V-Mart (VMART)

CMP: ₹ 2830 Target: ₹ 3310 (17%) Target Period: 12 months

BUY

November 15, 2022

Expecting demand uptick in festive/wedding season…

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 lakh crore value fashion industry. The company enjoys strong moats that would provide it 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

Q2FY23 Results: V-Mart reported an in line operational performance, with sales coming a notch higher than our expectations. However, revenue throughput per store continues to remain below pre-H2FY23 levels

- On a favourable base, revenue grew 50% YoY to ₹ 506 crore. Newly acquired Unlimited Stores contributed 21% to sales. Excluding Unlimited, revenue recovery rate was at 127% of pre-H2FY23 levels (mainly driven by price hikes)
- Gross margins improved 560 bps YoY to 36.3% owing to higher share of Unlimited (yields better gross margins) and lower discounting days. EBITDA margin was at 10.6% (Q1FY23: 15.1%, Q2FY22: 6.1%)
- Higher depreciation, interest expense due to Unlimited business integration led the company to report loss of ₹ 11.3 crore (Q2FY22: - ₹ 14 crore)

What should investors do? V-Mart has been a consistent compounder with stock price appreciating at 18% CAGR in the last five years. However, the stock has been under pressure on YTD basis (down 25%) as 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. We believe healthy b/s, proven ability to operate low cost profitable business in non-tier I cities would provide it an edge over peers and weather near term challenges.

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

Target Price and Valuation: We value V-Mart at ₹ 3310 i.e. 16x FY24E EV/EBITDA.

Key triggers for future price performance

- Recent acquisition of 'Unlimited' store brand (77 stores) will enable V-Mart to cater to the fashion needs in western and southern markets of India (where V-Mart has minimal presence). The format is currently performing better than the legacy business
- We like V-Mart as a structural long term story to play the unorganised to modern retail shift
- We expect total retail space to increase at ~14% CAGR in FY22-24E with total area of 4.3 million square feet (sq ft) by FY24E

Alternate Stock Idea: Apart from V-Mart, in our retail coverage we 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 ₹ 1730/share

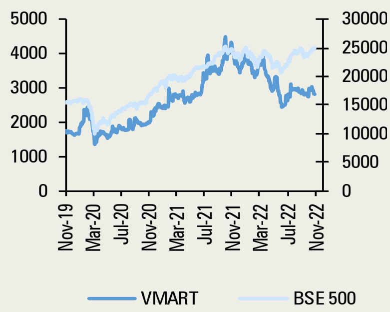
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	5,599.1
Total Debt (FY22) (₹ crore)	-
Cash & Investment (FY22) (₹ crore)	161.8
EV (₹ crore)	5,437.3
52 Week H / L	4380 / 2406
Equity Capital (₹ crore)	19.7
Face Value (₹)	10.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	46.4	46.4	46.2	46.1	46.1
FII	22.1	21.1	20.2	18.2	11.5
DII	21.7	22.0	23.2	25.6	31.5
Others	9.8	10.5	10.3	10.1	10.8

Price Chart



Key risks

Key Risk: (i) Slow ramp up of store network (ii) Sustained raw material inflation may hamper demand

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Result Update

ICICI Securities – Retail Equity Research

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%	2,529.7	3,009.8	34.4%
EBITDA	132.9	213.7	131.2	204.3		349.5	410.5	41.7%
PAT	61.6	49.3	-6.2	11.6		72.4	101.7	
P/E (x)	83.3	104.2	NA	480.6		77.2	55.0	
EV/Sales (x)	3.5	3.1	4.8	3.3		2.2	1.9	
EV/EBITDA (x)	38.0	24.0	39.3	26.6		16.1	13.7	
RoCE (%)	27.2	27.0	6.0	10.3		19.0	21.4	
RoE (%)	15.0	10.7	-0.8	1.4		7.9	10.1	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

- Revenue for the quarter grew 50% YoY to ₹ 506.1 crore (I-direct estimate: ₹ 491.4 crore). Revenues also includes contribution from Unlimited format (~21% of sales, ₹ 106 crore) which was integrated in Q3FY22. Excluding the Unlimited format, revenue recovery was at ~127% of pre-H2FY23 levels. The recovery rate was mainly driven by price hikes as ASPs for apparel grew 27% YoY to ₹ 384 whereas at the company level it increased 13% to ₹ 223
- V-Mart's operating metrics over the past couple of quarters have been turbulent owing to higher inflationary stress on lower price point discretionary categories (ASP: ~ ₹ 385). Also inflationary demand scenario has had a higher impact in Tier II-IV cites (V-MART has ~60% stores in Tier III-IV regions) compared to Tier I cities. As per our calculations, revenue per store was at ₹ 1.2 crore in Q2FY23, which is ~9% lower than pre-H2FY23 levels (despite sharp price hikes). This translates into volume de-growth compared to pre-H2FY23 levels. Footfalls also continue to remain under stress, which is down 29% on a like to like basis
- Higher revenue contribution of Unlimited format (which yields better gross margins but has higher opex), resulted in the company recording 560 bps YoY expansion in gross margins to 36.3% (Q1FY23: 37.3%). Employee and other expenses increased 35% and 79% YoY, respectively, mainly on account of higher marketing spends and integration of Unlimited business format. The company reported EBITDA margin of 10.6% (I-direct estimate: 10.4%) Q2FY22: 2.3%). Margins look optically higher owing to Ind-AS 116 impact. Adjusting for Ind-AS 116 impact, EBITDA margin was at 3.7%
- Newly acquired Unlimited stores in the southern region are witnessing healthy traction with a consistent improvement in profitability. Also, since majority of the stores are located in Tier I and in malls, the performance has been relatively better than V-Mart during the quarter. The company is gradually changing the product portfolio of 'Unlimited' stores and is introducing V-Mart products in these stores. The new stores added in southern region (about six new Unlimited stores) have yielded healthy revenue/sq ft of ₹ 700/month, which is 20-30% higher than the legacy stores. Also, store operating metrics such as rental/sq ft are similar to V-Mart stores (₹ 35/month vs. ₹ 75/month for Unlimited legacy stores)
- Store addition was healthy during the quarter as the company added 14 new stores (two Unlimited stores) taking the total store count to 405 (3.6 million sq ft). The company is on track to add 60+ stores in FY23
- On the balance sheet front, higher working capital requirements (owing to inventory stocking for festive and winter collection) has resulted in the company generating negative operating cash flows (post lease liability) worth ₹ 175 crore. Furthermore, capex worth ₹ 75 crore (including warehouse) in H1FY23 led to negative FCF of ~ ₹ 250 crore. Strain on balance sheet resulted in working capital debt of ₹ 117 crore (net debt: ₹ 90 crore). While the company expects inventory levels to normalise by Q4FY23, we do believe that inventory days would continue to be higher than pre-H2FY23 levels (122 days vs. pre-H2FY23: 90 days)
- The company has completed acquisition of "LimeRoad" (D2C website), which is expected to strengthen its e-commerce channel. The aforesaid investment would pressurise margins, to a certain extent, as the segment would entail investments in the initial phase. The company highlighted it would spend ~15-20% EBITDA of V-Mart to scale up the business

Q2FY23 conference call highlights

- The management indicated that demand was still not up to pre-H2FY23 levels in its key markets of UP and Bihar. Both these markets have been impacted by unseasonal rains, which has impacted the income of farmers thereby impacting the purchasing power of the common people who are the core customers for V-Mart. Also, the management indicated initial festival sales have been below pre H2FY23 levels in its core V-Mart stores. The South India stores have performed comparatively better. The management expects these stores to form an important market for V-Mart in ensuing quarters
- In a bid to boost demand, the company has reduced the product prices to make it more affordable. The company expects the demand to pick up due to the price correction implemented by it in the ensuing quarters. However, the management indicated that the demand was not strong and would take time to grow at earlier pace. Also the winter season has started on a lukewarm basis and the marriage season is yet to pick up. V-Mart expects improvement in the wedding demand from Q3FY23 onwards
- On the gross margin front, the management indicated that it was higher during the quarter owing to higher gross margin profile of the South India stores (Unlimited), which now contribute around 20% of total revenues. The management has kept gross margins higher for Unlimited stores as the same have higher opex compared to V-Mart stores. In the near term, gross margins are likely to be higher than normal V-Mart range but the management expects the same to stabilise over the longer term
- On the competitive scenario, the management indicated that the competition from large brands was increasing in the areas where V-Mart operates. The company is focusing on retention of its existing customers and improving the retention rate by providing customers a wider range of products at affordable prices
- The company is also tapping the online retail space by enhancing its presence on major e-commerce platforms like Flipkart and Myntra with the products receiving a good response
- On the capex front, V-Mart is planning to spend around ₹ 180-190 crore. The company has already spent around ₹ 36-37 crore for the Lime road acquisition. The company is building a warehouse and expects phase one of the same to be completed by March 2023
- The company believes the Lime road business is not a high cash burn business and expects to spend between 15% and 20% of the company’s EBITDA to expand the Limeroad business

Exhibit 1: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	506.2	491.4	338.0	49.8	587.9	-13.9	Standalone revenue (excluding Unlimited) stood at 127% of pre-covid levels, which was mainly led by sharp price hikes. Revenue from Unlimited format contributed ~21% of overall topline. Footfalls on a like to like basis down 29% vs. pre-covid levels
Raw Material Expense	322.4	321.5	234.2	37.7	368.6	-12.5	
Gross Profit	183.8	169.9	103.8	77.1	219.2	-16.2	
Gross Profit Margin	36.3	34.6	30.7	560 bps	37.3	-99 bps	Sharp Increase in ASP's and higher contribution of Unlimited format led to higher gross margins
Employee exp	56.0	56.0	41.6	34.6	55.2	1.4	
Other Exp	74.2	63.0	41.5	78.7	75.3	-1.5	Other expenses are higher owing to sales reverting to back to pre-covid levels and integration of Unlimited format
EBITDA	53.6	50.9	20.7	159.4	88.7	-39.6	
EBITDA Margin (%)	10.6	10.4	6.1	448 bps	15.1	-450 bps	
Depreciation	44.1	41.0	27.3	61.7	40.2	9.5	
Other Income	2.7	4.2	4.1	-34.7	4.1	-35.2	
Interest	27.9	25.2	16.9	64.7	24.7	12.7	
Exceptional Income	-	-	-		-		
PBT	-15.7	-11.2	-19.4	NA	27.8	PL	
Tax Outgo	-4.4	-2.8	-5.3	-17.7	7.4		
PAT	-11.3	-8.4	-14.1	NA	20.5	PL	

Source: Company, ICICI Direct Research

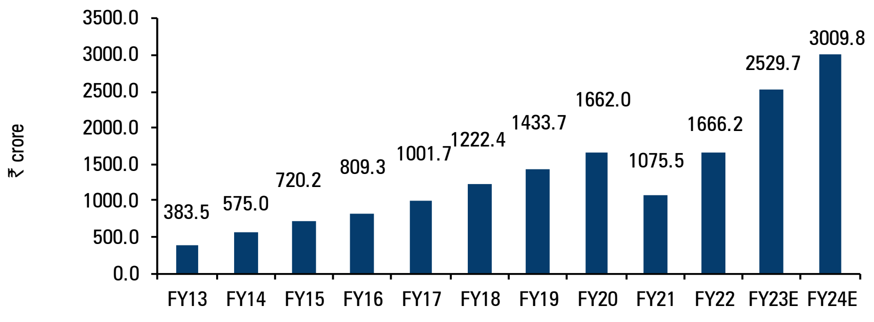
Exhibit 2: Change in estimates

(₹ Crore)	FY 23E Old	FY 23E New	FY 23E % Change	FY 24E Old	FY 24E New	FY 24E % Change
Revenue	2,526.0	2,529.7	0.1	3,043.4	3,009.8	-1.1
EBITDA	334.3	349.5	4.5	421.5	410.5	-2.6
EBITDA Margin (%)	13.2	13.8	58 bps	13.8	13.6	-21 bps
PAT	68.2	72.4	6.2	115.4	101.7	-11.9
EPS (₹)	34.5	36.7	6.3	58.4	51.5	-11.8

Source: Company, ICICI Direct Research

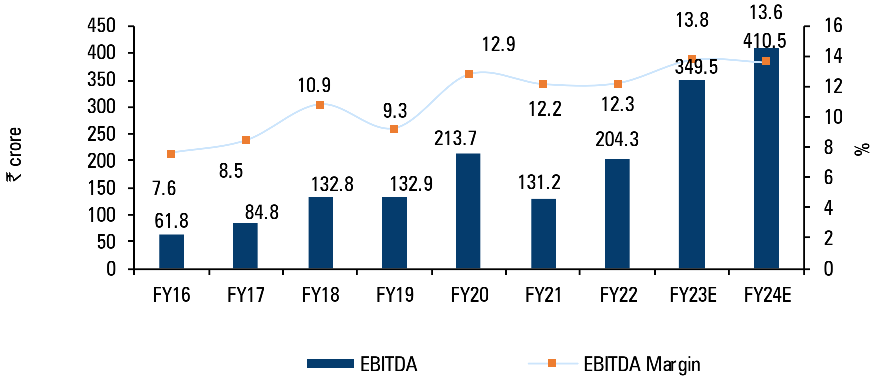
Financial story in charts

Exhibit 3: Revenue trend



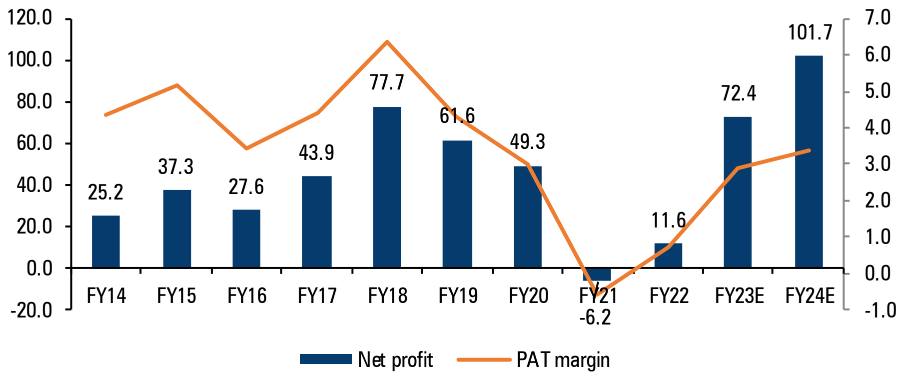
Source: Company, ICICI Direct Research

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



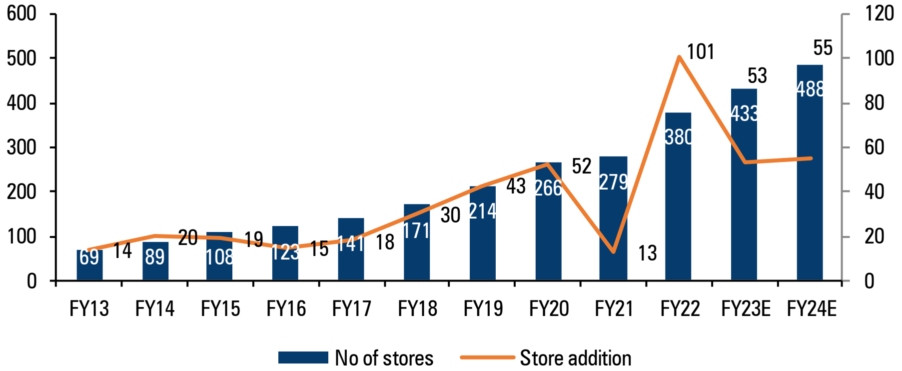
Source: Company, ICICI Direct Research

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)	FY21	FY22	FY23E	FY24E
Net Sales	**1,075.5**	**1,666.2**	**2,529.7**	**3,009.8**
Growth (%)	(35.3)	54.9	51.8	19.0
Total Raw Material Cost	723.6	1,091.1	1,629.1	1,956.4
Gross Margins (%)	32.7	34.5	35.6	35.0
Employee Expenses	116.9	179.6	245.4	282.9
Other Expenses	103.8	191.1	305.7	360.1
Total Operating Expenditure	944.2	1,461.9	2,180.3	2,599.4
EBITDA	**131.2**	**204.3**	**349.5**	**410.5**
EBITDA Margin	12.2	12.3	13.8	13.6
Interest	59.0	77.2	96.7	101.4
Depreciation	103.0	130.7	171.9	189.1
Other Income	21.0	14.0	16.0	16.0
Exceptional Expense	-	-	-	-
PBT	(9.7)	10.4	96.8	135.9
Total Tax	(3.5)	(1.2)	24.4	34.3
Profit After Tax	**(6.2)**	**11.6**	**72.4**	**101.7**

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	-6.2	11.6	72.4	101.7
Add: Depreciation	103.0	130.7	171.9	189.1
Net Increase in Current Assets	29.6	-309.5	-147.5	-132.9
Net Increase in Current Liabilitie:	-18.2	111.1	21.4	59.3
CF from operating activities	**108.2**	**-56.0**	**118.2**	**217.1**
(Inc)/dec in Investments	-381.6	262.7	74.5	25.2
(Inc)/dec in Fixed Assets	-39.9	-152.2	-195.5	-122.1
Others	0.0	-24.9	0.0	0.0
CF from investing activities	**-421.5**	**85.7**	**-120.9**	**-96.9**
Inc / (Dec) in Equity Capital	1.5	0.1	0.0	0.0
Inc / (Dec) in Loan	-1.1	0.0	100.0	0.0
Others	334.5	-22.1	-112.7	-119.8
CF from financing activities	**334.9**	**-22.1**	**-12.7**	**-119.8**
Net Cash flow	21.7	7.6	-15.5	0.5
Opening Cash	5.8	27.5	35.1	19.6
Closing Cash	**27.5**	**35.0**	**19.6**	**20.1**

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	19.7	19.8	19.8	19.8
Reserve and Surplus	805.5	829.9	897.2	991.8
Total Shareholders funds	825.2	849.6	917.0	1,011.5
Total Debt	-	-	100.0	100.0
Non Current Liabilties	587.3	924.7	924.7	924.7
Source of Funds	**1,412.5**	**1,774.3**	**1,941.6**	**2,036.2**
Gross block	295.3	442.8	642.1	764.2
Less: Accum depreciation	119.5	163.3	227.5	303.9
Net Fixed Assets	175.8	279.5	414.6	460.3
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	27.0
Inventory	428.3	668.2	845.5	948.3
Cash	27.5	35.1	19.6	20.1
Debtors	-	-	-	-
Loans & Advances & Other	53.1	110.8	80.8	110.9
Total Current Assets	508.9	814.1	946.0	1,079.2
Creditors	191.7	290.6	311.9	371.1
Provisions & Other CL	22.4	34.6	34.7	34.8
Total Current Liabilities	214.1	325.2	346.6	405.9
Net Current Assets	294.8	488.9	599.4	673.4
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**	**1,941.7**	**2,036.2**

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios

(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	-3.2	5.9	36.7	51.5
Cash EPS	49.2	72.1	123.7	147.2
BV	419.2	430.2	464.3	512.2
DPS	0.0	0.4	2.6	3.6
Cash Per Share	14.0	17.7	9.9	10.2
Operating Ratios (%)				
EBITDA margins	12.2	12.3	13.8	13.6
PBT margins	-0.9	0.6	3.8	4.5
Net Profit margins	-0.6	0.7	2.9	3.4
Inventory days	145.4	146.4	122.0	115.0
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	7.9	10.1
RoCE	6.0	10.3	19.0	21.4
RoIC	12.1	12.7	20.5	22.3
Valuation Ratios (x)				
P/E	NA	480.6	77.2	55.0
EV / EBITDA	39.3	26.6	16.1	13.7
EV / Sales	4.8	3.3	2.2	1.9
Market Cap / Revenues	5.2	3.4	2.2	1.9
Price to Book Value	6.8	6.6	6.1	5.5
Solvency Ratios				
Debt / Equity	0.0	0.0	0.1	0.1
Debt/EBITDA	0.0	0.0	0.3	0.2
Current Ratio	2.2	2.4	2.7	2.6
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%

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