

Recovery in sight

Festive season getting pushed back coupled with rising competition impacted the topline while lower ASP in V-mart and UNLIMITED impacting gross margins further.

Outlook:

- Q3 will be strong considering festivals being pushed back from Q2 and a good wedding season ahead
- Working on bringing-back mass consumers by reducing ASP in UNLIMITED
- Store target for FY24 @ 50+ (17 opened in H1FY24)
- Limeroad: Cashburn in H2FY24 will be lower than H1FY24

Key Financial Highlights:

- Revenue at 5494 mn, +8.5% YoY/-19% QoQ
- Core V-Mart business grew by 5% YoY to Rs 4228mn, Unlimited flattish at Rs 1047mn.
- New business Lime-Road contributed 4% towards overall Revenue at Rs 219mn
- EBITDA at Rs 7 mn, dropped 99% YoY and was lower by 99% QoQ
- EBIDTA margins dropped to 0.1% as against 10.6% YoY.
- Loss of Rs 641mn vs loss of 113mn last year vs loss of 219 mn QoQ

Financial Summary

| Y/E Mar (Rs mn) | FY21 | FY22 | FY23 | FY24E | FY25E |
|---------------------|--------|--------|--------|--------|--------|
| Net sales | 10,755 | 16,662 | 24,648 | 28,588 | 35,000 |
| Adjusted net profit | (62) | 116 | (78) | (838) | 2 |
| EPS (Rs) | (3.1) | 5.9 | (3.9) | (42.4) | 0.1 |
| P/B (x) | 4.0 | 3.9 | 3.9 | 4.4 | 4.4 |
| EV/EBITDA (x) | 29.4 | 20.5 | 17.3 | 22.8 | 14.1 |
| D/E | - | - | 0.2 | 0.2 | 0.2 |
| RoCE (%) | 3.4 | 8.7 | 8.9 | 0.7 | 12.8 |
| RoE (%) | (0.8) | 1.4 | (0.9) | (10.9) | 0.0 |
| Dividend yield (%) | - | 0.04 | - | - | - |

Source: Company, Dalal & Broacha Research

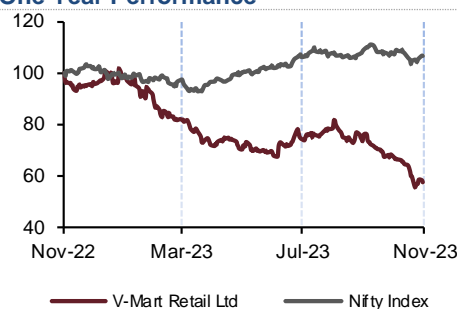
| Rating | TP (Rs) | Up/Dn (%) |
|-------------|--------------|-----------|
| HOLD | 1,836 | 9 |

Market data

| | | |
|----------------------|-----------|-------------|
| Current price | Rs | 1,680 |
| Market Cap (Rs.Bn) | (Rs Bn) | 33 |
| Market Cap (US\$ Mn) | (US\$ Mn) | 399 |
| Face Value | Rs | 10 |
| 52 Weeks High/Low | Rs | 3110 / 1591 |
| Average Daily Volume | ('000) | 23 |
| BSE Code | | 534976 |
| Bloomberg | | VMART.IN |

Source: Bloomberg

One Year Performance



Source: Bloomberg

| % Shareholding | Sep-23 | Jun-23 |
|----------------|------------|------------|
| Promoters | 44 | 43 |
| Public | 56 | 55 |
| Total | 100 | 100 |

Source: BSE

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Conference Call Key Takeaways

DEMAND (industry level)

- Sales during Durga Pooja was encouraging in the Eastern region
- Consumer sentiments have improved and more footfalls being witnessed
- Festivals and wedding season in Q3 will lead to a strong revenue momentum
- Competition has increased but this would help increase the share of organised retail going forward

Gross Margins

- High cost inventory liquidated + strategic price cuts to attract footfall has impacted gross margins on a YoY basis
- ASP was 12% down YoY
- Gross margins has bottomed out

UNLIMITED

- Price cuts taken in UNLIMITED (18% down YoY) to increase more footfalls and working on increasing the conversion rate
- New stores opened have done reasonably well

LIME ROAD:

- EBITDA loss of 20crs for Q2
- Loss to be capped at 20% of EBITDA for FY24 (maximum 55 to 60 crs)
- Cashburn in H2FY24 to be much lower than H1FY24
- Contribution margin @ 10% in Q2FY24 vs 1% in March'23

OTHER DETAILS:

- Target 15 to 20% topline growth over FY23
- Targeting absolute EBITDA to be similar or even higher than FY23
- 17 stores added in H1, more than 33 stores to be added in H2 (13 already added post Q2)
- V-MART core EBITDA margins at 4.1% and 3.1% for UNLIMITED
- 70% high cost inventory is liquidated
- 90% of inventory at store level is less than 6 months old

Quarterly Performance Analysis

| Particulars (Rs Mns) | Q2FY24 | Q2FY23 | YoY (%) | Q1FY24 | QoQ (%) |
|---------------------------------|----------------|---------------|----------------|----------------|----------------|
| Revenue | 5,494 | 5,062 | 8.55% | 6,785 | -19.03% |
| Other Income | 20 | 27 | -25.03% | 15 | 32.07% |
| Total | 5,514 | 5,088 | | 6,800 | |
| Total RM Cost | 3,593 | 3,224 | 11.43% | 4,358 | -17.56% |
| Gross Profit | 1,902 | 1,837 | 3.49% | 2,427 | -21.66% |
| Employee Cost | 713 | 560 | 27.25% | 717 | -0.56% |
| Other Expenses | 1,182 | 742 | 59.43% | 1,186 | -0.32% |
| Total | 5,488 | 4,526 | | 6,261 | |
| EBIDTA | 7 | 536 | -98.75% | 525 | -98.72% |
| Depreciation | 532 | 441 | | 499 | |
| EBIT | (505) | 122 | | 41 | |
| Interest Cost | 359 | 279 | | 330 | |
| PBT and exceptional item | (864) | (157) | | (290) | |
| exceptional item | - | - | | | |
| PBT | (864) | (157) | | (290) | |
| Taxes | (223) | (44) | | (70) | |
| Reported PAT | (641) | (113) | | (219) | |
| EPS | (32.43) | (5.72) | | (11.10) | |
| as a % to sales | | | | | |
| RM | 65.4% | 63.7% | | 64.2% | |
| Gross profit margins | 34.6% | 36.3% | | 35.8% | |
| Employee Costs | 13.0% | 11.1% | | 10.6% | |
| Other expenses | 21.5% | 14.7% | | 17.5% | |
| Operating margins | 0.1% | 10.6% | | 7.7% | |
| Tax rate (on PBT) | 25.8% | 27.9% | | 24.2% | |

Source: Dalal & Broacha Research, Company

| Particulars | Q2FY22 | Q3FY22 | Q4FY22 | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Stores | 368 | 374 | 380 | 391 | 405 | 414 | 423 | 431 | 437 |
| Net Additions | 86 | 6 | 6 | 11 | 14 | 9 | 9 | 8 | 6 |
| Retail Space YTD in lacs Sq feet | 31.99 | 33.00 | 33.00 | 34.00 | 36.00 | 37.00 | 37.00 | 37.70 | 38.22 |
| Increase | 8.79 | 1.01 | 0.00 | 1.00 | 2.00 | 1.00 | 0.00 | 0.70 | 0.52 |
| Sales Per Sq Ft Per Mth In Rs as per Presentation | 347.00 | 860.00 | 380.00 | 626.00 | 516.00 | 766.00 | 584.00 | 632.00 | 502.00 |
| Sales Per Sq Ft Per Mth * 3 (for Qtr) | 1041 | 2580 | 1140 | 1878 | 1548 | 2298 | 1752 | 1896 | 1506 |
| Growth | 16.1% | -3.9% | -33.2% | 17.4% | 48.7% | -10.9% | 53.7% | 1.0% | -2.7% |
| Average Sq Ft per Store | 8692 | 8824 | 8684 | 8696 | 8889 | 8937 | 8747 | 8747 | 8747 |
| SSS Growth YTD | | | | | | | | | |
| - Value % | 82% | 36% | 23% | 137% | 57% | 30% | 23% | -3% | -13% |
| - Volume % | 75% | 39% | 21% | 124% | 49% | 29% | 25% | 3% | 6% |

| Particulars | Q2FY22 | Q3FY22 | Q4FY22 | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Segment Contribution | | | | | | | | | |
| -Fashion (%) | 91 | 93 | 91 | 91 | 88 | 90 | 90 | 89 | 86 |
| -Kirana (%) | 9 | 7 | 9 | 9 | 12 | 10 | 10 | 11 | 14 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Sales Mix | | | | | | | | | |
| Apparels (%) | 79.4 | 81.6 | 80.1 | 80.7 | 77.4 | 79.4 | 79.2 | 78.8 | 76 |
| Non Apparels (%) | 11.2 | 11.1 | 10.8 | 9.9 | 10.3 | 10.9 | 11.1 | 10.4 | 10 |
| Kirana (%) | 9.4 | 7.3 | 9.1 | 9.4 | 12.3 | 9.7 | 9.7 | 10.5 | 14 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| FootFall (lacs) | 66 | 111 | 80 | 102 | 95 | 126 | 112 | 130 | 110 |
| Conversion Rate | 65% | 61% | 63% | 62% | 62% | 55% | 58% | 56% | 55.00% |
| Shrinkage | NA | NA | -1% | 0% | 0% | 0% | 0% | 1% | 0.70% |
| Average Selling Price (Rs) | YTD | YTD | YTD | YTD | YTD | YTD | Q4FY23 | Q1FY24 | H1FY24 |
| Total (Rs) | 197 | 292 | 244 | 233 | 223 | 291 | 233 | 219 | 209 |
| Total Vmart | | | 220 | | | | 214 | 197 | 187 |
| Total Unlimited | | | 523 | | | | 453 | 451 | 434 |
| Apparels (Rs.) | 302 | 503 | 411 | 370 | 384 | 500 | 382 | 345 | 326 |
| Apparels Vmart | | | 384 | | | | 365 | 320 | 301 |
| Apparels Unlimited | | | 568 | | | | 498 | 485 | 459 |
| Transaction size (Rs) | 838 | 1,096 | 981 | 994 | 961 | 1,044 | 1,069 | 977 | 1057 |
| Vmart | | | 898 | | | | | 881 | 899 |
| Unlimited | | | 1,776 | | | | | 1,997 | 1947 |
| Store Count YTD | 368 | 374 | 380 | 391 | 405 | 414 | 423 | 431 | 437 |
| Tier 1 | 100 | 100 | 104 | 105 | 110 | 111 | 106 | 109 | 109 |
| Tier 2 | 56 | 55 | 54 | 54 | 53 | 53 | 52 | 52 | 53 |
| Tier 3 | 157 | 162 | 166 | 172 | 179 | 188 | 212 | 217 | 220 |
| Tier 4 | 55 | 57 | 56 | 60 | 63 | 62 | 53 | 53 | 55 |
| Store allocation | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Tier 1 % | 27% | 27% | 27% | 27% | 27% | 27% | 25% | 25% | 25% |
| Tier 2 % | 15% | 15% | 14% | 14% | 13% | 13% | 12% | 12% | 12% |
| Tier 3 % | 43% | 43% | 44% | 44% | 44% | 45% | 50% | 50% | 50% |
| Tier 4 % | 15% | 15% | 15% | 15% | 16% | 15% | 13% | 12% | 13% |

Source: Dalal & Broacha Research, Company

Valuation

We believe that the worst is behind and overall demand should start picking due to better consumer sentiments, improved income of farmers, festivals approaching and wedding season to kick in. Considering the above factors we believe that the company should start delivering better operational performance from Q3 and turn profitable. Based on the management commentary the company should see an uptick in the performance from Q3 and we believe any significant improvement in operational performance should bode well for the stock price. Since last quarterly results the stock price has corrected ~30% and in our opinion the downside in the stock is limited. **We maintain our recommendation of HOLD with a target price of Rs 1836 (cut price target by 28%), assigning a target EV/EBITDA multiple of 15x on FY25 EBITDA.**

Financials

| P&L (Rs mn) | FY21 | FY22 | FY23 | FY24E | FY25E |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|
| Net Sales | 10,755 | 16,662 | 24,648 | 28,588 | 35,000 |
| Cost of sales | (9,442) | (14,618) | (21,959) | (26,517) | (31,660) |
| Operating Profit | 1,312 | 2,043 | 2,689 | 2,070 | 3,340 |
| Depreciation | (1,030) | (1,307) | (1,800) | (2,001) | (2,142) |
| PBIT | 282 | 736 | 889 | 69 | 1,198 |
| Other income | 210 | 140 | 150 | 68 | 62 |
| Interest | (589) | (772) | (1,169) | (1,257) | (1,258) |
| Profit before tax | (97) | 104 | (130) | (1,119) | 2 |
| Exceptional and Extra Ordin: | - | - | - | - | - |
| PBT (Post Extra Ordinary) | (97) | 104 | (130) | (1,119) | 2 |
| Provision for tax | 35 | 12 | 52 | 282 | (1) |
| Reported PAT | (62) | 116 | (78) | (838) | 2 |
| MI | - | - | - | - | - |
| Adjusted PAT | (62) | 116 | (78) | (838) | 2 |
| Balance Sheet | FY21 | FY22 | FY23 | FY24E | FY25E |
| Equity capital | 197 | 197 | 198 | 198 | 198 |
| Reserves | 8,055 | 8,299 | 8,292 | 7,455 | 7,456 |
| Net worth | 8,252 | 8,496 | 8,490 | 7,652 | 7,654 |
| Non Current Liabilites | 5,381 | 8,538 | 11,203 | 11,662 | 11,677 |
| Current Liabilites | 2,632 | 3,961 | 7,733 | 9,197 | 11,549 |
| CAPITAL EMPLOYED | 16,265 | 20,995 | 27,425 | 28,512 | 30,880 |
| Non Current Assets | 7,446 | 11,598 | 16,078 | 17,297 | 17,272 |
| Fixed Assets | 6,987 | 11,174 | 15,547 | 16,766 | 16,741 |
| 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 | 10,399 | 12,743 |
| Current investments | 3,154 | 1,211 | 85 | 85 | 85 |
| Inventories | 4,283 | 6,682 | 8,706 | 8,427 | 10,548 |
| Trade Receivables | - | - | - | - | - |
| Cash and Bank Balances | 275 | 350 | 202 | 170 | 247 |
| Short Term Loans and Advan | 1 | 5 | 4 | 4 | 4 |
| Other Current Assets | 1,107 | 735 | 1,580 | 1,713 | 1,859 |

Source: Dalal & Broacha Research, Company

| Cash Flow St. (Rs. mn) | FY21 | FY22 | FY23 | FY24E | FY25E |
|----------------------------------|----------------|--------------|----------------|----------------|----------------|
| Net Profit | (62) | 116 | (78) | (838) | 2 |
| Add: Dep. & Amort | 1,030 | 1,307 | 1,800 | 2,001 | 2,142 |
| Cash profits | 968 | 1,423 | 1,721 | 1,163 | 2,143 |
| (Inc)/Dec in | | | | | |
| -Sundry debtors | - | - | - | - | - |
| -Inventories | 496 | (2,399) | (2,024) | 279 | (2,121) |
| -Loans/advances | (10) | 124 | 1 | - | - |
| '-Current Liab and Provisions | (145) | 1,142 | 2,142 | 1,210 | 2,351 |
| '- Other Non Current Assets | (795) | 0 | (1,201) | (178) | (196) |
| Change in working capital | (453) | (1,134) | (1,083) | 1,312 | 34 |
| CF from Oper. activities | 514 | 290 | 639 | 2,475 | 2,177 |
| CF from Inv. activities | (3,912) | (208) | (2,194) | (1,137) | (2,085) |
| CF from Fin. activities | 3,622 | (6) | 1,406 | 240 | - |
| Cash generated/(utilised) | 225 | 76 | (149) | 1,578 | 92 |
| Cash at start of the year | 50 | 275 | 350 | 202 | 170 |
| Cash at end of the year | 275 | 350 | 202 | 170 | 247 |

| Ratios | FY21 | FY22 | FY23 | FY24E | FY25E |
|--------------------------|----------------|--------------|----------------|---------------|-----------------|
| OPM | 12.2 | 12.3 | 10.9 | 7.2 | 9.5 |
| NPM | (0.6) | 0.7 | (0.3) | (2.9) | 0.0 |
| Tax rate | (35.8) | 11.9 | (39.7) | (25.2) | (25.2) |
| Growth Ratios (%) | | | | | |
| Net Sales | (35.3) | 54.9 | 47.9 | 16.0 | 22.4 |
| Operating Profit | (38.6) | 55.7 | 31.6 | (23.0) | 61.3 |
| PBIT | (76.4) | 160.7 | 20.8 | (92.2) | 1,626.8 |
| PAT | (112.6) | (287.7) | (167.0) | 973.3 | (100.2) |
| Per Share (Rs.) | | | | | |
| Net Earnings (EPS) | (3.1) | 5.9 | -3.9 | -42.4 | 0.1 |
| Cash Earnings (CPS) | 49.1 | 72.1 | 87.1 | 58.8 | 108.4 |
| Dividend | - | 0.8 | - | - | - |
| Book Value | 418.8 | 430.2 | 429.4 | 387.0 | 387.1 |
| Free Cash Flow | (172.4) | 4.1 | (78.6) | 67.7 | 4.6 |
| Valuation Ratios | | | | | |
| P/E(x) | (535.2) | 285.9 | (427.0) | (39.8) | 20,803.4 |
| P/B(x) | 4.0 | 3.9 | 3.9 | 4.4 | 4.4 |
| EV/EBIDTA(x) | 29.4 | 20.5 | 17.3 | 22.8 | 14.1 |
| Div. Yield(%) | - | 0.0 | - | - | - |
| FCF Yield(%) | (10.2) | 0.2 | (4.7) | 4.0 | 0.3 |
| Return Ratios (%) | | | | | |
| ROE | (0.8) | 1.4 | (0.9) | (10.9) | 0.0 |
| ROCE | 3.4 | 8.7 | 8.9 | 0.7 | 12.8 |

Source: Dalal & Broacha Research, Company

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