery; upgrade to HOLD: We expect VMART to deliver healthy earnings growth on the back of aggressive store expansion, mid-to-high single-digit SSSg, superior store economics, geography expansion and a healthy balance sheet. The recent acquisition of 74 Unlimited fashion stores will enable it to cater to India’s western and southern markets where it has a minimal presence. Given the improving growth prospects, we upgrade from SELL to HOLD with rollover to a new Sep’22 TP of Rs 4,430 (vs. Rs 2,080). We value the stock at 24x one-year forward EV/EBITDA (vs. 30x FY23E P/E earlier), in line with the five-year median.

Key changes

Target	Rating
▲	▲

Ticker/Price	VMART IN/Rs 4,216
Market cap	US\$ 1.1bn
Free float	54%
3M ADV	US\$ 1.8mn
52wk high/low	Rs 4,564/Rs 1,950
Promoter/FPI/DII	46%/22%/31%

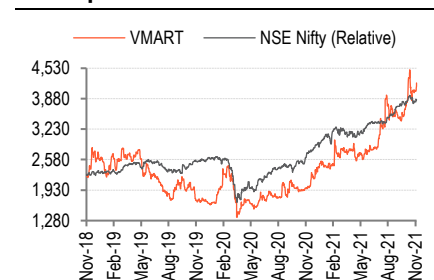
Source: NSE | Price as of 10 Nov 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	10,755	17,820	24,499
EBITDA (Rs mn)	1,192	1,720	3,105
Adj. net profit (Rs mn)	(340)	186	958
Adj. EPS (Rs)	(17.2)	9.5	48.6
Consensus EPS (Rs)	(17.2)	16.5	59.7
Adj. ROAE (%)	(5.3)	2.2	10.8
Adj. P/E (x)	(244.6)	445.8	86.7
EV/EBITDA (x)	69.4	47.1	25.4
Adj. EPS growth (%)	(170.0)	(154.9)	414.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Earnings call highlights

- **Unlimited stores:** VMART purchased the fixed assets and inventory of Unlimited along with the security deposit for 74 stores from Arvind Lifestyle for ~Rs 1.7bn. The stores are located in high streets and malls in South India and have an average size of 10,500sqft vs. 8,000sqft for VMART, with high exposure to tier-1/2 cities.

Unlimited's ASP stands at ~Rs 500 vs. ~Rs 300 for VMART. Gross margin is higher as these are fashion stores without any grocery (kirana) outlet and operate in single-season geographies with no discounts. Management expects growth to be strong going forward with the start of South India operations. October and November sales are progressing well.

A key initiative in VMART's overall merchandise strategy will now be cross-populating select stocks from south to north and vice versa to add more variety and options for consumers of both geographies. Management expects Unlimited to attain steady state operations and turn profitable over 1-2 years.

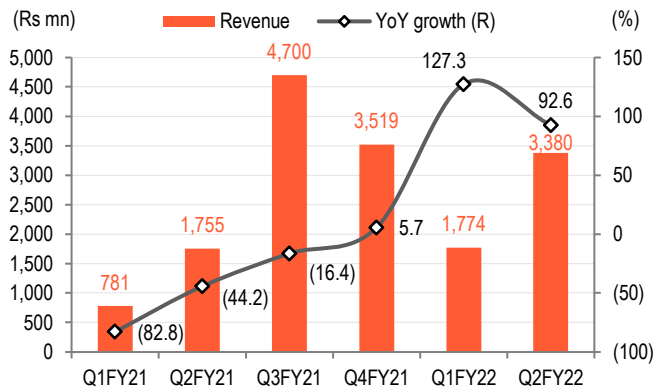
- **Store addition in H1FY22:** The company remains committed to its accelerated store expansion plan with 86 net additions during Q2FY22 (including 74 of Unlimited). It now operates a total of 368 stores across 26 states. Management expects to open over 40 stores in FY22 and to add 20-25% more over FY23/FY24.
- **Digital initiative:** Online business contributes ~1% of revenue which is expected to rise to 5% in 2-3 years. The digital and physical stores have the same merchandise and price point, but the digital platform is more conducive to experiments.
- **SSSg:** VMART's same-store sales growth reached 82% of normal levels in Q2. Management expects 100% recovery during the festive season.
- **Price hike:** Due to an increase in cotton prices, the company has taken an 8% price hike. As per management, further price hikes are not ruled out if cotton prices remain elevated. In addition, the significant rise in yarn prices would pose a further challenge in terms of keeping MRPs at usual competitive levels. If the commodity cycle turns favourable, the company will pass on the benefit to consumers.
- **Strong Q3 expected:** With the early onset of winter and the string of festivals ahead, management is confident of strong sales in Q3.
- **GST hike from Jan'22:** As per management, the proposed GST hike from the current 5% to 12% on apparels and footwear in the sub-Rs 1,000 range from Jan'22 could impact margins and future sales as 88% of the company's inventory and sales fall in this bracket.
- **Inventory:** Inventory increased to Rs 5.6bn (+53% YoY; flat vs. Q2FY20) with a cycle of 153 days. Trade payables rose 150% YoY to Rs 2.2bn (60 days).
- **Strategic change in leadership structure:** VMART has split the roles of Chairman and Managing Director, further improving its corporate governance framework. Aakash Moondhra (Independent Director) has been designated as Chairman while Lalit Agarwal would continue as MD. Aakash is the Global CFO of PayU, a Naspers group company, and remains an independent Director on the board of VMART.

Fig 1 – Quarterly performance

(Rs mn)	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	H1FY22	H1FY21	YoY (%)
Total revenues	3,380	1,755	92.6	1,774	90.5	5,154	2,536	103.3
Total raw material consumed	2,342	1,250	87.3	1,224	91.4	3,566	1,790	99.2
% of sales	69.3	71.2	(193bps)	69.0	31bps	69.2	70.6	(141bps)
Employee expense	416	300	38.6	334	24.4	750	489	53.5
% of sales	12.3	17.1	(479bps)	18.8	(653bps)	14.6	19.3	(472bps)
Other expense	415	208	99.4	235	76.3	650	318	104.4
% of sales	12.3	11.9	42bps	13.3	(99bps)	12.6	12.5	7bps
Total expenditure	3173	1758	80.5	1794	76.9	4967	2598	91.2
% of sales	93.9	100.2	(630bps)	101.1	(721bps)	96.4	102.4	(606bps)
EBITDA	206	(3)	-	(20)	-	187	(62)	-
EBITDA margin (%)	6.1	(0.2)	630bps	(1.1)	721bps	3.6	(2.4)	606bps
Depreciation	272.5	257.4	5.9	254.7	7.0	527.2	520.4	1.3
Other income	40.7	150.1	(72.9)	45.1	(9.8)	85.7	164.1	(47.8)
Interest cost	169.2	146.1	15.8	155.9	8.6	325.1	292.2	11.3
PBT	(195)	(257)	(24.2)	(385)	(49.5)	(580)	(710)	(18.4)
Taxes	(53)	(68)	(21.6)	(98)	(45.8)	(151)	(185)	(18.3)
Effective tax rate (%)	27.3	26.4	91bps	25.4	184bps	26.1	26.0	2bps
APAT	(141)	(189)	(25.2)	(287)	(50.7)	(429)	(525)	(18.4)

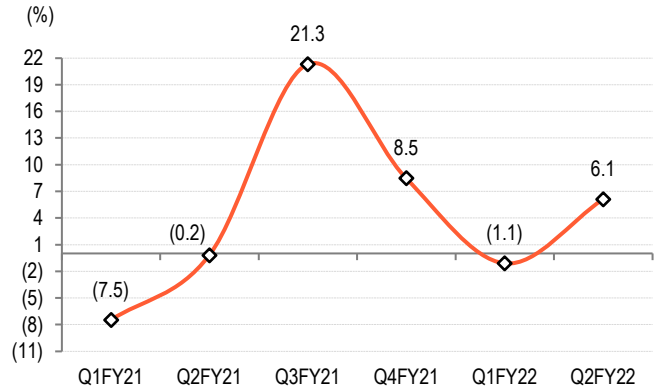
Source: Company, BOBCAPS Research

Fig 2 – Revenue growth



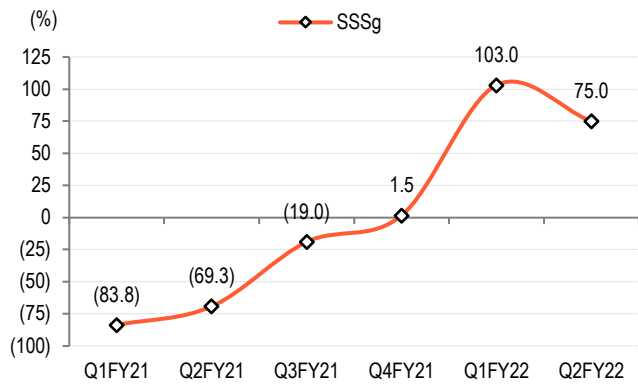
Source: Company, BOBCAPS Research

Fig 3 – EBITDA margin trend



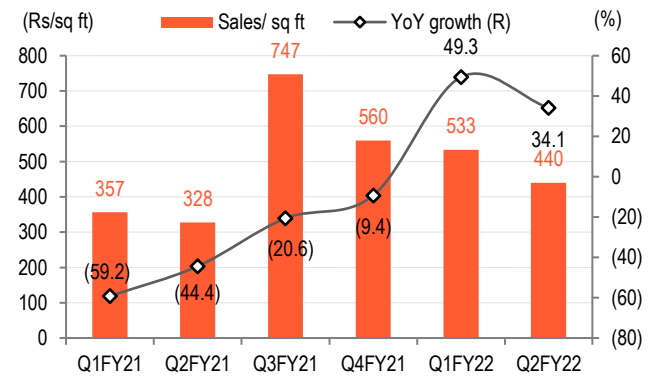
Source: Company, BOBCAPS Research

Fig 4 – SSSg YoY



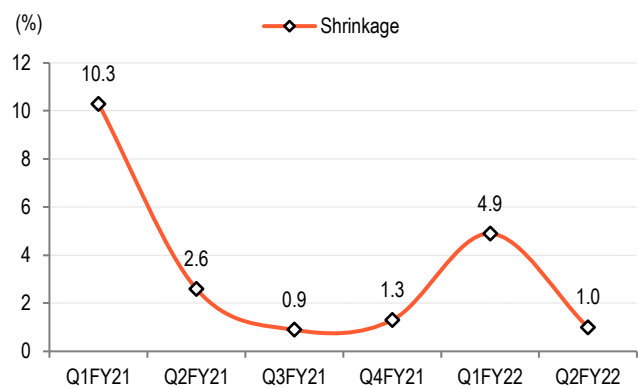
Source: Company, BOBCAPS Research

Fig 5 – Sales per sqft/month



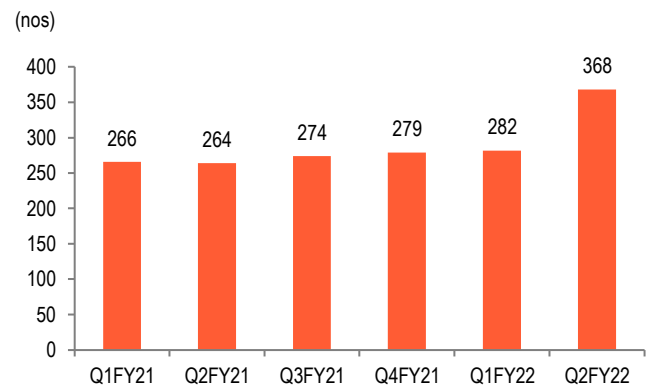
Source: Company, BOBCAPS Research

Fig 6 – Inventory shrinkage



Source: Company, BOBCAPS Research

Fig 7 – Number of stores



Source: Company, BOBCAPS Research

Valuation methodology

VMART has emerged as a steady player, delivering consistently high growth, industry-best margins and stable return ratios. The recent acquisition of 74 'Unlimited' fashion stores will enable it to cater to the western and southern markets of India where it has a minimal presence. We expect the company to deliver healthy earnings growth on the back of aggressive store expansion, mid-to-high single-digit SSSg, superior store economics, geography expansion and a healthy balance sheet.

Given the improving growth prospects, we upgrade our rating from SELL to HOLD with rollover to a new Sep'22 TP of Rs 4,430 (vs. Rs 2,080). We value the stock at 24x one-year forward EV/EBITDA (vs. 30x FY23E P/E earlier), in line with the five-year median.

Fig 8 – Revised estimates

(Rs mn)	New			Old		Change (%)	
	FY22E	FY23E	FY24E	FY22E	FY23E	FY22E	FY23E
Revenue	17,820	24,499	31,187	17,677	25,942	0.8	(5.6)
EBITDA	1,720	3,105	4,155	2,058	3,762	(16.4)	(17.5)
EBITDA margin (%)	9.7	12.7	13.3	11.6	14.5	(190bps)	(180bps)
PAT	186	958	1,464	414	1,363	(55)	(30)

Source: BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- faster turnaround at Unlimited stores,
- significant decline in raw material price,
- drastic shift from unorganised to organised sector,
- faster pace of store addition on the back of a robust economy, and
- above-expected demand from the company's key states of Uttar Pradesh and Bihar.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	16,620	10,755	17,820	24,499	31,187
EBITDA	2,149	1,192	1,720	3,105	4,155
Depreciation	(939)	(1,030)	(1,067)	(1,300)	(1,516)
EBIT	1,210	162	653	1,805	2,638
Net interest inc./(exp.)	(548)	(589)	(598)	(717)	(876)
Other inc./(exp.)	32	53	196	200	205
Exceptional items	0	0	0	0	0
EBT	694	(374)	251	1,288	1,967
Income taxes	(209)	35	(64)	(330)	(504)
Extraordinary items	8	278	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	493	(62)	186	958	1,464
Adjustments	(8)	(278)	0	0	0
Adjusted net profit	485	(340)	186	958	1,464

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	1,968	1,917	3,222	4,430	5,639
Other current liabilities	328	224	439	537	684
Provisions	183	195	321	441	468
Debt funds	11	0	0	0	0
Other liabilities	0	0	0	0	0
Equity capital	182	197	197	197	197
Reserves & surplus	4,408	8,055	8,225	9,150	10,614
Shareholders' fund	4,589	8,252	8,422	9,347	10,811
Total liab. and equities	7,080	10,587	12,404	14,755	17,601
Cash and cash eq.	50	275	95	144	326
Accounts receivables	0	0	0	0	0
Inventories	4,779	4,283	5,614	7,048	8,971
Other current assets	473	573	586	805	1,025
Investments	79	3,895	3,951	4,051	4,151
Net fixed assets	1,477	1,260	1,856	2,405	2,826
CWIP	25	22	22	22	22
Intangible assets	37	28	28	28	28
Deferred tax assets, net	160	253	253	253	253
Other assets	0	0	0	0	0
Total assets	7,080	10,587	12,404	14,755	17,602

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	(14)	865	956	1,192	1,218
Capital expenditures	(546)	(406)	(1,004)	(1,072)	(1,060)
Change in investments	528	(3,816)	(56)	(100)	(100)
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(18)	(4,222)	(1,060)	(1,172)	(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	(17)	(33)	0
Other financing cash flows	158	(119)	(49)	14	75
Cash flow from financing	(84)	3,582	(65)	(19)	75
Chg in cash & cash eq.	(116)	225	(169)	1	133
Closing cash & cash eq.	50	275	105	96	276

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	25.0	(3.1)	9.5	48.6	74.3
Adjusted EPS	24.6	(17.2)	9.5	48.6	74.3
Dividend per share	0.0	0.0	0.7	1.4	0.0
Book value per share	232.9	418.8	427.4	474.3	548.6

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	5.0	7.7	4.5	3.2	2.5
EV/EBITDA	38.4	69.4	47.1	25.4	19.0
Adjusted P/E	171.3	(244.6)	445.8	86.7	56.8
P/BV	18.1	10.1	9.9	8.9	7.7

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	69.9	90.8	74.4	74.4	74.4
Interest burden (PBT/EBIT)	57.4	(230.8)	38.4	71.4	74.6
EBIT margin (EBIT/Revenue)	7.3	1.5	3.7	7.4	8.5
Asset turnover (Rev./Avg TA)	248.1	121.7	155.0	180.4	192.8
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.4	1.5	1.6
Adjusted ROAE	11.2	(5.3)	2.2	10.8	14.5

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	15.9	(35.3)	65.7	37.5	27.3
EBITDA	60.9	(44.5)	44.3	80.6	33.8
Adjusted EPS	(32.9)	(170.0)	(154.9)	414.2	52.7
Profitability & Return ratios (%)					
EBITDA margin	12.9	11.1	9.7	12.7	13.3
EBIT margin	7.3	1.5	3.7	7.4	8.5
Adjusted profit margin	2.9	(3.2)	1.0	3.9	4.7
Adjusted ROAE	11.2	(5.3)	2.2	10.8	14.5
ROCE	19.0	2.5	5.8	15.1	19.5
Working capital days (days)					
Receivables	0	0	0	0	0
Inventory	131	229	147	140	139
Payables	44	74	58	65	68
Ratios (x)					
Gross asset turnover	7.2	3.9	4.8	5.2	5.4
Current ratio	2.1	2.2	1.6	1.5	1.5
Net interest coverage ratio	2.2	0.3	1.1	2.5	3.0
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

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

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

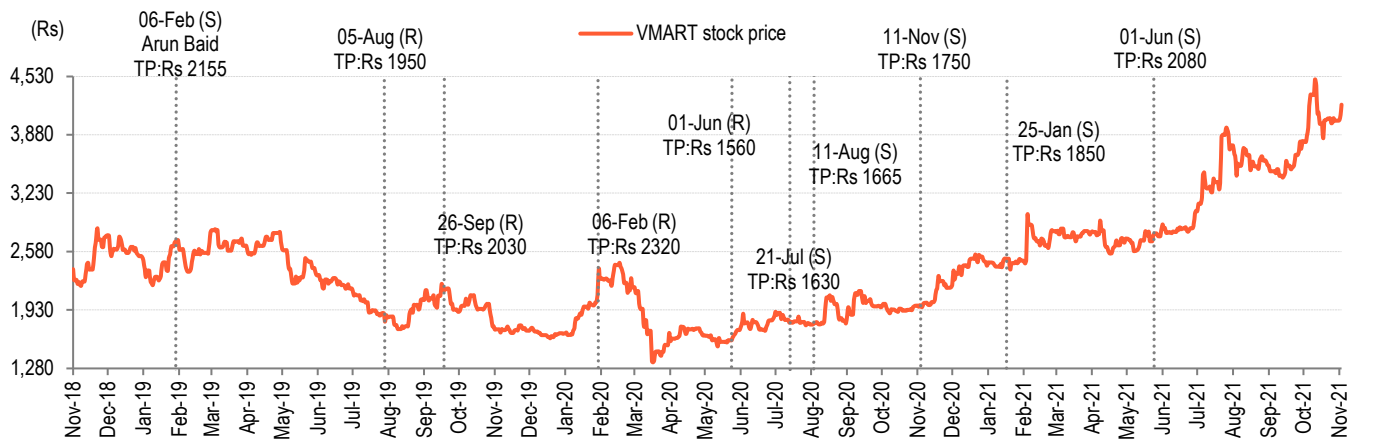
HOLD – Expected return from -6% to +15%

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

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