

**BUY**

TP: Rs 3,620 | ▲ 41%

**V-MART RETAIL**

| Retail

| 20 June 2022

## Near-term pain gets accentuated

- Due to disruptions in UP and Bihar, which form 65-70% of the top-line, the sale is expected to be adversely impacted in Q1FY23
- ~20% price hike in Q1 to mitigate the cost inflation will increase the ASP, but will likely result in lower volumes
- We revise down TP to Rs 3,620 (vs. Rs 3,950) as we cut FY23/FY24 EBITDA by 7%/9%, respectively. Retain BUY

We interacted with VMART Promoter, Lalit Agarwal to gain a perspective on the company's growth prospects and sector outlook. Key takeaways:

**Q1FY23 sales to slow down:** UP and Bihar has the largest concentration of stores (~47%) and contributes 65-70% of the top-line. As per management, during Q1, these two states have been witnessing major unrest and communal disputes which have resulted into sale loss. However, UP is facing partial disturbance due to strong BJP government. But Bihar is witnessing a major unrest, which has forced 80% of the stores to get impacted about 60% of the time.

**55-60 store addition targets on track:** VMART plans to add 55-60 stores in total in FY23, of which 20% will be Unlimited stores in South and 80% will be VMART spread across 5 zones namely North, UP, Bihar, East and South. The company will have major store concentration in Andhra and Telangana in South apart from UP & Bihar. The capex per store will be about Rs 13-14mn, totaling Rs 800-850mn. The capex will be largely funded through internal accruals.

**~20% price hikes in Q1:** Due to an increase in cotton prices, VMART has taken a ~20% cumulative price hike in Q1 and has passed on every cost inflation to the consumers. The significant rise in yarn prices would pose a further challenge in keeping MRPs competitive, which will adversely impact volumes. Further, the consumer spending on fashionwear has overall taken a hit due to rising interest rate, which is a significant part of overall business.

**Near-term headwinds to persist:** Due to a combination of the rising competition from national conglomerates in tier-2/3 cities, muted near-term demand outlook in smaller towns as overall inflation rises, UP & Bihar witnessing major dip in sales owing to disruptions and VMART's price hikes, we cut FY23/FY24 EBITDA estimates by 7%/9%, respectively. Further, due to operating leverage and higher depreciation cost, our PAT cut is steeper at 32%/23%. We continue to value VMART at 21x FY24E EV/EBITDA, versus its 5Y median of 24x, which translates to a revised TP of Rs 3,620 (vs. Rs 3,950). Retain BUY.

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## Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	VMART IN/Rs 2,571
Market cap	US\$ 648.9mn
Free float	54%
3M ADV	US\$ 0.9mn
52wk high/low	Rs 4,849/Rs 2,550
Promoter/FPI/DII	46%/20%/34%

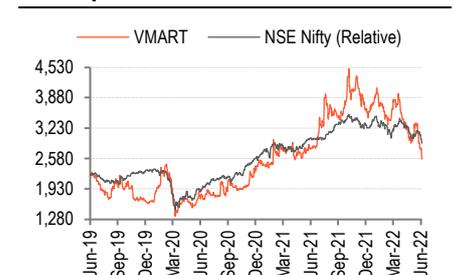
Source: NSE | Price as of 17 Jun 2022

## Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	16,662	19,490	24,768
EBITDA (Rs mn)	2,043	2,437	3,379
Adj. net profit (Rs mn)	116	281	706
Adj. EPS (Rs)	5.9	14.2	35.8
Consensus EPS (Rs)	5.9	59.2	90.2
Adj. ROAE (%)	1.4	3.3	7.8
Adj. P/E (x)	435.3	180.6	71.7
EV/EBITDA (x)	23.7	19.6	14.4
Adj. EPS growth (%)	(134.3)	141.0	151.7

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

## Stock performance



Source: NSE



## Other management meet takeaways

- **Turnaround at Unlimited stores in 1-1.5 years:** 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, lower discounts, reducing the costs and increasing sales/sqft. Management expects Unlimited to turn steady profitable over 1-1.5 years. Unlimited turned profitable in Q4FY22. 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.
- **Consolidated Vendors to 500:** Over the last many years, the company has consolidated the vendors to maintain the quality of the products and to give higher volume per vendor. The company has consciously reduced its vendors from 1,200 odd level in 2009-2010 to currently 500 vendors (of which +350 is for fashion and balance is for kirana). The vendors are highly concentrated in 12 states namely, Tamil Nadu, Karnataka, Gujarat, Punjab, Maharashtra, Delhi, West Bengal, Madhya Pradesh, Bihar and UP+NCR region.
- **Kirana stores in composite setting not to fade away:** As per management, the Kirana will continue to be part of composite stores and will not fade away anytime soon. In FY22, the company had 85 composite stores and 55-60 stores announced in FY23, ~15% will be composite stores. The reason being, the composite stores have higher sales/sqft and Kirana helps in higher footfall and conversion rate.
- **No rental concessions going forward:** During covid, the company had the benefit of rental concession which will not continue henceforth. In Q1, the rent stood at ~Rs40/sqft which is expected to be Rs42-43/sqft in FY23. Per management, the FY24 will have 6-7% increase in rental rates.
- **Digital initiatives:** Online business contributes ~1.5% of revenue which management expects will rise to ~10% in the next three-five 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. The company has 80% similar schemes in its own portal vs third party portal.

Going forward, the company expects to create a different product line for its physical stores and online stores. Further, in a years' time, the company is also in the process to enable vendors to list their products directly to the company's online portal and VMART will enjoy the margin in the sales. As the company is on a play of conversion to unorganised to organised platforms, it has a lower margin flexibility because of which it currently has in-house delivery services and has not outsourced it to third party.

- **Expected store shutdown in FY23:** In the normal course of business, the company expects 5-7 stores to shutdown compared to 10 stores in FY22.

- **ASP to inch-up in FY23:** As the company has taken price hike and is also setting up 10-12 Unlimited stores (higher ASP vs VMART) in FY23, the overall ASP will be higher in FY23, however the volumes will be impacted.
- **Cotton outlook:** Per management, the company do a spot purchase on cotton and there is no long-term contract on the same as it's a retailing company. The cotton is purchased on a seasonal and on order-to-order basis. The vendors buy cotton on spot and long term. Further, to control the cotton inflation, the curb on export is expected soon.
- **Demand Outlook:** As per management, the business is doing fine and is not great at the moment. This is due to higher inflation which has impacted the household budget of common man (lower income). The company is witnessing a toning down of spends in the value fashion.

## Valuation methodology

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, UP & Bihar witnessing major dip in sales owing to communal riots and the dampening impact of VMART's price hikes on volumes, we cut FY23/FY24 EBITDA estimates by 7%/9%, respectively. Due to operating leverage and higher depreciation cost, our PAT cut is steeper at 32%/23%. We continue to value VMART at 21x FY24E EV/EBITDA, vs its 5Y median of 24x, which translates to a revised TP of Rs 3,620 (vs. Rs 3,950). Retain BUY.

**Fig 1 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net Sales	19,490	24,768	20,438	26,764	(4.6)	(7.5)
EBITDA	2,437	3,379	2,629	3,696	(7.3)	(8.6)
EBITDA (%)	12.5	13.6	12.9	13.8	(40bps)	(20bps)
PAT	281	706	415	919	(32.4)	(23.1)

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.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
V-Mart Retail	VMART IN	0.6	2,571	3,620	BUY

Source: BOBCAPS Research, NSE | Price as of 17 Jun 2022

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
<b>Total revenue</b>	<b>16,620</b>	<b>10,755</b>	<b>16,662</b>	<b>19,490</b>	<b>24,768</b>
EBITDA	2,149	1,192	2,043	2,437	3,379
Depreciation	(939)	(1,030)	(1,307)	(1,409)	(1,622)
EBIT	1,210	162	736	1,029	1,758
Net interest inc./(exp.)	(548)	(589)	(772)	(716)	(878)
Other inc./(exp.)	32	53	140	65	70
Exceptional items	0	0	0	0	0
EBT	694	(374)	104	377	949
Income taxes	(209)	35	12	(97)	(243)
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>116</b>	<b>281</b>	<b>706</b>
Adjustments	(8)	(278)	0	0	0
<b>Adjusted net profit</b>	<b>485</b>	<b>(340)</b>	<b>116</b>	<b>281</b>	<b>706</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Accounts payables	1,968	1,917	2,906	2,937	3,732
Other current liabilities	328	224	421	427	543
Provisions	183	195	150	195	248
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	8,561	9,268
Shareholders' fund	4,589	8,252	8,496	8,759	9,465
<b>Total liab. and equities</b>	<b>7,080</b>	<b>10,587</b>	<b>11,973</b>	<b>12,318</b>	<b>13,988</b>
Cash and cash eq.	50	275	351	848	364
Accounts receivables	0	0	0	0	0
Inventories	4,779	4,283	6,682	6,141	7,600
Other current assets	473	573	1,154	1,068	1,357
Investments	79	3,895	1,248	1,348	1,448
Net fixed assets	1,477	1,260	2,060	2,436	2,741
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
<b>Total assets</b>	<b>7,080</b>	<b>10,587</b>	<b>11,973</b>	<b>12,318</b>	<b>13,988</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
<b>Cash flow from operations</b>	<b>(14)</b>	<b>865</b>	<b>(819)</b>	<b>1,540</b>	<b>518</b>
Capital expenditures	(546)	(406)	(2,149)	(1,016)	(1,060)
Change in investments	528	(3,816)	2,646	(100)	(100)
Other investing cash flows	0	0	(134)	0	0
<b>Cash flow from investing</b>	<b>(18)</b>	<b>(4,222)</b>	<b>364</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	(18)	(18)	0
Other financing cash flows	158	(119)	(51)	24	87
<b>Cash flow from financing</b>	<b>(84)</b>	<b>3,582</b>	<b>(68)</b>	<b>6</b>	<b>87</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(116)</b>	<b>225</b>	<b>(523)</b>	<b>430</b>	<b>(555)</b>
<b>Closing cash &amp; cash eq.</b>	<b>50</b>	<b>275</b>	<b>(249)</b>	<b>780</b>	<b>292</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22P	FY23E	FY24E
Reported EPS	25.0	(3.1)	5.9	14.2	35.8
Adjusted EPS	24.6	(17.2)	5.9	14.2	35.8
Dividend per share	0.0	0.0	0.8	0.8	0.0
Book value per share	232.9	418.8	431.1	444.5	480.3

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22P	FY23E	FY24E
EV/Sales	3.0	4.7	2.9	2.5	2.0
EV/EBITDA	23.3	42.2	23.7	19.6	14.4
Adjusted P/E	104.4	(149.2)	435.3	180.6	71.7
P/BV	11.0	6.1	6.0	5.8	5.4

### 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	36.7	54.0
EBIT margin (EBIT/Revenue)	7.3	1.5	4.4	5.3	7.1
Asset turnover (Rev./Avg TA)	248.1	121.7	147.7	160.5	188.3
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.3	1.4	1.4
Adjusted ROAE	11.2	(5.3)	1.4	3.3	7.8

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22P	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	15.9	(35.3)	54.9	17.0	27.1
EBITDA	60.9	(44.5)	71.4	19.3	38.7
Adjusted EPS	(32.9)	(170.0)	(134.3)	141.0	151.7
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	12.9	11.1	12.3	12.5	13.6
EBIT margin	7.3	1.5	4.4	5.3	7.1
Adjusted profit margin	2.9	(3.2)	0.7	1.4	2.9
Adjusted ROAE	11.2	(5.3)	1.4	3.3	7.8
ROCE	19.0	2.5	8.8	8.9	14.4
<b>Working capital days (days)</b>					
Receivables	0	0	0	0	0
Inventory	131	229	183	183	154
Payables	44	74	60	63	57
<b>Ratios (x)</b>					
Gross asset turnover	7.2	3.9	3.9	3.4	3.6
Current ratio	2.1	2.2	2.4	2.3	2.1
Net interest coverage ratio	2.2	0.3	1.0	1.4	2.0
Adjusted debt/equity	0.0	0.0	0.0	(0.1)	0.0

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

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

**BUY** – Expected return >+15%

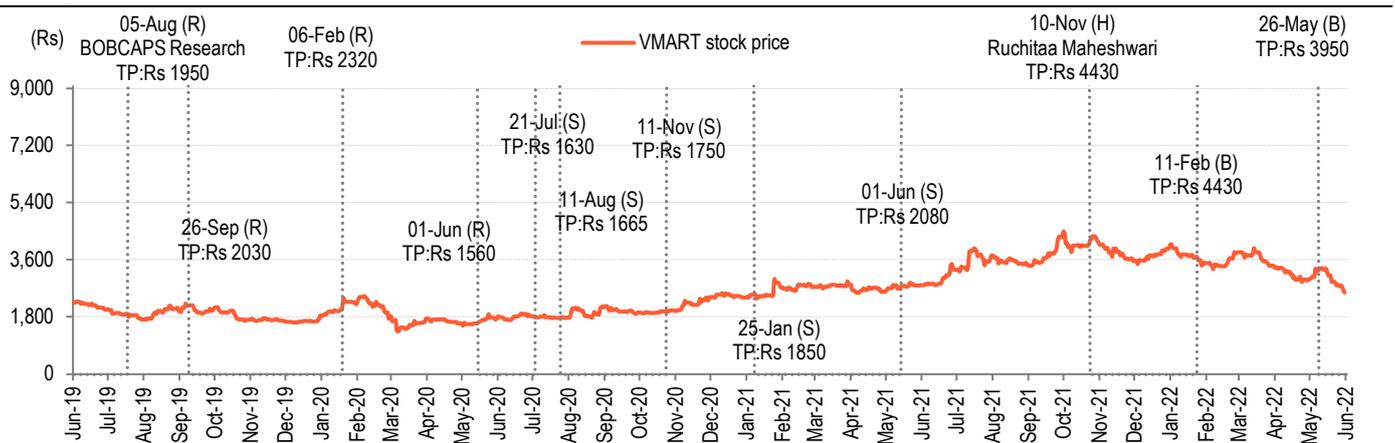
**HOLD** – Expected return from -6% to +15%

**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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