

November 10, 2021

## Healthy revenue recovery at 100% pre-Covid levels

**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 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)

**Q2FY22 Results:** The company exhibited strong revenue traction with V-Mart recording 100% revenue recovery on Q2FY20 base (excluding Unlimited format)

- On a favourable base, revenue grew 93% YoY to ₹ 338 crore. Newly acquired 74 Unlimited Stores in September contributed 6.9% to sales
- Better gross margins and positive operating leverage resulted in V-Mart reporting EBITDA margins of 6.1% vs. loss of ₹ 0.4 crore in Q2FY21
- The base quarter had higher other income (₹ 15 crore in Q2FY21 vs. ₹ 4 crore in Q2FY22) owing to rental waivers. Subsequently, net loss was at ₹ 19.4 crore vs. ₹ 25.6 crore in Q2FY21

**What should investors do?** V-Mart has been a consistent compounder with 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 ₹ 5120 i.e. 22x FY24E 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 46%, 51%, respectively, in FY21-24E (on favourable base)
- Recent acquisition of 'Unlimited' store brand (74 stores) will enable V-Mart to cater to the fashion needs in western and southern markets of India (where V-Mart has minimal presence)
- We expect total retail space to increase at ~19% CAGR in FY21-24E with total area of 3.8 million square feet by FY24E (excluding Unlimited stores)
- Robust liquidity position (₹ 155 crore as on Q2FY22) to fund store capex requirements and set up new integrated warehousing facility

**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 target price of ₹ 1300/share



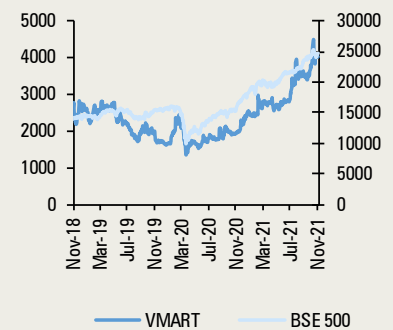
### Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	8,218.5
Total Debt (FY21) (₹ crore)	-
Cash & Investment (FY21) (₹ crore)	416.9
EV (₹ crore)	7,801.5
52 Week H / L	4620 / 1950
Equity Capital (₹ crore)	19.7
Face Value (₹)	10.0

### Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	50.8	50.6	46.7	46.7	46.1
FII	23.2	22.6	24.4	23.4	22.1
DII	18.5	17.6	20.8	20.9	21.7
Others	7.6	9.2	8.1	9.1	10.1

### Price Chart



### Key risks

**Key Risk:** (i) Slow ramp up of store network (ii) Lower than estimated EBITDA margin

### Research Analyst

Bharat Chhoda  
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa  
cheragh.sidhwa@icicisecurities.com

### Key Financial Summary

Financials	FY19	FY20	FY21E	5 year CAGR (FY15-FY20)	FY22E	FY23E	FY24E	3 year CAGR (FY21-FY23E)
Net Sales	1,433.7	1,662.0	1,075.5	18.2%	1,811.6	2,827.5	3,370.4	46.3%
EBITDA	132.9	213.7	131.2	27.4%	220.1	377.2	453.9	51.2%
PAT	61.6	49.3	-6.2		39.2	126.5	148.1	
P/E (x)	123.0	153.7	NA		209.8	65.0	55.5	
EV/Sales (x)	5.2	4.6	7.3		4.4	2.9	2.4	
EV/EBITDA (x)	56.3	35.4	59.5		36.4	21.5	17.9	
RoCE (%)	27.2	27.0	6.0		13.6	24.8	25.5	
RoE (%)	15.0	10.7	-0.8		4.5	12.9	13.3	

## Key takeaways of recent quarter & conference call highlights

- The company witnessed a healthy recovery post the second wave disruptions. The revenue recovery was much sharper than in Q2FY21 when the recovery rate was at 56% of pre-Covid level. Operational days were at ~95% vs. 49% in Q1FY22. Footfalls increased significantly by 2.1x QoQ to 66 lakh footfalls (~80% of pre-Covid levels). Conversion ratio was healthy at 65% vs. 60% in Q2FY21
- The company during H1FY22 added ~15 stores V-Mart stores and acquired 74 Unlimited stores taking the total store count to 368 (3.2 million sq ft) As on date, V-Mart has added eight new stores taking the count to 376 outlets. The company expects to add another 20 stores in H2FY22 to exit the year with 40+ new stores
- Average realisations inched up 19% YoY to ₹ 302 for apparels while blended ASP improved 8% YoY ₹ 197. Higher ASPs for the apparel category were mainly owing to better product mix (higher share of occasion-wear as compared to athleisure wear). Subsequently, average transaction size was at ₹ 838
- The company has passed on the increase in RM prices (cotton prices), which has resulted in higher gross margins. Furthermore, owing to better product mix, gross margins improved 190 bps YoY to 30.7%. Employee and other expenses grew 39% and 100%, respectively, owing to sales reverting back to pre-Covid levels and operating expenses for Unlimited. On account of positive operating leverage, EBITDA was at ₹ 20.7 crore vs. loss of ₹ 0.4 crore in Q2FY21
- On the balance sheet front, the company witnessed an increase in working capital requirements in H2FY22 owing to healthy inventory stocking for the upcoming festive demand and inventory taken over from Unlimited (~₹ 110 crore). Furthermore, capex for H1FY22 was at ₹ 97 crore (vs. ₹ 40 crore in FY21) which pertains to acquisition on Unlimited format, addition of new stores and purchase of land for the new warehouse. Negative FCF was funded through internal accruals with cash and investment levels declining to ₹ 155 crore (vs. ₹ 461 crore in FY21). We expect cash generation to improve in H2FY22

### Q2FY22 Earnings conference call highlights:

- Same store sales growth (SSSG) during Q2FY22 was 85% and has improved to pre-Covid levels in the festive season
- On the cost front, the management indicated that raw material (primarily cotton yarn and fabric) costs were continuously rising and the management has already taken a price hike of 8%. If the input cost continues to rise, the management is likely to take a further price hike to pass on the input cost inflation
- Over the medium to longer term, the management reiterated its plan of 20-25% retail space addition annually. The company has a store pipeline of 50-60 stores, which are in various stages of completion. On the store expansion strategy, the company would continue to expand the retail footprint with its cluster based approach and simultaneously enter into newer geographies. The management said it may add stores in southern India also
- The share of e-commerce to total revenues was at ~1%. The company is planning to increase the e-com revenue share to ~5% over the next two to three years. The price points for products sold online are similar to offline pricing. Additionally, the management is planning to launch exclusive merchandise only for online customers

- On the product portfolio front, the management indicated that its pre winter/winter collection was getting good initial response from the consumers. The company has taken a price hike for the category and has worked on improving the product design and look & feel of the products, which has received a good consumer response
- On the progress of 'Unlimited' business the management indicated that Q2FY22 financials included one month operations of the 'Unlimited' stores. The company is still evaluating the strength of the 'Unlimited' brand. The monthly revenue run rate of ₹ 21 crore is in line with initial expectations of the management and the company plans to focus on improving productivity and margins of 'Unlimited' to level of V-mart stores over the medium to longer term. The management indicated a time frame of one to two years to achieve improvement in performance of the 'Unlimited' stores
- The management continues to focus on revenue growth and maintaining its margins. The company does not visualise any significant margin improvement in near term. If there are any benefits related to lower cost, V-Mart plans to pass it on to the consumers in terms of sharper price points

**Exhibit 1: Variance Analysis**

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Revenue	338.0	293.9	175.5	92.6	177.4	90.5	Standalone revenue (excluding Unlimited) recovered 100% of pre-covid levels
Raw Material Expense	234.2	209.0	125.0	87.3	122.4	91.3	
Gross Profit	103.8	84.9	50.5	105.5	55.0	88.6	
Gross Profit Margin	30.7	28.9	28.8	194 bps	31.0	-30 bps	Increase in ASP and better product mix resulted in healthy gross margins
Employee exp	41.6	38.0	30.0	38.6	33.4	24.4	
Other Exp	41.5	40.0	20.8	99.4	23.5	76.3	Higher other expenses owing to sales reverting to back to pre-covid levels and integration of Unlimited format
EBITDA	20.7	6.9	-0.4	LP	-2.0	LP	
EBITDA Margin (%)	6.1	2.3	-0.2	LP	-1.1	LP	
Depreciation	27.3	26.5	25.7	5.9	25.5	7.0	
Other Income	4.1	7.5	15.0	-73.0	4.5	-10.0	Base quarter included rental waiver
Interest	16.9	15.9	14.7	15.3	15.6	8.5	
Exceptional Income	-	-	-	-	-	-	
PBT	-19.4	-28.0	-25.8	-	-38.5	-	
Tax Outgo	-5.3	0.0	-6.8	-21.6	-9.8	-45.8	
PAT	-14.1	-28.0	-19.0	-	-28.7	-	

Source: Company, ICICI Direct Research

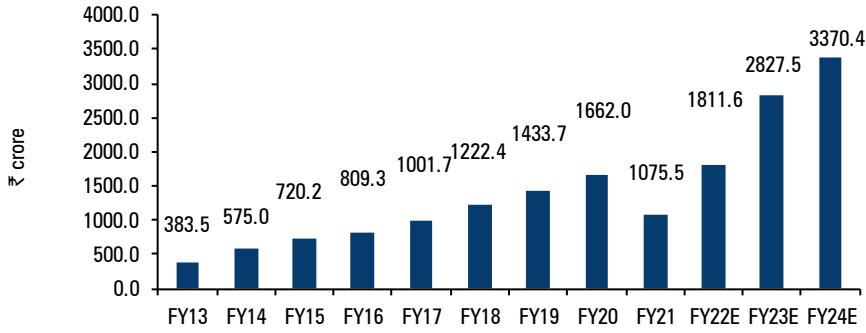
**Exhibit 2: Change in estimates**

(₹ Crore)	FY 22E			FY 23E			FY 24E
	Old	New	% Change	Old	New	% Change	New
Revenue	1,811.6	1,811.6	0.0	2,827.5	2,827.5	0.0	3,370.4
EBITDA	220.1	220.1	0.0	363.1	377.2	3.9	453.9
EBITDA Margin (%)	12.1	12.1	0 bps	12.8	13.3	50 bps	13.5
PAT	39.2	39.2	0.0	115.9	126.5	9.1	148.1
EPS (₹)	19.9	19.9	0.0	58.9	64.2	9.1	75.2

Source: Company, ICICI Direct Research

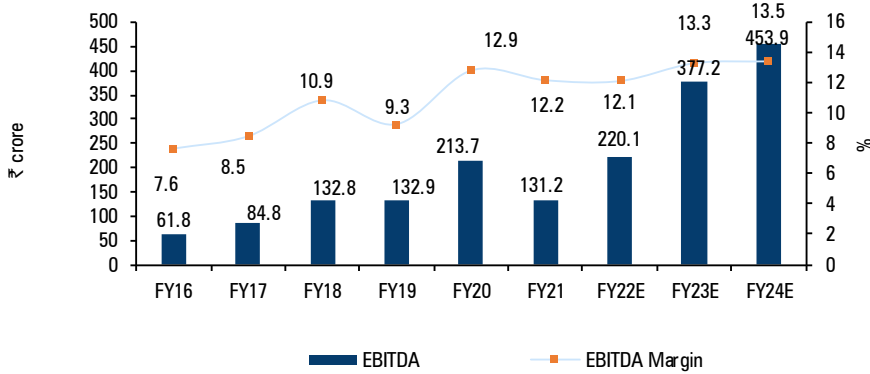
## Financial story in charts

Exhibit 3: Revenue trend



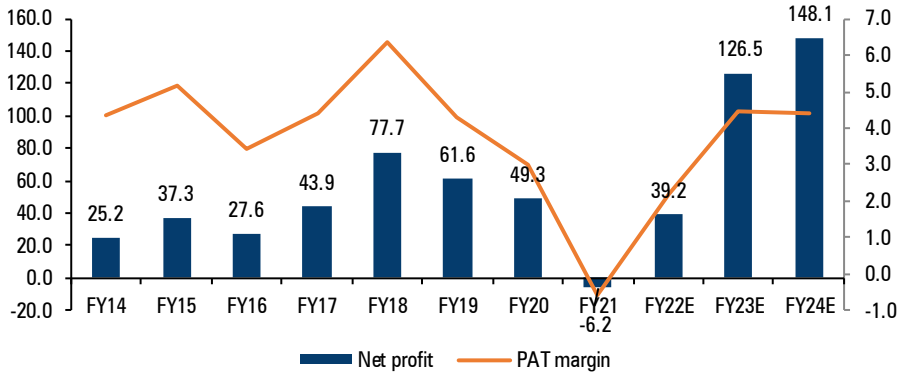
Source: Company, ICICI Direct Research

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



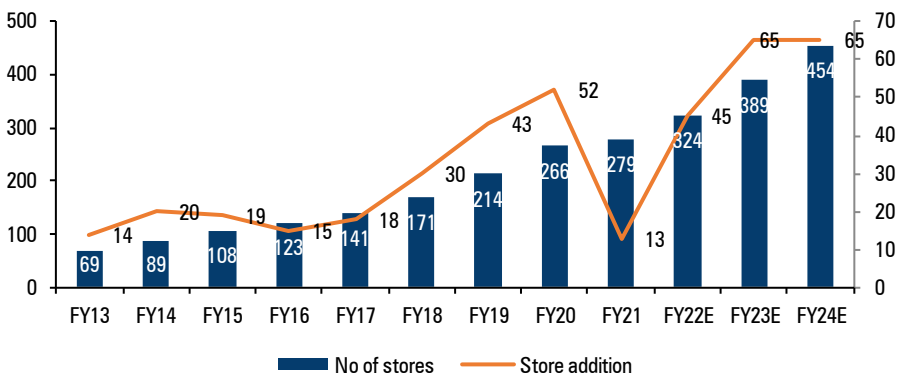
Source: Company, ICICI Direct Research

Exhibit 5: Net profit trend



Source: Company, ICICI Direct Research

Exhibit 6: Total stores and store addition pace (excluding Unlimited)



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 7: Profit and loss statement					₹ crore
(Year-end March)	FY21A	FY22E	FY23E	FY24E	
<b>Net Sales</b>	<b>1,075.5</b>	<b>1,811.6</b>	<b>2,827.5</b>	<b>3,370.4</b>	
Growth (%)	(35.3)	68.4	56.1	19.2	
Total Raw Material Cost	723.6	1,231.9	1,922.7	2,291.9	
Gross Margins (%)	32.7	32.0	32.0	32.0	
Employee Expenses	116.9	159.4	234.7	276.4	
Other Expenses	103.8	200.2	292.9	348.3	
Total Operating Expenditure	944.2	1,591.5	2,450.3	2,916.6	
<b>EBITDA</b>	<b>131.2</b>	<b>220.1</b>	<b>377.2</b>	<b>453.9</b>	
EBITDA Margin	12.2	12.1	13.3	13.5	
Interest	59.0	64.5	73.5	87.2	
Depreciation	103.0	118.2	150.6	184.7	
Other Income	21.0	15.0	16.0	16.0	
Exceptional Expense	-	-	-	-	
PBT	(9.7)	52.4	169.1	198.0	
Total Tax	(3.5)	13.2	42.6	49.9	
<b>Profit After Tax</b>	<b>(6.2)</b>	<b>39.2</b>	<b>126.5</b>	<b>148.1</b>	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement					₹ crore
(Year-end March)	FY21A	FY22E	FY23E	FY24E	
Profit/(Loss) after taxation	-6.2	39.2	126.5	148.1	
Add: Depreciation	103.0	118.2	150.6	184.7	
Net Increase in Current Assets	29.6	-107.6	-239.5	-120.1	
Net Increase in Current Liabilities	-18.2	26.8	130.3	67.0	
<b>CF from operating activities</b>	<b>108.2</b>	<b>76.6</b>	<b>167.9</b>	<b>279.7</b>	
(Inc)/dec in Investments	-381.6	227.7	95.8	13.2	
(Inc)/dec in Fixed Assets	-39.9	-225.2	-168.5	-147.4	
Others	0.0	0.0	0.0	0.0	
<b>CF from investing activities</b>	<b>-421.5</b>	<b>2.5</b>	<b>-72.7</b>	<b>-134.2</b>	
Inc / (Dec) in Equity Capital	1.5	0.0	0.0	0.0	
Inc / (Dec) in Loan	-1.1	0.0	0.0	0.0	
Others	334.5	-69.7	-96.9	-119.1	
<b>CF from financing activities</b>	<b>334.9</b>	<b>-69.7</b>	<b>-96.9</b>	<b>-119.1</b>	
Net Cash flow	21.7	9.4	-1.7	26.3	
Opening Cash	5.8	27.5	36.8	35.1	
<b>Closing Cash</b>	<b>27.5</b>	<b>36.8</b>	<b>35.1</b>	<b>61.5</b>	

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet					₹ crore
(Year-end March)	FY21A	FY22E	FY23E	FY24E	
Equity Capital	19.7	19.7	19.7	19.7	
Reserve and Surplus	805.5	842.3	960.0	1,097.7	
Total Shareholders funds	825.2	862.0	979.6	1,117.4	
Total Debt	-	-	-	-	
Non Current Liabilities	587.3	587.3	587.3	587.3	
<b>Source of Funds</b>	<b>1,412.5</b>	<b>1,449.3</b>	<b>1,566.9</b>	<b>1,704.6</b>	
Gross block	295.3	425.2	688.7	836.1	
Less: Accum depreciation	119.5	170.4	232.9	308.8	
Net Fixed Assets	175.8	254.8	455.8	527.3	
Capital WIP	2.2	97.5	2.5	2.5	
Intangible assets	2.8	2.8	2.8	2.8	
Investments	389.5	161.8	65.9	52.7	
Inventory	428.3	546.0	774.7	904.9	
Cash	27.5	36.8	35.1	61.5	
Debtors	-	-	-	-	
Loans & Advances & Other	53.1	42.7	53.2	42.7	
Total Current Assets	508.9	625.4	863.0	1,009.1	
Creditors	191.7	218.4	348.6	415.5	
Provisions & Other CL	22.4	22.4	22.5	22.6	
Total Current Liabilities	214.1	240.8	371.1	438.1	
Net Current Assets	294.8	384.6	491.9	571.0	
LT L& A, Other Assets	547.4	547.8	548.1	548.3	
Other Assets	0.0	0.0	0.0	0.0	
<b>Application of Funds</b>	<b>1,412.5</b>	<b>1,449.3</b>	<b>1,566.9</b>	<b>1,704.6</b>	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY21A	FY22E	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	-3.2	19.9	64.2	75.2
Cash EPS	49.2	80.0	140.7	169.1
BV	419.2	437.9	497.7	567.6
DPS	0.0	1.2	4.5	5.3
Cash Per Share	14.0	18.7	17.8	31.2
<b>Operating Ratios (%)</b>				
EBITDA margins	12.2	12.1	13.3	13.5
PBT margins	-0.9	2.9	6.0	5.9
Net Profit margins	-0.6	2.2	4.5	4.4
Inventory days	145.4	110.0	100.0	98.0
Debtor days	0.0	0.0	0.0	0.0
Creditor days	65.1	44.0	45.0	45.0
<b>Return Ratios (%)</b>				
RoE	-0.8	4.5	12.9	13.3
RoCE	6.0	13.6	24.8	25.5
RoIC	12.1	17.6	27.6	28.4
<b>Valuation Ratios (x)</b>				
P/E	NA	209.8	65.0	55.5
EV / EBITDA	59.5	36.4	21.5	17.9
EV / Sales	7.3	4.4	2.9	2.4
Market Cap / Revenues	7.6	4.5	2.9	2.4
Price to Book Value	10.0	9.5	8.4	7.4
<b>Solvency Ratios</b>				
Debt / Equity	0.0	0.0	0.0	0.0
Debt/EBITDA	0.0	0.0	0.0	0.0
Current Ratio	2.2	2.4	2.2	2.2
Quick Ratio	0.2	0.2	0.1	0.1

Source: Company, ICICI Direct Research

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Buy: >15%

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Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)

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