

V-Mart Retail Ltd.

No. of shares (m)	18.13
Mkt cap (Rs crs/\$m)	3593/490.4
Current price (Rs/\$)	1982/27.1
Price target (Rs/\$)	2177/29.7
52 W H/L (Rs.)	3299/1221
Book Value (Rs/\$)	203/2.8
Beta	0.9
Daily NSE volume (avg. monthly)	19880
P/BV (FY19e/20e)	8.2/6.6
EV/EBITDA (FY19e/20e)	20.4/17.2
P/E (FY19e/20e)	36.8/31.0
EPS growth (FY18/19e/20e)	77.6/26.5/19.0
OPM (FY18/19e/20e)	10.9/11.6/11.8
ROE (FY18/19e/20e)	25.2/25.0/23.7
ROCE(18/19e/20e)	24.1/25.1/23.7
D/E ratio (FY18/19e/20e)	0.0/0.0/0.0
BSE Code	534976
NSE Code	VMART
Bloomberg	VMART IN
Reuters	VMAR.NS

Shareholding pattern

	%
Promoters	54.0
MFs / Banks / FIs	3.8
Foreign Portfolio Investors	30.4
Govt. Holding	-
Total Public & Others	11.8
Total	100.0

As on Sep 30, 2018

Recommendation

HOLD

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Highlights

- Less number of weddings, large base effect due to GST and reduction in average selling price of apparel – Rs 264 (\$3.9) in Q1FY19 vs Rs 269 (\$4.2) in Q1FY18- translated to a restrained topline expansion – up by 14.6% (yoy) last quarter, with sales per square feet declining by 4.5% (yoy) to Rs 874 (\$13.0). Despite promotions, superior branding and wider merchandise, same store sales growth, both in value and volume terms, fell drastically to 1.2% and 3.5% respectively, compared to 23.1% and 27.4% a year before.
- Growing presence in Tier-II, III and IV towns has enabled V-Mart to keep a check on its costs. Shrinkage element remained sustained at 1.3% of sales (1.2% of sales in the same period last year). Relatively low rentals and controlled operating expenditure (88% of sales in Q1FY19) allowed it to maintain OPM at 12.0% (11.8% in Q1FY18 and 7.8% in Q4FY18). Profit after tax grew by 11.2% (yoy) and stood at Rs 24.87 crs (\$3.7m).
- With addition of 8 new stores, total store count increased to 179 at the end of June from 149 a year back. Yet, V-Mart's in-depth understanding of regional fashion trend, thanks to its long standing presence in Tier – II and Tier- III locations, failed to improve its conversion rate, which remained flat at 60%, due to subdued demand and increasing competition.
- Contribution of private labels - Be Princess, Flick, Desi Mix, Charcoal, Twist, etc- to total sales is more than 55%. However, currently there is little currently margin difference between in-house brands and market labels. It has set up a design team which is working on creating differentiated products on the private label side.
- The stock currently trades at 36.8x FY19e EPS of Rs 53.82 and 31.0x FY20e EPS of Rs 64.03. Strong presence across Tier II, III and IV towns with a total network of 194 stores till date, has allowed it to enjoy high customer loyalty. Rollout of GST attracting 5% tax on apparel priced below Rs 1000 bodes well for the company as it derives 85% of revenue from this range of products. It is also attractively positioned to benefit from MSP hike, thus increasing consumer spending of rural areas. However, finding appropriate property for opening new stores (we expect its store count to reach 226 by FY20) remains a challenge. Growing brand visibility should aid in revenue growth at a CAGR of 17.8% over next two years. On balance, we maintain 'hold' recommendation on the stock with revised target of Rs 2177 based on 34.0x FY20e earnings over a period of 9-12 months.

	FY16	FY17	FY18	FY19e	FY20e
Income from operations	809.25	1001.73	1222.37	1450.17	1696.30
Other Income	1.17	4.14	4.14	4.52	6.76
EBITDA (other income included)	64.44	88.90	136.93	173.45	206.25
PAT after EO	26.44	43.28	76.97	97.40	115.88
EPS(Rs)	14.63	23.95	42.53	53.82	64.03
EPS growth (%)	-29.4	63.7	77.6	26.5	19.0

Industry Outlook

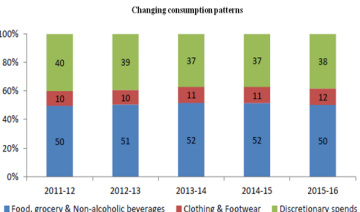
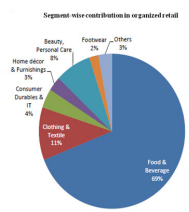
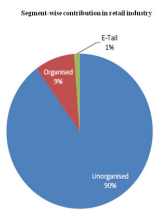
Indian Retail Industry - Opportunity

With the help of rise in income levels, growing aspirations, favorable demographics and ease of credit, the Indian retail market is expected to grow to USD 1.6 tn by 2026 from USD 641 bn in 2016 (source FICCI). Given its under penetration to total trade, modern retail is well poised for growth. While the overall retail market is expected to grow at 12% p.a. (India is fifth-largest destination in retail space), FICCI expects modern trade to expand twice as fast at 20% p.a. and traditional trade at 10%. Propelled by omni-channel retail, modern retail in India is expected to double to USD 25.7 bn from USD 13 bn in three years. Yet, discounting by online retailers has taken a toll on physical retailers due to the shift from physical to online platforms on heavy discounting, which has led retailers to rethink their business approach and to differentiate their product offering and experience. Consequentially, Indian retail industry is gradually adapting to e-commerce as an additional channel for reaching out to the customers and is starting to realize its benefits.

FDI is another powerful catalyst spurring competition in retail industry. 100% FDI allowance in online retail of goods and services by GOI through automatic route is providing clarity on the existing business of e-commerce companies operating in India. Notwithstanding near-term issues, the organized retail opportunity in India continues to attract interest from large Indian business houses, multinational retailers and entrepreneurs.

Global Retail Development Index, 2017*

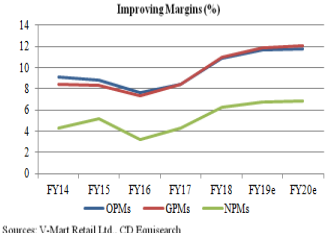
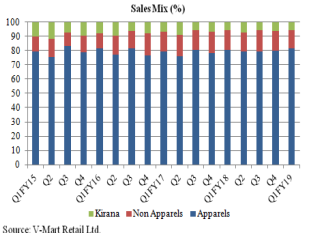
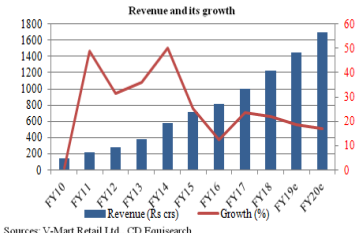
Country	Population in million	Per Capita GDP	National Retail Sales in USD Billion
India	1,229	6,659	1,271
China	1,378	15,424	3,128
Russia	144	26,709	434
Brazil	206	15,211	447
Indonesia	259	11,696	350
Turkey	80	21,747	241
Philippines	103	766	137
Saudi Arabia	32	54,078	114
Thailand	65	19,835	119
Nigeria	187	5930	109

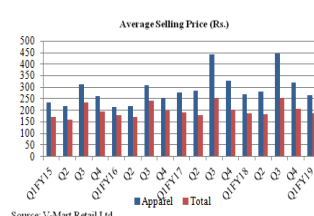
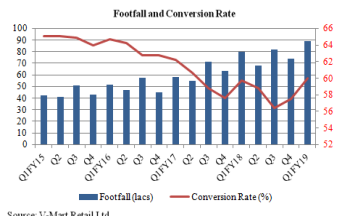


Despite being poised for robust growth, the organized retail industry is facing significant challenges. Fast changing fashion trends with e-commerce providing a quicker access to these trends pose a threat with respect to supply chain infrastructure and management. With India continuing to be an attractive retail market, many new entrants into the sector are increasing competition. Cost pressures and limited availability of quality real estate coupled with high rentals pose significant hindrance to the positive outlook of the industry.

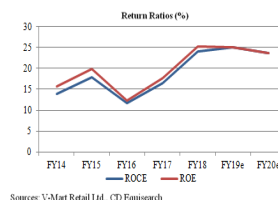
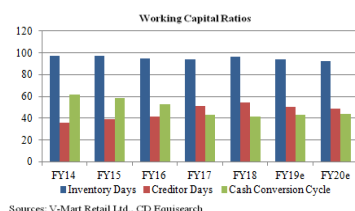
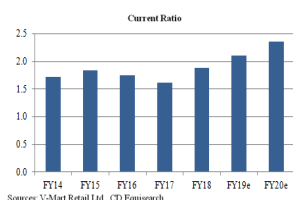
Financials & Valuations

Through relentless store expansion in propitious locations - majorly in Tier II, III and IV cities- V-Mart has been able to grow revenue at a CAGR of 27.7% from FY12 to FY18. It has continued to focus on fashion apparel, which contributed 93.8% of the company's revenue last fiscal - total revenue up by 22.0% (yoy), backed by 9% same stores sales growth (value) and 31 new store launches. The remaining was accounted by Kirana segment, whose share has come down from 24% in FY12 to 6.3% in FY18. With an expected rollout of 30 stores and 25 stores in FY19 and FY20 respectively, revenue should grow by 18.6% and 17.0% in current and next fiscal.

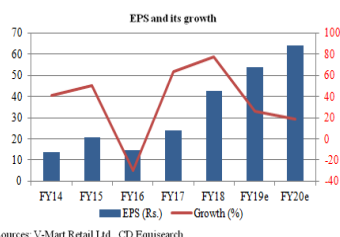




V-Mart's strategic presence in Tier II, III and IV cities has helped it generate benefits such as low rentals (4.3% of total revenue last fiscal) and ability to keep employee costs and other overhead costs under control. Total expenditure reduced to 89.1% of sales vs 91.5% in FY17, improving OPM by 240.5 bps to 10.9% last fiscal. Its ability to manage costs through stronger negotiation and operating leverage strengthened its profit after tax by 77.9% (yoy) to Rs 76.97 crs (\$11.9m).



V-Mart's ability to accelerate store rollout, coupled with enhanced local visibility, loyalty programs, promotions and offers, have driven footfalls – increased strikingly from ~9.2 mn in FY12 to 30.4 mn in FY18; though average footfall per store has grown only at a CAGR of 1.1% during the same period- and thus sales over the years. Focus on growing fashion aspiration in semi-urban areas justifies its recent penetration in Tier IV towns – out of 51 stores opened in last two fiscals, 22 stores were in Tier IV locations (Muzaffarnagar, Erode, to name a few) where the competitive intensity is likely lower. To increase economies of scale and strengthen its supply chain, it intends to launch new stores within 100-150 kms of existing stores. Yet, availability of space remains a key challenge. Expanding business in a new region could also affect profitability if the location has inadequate demand.



The stock currently trades at 36.8x FY19e EPS of Rs 53.82 and 31.0x FY20e EPS of Rs 64.03. V-Mart's relentless effort towards building stronger capabilities has helped it create brand value among its customers. Its share of private labels to total revenue is more than 55% compared to 10% of Shoppers Stop. It plans to widen its presence on social and digital media and penetrate in north-east India. Near debt-free status enables it to weather external shocks. Further, its focus on investing in technology for robust supply chain – it has invested in best-in-class data management system to forecast demand-supply patterns, invested in defined standard operating processes related to warehousing and supply chain management and employed dedicated personnel to address warehousing complexities- should reduce turnaround time. In view of higher margins, we have revised our FY19 earnings estimate by 20.4% (EPS of Rs 53.82 vs Rs 44.72 earlier). Yet, seasonality of business remains a concern, which V-Mart is trying to diversify by increasing its presence in new and existing markets - store count in states of J&K and Madhya Pradesh reached 4 and 6 respectively in Q1FY19 vs 1 and 3 respectively in FY13. On balance, we maintain 'hold' recommendation on the stock with revised target of Rs 2177 (previous target Rs 1230) based on 34.0x FY20e earnings over a period of 9-12 months. For more information, refer to our December report.

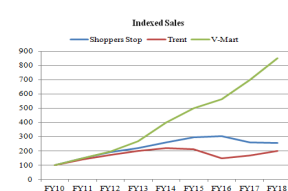
Cross Sectional Analysis

Company	Equity*	CMP	Mcap*	Sales*	Profit*	OPM (%)	NPM (%)	Int cov.	ROE (%)	Mcap/sales	P/BV	P/E
Shoppers Stop	44	476	4189	3477	64	6.4	1.9	4.9	7.5	1.2	4.3	65.0
Trent Ltd.	33	322	10716	2163	128	10.6	5.9	7.4	8.2	5.0	6.8	83.8
V-Mart	18	1982	3593	1268	79	11.0	6.3	95.5	24.2	2.8	9.8	45.2

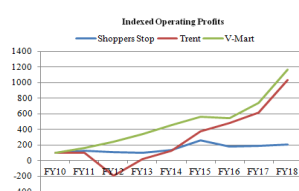
*figures in crores; standalone data; calculations on ttm basis.

Stung by increase in taxes (post GST) and reclassification due to adoption of IND AS, Shoppers Stop's topline recorded a de-growth of 12.2% (yoy) last quarter, the lowest amongst its peers, with non-apparel contributing 64.7% to its sales (62.8% in Q1FY18). Yet, controlled operating expenditure and significant reduction in interest to Rs 2.81 crs (\$0.4m) vs Rs 13.39 crs (\$2.1m) in the same period last year (it deleveraged its balance sheet and reduced debt by 84.8% to Rs 87.38 crs/\$13.4m last fiscal) helped expand after tax profit to Rs 9.77 crs (\$1.5m) from a loss of Rs 3.72 crs (-\$0.6m) in Q1FY18. It opened 3 new stores during the quarter and plans to expand its reach with a mix of brick and mortar stores - its store count stood at 242 in the end of last quarter- and online presence. .

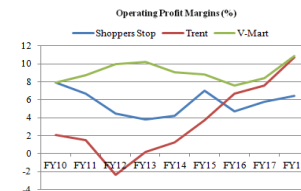
Trent Ltd's revenue from operations grew by 19.5% (yoy) in Q1FY19, mainly driven by 17% (yoy) uptick in revenue of Westside format, Trent's flagship concept. Operating profit improved by 21.3% (yoy), but decline in other income by 64.4% to Rs 5.69 crs (\$0.8m) slowed down improvement in net profit to 0.5% (yoy) last quarter. To tap growth opportunities in the Indian fashion retailing space, it acquired the value fashion offering of the Star ecosystem 'Zudio' from Trent Hypermarket Pvt Limited, with infrastructure and backend processes closely aligned with Westside, making it more efficient. The company foresees value fashion as one of the growth drivers in the medium to long term and intends to scale up the brand significantly in the coming years.



Sources: Companies, ACE Equity; Base Year FY10=100



Sources: Companies, ACE Equity; Base Year FY10=100



Sources: Companies, ACE Equity

Note: Graphs on standalone or consolidated data as applicable.

Financials

Quarterly Results

Figures in Rs crs

	Q1FY19	Q1FY18	% chg	FY18	FY17	% chg
Income From Operations	361.20	315.13	14.6	1222.37	1001.73	22.0
Other Income	0.89	1.11	-19.4	4.14	4.14	0.0
Total Income	362.09	316.23	14.5	1226.51	1005.87	21.9
Total Expenditure	317.98	278.02	14.4	1089.59	916.97	18.8
EBITDA (other income included)	44.11	38.22	15.4	136.93	88.90	54.0
Interest	0.20	0.49	-60.0	1.53	3.52	-56.6
Depreciation	6.55	5.38	21.7	22.93	18.55	23.6
PBT	37.36	32.34	15.5	112.47	66.82	68.3
Tax	12.50	9.98	25.2	34.76	22.92	51.7
PAT	24.87	22.36	11.2	77.70	43.90	77.0
Extraordinary Item	-	-	-	0.73	0.63	16.9
Net Profit	24.87	22.36	11.2	76.97	43.28	77.9
EPS(Rs)	13.72	12.37	10.9	42.53	23.95	77.6

Income Statement

Figures in Rs crs

	FY16	FY17	FY18	FY19e	FY20e
Income From Operations	809.25	1001.73	1222.37	1450.17	1696.30
Growth (%)	12.4	23.8	22.0	18.6	17.0
Other Income	1.17	4.14	4.14	4.52	6.76
Total Income	810.43	1005.87	1226.51	1454.68	1703.06
Total Expenditure	745.98	916.97	1089.59	1281.24	1496.81
EBITDA (other income included)	64.44	88.90	136.93	173.45	206.25
Interest	3.11	3.52	1.53	0.60	0.74
Depreciation	19.01	18.55	22.93	27.47	32.56
PBT	42.31	66.82	112.47	145.38	172.95
Tax	14.68	22.92	34.76	47.98	57.07
PAT	27.63	43.90	77.70	97.40	115.88
Extraordinary Item	1.20	0.63	0.73	-	-
Net Profit	26.44	43.28	76.97	97.40	115.88
EPS (Rs)	14.63	23.95	42.53	53.82	64.03

Balance Sheet

Figures in Rs crs

Balance Sheet	FY16	FY17	FY18	FY19e	FY20e
Sources of Funds					
Share Capital	18.07	18.07	18.10	18.10	18.10
Reserves	207.71	251.97	329.34	422.38	532.81
Total Shareholders Funds	225.78	270.04	347.44	440.48	550.90
Long Term Debt	0.00	0.60	0.32	0.30	0.25
Total Liabilities	225.78	270.63	347.76	440.78	551.15
Application of Funds					
Gross Block	94.07	134.91	184.95	237.66	283.26
Less: Accumulated Depreciation	0.00	17.61	40.20	67.67	100.23
Net Block	94.07	117.30	144.75	169.99	183.03
Capital Work in Progress	2.21	1.16	3.51	2.00	2.00
Investments	35.97	71.83	34.03	66.34	126.34
Current Assets, Loans & Advances					
Inventory	204.43	269.18	307.11	353.18	406.16
Cash and Bank	4.28	2.92	19.59	23.62	28.81
Short term loans (inc. other financial and other CA)	8.81	3.97	14.25	20.22	23.57
Total CA	217.52	276.06	340.95	397.02	458.54
Current Liabilities	141.98	213.30	193.77	214.57	240.34
Provisions-Short term	0.16	0.17	0.30	0.37	0.45
Total Current Liabilities	142.14	213.47	194.07	214.94	240.79
Net Current Assets	75.38	62.60	146.88	182.08	217.75
Net Deferred Tax Asset	7.44	7.86	9.20	11.62	13.84
Net long term assets (net of liabilities)	10.71	9.88	9.39	8.75	8.19
Total Assets	225.78	270.63	347.76	440.78	551.15

Financial Ratios

	FY16	FY17	FY18	FY19e	FY20e
Growth Ratios(%)					
Revenue	12.4	23.8	22.0	18.6	17.0
EBITDA	-2.3	40.5	54.5	27.7	18.9
Net Profit	-29.3	63.7	77.9	26.5	19.0
EPS	-29.4	63.7	77.6	26.5	19.0
Margins (%)					
Operating Profit Margin	7.6	8.5	10.9	11.6	11.8
Gross profit Margin	7.4	8.4	11.0	11.9	12.1
Net Profit Margin	3.3	4.3	6.3	6.7	6.8
Return (%)					
ROCE	11.7	16.5	24.1	25.1	23.7
ROE	12.4	17.7	25.2	25.0	23.7
Valuations					
Market Cap/ Sales	1.0	1.5	2.8	2.5	2.1
EV/EBITDA	13.4	16.5	24.9	20.4	17.2
P/E	32.1	34.4	44.7	36.8	31.0
P/BV	3.8	5.6	10.0	8.2	6.6
Other Ratios					
Interest Coverage	14.0	19.7	73.9	244.6	233.5
Debt Equity	0.1	0.1	0.0	0.0	0.0
Current Ratio	1.7	1.6	1.9	2.1	2.4
Turnover Ratios					
Fixed Asset Turnover	8.4	9.5	9.3	9.2	9.6
Total Asset Turnover	3.8	4.1	4.0	3.7	3.5
Inventory Turnover	3.9	3.9	3.8	3.9	3.9
Creditor Turnover	8.8	7.2	6.7	7.2	7.5
WC Ratios					
Inventory Days	94.6	94.3	96.5	94.1	92.6
Creditor Days	41.7	50.9	54.7	50.6	48.8
Cash Conversion Cycle	52.9	43.4	41.8	43.4	43.7

Cumulative Financial Data

Figures in Rs crs

Figures in Rs crs	FY12-14	FY15-17	FY18-20e
Income from operations	1240	2531	4369
Operating profit	120	210	501
EBIT	96	172	433
PBT	79	162	430
PAT	53	107	290
Dividend	5	9	16
Store count*	89	141	226
OPM (%)	9.6	8.3	11.5
NPM (%)	4.3	4.2	6.6
Interest coverage	5.7	16.0	150.8
ROE (%)	16.5	16.3	23.8
ROCE (%)	14.4	14.7	23.0
Debt-equity ratio*	0.3	0.1	0.0
Fixed asset turnover	8.7	9.0	9.7
Inventory turnover	3.1	3.5	3.8
Creditors turnover	8.5	6.9	6.9
Inventory days	116.7	103.1	95.6
Creditor days	43.0	53.0	52.7
Cash conversion cycle	73.7	50.1	42.9
Dividend payout ratio (%)	8.5	8.0	5.6

FY 12-14 implies three year period ending fiscal 14; *as on terminal year

V-Mart's ability to accelerate store rollout- store count increased to 141 at the end of FY17 from 89 in FY14- and maximization of same store sales, thanks to its enhanced local visibility, attractive offers, promotions and loyalty programs, has aided in topline growth of 2.0x during FY15-17 period from the previous three year period ending FY14. Its long-standing presence in Tier-II and Tier-III locations helped it cater to consumer preferences in those regions, thereby improving its inventory turnover ratio to 3.5 in FY15-17 period (see table). However, OPM failed to improve during the same period due to higher expenditure, especially in FY16 (employee cost to sales increased to 7.7% vs average of 6.3% from FY10-15) when OPM fell to 7.6% (lowest since FY10).

Led by robust expansion plans – we expect number of stores to reach 226 by end of FY20 - and increase in customer reach, V-Mart should witness 1.7x increase in topline during FY18-20 period. Controlled sourcing and operating costs should buoy margins during the projected period- OPM and NPM of 11.5% and 6.6% respectively. Its focus on scaling warehousing capacity and leveraging advanced warehouse merchandise planning system should moderate inventory days and thus reduce cash conversion cycle (see table).

Financial Summary- US dollar denominated

million \$	FY16	FY17	FY18	FY19e	FY20e
Equity capital	2.7	2.8	2.8	2.5	2.5
Shareholders funds	33.6	41.2	52.7	59.4	74.3
Total debt	4.1	5.5	0.1	0.1	0.1
Net current assets	11.0	9.2	21.9	24.1	28.8
Total assets	33.6	41.3	52.8	59.4	74.3
Revenues	123.6	149.3	189.7	197.9	231.5
EBITDA	9.6	13.1	21.1	23.7	28.2
EBDT	9.1	12.6	20.8	23.6	28.0
PBT	6.2	9.8	17.3	19.8	23.6
PAT	4.0	6.5	11.9	13.3	15.8
EPS(\$)	0.22	0.36	0.66	0.73	0.87
Book value (\$)	1.9	2.3	2.9	3.3	4.1

Income statement figures translated at average rates; balance sheet and cash flow at year end rates; projections at current rates(Rs 73.26/\$). All dollar denominated figures are adjusted for extraordinary items.

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buy: >20% accumulate: >10% to ≤20% hold: ≥-10% to ≤10% reduce: ≥-20% to <-10% sell: <-20%

Exchange Rates Used- Indicative

Rs/\$	FY16	FY17	FY18
Average	65.46	67.09	64.45
Year end	66.33	64.84	65.04

All \$ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.