CD Equisearch Pvt Ltd

CHANGING DIMENSIONS
CD EQUISEARCH

August 26, 2020

V-Mart Retail Ltd.	
No. of shares (m)	18.16
Mkt cap (Rs crs/$m)	3689/493.0
Current price (Rs/$)	2031/27.1
Price target (Rs/$)	1692/22.6
52 W H/L (Rs.)	2545/1200
Book Value (Rs/$)	234/3.1
Beta	0.8
Daily NSE volume (avg. monthly)	22650
P/BV (FY21e/22e)	9.4/8.2
EV/EBITDA (FY21e/22e)	56.2/16.2
P/E (FY21e/22e)	na/60.0
EPS growth (FY20/21e/22e)	-26.7/-236.0/na
OPM (FY20/21e/22e)	12.9/7.3/13.2
ROE (FY20/21e/22e)	11.4/-15.8/14.6
ROCE(FY20/21e/22e)	12.8/-2.5/11.9
D/E ratio (FY20/21e/22e)	1.1/1.2/1.0
BSE Code	534976
NSE Code	VMART
Bloomberg	VMART IN
Reuters	VMAR.NS

Shareholding pattern	%
Promoters	51.2
MFs / Banks / FIs	17.3
Foreign Portfolio Investors	23.1
Govt. Holding	-
Total Public & Others	8.5
Total	**100.0**

As on June 30, 2020

Recommendation

REDUCE

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Quarterly Highlights

- Battered by no meager stress in the retail fashion industry owing to large scale lockdowns nationally, V-Mart posted 82.1% decline in revenues in the first quarter of FY21 – the sharpest decline thus far. Business remained largely impacted in April and most parts of May with operational days at a dismal 2% and 22% respectively. Stress in discretionary consumer spend and no clear resolution of the pandemic led to cautionary buying – average bill size went up by 14% while units per transaction went up by 18%, thence bringing down ASP by 8% reflecting growing demand for leisure wear in contrast to less formal wear.
- Gross margins remained almost flat y-o-y at 31% despite conservative provisioning against inventory. As of now, the inventories are higher than normal, yet under control. The company trimmed down its inventory from some Rs. 480 cr in March to some Rs. 430 cr odd in June (Inventory in FY19 and FY18 stood at Rs. 329 cr and Rs. 307 cr respectively) and plans to take it down further in winter and festive periods – the company has put on hold purchases and order placements for winter and festive season are happening with strict control.
- No small penny pinching in marketing and travel expenses and reduction in power and fuel cost helped trim other expenses by over Rs. 32 cr y-o-y (decline of 75%) and lower employee expenses (down by almost 50% y-o-y) failed to prevent operating profit from slipping into the red zone in the first quarter of FY21. The company has negotiated rental waivers with most landlords for the entire lockdown period, but the benefit is only partially reflected in current quarter financials. Post tax earnings for the quarter fell by over Rs. 51 cr as the company reported a loss of Rs. 33.64 cr.
- The stock currently trades at 60.0x FY22e EPS of Rs 33.83. Not helped by the pandemic, revenue growth is expected to take a dip this fiscal due to stickiness in demand. Revenue growth next fiscal will be driven largely by external factors like places of shopping returning to normalcy and little hindrance to rise in consumer confidence. Disruption caused by the prospering e-commerce business indirectly exposes V-Mart to vagaries of demand. Profitability is expected to take a deep dive this fiscal but would return to normalcy next fiscal. Post easing of lockdown, we expect a sharp rebound in earnings – post tax earnings of Rs. 61.45 cr in FY22. Weighing odds, we recommend 'reduce' rating on the stock with target price of Rs 1692 (previous target Rs 1360) based on 50x FY22e EPS of Rs 33.83.

	FY18	FY19	FY20	FY21e	FY22e
Income from operations	1222.37	1433.74	1662.02	956.16	1909.81
Other Income	4.14	5.92	4.48	5.32	6.13
EBITDA (other income included)	136.93	129.05	218.24	74.67	258.78
PAT after EO	76.97	67.23	49.35	-67.16	61.45
EPS(Rs)	42.53	37.08	27.18	-36.97	33.83
EPS growth (%)	77.6	-12.6	-26.7	-236.0	na

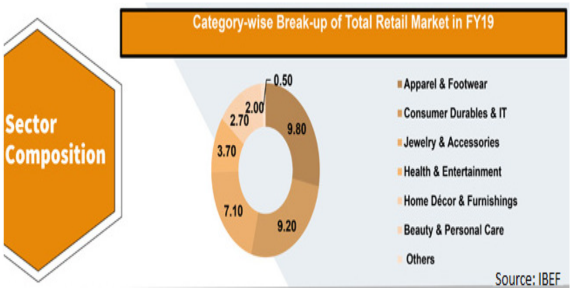
Outlook and Recommendation

Indian Retail Industry - Opportunity

Clothing, dining out and grocery retail industry will take about a year to recover, said top industry associations - Retailers Association of India (RAI), National Restaurant Association of India (NRAI) and Clothing Manufacturers Association of India (CMAI) in StoRAI, the official magazine of RAI, published in June 2020. The three associations jointly anticipates a 25-30% impact on business with multiplier effect on dependent industries and lasting job losses, while emphasizing on an immediate survival plan. Selling piled-up inventory as soon as malls and stores reopen followed by increasing productivity at the factories would be key to recovery for apparel manufacturers in post Covid era.

According to the latest edition of StoRAI, the official magazine of RAI for the months of March – June as many as 25% of retailers have said they will not be able to survive three months of closure with businesses of all sizes and formats trying to conserve cash to get through this catastrophe. RAI said due to the current crisis, millions of jobs in the retail sector are at risk. To prevent job losses, RAI has suggested the government provide 4 months job support subsidy at 50% of the minimum wages as cash support to encourage retailers to continue the employment of staff during the extended lockdown and recovery period after the lockdown is lifted.

Retailers Association of India (RAI), the body which represents some of the top retailers in the country, has asked the Government of India to save one of the most important and critical service industry in the country from collapsing, in the wake of the COVID-19 crisis. According to the association, due to high inventory positions and low demand that will continue beyond the lockdown period, the industry will need support for longer period to survive.



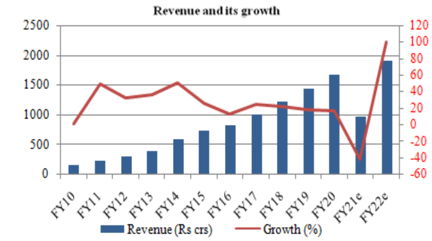
Janne Einola, Country Manager, H&M India, recently said, they are seeing consumer trends shifting to a personalized and experiential model. Customers are looking for relevant content. It isn't just about reaching the masses anymore. In the future, one will have to talk to individuals. With both consumers and companies taking equal responsibility, sustainability will be a lot more important. "The coming times are going to be about unlearning what we have learnt so far and learning the new dynamics that we are supposed to get used to." — Ajay Kapoor President-Retail, FAB India.

Some trends that were to slowly set in over the next couple of years have now been accelerated because of the pandemic. Digitalization is at the top of that list. More and more retailers are going to invest heavily in Big Data as a way of honing their personalization, fulfillment, and delivery processes. Mass media marketing, at least for the short term is going to see a low, with more and more brands embracing digital marketing. Community shopping is also one trend that is going to be accelerated. Another key theme of the post-lockdown era is going to be partnerships. The industry is going to witness unique brand partnerships. Consumption without too much human contact is going to become the new norm while shop-by-appointment might also pick up pace. Omni-channel will become the new normal.

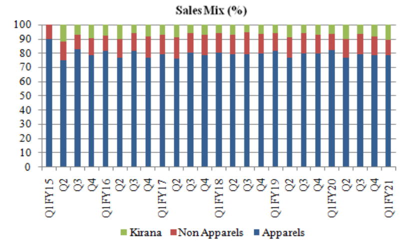
Rakesh Biyani, Managing Director of Future Retail, feels it would be difficult maneuvering this pandemic. Retailers will have to smartly roll out existing inventory through the upcoming monsoon and winter season, while also strengthening their existing supply chains. It is a good time for them to re-look at their last-mile delivery models, and explore partnerships with delivery services, online marketplaces, and even kirana stores to expand their reach. Supply chain heads must identify potential risk areas and modify their operating models to minimize these risks.

Financials & Valuations

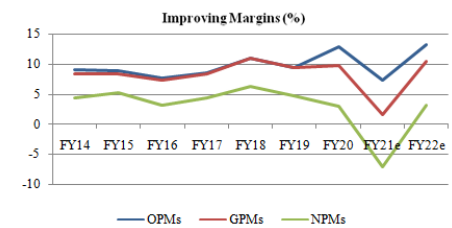
Woeful impact of national lockdowns has been strikingly visible in domestic retail sales for V-Mart's revenues declined by over 82% in April-June period this fiscal, aggravating the narrative of ecomomic stress in the Indian economy which had dominated the news for much of last year. We see revenues declining by over 42% this fiscal (we expect revenues to rebound next fiscal almost 15% higher than FY20 levels – Rs. 1910 cr) – entrenched fear due to the pandemic and strict social distancing norms still in place in large parts of the country accompanied by reduced consumer spending on discretionary items are driving this downtrend. V-Mart is also halting its aggressive expansion policy of opening new stores for the time being focusing on cash conservation to manage liquidity requirements while riding out this wave – V-Mart opened just two stores and closed two in the first quarter this fiscal. Till the time there is clear visibility on the economic environment, management is expected to be cautious in this regard.



Sources: V-Mart Retail Ltd., CD Equisearch

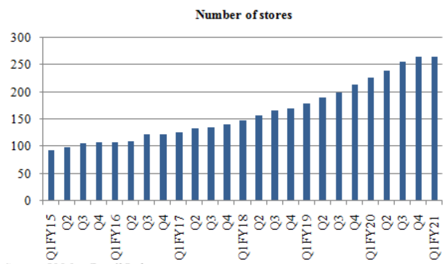


Source: V-Mart Retail Ltd.

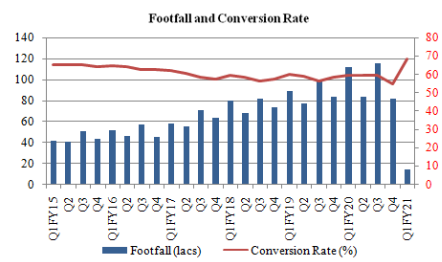


Sources: V-Mart Retail Ltd., CD Equisearch

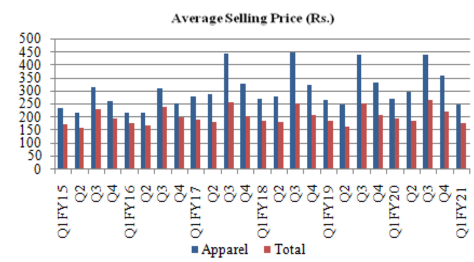
No meager stress in revenues would do margins no favours as OPMs are expected to decline to 7.3% this fiscal from 12.9% just last year. The estimate of 7.2% rests on the assumption that company would return to upwards of 80% pre-Covid revenue levels in Q4FY21. Negotiations with landlords on rental waivers and lower employee costs would do little to rescue profit before tax as it will no meagerly plummet this fiscal – from a profit of 70 cr in FY20 to a loss of Rs. 90 cr in FY21; company has in the first quarter also made sharp cuts to its marketing and travel budget given the bleak economic scenario in the first quarter of FY21. Though revenues are expected to clock 99.7% growth in FY22 on a lower base, people moving to less branded products, cuts in discretionary spending and prolonged economic slowdown are certain risks to the estimate.



Source: V-Mart Retail Ltd.

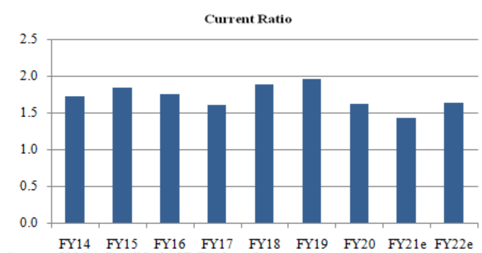


Source: V-Mart Retail Ltd.

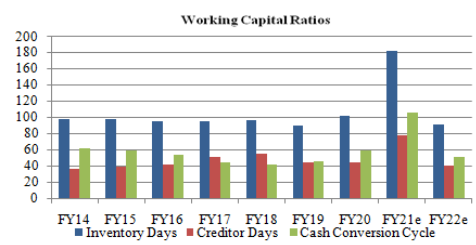


Source: V-Mart Retail Ltd.

Despite an increase in inventory last fiscal, cash flow from operations rose no timidly to Rs. 86.3 cr in FY20 from Rs. 76.34 cr. Planned reduction in inventory and amelioration in working capital should somewhat aid cash flows – Inventories currently stand at Rs. 430 cr much higher than FY19 levels of Rs. 329 cr (though on higher store count) due to accumulation and forced store closures for most of the first quarter this fiscal. Festive and winter purchases are kept on a tight leash; inventory days which are estimated at 182 for FY21 should stabilize at around 90 by the end of next fiscal according to our estimates.



Sources: V-Mart Retail Ltd., CD Equisearch



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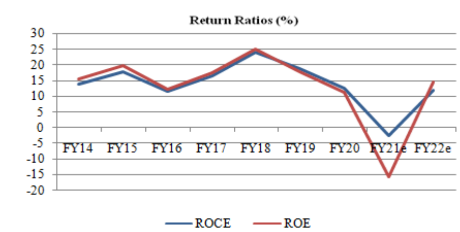
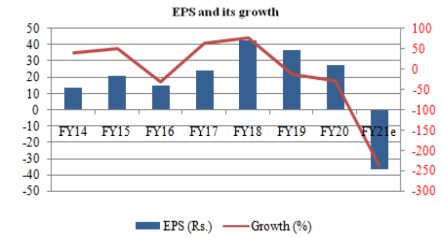
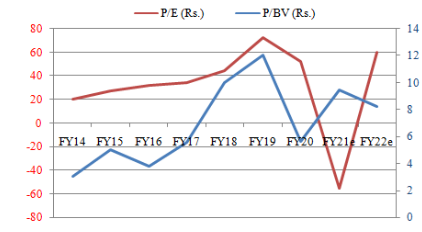


Sources: V-Mart Retail Ltd., CD Equisearch

A fall in revenues on account of lower asset utilization (declining average revenues per store) is expected to divisively hit asset turnovers with fixed asset turnover falling to 1.5 this fiscal from 4 in FY20. Consequently, a fall in earnings would deteriorate interest coverage to -0.5 this fiscal before recovering to 2.4 in FY22. ROE is expected to see an upsurge to 14.6% in FY22 from 11.4% in FY20 owing to higher profitability.



Sources: V-Mart Retail Ltd., CD Equisearch



Sources: V-Mart Retail Ltd., CD Equisearch

* FY21e/22e forward multiples

The stock currently trades at 60.0x FY22e EPS of Rs 33.83. V-Mart's earnings are expected to dip not so timorously in FY21, clocking a loss post tax of Rs. 67.16 cr before regaining some ground in FY22 to Rs. 61.45 cr, some 25% up from what it clocked in FY20 (Rs. 49.35 cr). As sales velocity picks up in retail industry, V-Mart's presence in Tier II and Tier III cities would make its business model difficult to replicate for outsiders – a sort of barely puny competitive advantage, currently have 139 of their stores in Tier III cities and another 35 in Tier II. ROE is expected to dip (15.8%) before rising to 14.6% for the projected period of FY21 and FY22 respectively on impressive growth in the latter period. We have cut our earnings estimate for FY21 and thus recommend 'reduce' rating on the stock with target price of Rs 1692 (previous target Rs 1360) based on 50x FY22e EPS of Rs 33.83. For more info, refer to our November report.

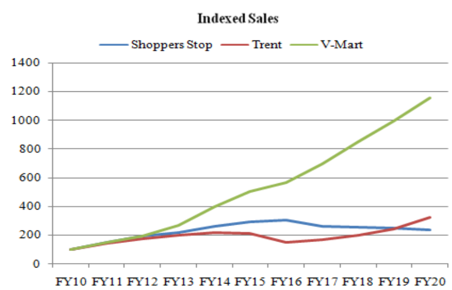
Cross Sectional Analysis

Company	Equity*	CMP	MCAP*	Sales*	Profit*	OPM (%)	NPM (%)	Int Cov	ROE (%)	Mcap/Sales	P/BV	P/E
Shoppers Stop	44	191	1681	2665	-252	12.5	-9.5	0.0	-57.2	0.6	-54.9	na
Trent Ltd.	36	647	22989	2935	-91	9.6	-1.5	0.8	-4.9	7.8	10.8	na
V-Mart	18	2031	3689	1287	-2	11.7	-0.1	1.0	-0.4	2.9	8.7	na

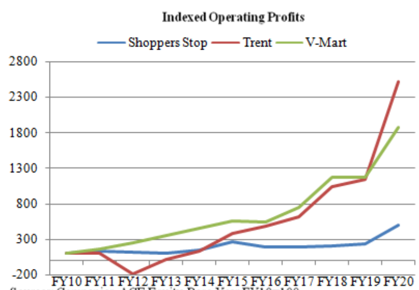
*figures in crores; standalone/consolidated data as applicable; calculations on ttm basis.

Near complete closure in the wake of the pandemic in April, May and part of June crippled Shoppers Stop with stores operating barely 18% of the days during the first quarter of FY21, reporting 93.5% decline in revenues. It reported abysmal loss before tax amounting to Rs. 158.41 cr in the June quarter, albeit, the situation a year ago wasn't that rosy either, a mere Rs. 1.24 cr PBT. The recovery has started, although at a very slow pace from July 2020 but we expect the near term impact to continue to be negative as they largely depend on overall improvement in Covid situation. The company continues to focus on cost reduction initiatives with cost savings on a consolidated basis for FY21 approximately 35% from these initiatives compared to last fiscal. The emphasis is strongly on cash conservation to maintain short term liquidity – the company had an aggregate cash and investment position of Rs. 85 cr as of June 2020.

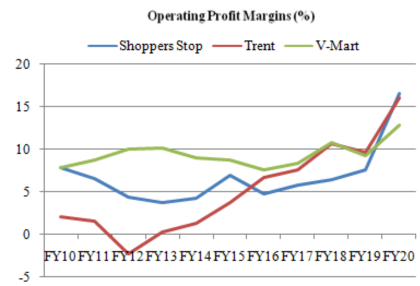
Similar shades of gloom were visible with Trent Limited which reported almost 70% decline in revenues in Q1FY21 leading to operating loss to the tune of Rs. 123.75 cr. The steep rise in other income to Rs. 54.64 cr in June 2020 from Rs. 24.02 cr a year earlier could not limit the decline in PBT which slid into negative territory (Q1FY21 loss before tax and associate income – Rs. 192.66 cr). Huge associate loss to the extent of Rs. 39 cr compounded troubles further. Store closures resulted in unprecedented incremental provisioning with respect to inventories estimated at Rs. 40 cr in the quarter under review as per company data.



Sources: Companies, ACE Equity; Base Year FY10=100



Sources: Companies, ACE Equity, Base Year FY10=100



Sources: Companies, ACE Equity

Note: Graphs on standalone/consolidated data as applicable.

Financials

Quarterly Results

Figures in Rs crs

	Q1FY21	Q1FY20	% chg	FY20	FY19	% chg
Income From Operations	**78.06**	**453.05**	**-82.8**	**1662.02**	**1433.74**	**15.9**
Other Income	1.39	2.08	-33.1	4.48	5.92	-24.4
Total Income	**79.46**	**455.13**	**-82.5**	**1666.50**	**1439.67**	**15.8**
Total Expenditure	83.90	395.25	-78.8	1448.27	1310.62	10.5
EBITDA (other income included)	**-4.45**	**59.88**	**-107.4**	**218.24**	**129.05**	**69.1**
Interest	14.61	12.00	21.8	54.78	1.61	3297.0
Depreciation	26.30	22.00	19.6	93.92	27.63	240.0
PBT	**-45.36**	**25.88**	**-275.2**	**69.53**	**99.81**	**-30.3**
Tax	-11.72	8.28	-241.5	20.18	38.18	-47.1
PAT	**-33.64**	**17.60**	**-291.1**	**49.35**	**61.63**	**-19.9**
Extraordinary Item	-	-	-	-	-5.61	-100.0
Adjusted Net Profit	**-33.64**	**17.60**	**-291.1**	**49.35**	**67.23**	**-26.6**
EPS (Rs)	-18.52	9.70	-291.0	27.18	37.08	-26.7

Income Statement

Figures in Rs crs

	FY18	FY19	FY20	FY21e	FY22e
Income From Operations	**1222.37**	**1433.74**	**1662.02**	**956.16**	**1909.81**
Growth (%)	22.0	17.3	15.9	-42.5	99.7
Other Income	4.14	5.92	4.48	5.32	6.13
Total Income	**1226.51**	**1439.67**	**1666.50**	**961.48**	**1915.93**
Total Expenditure	1089.59	1310.62	1448.27	886.81	1657.15
EBITDA (other income included)	**136.93**	**129.05**	**218.24**	**74.67**	**258.78**
Interest	1.53	1.61	54.78	59.33	57.42
Depreciation	22.93	27.63	93.92	105.10	119.24
PBT	**112.47**	**99.81**	**69.53**	**-89.75**	**82.12**
Tax	34.76	38.18	20.18	-22.59	20.67
PAT	**77.70**	**61.63**	**49.35**	**-67.16**	**61.45**
Extraordinary Item	0.73	-5.61	-	-	-
Adjusted Net Profit	**76.97**	**67.23**	**49.35**	**-67.16**	**61.45**
EPS (Rs)	42.53	37.08	27.18	-36.97	33.83

Figures FY20 onwards not truly comparable to those in previous periods due to change in accounting standards

Balance Sheet

Figures in Rs crs

Balance Sheet	FY18	FY19	FY20	FY21e	FY22e
Sources of Funds					
Share Capital	18.10	18.13	18.16	18.17	18.17
Reserves	329.34	391.14	440.78	373.61	435.06
Total Shareholders Funds	**347.44**	**409.27**	**458.93**	**391.78**	**453.23**
Long Term Debt	0.32	0.03	437.84	385.30	372.97
Total Liabilities	**347.76**	**409.30**	**896.77**	**777.08**	**826.20**
Application of Funds					
Gross Block	184.95	229.57	825.03*	856.60	977.90
Less: Accumulated Depreciation	40.20	64.07	157.99	263.10	382.34
Net Block	**144.75**	**165.49**	**667.04**	**593.51**	**595.56**
Capital Work in Progress	3.51	4.01	2.47	2.00	2.00
Investments	34.03	60.68	7.89	5.00	40.00
Current Assets, Loans & Advances					
Inventory	307.11	328.98	477.92	406.23	414.36
Cash and Bank	18.37	16.59	4.99	0.86	15.11
Short term loans	14.24	25.16	30.10	26.80	31.46
Total CA	**339.73**	**370.73**	**513.01**	**433.89**	**460.94**
Current Liabilities	191.40	199.61	308.54	296.59	290.64
Provisions-Short term	3.00	11.83	12.22	11.99	12.12
Total Current Liabilities	**194.41**	**211.44**	**320.76**	**308.58**	**302.75**
Net Current Assets	145.32	159.29	192.26	125.31	158.18
Net Deferred Tax Asset	9.20	11.83	16.01	38.60	17.93
Net long term assets (net of liabilities)	10.95	8.00	11.10	12.65	12.51
Total Assets	**347.76**	**409.30**	**896.77**	**777.08**	**826.20**

*estimated
Figures FY20 onwards not truly comparable to those in previous periods due to change in accounting standards

Financial Ratios

	FY18	FY19	FY20	FY21e	FY22e
Growth Ratios(%)					
Revenue	22.0	17.3	15.9	-42.5	99.7
EBITDA	54.5	1.4	58.5	-65.8	246.5
Net Profit	77.9	-12.6	-26.6	-236.1	na
EPS	77.6	-12.8	-26.7	-236.0	na
Margins (%)					
Operating Profit Margin	10.9	9.3	12.9	7.3	13.2
Gross profit Margin	11.0	9.5	9.8	1.6	10.5
Net Profit Margin	6.3	4.7	3.0	-7.0	3.2
Return (%)					
ROCE	24.1	19.0	12.8	-2.5	11.9
ROE	25.2	18.0	11.4	-15.8	14.6
Valuations					
Market Cap/ Sales	2.8	3.4	1.6	3.9	1.9
EV/EBITDA	24.9	34.9	14.1	56.2	16.2
P/E	44.7	72.7	52.3	na	60.0
P/BV	10.0	12.0	5.6	9.4	8.2
Other Ratios					
Interest Coverage	73.9	68.3	2.3	-0.5	2.4
Debt Equity	0.0	0.0	1.1	1.2	1.0
Current Ratio	1.9	2.0	1.6	1.4	1.6
Turnover Ratios					
Fixed Asset Turnover	9.3	9.2	4.0	1.5	3.2
Total Asset Turnover	4.0	3.8	2.6	1.1	2.4
Inventory Turnover	3.8	4.1	3.6	2.0	4.0
Creditor Turnover	6.7	8.3	8.4	4.7	9.3
WC Ratios					
Inventory Days	96.5	89.3	101.7	182.0	90.4
Creditor Days	54.7	44.2	43.5	76.9	39.4
Cash Conversion Cycle	41.8	45.1	58.2	105.0	51.0

Note: Inventory days are calculated on 'COGS' basis
Figures FY20 onwards not truly comparable to those in previous periods due to change in accounting standards

Cumulative Financial Data

Figures in Rs crs	FY14-16	FY17-19	FY20-22e
Income from operations	2104	3658	4528
Operating profit	178	351	536
EBIT	145	292	233
PBT	133	286	62
PAT	89	187	44
Dividend	9	11	4
Store count*	123	214	296
OPM (%)	8.4	9.6	11.8
NPM (%)	4.2	5.1	1.0
Interest coverage	12.6	43.9	1.4
ROE (%)	15.9	19.9	3.4
ROCE (%)	14.8	19.8	8.7
Debt-equity ratio*	0.1	0.0	1.0
Fixed asset turnover	9.9	9.4	4.0
Inventory turnover	4.1	4.1	3.6
Creditors turnover	9.7	9.0	8.1
Inventory days	89.6	88.3	101.9
Creditor days	37.8	40.4	45.1
Cash conversion cycle	51.8	47.9	56.8
Dividend payout ratio (%)	9.6	5.9	8.3

FY 14-16 implies three year period ending fiscal 16;*as on terminal year
Figures FY20 onwards not truly comparable to those in previous periods due to change in accounting standards

Retail Industry disrupted by the impact of corona virus, cumulative revenues would grow by 23.8% for the three year period ending FY22e largely due to 15.9% rise in revenues in FY20 and almost 100% in FY22, albeit on a much smaller base. Cumulative operating profits would grow by a striking 52.5% largely due to changes in accounting standards implemented in FY20 leading to elevated outcome. Its enormous advantage in retail fashion would do little to rescue earnings as post tax earnings would fall over 76.7% to merely Rs. 44 cr in the same period from Rs. 187 cr in the preceding three year period (see table) not least due to ostensible friction in consumer demand for fashion products - a sort of discretionary spend. Its entrenched competitive positioning - large presence in Tier II and III cities - though not so easy to replicate would be little protected by slowdown in retail fashion industry.

Interest coverage would take a serious hit, falling to 1.4 in FY20-22e from 43.9 in FY17-19 - reading too much into the fall in interest coverage ratio would hardly bear any fruit for the sharp fall is largely due to changes in accounting standards. Grave stress in earnings coupled with barely strong asset utilization (fixed asset turnover is expected to fall to 4 in the projected period) would do little to uplift ROCE which is expected to fall to 8.7% in FY20-22e (see table). Inventory days are expected to rise to over 100 from just 88 days in the previous period thereby elongating the cash conversion cycle to almost 57 days in the projected period (see table).

Financial Summary- US dollar denominated

million $	FY18	FY19	FY20	FY21e	FY22e
Equity capital	2.8	2.6	2.4	2.4	2.4
Shareholders funds	52.7	58.6	60.9	52.4	60.1
Total debt	0.1	0.0	68.5	63.1	59.7
Net fixed assets (incl CWIP)	22.8	24.5	88.8	79.6	79.9
Net current assets	21.7	22.5	25.5	16.7	20.7
Total assets	52.8	58.6	119.0	103.8	109.9
Revenues	189.7	205.1	234.5	127.8	255.2
EBITDA	21.1	19.7	30.8	10.0	34.6
EBDT	20.8	19.5	23.1	2.1	26.9
PBT	17.3	15.5	9.8	-12.0	11.0
PAT	11.9	9.6	7.0	-9.0	8.2
EPS($)	0.66	0.53	0.38	-0.49	0.45
Book value ($)	2.9	3.2	3.4	2.9	3.3

Income statement figures translated at average rates; balance sheet at year end rates; projections at current rates (Rs74.83/$). All dollar denominated figures are adjusted for extraordinary items.

Figures FY20 onwards not truly comparable to those in previous periods due to change in accounting standards

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buy: >20%	accumulate: >10% to ≤20%	hold: ≥-10% to ≤10%	reduce: ≥-20% to <-10%	sell: <-20%

Exchange Rates Used- Indicative

Rs/$	FY16	FY17	FY18	FY19	FY20
Average	65.46	67.09	64.45	69.89	70.88
Year end	66.33	64.84	65.04	69.17	75.39

All $ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.