

# V-Mart Retail

BUY

CMP Rs2,498

Target Rs2,400

Downside 4%

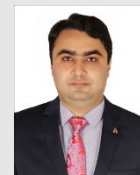
## 3Q investor call takeaways

### Underlying demand still weak, good work on cash flows and margins; expect some correction post recent run-up

- ✓ **Our view** – After the recent run-up, we believe some correction can be expected in the near term with underlying demand still exhibiting weakness, competition not reducing significantly and some pressure on margins expected with normalization of costs and yarn inflation. While the medium to long term outlook remains strong with V-Mart expected to gain market share and successfully scale up its presence in new geographies, current valuations look rich. We would suggest waiting for corrections for fresh entry in the stock. The upcoming equity fund raise can also lead to some correction. We maintain our estimates for now with a TP of Rs 2,400 based on 40x FY23E earnings.
- ✓ **Management commentary** – Industry situation has improved significantly as festive demand was good and social events have restarted; frequency of visits from shoppers remained low but average bill size increased; farmer income increased but spending still cautious given uncertainties; urban businesses also coming back to normalcy gradually; winter portfolio did well supported by good marriage season but still not fully normalized; small unorganized apparel retailers under pressure due to supply chain, liquidity and social distancing issues; some regional retailers also faced inventory and cash flow issues; national retailers continued to expand footprint; e-com following discounting strategy.
- ✓ **Quarter highlights** – Smaller towns have fared relatively better than larger cities, operational restrictions in few states even in Oct-Nov; festive period muted in October but recovered sharply around Diwali and winter season; seeing some slowdown again towards late December post marriage season; sharp reduction in inventory from 550 to 360cr yoy in beginning of quarter but still did decent sales; reduced discounting and promotional activities; ASP up 2%, avg bill size up 16%, conversion rate high at 62%; gross margins up 40bps given fresh inventory and high pricing power; per store inventory lower by 35% without aggressive liquidation, shrinkage normalized to 0.9%, 11cr capex in 3Q and 17cr in 9M, 100cr cash on books; restarted expense normalization (21 cr rental savings in 9M); scaling up and streamlining online operations, still less than 1% of sales.
- ✓ **Demand outlook** – Full recovery is still some time away for fashion consumption, could reach 84% of normal sales despite multiple tailwinds like good festive, winter and marriage season indicating some underlying weakness given smaller size of social gatherings and need-based buying; but don't see long term impact on demand.
- ✓ **Regional competition** – Consistent execution and growth discipline remain key competitive advantages.
- ✓ **New store formats** – Pilots being run for last year in 6-7 locations for new formats; new stores will be opened in new formats – Value Dialup format for Tier 4 towns is a value pricing format and Fashion Dialup is a fresh look and feel; will gradually refurbish all stores under new format.
- ✓ **Employee cost** – No reduction in salaries but company did not fill up some positions at store level which will gradually increase now but still remain below historical levels.

**HIMANSHU NAYYAR**

Lead Analyst

 himanshu.nayyar@ysil.in  
 +91 9920915754

**AAKASH FADIA**

aakash.fadia@ysil.in

**AMAR AMBANI, Sr. President, Head of Research**

amar.ambani@ysil.in

# V-Mart Retail

- ✓ **Margin outlook** – Difficult to expand significantly as employee increments will be given and RM cost pressures will also increase given rising yarn and fabric prices.
- ✓ **Inventory outlook** – Currently working at all-time low inventory, will rebuild it gradually albeit will remain lower than historical levels.
- ✓ **Store expansion** – Will maintain long-term trajectory at annual increase of 20-25% in retail area.

## V-Mart Retail 3QFY21 results

- ✓ **Result summary** – While topline was below expectations, strong margin performance led to an earnings beat; revenue/EBITDA/PAT decline of 16%/11%/18% respectively.
- ✓ **Topline** – Revenue decline was 16% for the quarter, led by a decent recovery in the festive, winter and marriage season albeit it fell short of our expectations.
- ✓ **Margins** – Margins surprised positively with an uptick of 130bps to 22.1% with stable gross margins and benefits of cut down in discretionary spends, indicating better sales mix and lower than expected discounting.
- ✓ **Footprint expansion** – The company has opened net 10 stores during the quarter, taking the total store count to 274.

## Exhibit 1: Result summary

YE March (Rs mn)	3QFY21	3QFY20	2QFY21	y-y (%)	q-q (%)
Net Revenues	4,700	5,622	1,755	(16.4)	167.8
Purchase of traded goods	2,975	3,581	1,250	(16.9)	138.0
(% of sales)	63.3	63.7	71.2		
Employee cost	325	406	300	(20.0)	8.1
(% of sales)	6.9	7.2	17.1		
Others	362	467	208	(22.5)	74.0
(% of sales)	7.7	8.3	11.9		
EBITDA	1,039	1,168	-3	(11.1)	nm
EBITDA margin (%)	22.1	20.8	(0.2)		
Other income	3	4	150	(33.7)	(98.1)
PBIDT	1,041	1,172	147	(11.2)	609.7
Depreciation	254	245	257	3.7	(1.4)
Interest	150	158	147	(4.9)	2.4
PBT	637	770	-257	(17.2)	nm
Tax	158	188	-68	(15.5)	nm
ETR (%)	24.9	24.4	26.3		
Adjusted PAT	479	582	-190	(17.7)	nm
PATAMI margin	10.2	10.4	(10.8)		
Extraordinary income/ (exp.)	-	-	-		
Reported PAT	478.9	582.2	-189.6	(17.7)	nm
No. of shares (mn)	18.1	18.1	18.1		
Adj EPS (Rs)	26.4	32.1	(10.5)		

## DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

## DISCLOSURE OF INTEREST

Name of the Research Analyst : Himanshu Nayyar, Aakash Fadia

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

### YES Securities (India) Limited

**Registered Address:** Unit No. 602 A, 6th Floor, Tower 1 & 2,  
One International Center, Senapati Bapat Marg, Elphinstone Road,  
Mumbai - 400013, Maharashtra, India  
Email: [research@ysil.in](mailto:research@ysil.in) | Website: <https://yesinvest.in>

**Registration Nos.:** CIN: U74992MH2013PLC240971 | SEBI Single  
Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member  
Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 |  
MERCHANT BANKER: INM000012227 | RESEARCH ANALYST:  
INH000002376 | INVESTMENT ADVISER: INA000007331 | Sponsor and  
Investment Manager to YSL Alternates Alpha Plus Fund (Cat III AIF) SEBI  
Registration No.: IN/AIF3/20-21/0818 | AMFI ARN Code - 94338 |

**Details of Compliance Officer:** Vaibhav Purohit (For Broking / Research /  
Investment Adviser): Email: [compliance@ysil.in](mailto:compliance@ysil.in) /  
Contact No.: 022-33479208 | Dhanraj Uchil (For Merchant Banking):  
Email: [ghanraj.uchil@ysil.in](mailto:ghanraj.uchil@ysil.in) / Contact No.: 022-33479684

## **RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS**

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Potential return >15% over 12 months

**ADD:** Potential return +5% to +15% over 12 months

**REDUCE:** Potential return -10% to +5% over 12 months

**SELL:** Potential return <-10% over 12 months

**NOT RATED / UNDER REVIEW**

## **ABOUT YES SECURITIES (INDIA) LIMITED**

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE, MCX & NCDEX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.