



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

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## Initiating Coverage@ Dalal and Broacha

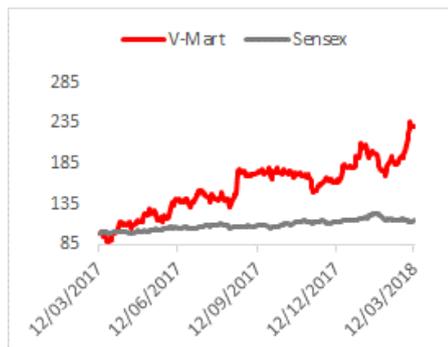
### BUY

Current Price	1901
52 Week Range	Rs 707/1960
Target Price	Rs 2230
Upside	17%

### Key Share Data

Market Cap (Rs.bn)	34.41
Market Cap (US\$ mn)	529
No of o/s shares (mn)	18.10
Face Value	10
Monthly Avg. vol(BSE+NSE) Nos	11.7
BSE Code	534976
NSE Code	VMART
Bloomberg	VMART:IN

### Price performance



% Shareholding	Dec-17	Sept-17
Promoters	54.40	54.40
Institutions	33.18	31.40
Others	12.42	14.20
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

### Investment Argument

**V-Mart an Organized Retail play in non-metro, low penetrated and aspiring Indian Markets:** V-Mart is one of the fastest growing Retail companies with a CAGR growth of 24% over last 2 years in store additions in tier3 & 4 segments. As of 9MFY18 the company has 104 of 167 stores in the tier3 (87 stores) and tier4 segment (17 stores). With quality product offered at attractive prices (through right sourcing) V-Mart has been successful in smaller towns.

**Expansion Opportunity:** 770 districts in India (with 41% covered with organized Retail) presents a huge opportunity for a value based retail company. Even in V-Marts key markets i.e. UP and Bihar (with 113 districts) the company has not fully penetrated. Each thesil and Taluka level average market size is ~Rs 5bn and V-Mart single store is not even 3% of the same.

**Supportive Cost-Structure:** With rental costs at 4.5% of Revenues V-Mart has one of lowest rental costs in the Retail industry (based on leased model); the company achieves break-even in 1<sup>st</sup> year of store operation and payback in 3 years.

**First Mover Advantage in states which have 31% of India's population:** 70% of stores are concentrated in highly populated states i.e. UP, Bihar, Jharkhand which together constitute 31% of India's population. Out of 171 stores 71 (41%) are in UP, 36 (21%) in Bihar and 14(8%) in Jharkhand. We believe this is one of the biggest USP the company has achieved by getting a brand recognition in these states.

**Plans to increase store area in the range of 15-17% YoY; funded through internal accruals:** V-Mart would be increasing total area, i.e. 14.3lacs currently to ~20lacs sq.ft by FY20 most of which would be in small and untapped towns on a cluster based approach. Total Capex of ~1bn required for new store openings (till FY20) would be met via internal accruals.

**Strong Presence with 171 stores YTD spread across 14.3 lakh sqft growing at CAGR of 21% over last 6 years:** spread across 145 cities in 14 states with 37 composite stores and 134 fashion stores.

**Valuation:** V-Mart is expected to record a CAGR of 20% topline supported by 15-17% store expansion in-terms of total sqft area, all through internal accruals. Bottom-line growth is expected to be at 37% due to improvement in margins and lower interest expenses on account of debt clearance in FY18.

The company is Net Debt free and expected to improve ROE and ROCE from 14.6% and 19.8% in FY17 to 20% and 29.5% in FY20.

At CMP of Rs 1901 VMart is trading at 42x its FY19e EPS of Rs 45.2 and 33.6x its FY20e EPS of Rs 56.6.

**Based on our weighted average target price we recommend investors to BUY the stock with target price of Rs 2230 i.e. upside of 17%.**

### Financials ( Consolidated)

Year	Op Income	% Growth	EBIDTA	OPM%	PAT	% Growth	EPS	PE (x)	ROE%	ROCE%
FY17	10,017.3	23.8%	825.8	8.2%	395.2	48.1%	21.9	86.9	14.6	19.8
FY18E	12,198.0	21.8%	1,199.3	9.8%	660.4	67.1%	36.5	52.1	19.8	29.4
FY19E	14,527.2	19.1%	1,470.6	10.1%	817.5	23.8%	45.2	42.1	19.9	29.5
FY20E	17,301.2	19.1%	1,797.4	10.4%	1,024.9	25.4%	56.6	33.6	20.1	29.4



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### BACKGROUND

V-Mart, incorporated in 2002, opened their first maiden stores in 2003, in Ahmedabad, Gujarat. By 2006, the company had already crossed a retail space of 1 Lac Sq.Ft and in 2008, the company crossed a turnover of Rs.1000 Mn. In 2013, the company got listed on both stock exchanges, through IPO of Rs. 961 Mn, at a price of Rs. 210 per share.

Currently V-Mart Retail Ltd has 171 stores with 14.3 lac sqft spread across 145 cities in 14 states with 37 composite stores and 135 fashion stores

V-Mart currently employs over 5,500 people directly and indirectly supporting several more individuals and MSMEs across India and 700 vendors across India. The company has a base of 9mn customers rolled under the customer loyalty program.

**Sales Mix:** Apparels ~80%, Non-Apparels ~15% and Kirana ~5%. Going forward the company's strategy is to open more Apparels store and discontinue composite and kirana stores.

### Industry and Opportunity Size:

India's Retail market is ~USD616bn as of FY16 of which organized retail accounts for 9%. This industry has been growing at a CAGR of ~10% over last few years. Organized Retail stood at ~USD55bn in FY16 is expected to reach USD166bn by FY2025 i.e CAGR of 13% contributed by factors such as rising per-capita income, increasing urbanization and shift from un-organized to organized. The recent changes in the industry, such as the increase in FDI limit in single brand retail and the introduction of the GST are likely to accelerated growth in organized retail.

Apparels is a major constituent of Retail with all 3 of it's sub-categories namely Menswear, Womenswear and Kids wear showing good growth rates. Menswear, currently at USD24Billion is expected to grow at a CAGR of 8.5% over next 5 years, Womenswear to grow at a CAGR of 9% over next 5 years. With these staggering numbers, V-mart who has all 3 categories has immense opportunity to grow.

### Lowest rental in the Retail industry with break-even achieved in 1st year of operation and payback in 3 years:

Year	Trent	Shopper	
		stop	Vmart
FY12	13.50%	9.27%	4.9%
FY13	13.40%	9.59%	4.4%
FY14	14.40%	9.37%	4.3%
FY15	14.20%	9.35%	4.6%
FY16	12.60%	9.32%	4.9%
FY17	13.10%	9.54%	4.8%

As seen above V-Mart has been successfully managing rental costs in the range of 4.9% to 4.3% one of the lowest in the (leased based) Retail company models. V-Mart also has an internal policy of opening stores at locations that generate Sales of at least 22x of rentals that they pay.



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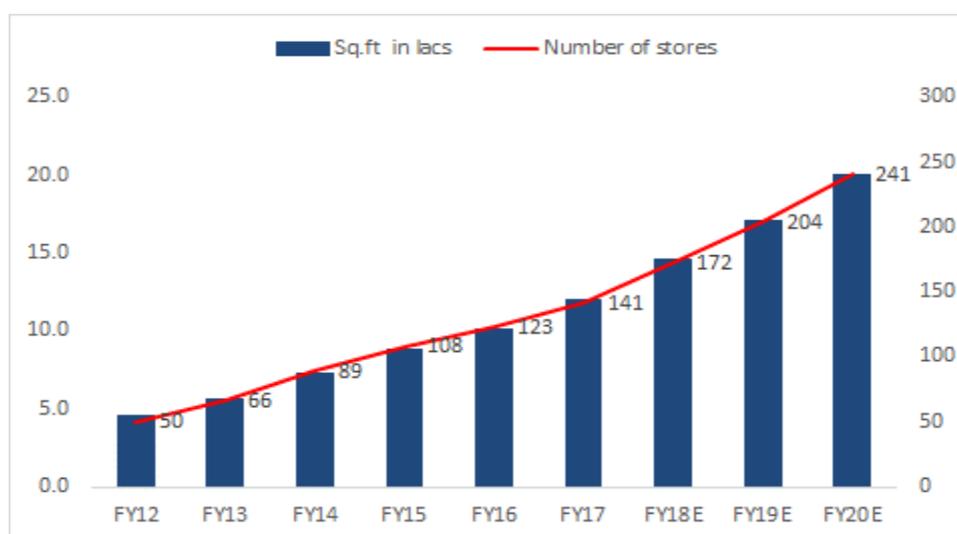
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Rental costs are one of the major costs for any retail company and V-Mart tends to gain at this end as against the others giving it a buffer of ~5% on EBITA margins.

With this kind of cost structure new stores have the capability to break-even in the year of opening and the pay-back period is 3 years.

**Competitive Edge:** Many national retailers want to get into value segment and chase similar customer base and get on to tier-2 tier-3 cities which is also a confirmation of the fact that the opportunity size is huge. V-Mart is primarily a tier-2 and 3 city retailer and since the company operates in cluster based approach the company has a good understanding and database of the customer segment (in –terms of the income levels and products required) they serve.

**Store Expansion to continue at CAGR of 19%; funded through internal accruals:**



As seen above the company's store area in square feet has been expanding at CAGR of 21% and going forward as well the company would be expanding at 15-17% on a YoY basis. The company would be increasing total area, from 14.3lacs currently to ~20lacs sqft by FY20 most of which would be in small and untapped towns on a cluster based approach.

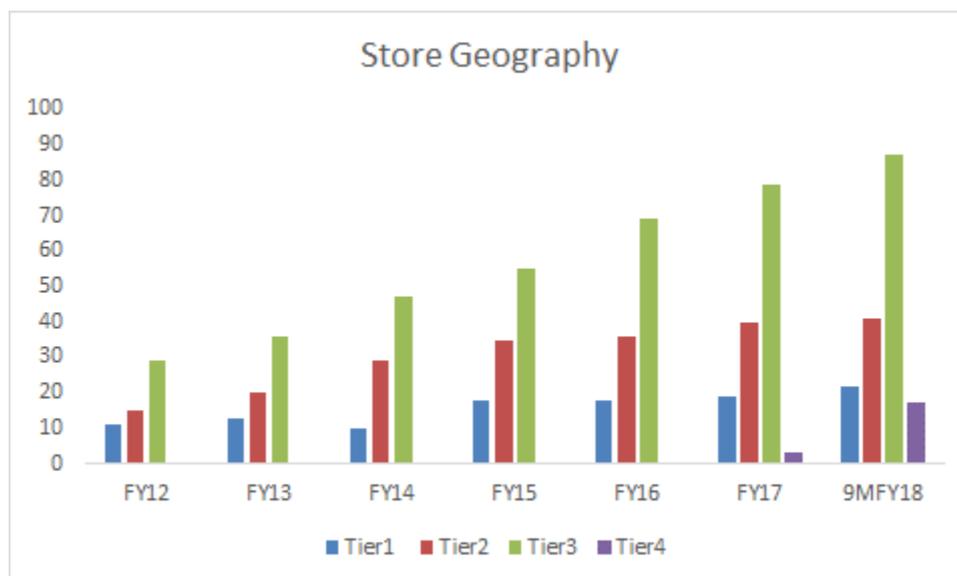
**Capex of Rs ~1bn by FY20 would be driven by internal accruals:** In a business that warrants resources to build stocks and widen store rollout, the company has managed to remain net debt-free, with 30 stores opened YTD FY18. Going forward as well the company would be generating enough cash-flows to fund 15-20% in square foot additions.



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### Store Concentration and expansion in majorly populated states:



V-Mart has been focused on increasing stores in UP Orissa Bihar and Jharkhand. The company remains bullish on the Eastern part of India as a whole even though currently the company has stores concentrated in Northern India i.e. Bihar and UP, they are expanding in Orissa and Jharkhand.

In terms of total population in our country UP constitutes 16.5%, Bihar 8.6%, Jharkhand 2.7% and Odisha 3.5% i.e. a total of 31%; V-Mart has been successfully operating in these markets for more than a decade and has enough data analytics gathered to provide the right product at the right price to the specific customer of the chosen areas. V-Mart's success ratio as compared to other retail companies in these markets is higher.

### Efficient Business Model with a Cluster Based Approach:

V-Mart operates on a Cluster based model opening a number of stores within one area and then moving 100-150km away from the last Cluster to open new stores in the new area. The Company takes full advantage of the benefits of using this approach in terms of understanding different customer preferences in each recognized area and opening stores in light of it.

### Pilot project doing reasonably well and should do better in coming future; Expansion Opportunity:

In FY18 YTD V-Mart has majorly expanded in tier-4 towns by opening 14 stores and taking the total to 17 stores. Initial results of tier-4 towns (i.e. below district level at Taluka and Thesil level) have shown good growth equivalent to tier 2 and 3 towns.

Opportunity: India has ~770 districts of which approximately 320 districts are covered by organized retail hence the opportunity is huge.



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There are more than 1000 towns in the territory where V-Mart operates where the tehsil population is greater than 1 lakh or 2 lakhs presenting a huge opportunity in the existing belt itself. Each of these markets is ~ 500 to 800 crs and one V-mart store achieves ~ 10cr of sales which gets V-Mart less than 3% of market share, hence enough space for V-Mart.

**Strategy:** The management has strategically reduced the selling price of products with the conviction of leading volume-led growth rather than value led growth as the company penetrates in tier-4 towns product variety at lower price points becomes strategic which would pay-out in future.

**GST benefit:** V-mart is now being able to get the vatable credit on taxes paid on rent and other services related items which was not possible earlier, the improvement on account of this would be sustainable going forward. As on date the company has managed to improve margins to the extent of 0.6% due savings on rental and some other services related expenditure.

**Private labels' share:** Private labels' share is currently ~50%. The company proposes to increase this to 80% in future to provide the customers with unique products. The current focus is to increase the share of private labels without pushing for margins as the private label products are not very differentiated from normal products and hence getting a premium on them is unlikely.



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### FINANCIALS

#### Revenues:

V-Marts revenues has been growing at a CAGR of 29% over FY12 to FY17 supported by 21% CAGR in overall square foot area. Going forward as well with 15-17% increase in overall square feet between FY18-20 and a Same Store Sales growth of 10% we expect the company's revenue to grow at a CAGR of 20%.

Over the years sales per square foot has increased from Rs 6162 to Rs 8374 (on calculated basis) which is in-line with other Retail players concentrated in Metro areas such as Shoppers Stop and Trent as shown below. However since the costs in tier3 and 4 are reasonably lower V-Mart tends to gain in terms of faster break-even and payback.



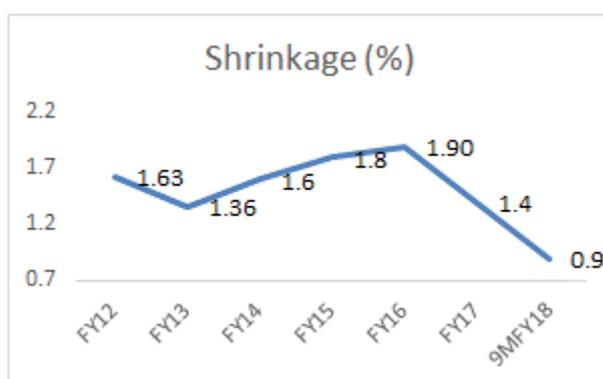
#### EBIDTA

The company's EBIDTA has been growing at a CAGR of 24% between FY12 to FY17. EBIDTA margins has been ranging between 8.2%-10.4%. For 9MFY18 the company recorded highest EBIDTA margins of 11.9% on account of higher gross margins and other cost efficiencies. Shrinkage over the years has reduced by 73bps on account of technology introduced in supply chain management and warehouses.

We expect EBIDTA to grow at a CAGR of 29.6% between FY17-20, as going forward the management is confident of maintaining EBIDTA margins at 10% even at higher base of new store opening due to better gross margins on account of reduction in shrinkage (as shown below) and benefits of input credit on account of GST on rental cost and other service related expenses would continue (9MFY18 benefits on account of GST was 0.6%).



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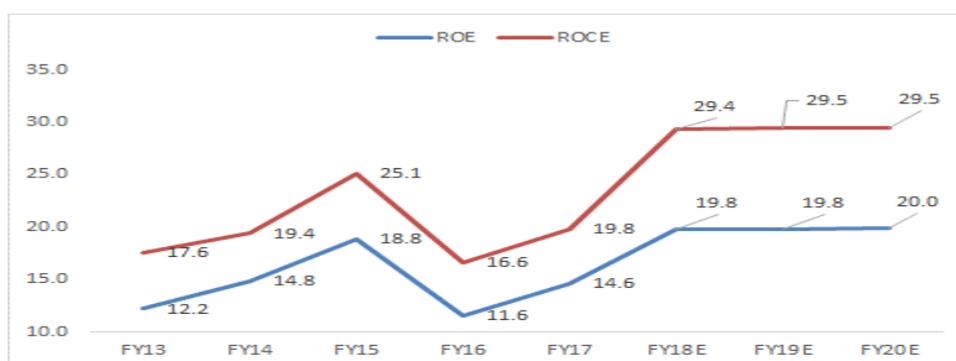
### PAT

V-Mart's PAT has been growing at a CAGR of 30% over FY12 to FY17 supported by lower interest costs that de-grew at the rate of 12.2% during the same period. Going forward we expect PAT to grow at a CAGR of 37% higher than EBIDTA mainly on account of reduction in interest expenses down on account of reduction in borrowings from Rs 354.7mn to Rs 11.6mn and no-further increase in debt as company would generate enough cash flows to support its current expansion plans.

**Working Capital Management to improve further by reducing shrinkage:** The Company has been able to reduce the inventory-days on account of technology deployment at warehouse and automation of store supply system. Better inventory planning cycle and focus on technology has also helped the company to reduce shrinkage. Going forward the company has introduced automated packing and shrink wrap system at the warehouse to control shrink in transit.

The company is also working with vendors and 3rd party agencies to improve payment solutions and payment mechanism with vendors to pay earlier. Warehouse management systems and supply chain efficiencies to decrease the inventory at stores and warehouse levels would bring ~20% additional improvement in working capital going forward.

### ROE and ROCE



The company's ROE and ROCE over the next few years is expected to improve from 19.8% and 14.6% in FY17 to 29.5% and 20% respectively. The company would be generating Free Cash Flows of Rs 496mn in FY20 from Rs 270mn in FY17.



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### VALUATION AND OUTLOOK

#### Valuation Sheet

Particulars				EPS (Rs)				P/E		EBITDA (Rs. Mns)				EV/EBITDA			
Company Name	CMP	No.of Shares	M.Cap (Rs.Mns)	FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20	FY18	FY19	FY20		
Avenue Supermarts	1315	624.08	820671	12.89	17.33	22.65	102.02	75.88	58.06	13012	17620	23142	62.90	46.45	35.37		
Future Retail	501	501.98	251490	13.8	19.37	22.5	36.30	25.86	22.27	8306	11692	14858	31.43	22.33	17.57		
Shopper Stop	537	83.55	44865	5.48	12.08	18.1	97.99	44.45	29.67	2288	2917	3620	21.01	16.48	13.28		
Trent	334	332.32	110994	4.2	6.2	8.45	79.52	53.87	39.53	2126	2717	3495	53.39	41.78	32.48		
V-Mart	1901	18.10	34403	36.5	45.2	56.6	52.09	42.08	33.57	1199.331	1470.61	1797.425	28.62	23.07	18.58		
								73.6	48.4	36.6					39.5	30.0	23.5

#### Based on Bloomberg Estimates

EV/ EBITDA Multiple FY20 E	23.5 ( Considering Average Peers)
EBIDTA FY20	1797.4
FY20 EV (Rs Mns)	42159.8
Debt FY20 (Rs Mns)	11.62
Cash FY20 (Rs Mns)	1019.2
Market Cap (Rs Mns)	43167.4
<b>Per Share (Rs)</b>	<b>2385.3</b>

Weighted Average Target Price	Multiple	Target Price	Weight Assigned	Price	Comment
Target Price Using PE Multiple	37	2073.8	50%	1037	Average PE of peers for FY20 is 37x
EV/ EBITDA	23	2385.3	50%	1193	Average EV/ EBITDA multiple of peers for FY20 is 23x
<b>Target Price</b>				<b>2230</b>	



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### Outlook:

V-Mart is one of the fastest growing Value Retail companies concentrated in the tier2 to tier4 towns. The company has first mover advantage in the non-metro Retail space with relevant experience and enough data analytics to capture markets faster than its peers catering the aspiration of customer with appropriate quality products at the right price point.

Only 320 of 770 districts in India covered by organized retail presents a huge scope of expansion for experienced players like V-Mart.

### Valuation:

V-Mart is expected to record a CAGR of 20% topline supported by 15-17% store expansion in-terms of total square feet area, all through internal accruals.

Bottom-line growth is expected to be at 37% due to improvement in margins (supported by its cluster based model, low rentals of ~4.7% of Revenues) and low interest expenses on account of debt clearance in FY18.

The company is Net Debt free with a payback period of 3 years for new store and is expected to improve ROE and ROCE from 14.6% and 19.8% in FY17 to 20% and 29.5% in FY20.

VMart is trading at 42x its FY19e EPS of Rs 45.2 and 33.6x its FY20e EPS of Rs 56.6 and for similar period on EV/EBIDTA it trades at 23x and 18.6x respectively.

**Based on our weighted average target price we recommend investors to BUY the stock with target price of Rs 2230 i.e. upside of 17%.**



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P&L (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E	Cash Flow St. (Rs. mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	8,092.6	10,017.3	12,198.0	14,527.2	17,301.2	Net Profit	276.3	395.2	660.4	817.5	1,024.9
Cost of sales	(7,474.2)	(9,191.5)	(10,998.7)	(13,056.6)	(15,503.8)	Add: Dep. & Amort.	190.1	220.2	216.5	253.3	296.4
<b>Operating Profit</b>	<b>618.3</b>	<b>825.8</b>	<b>1,199.3</b>	<b>1,470.6</b>	<b>1,797.4</b>	<b>Cash profits</b>	<b>466.5</b>	<b>615.4</b>	<b>876.9</b>	<b>1,070.8</b>	<b>1,321.3</b>
Depreciation	(190.1)	(220.2)	(216.5)	(253.3)	(296.4)	(Inc)/Dec in					
PBIT	428.2	605.6	982.8	1,217.3	1,501.0	-Sundry debtors	-	-	-	-	-
Other income	11.7	30.9	36.1	39.6	70.2	-Inventories	(212.2)	(647.5)	(316.0)	(574.3)	(684.0)
Interest	(31.2)	(35.2)	(18.3)	(18.3)	(18.3)	-Loans/advances	(40.5)	43.8	42.5	(20.0)	(22.5)
Profit before tax	408.8	601.2	1,000.6	1,238.6	1,553.0	-Current Liab and Provisions	317.0	676.6	201.3	409.9	488.7
Exceptional and Extra Ordinary	14.4	-	-	-	-	- Other Non Current Assets	(0.3)	0.7	(100.9)	(10.1)	(11.1)
PBT ( Post Extra Ordinary)	423.1	601.2	1,000.6	1,238.6	1,553.0	Change in working capital	63.9	73.6	(173.0)	(194.6)	(229.0)
Provision for tax	(146.8)	(206.0)	(340.2)	(421.1)	(528.0)	<b>CF from Oper. activities</b>	<b>530.4</b>	<b>689.0</b>	<b>703.9</b>	<b>876.2</b>	<b>1,092.4</b>
<b>Reported PAT</b>	<b>276.3</b>	<b>395.2</b>	<b>660.4</b>	<b>817.5</b>	<b>1,024.9</b>	<b>CF from Inv. activities</b>	<b>(434.4)</b>	<b>(760.9)</b>	<b>(260.6)</b>	<b>(434.8)</b>	<b>(508.7)</b>
MI	-	-	-	-	-	<b>CF from Fin. activities</b>	<b>(86.7)</b>	<b>58.3</b>	<b>(386.2)</b>	<b>(40.9)</b>	<b>(51.2)</b>
<b>Adjusted PAT</b>	<b>266.9</b>	<b>395.2</b>	<b>660.4</b>	<b>817.5</b>	<b>1,024.9</b>	<b>Cash generated/(utilised)</b>	<b>9.2</b>	<b>(13.6)</b>	<b>57.1</b>	<b>400.6</b>	<b>532.4</b>
						Cash at start of the year	33.6	42.8	29.2	86.3	486.8
						Cash at end of the year	42.8	29.2	86.3	486.8	1,019.2
<b>Balance Sheet</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>	<b>Ratios</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>
Equity capital	180.7	180.7	181.0	181.0	181.0	OPM	7.6	8.2	9.8	10.1	10.4
Reserves	2,126.5	2,522.7	3,155.9	3,932.5	4,906.2	NPM	3.3	3.9	5.4	5.6	5.9
<b>Net worth</b>	<b>2,307.2</b>	<b>2,703.4</b>	<b>3,336.9</b>	<b>4,113.5</b>	<b>5,087.2</b>	Tax rate	(35.9)	(34.3)	(34.0)	(34.0)	(34.0)
<b>Non Current Liabilities</b>	<b>105.2</b>	<b>153.6</b>	<b>41.2</b>	<b>48.7</b>	<b>57.6</b>	<b>Growth Ratios (%)</b>					
<b>Current Liabilities</b>	<b>1,419.6</b>	<b>2,133.4</b>	<b>2,104.0</b>	<b>2,506.4</b>	<b>2,986.2</b>	Net Sales	12.4	23.8	21.8	19.1	19.1
<b>CAPITAL EMPLOYED</b>	<b>3,832.0</b>	<b>4,990.3</b>	<b>5,482.1</b>	<b>6,668.6</b>	<b>8,130.9</b>	Operating Profit	(2.9)	33.5	45.2	22.6	22.2
<b>Non Current Assets</b>	<b>1,467.4</b>	<b>1,616.3</b>	<b>1,800.7</b>	<b>1,992.6</b>	<b>2,217.0</b>	PBIT	(27.6)	41.4	62.3	23.9	23.3
Fixed Assets	1,126.5	1,314.7	1,582.5	1,764.0	1,976.3	PAT	(30.8)	48.1	67.1	23.8	25.4
Non Current Investments	130.3	57.6	61.8	61.8	61.8	<b>Per Share (Rs.)</b>					
Deferred Tax Asset	42.2	70.4	86.7	86.7	86.7	Net Earnings (EPS)	14.8	21.9	36.5	45.2	56.6
Long Term Loans and Advances	168.4	173.5	69.7	80.2	92.2	Cash Earnings (CPS)	25.3	34.1	48.5	59.2	73.0
Other NON Current Assets	1.0	0.3	101.1	111.3	122.4	Dividend	-	1.3	1.3	1.2	1.9
<b>Current Assets</b>	<b>2,363.6</b>	<b>3,373.8</b>	<b>3,580.2</b>	<b>4,564.7</b>	<b>5,791.6</b>	Book Value	127.7	149.6	184.4	227.3	281.1
Current investments	193.4	618.6	390.7	390.7	390.7	Free Cash Flow	5.3	(4.0)	24.5	24.4	32.2
Inventories	2,044.3	2,691.8	3,007.7	3,582.1	4,266.0	<b>Valuation Ratios</b>					
Trade Receivables	-	-	-	-	-	P/E(x)	128.7	86.9	52.1	42.1	33.6
Cash and Bank Balances	42.8	29.2	86.3	486.8	1,019.2	P/B(x)	14.9	12.7	10.3	8.4	6.8
Short Term Loans and Advances	82.3	34.1	-	-	-	EV/EBIDTA(x)	55.9	42.0	28.6	23.1	18.6
Other Current Assets	1.0	0.1	95.6	105.1	115.6	Div. Yield(%)	-	0.1	0.1	0.1	0.1
<b>CAPITAL DEPLOYED</b>	<b>3,832.0</b>	<b>4,990.3</b>	<b>5,482.1</b>	<b>6,668.6</b>	<b>8,130.9</b>	<b>FCF Yield(%)</b>	<b>0.3</b>	<b>(0.2)</b>	<b>1.3</b>	<b>1.3</b>	<b>1.7</b>
						<b>Return Ratios (%)</b>					
						ROE	11.6	14.6	19.8	19.9	20.1
						ROCE	16.6	19.8	29.4	29.5	29.4



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