

**REDUCE**

TP: Rs 2,320 | ▼ 3%

**V-MART RETAIL**

Retail

06 February 2020

**Margins surprise positively**

**V-Mart Retail (VMART) reported below-expected Q3FY20 revenue growth of 21% YoY to Rs 5.6bn, with SSSg of 1%. Management indicated that it is yet to see green shoots of demand recovery but expects some uptick in the medium term. Operating margins (adj. for Ind-AS 116) increased 105bps YoY to 16.8% vs. 15.3% expected, resulting in healthy EBITDA/PBT growth of 29%/27% YoY. We marginally raise FY20-FY22 PAT by 1-2% and roll over to a Mar'21 target price of Rs 2,320 (vs. Rs 2,030). Maintain REDUCE.**

Arun Baid

research@bobcaps.in

**Below-expected revenue growth:** VMART reported revenue growth of 21% YoY with same-store sales growth of 1% (volume SSSg down 3%). Revenue growth was aided by area addition of ~24% YoY whereas SSSg was hit by tepid market conditions during festivals and delayed onset of winter. Management intends to continue adding ~25% more area every year in light of the large market opportunity and is hopeful of recovery in SSSg in the medium term.

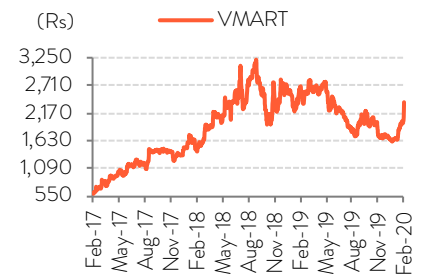
**Margins up 100bps:** VMART's operating margins (adj. for Ind-AS 116) rose 105bps YoY to 16.8% primarily due to lower raw material prices (-78bps YoY) and employee expenses (-22bps YoY). Consequently, EBITDA/PBT grew 29%/27% YoY. Gross margins at 36.3% were the highest in any quarter since listing as the company sold higher inventory at full price and reduced promotions and offers during the period. Management indicated that due to lower SSSg in FY20, the company would end the year with 8-9% margins.

**Maintain REDUCE:** We marginally raise FY20-FY22 PAT estimates by 1-2% and roll to a Mar'21 TP of Rs 2,320. We like VMART for its strong growth potential but see near-term demand headwinds. Valuations at 30.9x FY22E P/E offer limited upside and we would look for a better entry point into the stock.

Ticker/Price	VMART IN/Rs 2,389
Market cap	US\$ 608.5mn
Shares o/s	18mn
3M ADV	US\$ 0.8mn
52wk high/low	Rs 2,864/Rs 1,604
Promoter/FPI/DII	52%/26%/22%

Source: NSE

**STOCK PERFORMANCE**



Source: NSE

**KEY FINANCIALS**

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	12,224	14,337	17,605	22,032	27,763
EBITDA (Rs mn)	1,332	1,336	1,492	1,894	2,394
Adj. net profit (Rs mn)	768	724	866	1,109	1,400
Adj. EPS (Rs)	42.4	39.9	47.8	61.2	77.2
Adj. EPS growth (%)	101.0	(5.8)	19.7	28.1	26.3
Adj. ROAE (%)	24.9	19.1	19.2	20.4	21.1
Adj. P/E (x)	56.4	59.9	50.0	39.1	30.9
EV/EBITDA (x)	32.3	32.1	28.7	22.6	17.8

Source: Company, BOBCAPS Research

**BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda**

Important disclosures, including any required research certifications, are provided at the end of this report.



**FIG 1 – QUARTERLY PERFORMANCE (EXCLUDING IND-AS 116 IMPACT)**

(Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
<b>Total revenues</b>	<b>5,624</b>	<b>4,658</b>	<b>20.7</b>	<b>3,144</b>	<b>78.9</b>	<b>13,300</b>	<b>10,892</b>	<b>22.1</b>
Total raw material consumed	3,581	3,002	19.3	2,162	65.6	8,885	7,256	22.5
% of sales	63.7	64.4	(78bps)	68.8	(512bps)	66.8	66.6	19bps
Employee expense	406	346	17.2	390	4.0	1,169	930	25.7
% of sales	7.2	7.4	(22bps)	12.4	(519bps)	8.8	8.5	25bps
Other expense	693	577	20.3	670	3.5	1,988	1,555	27.8
% of sales	12.3	12.4	(5bps)	21.3	(898bps)	14.9	14.3	67bps
Total expenditure	4,680	3,925	19.2	3,222	45.2	12,042	9,741	23.6
% of sales	83.2	84.3	(104bps)	102.5	(1,929bps)	90.5	89.4	111bps
<b>EBITDA</b>	<b>944</b>	<b>733</b>	<b>28.7</b>	<b>(79)</b>	<b>NA</b>	<b>1,259</b>	<b>1,151</b>	<b>9.3</b>
% of sales	16.8	15.7	104bps	(2.5)	1,929bps	9.5	10.6	(111bps)
Depreciation	84.0	71.7	17.1	78.5	7.0	242.1	203.9	18.7
Other income	4.3	17.3	(75.0)	11.8	(63.2)	36.9	36.7	0.7
Interest cost	16.6	8.8	88.8	9.2	79.5	27.4	12.7	116.0
<b>PBT</b>	<b>848</b>	<b>670</b>	<b>26.5</b>	<b>(155)</b>	<b>NA</b>	<b>1,026</b>	<b>972</b>	<b>5.6</b>
Taxes	188	253	(26.0)	(48)	NA	222	322	(31.0)
Effective tax rate (%)	22.1	37.8	(1,570bps)	31.3	(916bps)	21.6	33.1	(1,148bps)
<b>APAT</b>	<b>661</b>	<b>417</b>	<b>58.5</b>	<b>(106)</b>	<b>NA</b>	<b>804</b>	<b>650</b>	<b>23.7</b>
Add/(Less): extraordinary items	0	0	NA	0	NA	0	(25)	(100)
<b>RPAT</b>	<b>661</b>	<b>417</b>	<b>58.5</b>	<b>(106)</b>	<b>NA</b>	<b>804</b>	<b>625</b>	<b>28.6</b>

Source: Company, BOBCAPS Research

**FIG 2 – QUARTERLY PERFORMANCE (AS PER IND-AS 116)**

(Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
<b>Total revenues</b>	<b>5,622</b>	<b>4,658</b>	<b>20.7</b>	<b>3,142</b>	<b>78.9</b>	<b>13,294</b>	<b>10,892</b>	<b>22.0</b>
Total raw material consumed	3,581	3,002	19.3	2,162	65.6	8,885	7,256	22.5
% of sales	63.7	64.4	(78bps)	68.8	(512bps)	66.8	66.6	22bps
Employee expense	406	346	17.2	390	4.0	1,169	930	25.7
% of sales	7.2	7.4	(22bps)	12.4	(519bps)	8.8	8.5	(132bps)
Other expense	467	577	(19.0)	476	(1.9)	1,380	1,555	(11.2)
% of sales	8.3	12.4	(407bps)	15.1	(684bps)	10.4	14.3	(597bps)
Total expenditure	4,454	3,925	13.5	3,028	47.1	11,434	9,741	17.4
% of sales	79.2	84.3	(507bps)	96.3	(1715bps)	86.0	89.4	(1024bps)
<b>EBITDA</b>	<b>1,168</b>	<b>733</b>	<b>59.3</b>	<b>113</b>	<b>932</b>	<b>1,859</b>	<b>1,151</b>	<b>61.5</b>
% of sales	20.8	15.7	502bps	3.6	1717bps	14.0	10.6	1020bps
Depreciation	244.6	71.7	241.0	222.6	9.9	687.1	203.9	237.0
Other income	4.3	17.3	(75.0)	11.8	(63.2)	36.9	36.7	0.7
Interest cost	158.0	8.8	1,698.5	131.1	20.5	409.2	12.7	3,128.4
<b>PBT</b>	<b>770</b>	<b>670</b>	<b>14.8</b>	<b>(229)</b>	<b>NA</b>	<b>800</b>	<b>972</b>	<b>(17.7)</b>
Taxes	188	253	(26.0)	(48)	(487.8)	222	322	(31.0)
Effective tax rate (%)	24.4	37.8	(1,345bps)	21.1	322bps	27.8	33.1	(876bps)
<b>APAT</b>	<b>582</b>	<b>417</b>	<b>39.7</b>	<b>(180)</b>	<b>NA</b>	<b>578</b>	<b>650</b>	<b>(11.1)</b>
Add/(Less): extraordinary items	0	0	NA	0	NA	0	(25)	(100)
<b>RPAT</b>	<b>582</b>	<b>417</b>	<b>39.7</b>	<b>(180)</b>	<b>NA</b>	<b>578</b>	<b>625</b>	<b>(7.6)</b>

Source: Company, BOBCAPS Research

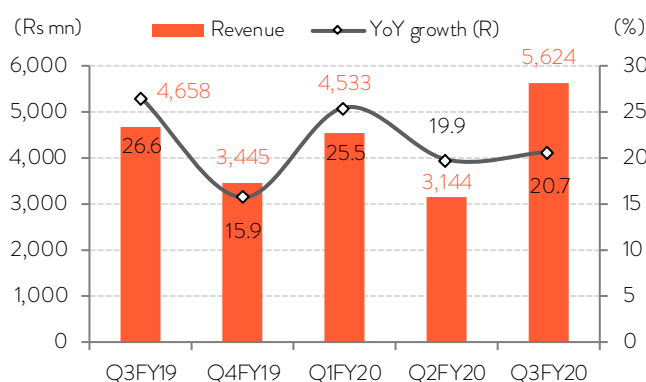
**FIG 3 – IND-AS 116 IMPACT ON QUARTERLY PERFORMANCE**

Increase/(decrease) in Net Profits (Rs mn)	Q3FY20
Other expenses	(226.388)
Finance Cost	141.442
Depreciation	160.596
Other operating income	(2.67)
Profit Before Tax	(78.32)

Source: Company, BOBCAPS Research

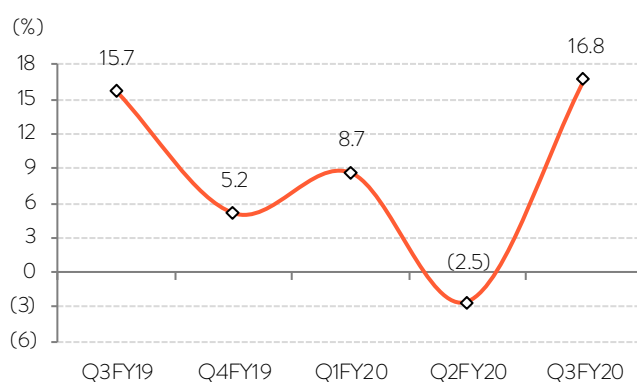
**QUARTERLY TRENDS**

**FIG 4 – REVENUE & GROWTH**



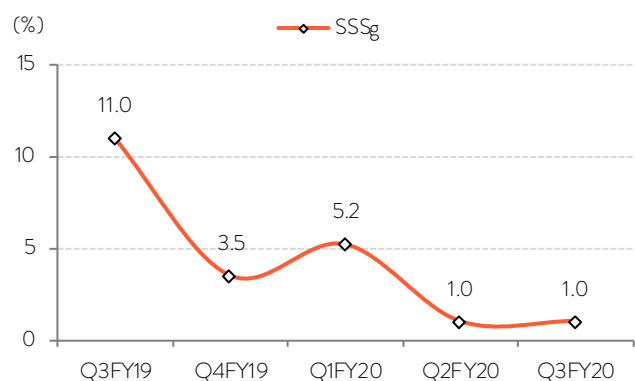
Source: Company, BOBCAPS Research

**FIG 5 – OPERATING MARGINS**



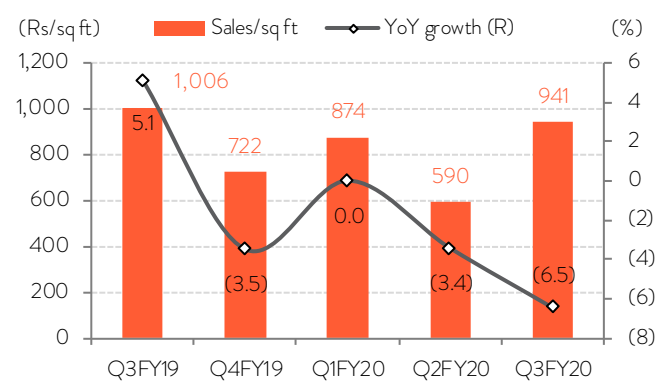
Source: Company, BOBCAPS Research

**FIG 6 – SAME-STORE SALES GROWTH, YOY**

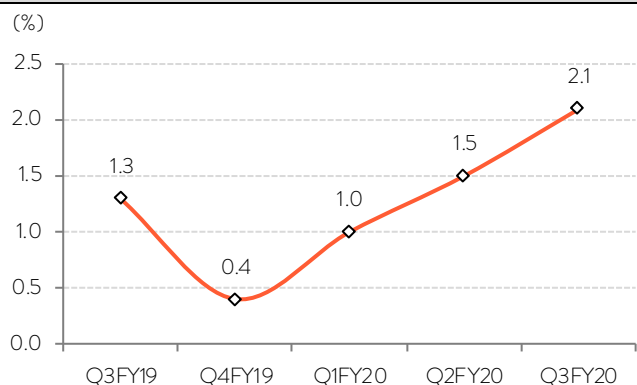


Source: Company, BOBCAPS Research

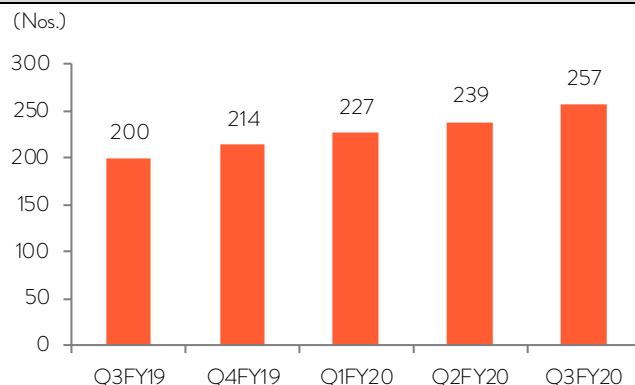
**FIG 7 – REVENUE PER SQUARE FOOT/MONTH**



Source: Company, BOBCAPS Research

**FIG 8 – INVENTORY SHRINKAGE**

Source: Company, BOBCAPS Research

**FIG 9 – NUMBER OF STORES**

Source: Company, BOBCAPS Research

### Earnings call highlights

- Market sentiment remained muted during Q3FY20, dampening sales. Festive sales were average and a delayed winter season also affected growth.
- Due to tepid demand, management highlighted that a conscious decision was made to cut offers/promotions, which led to better gross margins in Q3.
- Management is hopeful that demand will revive in the medium term due to a good crop season this year.
- End-of-season sales (EOSS) which started in Jan'20 have been reasonable.
- There has been some consolidation among regional retail players due to the tough market conditions. However, national organised players continue to focus on the value-retail segment due to the large opportunity.
- VMART witnessed above-company growth in the Uttar Pradesh market for the quarter. However, in northeast states and Rajasthan, growth was below the company average due to political tensions.
- Management believes the current slowdown is temporary and plans to add 25% more retail store area each year. Five new stores are to be added in Q4.
- The company requires at least 3-4% SSSg to meet inflation; SSSg beyond 6% will yield operational efficiencies that can be passed on to consumers.
- Inventory shrinkage appears high YoY for the quarter but is guided to normalise by the end of FY20 to ~1.3-1.4% of sales.
- Sustainable A&P spend over the long term is pegged at 2.2-2.4% of sales.
- Digitisation efforts are underway to improve operational efficiencies and thus throughput, which will aid margins.
- In 9MFY20, VMART had negative FCF of Rs 20mn. Total capex to date is Rs 410mn.

## 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, the company could face near-term SSSg and margin headwinds.

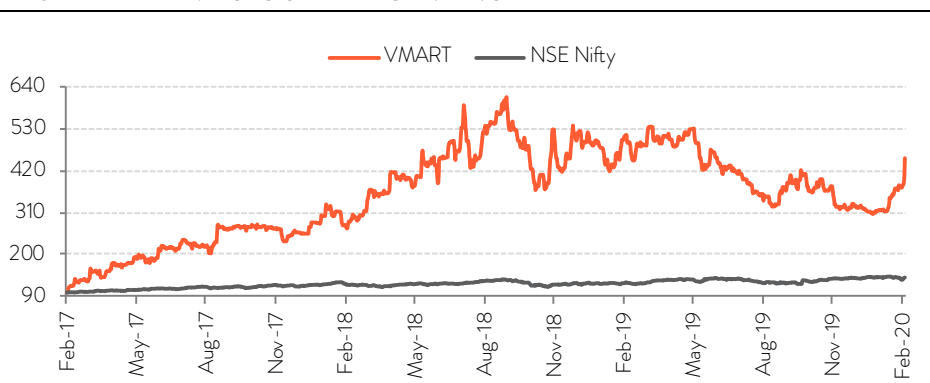
Post Q3FY20, we increase our PAT estimates for FY20-FY22 by 1-2% and roll over to a revised Mar'21 target price of Rs 2,320 (earlier Rs 2,030), set at an unchanged 30x one-year forward P/E. The stock is currently trading at 30.9x FY22E P/E, which offers limited upside. Maintain REDUCE.

**FIG 10 – REVISED ESTIMATES**

(Rs mn)	New			Old			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	17,605	22,032	27,763	17,995	22,165	27,568	(2.2)	(0.6)	0.7
EBITDA	1,492	1,894	2,394	1,451	1,855	2,330	2.9	2.1	2.7
PAT	866	1,109	1,400	857	1,085	1,367	1.1	2.2	2.4

Source: Company, BOBCAPS Research

**FIG 11 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

Upside risks to our estimates include:

- better-than-expected demand from the company's key states of Uttar Pradesh and Bihar,
- inability of organised rivals to ramp up in tier-2/3/4 cities, thereby enabling VMART to deliver better growth, and
- above-expected traction in SSSg due to a strong season.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Total revenue</b>	<b>12,224</b>	<b>14,337</b>	<b>17,605</b>	<b>22,032</b>	<b>27,763</b>
EBITDA	1,332	1,336	1,492	1,894	2,394
Depreciation	(229)	(276)	(347)	(437)	(541)
EBIT	1,103	1,060	1,145	1,457	1,853
Net interest income/(expenses)	(15)	(16)	(40)	(47)	(56)
Other income/(expenses)	39	44	53	72	75
Exceptional items	0	0	0	0	0
EBT	1,127	1,088	1,158	1,483	1,872
Income taxes	(358)	(365)	(292)	(374)	(472)
Extraordinary items	9	(107)	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
<b>Reported net profit</b>	<b>777</b>	<b>616</b>	<b>866</b>	<b>1,109</b>	<b>1,400</b>
Adjustments	(9)	107	0	0	0
<b>Adjusted net profit</b>	<b>768</b>	<b>724</b>	<b>866</b>	<b>1,109</b>	<b>1,400</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	1,668	1,483	1,881	2,414	3,042
Other current liabilities	235	354	386	483	608
Provisions	116	169	176	220	278
Debt funds	6	219	350	430	500
Other liabilities	0	0	0	0	0
Equity capital	181	181	181	181	181
Reserves & surplus	3,293	3,911	4,730	5,780	7,111
Shareholders' fund	3,474	4,093	4,911	5,961	7,292
<b>Total liabilities and equities</b>	<b>5,499</b>	<b>6,318</b>	<b>7,704</b>	<b>9,509</b>	<b>11,720</b>
Cash and cash eq.	196	166	73	119	69
Accounts receivables	0	0	0	0	0
Inventories	3,071	3,290	3,907	4,889	6,161
Other current assets	317	443	522	685	836
Investments	340	607	900	900	1,050
Net fixed assets	1,447	1,655	2,144	2,757	3,446
CWIP	35	40	40	40	40
Intangible assets	0	0	0	0	0
Deferred tax assets, net	92	118	118	118	118
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>5,499</b>	<b>6,318</b>	<b>7,704</b>	<b>9,509</b>	<b>11,720</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	1,006	893	1,213	1,546	1,941
Interest expenses	15	16	40	47	56
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(400)	(356)	(260)	(471)	(612)
Other operating cash flows	(22)	(26)	0	0	0
<b>Cash flow from operations</b>	<b>600</b>	<b>526</b>	<b>993</b>	<b>1,122</b>	<b>1,385</b>
Capital expenditures	(397)	(489)	(836)	(1,050)	(1,230)
Change in investments	336	(266)	(293)	0	(150)
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(61)</b>	<b>(755)</b>	<b>(1,129)</b>	<b>(1,050)</b>	<b>(1,380)</b>
Equities issued/Others	20	28	0	0	0
Debt raised/repaid	(351)	213	131	80	70
Interest expenses	(15)	(16)	(40)	(47)	(56)
Dividends paid	(27)	(44)	(48)	(59)	(70)
Other financing cash flows	2	18	0	0	0
<b>Cash flow from financing</b>	<b>(372)</b>	<b>200</b>	<b>43</b>	<b>(26)</b>	<b>(55)</b>
<b>Changes in cash and cash eq.</b>	<b>167</b>	<b>(30)</b>	<b>(93)</b>	<b>46</b>	<b>(50)</b>
<b>Closing cash and cash eq.</b>	<b>196</b>	<b>166</b>	<b>73</b>	<b>119</b>	<b>69</b>

**Per Share**

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	42.9	34.0	47.8	61.2	77.2
Adjusted EPS	42.4	39.9	47.8	61.2	77.2
Dividend per share	2.0	1.7	2.2	2.7	3.2
Book value per share	191.6	225.7	270.9	328.8	402.2

**Valuations Ratios**

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	3.5	3.0	2.4	1.9	1.5
EV/EBITDA	32.3	32.1	28.7	22.6	17.8
Adjusted P/E	56.4	59.9	50.0	39.1	30.9
P/BV	12.5	10.6	8.8	7.3	5.9

**DuPont Analysis**

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	68.2	66.5	74.8	74.8	74.8
Interest burden (PBT/EBIT)	102.1	102.7	101.1	101.7	101.0
EBIT margin (EBIT/Revenue)	9.0	7.4	6.5	6.6	6.7
Asset turnover (Revenue/Avg TA)	233.1	242.6	251.1	256.0	261.6
Leverage (Avg TA/Avg Equity)	1.7	1.6	1.6	1.6	1.6
Adjusted ROAE	24.9	19.1	19.2	20.4	21.1

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

**Ratio Analysis**

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
<b>YoY growth (%)</b>					
Revenue	22.0	17.3	22.8	25.1	26.0
EBITDA	60.9	0.3	11.7	26.9	26.4
Adjusted EPS	101.0	(5.8)	19.7	28.1	26.3
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	10.9	9.3	8.5	8.6	8.6
EBIT margin	9.0	7.4	6.5	6.6	6.7
Adjusted profit margin	6.3	5.0	4.9	5.0	5.0
Adjusted ROAE	24.9	19.1	19.2	20.4	21.1
ROCE	23.0	18.1	17.9	18.7	19.5
<b>Working capital days (days)</b>					
Receivables	0	0	0	0	0
Inventory	127	120	110	108	108
Payables	55	44	38	39	39
<b>Ratios (x)</b>					
Gross asset turnover	6.2	7.0	6.5	6.1	5.8
Current ratio	1.8	1.8	1.6	1.6	1.6
Net interest coverage ratio	72.1	65.7	28.7	31.1	33.2
Adjusted debt/equity	(0.1)	0.0	0.1	0.1	0.1

Source: Company, BOBCAPS Research



## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

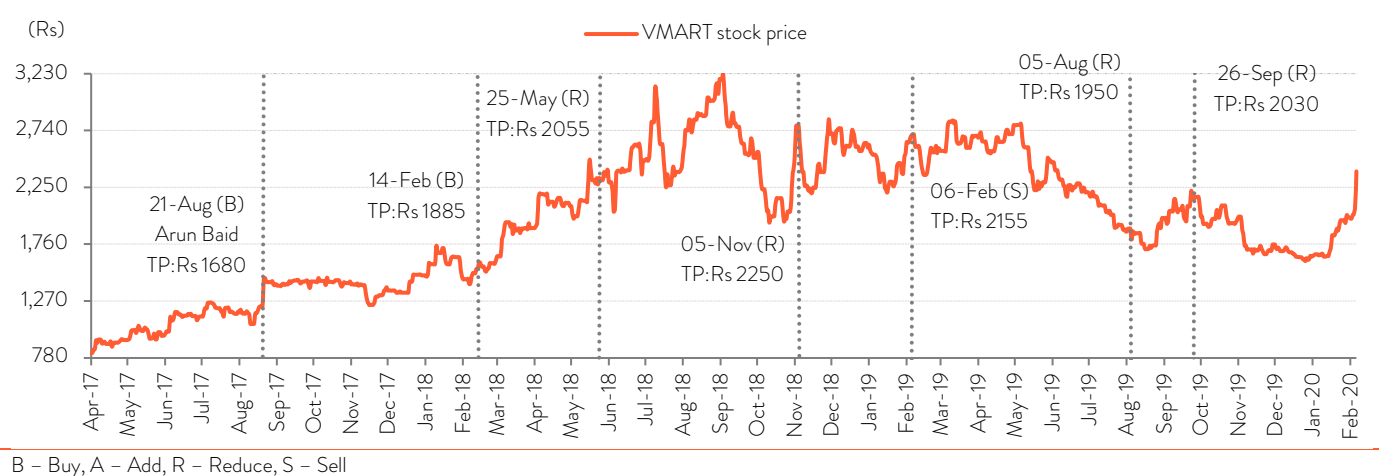
**ADD** – Expected return from >+5% to +15%

**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)

### HISTORICAL RATINGS AND TARGET PRICE: V-MART RETAIL (VMART IN)



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