

BSE SENSEX

54,530

S&P CNX

16,248



Stock Info

Bloomberg	VMART IN
Equity Shares (m)	20
M.Cap.(INRb)/(USDb)	67.1 / 0.9
52-Week Range (INR)	4620 / 2496
1, 6, 12 Rel. Per (%)	-11/-6/10
12M Avg Val (INR M)	123
Free float (%)	53.6

Financials Snapshot (INR b)

Y/E March	FY22E	FY23E	FY24E
Sales	17.3	26.2	31.9
EBITDA	2.0	3.5	4.3
NP	0.1	1.0	1.5
EBITDA Margin (%)	11.6	13.2	13.5
Adj. EPS (INR)	4.0	53.5	83.5
EPS Gr. (%)	NM	NM	56.3
BV/Sh. (INR)	460.0	513.4	597.0

Ratios

Net D:E	0.7	0.6	0.4
RoE (%)	0.9	11.0	15.0
RoCE (%)	4.7	10.0	12.6
Payout (%)	0.0	0.0	0.0

Valuations

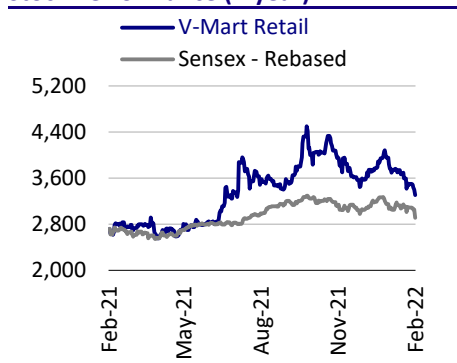
P/E (x)	831.9	61.8	39.6
EV/EBITDA (x)	32.7	19.0	14.8
EV/Sales (x)	3.4	2.3	1.8
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	-2.5	1.5	5.3

Shareholding pattern (%)

As On	Dec-21	Sep-21	Dec-20
Promoter	46.4	46.4	50.6
DII	22.0	21.7	18.5
FII	21.1	22.1	22.6
Others	10.4	9.8	8.3

FII Includes depository receipts

Stock Performance (1-year)


CMP: INR3,306
TP: INR4,450 (+35%)
Buy

VMart channel check: "Unlimited" opportunities ahead

After acquiring 74 stores of "Unlimited" from Arvind Fashion, VMart aims to achieve profitability by: a) improving store productivity, b) optimizing cost and c) shutting loss making stores. The company is targeting to achieve an EBITDA margin of 5-6%/7-8% in the near term/long term, respectively. In that context, we visited a few 'Unlimited' Stores in Hyderabad along with some peer sets to get a perspective on: a) the changes made since the acquisition as well as store value propositions v/s peers in the region, and b) the store operating metrics and profitability.

Key Highlights

- The inventory level improved 15-20%, particularly through new category additions, sharper price points and introduction of VMart's popular products in the north. However, VMart is yet to see material progress in the "Sarees" segment that is a big pull in the southern market.
- The store operating metrics were decent with productivity at INR7.2k/sq.ft. annually (15% below pre-COVID level), achieving ~5% store-level EBITDA margin, as fixed overheads saw 5-10% cost optimization. Rent remained the biggest drag at 14% of sales; inventory turns were at ~3x.
- While comparing the product profiles of regional chains such as KLM Fashion Mall and South India Shopping Mall with 'Unlimited', we noticed a marked difference. These regional peers have: a) nearly one-third contribution from Sarees, b) been operating at low gross margin of ~25% but very high (>2x) throughput (v/s 'Unlimited') at INR20k/sq.ft. annually.
- We believe productivity improvement will primarily drive the recovery in "Unlimited" stores as cost has limited lever. The recovery could take more than 4-6 quarters with closures of 7-8 non-profitable stores. This will remain the key to VMart's overall earnings growth.

Unlimited growth opportunities ahead; reiterate BUY

- While the improved throughput and profitability under 'Unlimited' value retail chain along with aggressive store additions are expected to drive steady growth for VMart, the sluggishness in rural markets witnessed in 3QFY22 as well as the adverse impact on demand due to the increase in prices could remain the key overhangs that need to be monitored. We factor in 36%/46% revenue/EBITDA CAGR over FY22-24E, respectively.
- Consequently, we maintain our TP of INR4,450 on the stock, assigning 20x EV/EBITDA on Mar'24. Given the huge growth opportunity in the value fashion segment and VMart's strong execution ability, it has the potential to achieve 25-30% EBITDA/PAT growth sustainably in the long run backed by 20%+ revenue growth (SSSG + new store adds). **Reiterate BUY.**

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Key highlights of our channel checks

Introduction of products at sharp price points:

- So far, the new management revamped the inventory level by 15-20% by: a) renovating the kids' category, b) introducing homeware /kitchenware products and c) overhauling the men's and women's categories. The inventory revamp may have taken place in a phased manner as old-season inventory generally gets phased out over the next couple of seasons.
- VMart mainly added product categories at lower price points across segments (such as men's casuals/ethnic wear and Women's ethnic/casual wear). It also added its popular in-house labels (such as casual wear brand, Flick).
- The overall product value and price proposition improved with sharper price points and seemingly good quality/design that is seen in VMart's northern market stores.
- However, these products have a low localized feel in terms of designs/colors/categories as seen in peer formats. The company soon expects to start the "Sarees" segment that remains a popular choice in those markets.

Store productivity yet to improve:

- 'Unlimited' stores are currently operating at ~INR7.2k/sq.ft. annually. This is 15% below VMart's pre-COVID levels.
- Store revenue is 15% below the pre-COVID level on an LTL basis. The higher dip in footfalls v/s revenue has partly been offset by improvement in bill size.
- Given the early days, these stores have not witnessed any material improvement in store productivity due to the changes in store inventory.

Cost optimization and process changes

- The stores earn a profit of ~INR3-4m annually, which translates to ~5-6% of store-level EBITDA. This is lower mainly because of the high rental charges (~14% of revenue).
- The company has reduced its employee cost by 30% (INR2m annually – ~3% of revenue) v/s pre-COVID level mainly due to lower employee base and partly by optimizing the salary cost.
- VMart has further rationalized its electricity and other costs by 25-30% (INR2.5m annually) by optimizing usage based on footfalls.
- Rental charges currently stand at INR10m (INR85/sq.ft. per month, ~14% of revenue), which is the biggest drag on profitability. Conversely, VMart's rent in the northern region is far lower at about 5-7% of revenue.
- The company has further installed a new backend system/software for backend sales/cash reporting and management.

Peer store comparisons

- Local apparel retailers, such as KLM Fashion Mall and South India Shopping Mall, have nearly 35-40% revenue contribution from the "Sarees" segment and the store inventory profile had a marked difference with solid colors and localized inventory.
- The peers operate at lower gross margin of 25-28% but have very high store productivity at nearly 20k/sq.ft.
- The rent and other expenses are significantly lower as a % of revenue for these peer companies.

Exhibit 1: Valuation based on FY23E EBITDA

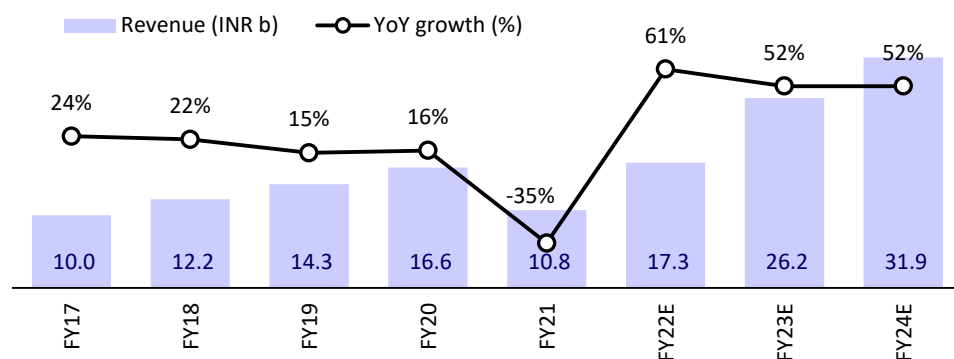
	Methodology	Driver (INR m)	Multiple	Fair Value (INRm)	Value/sh (INR)
EBITDA	FY24 EV/EBITDA	4,303	20	86,352	4,758
Less Net debt				5,578	307
Total Value				80,774	4,450
Shares o/s (m)				18.2	
CMP (INR)					3,306
Upside (%)					35

Source: MOFSL, Company

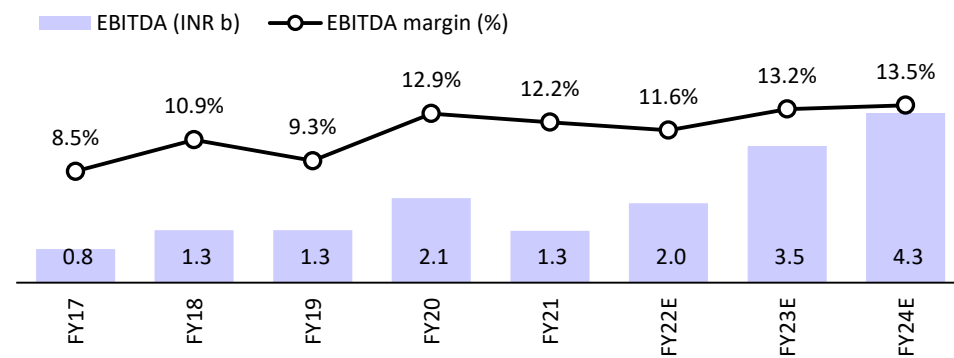
Exhibit 2: Store-level metrics

	Unlimited	
	Per Store INR m	Per Sq. ft. INR
Store size (Sq. ft.)		10,000
Revenue	53	5,304
Employee cost	2	180
Rent	10	1,020
Electricity	2	240
Other Cost	3	264
EBITDA	36	3,600
Margin	67.9%	67.9%
PAT	3.5	350
PAT margin	6.6%	6.6%
ASP		INR560

Source: MOFSL, Company

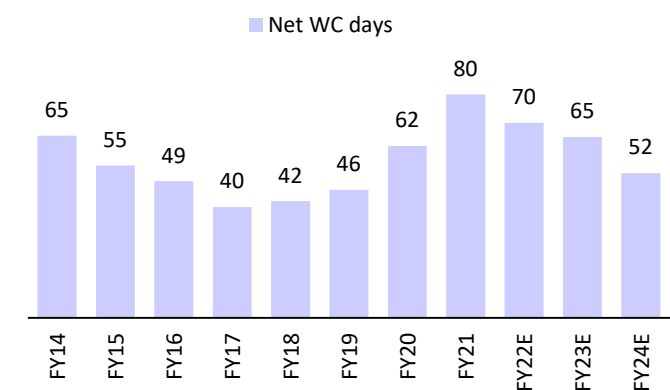
Exhibit 3: Expect revenue to recover from FY22

Source: MOFSL, Company

Exhibit 4: Expect operating margin to improve

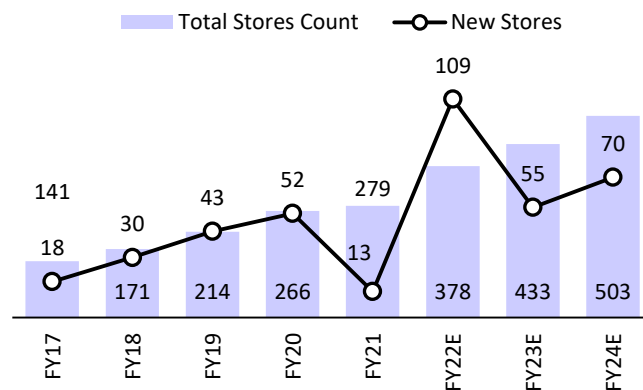
Source: MOFSL, Company

Exhibit 5: Expect working capital cycle to improve aided by inventory management



Source: MOFSL, Company

Exhibit 6: Store additions to continue



*FY22 stores include 74 stores of unlimited. Source: MOFSL, Company

Financials and valuations

Standalone - Income Statement							(INR m)		
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Income from Operations	8,093	10,017	12,224	14,337	16,620	10,755	17,302	26,217	31,871
Change (%)	12.4	23.8	22.0	17.3	15.9	-35.3	60.9	51.5	21.6
Raw Materials	5,712	7,028	8,303	9,703	11,263	7,236	11,627	17,565	21,353
Employees Cost	623	783	984	1,257	1,536	1,169	1,773	2,360	2,805
Rent and lease expenses	400	452	526	658	934	0	0	0	0
Advertising & Sales Promotion	191	0	0	394	354	0	0	0	0
Other Expenses	547	908	1,083	996	396	1,038	1,895	2,831	3,410
Total Expenditure	7,472	9,170	10,896	13,008	14,483	9,442	15,295	22,756	27,568
% of Sales	92.3	91.5	89.1	90.7	87.1	87.8	88.4	86.8	86.5
EBITDA	620	848	1,328	1,329	2,137	1,312	2,007	3,461	4,303
Margin (%)	7.7	8.5	10.9	9.3	12.9	12.2	11.6	13.2	13.5
Depreciation	190	186	229	276	939	1,030	1,334	1,489	1,641
EBIT	430	662	1,099	1,053	1,198	282	673	1,971	2,662
Int. and Finance Charges	31	35	15	16	548	589	752	756	761
Other Income	12	41	41	59	45	210	168	110	170
PBT Bif. EO Exp.	411	668	1,125	1,096	695	-97	89	1,325	2,071
EO Items	12	0	0	-98	0	0	0	0	0
PBT after EO Exp.	423	668	1,125	998	695	-97	89	1,325	2,071
Total Tax	147	229	348	382	202	-35	17	358	559
Tax Rate (%)	34.7	34.3	30.9	38.3	29.0	35.8	19.5	27.0	27.0
Minority Interest	0	0	0	0	0	0	0	0	0
Reported PAT	276	439	777	616	493	-62	72	967	1,512
Adjusted PAT	268	439	777	715	493	-62	72	967	1,512
Change (%)	-30.4	63.7	76.9	-8.0	-31.0	-112.6	-215.9	1,245.1	56.3
Margin (%)	3.3	4.4	6.4	5.0	3.0	-0.6	0.4	3.7	4.7

Standalone - Balance Sheet							(INR m)		
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	181	181	181	181	182	197	197	197	197
Total Reserves	2,127	2,520	3,293	3,911	4,408	8,055	8,127	9,095	10,606
Net Worth	2,307	2,700	3,474	4,093	4,589	8,252	8,324	9,292	10,803
Minority Interest	0	0	0	0	0	0	0	0	0
Total Loans	270	357	6	0	11	0	0	0	0
Deferred Tax Liabilities	-42	-79	-92	-118	-160	-253	-253	-253	-253
Other long term liabilities	84	37	42	111	5,218	5,751	6,431	6,333	6,231
Lease Liabilities					5,157	5,678	6,358	6,358	6,358
Capital Employed	2,535	2,979	3,430	4,086	9,658	13,750	14,502	15,371	16,782
Net Fixed Assets	1,103	1,173	1,447	1,655	6,670	6,965	9,021	8,277	7,382
Right to use assets					4,921	5,180	5,482	5,482	5,482
Capital WIP	23	12	35	40	25	22	22	22	22
Total Investments	324	718	340	607	79	3,189	189	189	189
Curr. Assets, Loans&Adv.	2,340	2,925	3,584	3,898	5,302	5,836	8,669	10,597	13,529
Inventory	2,044	2,692	3,071	3,290	4,779	4,283	6,162	7,542	7,859
Account Receivables	0	0	0	0	0	0	0	0	0
Cash and Bank Balance	43	29	196	166	50	275	591	295	2,316
Loans and Advances	253	204	317	443	473	1,278	1,916	2,759	3,354
Curr. Liability & Prov.	1,255	1,850	1,977	2,114	2,418	2,261	3,399	3,713	4,339
Account Payables	956	1,599	1,668	1,483	1,968	1,917	2,844	2,873	3,318
Other Current Liabilities	217	220	267	534	451	345	554	840	1,021
Provisions	82	31	42	97	0	0	0	0	0
Net Current Assets	1,085	1,075	1,607	1,784	2,884	3,574	5,270	6,884	9,190
Appl. of Funds	2,535	2,979	3,430	4,086	9,657	13,750	14,502	15,371	16,782

E: MOFSL Estimates

Financials and valuations – standalone

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)									
EPS	14.8	24.3	42.9	39.5	27.3	-3.4	4.0	53.5	83.5
Cash EPS	25.3	34.5	55.6	54.8	79.2	53.5	77.7	135.8	174.2
BV/Share	127.5	149.2	192.0	226.1	253.6	456.0	460.0	513.4	597.0
DPS	1.3	0.0	0.0	1.7	0.0	0.0	0.0	0.0	0.0
Payout (%)	9.9	0.0	0.0	6.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)									
P/E	223.1	136.3	77.0	83.7	121.3	NM	831.9	61.8	39.6
Cash P/E	130.5	95.8	59.5	60.4	41.8	61.8	42.6	24.4	19.0
P/BV	25.9	22.2	17.2	14.6	13.0	7.3	7.2	6.4	5.5
EV/Sales	7.4	6.0	4.9	4.2	3.6	5.5	3.4	2.3	1.8
EV/EBITDA	96.8	71.0	44.9	44.9	30.5	49.7	32.7	19.0	14.8
Dividend Yield (%)	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
FCF per share	11.1	30.0	9.2	19.7	17.5	60.1	-89.6	53.2	186.0
Return Ratios (%)									
RoE	12.3	17.5	25.2	18.9	11.4	NM	0.9	11.0	15.0
RoCE	11.7	16.4	24.1	18.1	12.7	2.7	4.7	10.0	12.6
RoIC	13.3	19.9	29.9	21.2	13.3	1.8	4.5	10.1	13.3
Working Capital Ratios									
Fixed Asset Turnover (x)	7.3	8.5	8.4	8.7	2.5	1.5	1.9	3.2	4.3
Asset Turnover (x)	3.2	3.4	3.6	3.5	1.7	0.8	1.2	1.7	1.9
Inventory (Days)	92	98	92	84	105	145	130	105	90
Debtor (Days)	0	0	0	0	0	0	0	0	0
Creditor (Days)	43	58	50	38	43	65	60	40	38
Leverage Ratio (x)									
Current Ratio	1.9	1.6	1.8	1.8	2.2	2.6	2.6	2.9	3.1
Interest Cover Ratio	13.8	18.8	71.9	65.3	2.2	0.5	0.9	2.6	3.5
Net Debt/Equity	0.0	-0.1	-0.2	-0.2	0.0	-0.4	-0.1	-0.1	-0.2

Standalone - Cash Flow Statement

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
(INR m)									
OP/(Loss) Bifore Tax	423	668	1,125	993	695	-97	89	1,325	2,071
Depreciation	190	179	222	268	939	1,030	1,334	1,489	1,641
Interest & Finance Charges	0	35	15	16	548	589	752	756	761
Direct Taxes Paid	-149	-243	-381	-332	-241	-35	-17	-358	-559
(Inc)/Dec in WC	-207	69	-346	-270	-1,091	182	-1,380	-1,908	-286
CF from Operations	257	709	635	674	850	1,669	778	1,304	3,628
Others	204	-22	8	89	13	-176	-168	-110	-170
CF from Operating incl EO	461	687	643	763	863	1,493	609	1,194	3,458
(Inc)/Dec in FA	-260	-145	-478	-407	-546	-406	-2,231	-231	-91
Free Cash Flow	201	542	166	357	317	1,087	-1,622	963	3,366
(Pur)/Sale of Investments	-101	-337	395	-339	550	-3,092	3,000	0	0
Others	-10	-245	-68	12	2	-690	168	110	170
CF from Investments	-372	-728	-151	-734	5	-4,188	937	-121	79
Issue of Shares	8	0	9	19	13	3,713	0	0	0
Inc/(Dec) in Debt	-20	87	-351	-3	8	-11	0	0	0
Interest Paid	-35	-37	-15	-16	-933	-589	0	0	0
Dividend Paid	-48	-2	-27	-44	-31	0	0	0	0
Others	0	0	0	0	0	-244	-1,231	-1,368	-1,516
CF from Fin. Activity	-96	49	-384	-44	-943	2,869	-1,231	-1,368	-1,516
Inc/Dec of Cash	-6	8	109	-14	-75	174	316	-295	2,020
Opening Balance (excluding bank bal.)	26	20	29	137	123	48	222	538	243
Closing Balance	20	29	137	123	48	222	538	243	2,263
Bank balance	22	1	59	43	1	53	53	53	53
Closing Balance (including bank balance)	43	29	196	166	50	275	591	295	2,316

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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