CD Equisearch Pvt Ltd

CHANGING DIMENSIONS
CD EQUISEARCH

January 16, 2024

V-Mart Retail Ltd.	
No. of shares (m)	19.78
Mkt cap (Rs crs/$m)	4105/495.4
Current price (Rs/$)	2076/25.1
Price target (Rs/$)	1900/22.9
52 W H/L (Rs.)	2943/1595
Book Value (Rs/$)	385.0/4.6
Beta	0.3
Daily NSE volume (avg. monthly)	60620
P/BV (FY24e/25e)	5.2/5.1
EV/EBITDA (FY24e/25e)	21.0/14.1
P/E (FY24e/25e)	-67.1/180.6
EPS growth (FY23/24e/25e)	-191.8/767.0/-137.1
OPM (FY23/24e/25e)	11.1/9.5/12.3
ROE (FY23/24e/25e)	-0.8/-7.5/2.8
ROCE (FY23/24e/25e)	3.2/1.7/5.7
D/E ratio (FY23/24e/25e)	1.6/1.6/1.6
BSE Code	534976
NSE Code	VMART
Bloomberg	VMART IN
Reuters	VMAR.NS

Shareholding pattern	%
Promoters	44.3
MFs / Banks / FIs	34.0
Foreign Portfolio Investors	14.3
Govt. Holding	-
Total Public & Others	7.4
Total	**100**

As on December 31, 2023

Recommendation

HOLD

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Quarterly Highlights

- V-Mart clocked in an overall revenue of Rs 549.43 crs in Q2FY24 as against Rs 506.16 crs in Q2FY23, thus exhibiting a growth of 8.5%, though the demand for festive season moved from Q2 to Q3.Fashion continues to be its main stay business contributing 80% to overall revenue, with the rest 20% coming from non-apparel and FMCG segment. The company is consciously trying to build up on volumes by attracting value customers to their stores by reducing prices of the product which in turn lead to drop in average selling price by 13% year-on-year to Rs 317 in Q2FY24. Consequently, footfalls were almost up 13%.
- The company has recalibrated its product mix by reducing its prices for its products (resulting in decline in ASP) and extending its promotion period which led to liquidation of high cost inventory. Loss of Rs 19.8 crs from LimeRoad has driven down the operating profit to Rs 0.67 crs in Q2FY24 as against Rs 53.59 crs in Q2FY23. In FY24 LimeRoad has lost Rs 45.3 crs; however, management plans to restrict the losses to Rs 55-60 crs in FY24. With strategic decision such as automation of warehouse and structural changes in key processes, the company sees improvement in cost structure which will help improve margins in coming quarters.
- Almost 70% of the high priced inventory has been liquidated during H1FY24 and the rest 30% will be liquidated during the second half. The company reported operating cash flow of Rs 138.5 crs in H1FY24 on the back of improvement in inventories and rise in payables. In order to address the growing consumer aspiration, the company has opened 8 stores in Q2.
- The stock currently trades at 180.6x FY25e EPS of Rs 11.49. Sales in Q3 are expected to grow with consumer adapting to higher inflation and gradual recovery in demand due to festive led consumption. Growth in coming years would likely be a function of SSSG and maintaining superior store economics. However, increase competition in retail value segment and weakening return on capital are factors to lookout in future. The current valuation barely appears modest nor least due to fragile recovery of LimeRoad operation. Balancing odds, we maintain 'hold' rating with a revised target of Rs 1900 over a period of 6-9 months (previous target Rs 2530).

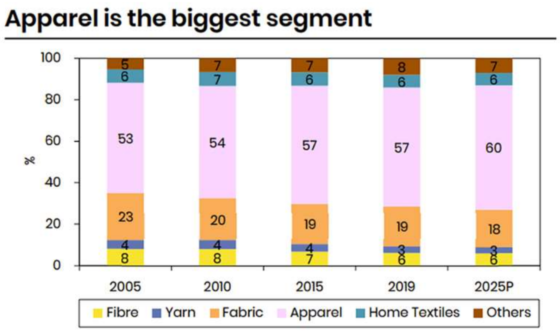
	FY21	FY22	FY23	FY24e	FY25e
Income from operations	1075.46	1666.18	2464.84	2712.80	3041.85
Other Income	21.04	13.96	14.97	4.54	17.07
EBITDA (other income included)	152.25	218.29	283.88	261.62	390.39
PAT after EO	-5.81	7.68	-7.06	-61.21	22.73
EPS(Rs)	-2.95	3.89	-3.57	-30.95	11.49
EPS growth (%)	-111.0	-231.8	-191.8	767.0	-137.1

Outlook and Recommendation

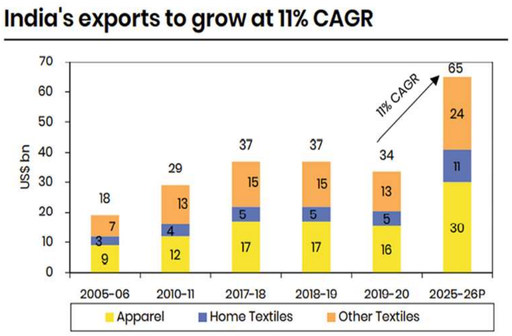
Indian Retail Industry

It is estimated in India around 40% population is going to live in urban areas indicating a shift of preference away from rural life to the accessibility and convenience of cities. The retail sector is also emerging as one of the largest sectors in the economy contributing 10% to GDP and 8% to employment. The industry is expected to reach $ 2 trillion by 2032, according to a report by Boston Consulting Group (BCG), driven by factors such as growing population, rising house hold income and higher urbanization. These factors may alter the consumption basket, which in turn is expected to increase consumer spending.

Along with the drivers, government reforms such as GST and increase in FDI limit in organized retail are helping garner higher investment from global players. Against this favorable backdrop, capex intensity is set to increase which will help boost retail infrastructure, especially in tier II and III cities. However, the retail industry is in its transformative phase which demands that retailers stay receptive to change and agile in response to shifting consumer preferences.



Source: The Textile Magazine



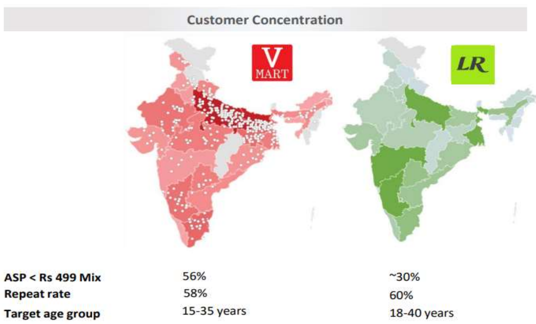
Source: The Textile Magazine

As per report by IBEF, India's apparel and textile market is estimated to be worth around $172.3 billion in 2022 and projected to be $ 387.3 billion in 2028 clocking in a growth of 14.59% CAGR. Factors contributing to the growth include increasing demand for premium quality clothing among affluent Indian consumer and a large population with rising middle class. Lower/middle income consumers, who were already struggling with rising food and staple cost, have marginally reduced their spending on apparel which is also facing the heat of rising cotton yarn price. This trend is likely to gradually correct itself in coming quarters, as inflationary pressures start subsiding.

With growing opportunities in textile industry, the Indian government has set an ambitious target of $100 billion export by 2030. In order to achieve this target, the government of India had launched a production linked incentive (PLI) scheme focused on enhancing India's global competitiveness in man-made fibres (MMF) and technical textiles. Moreover, another popular scheme is the mega investment textiles parks (MITRA) scheme aimed to support establishment of seven world class textile parks. Which will help attract large investments. As a result, the country will see increased domestic manufacturing, higher employment and surge in export. Since cotton makes up to 60-65% of Indian textile exports, the Government has announced that it will adopt a cluster-based and value chain approach through public private partnerships (PPPs) to meet increasing demand of cotton and enhance productivity of extra-long-staple (ELS) cotton. This will facilitate collaboration between farmers, the state, and industry for input supplies, extension services and market linkages.

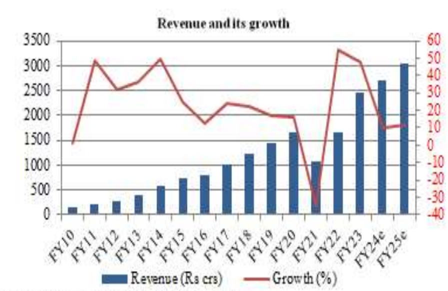
Acquisition of LimeRoad

In October 2022 V-Mart announced acquisition of LimeRoad business. As part of the transaction, V-Mart paid a sum of Rs 31.12 crs, and acquired assets worth approximately Rs 14.61 crs and assumed current liabilities of Rs 36.26 crs. The acquisition would enable V-Mart to strengthen its digital capabilities and expand its presence in omni channel value fashion. LimeRoad management has demonstrated capabilities of running an online business; at peak the company was delivering gross merchandise value of Rs 700+ crs in FY19 and had a 1.7 crs loyal customer base with a repeat rate of 60%. However, V-Mart ability to turnaround LimeRoad business would remain crucial to its bottom line; this business incurred losses in both FY20 and FY21. Despite the investment to strengthen its digital capabilities the topline share from the online segment remains around 2% in FY23

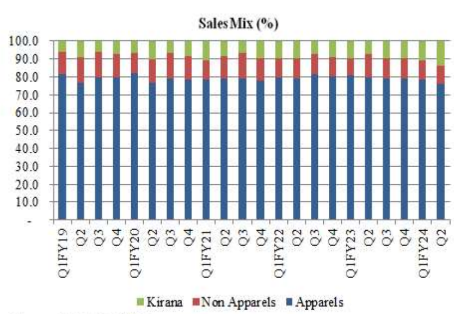


Financials & Valuation

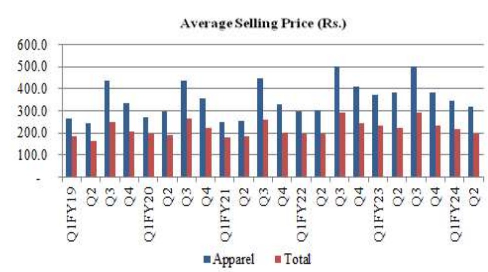
V Mart reported its highest ever revenue in FY23 at Rs 2464.84 crs as against Rs 1666.18 crs in FY22 thus clocking a growth of 47.9%. This came about on the back of sizeable increase in retail space (33 lakh sq ft in FY22 to 37 lakh sq ft in FY23) from both organic and inorganic expansions. Considering the increase in expense by 50.2% to Rs 2195.93 crs which can be attributed to adverse impact of acquiring LimeRoad business- it reported loss of Rs 44.1 crs in FY23. In order to turn around LimeRoad business the company will spend more in operational expenditure largely to acquire customers which is expected to put pressure on margin in future, though management intents on limiting these spends and not exceeding EBITDA loss of~ Rs. 50-60 crore.



Sources: V-Mart Retail Ltd., CD Equisearch



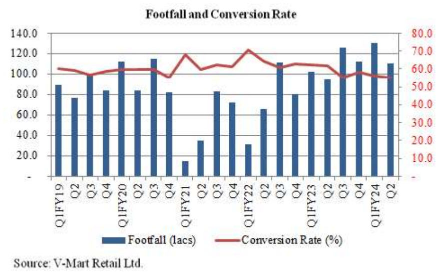
Source: V-Mart Retail Ltd.



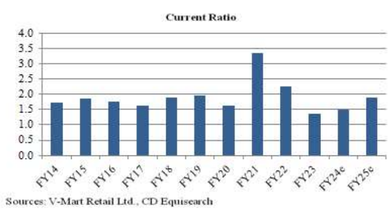
Source: V-Mart Retail Ltd.

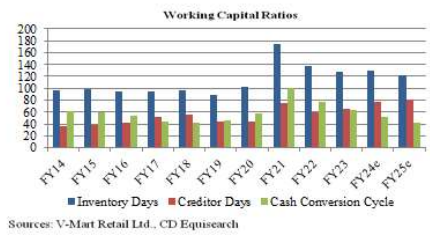
V-Mart operated 437 stores across 26 states /Union territories as the end of Q2. Till FY21 company's operation was restricted to western, eastern and northern states of the country but in FY22 company acquired Unlimited stores from Arvind Fashions which helped the company to venture into southern market as well, this in turn helped the company to reduce its dependence on Uttar Pradesh and Bihar. In FY23 Unlimited store enjoyed higher ASP (apparel) of Rs 563 as against Rs 382 of V-mart which is more due to the region's higher per capita income, higher literacy rate, and more aspirational customers.

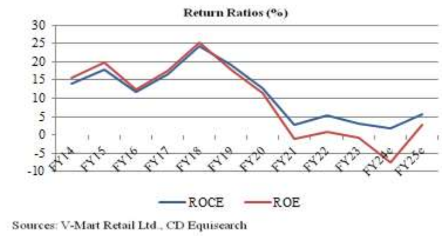
Additionally, smaller towns (Tier II and III) in this region have more disposable income. Though V-Mart had been able to control the de-growth in Unlimited operations, but brand integration is yet to be successfully fructify given different merchandise, pricing and target customers.



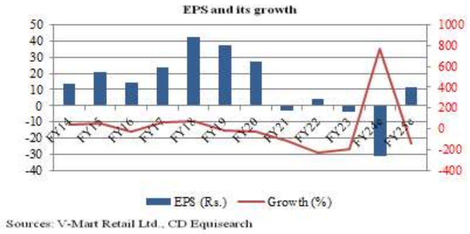
V-Mart has outlined a capex of around Rs 70-80 crs in FY25 for opening new stores and increase it foothold in smaller towns based on cluster expansion strategy. But keeping in mind the nature of retail business, store closure generally follow aggressive store expansion. But V-Mart's strong focus on cost and ability to open new stores at reasonable capex provides it no small competitive advantage.

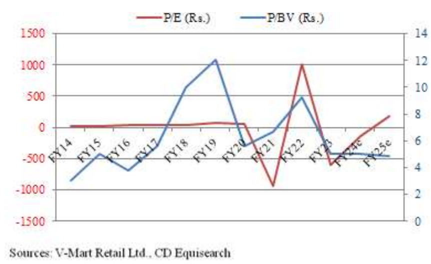






The stock currently trades at 180.6x FY25e EPS of Rs 11.49. For the last two years inflation was dampening the rural demand but now a gradual recovery is expected to materialize from H2FY24 in key markets like UP/Bihar and South. Also with aggressive store expansion opening planned, V-Mart may clock revenue growth of 12% next fiscal which could help V-Mart clock in revenues of Rs. 3041.85 crs. However, higher interest cost along with increase opex due to LimeRoad acquisition has deteriorated its earning power and kept its ROE at abysmal level. The company is also facing stiff competition from organized players who are gunning for the growth in value fashion retail both in form of brick-and-motar store as well online. Weighing odds, we maintain 'hold' rating with revised target of Rs 1900 over a period of 6-9 months (previous target Rs 2530), refer to our October 2022 report.





Cross Sectional Analysis

Company	Equity*	CMP	MCAP*	Sales*	Profit*	OPM (%)	NPM (%)	Int Cov	ROE (%)	Mcap/Sales	P/BV	P/E
Shoppers Stop	55	705	7745	4094	98	17.1	2.4	1.6	54.5	1.9	32.6	79.3
Trent Ltd.	36	3193	113518	10097	543	13.8	4.9	2.4	20.7	11.2	39.3	209.2
V-Mart	20	2076	4105	2599	-102	7.1	-3.9	0.0	-12.6	1.6	5.4	-40.1

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

Shopper Stop's topline growth continues to be dismal at 2.6%(y-o-y) impacted by subdued demand due to shifting of Durga Puja and wedding season from Q2 to Q3. Apparel growth remained muted, so most of the growth was driven by beauty (contributing 16% to the top line) and non-apparel segment. Given inventory provisioning and low leverage due to overall muted sales, company reported an operating profit of Rs 160.82 crs which declined by 2.7% and yielded margin at 15.5%. On the expansion side, company opened four departmental stores, nine beauty stores and six Intune store in H1FY24 and further plans to add 18 stores. Store expansion along with scaling of 'Intune' a value retail brand, will be focus areas of the company for its next leg of growth.

Given the subdued market condition Trent still reported a strong growth in topline of 52.7% in Q2FY24. This was on the back of healthy store expansion and change in revenue profile across formats .Operating profits for the quarter stood at Rs. 456.57 crs, up by almost 78.4% over Q2FY23. Cost mitigation and higher operating leverage helped the company to clock in OPMs of 15.3% as against 13.1% for Q2FY23.Emerging categories including beauty and personal care, innerwear and footwear continued to gain traction and now contribute to over 19% of our standalone revenues. As of Q2FY24, the company portfolio included 223 Westside, 411 Zudio and 27 stores across other lifestyle concepts.

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

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

Note: Graphs on standalone/consolidated data as applicable.

Financials

Quarterly Results

Figures in Rs crs

	Q2FY24	Q2FY23	% chg	H1FY24	H1FY23	% chg
Income From Operations	**549.43**	**506.16**	**8.5**	**1227.95**	**1094.04**	**12.2**
Other Income	1.99	2.65	-24.9	3.49	6.74	-48.2
Total Income	**551.42**	**508.81**	**8.4**	**1231.44**	**1100.78**	**11.9**
Total Expenditure	548.76	452.57	21.3	1174.82	951.74	23.4
EBITDA (other income included)	**2.66**	**56.24**	**-95.3**	**56.62**	**149.04**	**-62.0**
Interest	35.89	27.87	28.8	68.91	52.59	31.0
Depreciation	53.19	44.05	20.7	103.10	84.30	22.3
PBT	**-86.42**	**-15.68**	**-**	**-115.39**	**12.15**	**-**
Tax	-22.30	-4.37	-	-29.32	3.01	-
PAT	**-64.12**	**-11.31**	**-**	**-86.07**	**9.14**	**-**
Extraordinary Item	-	-	-	-	-	-
Adjusted Net Profit	**-64.12**	**-11.31**	**-**	**-86.07**	**9.14**	**-**
EPS (Rs)	-32.42	-5.73	-	-43.52	4.63	-

Income Statement

Figures in Rs crs

	FY21	FY22	FY23	FY24e	FY25e
Income From Operations	**1075.46**	**1666.18**	**2464.84**	**2712.80**	**3041.85**
Growth (%)	-35.3	54.9	47.9	10.1	12.1
Other Income	21.04	13.96	14.97	4.54	17.07
Total Income	**1096.50**	**1680.13**	**2479.81**	**2717.34**	**3058.92**
Total Expenditure	944.25	1461.85	2195.93	2455.72	2668.53
EBITDA (other income included)	**152.25**	**218.29**	**283.88**	**261.62**	**390.39**
Interest	58.95	77.19	116.91	130.73	129.25
Depreciation	102.97	130.70	179.98	212.50	230.83
PBT	**-9.66**	**10.40**	**-13.01**	**-81.61**	**30.31**
Tax	-3.46	-1.24	-5.16	-20.40	7.58
PAT	**-6.20**	**11.64**	**-7.85**	**-61.21**	**22.73**
Extraordinary Item	-0.39	3.96	-0.79	-	-
Adjusted Net Profit	**-5.81**	**7.68**	**-7.06**	**-61.21**	**22.73**
EPS (Rs)	-2.95	3.89	-3.57	-30.95	11.49

Balance Sheet

Figures in Rs crs

Balance Sheet	FY21	FY22	FY23	FY24e	FY25e
Sources of Funds					
Share Capital	19.71	19.75	19.77	19.78	19.78
Reserves	805.52	829.87	829.23	768.02	790.75
Total Shareholders' Funds	**825.23**	**849.62**	**849.00**	**787.80**	**810.53**
Long Term Debt*	530.78	842.94	1107.73	1200.00	1300.00
Total Liabilities	**1356.01**	**1692.56**	**1956.73**	**1987.80**	**2110.53**
Application of Funds					
Gross Block	948.26	1486.30	1929.75	2203.99	2278.99
Less: Accumulated Depreciation	251.72	375.33	484.29	696.79	927.63
Net Block	**696.54**	**1110.97**	**1445.45**	**1507.19**	**1351.36**
Capital Work in Progress	2.19	6.38	109.24	10.00	10.00
Investments	318.98	124.84	8.54	10.00	15.00
Current Assets, Loans & Advances					
Inventory	428.31	668.22	870.63	868.10	912.56
Cash and Bank	27.47	35.06	20.15	28.14	233.71
Other Current Assets	110.78	74.00	158.40	144.27	159.69
Total CA	**566.56**	**777.28**	**1049.18**	**1040.50**	**1305.95**
Current Liabilities	247.86	380.32	765.31	688.17	684.95
Provisions-Short term	15.32	15.74	7.96	8.20	8.70
Total Current Liabilities	**263.19**	**396.06**	**773.27**	**696.37**	**693.65**
Net Current Assets	303.38	381.22	275.92	344.13	612.30
Net Deferred Tax Asset	25.27	38.63	53.07	88.43	91.16
Net long term assets (net of liabilities)	9.65	30.51	64.51	28.05	30.71
Total Assets	**1356.01**	**1692.56**	**1956.73**	**1987.80**	**2110.53**

*lease liabilities

Financial Ratios

	FY21	FY22	FY23	FY24e	FY25e
Growth Ratios (%)					
Revenue	-35.3	54.9	47.9	10.1	12.1
EBITDA	-29.7	40.2	33.1	-8.3	49.2
Net Profit	-111.9	-232.1	-191.9	767.2	-137.1
EPS	-111.0	-231.8	-191.8	767.0	-137.1
Margins (%)					
Operating Profit Margin	12.3	12.4	11.1	9.5	12.3
Gross profit Margin	8.7	8.2	6.8	4.8	8.6
Net Profit Margin	-0.5	0.5	-0.3	-2.3	0.7
Return (%)					
ROCE	2.7	5.3	3.2	1.7	5.7
ROE	-0.9	0.9	-0.8	-7.5	2.8
Valuations					
Market Cap/ Sales	5.1	4.7	1.7	1.5	1.3
EV/EBITDA	37.4	40.0	19.6	21.0	14.1
P/E	-944.2	1020.3	-605.7	-67.1	180.6
P/BV	6.7	9.2	5.0	5.2	5.1
Other Ratios					
Interest Coverage	0.8	1.1	0.9	0.4	1.2
Debt Equity	0.7	1.1	1.6	1.6	1.6
Current Ratio	3.4	2.3	1.4	1.5	1.9
Turnover Ratios					
Fixed Asset Turnover	1.6	1.8	1.9	1.8	2.1
Total Asset Turnover	1.0	1.1	1.4	1.4	1.5
Inventory Turnover	2.1	2.7	2.8	2.8	3.0
Creditor Turnover	4.9	6.1	5.6	4.7	4.5
WC Ratios					
Inventory Days	175.4	137.1	128.1	129.2	121.8
Creditor Days	75.2	60.3	64.8	77.6	80.7
Cash Conversion Cycle	100.2	76.8	63.3	51.6	41.1

Cumulative Financial Data

Figures in Rs crs

Figures in Rs crs	FY17-19	FY20-22	FY23-25e
Income from operations	3658	4404	8219
Operating profit	351	553	903
EBIT	292	257	314
PBT	286	66	-63
PAT	187	51	-46
Dividend	11	1	-
OPM (%)	9.6	12.6	11.0
NPM (%)	5.1	1.2	-0.6
Interest coverage	43.9	1.3	0.8
ROE (%)	19.9	2.7	-1.8
ROCE (%)	19.8	6.3	3.8
Debt-equity ratio*	0.0	1.1	1.6
Fixed asset turnover	9.4	2.3	2.2
Inventory turnover	4.1	2.6	3.1
Creditors turnover	9.0	5.8	5.3
Inventory days	88.3	141.8	118.3
Creditor days	40.4	62.4	68.4
Cash conversion cycle	47.9	79.4	49.9
Dividend payout ratio (%)	5.9	2.7	-

FY 17-19 implies three year period ending fiscal 19;*as on terminal year

Recognition of additional sales from Unlimited stores and management focus on increasing number of stores of V-Mart and improving SSSG, would help boost company cumulative revenue by 86.6% for the three year period ending FY25e. Operating profit will not grow at the same pace as revenue due to liquidation of higher cost of inventory which management bought when the cotton price were elevated and higher operational expenses in Limeroad; growth to be restricted to some 63%. Higher interest cost and depreciation would cause cumulative post tax earnings to turn negative (Rs -46 crs in FY23-25e Vs Rs 51 crs in FY20-22).

Grave stress in earnings couple with barely any improvement in fixed asset turnover would do little to uplift ROCE as it is expected to fall 3.8% in FY23-25e (see table). Inventory days are expected to fall to 118 days from 142 days in the previous three year period thereby reducing cash conversion cycle to almost 50 days in the projected period (see table).

Financial Summary- US dollar denominated

million $	FY21	FY22	FY23	FY24e	FY25e
Equity capital	2.7	2.6	2.4	2.4	2.4
Shareholders' funds	112.3	111.9	103.1	94.9	97.6
Total debt	77.2	119.0	162.0	153.9	156.9
Net fixed assets (incl CWIP)	95.1	147.4	188.9	182.9	164.1
Net current assets	41.3	50.1	33.6	41.5	73.9
Total assets	184.5	223.1	237.8	239.7	254.6
Revenues	144.9	223.6	306.6	327.4	367.1
EBITDA	20.6	28.8	35.5	31.6	47.1
EBDT	12.7	18.4	20.9	15.8	31.5
PBT	-1.2	0.9	-1.5	-9.8	3.7
PAT	-0.8	1.0	-0.9	-7.4	2.7
EPS($)	-0.04	0.05	-0.04	-0.37	0.14
Book value ($)	5.7	5.7	5.2	4.8	4.9

Income statement figures translated at average rates; balance sheet at year end rates; projections at current rates (Rs. 82.85/$). All dollar denominated figures are adjusted for extraordinary items.

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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/$	FY20	FY21	FY22	FY23
Average	70.88	74.20	74.51	80.39
Year end	75.39	73.50	75.81	82.22

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.