

Healthy liquidity to support growth aspirations...

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 has over the last two years expanded its reach in the interior parts of the country by opening stores in tier IV cities (~12% of total stores)

Q1FY22 Results: Covid induced lockdowns weighed on the performance with revenue recovery rate plunging from ~88% in Q4FY21 to ~40% in Q1FY22.

- On a low base, revenue grew 127% YoY to ₹ 177.4 crore (~40% of pre-Covid levels)
- Reported EBITDA loss of ₹ 2.0 crore in Q1FY22 (Q1FY21: (-) ₹ 5.8 crore, I-direct estimate: ₹ (-) ₹ 3.0 crore)
- Other income came in at ₹ 4.5 crore (Q1FY21: ₹ 1.4 crore) owing to higher cash balance. PBT losses were at ₹ 38.5 crore (Q1FY21: (-) ₹ 45.4 crore)

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

- We maintain **BUY** recommendation on the stock

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

Key triggers for future price performance:

- 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 a favourable base)
- Recent acquisition of 'Unlimited' store brand (74 stores) will enable V-Mart to cater to the fashion needs in the western and southern markets of India (where V-Mart has a minimal presence)
- We expect total retail space to increase at ~19% CAGR in FY21-23E with total area of 3.2 million square feet by FY23E (excluding Unlimited stores)
- Robust liquidity position (₹ 335 crore as on Q1FY22) to fund store capex requirements and investments towards 'Unlimited' format

Alternate Stock Idea: Apart from V-Mart, in our retail coverage we also like Trent.

- Inherent strength of brands (Westside, Zudio, Zara) and proven business model position Trent as a key beneficiary of economy unlock theme
- BUY with a target price of ₹ 1100/share



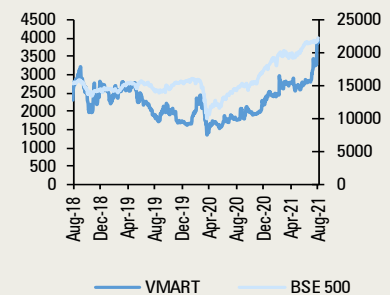
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	6,820.9
Total Debt (FY21) (₹ crore)	-
Cash & Investment (FY21) (₹ crore)	416.9
EV (₹ crore)	6,403.9
52 Week H / L	4075 / 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



Key risks

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	FY21A	5 Year CAGR (FY16-21)	FY22E	FY23E	2 Year CAGR (FY21-23E)
Net Sales	1,934.2	2,080.1	2,519.2	4.1%	3,022.6	3,389.3	16.0%
EBITDA	155.7	183.2	376.7		474.5	549.1	20.7%
Adjusted PAT	59.7	73.1	249.1		345.4	384.4	24.2%
P/E (x)	89.3	73.0	21.4		15.4	13.9	
EV/EBITDA (x)	35.9	30.2	14.9		11.4	9.3	
RoCE (%)	10.0	14.6	20.2		24.4	22.5	
RoE (%)	6.1	7.4	19.4		21.2	19.1	

Key takeaways of recent quarter & conference call highlights

- Owing to Covid induced lockdowns and weak demand, footfalls declined ~57% QoQ to 31 lakh footfalls (up 2x YoY). However, conversion ratio was better at 70.7% (Q4FY21: 61.1%, Q1FY21: 68.2%). The company added three new stores during the quarter, taking total store count to 282 (2.3 million sq ft)
- Average realisations inched up ~19% YoY to ₹ 295 for apparels while blended ASP improved 8% YoY ₹ 193. Share of fashion segment increased 120 bps YoY to 91%, while share of grocery division fell 120 bps YoY to 9%. Subsequently, average transaction size was higher by 3% YoY to ₹ 848
- On the balance sheet front, inventory days reduced by ~20 days to 100 QoQ but higher payment to creditors resulted in negative OCF worth ₹ 25.0 crore. The company continues to have robust liquidity position worth ₹ 336 crore (₹ 415 crore in FY21)
- The company has passed on the increase in RM prices (cotton prices), which has resulted in stable margins. Gross margins improved marginally by 20 bps YoY (up 120 bps QoQ) to 31.0%. Employee expenses remained constant QoQ at ₹ 33.4 crore, while other expenses have declined 34% QoQ to ₹ 23.5 crore. Subsequently, the company reported EBITDA loss of ₹ 2.0 crore in Q1FY22 (Q1FY21: (-) ₹ 5.8 crore, I-direct estimate: ₹ (-) ₹ 3.0 crore)
- Other income came in at ₹ 4.5 crore (Q1FY21: ₹ 1.4 crore) owing to higher cash balance. PBT losses were at ₹ 38.5 crore (Q1FY21: (-) ₹ 45.4 crore, I-direct estimate: (-) ₹ 39.0 crore)

Q1FY22 Earnings conference call highlights:

- The number and intensity of Covid cases was higher in smaller towns in the second wave. Hence, in Q1FY22, V-Mart was more impacted than the first wave. The stores were operational only for 49% of total operational days. Also, lower operational hours impacted the operations of stores
- The first two weeks of April had seen a good performance but the last two weeks of April and May were a washout with negligible revenues. Recovery started gradually from June and July has seen good pent up demand. However, key states of Uttar Pradesh and Bihar are still facing restrictions on trade, which is impacting the pace of revenue recovery for V-mart
- The company has taken price hikes in the range of 5-6% across product categories to mitigate the impact of input cost inflation
- The online sales have been trending better and the company is looking at increasing its omni channel revenue share. The company is planning to operate through hyper local delivery model for online sales. The current share of online sales is around 1% and the company is targeting to increase it to 5% over the next three years
- On the retail footprint expansion front, the company reaffirmed its plan to add 20-25% of retail space annually in FY22 and FY23
- On the rental waiver front the management indicated that they may be able to secure marginal rent waivers only as there was no complete lockdown and also store owners have been reluctant in providing substantial rental waivers for Q1FY22
- Aiming to complete integration with 'Unlimited' brand by September 1, 2021

Exhibit 1: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Revenue	177.4	155.0	78.1	127.3	351.9	-49.6	Footfalls declined 57% QoQ as stores remained shut during majority of the period
Raw Material Expense	122.4	110.0	54.0	126.6	247.0	-50.4	
Gross Profit	55.0	45.0	24.0	128.8	104.9	-47.5	
Gross Profit Margin	31.0	29.0	30.8	20 bps	29.8	120 bps	Increase in ASP and better product mix resulted in steady gross margins
Employee exp	33.4	28.0	18.9	77.2	35.5	-5.9	
Other Exp	23.5	20.0	11.0	113.8	35.8	-34.2	Curtailed other expenses on a QoQ basis
EBITDA	-2.0	-3.0	-5.8	-	33.6	PL	
EBITDA Margin (%)	-1.1	-1.9	-7.5	-	9.5	PL	
Depreciation	25.5	26.1	26.3	-3.2	25.6	-0.4	
Other Income	4.5	5.0	1.4	224.5	4.3	3.9	
Interest	15.6	14.9	14.6	6.7	14.6	6.6	
Exceptional Income	-	-	-	-	-	-	
PBT	-38.5	-39.0	-45.4	-	-2.3	-	
Tax Outgo	-9.8	0.0	-11.7	-16.4	-0.8	1,095.1	
PAT	-28.7	-39.0	-33.6	-	-1.5	-	

Source: Company, ICICI Direct Research

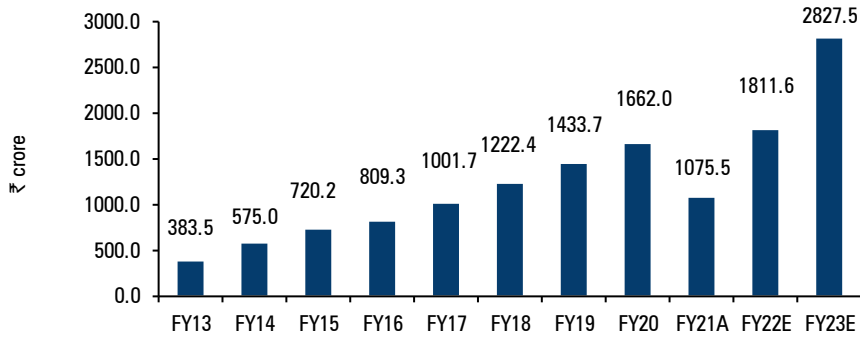
Exhibit 2: Change in estimates

(₹ Crore)	FY 21	FY 22E			FY 23E		
	Actual	Old	New	% Change	Old	New	% Change
Revenue	1,075.5	1,811.6	1,811.6	0.0	2,827.5	2,827.5	0.0
EBITDA	131.2	220.1	220.1	0.0	363.1	363.1	0.0
EBITDA Margin (%)	12.2	12.1	12.1	0 bps	12.8	12.8	0 bps
PAT	-6.2	39.2	39.2	0.0	115.9	115.9	0.0
EPS (₹)	-3.2	19.9	19.9	0.0	58.9	58.9	0.0

Source: Company, ICICI Direct Research

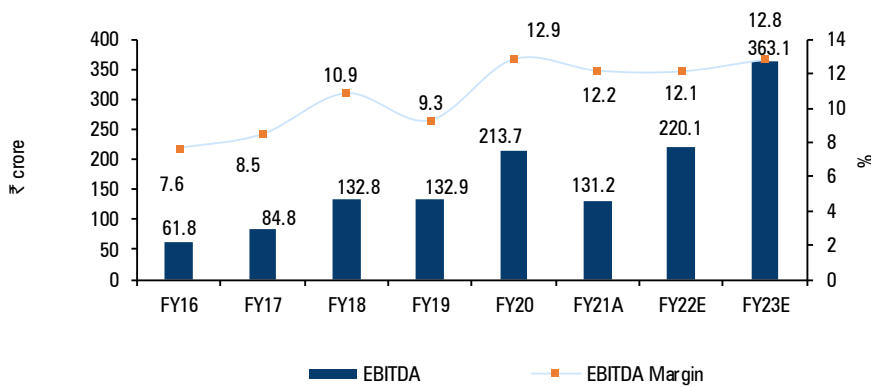
Financial story in charts

Exhibit 3: Revenue trend



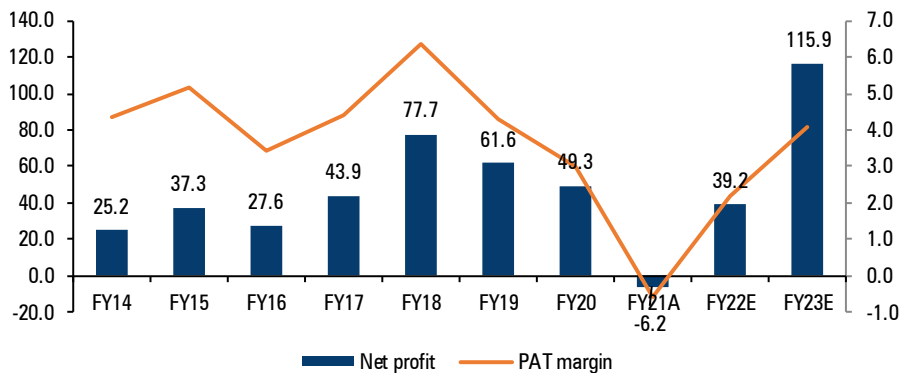
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA, EBITDA margin trend (post Ind-AS 116)



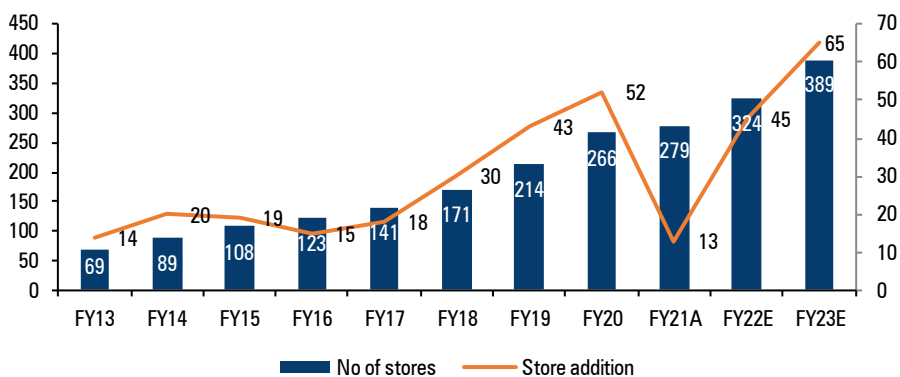
Source: Company, ICICI Direct Research

Exhibit 5: Net Profit trend



Source: Company, ICICI Direct Research

Exhibit 6: Total stores and store addition pace



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: 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	944.2	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 8: 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	21.7	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 9: 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	295.3	425.2	688.7
Less: Accum depreciation	89.1	119.5	170.4	232.9
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	625.4	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 10: Key ratios				
(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	127.6	NA	174.1	58.9
EV / EBITDA	29.4	48.8	30.1	18.5
EV / Sales	3.8	6.0	3.7	2.4
Market Cap / Revenues	3.8	6.3	3.8	2.4
Price to Book Value	13.7	8.3	7.9	7.0
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

Exhibit 11: ICICI Direct coverage universe (Retail)

Sector / Company	CMP			M Cap (₹ Cr)	EV/Sales (x)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
	(₹)	TP(₹)	Rating		FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Trent	900	1,100	Buy	31,993	9.5	12.8	8.6	6.0	274.2	-	280.5	108.6	60.9	193.2	59.4	39.4	15.9	4.3	15.0	22.6	5.1	-6.3	5.0	11.8
ABFRL	205	265	Buy	17,431	2.3	4.2	2.8	2.1	-	-	-	66.1	16.4	-	22.4	13.2	10.2	-8.9	3.2	17.8	-15.3	-25.5	-2.9	10.2
TCNS Clothing	552	700	Buy	3,397	3.0	5.4	3.2	2.4	67.5	-	53.9	29.6	42.6	-	32.1	17.9	10.6	-10.8	13.1	20.0	7.9	-8.1	9.7	14.9
Shoppers Stop	237	275	Buy	2,594	1.3	2.7	1.9	1.3	-	-	-	35.7	7.8	87.3	16.1	6.8	4.7	-14.8	-4.7	13.0	-103.1	-151.5	-477.9	71.1
Bata India	1,652	1,925	Buy	21,240	6.3	11.3	6.9	5.2	62.1	-	77.4	39.5	23.3	119.3	28.2	18.3	28.2	-5.9	20.4	32.7	17.2	-5.1	13.5	23.0
Titan Company	1,800	2,110	Buy	1,59,801	7.6	7.2	6.1	4.9	106.4	164.2	82.3	58.8	64.9	90.8	52.3	38.5	28.7	17.6	28.5	32.0	22.5	13.0	21.4	24.1
Relaxo Footwear	1,165	1,330	Buy	28,904	12.0	12.1	10.2	8.4	127.8	99.3	90.0	69.5	70.7	57.7	53.5	42.9	23.9	26.0	25.1	28.0	17.8	18.5	18.0	20.3
TTK Prestige	8,667	10,675	Buy	12,021	6.1	5.8	5.0	4.3	69.0	52.5	45.8	37.9	48.2	38.6	32.4	27.0	17.1	18.6	20.0	21.5	14.1	16.1	16.5	17.7
Page Industries	32,760	34,800	Hold	36,540	11.3	11.7	9.6	7.8	97.4	98.2	75.0	53.0	62.6	62.7	49.2	35.7	55.7	52.4	55.4	65.0	41.9	38.5	42.8	50.0
Avenue Supermarts	3,592	3,720	Hold	2,32,000	8.6	8.9	6.7	4.8	166.3	196.8	135.9	85.1	100.1	122.7	84.0	54.3	16.4	12.5	15.8	21.2	11.7	9.0	11.6	15.6
V-Mart	3,465	4,100	Buy	6,821	3.8	6.0	3.7	2.4	127.6	NA	174.1	58.9	29.4	48.8	30.1	18.5	27.0	6.0	13.6	23.6	10.7	-0.8	4.5	11.9

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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