

Revenue recoveries surprise positively

V-Mart's Q3FY21 results were a beat on all fronts, with revenue recovery at 84% YoY.

- **Revenue:** de-grew by 16.4% to Rs. 4703.08mn
- **EBITDA:** de-grew by 11% to Rs. 1038.37mn (our expectation was Rs. 891.58mn)
- **PBT:** de-grew by 17.2% to Rs. 637.22mn
- **PAT:** de-grew by 17.8% to Rs. 478.73mn (Tax Rate stood at 24.9% v/s 24.4% in Q3FY20), (Our expectation was Rs. 375.06mn)

Expenses as a % of sales

- **RM:** 63.3% v/s 63.70% YoY and 71.24% QoQ
- **(Important Metrics: (i) Average Basket Size: +9% YoY, (ii) Average Selling Price: +2% YoY and (iii) Conversion: +7% YoY)**
- **Other expenses:** 7.7% v/s 8.3% YoY and 14.1% QoQ

Other expenses

- **Employee Costs:** reduced by 20% to Rs. 324.5mn
- **Rent:** as per notes. Rent recorded for the quarter stood at Rs. 31.3mn
- **Depreciation:** grew by 3.8% to Rs. 253.8mn
- **Finance Cost:** de-grew by 5% to Rs. 150.28mn

Other Key Takeaways

- **Revenue Recovery LTL recovery, Footfalls, YoY:** stood at 84%, 81% and 72% respectively led by a successful wedding season, festive season and lowering of restrictions nationwide.
- **2 largest Markets:** Uttar Pradesh and Bihar, have led the recovery, accounting for 66% of sales in the third quarter. In terms of store, both states account for 56% of total stores.

Rating	TP (Rs)	Up/Dn (%)
ACCUMULATE	2742	10

Market data

Current price	Rs	2,496
Market Cap (Rs.Bn)	(Rs Bn)	45
Market Cap (US\$ Mn)	(US\$ Mn)	617
Face Value	Rs	10
52 Weeks High/Low	Rs	2602/1294
Average Daily Volume	('000)	51
BSE Code		534976
Bloomberg		VMART:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-20	Sep-20
Promoters	50.60	50.80
Public	49.40	49.20
Others	0.00	0.00
Total	100	100

Source: BSE

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	14,337	16,620	10,781	20,720	24,609
Adjusted net profit	657	494	(176)	869	1,090
Free cash flow	332	226	1,064	2,088	2,087
EPS (Rs)	36.3	27.2	(9.7)	47.8	60.0
growth (%)		-25%	NA	NA	25%
P/E (x)	68.9	91.9	(258.0)	52.2	41.6
P/B (x)	11.1	9.9	10.3	8.6	7.2
EV/EBITDA (x)	34.0	23.6	40.8	17.0	14.3
D/E	0.0	0.0	0.1	0.0	0.0
RoCE (%)	25.7	26.0	4.6	34.4	35.3
RoE (%)	16.1	10.8	(4.0)	16.6	17.4
Dividend yield (%)	0.1	0.1	-	-	0.1

Source: Company

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Conference Call Key Takeaways

- **Revenue recoveries:** stood at 84% for the quarter largely led by a successful Diwali Festival and marriage season. Even though the number of marriages were quite large, people attending were drastically low (only at 20% YoY) as per management.
- **Regional and National Competition:** regional retailers were facing problems on liquidity and supply chain front which drove more consumers to national level brands such as V-Mart. **Company has also seen other national retailers open stores in Tier III-IV towns this quarter.**
- **Urban v/s Rural:** ruraleconomy remains strong on back of good farm income, however as per management, consumers still remain uncertain about the future and thus shopping for apparel is still largely need based. Urban demand is recovery albeit at a slower pace, but improvement QoQ is visible.
- **Inventory Situation:** currently at lowest levels in many Quarters. It is down 38% to Rs. 2978mn compared to March 2020 levels. The reduction in Inventory this quarter was done without help of discounts or distressed selling, indicating strong demand
- **Inventory going forward:** will increase as per management to replenish with fresh stock but due to lean levels currently, level of discounting will remain low. Raw Material prices will increase as yarn prices are increasing.
- **Important metrics:** such as ASP, transaction size and conversion were higher due to strong demand which also led to leaner inventory levels
- **Online Business:** is still in progress, company still has not made their products available on E-Comm market place. Currently this business contributes less than 1% to overall revenues
- **Fund raise:** approval of up to Rs. 5bn has been received in September 2020 but not decision has been taken yet on when it will be raised.
- **Employee Costs:** were lower by 20% this quarter due to several positions remaining vacant despite store additions and normal operations. These vacancies will be filled and employee cost will go to near normal levels.
- **Guidance:** of 20-25% increase in retail area is maintained
- **Presentation Details, YoY:** (i) **Footfalls:** 8.3mn v/s 115mn, (ii) **Conversion Rate (%):** 62.1% v/s 59.5%, (iii) **Transaction Size (Rs.):** 968 v/s 884, (iv) **ASP (Apparel):** Rs. 446 v/s 436, (v) **Sales per sq.ft per month (Rs.)** 517 v/s 804, (vi) **Store count:** 274 v/s 257

Revenue recovery in
Q1:17%, Q2: 56%, Q3: 84%.

Inventory levels as on
Q4FY20: Rs. 4779mn,
Q2FY21: Rs. 3645mn
Q3FY21: Rs. 2978mn

Quarterly Performance Analysis

Exhibit 1

Particulars	Post IND-AS 116					
	Q3FY20	Q3FY21	YoY (%)	9MFY20	9MFY21	YoY (%)
Revenue	5622	4700	(16)	7672	2536	(67)
Other Income	4	3	(33)	33	164	403
Total	5626	4703	(16)	7705	2700	(65)
Total RM Cost	3581	2975	(17)	5305	1790	(66)
Gross Profit	2041	1725	(15)	2368	745	(69)
Employee Cost	406	325	(20)	763	489	(36)
Other Expenses	467	362	(22)	913	318	(65)
Total	4454	3662	(18)	6981	2598	(63)
Operating profit	1168	1038	(11)	691	-62	(109)
Depreciation	245	254	4	443	520	18
EBIT	928	787	(15)	281	-418	(249)
Interest Cost	158	150	(5)	251	293	17
PBT and exceptional item	770	637	(17)	30	-711	
exceptional item	0	0		0	0	
PBT	770	637	(17)	30	-711	
Taxes	188	158		35	-185	
Reported PAT	582	479	(18)	-4	-526	
EPS	32	26		36	27	
as a % to sales						
RM	64%	63%		69%	71%	
GPM	36%	37%		31%	29%	
Employee Costs	7%	7%		10%	19%	
Other expenses	8%	8%		12%	13%	
OPM	21%	22%		9%	-2%	
Tax rate (on PBT)	24%	25%		115%	26%	

Source: Dalal & Broacha Research, Company

Exhibit 2

Particulars	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Stores	257	266	266	264	274
Net Additions	18	9	0	-2	10
Retail Space YTD in lacs Sq feet	21.0	22.1	22.2	22.0	23.0
Increase	1.0	1.10	0.10	(0.2)	1.00
Sales Per Sq Ft Per Mth In Rs as per Presentation	941	619	357	299	681
SSS: Apparel YTD					
- Volume %	-3%	-18%	-84%	-55%	-52%
- Value %	1%	-18%	-85%	-56%	-50%
Segment Contribution					
-Fashion (%)	93	92	90	91	92
-Kirana (%)	7	8	10	9	8
Total	100	100	100	100	100
Sales Mix					
Apparels (%)	79.4	78.7	78.3	79.3	79.3
Non Apparels (%)	14	13.1	11.2	12.1	14
Kirana (%)	6.6	8.2	10.5	8.6	6.7
Total	100	100	100	100	100

Source: Dalal & Broacha Research, Company

Exhibit 3

Particulars	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
FootFall (lacs)	115	82	15	35	83
Conversion Rate	59.5%	55.0%	68.2%	59.5%	62.1%
Average Selling Price (Rs)					
Total (Rs)	266	222	247	183	262
Apparels (Rs.)	436	357	179	254	446
Transaction size (Rs)	884	790	824	844	968
Store Count YTD	257	266	266	264	274
Tier 1	55	58	59	59	63
Tier 2	33	35	35	35	37
Tier 3	138	141	139	138	140
Tier 4	31	32	33	32	34
Store allocation	100.0%	100.0%	100.0%	100.0%	100.0%
Tier 1 %	21.4%	21.8%	22.2%	22.3%	23.0%
Tier 2 %	12.8%	13.2%	13.2%	13.3%	13.5%
Tier 3 %	53.7%	53.0%	52.3%	52.3%	51.1%
Tier 4 %	12.1%	12.0%	12.4%	12.1%	12.4%

Source: Dalal & Broacha Research, Company

Valuation & Outlook

Outlook: Revenue recoveries of 84% during the quarter and EBITDA and PAT numbers came as a surprise positive to us. V-Mart is well placed to ride the recovery curve being in states where incidence of Covid-19 is limited compared to Metros and Tier I towns and cities. While other national retailers are just now entering Tier III, IV and beyond towns, V-mart has been present in these areas since long before, which gives it a sheer advantage over others in terms of expansion, execution and promotion. We remain positive on current developments as well as look forward to QIP which only further strengthen the company's balance sheet.

Valuation: on EV/EBITDA basis, the stock trades at 17x and 14.3x FY22e and FY23e EBITDA of Rs. 3017mn and Rs. 3626.3mn respectively. **We rollover to FY23 and value the company at 15.5x (~8% premium to its trading multiple) to arrive at a target price of Rs. 2742, i.e., upside of 10%. We maintain Accumulate.**

Financial

V-Mart Retail Ltd											
P&L (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E	Cash Flow St. (Rs. mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	14,337.5	16,620.2	10,781.0	20,720.0	24,609.2	Net Profit	597.5	493.7	(175.9)	869.1	1,090.3
Cost of sales	(13,008.9)	(14,483.1)	(9,534.6)	(17,703.1)	(20,982.9)	Add: Dep. & Amort.	276.3	939.2	1,020.7	1,205.5	1,405.2
Operating Profit	1,328.6	2,137.2	1,246.4	3,017.0	3,626.3	Cash profits (Inc)/Dec in	873.7	1,432.9	844.8	2,074.6	2,495.5
Depreciation	(276.3)	(939.2)	(1,020.7)	(1,205.5)	(1,405.2)	-Sundry debtors	-	-	-	-	-
PBIT	1,052.3	1,197.9	225.6	1,811.4	2,221.0	-Inventories	(218.7)	(1,489.4)	939.4	(1,269.2)	(959.0)
Other income	41.1	45.5	167.6	19.3	21.1	-Loans/advances	(23.9)	(22.6)	(17.8)	(20.5)	(23.6)
Interest	(16.1)	(547.8)	(595.6)	(669.3)	(785.0)	¹ -Current Liab and Provisions	204.0	254.6	(810.5)	1,276.4	487.0
Profit before tax	1,077.3	695.6	(202.4)	1,161.5	1,457.0	¹ - Other Non Current Assets	(89.6)	(8.1)	(34.2)	(37.6)	(41.3)
Exceptional and Extra Ordin	(98.0)	-	-	-	-	Change in working capital	(128.2)	(1,265.4)	76.9	(51.0)	(536.8)
PBT (Post Extra Ordinary)	979.3	695.6	(202.4)	1,161.5	1,457.0	CF from Oper. activities	745.6	167.5	921.7	2,023.7	1,958.7
Provision for tax	(381.9)	(201.9)	26.5	(292.3)	(366.7)	CF from Inv. activities	(764.9)	(245.0)	(839.9)	(1,198.9)	(1,346.8)
Reported PAT	597.5	493.7	(175.9)	869.1	1,090.3	CF from Fin. activities	(8.4)	(28.7)	473.2	(507.7)	(54.5)
MI	-	-	-	-	-	Cash generated/(utilised)	(27.8)	(106.2)	555.0	317.1	557.3
Adjusted PAT	657.2	493.7	(175.9)	869.1	1,090.3	Cash at start of the year	183.9	156.1	49.9	604.9	921.9
						Cash at end of the year	156.1	49.9	604.9	921.9	1,479.3
Balance Sheet	FY19	FY20	FY21E	FY22E	FY23E	Ratios	FY19	FY20	FY21E	FY22E	FY23E
Equity capital	181.3	181.5	181.7	181.7	181.7	OPM	9.3	12.9	11.6	14.6	14.7
Reserves	3,911.4	4,407.8	4,240.7	5,066.3	6,102.1	NPM	4.6	3.0	(1.6)	4.2	4.4
Net worth	4,092.7	4,589.3	4,422.3	5,248.0	6,283.8	Tax rate	(35.4)	(29.0)	(13.1)	(25.2)	(25.2)
Non Current Liabilites	111.3	4,439.6	4,855.3	5,759.0	6,744.8	Growth Ratios (%)					
Current Liabilites	2,114.4	3,207.6	2,929.3	3,902.1	4,564.3	Net Sales	17.3	15.9	(35.1)	92.2	18.8
CAPITAL EMPLOYED	6,318.4	12,236.5	12,207.0	14,909.0	17,592.8	Operating Profit	0.0	60.9	(41.7)	142.1	20.2
Non Current Assets	2,112.3	7,060.6	7,385.5	8,406.1	9,532.3	PBIT	(4.2)	13.8	(81.2)	702.8	22.6
Fixed Assets	1,704.8	6,695.1	6,998.0	8,055.7	9,158.3	PAT	(13.8)	(24.9)	(135.6)	(594.1)	25.4
Non Current Investments	98.3	33.2	33.2	33.2	33.2	Per Share (Rs.)					
Deferred Tax Asset	118.3	160.1	160.1	160.1	160.1	Net Earnings (EPS)	36.3	27.2	(9.7)	47.8	60.01852
Long Term Loans and Adva	96.0	118.9	136.7	157.2	180.8	Cash Earnings (CPS)	51.5	78.9	46.5	114.2	60.0
Other NON Current Assets	95.0	53.4	57.5	62.0	66.9	Dividend	2.0	1.7	-	-	2.0
Current Assets	4,206.1	5,175.9	4,821.5	6,440.9	7,993.6	Book Value	225.7	252.8	243.4	288.9	345.9
Current investments	508.5	45.8	45.8	45.8	45.8	Free Cash Flow	(1.1)	(4.3)	4.5	45.4	33.7
Inventories	3,289.8	4,779.2	3,839.8	5,109.0	6,068.0	Valuation Ratios					
Trade Receivables	-	-	-	-	-	P/E(x)	68.9	91.9	(258.0)	52.2	41.6
Cash and Bank Balances	156.1	49.9	604.9	921.9	1,479.3	P/B(x)	11.1	9.9	10.3	8.6	7.2
Short Term Loans and Adva	0.6	0.3	0.3	0.3	0.3	EV/EBIDTA(x)	34.0	23.6	40.8	17.0	14.3
Other Current Assets	251.0	300.7	330.8	363.8	400.2	Div. Yield(%)	0.1	0.1	-	-	0.1
CAPITAL DEPLOYED	6,318.4	12,236.5	12,207.0	14,909.0	17,592.8	FCF Yield(%)	(0.0)	(0.2)	0.2	1.8	1.3
						Return Ratios (%)					
						ROE	16.1	10.8	(4.0)	16.6	17.4
						ROCE	25.7	26.0	4.6	34.4	35.3

Source: Dalal & Broacha Research, Company

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