

REDUCE

TP: Rs 1,560 | ▼ 4%

V-MART RETAIL

Retail

01 June 2020

Lockdown exacts severe toll on business

V-Mart Retail (VMART) reported a below-expected Q4FY20 as revenue declined 3% YoY to Rs 3.3bn and SSSg nosedived 18% due to the lockdown. Operating margins (adj. for Ind-AS 116) contracted 320bps YoY to 2% primarily due to negative operating leverage, inducing a 63% YoY fall in EBITDA and a PBT loss of Rs 25mn. Management has put all store expansion on hold till the demand climate improves. We lower FY21/FY22 EPS 68%/33% and revise our Mar'21 TP to Rs 1,560 (vs. Rs 2,320). Maintain REDUCE.

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Lockdown hits revenue growth: VMART's revenue declined 3.4% YoY with same-store sales growth (SSSg) down 18%. Management stated that growth had been robust for the quarter before the lockdown began with SSSg of 8%. Due to Covid-19, the company has put all store expansion plans on hold until demand improves. Management believes consumers may downtrade due to the fall in incomes even as store visits in the near term will be restricted to customers with urgent requirements, thus adversely affecting sales.

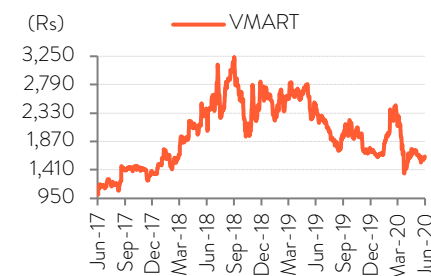
Margins contract 320bps: VMART's operating margins (adj. for Ind-AS 116) declined 320bps YoY to 2% due to higher employee expense (+150bps YoY) and other expense (+125bps YoY). Consequently, EBITDA plunged 63% and the company reported a PBT loss of Rs 25mn (vs. Rs 125mn profit YoY). Given margin pressure on account of lower sales, the company intends to reduce employee cost by ~25% for a period of three months from May, which may be extended if required, and is also renegotiating rentals with store landlords.

Maintain REDUCE: We cut EPS estimates for FY21/FY22 sharply by 68%/33% due to Covid-19 headwinds and slower expansion plans, yielding a reduced Mar'21 TP of Rs 1,560. Our target P/E multiple remains unchanged at 30x FY22E EPS.

Ticker/Price	VMART IN/Rs 1,625
Market cap	US\$ 390.9mn
Shares o/s	18mn
3M ADV	US\$ 0.7mn
52wk high/low	Rs 2,545/Rs 1,200
Promoter/FPI/DII	52%/23%/25%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P*	FY21E*	FY22E*
Total revenue (Rs mn)	12,224	14,337	16,620	14,622	21,872
EBITDA (Rs mn)	1,332	1,336	2,138	2,021	3,020
Adj. net profit (Rs mn)	768	724	493	357	942
Adj. EPS (Rs)	42.3	39.9	27.2	19.7	51.9
Adj. EPS growth (%)	101.0	(5.8)	(31.8)	(27.6)	163.7
Adj. ROAE (%)	24.9	19.1	11.4	7.5	17.5
Adj. P/E (x)	38.4	40.8	59.8	82.6	31.3
EV/EBITDA (x)	22.0	21.8	13.6	14.4	9.6

Source: Company, BOBCAPS Research | *As per Ind-AS 116

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FIG 1 – QUARTERLY RESULTS (ADJUSTED FOR IND-AS 116 IMPACT)

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Total revenues	3,329	3,445	(3.4)	5,624	(40.8)	16,630	14,337	16.0
Total raw material consumed	2,377	2,447	(2.8)	3,581	(33.6)	11,263	9,703	16.1
% of sales	71.4	71.0	39bps	63.7	774bps	67.7	67.7	5bps
Employee expense	368	328	12.1	406	(9.4)	1,536	1,257	22.2
% of sales	11.0	9.5	153bps	7.2	383bps	9.2	8.8	47bps
Other expense	519	493	5.2	693	(25.2)	2,507	2,048	22.4
% of sales	15.6	14.3	126bps	12.3	325bps	15.1	14.3	79bps
Total expenditure	3,263	3,268	(0.1)	4,680	(30.3)	15,305	13,008	17.7
% of sales	98.0	94.8	318bps	83.2	1,481bps	92.0	90.7	131bps
EBITDA	66	178	(63.0)	944	(93)	1,324	1,329	(0.4)
% of sales	2.0	5.2	(318bps)	16.8	(1,481bps)	8.0	9.3	(131bps)
Depreciation	92.1	72.3	27.3	84.0	9.7	334.2	276.3	21.0
Other income	7.9	22.6	(65.2)	4.3	81.1	44.8	59.2	(24.4)
Interest cost	6.3	3.5	82.0	16.6	(62.1)	33.7	16.1	108.7
PBT	(25)	125	NA	848	NA	1,001	1,096	(8.6)
Taxes	(20)	60	NA	188	NA	202	382	(47.1)
Effective tax rate (%)	81.6	48.2	NA	22.1	NA	20.2	34.8	(1,468bps)
APAT	(5)	64	NA	661	NA	799	714	11.9
Add/(Less): extraordinary items	0	(73)	NA	0	NA	0	(98)	(100)
RPAT	(5)	(9)	NA	661	NA	799	616	29.7

Source: Company, BOBCAPS Research

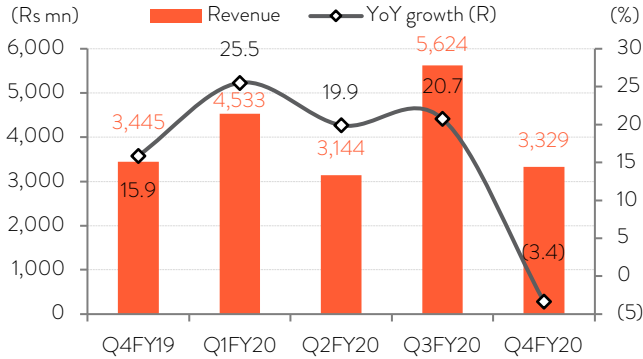
FIG 2 – QUARTERLY RESULTS – AS REPORTED

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Total revenues	3,327	3,445	(3.4)	5,622	(40.8)	16,620	14,337	15.9
Total raw material consumed	2,377	2,447	(2.8)	3,581	(33.6)	11,263	9,703	16.1
% of sales	71.4	71.0	39bps	63.7	774bps	67.7	67.7	5bps
Employee expense	368	328	12.1	406	(9.4)	1,536	1,257	22.2
% of sales	11.0	9.5	153bps	7.2	383bps	9.2	8.8	227bps
Other expense	303	493	(38.5)	467	(35.0)	1,684	2,048	(17.8)
% of sales	9.1	14.3	(520bps)	8.3	81bps	10.1	14.3	(517bps)
Total expenditure	3,048	3,268	(6.7)	4,454	(31.6)	14,483	13,008	11.3
% of sales	91.6	94.8	(328bps)	79.2	1,237bps	87.1	90.7	83bps
EBITDA	278	178	56.6	1,168	(76)	2,138	1,329	60.8
% of sales	8.4	5.2	320bps	20.8	(1,240bps)	12.9	9.3	(91bps)
Depreciation	252.1	72.3	248.5	244.6	3.1	939.2	276.3	240.0
Other income	7.9	22.6	(65.2)	4.3	81.1	44.8	59.2	(24.4)
Interest cost	138.7	3.5	3915.8	158.0	(12.3)	547.8	16.1	3297.0
PBT	(104)	125	NA	770	(113.6)	695	1,096	(36.6)
Taxes	(20)	60	NA	188	NA	202	382	(47.1)
Effective tax rate (%)	19.3	48.2	NA	24.4	NA	29.0	34.8	(1,556bps)
APAT	(84)	64	NA	582	NA	493	714	(30.9)
Add/(Less): extraordinary items	0	(73)	NA	0	NA	0	(98)	NA
RPAT	(84)	(9)	NA	582	NA	493	616	(19.9)

Source: Company, BOBCAPS Research

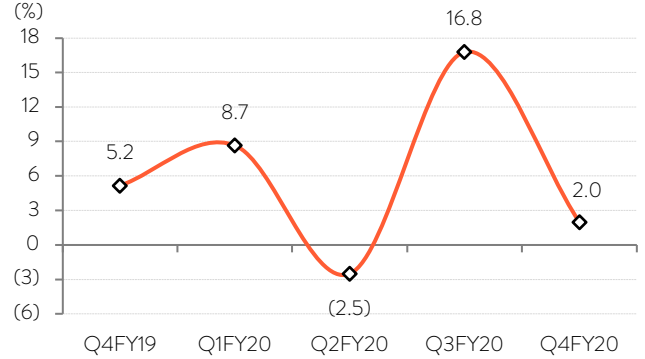
QUARTERLY TRENDS

FIG 3 – REVENUE & GROWTH



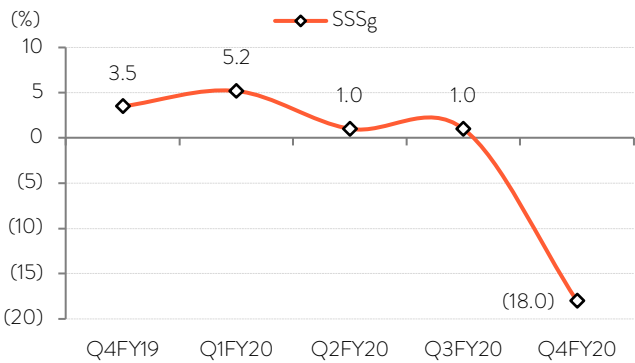
Source: Company, BOBCAPS Research

FIG 4 – OPERATING MARGINS



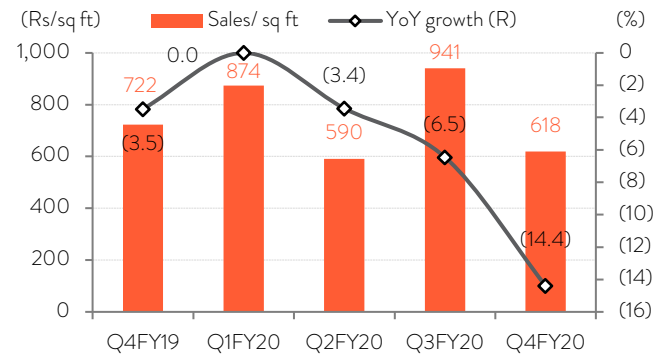
Source: Company, BOBCAPS Research

FIG 5 – SAME-STORE SALES GROWTH, YOY



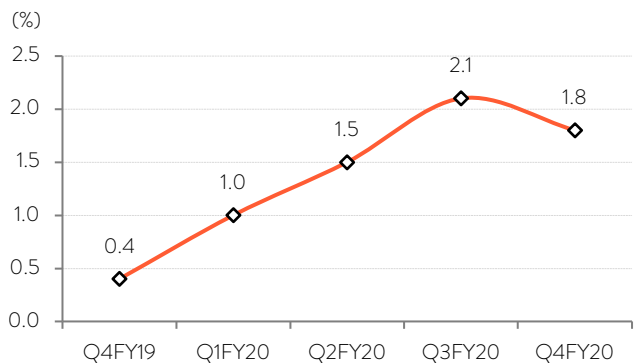
Source: Company, BOBCAPS Research

FIG 6 – REVENUE PER SQUARE FOOT PER MONTH



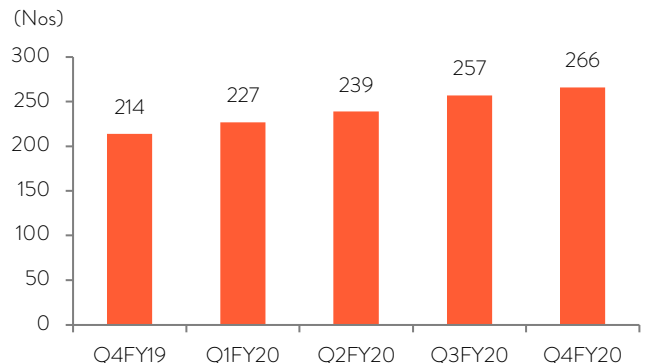
Source: Company, BOBCAPS Research

FIG 7 – INVENTORY SHRINKAGE



Source: Company, BOBCAPS Research

FIG 8 – NUMBER OF STORES



Source: Company, BOBCAPS Research

Earnings call highlights

- As per management, VMART lost Rs 750mn of sales in Q4FY20 due to the nationwide lockdown that began in late-March.
- Inventory days climbed 5 days YoY to 86 owing to the lockdown. The company has made a ~Rs 90mn Covid-related provision towards inventory.
- About 140 of 185 stores which have received permission are operational. Footfalls are at 40% of normal levels relative to the reduced operational hours.
- VMART expects demand from some rural segments to rise as farm incomes have been relatively unscathed by the pandemic, though consumption by the self-employed client base may take a hit. Further, a large portion of customers depend on remittances from major cities which have stopped as labourers return to their home towns.
- The company foresees downtrading by customers due to the impact of Covid-19 on income.
- Management does not envisage earlier end-of-season sales (EOSS) to unload inventory. About 45% of the inventory in-hand is not seasonal and hence there is no significant pressure to liquidate.
- On the cost front, the company aims to reduce 50% of fixed overheads. It is trying to renegotiate rentals with all its landlords and believes ~50% of them will agree to lower rents.
- Warehouse expansion in eastern India has been postponed for at least a year due to Covid-19. All store expansion plans have also been shelved till demand improves.
- The company will look at switching locations that are underperforming to better options given the market dynamics.
- The omni-channel is already operational and management expects 4-5% of revenues from this channel over the next 2-3 years. Margins here will be lower than the traditional channel.
- The company has banks credit lines of Rs 2.3bn of which only ~15% have been utilized till now.

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.

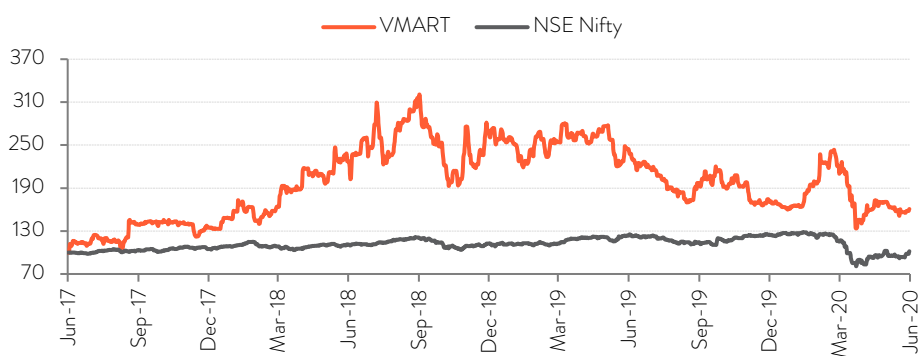
We cut our FY21/FY22 earnings estimates sharply by 68%/33% considering Covid-19 headwinds. Consequently, our Mar'21 target price stands revised down to Rs 1,560 (earlier Rs 2,320), set at an unchanged 30x one-year forward P/E. We also transition our forecast to Ind-AS 116 lease accounting standards. Maintain REDUCE.

FIG 9 – REVISED ESTIMATES

(Rs mn)	New		Old		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	14,622	21,872	22,032	27,763	(33.6)	(21.2)
EBITDA*	2,021	3,020	1,894	2,394	6.7	26.1
PAT	357	942	1,109	1,400	(67.8)	(32.8)

Source: BOBCAPS Research | *EBITDA not comparable as we have incorporated Ind-AS 116 accounting in our forecast

FIG 10 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Upside risks to our estimates include:

- faster-than-anticipated demand revival post lifting of lockdown,
- above-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 Q3 season.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P*	FY21E*	FY22E*
Total revenue	12,224	14,337	16,620	14,622	21,872
EBITDA	1,332	1,336	2,138	2,021	3,020
Depreciation	(229)	(276)	(939)	(1,006)	(1,181)
EBIT	1,103	1,060	1,198	1,015	1,839
Net interest income/(expenses)	(15)	(16)	(548)	(554)	(622)
Other income/(expenses)	39	44	45	21	55
Exceptional items	0	0	0	0	0
EBT	1,127	1,088	695	483	1,272
Income taxes	(358)	(365)	(202)	(125)	(331)
Extraordinary items	9	(107)	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	777	616	493	357	942
Adjustments	(9)	107	0	0	0
Adjusted net profit	768	724	493	357	942

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P*	FY21E*	FY22E*
Accounts payables	1,668	1,483	1,968	1,402	2,037
Other current liabilities	235	354	329	280	419
Provisions	116	169	183	146	219
Debt funds	6	219	10	100	50
Other liabilities	0	0	5,157	5,432	6,614
Equity capital	181	181	182	182	182
Reserves & surplus	3,293	3,911	4,408	4,750	5,661
Shareholders' fund	3,474	4,093	4,589	4,931	5,842
Total liabilities and equities	5,499	6,318	12,236	12,292	15,181
Cash and cash eq.	196	166	50	528	557
Accounts receivables	0	0	0	0	0
Inventories	3,071	3,290	4,779	3,846	4,794
Other current assets	317	443	473	488	590
Investments	340	607	79	700	1,000
Net fixed assets	1,447	1,655	1,749	1,916	2,457
CWIP	35	40	25	25	25
Intangible assets	0	0	0	0	0
Deferred tax assets, net	92	118	160	160	160
Other assets	0	0	4,921	4,629	5,598
Total assets	5,499	6,318	12,236	12,292	15,181

Source: Company, BOBCAPS Research | *As per Ind-AS 116

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P*	FY21E*	FY22E*
Net income + Depreciation	1,006	893	1,433	1,363	2,122
Interest expenses	15	16	548	554	622
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(400)	(356)	(1,046)	267	(204)
Other operating cash flows	(22)	(26)	(947)	(813)	(1,259)
Cash flow from operations	600	526	(13)	1,371	1,282
Capital expenditures	(397)	(489)	(614)	(524)	(972)
Change in investments	336	(266)	528	(621)	(300)
Other investing cash flows	0	0	(42)	0	0
Cash flow from investing	(61)	(755)	(128)	(1,145)	(1,272)
Equities issued/Others	20	28	0	0	0
Debt raised/repaid	(351)	213	(209)	90	(50)
Interest expenses	(15)	(16)	(34)	(17)	(8)
Dividends paid	(27)	(44)	0	(15)	(31)
Other financing cash flows	2	18	268	194	107
Cash flow from financing	(372)	200	25	252	19
Changes in cash and cash eq.	167	(30)	(116)	478	28
Closing cash and cash eq.	196	166	50	528	557

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P*	FY21E*	FY22E*
Reported EPS	42.8	33.9	27.2	19.7	51.9
Adjusted EPS	42.3	39.9	27.2	19.7	51.9
Dividend per share	2.0	1.7	0.0	0.7	1.4
Book value per share	191.4	225.4	252.8	271.6	321.8

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P*	FY21E*	FY22E*
EV/Sales	2.4	2.0	1.7	2.0	1.3
EV/EBITDA	22.0	21.8	13.6	14.4	9.6
Adjusted P/E	38.4	40.8	59.8	82.6	31.3
P/BV	8.5	7.2	6.4	6.0	5.1

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P*	FY21E*	FY22E*
Tax burden (Net profit/PBT)	68.2	66.5	71.0	74.0	74.0
Interest burden (PBT/EBIT)	102.1	102.7	58.0	47.5	69.2
EBIT margin (EBIT/Revenue)	9.0	7.4	7.2	6.9	8.4
Asset turnover (Revenue/Avg TA)	233.1	242.6	179.1	119.2	159.2
Leverage (Avg TA/Avg Equity)	1.7	1.6	2.1	2.6	2.6
Adjusted ROAE	24.9	19.1	11.4	7.5	17.5

Source: Company, BOBCAPS Research | Note: TA = Total Assets | *As per Ind-AS 116

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P*	FY21E*	FY22E*
YoY growth (%)					
Revenue	22.0	17.3	15.9	(12.0)	49.6
EBITDA	60.9	0.3	60.0	(5.4)	49.4
Adjusted EPS	101.0	(5.8)	(31.8)	(27.6)	163.7
Profitability & Return ratios (%)					
EBITDA margin	10.9	9.3	12.9	13.8	13.8
EBIT margin	9.0	7.4	7.2	6.9	8.4
Adjusted profit margin	6.3	5.0	3.0	2.4	4.3
Adjusted ROAE	24.9	19.1	11.4	7.5	17.5
ROCE	23.0	18.1	19.1	15.6	24.9
Working capital days (days)					
Receivables	0	0	0	0	0
Inventory	127	120	131	158	106
Payables	55	44	43	49	33
Ratios (x)					
Gross asset turnover	6.2	7.0	6.0	4.1	5.1
Current ratio	1.8	1.8	2.1	2.5	2.2
Net interest coverage ratio	72.1	65.7	2.2	1.8	3.0
Adjusted debt/equity	(0.1)	0.0	0.0	(0.1)	(0.1)

Source: Company, BOBCAPS Research | *As per Ind-AS 116

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

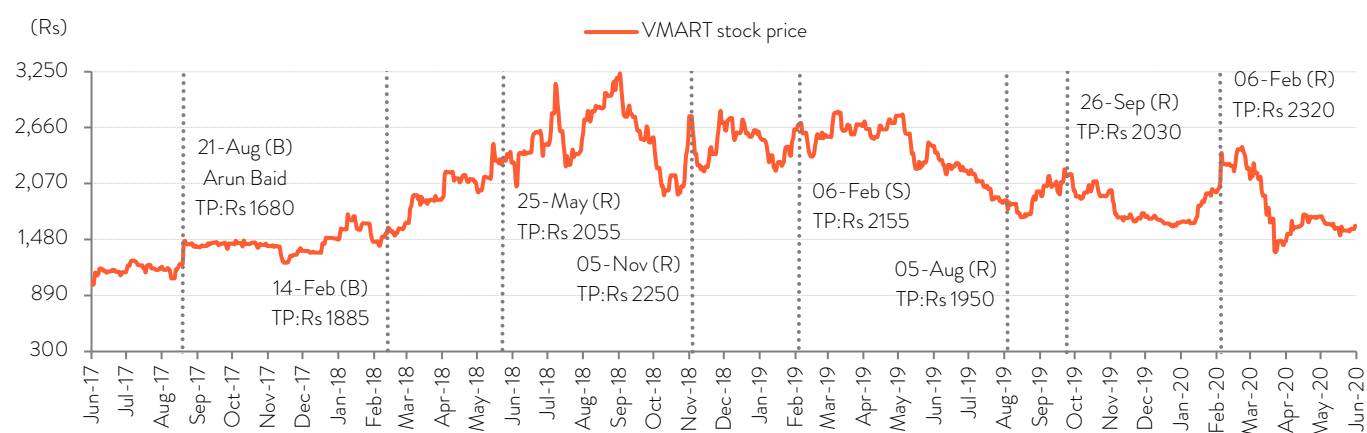
ADD – Expected return from >+5% to +15%

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)



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

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