

**BUY**

TP: Rs 4,430 | ▲ 24%

**V-MART RETAIL**

| Retail

| 11 February 2022

**Well placed to capture value fashion opportunity; raise to BUY**

- Q3 revenue growth at 47% YoY to Rs 6.9bn, with 83% coming from VMART and 17% from Unlimited stores
- EBITDA up 30% YoY to Rs 1.4bn but margin declined 255bps to 19.6% owing to higher RM and no rental concessions
- We roll valuations to FY24 and reset to 21x EV/EBITDA (vs. 24x), leaving our TP intact at Rs 4,430; upgrade from HOLD to BUY post correction

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**Revenue at pre-Covid levels on healthy store openings, Unlimited consolidation:**

Q3 is traditionally a strong quarter backed by festive demand, the marriage season and onset of winter. This coupled with successful integration of 'Unlimited' business in South and West India drove VMART's Q3FY22 revenue up 47% YoY to Rs 6.9bn. The acquisition also contributed positively to overall profitable growth. A like-to-like comparison that excludes Unlimited indicates 22% YoY revenue growth.

**Turnaround at Unlimited:** Management intends to gradually move Unlimited outlets to VMART branded stores following its 'One Nation One Brand' philosophy, with sharper price points, better quality fabric, improved variety and own private labels. The target is to drive up footfalls, volume growth and store productivity in 2-3 years. Management expects Unlimited to turn profitable over 1-2 years.

**Higher RM and rental cost affects margin:** Gross margin contracted 30bps YoY to 37% in Q3 with employee cost/other expenses up 65%/86% YoY. VMART posted a 255bps YoY decline in EBITDA margin to 19.6% owing to higher raw material cost and a lack of rental concessions. EBITDA increased 30% YoY to Rs 1.4bn.

**Poised for recovery...:** We like VMART as a structural long-term story to play the shift from unorganised to modern retail. 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. Recent acquisition of the Unlimited value retail chain and aggressive store additions in core markets should fuel steady growth, well supported by a lean balance sheet.

**...raise to BUY:** Given the vast growth opportunity in the value fashion segment and VMART's strong execution capability, we believe the company is well positioned to compete with regional and national players. Post Q3, we raise FY22/FY23 EPS estimates by 98%/3% and also introduce FY24 numbers. Our TP remains at Rs 4,430 as we roll valuations over to FY24 while resetting to 21x EV/EBITDA multiple (vs. 24x earlier on FY23E) compared to its five-year median of 24x. Following the recent 23% correction in stock price from its 52-week high, we upgrade to BUY from HOLD.

**Key changes**

Target	Rating
◀ ▶	▲

Ticker/Price	VMART IN/Rs 3,583
Market cap	US\$ 937.6mn
Free float	54%
3M ADV	US\$ 0.9mn
52wk high/low	Rs 4,849/Rs 2,493
Promoter/FPI/DII	46%/21%/32%

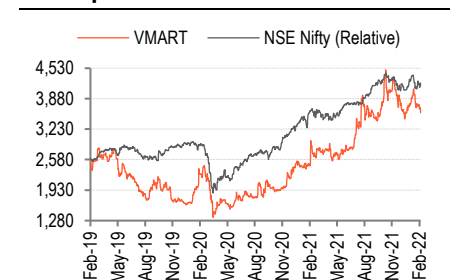
Source: NSE | Price as of 11 Feb 2022

**Key financials**

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	10,755	17,820	24,499
EBITDA (Rs mn)	1,192	2,042	3,128
Adj. net profit (Rs mn)	(340)	369	988
Adj. EPS (Rs)	(17.2)	18.7	50.1
Consensus EPS (Rs)	(17.2)	19.0	59.2
Adj. ROAE (%)	(5.3)	4.4	10.9
Adj. P/E (x)	(207.9)	191.3	71.5
EV/EBITDA (x)	59.0	33.5	21.3
Adj. EPS growth (%)	(170.0)	(208.7)	167.7

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



## Earnings call highlights

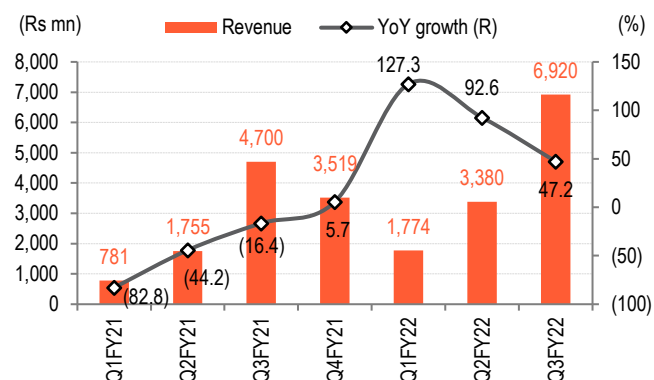
- **'Unlimited' stores:** As per management, a key initiative in VMART's merchandise strategy will be to cross-populate select inventory from southern to northern store locations and vice versa to add more variety and options for consumers in both geographies. Management expects the Unlimited chain to attain steady-state operations and turn profitable over 1-2 years. The company plans to open 5-10 new Unlimited stores in FY23 in South India earning 5-6% EBITDA margins.
- **Rental cost:** VMART's rental cost stands at Rs 35-37/sq ft vs. Rs 60-65/sq ft for Unlimited. Management is working towards reducing the operating cost and increasing throughput at Unlimited by 20-30%, thereby mitigating the cost pressure.
- **Store addition in Q3:** The company added 9 new stores and closed 3 during the quarter, taking the overall store count to 374 as of 31 Dec 2021. In Q4, 10-12 stores will be opened and 6-7 will be closed. Management expects to open over 40 stores in FY22 and to add 20-25% more over FY23/FY24.
- **Digital initiative:** Online business contributes ~1.5% of revenue which management expects will rise to 5% in 2-3 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. The digital and physical stores have the same merchandise and price points, but the digital platform is more conducive to experiments.
- **Same-store sales:** VMART's SSSg stood at 36% in FY22 YTD compared to a 50% decline in FY21 YTD.
- **Price hike:** Due to an increase in cotton prices, the company has taken an 8-10% price hike. As per management, further hikes are not ruled out if cotton prices remain elevated, which could impact volumes. 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, VMART will pass on the benefit to consumers.
- **Guidance:** Management has guided for a muted Q4FY22 but is confident of strong growth for the next 3-4 years.
- **Withdrawal of GST hike:** As per management, the proposed GST hike from the current 5% to 12% on apparel and footwear in the sub-Rs 1,000 range from Jan'22 has been withdrawn by the government.
- **Other operational highlights:** (a) Average selling price for the fashion segment increased by 13% YoY to Rs 503 in Q3FY22 and average bill size grew 11.5% YoY to Rs 292. (b) Shrinkage stood at 1.9% vs. 0.9% in Q3FY21. (c) Inventory days rose to 111 vs. 106 the previous year. (d) Conversion rate fell to 60.6% vs. 62.1% in Q3FY21.

**Fig 1 – Quarterly performance**

(Rs mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	9MFY22	9MFY21	YoY (%)
<b>Total revenues</b>	<b>6,920</b>	<b>4,700</b>	<b>47.2</b>	<b>3,380</b>	<b>104.8</b>	<b>12,074</b>	<b>7,236</b>	<b>66.9</b>
Total raw material consumed	4,360	2,975	46.5	2,342	86.1	7,926	4,766	66.3
% of sales	63.0	63.3	(30bps)	69.3	(631bps)	65.6	65.9	(22bps)
Employee expense	535	325	64.9	416	28.6	1,285	813	58.0
% of sales	7.7	6.9	83bps	12.3	(458bps)	10.6	11.2	(60bps)
Other expense	672	362	85.7	415	62.1	1,323	680	94.4
% of sales	9.7	7.7	201bps	12.3	(256bps)	11.0	9.4	155bps
Total expenditure	5,567	3,662	52.0	3,173	75.4	1,0534	6,259	68.3
% of sales	80.4	77.9	254bps	93.9	(1,344bps)	87.2	86.5	74bps
<b>EBITDA</b>	<b>1,353</b>	<b>1,038</b>	<b>30.3</b>	<b>206</b>	<b>555</b>	<b>1540</b>	<b>977</b>	<b>57.7</b>
EBITDA margin (%)	19.6	22.1	(254bps)	6.1	1,344bps	12.8	13.5	(74bps)
Depreciation	403.8	253.8	59.1	272.5	48.2	931.0	774.2	20.3
Other income	26.0	2.9	802.8	40.7	(36.1)	111.7	167.0	(33.1)
Interest cost	211.6	150.3	40.8	169.2	25.1	536.7	443.1	21.1
PBT	764	637	19.8	(195)	(492.6)	184	(74)	(349.6)
Taxes	193	158	21.5	(53)	(462.8)	42	(26)	(256.9)
Effective tax rate (%)	25.2	24.9	34bps	27.3	(207bps)	22.6	35.9	(1333bps)
<b>APAT</b>	<b>571</b>	<b>479</b>	<b>19.3</b>	<b>(141)</b>	<b>(503.8)</b>	<b>143</b>	<b>(47)</b>	<b>(401.5)</b>

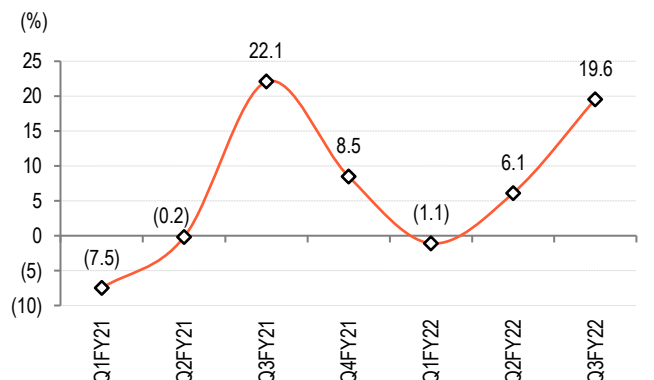
Source: Company, BOBCAPS Research

**Fig 2 – Revenue growth**



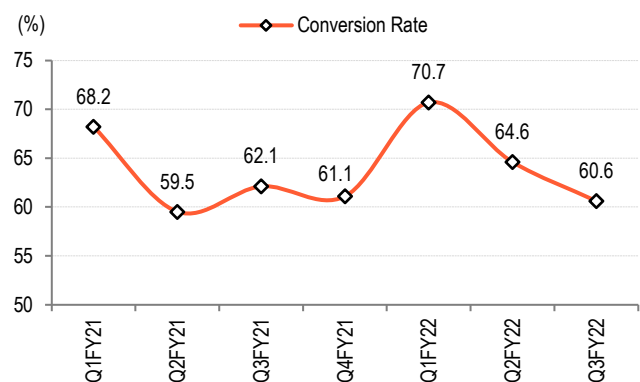
Source: Company, BOBCAPS Research

**Fig 3 – EBITDA margin trend**



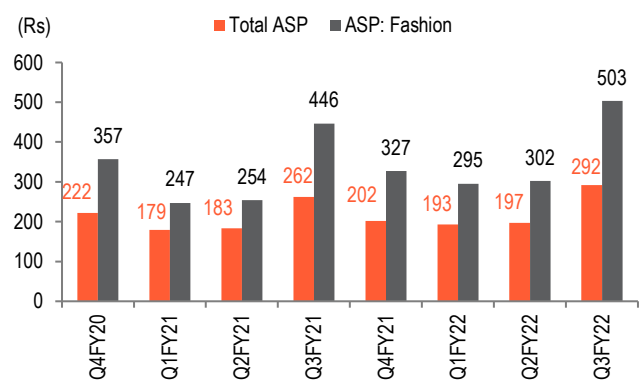
Source: Company, BOBCAPS Research

**Fig 4 – Conversion rate**



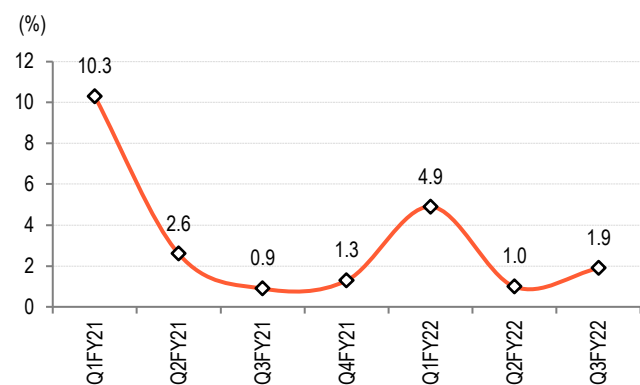
Source: Company, BOBCAPS Research

**Fig 5 – Total ASP and Fashion ASP**



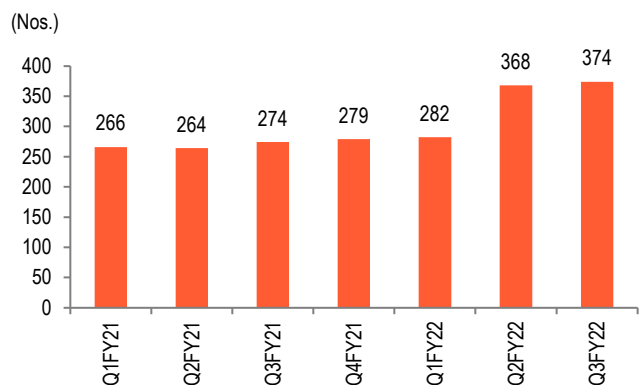
Source: Company, BOBCAPS Research

**Fig 6 – Inventory shrinkage**



Source: Company, BOBCAPS Research

**Fig 7 – Number of stores**



Source: Company, BOBCAPS Research

## Valuation methodology

We like VMART as a structural long-term story to play the shift from unorganised to modern retail. 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. Recent acquisition of the Unlimited value retail chain and aggressive store additions in core markets should fuel steady growth, which can be well supported by a lean balance sheet

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**Fig 8 – Revised estimates**

(Rs mn)	New			Old		Change (%)	
	FY22E	FY23E	FY24E	FY22E	FY23E	FY22E	FY23E
Revenue	17,820	24,499	31,188	17,820	24,499	-	-
EBITDA	2,042	3,128	4,177	1,720	3,105	18.7	0.7
EBITDA margin (%)	11.5	12.8	13.4	9.7	12.7	180bps	10bps
PAT	369	988	1,496	186	958	98.4	3.1

Source: BOBCAPS Research

## 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 on the back of 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	FY22E	FY23E	FY24E
<b>Total revenue</b>	<b>16,620</b>	<b>10,755</b>	<b>17,820</b>	<b>24,499</b>	<b>31,188</b>
EBITDA	2,149	1,192	2,042	3,128	4,177
Depreciation	(939)	(1,030)	(1,067)	(1,287)	(1,500)
EBIT	1,210	162	975	1,841	2,676
Net interest inc./(exp.)	(548)	(589)	(596)	(713)	(871)
Other inc./(exp.)	32	53	118	200	205
Exceptional items	0	0	0	0	0
EBT	694	(374)	496	1,328	2,011
Income taxes	(209)	35	(127)	(340)	(515)
Extraordinary items	8	278	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>493</b>	<b>(62)</b>	<b>369</b>	<b>988</b>	<b>1,496</b>
Adjustments	(8)	(278)	0	0	0
<b>Adjusted net profit</b>	<b>485</b>	<b>(340)</b>	<b>369</b>	<b>988</b>	<b>1,496</b>

### 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	8,408	9,363	10,859
Shareholders' fund	4,589	8,252	8,605	9,560	11,056
<b>Total liab. and equities</b>	<b>7,080</b>	<b>10,587</b>	<b>12,587</b>	<b>14,968</b>	<b>17,847</b>
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	8,972
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	2,352	2,779
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
<b>Total assets</b>	<b>7,080</b>	<b>10,587</b>	<b>12,404</b>	<b>14,702</b>	<b>17,555</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Cash flow from operations</b>	<b>(14)</b>	<b>865</b>	<b>1,160</b>	<b>1,226</b>	<b>1,252</b>
Capital expenditures	(546)	(406)	(1,004)	(1,016)	(1,060)
Change in investments	528	(3,816)	(56)	(100)	(100)
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(18)</b>	<b>(4,222)</b>	<b>(1,060)</b>	<b>(1,116)</b>	<b>(1,160)</b>
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)	(51)	20	79
<b>Cash flow from financing</b>	<b>(84)</b>	<b>3,582</b>	<b>(67)</b>	<b>(13)</b>	<b>79</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(116)</b>	<b>225</b>	<b>32</b>	<b>98</b>	<b>171</b>
<b>Closing cash &amp; cash eq.</b>	<b>50</b>	<b>275</b>	<b>307</b>	<b>193</b>	<b>315</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	25.0	(3.1)	18.7	50.1	75.9
Adjusted EPS	24.6	(17.2)	18.7	50.1	75.9
Dividend per share	0.0	0.0	0.7	1.4	0.0
Book value per share	232.9	418.8	436.7	485.1	561.0

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	4.2	6.5	3.8	2.7	2.1
EV/EBITDA	32.6	59.0	33.5	21.3	15.9
Adjusted P/E	145.5	(207.9)	191.3	71.5	47.2
P/BV	15.4	8.6	8.2	7.4	6.4

### 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)	50.9	72.1	75.1
EBIT margin (EBIT/Revenue)	7.3	1.5	5.5	7.5	8.6
Asset turnover (Rev./Avg TA)	248.1	121.7	155.0	180.8	193.4
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.4	1.5	1.6
Adjusted ROAE	11.2	(5.3)	4.4	10.9	14.5

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	15.9	(35.3)	65.7	37.5	27.3
EBITDA	60.9	(44.5)	71.3	53.2	33.5
Adjusted EPS	(32.9)	(170.0)	(208.7)	167.7	51.4
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	12.9	11.1	11.5	12.8	13.4
EBIT margin	7.3	1.5	5.5	7.5	8.6
Adjusted profit margin	2.9	(3.2)	2.1	4.0	4.8
Adjusted ROAE	11.2	(5.3)	4.4	10.9	14.5
ROCE	19.0	2.5	8.6	15.1	19.3
<b>Working capital days (days)</b>					
Receivables	0	0	0	0	0
Inventory	131	229	150	140	139
Payables	44	74	59	65	68
<b>Ratios (x)</b>					
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	1.6	2.6	3.1
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%

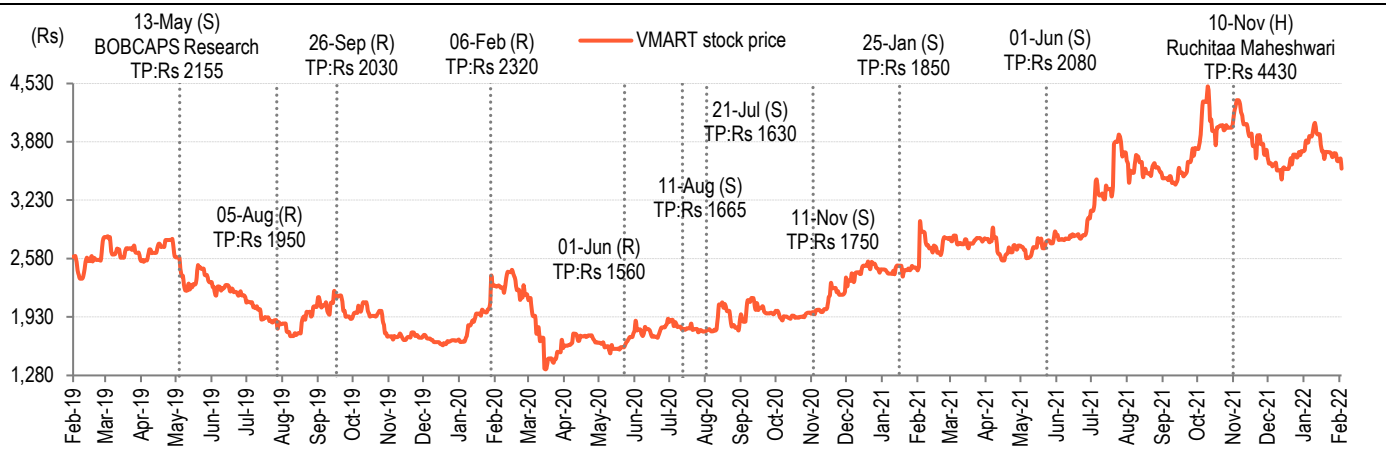
**HOLD** – Expected return from -6% to +15%

**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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