

BUY

TP: Rs 3,950 | ▲ 20%

V-MART RETAIL

| Retail

| 26 May 2022

Festive demand drives growth

- Q4 revenue grew 30% YoY to Rs 4.6bn, with 84% coming from VMART and 16% from Unlimited stores
- EBITDA margin improved 250bps to 11% owing to higher gross margin contribution from southern stores, lower discounts and cost control
- We revise our TP to Rs 3,950 (vs. Rs 4,430) as we cut FY23/FY24 EBITDA by 16%/12%; retain BUY

Ruchitaa Maheshwari

researchreport@bobcaps.in

Growth led by good festive demand: During Q4FY22, VMART's revenue grew 30% YoY to Rs 4.6bn led by the wedding and festive season ('Holi'), lifting of restrictions on social events and consumers' need for a fresh wardrobe. The acquisition of Unlimited also contributed to profitable growth. A like-to-like comparison (ex-Unlimited) indicates 9.5% YoY revenue growth. Average bill size/ASP increased by 21%/26% YoY.

Margins expand but likely to remain range-bound: Footfalls fell in January due to Omicron-related restrictions. However, fresher inventory, higher gross margin contribution from South India stores, lower discounts and cost control aided a healthy 69% YoY increase in EBITDA to Rs 0.5bn with 250bps YoY margin expansion to 11% in Q4. Gross margin expanded by 515bps YoY to 35% on the back of lower discounting, price hikes and merchandise changes. Due to the sharp inflation in cotton-yarn, VMART raised its prices by ~17% cumulatively in FY22. Management indicated that such price hikes may impact volumes.

Store addition targets on track: In Q4FY22, the company opened 14 stores and closed 8, taking the total count to 380. It plans to add ~60 stores in total in FY23, which will include some openings in South India as well.

Near-term headwinds but solid long-term prospects: We like VMART as a structural long-term story given the shift from unorganised to modern retail. However, in light of the rising competition from national conglomerates in tier-2/3 cities, muted near-term demand outlook in smaller towns as overall inflation rises, and the dampening impact of VMART's price hikes on volumes, we cut FY23/FY24 EBITDA estimates by 16%/12%, respectively. Due to operating leverage and higher depreciation cost, our PAT cut is steeper at 58%/39%. We continue to value VMART at 21x FY24E EV/EBITDA, a 12.5% discount to its 5Y median of 24x, which translates to a revised TP of Rs 3,950 (vs. Rs 4,430). Retain BUY.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	VMART IN/Rs 3,280
Market cap	US\$ 833.1mn
Free float	54%
3M ADV	US\$ 1.3mn
52wk high/low	Rs 4,849/Rs 2,653
Promoter/FPI/DII	46%/20%/34%

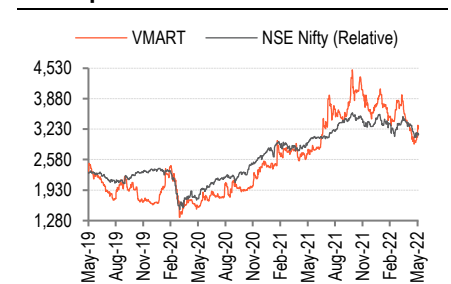
Source: NSE | Price as of 26 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	16,662	20,438	26,764
EBITDA (Rs mn)	2,043	2,629	3,696
Adj. net profit (Rs mn)	116	415	919
Adj. EPS (Rs)	5.9	21.1	46.6
Consensus EPS (Rs)	5.9	59.2	90.2
Adj. ROAE (%)	1.4	4.8	9.8
Adj. P/E (x)	555.2	155.6	70.4
EV/EBITDA (x)	30.6	23.5	17.0
Adj. EPS growth (%)	(134.3)	256.8	121.2

Source: Company, Bloomberg, BOBCAPS Research | P - Provisional

Stock performance



Source: NSE



Earnings call highlights

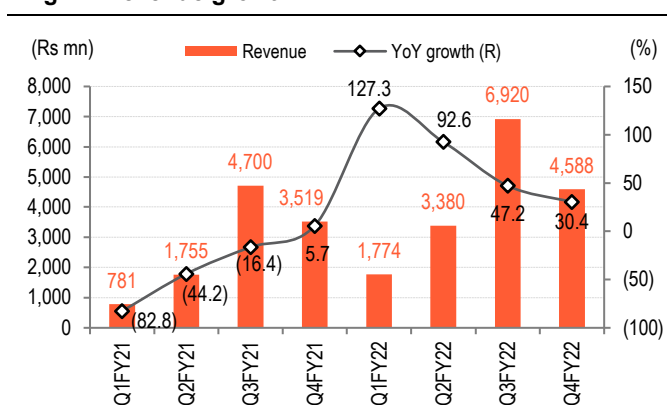
- **Unlimited business integration on track:** Unlimited was merged into VMART's books in Sep'21 and contributed ~16% to its sales in Q4FY22 (~13% in FY22 YTD). Its performance has been in line with company expectations. Unlimited's focus will remain on understanding the consumer, analysing purchasing patterns, driving brand strength and attracting the youth. Management indicated that Unlimited's gross margins are 8% higher and costs are ~12% higher (largely due to rentals) than VMART. Thus, EBITDA is 4-5% less than VMART's core profitability.
- **Same-store sales:** VMART's SSSg stood at 23% in FY22 compared to a 40% decline in FY21 (base FY19).
- **Price hikes:** Due to an increase in cotton prices, the company has taken a ~17% cumulative price hike in FY22. As per management, further hikes cannot be 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.
- **Rental concession:** VMART received Rs 130mn-140mn of rental concession during FY22, thereby mitigating the cost pressure.
- **Store addition:** The company added 14 new stores and closed 8 during Q4, taking the overall store count to 380. Of these, VMART stores stood at 307 and Unlimited at 73.
- **Capex:** VMART incurred capex of ~Rs 1.5bn in FY22, of which ~Rs 0.6bn was spent on 73 existing stores, ~Rs 0.45bn on 39 store additions, ~Rs 0.12bn on store refurbishment, and the balance on land and a new warehouse. For FY23, the company plans to spend ~Rs 2bn, of which Rs 0.6bn will be for ~60 new stores, ~Rs 0.8bn for a new warehouse, ~Rs 0.2bn for store refurbishment and ~Rs 0.1bn for the digital space.
- **Digital initiatives:** Online business contributes ~1.5% of revenue which management expects will rise to 5% in the next three 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.
- **Other operational highlights:** (a) Average selling price for the fashion segment increased by 26% YoY to Rs 411 in Q4FY22 and average bill size grew 21% YoY to Rs 244. (b) Shrinkage stood at -0.6% vs. +1.3% in Q4FY21. (c) Inventory days rose to 121 vs. 119 the previous year. (d) Conversion rate increased to 63% vs. 61% in Q4FY21. (e) Monthly sales/sqft climbed by 5% to Rs 559 in FY22.

Fig 1 – Quarterly performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Total revenues	4,588	3,519	30.4	6,920	(33.7)	16,662	10,755	54.9
Total raw material consumed	2,985	2,470	20.9	4,360	(31.5)	10,911	7,236	50.8
% of sales	65.1	70.2	(513bps)	63.0	207bps	65.5	67.3	(179bps)
Employee expense	511	355	43.7	535	(4.6)	1,796	1,169	53.7
% of sales	11.1	10.1	103bps	7.7	340bps	10.8	10.9	(9bps)
Other expense	589	395	49.0	672	(12.5)	1,911	2,102	(9.1)
% of sales	12.8	11.2	160bps	9.7	311bps	11.5	19.5	(808bps)
Total expenditure	4,085	3,220	26.8	5,567	(26.6)	14,618	10,507	39.1
% of sales	89.0	91.5	(249bps)	80.4	858bps	87.7	97.7	(996bps)
EBITDA	503	298	68.7	1353	(63)	2043	248	724.4
EBITDA margin (%)	11.0	8.5	249bps	19.6	(858bps)	12.3	2.3	996bps
Depreciation	376.0	255.6	47.1	403.8	(6.9)	1,307.0	366.0	257.1
Other income	27.9	27.8	0.3	26.0	7.4	139.6	53.0	163.3
Interest cost	235.2	146.4	60.7	211.6	11.2	771.9	23.0	3256.2
PBT	(80)	(76)	5.6	764	(110.5)	104	(88)	(218.0)
Taxes	(54)	(8)	561.3	193	(128.0)	(12)	(35)	(64.1)
Effective tax rate (%)	67.4	10.8	5,661bps	25.2	4,215bps	(12.0)	39.3	(5,125bps)
APAT	(26)	(68)	(61.4)	571	(104.6)	116	(54)	(317.6)
Add/(Less) Extraordinary items	0	53	-	0	-	0	278	-
RPAT	(26)	(15)	77.2	571	(104.6)	116	224	(48.1)

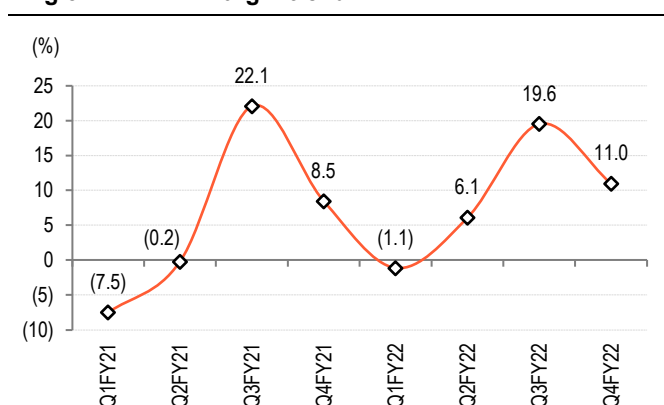
Source: Company, BOBCAPS Research

Fig 2 – Revenue growth



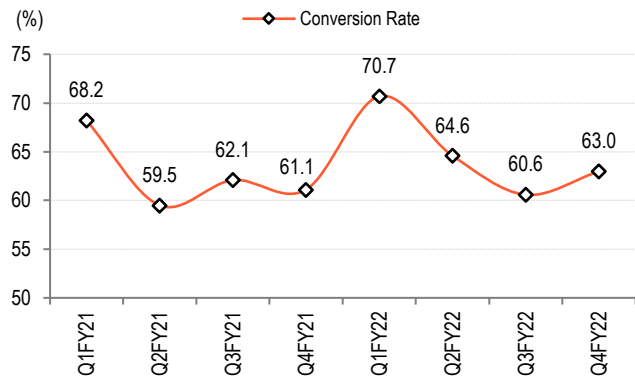
Source: Company, BOBCAPS Research

Fig 3 – EBITDA margin trend



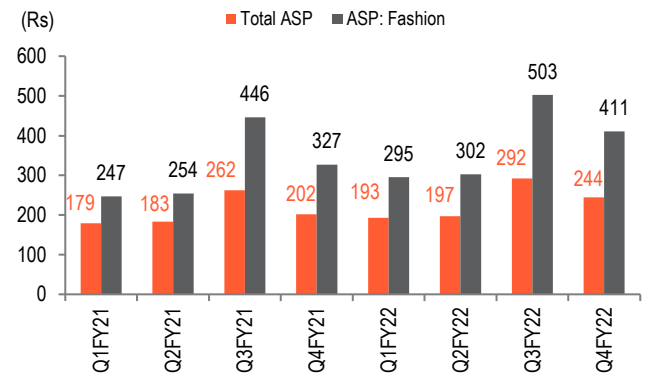
Source: Company, BOBCAPS Research

Fig 4 – Conversion rate



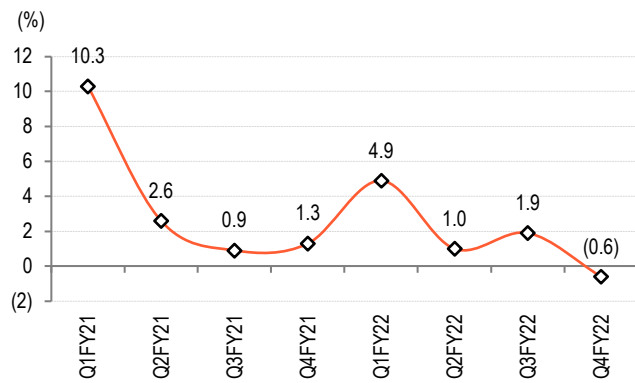
Source: Company, BOBCAPS Research

Fig 5 – Total ASP and Fashion ASP



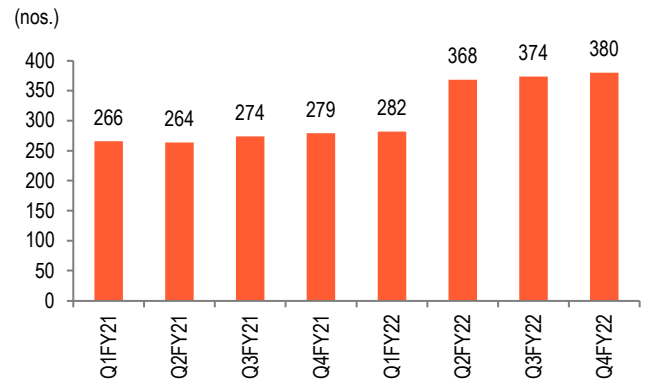
Source: Company, BOBCAPS Research

Fig 6 – Inventory shrinkage



Source: Company, BOBCAPS Research

Fig 7 – Number of stores



Source: Company, BOBCAPS Research

Valuation methodology

We like VMART as a structural long-term growth story given the shift from unorganised to modern retail. However, the company is facing headwinds from rising competition by national conglomerates in tier-2/3 cities. In addition, we expect subdued near-term demand in smaller towns as the rising inflation weakens consumer sentiment and price hikes by VMART take a toll on volumes. We thus cut FY23/FY24 EBITDA estimates by 16%/12%, respectively. Due to operating leverage and higher depreciation cost, our PAT cut is steeper at 58%/39%. We continue to value the stock at 21x FY24E EV/EBITDA, a 12.5% discount to its 5Y median of 24x – this translates to a revised TP of Rs 3,950 (vs. Rs 4,430). Retain BUY.

Fig 8 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net Sales	20,438	26,764	24,499	31,188	(16.6)	(14.2)
EBITDA	2,629	3,696	3,128	4,177	(15.9)	(11.5)
EBITDA (%)	12.9	13.8	12.8	13.4	10bps	40bps
PAT	415	919	988	1,496	(58.0)	(38.6)

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	FY22P	FY23E	FY24E
Total revenue	16,620	10,755	16,662	20,438	26,764
EBITDA	2,149	1,192	2,043	2,629	3,696
Depreciation	(939)	(1,030)	(1,307)	(1,422)	(1,651)
EBIT	1,210	162	736	1,208	2,045
Net interest inc./(exp.)	(548)	(589)	(772)	(715)	(880)
Other inc./(exp.)	32	53	140	65	70
Exceptional items	0	0	0	0	0
EBT	694	(374)	104	558	1,235
Income taxes	(209)	35	12	(143)	(316)
Extraordinary items	8	278	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	493	(62)	116	415	919
Adjustments	(8)	(278)	0	0	0
Adjusted net profit	485	(340)	116	415	919

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Accounts payables	1,968	1,917	2,906	3,080	4,033
Other current liabilities	328	224	421	448	587
Provisions	183	195	150	204	268
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	8,299	8,690	9,609
Shareholders' fund	4,589	8,252	8,496	8,888	9,806
Total liab. and equities	7,080	10,587	11,973	12,620	14,693
Cash and cash eq.	50	275	351	746	248
Accounts receivables	0	0	0	0	0
Inventories	4,779	4,283	6,682	6,439	8,213
Other current assets	473	573	1,154	1,120	1,467
Investments	79	3,895	1,248	1,348	1,448
Net fixed assets	1,477	1,260	2,060	2,488	2,840
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	12,620	14,693

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Cash flow from operations	(14)	865	(819)	1,529	536
Capital expenditures	(546)	(406)	(2,149)	(1,072)	(1,116)
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	(1,172)	(1,216)
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)	(24)	0
Other financing cash flows	158	(119)	(51)	12	69
Cash flow from financing	(84)	3,582	(68)	(12)	69
Chg in cash & cash eq.	(116)	225	(523)	346	(611)
Closing cash & cash eq.	50	275	(249)	696	135

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22P	FY23E	FY24E
Reported EPS	25.0	(3.1)	5.9	21.1	46.6
Adjusted EPS	24.6	(17.2)	5.9	21.1	46.6
Dividend per share	0.0	0.0	0.8	1.0	0.0
Book value per share	232.9	418.8	431.1	451.0	497.6

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22P	FY23E	FY24E
EV/Sales	3.9	6.0	3.8	3.0	2.3
EV/EBITDA	29.8	53.9	30.6	23.5	17.0
Adjusted P/E	133.2	(190.3)	555.2	155.6	70.4
P/BV	14.1	7.8	7.6	7.3	6.6

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22P	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	46.2	60.4
EBIT margin (EBIT/Revenue)	7.3	1.5	4.4	5.9	7.6
Asset turnover (Rev./Avg TA)	248.1	121.7	147.7	166.2	196.0
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.3	1.4	1.5
Adjusted ROAE	11.2	(5.3)	1.4	4.8	9.8

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22P	FY23E	FY24E
YoY growth (%)					
Revenue	15.9	(35.3)	54.9	22.7	31.0
EBITDA	60.9	(44.5)	71.4	28.7	40.6
Adjusted EPS	(32.9)	(170.0)	(134.3)	256.8	121.2
Profitability & Return ratios (%)					
EBITDA margin	12.9	11.1	12.3	12.9	13.8
EBIT margin	7.3	1.5	4.4	5.9	7.6
Adjusted profit margin	2.9	(3.2)	0.7	2.0	3.4
Adjusted ROAE	11.2	(5.3)	1.4	4.8	9.8
ROCE	19.0	2.5	8.8	10.3	16.3
Working capital days (days)					
Receivables	0	0	0	0	0
Inventory	131	229	183	178	152
Payables	44	74	60	61	56
Ratios (x)					
Gross asset turnover	7.2	3.9	3.9	3.5	3.9
Current ratio	2.1	2.2	2.4	2.2	2.0
Net interest coverage ratio	2.2	0.3	1.0	1.7	2.3
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%

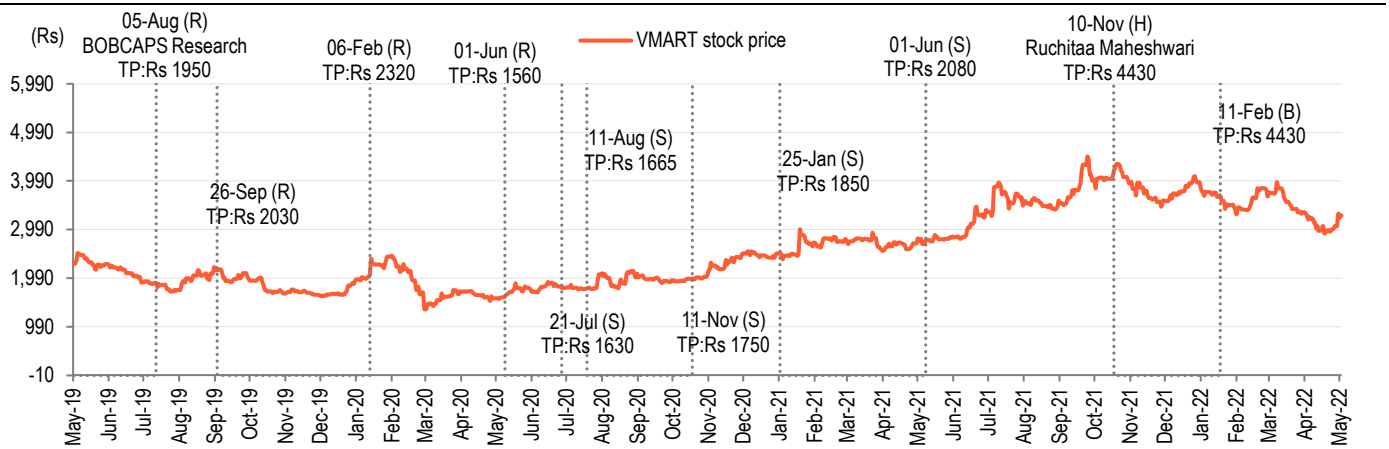
HOLD – Expected return from -6% to +15%

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

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