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STOCK BROKING PVT. LTD.

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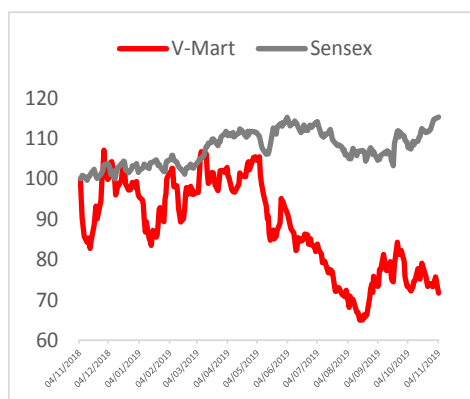
SELL

Current Price	1865
52 Week Range	2904/1698
Target Price	1667
Upside/Downside	-11%

Key Share Data

Market Cap (Rs.bn)	33.14
Market Cap (US\$ mn)	466.4
No of o/s shares (mn)	18.1
Face Value	10.0
Monthly Avg. vol(BSEgrew byNSE)	
Nos'000	14.47
BSE Code	534976
NSE Code	VMART
Bloomberg	VMART IN

Price performance



% Shareholding	Sept-19	Jun-19
Promoters	51.99	52.46
Public	48.01	47.54
Total	100.0	100.0

V-mart Retail Ltd Q2FY20 revenues in-line with estimates but Losses mount further

Revenues: grew by 19.9% Y-o-Y to Rs.3143.51mn v/s Rs.2621.9Mn YoY/ SSG stood at 1%
Stores: 239 stores vs 190 stores grew by 26% YoY; Store additions at 14 Q-o-Q (2 closures)/ added 49 stores YoY

Employee cost grew by 29.7% Y-o-Y to Rs 390mn on account of higher store openings and additional Rs.7.07mn on account of cost of employee stock options granted
As % to Revenue (Pre IND-AS 116)

Raw Material Costs: 68.8% v/s 70.8% on back of lower discounting and better product mix

Other Expense: grew by 40% to Rs. 669.9mn/ 21.3% v/s 18.3% YoY

Comparable EBITDA (Pre-IND-AS 116) loss increased 4.5x to Rs. 78.68mn/ margins stood at -2.5% v/s -0.5% YoY

Reported EBIDTA: increased 8.9x to Rs 113.19mn vs **loss** of Rs. 14.15mn

EBIDTA margins at 3.6% v/s -0.5% y-o-y

Reported depreciation: grew 2.33x to Rs. 222.6mn

Depreciation (pre- IND-AS 116): Rs.78.5nm v/s Rs. 66.7mn

Finance Cost: grew 67.6x to Rs. 131.15mn

Finance Cost (pre-IND-AS116) grew 4.84x to Rs. 9.24mn v/s 1.91 (**Short term debt increased from Rs. 0 to Rs. 94mn**)

Reported loss before tax: grew 1.3x to Rs. 228.78

Loss before tax (Ex-IND-AS116) grew by 59.6% to Rs. 154.62mn

Tax Benefit of Rs. 48.36mn received due to adoption of the new tax regime

adjusted loss (Pre-IND-AS 116) grew 1.6x to Rs. 106.26mn

Loss per share (Pre-IND-AS 116) : Rs. 5.85 v/s loss of Rs. 2.22

V-Mart Q2FY20 Conference call KTA

- SSG guidance lowered** from 3-6% to 3-4%. H1FY20: SSG stands at 3%
- EBIDTA margin guidance** lowered to 8% for FY20. v/s 9.3% FY19
- Competition intensity :** V-mart has witnessed presence of big retailers such as Tata's (Trent) and ABFRL in some of their markets
- Witnessed Volume de-growth** of 8% which was offset by increase in ASP by 16% to Rs. 298, faced lot of questions on the call in-regards to the price increase in this difficult & competitive scenario.
- Company is targeting **60+ store openings**. YTD Nov net store openings stands at 39. (H1: +25 ; opened 15 in October) ; for FY21e: +25% addition in retail sq.ft
- Company expects to fund new store openings through internal accruals.**
- Sales per sq.ft per month** stood at Rs.590 v/s Rs. 611 in Q2FY19, down 3.4%

Financials (Rs. Mn)

Year	Op Income	% Growth	EBIDTA	OPM%	PAT	% Growth	EPS	PE (x)	ROE%	ROCE%
FY18	12,223.7	22.0%	1,328.0	10.9%	762.3	73.5%	42.1	44.3	21.9	31.6
FY19	14,337.5	17.3%	1,328.6	9.3%	657.2	-13.8%	36.3	51.4	16.1	25.7
FY20E*	17,058.7	19.0%	2,076.5	12.2%	553.1	-15.9%	30.5	61.2	12.0	24.9
FY21E*	20,363.8	19.4%	2,509.5	12.3%	643.3	16.3%	35.4	52.6	12.3	26.0

*- Numbers are Post IND-AS 116



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8. **Inventory days** stands at 106 v/s 100 YoY ; higher inventory days on account of Pre-stocking for festive period
9. **Footfalls increased by 9% YoY**, Conversion rate increased by 0.5% and Shrinkage increased 1.5% v/s 0.3% YoY.
10. **LTL on geography basis**: West Bengal: +30%, Northeast: +20%, U.P :+4% & Bihar (~60% of store concentration): had a negative LTL growth due to severe rains in the last week of September, Jharkhand: +5%
11. **Other expenses** grew by 37% YoY due to 80% increase in A&P spends and some other investments made in preparation of the festive quarter
12. Has test marketed for **Omni Channel**, initial responses are good and depending on the results, further investments would be made
13. **Company had negative free cashflows** as of H1FY20, but expects to become positive for the full year
14. Company's **RM to sales** reduced by 204 bps on account of lower discounting compared to base quarter as well a better product mix (more modern trending wear skewed)
15. **Capital Expenditure** for FY20 stands at Rs.1bn

Outlook: Company has witnessed growing presence of large retailers such as Tata's (Trent) and ABFRL in their select markets. V-Mart is more focused on top-line growth by accelerating the pace of store openings, with a target of 60+ stores additions in FY20 (H1FY20: +25, October, 2019 : +15) v/s 43 in FY19. Due to this near term costs will remain elevated and will likely see margin pressure. The Management has guided for 8% EBITDA Margin for FY20e, v/s 9.3% in FY19.

Valuation: We have re-worked the numbers as per the new accounting standard (IND-AS 116) and revised the numbers accordingly which leads to fall in Profit after tax as against Pre-Ind-AS 116 numbers. Low SSG growth and higher inventory on account of aggressive store openings remains our concern. At CMP of Rs. 1865, the stock trades at 61.2x and 52.6x FY20e FY21e EPS of Rs. 30.5 and Rs. 35.4 respectively. Based on weighted average method, we assign a 30x FY21e P/E multiple and 22x FY21e EV/EBITDA multiple to reach a target price of Rs. 1667. We maintain **SELL** on this stock and would review the stock post Q4FY20.



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V- Mart All Amounts in Millions Particulars	Q2FY19	Q2FY20(reported)	Q2FY20(pre Ind-as 116)
Revenue from Operations	2621.9	3141.59	3143.51
<i>Growth</i>		19.8%	19.9%
Other Income	10.4	11.8	11.8
Total	2632.32	3153.36	3155.28
<i>Growth</i>		19.8%	19.9%
Expenses			
cost of materials consumed			
Purchase of stock in trade	2644.74	4464.04	4464.04
Changes in inventories of stock in trade	-787.88	-2301.75	-2301.75
COGS	1856.86	2162.29	2162.29
<i>% of sales</i>	70.8%	68.83%	68.79%
<i>Growth</i>		16.4%	16.4%
Employee Benefit Expense	300.66	390	390
<i>% of sales</i>	11.5%	12.4%	12.4%
<i>Growth</i>		29.7%	29.7%
Other Expenses	478.53	476.11	669.9
<i>% of sales</i>	18.3%	15.2%	21.3%
<i>Growth</i>		-0.5%	40.0%
Total	2636.05	3028.4	3222.19
<i>% of sales</i>	100.5%	96.4%	102.5%
<i>Growth</i>		14.9%	22.2%
EBITDA excluding other income	-14.15	113.19	-78.68
EBITDA MARGINS	-0.5%	3.6%	-2.5%
<i>Growth</i>		-899.9%	456.0%
EBITDA including other income	-3.73	124.96	-66.91
<i>% of sales</i>	-0.1%	4.0%	-2.1%
<i>Growth</i>		-3450.1%	1693.8%
Depreciation	66.7	222.6	78.5
<i>Growth</i>		233.7%	17.6%
EBIT	-70.44	-97.63	-145.38
Finance costs	1.91	131.15	9.24
<i>Growth</i>		6766.5%	383.8%
Provision for dimunition in value of investments/exceptional item	24.5	0	0
PBT before exceptional item	-72.35	-228.78	-154.62
<i>% of sales</i>	-3%	-7%	-5%
<i>Growth</i>		216.2%	113.7%
prior period income/(expense) (net)	0	0	0
PBT	-96.85	-228.78	-154.62
<i>Growth</i>		136.2%	59.6%
Tax Expense			
Current tax	-46.08	-70.25	-70.25
Deferred tax	-10.52	21.89	21.89
Total	-56.6	-48.36	-48.36
Tax Rate	58%	21.1%	31.3%
PAT	-40.25	-180.42	-106.26
NPM	-1.5%	-5.7%	-3.4%
<i>Growth</i>		348.2%	164.0%
Extraordinary item	0.00	0.00	0.00
Other Comprehensive Income	2.85	-1.92	
Total Comprehensive Income	-37.40	-182.34	-106.26
Adjusted PAT	-30.07	-180.42	-106.26
Equity	181.27	181.27	181.5
Face Value	10	10	10
Number of Shares	18.127	18.127	18.15
Basic EPS Calculated	-2.22	-9.95	-5.85
Dilluted EPS	-2.22	-9.95	-5.85



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V-Mart Retail Ltd													
P&L (Rs mn)	FY16	FY17	FY18	FY19	FY20E	FY21E	Cash Flow St. (Rs. mn)	FY16	FY17	FY18	FY19	FY20E	FY21E
Net Sales	8,092.6	10,017.3	12,223.7	14,337.5	17,058.7	20,363.8	Net Profit	276.4	439.3	762.3	597.5	553.1	643.3
Cost of sales	(7,474.2)	(9,169.5)	(10,895.7)	(13,008.9)	(14,982.2)	(17,854.3)	Add: Dep. & Amort	190.1	185.5	229.3	276.3	903.1	1,124.0
Operating Profit	618.3	847.8	1,328.0	1,328.6	2,076.5	2,509.5	Cash profits	466.5	624.8	991.6	873.7	1,456.1	1,767.3
Depreciation	(190.1)	(185.5)	(229.3)	(276.3)	(903.1)	(1,124.0)	(Inc)/Dec in						
PBIT	428.2	662.3	1,098.7	1,052.3	1,173.4	1,385.6	-Sundry debtors	-	-	-	-	-	-
Other income	11.7	41.4	26.6	41.1	64.0	70.0	-Inventories	(212.2)	(647.5)	(379.4)	(218.7)	(1,009.9)	(721.5)
Interest	(31.2)	(35.2)	(15.3)	(16.1)	(498.3)	(595.8)	-Loans/advances	(40.3)	188.1	(10.1)	(23.9)	(8.6)	(15.7)
Profit before tax	408.8	668.4	1,109.9	1,077.3	739.1	859.7	-Current Liab and Provisions	317.0	596.3	169.4	204.0	1,460.2	390.9
Exceptional and Extra Ordin:	14.4	-	-	(98.0)	-	-	- Other Non Current Assets	(0.6)	(140.0)	(114.5)	(89.6)	(344.8)	(67.9)
PBT (Post Extra Ordinary)	423.2	668.4	1,109.9	979.3	739.1	859.7	Change in working capital	63.9	(3.1)	(334.6)	(128.2)	96.9	(414.2)
Provision for tax	(146.8)	(229.2)	(347.6)	(381.9)	(186.0)	(216.4)	CF from Oper. activities	530.4	621.7	657.0	745.6	1,553.0	1,353.1
Reported PAT	276.4	439.3	762.3	597.5	553.1	643.3	CF from Inv. activities	(434.4)	(638.4)	(149.2)	(764.9)	(947.7)	(1,581.0)
MI	-	-	-	-	-	-	CF from Fin. activities	(86.8)	3.1	(353.1)	(8.4)	48.8	(32.2)
Adjusted PAT	266.9	439.3	762.3	657.2	553.1	643.3	Cash generated/(utilised)	9.2	(13.6)	154.7	(27.8)	654.1	(260.1)
							Cash at start of the year	33.6	42.8	29.2	183.9	156.1	810.2
							Cash at end of the year	42.8	29.2	183.9	156.1	810.2	550.1
Balance Sheet	FY16	FY17	FY18	FY19	FY20E	FY21E	Ratios	FY16	FY17	FY18	FY19	FY20E	FY21E
Equity capital	180.7	180.7	181.0	181.3	181.5	181.5	OPM	7.6	8.5	10.9	9.3	12.2	12.3
Reserves	2,126.5	2,519.7	3,293.4	3,911.4	4,436.8	5,048.0	NPM	3.3	4.4	6.2	4.6	3.2	3.1
Net worth	2,307.2	2,700.4	3,474.4	4,092.7	4,618.3	5,229.5	Tax rate	(35.9)	(34.3)	(31.3)	(35.4)	(25.2)	(25.2)
Non Current Liabilities	105.2	72.0	80.6	111.3	5,540.9	6,688.3	Growth Ratios (%)						
Current Liabilities	1,419.6	2,134.7	1,944.0	2,114.4	3,662.9	4,053.8	Net Sales	12.4	23.8	22.0	17.3	19.0	19.4
CAPITAL EMPLOYED	3,832.0	4,907.1	5,499.0	6,318.4	13,822.1	15,971.6	Operating Profit	(2.9)	37.1	56.6	0.0	56.3	20.9
Non Current Assets	1,468.4	1,486.6	1,824.7	2,112.3	8,220.1	9,859.4	PBIT	(27.6)	54.7	65.9	(4.2)	11.5	18.1
Fixed Assets	1,126.5	1,184.7	1,482.6	1,704.8	7,744.6	9,349.1	PAT	(30.8)	64.6	73.5	(13.8)	(15.9)	16.3
Non Current Investments	130.3	58.5	63.4	98.3	31.7	31.7	Per Share (Rs.)						
Deferred Tax Asset	42.2	78.6	92.0	118.3	135.8	135.8	Net Earnings (EPS)	14.8	24.3	42.1	36.3	30.5	35.4
Long Term Loans and Advan	168.4	61.7	72.0	96.0	105.0	120.7	Cash Earnings (CPS)	25.3	34.6	54.8	51.5	80.2	97.4
Other NON Current Assets	1.0	103.1	114.7	95.0	203.0	222.1	Dividend	-	1.3	1.3	2.0	1.8	1.3
Current Assets	2,363.6	3,420.5	3,674.4	4,206.1	5,602.0	6,112.2	Book Value	127.7	149.5	192.0	225.7	254.4	288.1
Current investments	193.4	659.9	276.9	508.5	4.1	4.1	Free Cash Flow	5.3	(0.9)	28.1	(1.1)	33.3	(12.6)
Inventories	2,044.3	2,691.8	3,071.1	3,289.8	4,299.7	5,021.2	Valuation Ratios						
Trade Receivables	-	-	-	-	-	-	P/E(x)	126.2	76.7	44.3	51.4	61.2	52.6
Cash and Bank Balances	42.8	29.2	183.9	156.1	810.2	550.1	P/B(x)	14.6	12.5	9.7	8.3	7.3	6.5
Short Term Loans and Advan	82.3	0.9	0.8	0.6	0.2	0.2	EV/EBIDTA(x)	54.9	40.1	25.3	25.3	16.0	13.3
Other Current Assets	1.0	38.8	141.7	251.0	487.8	536.6	Div. Yield(%)	-	0.1	0.1	0.1	0.1	0.1
							FCF Yield(%)	0.3	(0.0)	1.5	(0.1)	1.8	(0.7)
							Return Ratios (%)						
							ROE	11.6	16.3	21.9	16.1	12.0	12.3
CAPITAL DEPLOYED	3,832.0	4,907.1	5,499.0	6,318.4	13,822.1	15,971.6	ROCE	16.6	21.7	31.6	25.7	24.9	26.0



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