

Hopeful of consumption revival in non-tier-I towns...

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

Q4FY22 Results: V-Mart's results were a mixed bag wherein revenue was below our estimates while profitability was better than anticipated.

- On a favourable base, revenue grew 30% YoY to ₹ 458.8 crore. Newly acquired 74 Unlimited Stores in September contributed 16% to Q4 sales
- Gross margins improved 510 bps YoY to 34.9% owing to lower discounting and timely price hikes taken (~15-17%) to offset RM inflation. Higher employee and other expense due to integration of Unlimited format led to 140 bps expansion in EBITDA margins to 11.0%
- Higher depreciation and interest expense owing to integration of Unlimited business led the company to report a net loss of ₹ 2.6 crore

What should investors do? V-Mart has been a consistent compounder with the stock price appreciating at 27% CAGR in the last five years. V-Mart is currently facing a challenging scenario wherein higher inflation is pinching consumer spending especially for people salaried < ₹ 25000 (its main target consumers). Also heightened competition from large retailers in Tier III/IV cities is exerting pressure. However, we believe with healthy balance sheet and proven ability to operate a low cost profitable business in non-tier I cities would provide an edge over peers and new entrants.

- We maintain **BUY** recommendation on the stock with a revised target price

Target Price and Valuation: We value V-Mart at ₹ 4100 i.e. 19x 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 35%, 44%, respectively, in FY22-24E (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 ~15% CAGR in FY22-24E with total area of 4.3 million square feet by FY24E

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 ₹ 1510/share

Key Financial Summary

Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-FY22)	FY23E	FY24E	2 year CAGR (FY22-FY24E)
Net Sales	1,433.7	1,662.0	1,075.5	1,666.2	11.0%	2,526.0	3,052.6	35.4%
EBITDA	132.9	213.7	131.2	204.3		325.5	421.6	43.6%
PAT	61.6	49.3	-6.2	11.6		67.9	117.2	
P/E (x)	96.4	120.5	NA	555.8		95.2	55.1	
EV/Sales (x)	4.1	3.6	5.6	3.8		2.5	2.1	
EV/EBITDA (x)	44.0	27.7	45.9	30.8		19.6	15.2	
RoCE (%)	27.2	27.0	6.0	10.3		19.1	24.4	
RoE (%)	15.0	10.7	-0.8	1.4		7.4	11.5	



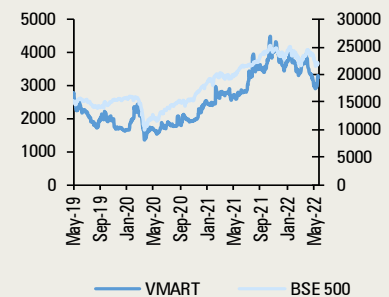
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	6,442.9
Total Debt (FY22) (₹ crore)	-
Cash & Investment (FY21) (₹ crore)	161.8
EV (₹ crore)	6,281.1
52 Week H / L	4620 / 2636
Equity Capital (₹ crore)	19.7
Face Value (₹)	10.0

Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	46.7	46.7	46.4	46.4	46.2
FI	24.4	23.4	22.1	21.1	20.2
DII	20.8	20.9	21.7	22.0	23.2
Others	8.1	9.1	9.8	10.5	10.3

Price Chart



Key risks

Key Risk: (i) Slow ramp up of store network (ii) Consistent Rise in RM may impact volumes

Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

Key takeaways of the recent quarter & conference call highlights

- On a favourable base, revenue for the quarter grew 30% YoY to ₹ 458.8 crore (I-direct estimate: ₹ 483.9 crore). Revenues also include contribution from Unlimited format (~16% of sales), which was integrated last quarter. Excluding the Unlimited format, revenue recovery was at ~112% of pre-Covid levels. The growth is mainly price led as the company had taken price hikes of 15-17% in FY22 to offset significant spike in RM prices
- Overall transaction size improved 15% YoY to ₹ 981 on account of price hikes and higher transaction size for Unlimited format (₹ 1776 vs. ₹ 898 for V-Mart). Average selling price for apparels improved 26% YoY to ₹ 411 (Unlimited: ₹ 568, V-Mart: ₹ 384). Conversion ratio was at 63% vs. 61% in Q4FY21
- Higher revenue contribution of Unlimited format (which yields better gross margins), lower discounting and fresher inventory resulted in gross margins improving 510 bps YoY to 34.9%. Employee and other expenses increased 44% and 65% YoY, respectively mainly on account of higher marketing spends and integration of Unlimited business format. Subsequently, EBITDA margins improved 140 bps YoY to 11.0% (I-direct estimate: 4.1%). Absolute EBITDA grew 50% YoY to ₹ 50.3 crore
- The company, in FY22, added 27 V-Mart stores (net basis) taking total store count (including 74 Unlimited stores) to 380 (3.3 million sq ft)
- On the balance sheet front, the company has witnessed a spike in inventory days (~145 days). The management indicated that the inventory was higher on account of higher holding cost due to cost inflation. Also, the disruption due to omicron and demand being lower than expectations due to elevated product prices led to inventory build-up. The company expects inventory levels to normalise over the next few quarters as revenues gain traction driven by expected increase in rural spending post-harvest season. The management indicated they are aiming to reduce the inventory days to its normalised levels (~95-100 days)

Q4FY22 Earnings conference call highlights:

- The management said that from January end to mid-February consumption was impacted due to omicron. However, consumption picked up in March. Also, V-Mart highlighted that festival sales were upbeat (both Holi and Eid) with consumers indulging in consumption. The management believes inflationary trends are a concern in the short-term as the company's core customers who are in the income bracket of ₹ 15000-35000 are facing liquidity issues due to price inflation across product categories whereas their incomes have not seen a commensurate increase
- The company indicated that urban stores were performing better than rural stores and the performance of stores situated in malls was better than standalone stores. V-Mart expects a pick-up in rural consumption post the harvest season from June onwards
- Due to input cost inflation, V-Mart had to take a price hike of 15-17% in FY22. Higher average selling price is impacting volume growth negatively with marginal decline in volumes. It is countering the same with a strategy of providing discounts/schemes on low priced products to retain the customer base. V-Mart is not planning to increase prices immediately and is aiming to absorb any inflation by improving productivity and operating efficiency so as to keep final product prices affordable for its target consumer
- On the gross margin front, the management highlighted that the gross margin was higher owing to higher gross margin structure of the 'Unlimited' stores which have 300-400 bps higher gross margin than V-Mart stores. The management expects this trend to continue for a year or two till the company rationalises the cost structure of 'Unlimited' stores. The management said it was aiming to maintain gross margin in the range of 32-34% on its overall portfolio of stores and seeking customers to do repeat purchases at its stores by providing them good products at reasonable prices

- On the capex front the company incurred a capex of ₹ 149 crore of which ₹ 57 crore was spent on acquisition of 'Unlimited' stores, ₹ 40-45 crore was spent on addition of 39 V-Mart stores. The company also spent ₹ 10-12 crore on refurbishment of existing stores and ₹ 35 crore for acquiring land for the warehouse. For FY23E, V-Mart plans to spend ₹ 70-80 crore on warehouse, ₹ 60 crore on addition of 60 new stores, ₹ 10-15 crore on refurbishment of existing stores and around ₹ 5 crore in improving digital capabilities
- The company currently has 370 stores and is planning to add 60 more in FY23 of which around 48 would be V-Mart stores. Also, the company has decided to continue with the Unlimited brand and is planning to add 10-12 Unlimited stores in FY23
- The management indicated that it is gradually changing the product portfolio of 'Unlimited' stores and is introducing V-Mart products in these stores
- The company's conversion rate is currently lower at 63% than its earlier average of 67-68%. This is mainly due to lower conversion rate of ~50% in 'Unlimited' stores. The management indicated that it is comfortable with a conversion ratio of 63-65% and was working on increasing the footfalls by attracting more customers to come into stores

Exhibit 1: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Revenue	458.8	483.9	351.9	30.4	692.0	-33.7	Standalone revenue (excluding Unlimited) stood at 114% of pre-covid levels. Revenue from Unlimited format contributed ~16% of overall topline
Raw Material Expense	298.5	344.0	247.0	20.9	436.0	-31.5	
Gross Profit	160.2	139.9	104.9	52.8	256.1	-37.4	
Gross Profit Margin	34.9	28.9	29.8	513 bps	37.0	-207 bps	Increase in ASP and better product mix resulted in healthy gross margins
Employee exp	51.1	55.0	35.5	43.7	53.5	-4.6	
Other Exp	58.9	65.0	35.8	64.5	67.3	-12.5	Other expenses are higher owing to sales reverting to back to pre-covid levels and integration of Unlimited format
EBITDA	50.3	19.9	33.6	50.0	135.3	-62.8	
EBITDA Margin (%)	11.0	4.1	9.5	15.1	19.6	1350 bps	
Depreciation	37.6	40.5	25.6	47.1	40.4	-6.9	
Other Income	2.8	3.0	4.3	-35.7	2.6	7.3	
Interest	23.5	20.0	14.6	60.8	21.2	11.2	
Exceptional Income	-	-	-	-	-	-	
PBT	-8.0	-37.6	-2.3	248.3	76.4	PL	
Tax Outgo	-5.4	0.0	-0.8	557.3	19.3		
PAT	-2.6	-37.6	-1.5	77.0	57.1	PL	

Source: Company, ICICI Direct Research

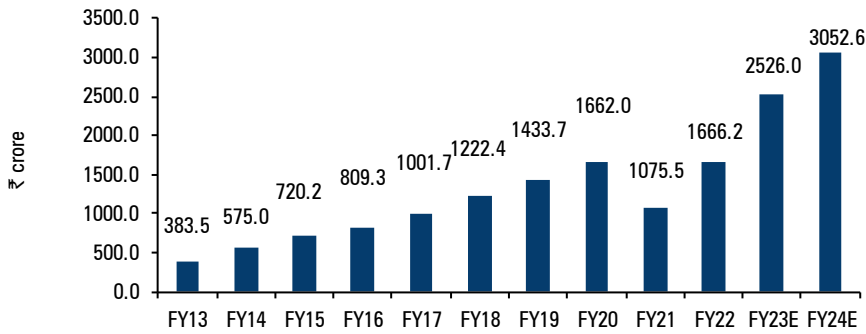
Exhibit 2: Change in estimates

(₹ Crore)	FY 23E			FY 24E		
	Old	New	% Change	Old	New	% Change
Revenue	2,656.9	2,526.0	-4.9	3,188.7	3,052.6	-4.3
EBITDA	353.7	325.5	-8.0	438.0	421.6	-3.7
EBITDA Margin (%)	13.3	12.9	-43 bps	13.7	13.8	7 bps
PAT	96.5	67.9	-29.6	133.3	117.2	-12.0
EPS (₹)	49.0	34.4	-29.8	67.6	59.4	-12.2

Source: Company, ICICI Direct Research

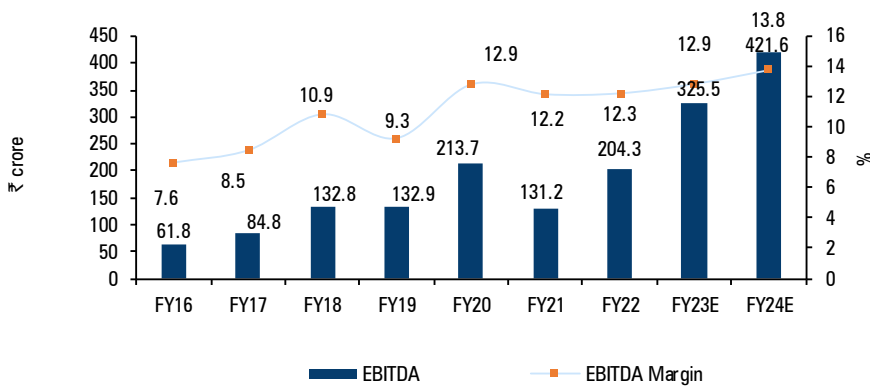
Financial story in charts

Exhibit 3: Revenue trend



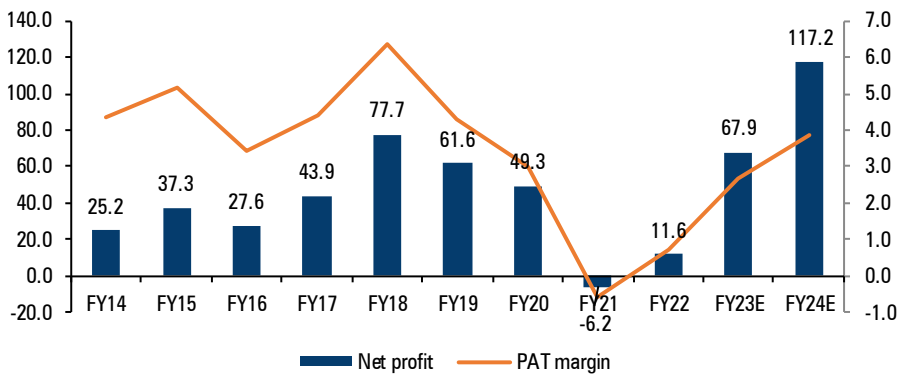
Source: Company, ICICI Direct Research

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



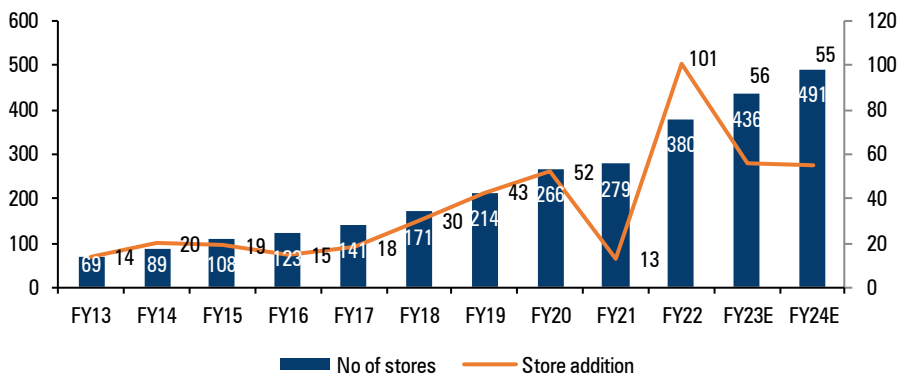
Source: Company, ICICI Direct Research

Exhibit 5: Net profit trend



Source: Company, ICICI Direct Research

Exhibit 6: Total stores and store addition pace



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21A	FY22E	FY23E	FY24E
Net Sales	1,075.5	1,666.2	2,526.0	3,052.6
Growth (%)	(35.3)	54.9	51.6	20.8
Total Raw Material Cost	723.6	1,091.1	1,679.8	2,014.7
Gross Margins (%)	32.7	34.5	33.5	34.0
Employee Expenses	116.9	179.6	252.6	299.2
Other Expenses	103.8	191.1	268.1	317.2
Total Operating Expenditure	944.2	1,461.9	2,200.5	2,631.1
EBITDA	131.2	204.3	325.5	421.6
EBITDA Margin	12.2	12.3	12.9	13.8
Interest	59.0	77.2	83.2	92.2
Depreciation	103.0	130.7	167.5	188.6
Other Income	21.0	14.0	16.0	16.0
Exceptional Expense	-	-	-	-
PBT	(9.7)	10.4	90.8	156.7
Total Tax	(3.5)	(1.2)	22.9	39.5
Profit After Tax	(6.2)	11.6	67.9	117.2

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY21A	FY22E	FY23E	FY24E
Profit/(Loss) after taxation	-6.2	11.6	67.9	117.2
Add: Depreciation	103.0	130.7	167.5	188.6
Net Increase in Current Assets	29.6	-309.5	-59.6	-150.6
Net Increase in Current Liabilities	-18.2	111.1	20.9	65.0
CF from operating activities	108.2	-56.0	196.7	220.3
(Inc)/dec in Investments	-381.6	262.7	74.5	10.4
(Inc)/dec in Fixed Assets	-39.9	-152.2	-151.5	-128.4
Others	0.0	-24.9	0.0	0.0
CF from investing activities	-421.5	85.7	-77.0	-118.0
Inc / (Dec) in Equity Capital	1.5	0.1	0.0	0.0
Inc / (Dec) in Loan	-1.1	0.0	0.0	0.0
Others	334.5	-22.1	-112.4	-124.2
CF from financing activities	334.9	-22.1	-112.4	-124.2
Net Cash flow	21.7	7.6	7.3	-21.9
Opening Cash	5.8	27.5	35.1	42.3
Closing Cash	27.5	35.0	42.3	20.5

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(Year-end March)	FY21A	FY22E	FY23E	FY24E
Equity Capital	19.7	19.8	19.8	19.8
Reserve and Surplus	805.5	829.9	893.0	1,002.1
Total Shareholders funds	825.2	849.6	912.8	1,021.8
Total Debt	-	-	-	-
Non Current Liabilities	587.3	924.7	924.7	924.7
Source of Funds	1,412.5	1,774.3	1,837.4	1,946.5
Gross block	295.3	442.8	598.2	726.6
Less: Accum depreciation	119.5	163.3	223.1	295.8
Net Fixed Assets	175.8	279.5	375.1	430.8
Capital WIP	2.2	6.4	2.5	2.5
Intangible assets	2.8	3.2	3.2	3.2
Investments	389.5	126.7	52.2	41.8
Inventory	428.3	668.2	761.3	878.2
Cash	27.5	35.1	42.3	20.5
Debtors	-	-	-	-
Loans & Advances & Other	53.1	110.8	77.3	110.9
Total Current Assets	508.9	814.1	880.9	1,009.5
Creditors	191.7	290.6	311.4	376.4
Provisions & Other CL	22.4	34.6	34.7	34.8
Total Current Liabilities	214.1	325.2	346.1	411.1
Net Current Assets	294.8	488.9	534.7	598.3
LT L& A, Other Assets	547.4	869.6	869.7	869.9
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	1,412.5	1,774.3	1,837.5	1,946.5

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY21A	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	-3.2	5.9	34.4	59.4
Cash EPS	49.2	72.1	119.2	154.9
BV	419.2	430.2	462.2	517.4
DPS	0.0	0.4	2.4	4.2
Cash Per Share	14.0	17.7	21.4	10.4
Operating Ratios (%)				
EBITDA margins	12.2	12.3	12.9	13.8
PBT margins	-0.9	0.6	3.6	5.1
Net Profit margins	-0.6	0.7	2.7	3.8
Inventory days	145.4	146.4	110.0	105.0
Debtor days	0.0	0.0	0.0	0.0
Creditor days	65.1	63.7	45.0	45.0
Return Ratios (%)				
RoE	-0.8	1.4	7.4	11.5
RoCE	6.0	10.3	19.1	24.4
RoIC	12.1	12.7	21.3	25.9
Valuation Ratios (x)				
P/E	NA	555.8	95.2	55.1
EV / EBITDA	45.9	30.8	19.6	15.2
EV / Sales	5.6	3.8	2.5	2.1
Market Cap / Revenues	6.0	3.9	2.6	2.1
Price to Book Value	7.8	7.6	7.1	6.3
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	2.4	2.4	2.4
Quick Ratio	0.2	0.3	0.2	0.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

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

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