

15 May 2024

India | Equity Research | Q4FY24 results review

V-Mart Retail

Branded Apparel

Marathon, not a sprint; building momentum for turnaround

Key highlights from V-Mart Retail's Q4FY24 result: (1) Steady 5% YoY SSSG in VMART, (2) sharp improvement in Unlimited SSSG at 13% (vs 1% in Q3) driven by higher volume growth despite 10% YoY reduction in ASP. It (Unlimited) also had benefits from accelerated closure (closed 9 stores in 4Q) of underperforming stores (13 stores in FY24; 79 stores now). Losses from LimeRoad declined 14% QoQ, but loss margin at -80% improved marginally (by 3%) QoQ (vs -83% in Q3). Consequently, EBITDA margin in FY24 continued to be under stress (~8% vs break-even expectations of >12%). Rise in creditor days (to 83 days vs pre-covid 5Y average of ~45 days), in this context, is concerning. While most of the stress in Unlimited may have been addressed, getting unit economics of LimeRoad right would be the key. **HOLD**.

Steady SSSG; recovery in Unlimited is positive

Overall revenue growth stood at 13% YoY led by 6% YoY SSSG. Revenue from V-MART grew 12% YoY (5% YoY SSSG), while that from Unlimited grew 14% YoY (13% YoY SSSG) in Q4FY24. Footfalls growth was healthy at 25% YoY to 14mn, while customer conversion rate declined 500bps YoY to 49% (lower than historical average of >55-60%). Overall average selling price (ASP) was flat at INR 232; however, in Unlimited it declined 10% YoY to INR 409. Revenue per square feet performance during FY24, in tier 1, 2 and 4 cities was healthy at 10% YoY, 6% YoY and 13% YoY, respectively, while for tier 3 cities it declined 1% YoY (implying higher demand stress in tier 3). Same-store sales volume growth at 6% YoY in FY24 is positive, with V-MART at 5% YoY, Unlimited at 14% YoY. Inventory days stood at healthy 113 days (vs 114 days in FY23).

Accelerated closure of underperforming stores may reduce margin stress

Added 9 stores: 8 V-MART and 1 Unlimited store in Q4FY24 but closed 19; 10 V-MART and 9 Unlimited stores. V-MART now has 79 Unlimited stores in South (17% revenue share). Overall retail space grew 4% YoY to 3.86mn sqft in FY24. Store closure rate accelerated to ~6.8% (vs ~5.6% during FY20-23) to 26 stores (closed 13 V-MART stores and 13 Unlimited) over the last 12 months. We believe this is positive as underperforming stores put significant drag on SSSG and margins.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	24,648	27,856	31,499	36,248
EBITDA	2,689	2,131	3,528	4,497
EBITDA Margin (%)	10.9	7.6	11.2	12.4
Net Profit	(78)	(968)	(57)	520
EPS (Rs)	(4.0)	(49.0)	(2.9)	26.3
EPS % Chg YoY	(167.3)	1,132.7	(94.1)	(1,017.9)
P/E (x)	(540.5)	(43.8)	(749.3)	81.6
EV/EBITDA (x)	16.3	20.3	12.1	9.6
RoCE (%)	5.8	(0.7)	11.1	16.8
RoE (%)	(0.9)	(12.1)	(0.8)	6.8

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Market Data

Market Cap (INR)	42bn
Market Cap (USD)	508mn
Bloomberg Code	VMART IN
Reuters Code	VMAR.BO
52-week Range (INR)	2,445 /1,591
Free Float (%)	56.0
ADTV-3M (mn) (USD)	0.7

Price Performance (%)	3m	6m	12m
Absolute	8.5	26.7	1.4
Relative to Sensex	7.2	15.6	(15.7)

Earnings Revisions (%)	FY25E	FY26E
Revenue	(6.1)	(9.3)
EBITDA	(13.1)	(7.1)
EPS	(112.0)	(4.1)

Previous Reports

07-02-2024: [Q3FY24 results review](#)

07-11-2023: [Q2FY24 results review](#)

Margins under pressure due to underlying stress in Unlimited and LimeRoad

Gross margin contracted marginally by 23bps YoY to 31.7%. EBITDA margin expanded 216bps YoY to 6%. This was led by (1) 60bps YoY improvement in EBITDA margin of V-MART, and (2) decline in EBITDA loss of LimeRoad by 44% YoY to INR 121mn. However, EBITDA margin in Unlimited contracted 110bps YoY to 5.3%. Overall EBITDA grew 75% YoY to INR 402mn. Net loss stood at INR 389mn (vs INR 370mn in Q4FY23); INR 968mn loss in FY24 (vs INR 78mn loss in FY23).

Valuation and risks

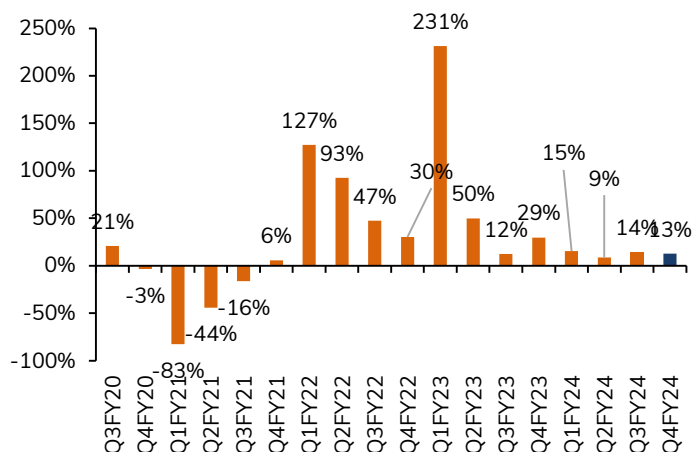
We cut our EBITDA estimates by 13% and 7% for FY25E and FY26E, respectively, on slower-than-expected revival in overall business and cut down in retail expansion estimates. We model revenue / EBITDA CAGR of 14 / 45% over FY24-26E. We maintain **HOLD** with a revised DCF-based target price of INR 2,100 (vs INR 2,000 earlier). Key downside risks: Delayed recovery of online business and Unlimited, increase in competitive intensity from online/offline players. Key upside risks: Sharper-than-expected scale-up in operating margin and early recovery in LimeRoad.

Exhibit 1: Q4FY24 result review

(INR mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenues	6,686	5,939	12.6	8,891	-24.8	27,856	24,648	13.0
COGS	4,567	4,043	12.9	5,734	-20.4	18,251	15,971	14.3
Gross profit	2,119	1,896	11.8	3,157	-32.9	9,605	8,677	10.7
Gross Margin (%)	31.7	31.9	-23 bps	35.5	-381 bps	34.5	35.2	-72 bps
Employee expenses	670	680	-1.5	772	-13.1	2,871	2,555	12.4
% of net sales	10.0	11.5	-143 bps	8.7	135 bps	10.3	10.4	-6 bps
Other Expenses	1,047	987	6.1	1,189	-11.9	4,604	3,433	34.1
% of net sales	15.7	16.6	-95 bps	13.4	229 bps	16.5	13.9	260 bps
EBITDA	402	229	75.5	1,197	-66.4	2,131	2,689	-20.8
EBITDA Margin (%)	6.0	3.9	216 bps	13.5	-745 bps	7.6	10.9	-326 bps
Depreciation	607	484	25.5	583	4.2	2,221	1,800	23.4
EBIT	-205	-255	-19.5	614	-133.4	-91	889	-110.2
Other Income	44	75	-41.2	130	-66.0	210	150	40.0
Interest Expenses	359.1	336.2	6.8	376	-4.4	1,424	1,169	21.8
PBT	-520	-516	0.8	369	-241.0	-1,305	-130	903.1
Taxes	-131	-146		87		-337	-52	
Adjusted PAT	-389	-370	5.3	282	-237.9	-968	-78	1132.7
Extra-ordinary items	0	0		0		0	0	
Reported PAT	-389	-370	5.3	282	237.9	-968	-78	1132.7
EPS	-19.7	-18.7	5.3	14.3	237.9	-49.0	5	-1156.7

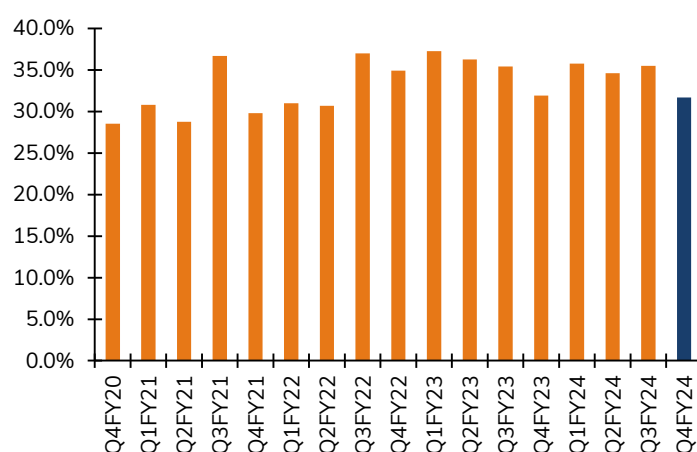
Source: Company data, I-Sec research

Exhibit 2: Revenue growth (%)



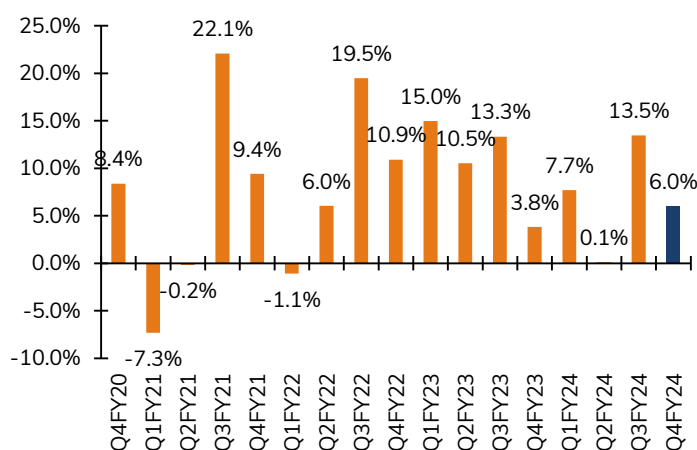
Source: Company data, I-Sec research

Exhibit 3: Gross margin (%)



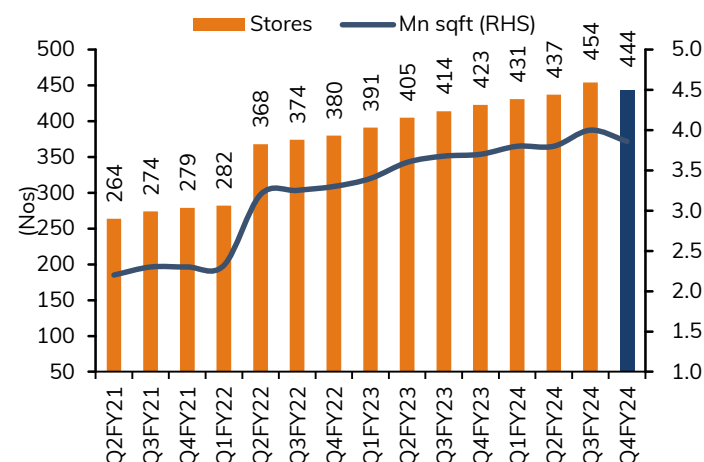
Source: Company data, I-Sec research

Exhibit 4: EBITDA margin (%)



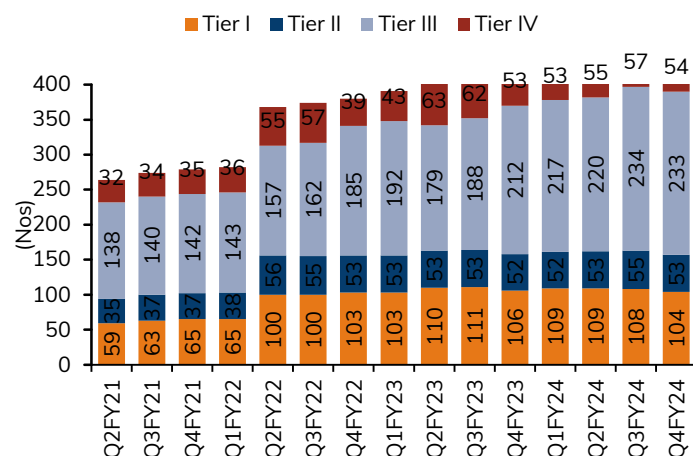
Source: Company data, I-Sec research

Exhibit 5: Store additions



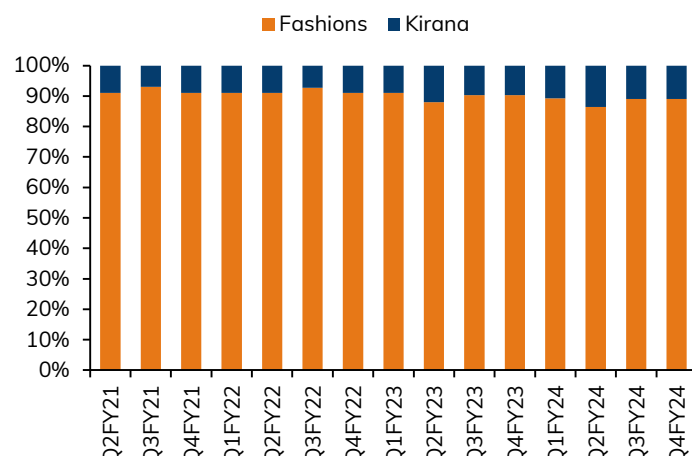
Source: Company data, I-Sec research

Exhibit 6: Stores – tier split

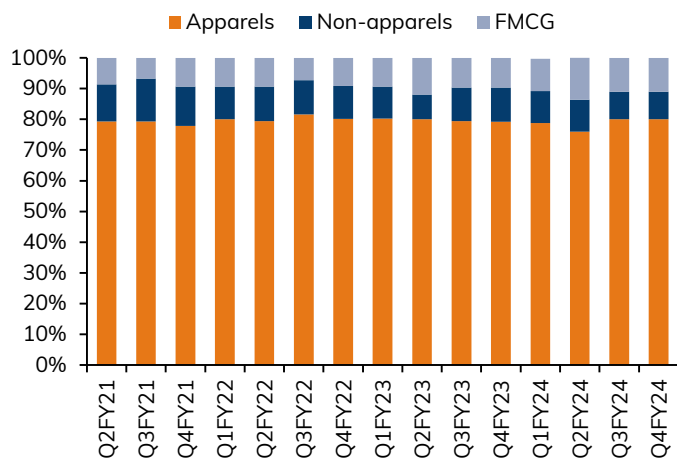


Source: Company data, I-Sec research

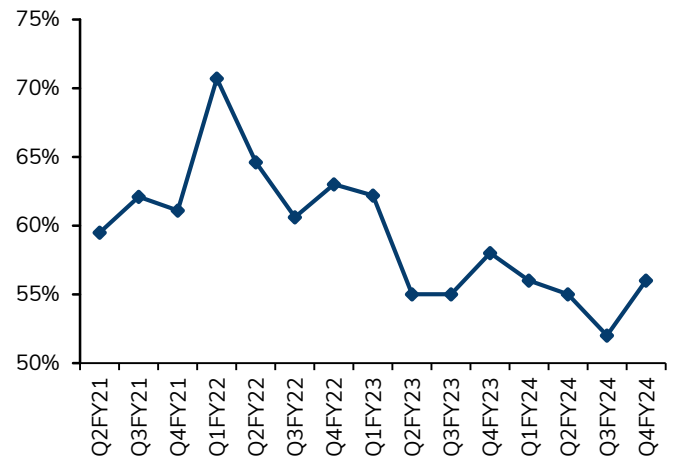
Exhibit 7: Contributions (fashion / kirana)



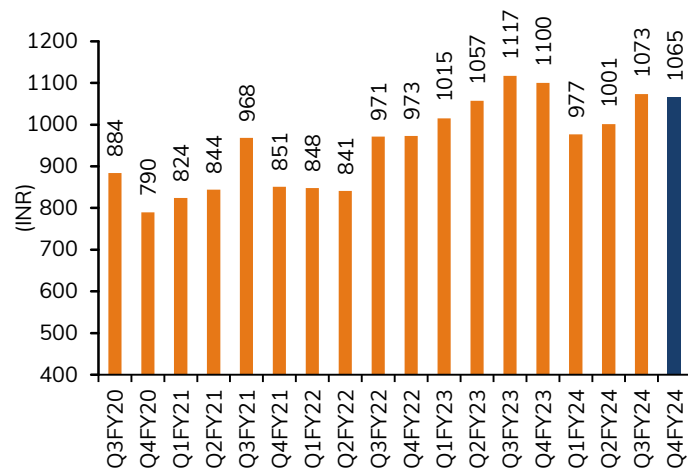
Source: Company data, I-Sec research

Exhibit 8: Contributions (%)

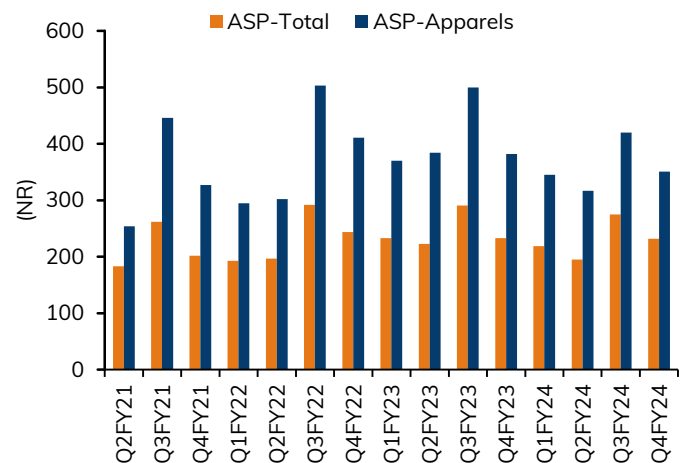
Source: Company data, I-Sec research

Exhibit 9: Conversion rate (%)

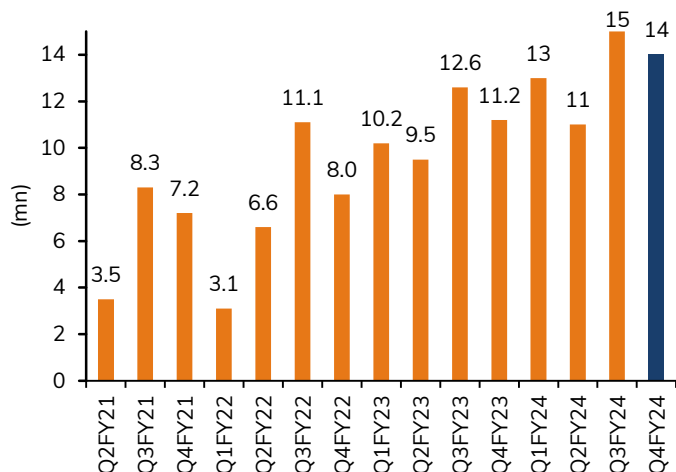
Source: Company data, I-Sec research

Exhibit 10: Transaction size

Source: Company data, I-Sec research

Exhibit 11: Average selling price

Source: Company data, I-Sec research

Exhibit 12: Customer footfalls

Source: Company data, I-Sec research

Exhibit 13: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	44.3	44.3	44.3
Institutional investors	46.9	48.3	49.3
MFs and others	29.7	31.5	31.5
FIs/Banks	1.9	1.8	1.9
FIIIs	15.3	15.0	15.9
Others	8.8	7.4	6.4

Source: Bloomberg

Exhibit 14: Price chart

Source: Bloomberg

Financial Summary

Exhibit 15: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	24,648	27,856	31,499	36,248
Operating Expenses	21,959	25,725	27,971	31,751
EBITDA	2,689	2,131	3,528	4,497
EBITDA Margin (%)	10.9	7.6	11.2	12.4
Depreciation & Amortization	1,800	2,221	2,268	2,537
EBIT	889	(91)	1,260	1,959
Interest expenditure	1,169	1,424	1,508	1,438
Other Non-operating Income	150	210	172	172
Recurring PBT	(130)	(1,305)	(75)	693
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	(52)	(337)	(19)	173
PAT	(78)	(968)	(57)	520
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	(78)	(968)	(57)	520
Net Income (Adjusted)	(78)	(968)	(57)	520

Source Company data, I-Sec research

Exhibit 16: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	11,793	11,761	13,251	14,630
of which cash & cash eqv.	202	272	695	379
Total Current Liabilities & Provisions	5,619	7,071	7,900	8,980
Net Current Assets	6,174	4,690	5,351	5,650
Investments	85	47	47	47
Net Fixed Assets	14,455	16,607	20,796	22,696
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,092	38	40	40
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	21,807	21,382	26,234	28,433
Liabilities				
Borrowings	1,478	1,100	1,103	1,100
Deferred Tax Liability	-	-	-	-
provisions	-	-	-	-
other Liabilities	11,838	12,813	17,745	19,447
Equity Share Capital	8,490	7,470	7,390	7,886
Reserves & Surplus	-	-	-	-
Total Net Worth	8,490	7,470	7,390	7,886
Minority Interest	-	-	-	-
Total Liabilities	21,807	21,382	26,234	28,433

Source Company data, I-Sec research

Exhibit 17: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	6,785	5,494	8,891	6,686
% growth (YOY)	29.5	29.5	29.5	30.5
EBITDA	525	7	1,197	402
Margin %	7.7	0.1	13.5	6.0
Other Income	15	20	130	44
Extraordinaries	-	-	-	-
Adjusted Net Profit	-219	-641	282	-389

Source Company data, I-Sec research

Exhibit 18: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	(130)	(1,305)	(75)	693
Working Capital Changes	2,846	2,169	(239)	(616)
Capital Commitments	(2,783)	(1,209)	(2,835)	(2,374)
Free Cashflow	(976)	2,650	645	1,505
Other investing cashflow	1,197	32	(5,678)	(1,737)
Cashflow from Investing Activities	(1,586)	(1,178)	(8,513)	(4,112)
Issue of Share Capital	35	7	0	0
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	1,478	(378)	-	-
Dividend paid	-	-	-	-
Others	(1,872)	(2,219)	5,510	(61)
Cash flow from Financing Activities	(374)	(2,590)	5,486	(84)
Chg. in Cash & Bank balance	(152)	92	454	(316)
Closing cash & balance	150	242	695	379

Source Company data, I-Sec research

Exhibit 19: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	(4.0)	(49.0)	(2.9)	26.3
Adjusted EPS (Diluted)	(4.0)	(49.0)	(2.9)	26.3
Cash EPS	87.1	63.4	111.9	154.7
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	429.5	377.9	373.9	399.0
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	47.9	13.0	13.1	15.1
EBITDA	31.6	(20.8)	65.6	27.5
EPS (INR)	(167.3)	1,132.7	(94.1)	(1,017.9)
Valuation Ratios (x)				
P/E	(540.5)	(43.8)	(749.3)	81.6
P/CEPS	24.6	33.8	19.2	13.9
P/BV	5.0	5.7	5.7	5.4
EV / EBITDA	16.3	20.3	12.1	9.6
P / Sales	1.7	1.5	1.3	1.2
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	35.2	34.5	35.0	35.2
EBITDA Margins (%)	10.9	7.6	11.2	12.4
Effective Tax Rate (%)	39.7	25.9	25.0	25.0
Net Profit Margins (%)	(0.3)	(3.5)	(0.2)	1.4
Working Capital Days	1.1	0.6	0.6	0.6
Inventory Turnover Days	154	113	113	118
Receivables Days	-	-	-	-
Payables Days	86	88	88	89
Fixed Asset Turnover (x)	1.9	1.8	1.7	1.7
Net Debt / Equity (x)	0.2	0.1	0.1	0.1
Net Debt / EBITDA (x)	0.5	0.4	0.1	0.2
Profitability Ratios				
RoCE (%)	5.8	(0.7)	11.1	16.8
RoE (%)	(0.9)	(12.1)	(0.8)	6.8
RoIC (%)	6.8	0.9	12.6	18.3

Source Company data, I-Sec research

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