

**SELL**

TP: Rs 1,850 | ▼ 26%

**V-MART RETAIL**

Retail

25 January 2021

## Demand remains lacklustre

While the third quarter is typically its best season, V-Mart Retail (VMART) reported a Q3FY21 revenue decline of 16% YoY to Rs 4.7bn due to continued Covid-19 headwinds. Operating margins expanded 50bps YoY to 21.3% aided by higher gross margins, but EBITDA/PBT fell 15%/21% YoY. Per management, demand is improving but still some time away from normalcy. We cut FY21 EBITDA by 19% (FY22/FY23 unchanged) and roll forward to a new Mar'22 TP of Rs 1,850 (vs. Rs 1,750). Retain SELL given sustained demand weakness.

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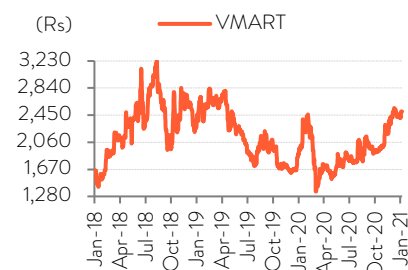
**Revenues falter in peak season:** VMART's revenue declined 16% YoY to Rs 4.7bn as same-store sales growth (SSSg) slumped 19% due to the continued effect of the pandemic, which dampened Q3 seasonality. Management stated that demand had improved during the quarter due to the early onset of winter, festivals and the wedding season but has now weakened and could take a while to fully recover. The company currently has cash on books of ~Rs 1bn but refrained from commenting on fund raising plans.

Ticker/Price	VMART IN/Rs 2,498
Market cap	US\$ 622.0mn
Shares o/s	18mn
3M ADV	US\$ 0.9mn
52wk high/low	Rs 2,613/Rs 1,200
Promoter/FPI/DII	51%/23%/27%

Source: NSE

**Profits decline:** Operating margins increased 50bps YoY to 21.3% aided by gross margin expansion of 40bps and lower employee cost of 30bps, partly offset by higher other expense of 25bps. EBITDA/PBT declined 14.5%/21% YoY despite the margin gains, owing to lower sales. Management indicated that margins could come under pressure in coming quarters due to increasing prices of yarn and normalisation of other expenses.

## STOCK PERFORMANCE



Source: NSE

**Maintain SELL:** Given the below-expected Q3, we scale back our FY21 EBITDA estimate by 19% (FY22/FY23 largely unchanged). We like VMART for its strong growth potential but see near-term risks to SSSg due to a tepid demand environment and possible ROE dilution from fund raising.

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	14,337	16,620	11,479	21,187	25,807
EBITDA (Rs mn)	1,336	2,149	1,412	3,004	3,759
Adj. net profit (Rs mn)	724	485	(122)	895	1,119
Adj. EPS (Rs)	39.9	26.7	(6.7)	49.3	61.6
Adj. EPS growth (%)	(5.8)	(32.9)	NA	NA	25.0
Adj. ROAE (%)	19.1	11.2	NA	18.2	19.0
Adj. P/E (x)	62.7	93.5	NA	50.7	40.5
EV/EBITDA (x)	33.6	20.8	31.9	14.9	11.8

Source: Company, BOBCAPS Research

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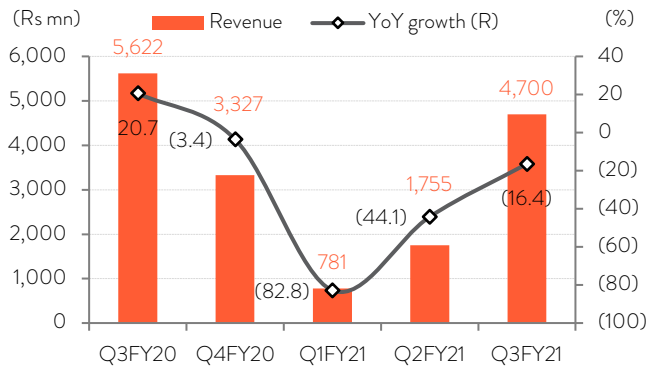
**FIG 1 – QUARTERLY PERFORMANCE (AS PER IND-AS 116)**

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
<b>Total revenues</b>	<b>4,700</b>	<b>5,622</b>	<b>(16.4)</b>	<b>1,755</b>	<b>167.8</b>	<b>7,236</b>	<b>13,294</b>	<b>(45.6)</b>
Total raw material consumed	2,975	3,581	(16.9)	1,250	138.0	4,766	8,885	(46.4)
% of sales	63.3	63.7	(40bps)	71.2	(794bps)	65.9	66.8	(98bps)
Employee expense	325	406	(20.0)	300	8.1	813	1,169	(30.4)
% of sales	6.9	7.2	(31bps)	17.1	(1,020bps)	11.2	8.8	(189bps)
Other expense	402	467	(14.0)	229	75.1	763	1,380	(44.7)
% of sales	8.5	8.3	24bps	13.1	(452bps)	10.5	10.4	(184bps)
Total expenditure	3,701	4,454	(16.9)	1,780	108.0	6,342	11,434	(44.5)
% of sales	78.7	79.2	(47bps)	101.4	(2,266bps)	87.7	86.0	(727bps)
<b>EBITDA</b>	<b>999</b>	<b>1,168</b>	<b>(14.5)</b>	<b>(25)</b>	<b>(4,151)</b>	<b>894</b>	<b>1,859</b>	<b>(51.9)</b>
% of sales	21.3	20.8	47bps	(1.4)	2,266bps	12.3	14.0	727bps
Depreciation	254	245	3.8	257	(1.4)	774	687	12.7
Other income	11	4	154.2	4	176.4	25	37	(31.8)
Interest cost	150	158	(4.9)	147	2.4	443	409	8.3
<b>PBT</b>	<b>606</b>	<b>770</b>	<b>(21.3)</b>	<b>(425)</b>	<b>(242.6)</b>	<b>(298)</b>	<b>800</b>	<b>(137.3)</b>
Taxes	158	188	(15.5)	(68)	(334.0)	(26)	222	(111.9)
Effective tax rate (%)	26.2	24.4	180bps	15.9	1,022bps	8.9	27.8	(160bps)
<b>APAT</b>	<b>447</b>	<b>582</b>	<b>(23.2)</b>	<b>(357)</b>	<b>(225.3)</b>	<b>(272)</b>	<b>578</b>	<b>(147.1)</b>
Add/(Less): extraordinary items	31	0	NA	167	(81)	225	0	NA
<b>RPAT</b>	<b>479</b>	<b>582</b>	<b>(17.8)</b>	<b>(190)</b>	<b>(352.4)</b>	<b>(47)</b>	<b>578</b>	<b>(108.2)</b>

Source: Company, BOBCAPS Research

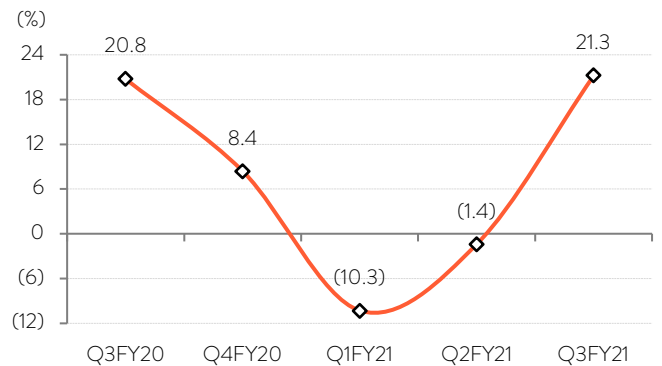
## QUARTERLY TRENDS

**FIG 2 – REVENUE & GROWTH**



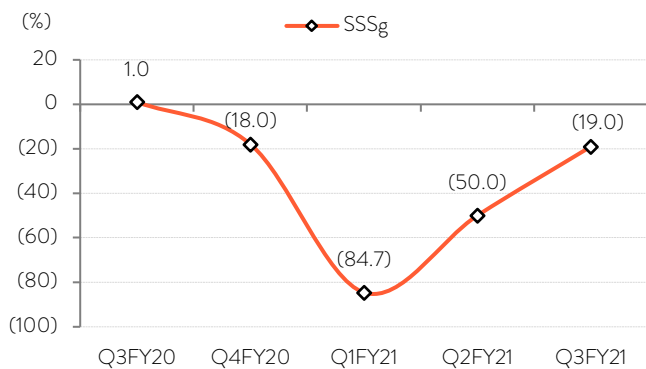
Source: Company, BOBCAPS Research

**FIG 3 – OPERATING MARGINS**



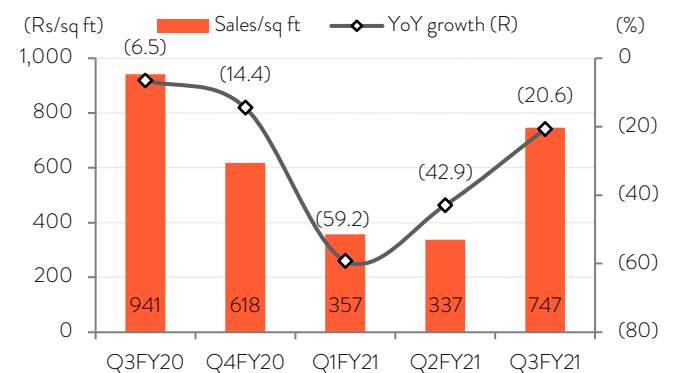
Source: Company, BOBCAPS Research

**FIG 4 – SAME-STORE SALES GROWTH, YOY**



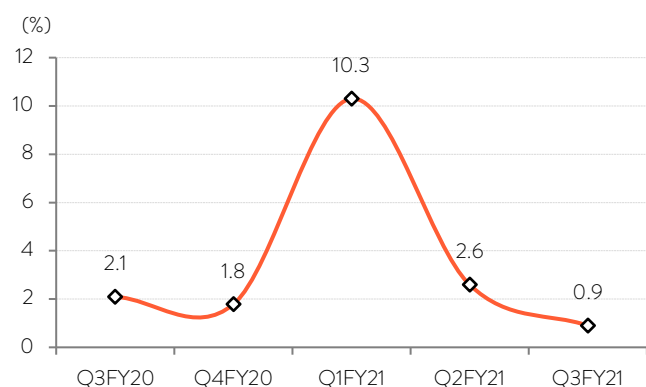
Source: Company, BOBCAPS Research

**FIG 5 – REVENUE PER SQUARE FOOT PER MONTH**



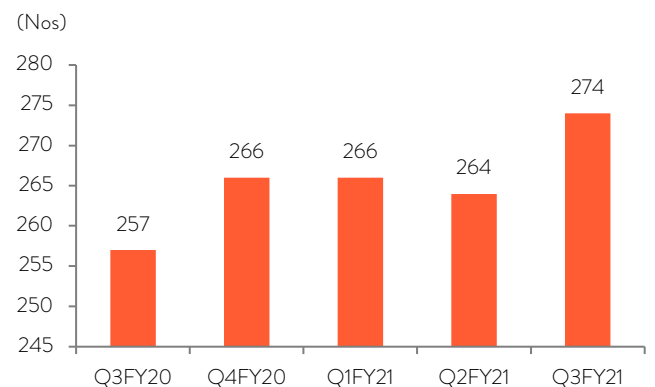
Source: Company, BOBCAPS Research

**FIG 6 – INVENTORY SHRINKAGE**



Source: Company, BOBCAPS Research

**FIG 7 – NUMBER OF STORES**



Source: Company, BOBCAPS Research

## Earnings call highlights

- The entire market saw sequential demand improvement in Q3FY21. The early onset of winter in northern markets along with the marriage and festive season aided demand to some extent. However, as gatherings remained hindered by the pandemic, the entire benefit could not be captured by retailers.
- Demand conditions have once again turned tepid post the busy season. Management believes normalcy is some time away but is hopeful of seeing improved traction every quarter going ahead. It believes aspiration spending will return when conditions normalise.
- Employee cost was lower in Q3 as the company did not fill in some vacancies during the pandemic. Management does not expect to see material savings on employee cost going ahead.
- VMART expects cost pressures from increased yarn prices and potential wage increments. Other expense should normalise too as the market improves.
- Inventory is lean currently and should increase going ahead.
- Over the long term, the company plans to continue adding 20-25% of store area every year, as has been the case historically.
- Management declined to give details of the Rs 5bn fund raising programme for which it received approval in Sep'20.

## 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 and the pandemic exacting a severe toll on business, the company could face near-term SSSg and margin headwinds.

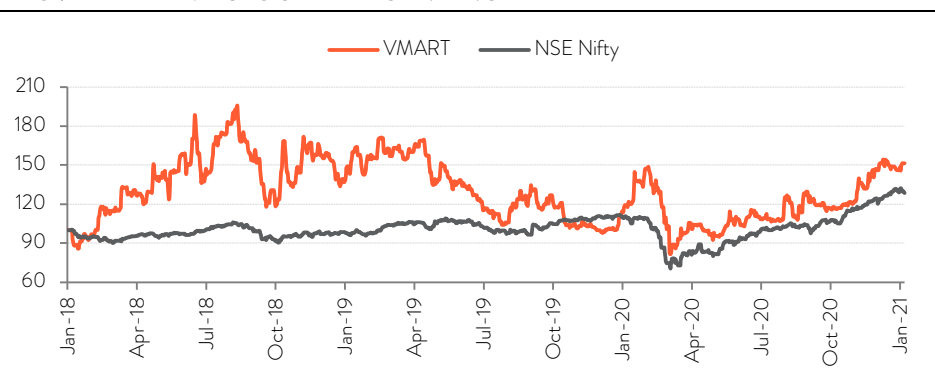
We cut our FY21 EBITDA estimate by 19% (FY22/FY23 forecasts largely unchanged) to incorporate the tepid 9MFY21 performance. We now expect the company to report losses in FY21. On rolling valuations forward, we move to a revised Mar'22 target price of Rs 1,850 (from Rs 1,750) – we continue to value the stock at a 30x one-year forward P/E multiple and maintain SELL. Though we like VMART, we see risks not only from near-term demand headwinds but also from possible ROE dilution due to the planned fund raising.

**FIG 8 – REVISED ESTIMATES**

(Rs mn)	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	11,479	21,187	25,807	13,336	21,158	25,772	(13.9)	0.1	0.1
EBITDA	1,412	3,004	3,759	1,742	2,996	3,749	(19.0)	0.3	0.3
PAT	(122)	895	1,119	139	895	1,114	(187.6)	0.0	0.5

Source: BOBCAPS Research

**FIG 9 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

Upside risks to our estimates include:

- faster-than-anticipated demand revival post lifting of lockdown, and
- above-expected demand from the company's key states of Uttar Pradesh and Bihar.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Total revenue</b>	<b>14,337</b>	<b>16,620</b>	<b>11,479</b>	<b>21,187</b>	<b>25,807</b>
EBITDA	1,336	2,149	1,412	3,004	3,759
Depreciation	(276)	(939)	(1,018)	(1,218)	(1,510)
EBIT	1,060	1,210	394	1,785	2,248
Net interest income/(expenses)	(16)	(548)	(594)	(631)	(796)
Other income/(expenses)	44	32	36	49	52
EBT	1,088	694	(164)	1,203	1,504
Income taxes	(365)	(209)	42	(308)	(385)
Extraordinary items	(107)	8	0	0	0
<b>Reported net profit</b>	<b>616</b>	<b>493</b>	<b>(122)</b>	<b>895</b>	<b>1,119</b>
Adjustments	107	(8)	0	0	0
<b>Adjusted net profit</b>	<b>724</b>	<b>485</b>	<b>(122)</b>	<b>895</b>	<b>1,119</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	1,483	1,968	1,101	2,032	2,475
Other current liabilities	354	328	220	406	495
Provisions	169	183	115	212	258
Debt funds	219	11	20	25	25
Equity capital	181	182	182	182	182
Reserves & surplus	3,911	4,408	4,286	5,166	6,254
Shareholders' fund	4,093	4,589	4,467	5,347	6,436
<b>Total liabilities and equities</b>	<b>6,318</b>	<b>7,080</b>	<b>5,923</b>	<b>8,022</b>	<b>9,689</b>
Cash and cash eq.	166	50	166	154	53
Inventories	3,290	4,779	2,830	4,644	5,656
Other current assets	443	473	282	522	636
Investments	607	79	900	500	650
Net fixed assets	1,622	1,477	1,524	1,981	2,471
CWIP	40	25	25	25	25
Intangible assets	33	37	37	37	37
Deferred tax assets, net	118	160	160	160	160
<b>Total assets</b>	<b>6,318</b>	<b>7,080</b>	<b>5,923</b>	<b>8,022</b>	<b>9,689</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	893	1,433	896	2,114	2,629
Interest expenses	16	548	594	631	796
Changes in working capital	(356)	(1,047)	1,096	(840)	(549)
Other operating cash flows	(26)	(947)	(834)	(1,206)	(1,497)
<b>Cash flow from operations</b>	<b>526</b>	<b>(14)</b>	<b>1,752</b>	<b>699</b>	<b>1,380</b>
Capital expenditures	(489)	(546)	(412)	(916)	(1,084)
Change in investments	(266)	528	(821)	400	(150)
<b>Cash flow from investing</b>	<b>(755)</b>	<b>(18)</b>	<b>(1,233)</b>	<b>(516)</b>	<b>(1,234)</b>
Equities issued/Others	28	0	0	0	0
Debt raised/repaid	213	(209)	9	5	0
Interest expenses	(16)	(34)	(18)	(5)	(5)
Dividends paid	(44)	0	0	(15)	(31)
Other financing cash flows	18	158	(393)	(181)	(210)
<b>Cash flow from financing</b>	<b>200</b>	<b>(84)</b>	<b>(403)</b>	<b>(195)</b>	<b>(246)</b>
<b>Changes in cash and cash eq.</b>	<b>(30)</b>	<b>(116)</b>	<b>116</b>	<b>(12)</b>	<b>(100)</b>
<b>Closing cash and cash eq.</b>	<b>166</b>	<b>50</b>	<b>166</b>	<b>154</b>	<b>53</b>

**Per Share**

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	33.9	27.2	(6.7)	49.3	61.6
Adjusted EPS	39.9	26.7	(6.7)	49.3	61.6
Dividend per share	1.7	0.0	0.0	0.7	1.4
Book value per share	225.4	252.8	246.1	294.5	354.5

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	3.1	2.7	3.9	2.1	1.7
EV/EBITDA	33.6	20.8	31.9	14.9	11.8
Adjusted P/E	62.7	93.5	NA	50.7	40.5
P/BV	11.1	9.9	10.2	8.5	7.0

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	66.5	69.9	74.4	74.4	74.4
Interest burden (PBT/EBIT)	102.7	57.4	(41.7)	67.4	66.9
EBIT margin (EBIT/Revenue)	7.4	7.3	3.4	8.4	8.7
Asset turnover (Revenue/Avg TA)	242.6	248.1	176.6	303.9	291.4
Leverage (Avg TA/Avg Equity)	1.6	1.5	1.4	1.4	1.5
Adjusted ROAE	19.1	11.2	(2.7)	18.2	19.0

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

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	17.3	15.9	(30.9)	84.6	21.8
EBITDA	0.3	60.9	(34.3)	112.7	25.1
Adjusted EPS	(5.8)	(32.9)	NA	NA	25.0
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	9.3	12.9	12.3	14.2	14.6
EBIT margin	7.4	7.3	3.4	8.4	8.7
Adjusted profit margin	5.0	2.9	(1.1)	4.2	4.3
Adjusted ROAE	19.1	11.2	(2.7)	18.2	19.0
ROCE	18.1	19.0	8.7	26.9	28.3
<b>Working capital days (days)</b>					
Receivables	0	0	0	0	0
Inventory	120	131	178	95	108
Payables	44	44	56	31	37
<b>Ratios (x)</b>					
Gross asset turnover	7.1	7.2	4.5	6.5	6.1
Current ratio	1.8	2.1	2.3	2.0	2.0
Net interest coverage ratio	65.7	2.2	0.7	2.8	2.8
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research



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

**BUY** – Expected return >+15%

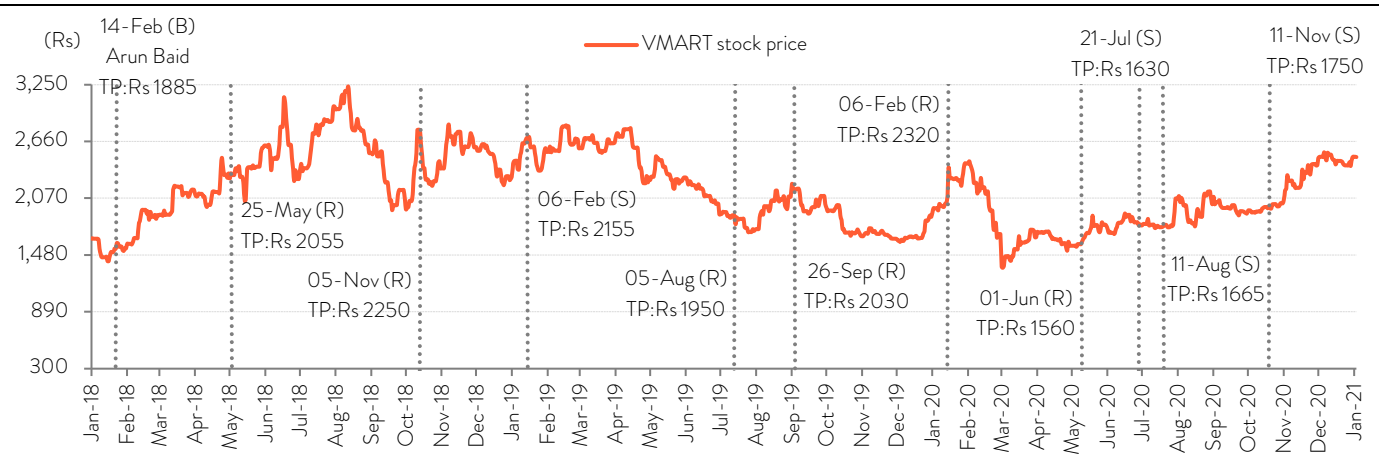
**ADD** – Expected return from >+5% to +15%

**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)

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): V-MART RETAIL (VMART IN)



B – Buy, A – Add, R – Reduce, S – Sell

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