

Inflation & higher competitive intensity impacted V-mart Retail's topline with margins getting impacted due to lower ASP and higher expenses related to online/marketing spends

Outlook:

- Higher Competitive intensity, integration costs of newer business, inflation impacting demand in certain regions
- Working on bringing-back mass consumers: Re-introduced important lower-price points which were 6% down YoY
- Store increase target for FY24 @ 60 at a gross level
- Working capital would be financed by additional short term debt
- Limeroad losses to be capped at 20% of company level EBITDA
- Intense competition continues
- Expecting 5% SSSG (same store sales growth) & 8 to 9% of SSSV (same store sales value)

Key Financial Highlights:

- Revenue at 6785 mn, +15% YoY/+14% QoQ
- Core V-Mart business grew by 15% YoY to Rs 5424mn , Unlimited by 4% to Rs 1187mn.
- New business Lime-Road contributed 3% towards overall Revenue at Rs 174mn
- EBITDA at Rs 525 mn, dropped 41% YoY and was higher by 128% QoQ
- EBIDTA margins dropped to 7.7% as against 15.1% YoY.
- Loss of Rs 219mn vs profit of 205mn last year vs loss of 370 mn QoQ

Financial Summary

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net sales	10,755	16,662	24,648	28,588	34,321
Adjusted net profit	(62)	116	(78)	(117)	300
Free cash flow	469	(621)	(946)	1,429	2,938
EPS (Rs)	(3.1)	5.9	(3.9)	(5.9)	15.2
P/E (x)	(756.3)	404.0	(603.3)	(402.6)	156.7
P/B (x)	5.7	5.5	5.5	5.6	5.4
EV/EBITDA (x)	39.9	27.3	22.4	20.3	16.2
D/E	-	-	0.2	0.2	0.2
RoCE (%)	3.4	8.7	8.9	10.0	15.5
RoE (%)	(0.8)	1.4	(0.9)	(1.4)	3.5
Dividend yield (%)	-	0.03	-	-	0.04

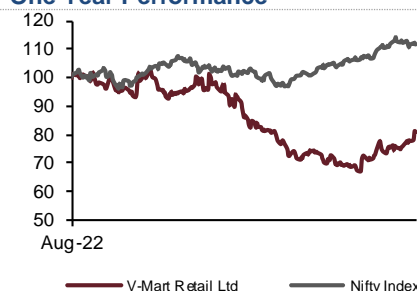
Rating	TP (Rs)	Up/Dn (%)
HOLD	2,531	6

Market data

Current price	Rs	2,389
Market Cap (Rs.Bn)	(Rs Bn)	47
Market Cap (US\$ Mn)	(US\$ Mn)	570
Face Value	Rs	10
52 Weeks High/Low	Rs	3174.9 / 1947.6
Average Daily Volume	('000)	51
BSE Code		534976
Bloomberg		VMART.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-23	Mar-23
Promoters	44.3	43.3
Public	55.7	54.3
Total	100.0	100.0

Source: BSE

Kunal Bhatia
(022) 67141442
kunal.bhatia@dalal-broacha.com

Harsh Shah
+91 22 67141496
harsh.shah@dalal-broacha.com

Conference Call Key Takeaways

DEMAND (industry level)

- Demand has started to pick up in some regions especially North, East India, Tamil Nadu, Kerala
- UP, Telangana, Andhra Pradesh is struggling
- Historically weddings used to be in April but this year the wedding dates have shifted to Q3 which impacted demand. Even in EID the consumption from Muslim community was low which historically was not the case
- Some sales have been lost in June & July due to shifting of warehouse
- Inflation in general is lowering consumer confidence.
- Although the footfalls have increased conversion has been relatively weak

Gross Margins

- High cost inventory + strategic price cuts to attract footfall has impacted gross margins on a YoY basis
- ASP was 6% down YoY
- Gross margins to stabilize at 33 to 34%

COMPETITION: has increased

- Large players have expanded in V-Mart related markets & have gained market share

UNLIMITED integration

- Stores of UNLIMITED especially in the regions of Telangana & Andhra Pradesh have seen a degrowth but Kerala and Tamil Nadu have performed satisfactorily

LIME ROAD:

- EBITDA loss of 25crs for Q1
- Loss to be capped at 20% of EBITDA for FY24
- Contribution margin @ 8% vs 1% LY

OTHER DETAILS:

- Guidance - SSSG: 5% & 8/9% SSSV
- Capex: 56 crs spent on new stores, warehouses and refurbishment of some existing stores. Majority of the stores to be added between Q2 and Q3
- V-MART core EBITDA margins at 11.7% and 12.3% for UNLIMITED
- 53 crores incurred in Q1 which is a part of other expenses that reflects the online marketing spends
- 5 crs loss incurred in Vmart omnichannel
- Debt will be taken in Q2 to fund working capital as inventory will be built before the festive season, but expects to go back to normal level by end of FY24

Quarterly Performance Analysis

Particulars (Rs Mns)	Q1 FY24	Q1 FY23	YoY (%)	Q4 FY23	QoQ (%)
Revenue	6,785	5,879	15.42%	5,939	14.25%
Other Income	15	41	-63.13%	75	-79.99%
Total	6,800	5,920		6,014	
Total RM Cost	4,358	3,686	18.22%	4,043	7.79%
Gross Profit	2,427	2,192	10.71%	1,896	28.02%
Employee Cost	717	552	29.78%	680	5.34%
Other Expenses	1,186	753	57.47%	987	20.23%
Total	6,261	4,992		5,710	
EBIDTA	525	887	-40.86%	229	128.81%
Depreciation	499	402		484	
EBIT	41	526	-92.28%	(180)	-122.59%
Interest Cost	330	247		336	
PBT and exceptional item	(290)	278	-204.06%	(516)	-43.84%
exceptional item	-	-		-	
PBT	(290)	278	-204.06%	(516)	-43.84%
Taxes	(70)	74		(146)	
Reported PAT	(219)	205	-207.30%	(370)	-40.62%
EPS	(11.10)	10.35		(18.69)	
as a % to sales					
RM	64.2%	62.7%		68.1%	
Gross profit margins	35.8%	37.3%		31.9%	
Employee Costs	10.6%	9.4%		11.5%	
Other expenses	17.5%	12.8%		16.6%	
Operating margins	7.7%	15.1%		3.9%	
Tax rate (on PBT)	24.2%	26.5%		28.3%	

Source: Dalal & Broacha Research, Company

Exhibit 1

Particulars	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24
Stores	282	368	374	380	391	405	414	423	431
Net Additions	3	86	6	6	11	14	9	9	8
Retail Space YTD in lacs Sq feet	23.20	31.99	33.00	33.00	34.00	36.00	37.00	37.00	37.70
Increase	0.20	8.79	1.01	0.00	1.00	2.00	1.00	0.00	0.70
Sales Per Sq Ft Per Mth In Rs as per Presentation	533	347.00	860.00	380.00	626.00	516.00	766.00	584.00	632.00
Sales Per Sq Ft Per Mth * 3 (for Qtr)	1599	1041	2580	1140	1878	1548	2298	1752	1896
Growth	49.3%	16.1%	-3.9%	-33.2%	17.4%	48.7%	-10.9%	53.7%	1.0%
Average Sq Ft per Store	8227	8692	8824	8684	8696	8889	8937	8747	8747
SSS Growth YTD									
- Value %	119%	82%	36%	23%	137%	57%	30%	23%	-3%
- Volume %	103%	75%	39%	21%	124%	49%	29%	25%	3%

Source: Dalal & Broacha Research, Company

Exhibit 2

Particulars	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24
Segment Contribution									
-Fashion (%)	91	91	93	91	91	88	90	90	89
-Kirana (%)	9	9	7	9	9	12	10	10	11
Total	100	100	100	100	100	100	100	100	100
Sales Mix									
Apparels (%)	80	79.4	81.6	80.1	80.7	77.4	79.4	79.2	78.8
Non Apparels (%)	10.7	11.2	11.1	10.8	9.9	10.3	10.9	11.1	10.4
Kirana (%)	9.3	9.4	7.3	9.1	9.4	12.3	9.7	9.7	10.5
Total	100	100	100	100	100	100	100	100	100
FootFall (lacs)	31	66	111	80	102	95	126	112	130
Conversion Rate	71%	65%	61%	63%	62%	62%	55%	58%	56%
Shrinkage	5%	NA	NA	-1%	0%	0%	0%	0%	1%
Average Selling Price (Rs)	YTD	YTD	YTD	YTD	YTD	YTD	YTD	Q4 FY23	Q1 FY24
Total (Rs)	193	197	292	244	233	223	291	233	219
Total Vmart				220				214	197
Total Unlimited				523				453	451
Apparels (Rs.)	295	302	503	411	370	384	500	382	345
Apparels Vmart				384				365	320
Apparels Unlimited				568				498	485
Transaction size (Rs)	848	838	1,096	981	994	961	1,044	1,069	977
Vmart				898					881
Unlimited				1,776					1,997
Store Count YTD	282	368	374	380	391	405	414	423	431
Tier 1	65	100	100	104	105	110	111	106	109
Tier 2	38	56	55	54	54	53	53	52	52
Tier 3	143	157	162	166	172	179	188	212	217
Tier 4	36	55	57	56	60	63	62	53	53
Store allocation	100%	100%	100%	100%	100%	100%	100%	100%	100%
Tier 1 %	23%	27%	27%	27%	27%	27%	27%	25%	25%
Tier 2 %	13%	15%	15%	14%	14%	13%	13%	12%	12%
Tier 3 %	51%	43%	43%	44%	44%	44%	45%	50%	50%
Tier 4 %	13%	15%	15%	15%	15%	16%	15%	13%	12%

Source: Dalal & Broacha Research, Company

Valuation

We believe that the worst is behind and overall demand should start picking due to better monsoons, improved income of farmers, festivals approaching and wedding season to kick in from Q2 end. Considering the above factors we believe that the company will start delivering better operational performance in the next couple of quarters and turn profitable. **We change our recommendation from NEUTRAL to HOLD and have assigned a target EV/EBITDA multiple of 17x on FY25 basis, arriving at a target price of Rs 2,531.**

Financials

P&L (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	10,755	16,662	24,648	28,588	34,321
Cost of sales	(9,442)	(14,618)	(21,959)	(25,603)	(30,608)
Operating Profit	1,312	2,043	2,689	2,984	3,713
Depreciation	(1,030)	(1,307)	(1,800)	(2,001)	(2,142)
PBIT	282	736	889	984	1,572
Other income	210	140	150	100	71
Interest	(589)	(772)	(1,169)	(1,240)	(1,241)
Profit before tax	(97)	104	(130)	(156)	401
Exceptional and Extra Ordin:	-	-	-	-	-
PBT (Post Extra Ordinary)	(97)	104	(130)	(156)	401
Provision for tax	35	12	52	39	(101)
Reported PAT	(62)	116	(78)	(117)	300
MI	-	-	-	-	-
Adjusted PAT	(62)	116	(78)	(117)	300
Balance Sheet	FY21	FY22	FY23	FY24E	FY25E
Equity capital	197	197	198	198	198
Reserves	8,055	8,299	8,292	8,175	8,456
Net worth	8,252	8,496	8,490	8,373	8,654
Non Current Liabilites	5,381	8,538	11,203	11,646	11,661
Current Liabilites	2,632	3,961	7,733	7,989	9,216
CAPITAL EMPLOYED	16,265	20,995	27,425	28,008	29,531
Non Current Assets	7,446	11,598	16,078	15,688	15,647
Fixed Assets	6,987	11,174	15,547	15,157	15,116
Non Current Investments	36	38	-	-	-
Deferred Tax Asset	253	386	531	531	531
Long Term Loans and Advan	128	-	-	-	-
Other NON Current Assets	42	414	770	815	865
Current Assets	8,819	8,983	10,577	11,505	13,019
Current investments	3,154	1,211	85	85	85
Inventories	4,283	6,682	8,706	9,399	10,343
Trade Receivables	-	-	-	-	-
Cash and Bank Balances	275	350	202	304	727
Short Term Loans and Advan	1	5	4	4	4
Other Current Assets	1,107	735	1,580	1,713	1,859
CAPITAL DEPLOYED	16,265	20,995	27,425	28,008	29,531

Source: Dalal & Broacha Research, Company

Cash Flow St. (Rs. mn)	FY21	FY22	FY23	FY24E	FY25E
Net Profit	(62)	116	(78)	(117)	300
Add: Dep. & Amort.	1,030	1,307	1,800	2,001	2,142
Cash profits	968	1,423	1,721	1,884	2,442
(Inc)/Dec in					
-Sundry debtors	-	-	-	-	-
-Inventories	496	(2,399)	(2,024)	(692)	(945)
-Loans/advances	(10)	124	1	-	-
'-Current Liab and Provisions	(145)	1,142	2,142	226	1,226
'- Other Non Current Assets	(795)	0	(1,201)	(178)	(196)
Change in working capital	(453)	(1,134)	(1,083)	(644)	86
CF from Oper. activities	514	290	639	1,239	2,528
CF from Inv. activities	(3,912)	(208)	(2,194)	(1,137)	(2,085)
CF from Fin. activities	3,622	(6)	1,406	(0)	(20)
Cash generated/(utilised)	225	76	(149)	102	423
Cash at start of the year	50	275	350	202	304
Cash at end of the year	275	350	202	304	727
Ratios	FY21	FY22	FY23	FY24E	FY25E
OPM	12.2	12.3	10.9	10.4	10.8
NPM	(0.6)	0.7	(0.3)	(0.4)	0.9
Tax rate	(35.8)	11.9	(39.7)	(25.2)	(25.2)
Growth Ratios (%)					
Net Sales	(35.3)	54.9	47.9	16.0	20.1
Operating Profit	(38.6)	55.7	31.6	11.0	24.4
PBIT	(76.4)	160.7	20.8	10.6	59.8
PAT	(112.6)	(287.7)	(167.0)	49.8	(356.9)
Per Share (Rs.)					
Net Earnings (EPS)	(3.1)	5.9	-3.9	-5.9	15.2
Cash Earnings (CPS)	49.1	72.1	87.1	95.3	123.5
Dividend	-	0.8	-	-	1.0
Book Value	418.8	430.2	429.4	423.5	437.7
Free Cash Flow	(172.4)	4.1	(78.6)	5.2	22.4
Valuation Ratios					
P/E(x)	(756.3)	404.0	(603.3)	(402.6)	156.7
P/B(x)	5.7	5.5	5.5	5.6	5.4
EV/EBIDTA(x)	39.9	27.3	22.4	20.3	16.2
Div. Yield(%)	-	0.0	-	-	0.0
FCF Yield(%)	(7.2)	0.2	(3.3)	0.2	0.9
Return Ratios (%)					
ROE	(0.8)	1.4	(0.9)	(1.4)	3.5
ROCE	3.4	8.7	8.9	10.0	15.5

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Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021.

Tel: 91-22- 2282 2992, 2287 6173 | E-mail: equity.research@dalal-broacha.com