

'Unlimited' to provide expansion into South India...

About the stock: V-Mart, having over the years built its fortress in non-tier I cities, is well poised to capture market share in the growing ~₹ 2.5 trillion value fashion industry. The company enjoys strong moats that would provide an edge over increasing competition in tier III-IV regions.

- V-Mart follows a cluster based approach of adding stores within a radius of 50-100 km. This gives it better economies of scales, supply chain efficiencies and better understanding of fashion needs of the specific region
- The company, over the last two years, has expanded its reach in the interior parts of the country by opening stores in tier IV cities (~12% of total stores)

Conference call highlights: We attended the V-Mart conference call with regard to its acquisition of 'Unlimited' store brand from Arvind Fashions. The key highlights of the same are mentioned below:

- V-Mart has signed definitive agreements to acquire 74 existing stores from Arvind Lifestyle Brands, a subsidiary of Arvind Fashions, for a cash consideration of ₹ 150 crore. The company will also make some contingent payments (2% of revenue in first two years and 1% of revenue in the third year) based on achievement of certain revenue related milestones
- V-Mart is one of the strongest players in value fashion in the northern and eastern region, primarily operating in tier II/III cities. It operates on a cluster based philosophy and did not have a presence in southern India. With the acquisition of 'Unlimited' store brand from Arvind Fashions it will be able to have another 74 stores in its portfolio and cater to the fashion needs of family in western and southern markets of India
- V-Mart is likely to continue its one nation one brand strategy. However, they may decide further course of action depending on customer response. V-Mart currently has 282 stores and post this acquisition the store network would increase to 356 stores with presence in 229 cities

What should investors do? V-Mart has been a consistent compounder with stock price appreciating at 45% CAGR in the last five years.

- We continue to remain structurally positive and maintain **BUY** rating

Target Price and Valuation: We value V-Mart at ₹ 4100 i.e. 22x FY23E EV/EBITDA

Key triggers for future price performance:

- Factoring in the acquisition, we increase our FY22E-23E EBITDA estimates by 6-10%, respectively
- We like V-Mart as a structural long term story to play the unorganised to modern retail shift. We pencil in revenue, EBITDA CAGR of 62%, 66%, respectively, in FY21-23E (on favourable base)
- Robust liquidity position (₹ 415 crore as on FY21) to fund capex requirements and investments towards 'Unlimited' format



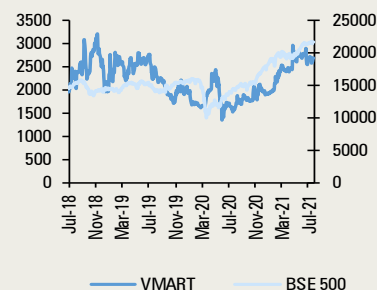
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	6,604.3
Total Debt (FY21) (₹ crore)	-
Cash & Investment (FY21) (₹ crore)	416.9
EV (₹ crore)	6,187.4
52 Week H / L	3607 / 1700
Equity Capital (₹ crore)	19.7
Face Value (₹)	10.0

Shareholding pattern

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	51.2	50.8	50.6	46.7	46.7
FII	23.1	23.2	22.6	24.4	23.4
DII	17.3	18.5	17.6	20.8	20.9
Others	8.5	7.6	9.2	8.1	9.1

Price Chart



Recent Event & Key risks

- Acquisition of 74 Unlimited stores to provide expansion in South India
- Key Risk:** (i) Slow ramp up of store network (ii) Lower than estimated EBITDA margin

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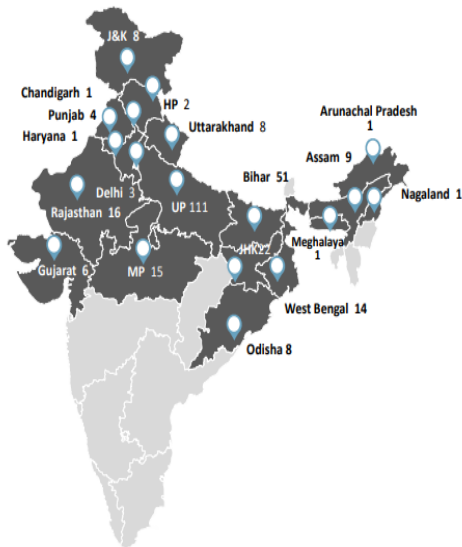
Key Financial Summary

Financials	FY19	FY20	FY21E	5 year CAGR (FY15-FY20)	FY22E	FY23E	2 year CAGR (FY21-FY23E)
Net Sales	1,433.7	1,662.0	1,075.5	18.2%	1,811.6	2,827.5	62.1%
EBITDA	132.9	213.7	131.2	27.4%	220.1	363.1	66.3%
PAT	61.6	49.3	-6.2		39.2	115.9	
P/E (x)	98.8	123.5	NA		168.6	57.0	
EV/Sales (x)	4.2	3.7	5.8		3.5	2.3	
EV/EBITDA (x)	45.2	28.4	47.2		29.1	17.9	
RoCE (%)	27.2	27.0	6.0		13.6	23.6	
RoE (%)	15.0	10.7	-0.8		4.5	11.9	

Other highlights of conference call

- The acquisition is in line with the company’s policy on spend per new store (₹ 1 crore on inventory and ₹ 1 crore on capex). Hence 74 stores acquisition at total cost of ~ ₹ 150 crore appears reasonable
- The acquisition of Unlimited store brand would speed up its entry into regions where it has negligible presence. The management indicated that if it were to organically expand into the geography catered by Unlimited store (primarily South and West India), the company would have taken at least two years to have a similar retail footprint
- The management will try to enhance the efficiency of stores by tweaking product portfolio, sourcing, etc. The focus would be to increase the revenue per square feet and improve the store level EBITDA of profit making stores
- The management also indicated that the company has not taken over any liabilities of the Unlimited brand. On the working capital front, the number of inventory and debtor days are not going to change significantly
- The focus of the management will be to increase footfalls in the stores, increase the quantity of goods sold per customer and also acquire new customers
- On the V-Mart store addition front, the management guided that it would continue to open between 40 and 50 stores annually

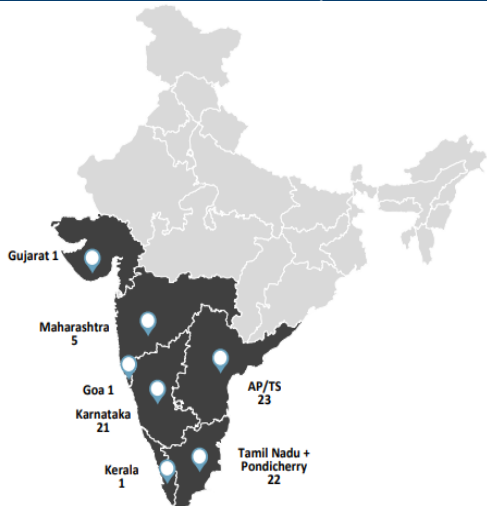
Exhibit 1: V-Mart store footprint



Tier	Cities	Stores	% of Stores
Tier I	17	64	23%
Tier II	16	40	14%
Tier III	124	143	51%
Tier IV	35	35	12%
Total	192	282	100%

Source: Company, ICICI Direct Research

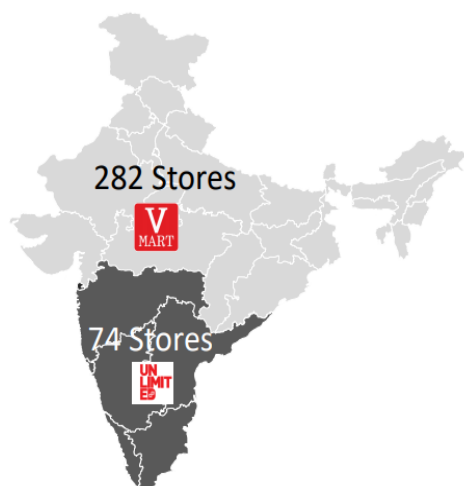
Exhibit 2: Unlimited store footprint



Tier	Cities	Stores	% of Stores
Tier I	4	33	45%
Tier II	10	15	20%
Tier III	12	14	19%
Tier IV	11	12	16%
Total	37	74	100%

Source: Company, ICICI Direct Research




Exhibit 3: Combined footprint: V-Mart + Unlimited



Tier	Cities	Stores	% of Stores
Tier I	21	97	27%
Tier II	26	55	15%
Tier III	136	157	44%
Tier IV	46	47	13%
Total	229	356	

Source: Company, ICICI Direct Research

Exhibit 4: Pan-India player with revenue > ₹ 2000 crore

			
No of stores	282	74	356
Total Area (lacs sq ft)	23.0	7.8	30.8
Cities	192	37	229
States	19	7	25*
Revenue (FY20; Rs Cr)	1,662	533	2,195

Note: Gujarat is an overlapping state; hence excluded from the combined count.

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21A	FY22E	FY23E
Net Sales	1,662.0	1,075.5	1,811.6	2,827.5
Growth (%)	15.9	(35.3)	68.4	56.1
Total Raw Material Cost	1,126.3	723.6	1,231.9	1,922.7
Gross Margins (%)	32.2	32.7	32.0	32.0
Employee Expenses	153.6	116.9	159.4	234.7
Other Expenses	168.4	103.8	200.2	307.1
Total Operating Expenditure	1,448.3	944.3	1,591.5	2,464.5
EBITDA	213.7	131.2	220.1	363.1
EBITDA Margin	12.9	12.2	12.1	12.8
Interest	54.8	59.0	64.5	73.5
Depreciation	93.9	103.0	118.2	150.6
Other Income	4.5	21.0	15.0	16.0
Exceptional Expense	-	-	-	-
PBT	69.5	(9.7)	52.4	154.9
Total Tax	20.2	(3.5)	13.2	39.0
Profit After Tax	49.3	(6.2)	39.2	115.9

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21A	FY22E	FY23E
Equity Capital	18.2	19.7	19.7	19.7
Reserve and Surplus	440.8	805.5	842.3	950.1
Total Shareholders funds	458.9	825.2	862.0	969.8
Total Debt	1.1	-	-	-
Non Current Liabilities	531.5	587.3	587.3	587.3
Source of Funds	991.5	1,412.5	1,449.3	1,557.1
Gross block	260.4	301.5	431.4	694.9
Less: Accum depreciation	89.1	125.7	176.6	239.1
Net Fixed Assets	171.3	175.8	254.8	455.8
Capital WIP	2.5	2.2	97.5	2.5
Intangible assets	3.7	2.8	2.8	2.8
Investments	7.9	389.5	161.8	65.9
Inventory	477.9	428.3	546.0	774.7
Cash	5.8	27.5	36.8	25.3
Debtors	-	-	-	-
Loans & Advances & Other	41.2	53.1	42.7	53.2
Total Current Assets	524.9	508.9	625.5	853.1
Creditors	196.8	191.7	218.4	348.6
Provisions & Other CL	35.4	22.4	22.4	22.5
Total Current Liabilities	232.2	214.1	240.8	371.1
Net Current Assets	292.7	294.8	384.6	482.0
LT L& A, Other Assets	513.5	547.4	547.8	548.1
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	991.5	1,412.5	1,449.3	1,557.1

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21A	FY22E	FY23E
Profit/(Loss) after taxation	49.3	-6.2	39.2	115.9
Add: Depreciation	93.9	103.0	118.2	150.6
Net Increase in Current Assets	-158.0	29.6	-107.6	-239.5
Net Increase in Current Liabilities	30.5	-18.2	26.8	130.3
CF from operating activities	15.8	108.2	76.6	157.3
(Inc)/dec in Investments	52.8	-381.6	227.7	95.8
(Inc)/dec in Fixed Assets	-41.3	-39.9	-225.2	-168.5
Others	0.0	0.0	0.0	0.0
CF from investing activities	11.5	-421.5	2.5	-72.7
Inc / (Dec) in Equity Capital	0.0	1.5	0.0	0.0
Inc / (Dec) in Loan	1.0	-1.1	0.0	0.0
Others	-41.7	334.5	-69.7	-96.2
CF from financing activities	-40.7	334.9	-69.7	-96.2
Net Cash flow	-13.4	21.6	9.4	-11.5
Opening Cash	19.2	5.8	27.5	36.8
Closing Cash	5.8	27.5	36.8	25.3

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21A	FY22E	FY23E
Per share data (₹)				
EPS	27.2	-3.2	19.9	58.9
Cash EPS	78.9	49.2	80.0	135.4
BV	252.8	419.2	437.9	492.7
DPS	2.1	0.0	1.2	4.1
Cash Per Share	3.2	14.0	18.7	12.8
Operating Ratios (%)				
EBITDA margins	12.9	12.2	12.1	12.8
PBT margins	4.2	-0.9	2.9	5.5
Net Profit margins	3.0	-0.6	2.2	4.1
Inventory days	105.0	145.4	110.0	100.0
Debtor days	0.0	0.0	0.0	0.0
Creditor days	43.2	65.1	44.0	45.0
Return Ratios (%)				
RoE	10.7	-0.8	4.5	11.9
RoCE	27.0	6.0	13.6	23.6
RoIC	27.9	12.1	17.6	26.0
Valuation Ratios (x)				
P/E	123.5	NA	168.6	57.0
EV / EBITDA	28.4	47.2	29.1	17.9
EV / Sales	3.7	5.8	3.5	2.3
Market Cap / Revenues	3.7	6.1	3.6	2.3
Price to Book Value	13.3	8.0	7.7	6.8
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.0
Debt/EBITDA	0.0	0.0	0.0	0.0
Current Ratio	2.2	2.2	2.4	2.2
Quick Ratio	0.2	0.2	0.2	0.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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