

V-Mart Retail

Estimate change

TP change

Rating change


Bloomberg	VMART IN
Equity Shares (m)	20
M.Cap.(INRb)/(USD\$)	33.2 / 0.4
52-Week Range (INR)	3110 / 1591
1, 6, 12 Rel. Per (%)	-15/-26/-49
12M Avg Val (INR M)	99

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	24.6	28.2	33.2
EBITDA	2.7	1.6	3.5
NP	-0.1	-1.1	0.3
EBITDA Margin (%)	10.9	5.5	10.5
Adj. EPS (INR)	-4.3	-60.9	15.5
EPS Gr. (%)	NM	NM	LP
BV/Sh. (INR)	469.1	408.2	423.7

Ratios

Net D:E	1.5	1.8	1.7
RoE (%)	NM	NM	3.7
RoCE (%)	3.2	-0.7	5.9
Payout (%)	0.0	0.0	0.0

Valuations

P/E (x)	NM	NM	108.6
EV/EBITDA (x)	17.3	29.9	13.4
EV/Sales (x)	1.4	1.2	1.1
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	-2.1	1.3	3.4

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	44.3	44.3	46.1
DII	32.6	31.0	31.5
FII	14.3	14.8	11.5
Others	8.7	9.9	10.9

FII Includes depository receipts

CMP: INR1,680 TP: INR1,700 (+1%) Downgrade to Neutral

Weak SSSG hurts profitability

- V-Mart Retail (VMART)'s net loss widened YoY to INR641m (41% above our estimate), dragged down by soft revenue growth of 8.5% and losses in the Limeroad segment. VMART reported a 6% LFL decline despite volume growth as the quarter saw price moderation. Core revenue grew 5% YoY, driven by footprint adds, while revenue/sqft declined ~4% YoY.
- We cut our EBITDA estimates by 31%/14% for FY24/FY25 and subsequently downgrade the stock to Neutral with a TP of INR1,700, given weak macro, intense competition and pressure in new formats, Unlimited and Limeroad. We expect a CAGR of 16%/14% in revenue/EBITDA. A demand recovery in 2HFY24 and trajectory of losses in Limeroad are key things to watch out for.

Net loss widens to INR641m (est. INR454m loss) due to -6% LFL

- Consolidated revenue grew 8.5% YoY to INR5.5b (7% miss) in 2QFY24, mainly driven by footprint additions as LFL sales were down 6% on a blended basis.
- Revenue from VMart (core) grew 5% YoY to INR4.2b, driven by store additions, as revenue/sqft declined 4% YoY to INR1,409 (Calc.).
- Unlimited revenue remained flat YoY at INR1b, while Limeroad revenue stood at INR219m.
- Gross margins contracted by ~170bp YoY to 34.6%, likely due to a contraction in ASPs. Consequently, gross profits grew by 3.5% YoY to INR1.9b (6.5% miss).
- Overall ASPs declined 8% YoY to INR209, while apparel ASP declined 9% to INR326.
- Employee costs/other expenses surged 27.2%/59.4% YoY, possibly due to Limeroad costs.
- Consequently, EBITDA saw a steep decline YoY to INR7m (big miss), dragged down by weak LTL growth and losses in Limeroad.
- EBITDA margins for VMart/Unlimited contracted 670bp/680bp.
- Losses in Limeroad narrowed to INR198m vs. INR256m in 1QFY24.
- Pre Ind AS 116 operating loss stood at INR498m in 2Q.
- VMART reported a net loss of INR641m (est. INR454m loss), impacted by lower operating profits.

Highlights from the management commentary

- Margin impact was mainly due to a decrease in ASP and product mix; Expects margins to stabilize post 3QFY24.
- Expects ASPs to moderate further in 3QFY24 as the company looks to regain volume growth.
- Opened 8 stores and closed 2 stores; Maintains store addition target of 50 stores for FY24, with 14 stores already opened in 3QFY24.
- Completed the transition of Vmartretail.com to Limeroad with no loss of sales; expects cash burn in the segment to narrow down going ahead.

Valuation and view

- The price moderation and the onset of the festive period could accelerate revenue recovery in 3QFY24. However, continued investments in the online segment with the acquisition of Limeroad could dent near-term profitability, with the management's target of investing 20% of EBITDA.
- The huge growth opportunity in the value fashion segment and VMART's strong execution capability remain key drivers of its success. It has potential to garner sustainable double-digit revenue growth for a long term with new store additions. Low price points, cost leadership, strong liquidity, and prudent inventory management give VMART an edge over its competitors.
- However, given weak macro, intense competition and pressure in new formats, Unlimited and Limeroad, we have cut our EBITDA estimates by 31%/14% for FY24/FY25. We expect a CAGR of 16%/14% in revenue/EBITDA.
- Subsequently, we downgrade the stock to Neutral with a TP of INR1,700, premised on 10x EV/EBITDA on Mar'26E (15x EV/EBITDA on Pre-Ind AS116 basis). A demand recovery in 2HFY24 and trajectory of losses in Limeroad are key things to watch out for.

Consolidated - Quarterly Earning Model

Y/E March									(INR m)			
	FY23				FY24E				FY23	FY24E	FY24	Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			2QE	Var (%)
Revenue	5,879	5,062	7,769	5,939	6,785	5,494	9,090	6,874	24,648	28,243	5,897	-7
YoY Change (%)	231.4	49.8	12.3	29.5	15.4	8.5	17.0	15.7	47.9	14.6	16.5	
Total Expenditure	4,992	4,526	6,732	5,710	6,261	5,488	8,112	6,829	21,959	26,690	5,705	-4
EBITDA	887	536	1,037	229	525	7	977	45	2,689	1,553	192	-97
EBITDA Margin (%)	15.1	10.6	13.3	3.9	7.7	0.1	10.8	0.7	10.9	5.5	3.3	
Depreciation	402	441	473	484	499	532	532	374	1,800	1,937	499	7
Interest	247	279	307	336	330	359	359	249	1,169	1,297	330	9
Other Income	41	27	7	75	15	20	20	115	150	170	15	32
PBT	278	-157	264	-516	-290	-864	106	-463	-130	-1,511	-623	39
Tax	74	-44	64	-146	-70	-223	29	-144	-52	-408	-168	
Rate (%)	26.5	27.9	24.4	28.3	24.2	25.8	27.0	31.0	39.7	27.0	27.0	
Reported PAT	205	-113	200	-370	-219	-641	78	-320	-78	-1,103	-454	41
Adj PAT	205	-113	200	-370	-219	-641	78	-320	-78	-1,103	-454	41
YoY Change (%)	-171.2	-20.0	-65.0	1,314.5	-207.3	466.8	-61.2	-13.5	-167.4	1,305.1	301.7	

E: MOFSL Estimates

Exhibit 1: Valuation based on FY26E EBITDA

	Methodology	Driver (INR m)	Multiple	Fair Value (INR m)	Value/sh (INR)
EBITDA	FY26 EV/EBITDA	4,531	10	46,612	2,357
Less Net debt					13,030
Total Value				33,582	1,700
Shares o/s (m)					19.8
CMP (INR)					1,685
Upside (%)					1

Source: MOFSL, Company



Balance sheet, cash flow and capex

- As of Sep'23, net debt stood at INR1.5b vs. INR1.2b as of Mar'23, as the company saw incremental borrowings during the quarter.
- OCF in 1HFY24 improved to INR1.4b, mainly driven by the release of working capital. Trade payable days (calc.) increased to 85 days in 1HFY24 from 60 days in 1HFY23, while inventory days improved to 124 days (vs. 151 days).
- VMART opened 8 new stores (5 under V-Mart and 3 under Unlimited) and closed 2 stores in 2QFY24, taking the total store count to 437.

Concall highlights

Key highlights

- Margin impact was mainly due to a decrease in ASP and product mix; Expects margins to stabilize post 3QFY24.
- Expects ASPs to moderate further in 3QFY24 as the company looks to regain volume growth.
- Opened 8 stores and closed 2 stores; Maintains store addition target of 50 stores for FY24 with 14 stores already opened in 3QFY24.
- Completed the transition of Vmartretail.com to Limeroad with no loss of sales; expects cash burn in the segment to narrow down going ahead.

Highlights in detail

Demand environment:

- The management stated that early trends for festive demand have been encouraging, with the eastern part of India seeing healthy traction during Durga Pooja.
- It believes that volume growth was driven by an overall improvement in the macro environment amid easing inflationary pressures, improved footfalls (13% YoY growth) and good monsoons in majority of regions.

Financial performance

- The shift in the festive period and the onset of 'Adhik maas' impacted revenue growth for 2QFY24.
- Revenue growth in the offline segment was mainly supported by LFL volume growth of 6% and store additions.
- Decrease in ASP, shift in product mix toward lower price and liquidation of high-priced inventory during EOSS also impacted margins for the quarter.
- The company expects the margin trajectory should stabilize post 3QFY24 and overall margins for FY24 to be lower vs. FY23 as VMART will look to build volumes.
- Expenses (excl. Limeroad) grew 14% YoY. The quarter further saw rationalization of marketing spends within LimeRoad.
- Unlimited segment witnessed savings in rent and other expenses due to the closure of non-performing big stores.

Pricing and volume:

- Volume growth was mainly due to rationalization in ASP by the company.

- South segment has seen incremental ASP decline, which was a required price correction as the company looks to introduce VMart pricing in the market.
- VMART expects 3QFY24 ASPs to be on lower side as it looks to improve volume and bring back entry price-point customers.

Capex and working capital:

- The company opened 8 stores and closed 2 in 2QFY24. It has further opened 14 stores in 3QFY24 already.
- It maintains its store addition guidance of 50 stores for FY24 in addition to renovation of older stores.
- Inventory as on Sep'23 saw a decline on absolute basis YoY, which also helped improved working capital.
- ~70% of old high-cost inventory has been dealt with and remaining is expected to be liquidated in current quarter.
- Creditor days: some arrangements with vendors have led to benefits in creditor terms, which has helped cash flow.
- 90% of store inventory is fresh, while some inventory in warehouse is yet to be supplied to stores before the festive period.

Other Highlights:**Limeroad:**

- The company completely transitioned VMartretail.com to Limeroad with no losses of sales.
- The segment is witnessing strong double-digit growth (+21% in 2QFY24) in NMV.
- The company expects to see curtailment in cash burn and limit losses to 20% of EBITDA.
- For the next three months, it would focus on 1) optimizing the customer acquisition cost, 2) acquiring more customer projects, 3) improving thru-put to achieve targeted EBITDA, and 4) integration of online channel with offline stores.
- While NMV for Sep'23 vs. Jun'23 was higher, cash burns were lower by 34%, which indicates focus toward improving profitability.
- It expects Nov'23 to see 50% lower burns vs. Jun'23.
- The company is working on improving the logistics chain and analytical tools to enhance customer servicing.
- It is also looking to roll out new initiatives in VMart and Unlimited stores, while the decision on legacy stores, which have seen some laggards, would be taken soon.

Exhibit 2: Quarterly performance

	2QFY23	1QFY24	2QFY24	YoY%	QoQ%	2QFY24E	v/s est (%)
Revenue	5,062	6,785	5,494	8.5	-19.0	5,897	-6.8
Raw Material cost	3,224	4,358	3,593	11.4	-17.6	3,862	-7.0
Gross Profit	1,837	2,427	1,902	3.5	-21.7	2,034	-6.5
Gross Margin (%)	36.3	35.8	34.6	-169bps	-117bps	34.5	11bps
Employee Costs	560	717	713	27.2	-0.6	722	-1.4
Other Expenses	742	1,186	1,182	59.4	-0.3	1,120	5.5
EBITDA	536	525	7	-98.7	-98.7	192	-96.5
EBITDA margin (%)	10.6	7.7	0.1	-1047bps	NM	3.3	-313bps
Depreciation and amortization	441	499	532	20.7	6.6	499	6.6
EBIT	95	25	-525	-650.9	NM	-308	70.8
EBIT margin (%)	1.9	0.4	-9.6	-1144bps	NM	-5.2	-434bps
Finance Costs	279	330	359	28.8	8.7	330	8.7
Other income	27	15	20	-25.0	32.1	15	32.1
Exceptional item	0	0	0	0.0	0.0	0	NM
Profit before Tax	-157	-290	-864	451.1	198.3	-623	38.8
Tax	-44	-70	-223	410.4	217.6	-168	32.6
Tax rate (%)	27.9	24.2	25.8	-205bps	156bps	27.0	-121bps
Profit after Tax	-113	-219	-641	466.8	192.2	-454	41.1

Source: MOFSL, Company

Exhibit 3: Summary of our estimate changes

Particulars	FY24E	FY25E
Revenue (INR m)		
Old	28,958	34,563
Actual/New	28,243	33,173
Change (%)	-2.5	-4.0
EBITDA (INR m)		
Old	2,244	4,044
Actual/New	1,553	3,483
Change (%)	-30.8	-13.9
EBITDA margin (%)		
Old	7.8	11.7
Actual/New	5.5	10.5
Change (bp)	-225	-120
Net Profit (INR m)		
Old	-598	690
Actual/New	-1,103	281
Change (%)	84.3	-59.3
EPS (INR)		
Old	-33	38
Actual/New	-61	16
Change (%)	84.3	-59.3

Source: MOFSL, Company

Story in charts

Exhibit 4: Reported revenue growth of 8.5% YoY

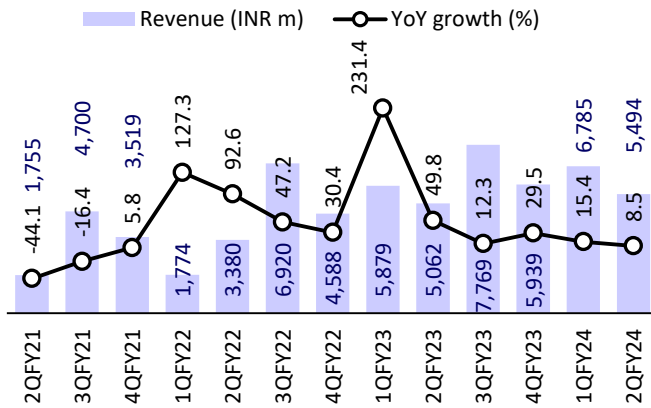


Exhibit 5: Gross margin contracted YoY

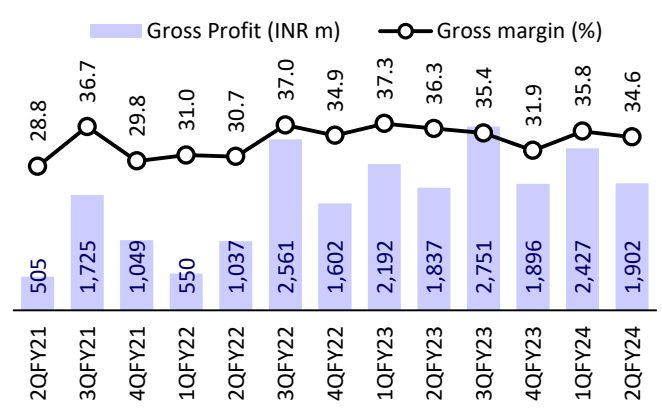


Exhibit 6: EBITDA margin contracted YoY

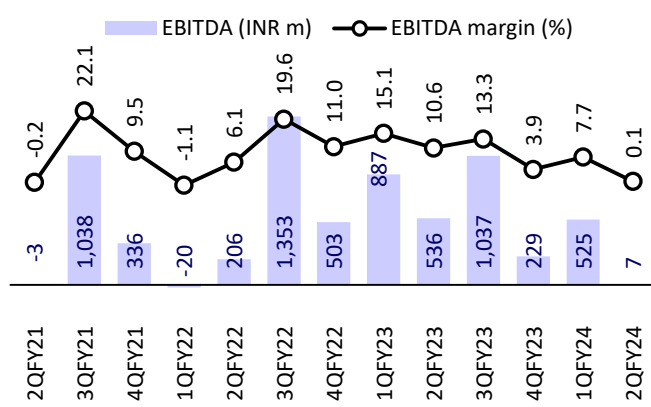
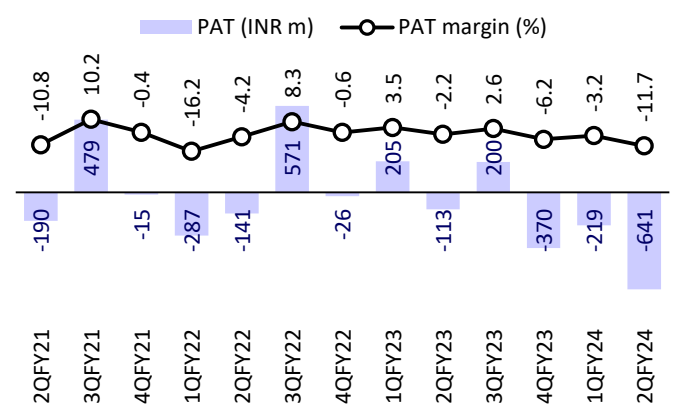
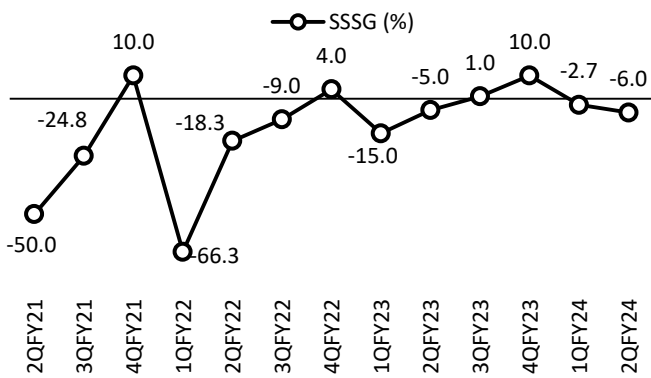


Exhibit 7: VMART loss widened to INR641m



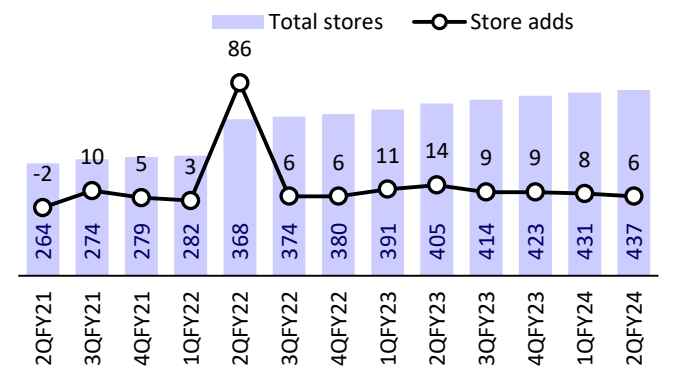
Source: Company, MOFSL

Exhibit 8: LFL growth stood at -6% for 2QFY24



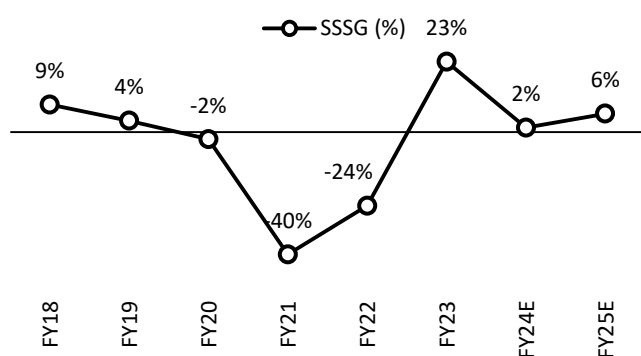
Source: Company, MOFSL

Exhibit 9: Total store count stood at 437



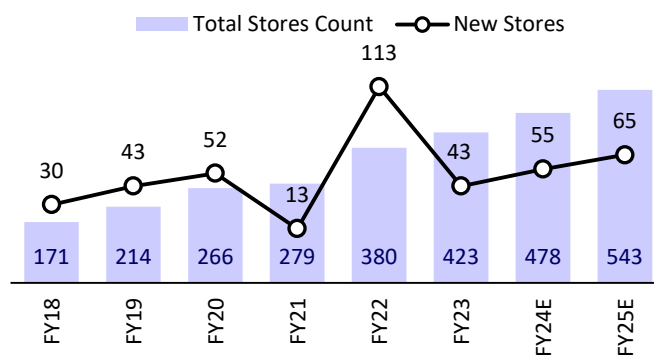
*incl 74 stores for unlimited from 2QFY22 Source: Company, MOFSL

Exhibit 10: SSSG to moderate in FY24E



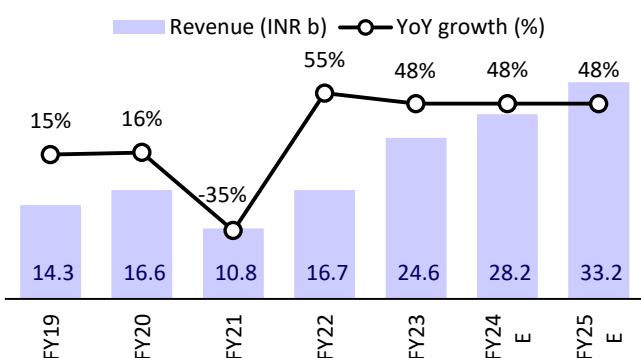
Source: Company, MOFSL

Exhibit 11: Store expansion trend to support revenue



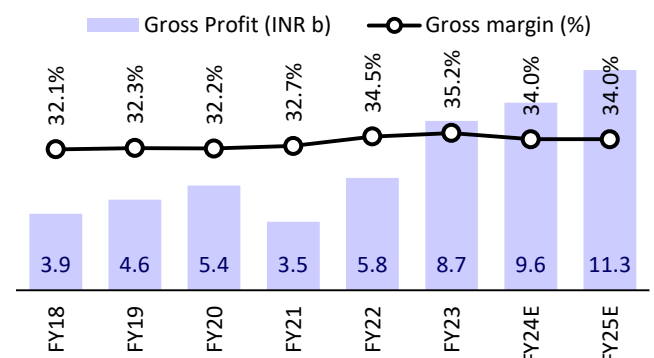
Source: Company, MOFSL

Exhibit 12: Revenue growth and trend



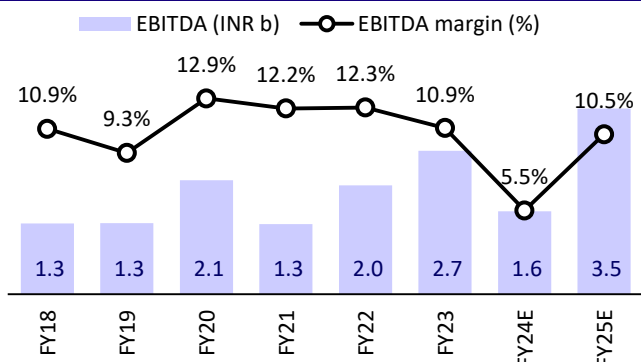
Source: Company, MOFSL

Exhibit 13: Gross margin trend



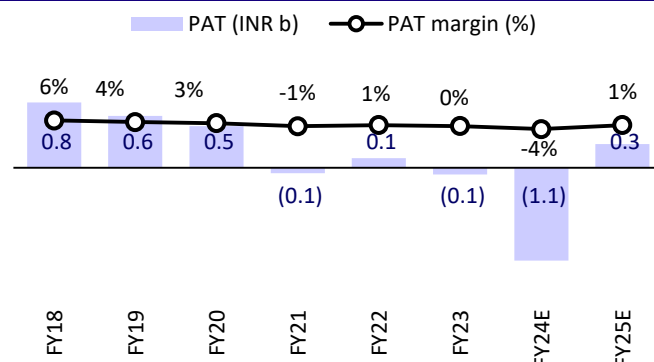
Source: Company, MOFSL

Exhibit 14: EBITDA margin trend



Source: Company, MOFSL

Exhibit 15: Expected PAT trend to improve from FY25



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	14,337	16,620	10,755	16,662	24,648	28,243	33,173	38,894
Change (%)	17.3	15.9	-35.3	54.9	47.9	14.6	17.5	17.2
Raw Materials	9,703	11,263	7,236	10,911	15,971	18,640	21,894	25,670
Employees Cost	1,257	1,536	1,169	1,796	2,555	3,107	3,151	3,539
Other Expenses	996	396	1,038	1,821	3,178	4,688	4,389	4,898
Total Expenditure	13,008	14,483	9,442	14,618	21,959	26,690	29,690	34,363
% of Sales	90.7	87.1	87.8	87.7	89.1	94.5	89.5	88.4
EBITDA	1,329	2,137	1,312	2,043	2,689	1,553	3,483	4,531
Margin (%)	9.3	12.9	12.2	12.3	10.9	5.5	10.5	11.7
Depreciation	276	939	1,030	1,307	1,800	1,937	1,992	2,028
EBIT	1,053	1,198	282	736	889	-384	1,491	2,503
Int. and Finance Charges	16	548	589	772	1,169	1,297	1,326	1,414
Other Income	59	45	210	140	150	170	220	220
PBT Bif. EO Exp.	1,096	695	-97	104	-130	-1,511	385	1,309
EO Items	-98	0	0	0	0	0	0	0
PBT after EO Exp.	998	695	-97	104	-130	-1,511	385	1,309
Total Tax	382	202	-35	-12	-52	-408	104	354
Tax Rate (%)	38.3	29.0	35.8	-12.0	39.7	27.0	27.0	27.0
Minority Interest	0	0	0	0	0	0	0	0
Reported PAT	616	493	-62	116	-78	-1,103	281	956
Adjusted PAT	715	493	-62	116	-78	-1,103	281	956
Change (%)	-8.0	-31.0	-112.6	-287.7	-167.4	1,305.1	-125.5	240.3
Margin (%)	5.0	3.0	-0.6	0.7	-0.3	-3.9	0.8	2.5

Consolidated - Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	181	182	197	197	198	198	198	198
Total Reserves	3,911	4,408	8,055	8,299	8,292	7,190	7,470	8,426
Net Worth	4,093	4,589	8,252	8,496	8,490	7,387	7,668	8,624
Minority Interest	0	0	0	0	0	0	0	0
Total Loans	0	11	0	0	1,478	2,000	2,400	2,400
Deferred Tax Liabilities	-118	-160	-253	-386	-531	-531	-531	-531
Other long term liabilities	111	5,218	5,751	9,131	11,964	11,521	11,156	10,867
Lease Liabilities		5,157	5,678	9,022	11,838	11,448	11,083	10,795
Capital Employed	4,086	9,658	13,750	17,240	21,400	20,378	20,693	21,361
Net Fixed Assets	1,655	6,670	6,965	11,110	14,455	13,637	12,952	12,418
Right to use assets		4,921	5,180	8,283	10,643	9,930	9,241	8,630
Capital WIP	40	25	22	64	1,092	22	22	22
Total Investments	607	79	3,189	1,248	85	85	85	85
Curr. Assets, Loans&Adv.	3,898	5,302	5,836	8,186	11,261	12,749	14,817	17,257
Inventory	3,290	4,779	4,283	6,682	8,706	9,672	11,361	13,320
Account Receivables	0	0	0	0	0	0	0	0
Cash and Bank Balance	166	50	275	351	202	380	289	224
Loans and Advances	443	473	1,278	1,153	2,353	2,697	3,167	3,713
Curr. Liability & Prov.	2,114	2,418	2,261	3,368	5,493	6,116	7,183	8,422
Account Payables	1,483	1,968	1,917	2,906	4,883	5,416	6,362	7,459
Other Current Liabilities	534	451	345	462	610	699	821	963
Provisions	97	0	0	0	0	0	0	0
Net Current Assets	1,784	2,884	3,574	4,818	5,768	6,633	7,634	8,835
Appl. of Funds	4,086	9,657	13,750	17,240	21,400	20,378	20,693	21,360

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	39.5	27.3	-3.4	6.4	-4.3	-60.9	15.5	52.8
Cash EPS	54.8	79.2	53.5	78.7	95.1	46.1	125.6	164.9
BV/Share	226.1	253.6	456.0	469.5	469.1	408.2	423.7	476.5
DPS	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	6.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)								
P/E	42.7	61.8	NM	262.0	NM	NM	108.6	31.9
Cash P/E	30.8	21.3	31.5	21.4	17.7	36.5	13.4	10.2
P/BV	7.5	6.6	3.7	3.6	3.6	4.1	4.0	3.5
EV/Sales	2.1	1.8	3.1	2.0	1.4	1.2	1.1	0.9
EV/EBITDA	22.8	16.7	29.4	20.5	17.3	29.9	13.4	10.2
Dividend Yield (%)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	19.7	17.5	55.2	-81.3	-49.3	31.2	80.3	107.1
Return Ratios (%)								
RoE	18.9	11.4	NM	1.4	NM	NM	3.7	11.7
RoCE	18.1	12.7	2.7	6.2	3.2	-0.7	5.9	9.3
RoIC	21.2	13.3	1.8	6.4	3.0	-1.4	5.4	8.8
Working Capital Ratios								
Fixed Asset Turnover (x)	8.7	2.5	1.5	1.5	1.7	2.1	2.6	3.1
Asset Turnover (x)	3.5	1.7	0.8	1.0	1.2	1.4	1.6	1.8
Inventory (Days)	84	105	145	146	129	125	125	125
Debtor (Days)	0	0	0	0	0	0	0	0
Creditor (Days)	38	43	65	64	72	70	70	70
Leverage Ratio (x)								
Current Ratio	1.8	2.2	2.6	2.4	2.0	2.1	2.1	2.0
Interest Cover Ratio	65.3	2.2	0.5	1.0	0.8	-0.3	1.1	1.8
Net Debt/Equity	-0.2	0.0	-0.4	-0.2	0.1	0.2	0.3	0.2

Consolidated - Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
						(INR m)	(INR m)	
OP/(Loss) Before Tax	993	695	-97	104	-130	-1,511	385	1,309
Depreciation	268	939	1,030	1,307	1,800	1,937	1,992	2,028
Interest & Finance Charges	16	548	589	772	1,169	1,297	1,326	1,414
Direct Taxes Paid	-332	-241	-35	-118	-182	408	-104	-354
(Inc)/Dec in WC	-270	-1,091	182	-1,985	-857	-739	-1,092	-1,267
CF from Operations	674	850	1,669	80	1,800	1,393	2,508	3,131
Others	89	13	-176	-192	8	-170	-220	-220
CF from Operating incl EO	763	863	1,493	-113	1,808	1,223	2,288	2,911
(Inc)/Dec in FA	-407	-546	-406	-1,494	-2,783	-606	-699	-793
Free Cash Flow	357	317	1,087	-1,606	-976	617	1,589	2,118
(Pur)/Sale of Investments	-339	550	-3,092	2,676	1,192	0	0	0
Others	12	2	-690	54	5	170	220	220
CF from Investments	-734	5	-4,188	1,237	-1,586	-436	-479	-573
Issue of Shares	19	13	3,713	76	35	0	0	0
Inc/(Dec) in Debt	-3	8	-11	0	1,478	522	400	0
Interest Paid	-16	-933	-589	-772	-1,164	1,070	0	0
Dividend Paid	-44	-31	0	0	-15	0	0	0
Others	0	0	-244	-349	-708	-2,201	-2,299	-2,404
CF from Fin. Activity	-44	-943	2,869	-1,045	-374	-609	-1,899	-2,404
Inc/Dec of Cash	-14	-75	174	80	-152	178	-91	-65
Opening Balance (excluding bank bal.)	137	123	48	222	302	150	328	237
Closing Balance	123	48	222	302	150	328	237	172
Bank balance	43	1	53	49	52	52	52	52
Closing Balance (including bank balance)	166	50	275	351	202	380	289	224

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NOTES

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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