

V-Mart Retail

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR2,108 TP: INR2,100 Neutral

Bloomberg	VMART IN
Equity Shares (m)	20
M.Cap.(INRb)/(USDb)	41.9 / 0.5
52-Week Range (INR)	2682 / 1591
1, 6, 12 Rel. Per (%)	-4/-20/-43
12M Avg Val (INR M)	88

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	24.6	27.8	31.3
EBITDA	2.7	2.0	3.5
NP	-0.1	-1.0	0.3
EBITDA Margin (%)	10.9	7.2	11.2
Adj. EPS (INR)	-4.3	-55.8	16.2
EPS Gr. (%)	NM	NM	LP
BV/Sh. (INR)	469.1	413.3	429.5

Ratios

Net D:E	1.5	1.6	1.4
RoE (%)	NM	NM	3.8
RoCE (%)	3.2	0.1	6.2
Payout (%)	0.0	0.0	0.0

Valuations

P/E (x)	NM	NM	130.1
EV/EBITDA (x)	20.4	26.8	15.2
EV/Sales (x)	1.7	1.5	1.4
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	-1.8	2.7	4.2

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	44.3	44.3	45.8
DII	34.0	32.6	32.7
FII	14.3	14.3	11.2
Others	7.4	9.9	10.4

FII Includes depository receipts

Optimizes costs, improves metrics

- V-Mart Retail (VMART)'s EBITDA/PAT grew 15.4%/41.3% YoY (beat) led by revenue growth of 14.4%, mainly supported by store additions and a recovery in SSSG of 4%/5%/1% for Blended/V-Mart/Unlimited and narrowing losses in the Limeroad segment.
- Strong cost control through cutting down losses in Limeroad and the closure of non-performing stores, along with improved SSSG, as indicated in **our recent report**, seemed to have played out in the company's favor. We expect a CAGR of 13%/14% in revenue/EBITDA over FY23-25. A demand recovery in the value fashion category could be a key growth driver for VMART. We maintain our Neutral rating with a TP of INR2,100.

EBITDA up 15% YoY (beat), led by revenue growth and cost-control measures

- Consolidated revenue grew 14.4% YoY to INR8.9b (in line), mainly driven by footprint expansions.
- Overall SSSG stood at 4% YoY in 3QFY24.
- SSSG for V-Mart (core) and Unlimited stood at 5% and 1%, respectively.
- The quarter included revenue from Limeroad to the tune of ~INR170m (-22% QoQ). After adjusting Limeroad revenue, total revenue for VMart (including Unlimited stores) was up ~12% on a YoY basis.
- Considering 87 stores for Unlimited with revenue throughput of ~INR1,700/sqft (1% SSSG), revenue for Unlimited stood at ~INR1.4b (Calculated), up 7% YoY.
- Gross profit grew 14.7% YoY to INR3.2b, in line with revenue growth, as margins inched up 10bp YoY.
- Employee costs grew by merely 1% YoY (11% lower than est.), while other expenses increased by 24.9% YoY (8% lower than est.), possibly due to a reduction in losses in Limeroad.
- Resultantly, EBITDA grew 15.4% YoY to INR1.2b (beat) and margin expanded ~20bp to 13.5%. Operating loss for Limeroad narrowed by 29% QoQ to INR141m.
- Other income grew significantly during the quarter to INR130m, which included INR82.2m related to the reversal of lease liabilities as the company decided to close certain stores. Depreciation grew 23.3% YoY, which included accelerated depreciation to the tune of INR39.6m, allocated toward accelerated depreciation on leasehold improvements.
- 3QFY24 PAT grew by 41.3% YoY to INR282m (beat), driven by healthy operating profitability and higher other income. Factoring in the one-time adjustment related to other income and depreciation, PAT grew 20% to INR240m.

Highlights from the management commentary

- Tier 3 cities sales/sq. ft. saw 3% growth YoY in 3QFY24, which is encouraging given the higher presence of company stores.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- In 9MFY24, VMART added net 30 stores. In 4QFY24, the company plans to add 10 stores and close ~20 stores, implying net store addition of 20 in FY24. In FY25, it targets to add gross 50 stores, and 30-40 net stores after adjusting for potential store closures.
- Operating losses in Limeroad will continue to see 25-30% reduction on QoQ basis, with an aim of achieving breakeven by end of FY25.
- In 3QFY24, ASP declined 6% YoY, affected by its value-driven pricing strategy and a slower start to winter.

Valuation and view

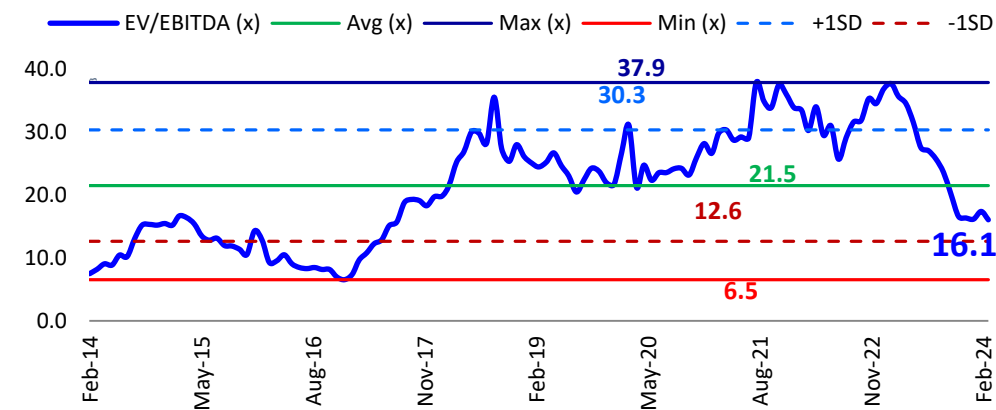
- The improved performance of V-Mart stores amid healthy festive demand, the company's decision to close non-performing stores, and narrowing losses in the online segment address near-term profitability concerns as indicated earlier in [our report](#).
- The huge growth opportunity in the value fashion segment, new store additions, and VMART's strong execution capability should help the company garner sustainable double-digit revenue growth for a prolonged period. Low price points, cost leadership, strong liquidity, and prudent inventory management give VMART an edge over its competitors.
- The stock has seen a healthy recovery from recent lows. A demand recovery and improved profitability in Limeroad remain key catalysts for the stock going ahead.
- We have cut our revenue estimates to account for store closures, which, however, should improve the profitability. We factor in a CAGR of 13%/14% in revenue/EBITDA over FY23-25. We maintain our Neutral rating with a TP of INR2,100, premised on 12x EV/EBITDA on Mar'26E.

Consolidated - Quarterly Earning Model

(INR m)

Y/E March	FY23				FY24E				FY23	FY24E	FY24	Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		3QE	Var (%)	
Revenue	5,879	5,062	7,769	5,939	6,785	5,494	8,891	6,677	24,648	27,847	8,856	0
YoY Change (%)	231.4	49.8	12.3	29.5	15.4	8.5	14.4	12.4	47.9	13.0	14.0	
Total Expenditure	4,992	4,526	6,732	5,710	6,261	5,488	7,694	6,401	21,959	25,842	7,904	-3
EBITDA	887	536	1,037	229	525	7	1,197	277	2,689	2,005	952	26
EBITDA Margin (%)	15.1	10.6	13.3	3.9	7.7	0.1	13.5	4.1	10.9	7.2	10.8	
Depreciation	402	441	473	484	499	532	583	531	1,800	2,145	532	10
Interest	247	279	307	336	330	359	376	360	1,169	1,425	359	5
Other Income	41	27	7	75	15	20	130	15	150	180	20	555
PBT	278	-157	264	-516	-290	-864	369	-600	-130	-1,385	81	354
Tax	74	-44	64	-146	-70	-223	87	-167	-52	-374	22	
Rate (%)	26.5	27.9	24.4	28.3	24.2	25.8	23.5	27.9	39.7	27.0	27.0	
Reported PAT	205	-113	200	-370	-219	-641	282	-432	-78	-1,011	59	376
Adj PAT	205	-113	200	-370	-219	-641	282	-432	-78	-1,011	59	376
YoY Change (%)	-171.2	-20.0	-65.0	1,314.5	-207.3	466.8	41.3	17.0	-167.4	1,187.8	-70.3	

E: MOFSL Estimates

Exhibit 1: Valuation chart – EV/EBITDA

Source: MOFSL, Company

Exhibit 2: Valuation based on FY26E EBITDA

	Methodology	Driver (INR m)	Multiple	Fair Value (INRm)	Value/sh (INR)
EBITDA	FY26 EV/EBITDA	4,536	12	54,560	2,759
Less Net debt				13,030	659
Total Value				41,530	2,100
Shares o/s (m)				19.8	
CMP (INR)					2,108
Upside (%)					0

Source: MOFSL, Company

Other Highlights

- The company opened 20 new stores (16 under V-Mart and 4 under Unlimited) and closed 3 stores during the quarter, taking the total store count to 454.
- The quarter saw a delayed onset of winter as temperatures remained high compared to last year.



Concall highlights

Key highlights

- In Tier 3 cities, sales/sq. ft. grew 3% YoY in 3QFY24, which is encouraging given the higher presence of company stores.
- In 9MFY24, the company added net 30 stores. In 4Q, it plans to add 10 stores and close ~20 stores, implying net store addition of 20 in FY24. In FY25, VMART targets to add gross 50 stores, and 30-40 net stores after adjusting for potential store closures.
- Operating losses in Limeroad will continue to see a 25-30% reduction on QoQ basis, with an aim of achieving a break-even by the end of FY25.
- In 3Q, ASP declined 6% YoY, mainly impacted by the company's value-driven pricing strategy and a slower start to winter.

Highlights in detail

Demand scenario:

- Seeing good traction in the winter season (which saw shift by 20 days) currently in North India, which is resulting in improvement in demand on sequential basis.

- While the company continues to see some stress, particularly in food and staples due to inflation, various government schemes (PLI, MSP improvement, free rationing) should boost revenue, which will in turn improve consumption.
- VMART has stated that the premium segment is seeing some stress (moderation in growth on LFL basis), while the value segment is seeing some traction with the introduction of new brands.
- The company is now seeing some competition with the introduction and expansion by various players (Reliance, Shoppers Stop); the company may do some margin re-jig to improve its competitive positioning.
- Tier 1 markets continue to outperform Tier 2 and below markets. However, Tier 3 cities saw 3% growth YoY in sales/sq. ft. in 3QFY24, which is encouraging given the higher presence of company stores in these segments.

Financial performance:

- The Unlimited segment saw soft growth mainly due to price cuts, which did not reflect in volume growth. The company is now seeing a gradual improvement in demand in the segment.
- ASP declined 6% YoY, mainly impacted by the company's value-driven pricing strategy and a slower start to winter.
- Operating losses in Limeroad will continue to see a 25-30% reduction on QoQ basis, with an aim of reaching a break-even. Digital marketing costs declined and the company will look to rationalize these expenses.
- Gross margin declined in the Unlimited segment, due to higher provisioning of old inventory.

Store expansion and working capital:

- The company opened 20 new stores (16 VMart and 4 Unlimited) and closed 3 non-performing stores (2 VMart and 1 Unlimited); VMART maintains its annual store addition target of 50 stores going forward.
- In 9MFY24, the company added net 30 stores; In 4Q, the company plans to add 10 stores and close ~20 stores, which will bring the net store addition to 20 in FY24.
- Store closure:
 - In addition to 3 store closures, the company plans to close ~20 stores in 4QFY24, of which majority of them would be VMart stores (75%). It expects the bulk of clean-up to be completed in FY24.
 - VMART will look to shift or close around 50 stores, which are lagging behind in the performance. 23 stores have already been identified for closure/shift in 4QFY24; Will look to take decision on remaining stores in 1QFY25.
 - Bulk of stores that are expected to be closed (~7-8 stores) are in Tier 3 cities, which were opened in the last 2-3 years and where the footfalls were not up to the mark.
- Spent INR1b on warehouse and renovation of new stores.
- Higher inventory as on the closing basis was mainly impacted by delayed winter sales.

Other Highlights:

- While ~62% of sales for V-Mart came from repeat buyers, the share of new customers (nos.) improved to 48%.
- Focusing on product designs and sourcing, along with supply chain and warehouse management. Warehouse operations have become normal now, which will help the company improve the supply chain in Jan'24, which remained impacted in Dec'23.
- The company is closely working on product differentiation/innovation, along with quality to gain the competitive edge.
- The company, through Limeroad, will focus on improving profitability by reducing expenses and will look to turn profitable. It is further working on omni-channel offerings, which will be announced in 4QFY24.

Exhibit 3: Quarterly performance

	3QFY23	2QFY24	3QFY24	YoY%	QoQ%	3QFY24E	v/s est (%)
Revenue	7,769	5,494	8,891	14.4	61.8	8,856	0.4
Raw Material cost	5,017	3,593	5,734	14.3	59.6	5,757	-0.4
Gross Profit	2,751	1,902	3,157	14.7	66.0	3,100	1.8
Gross Margin (%)	35.4	34.6	35.5	9bps	90bps	35.0	51bps
Employee Costs	763	713	772	1.1	8.3	864	-10.7
Other Expenses	952	1,182	1,189	24.9	0.5	1,284	-7.5
EBITDA	1,037	7	1,197	15.4	17764.2	952	25.7
EBITDA margin (%)	13.3	0.1	13.5	12bps	NM	10.8	271bps
Depreciation and amortization	473	532	583	23.3	9.6	532	9.6
EBIT	564	-525	614	8.8	NM	420	46.1
EBIT margin (%)	7.3	-9.6	6.9	-35bps	NM	4.7	216bps
Finance Costs	307	359	376	22.3	4.6	359	4.6
Other income	7	20	130	1772.1	554.8	20	554.8
Exceptional item	0	0	0	0.0	0.0	0	NM
Profit before Tax	264	-864	369	39.6	-142.7	81	354.3
Tax	64	-223	87	34.3	-138.8	22	294.5
Tax rate (%)	24.4	25.8	23.5	-93bps	-235bps	27.0	-356bps
Profit after Tax	200	-641	282	41.3	-144.0	59	376.5

Source: MOFSL, Company

Exhibit 4: Summary of our estimate changes

Particulars	FY24E	FY25E
Revenue (INR m)		
Old	28,243	33,173
Actual/New	27,847	31,275
Change (%)	-1.4	-5.7
EBITDA (INR m)		
Old	1,553	3,483
Actual/New	2,005	3,487
Change (%)	29.1	0.1
EBITDA margin (%)		
Old	5.5	10.5
Actual/New	7.2	11.2
Change (bp)	170	65
Net Profit (INR m)		
Old	-1,103	281
Actual/New	-1,011	293
Change (%)	-8.3	4.4
EPS (INR)		
Old	-61	16
Actual/New	-56	16
Change (%)	-8.3	4.4

Source: MOFSL, Company

Story in charts

Exhibit 5: Reported revenue growth of 14.4% YoY

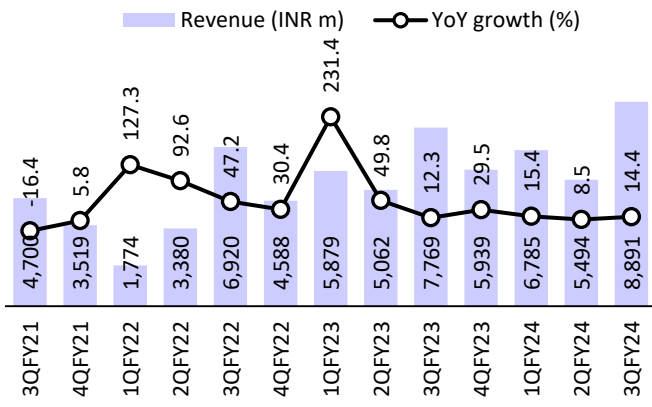


Exhibit 6: Gross margin improved marginally YoY

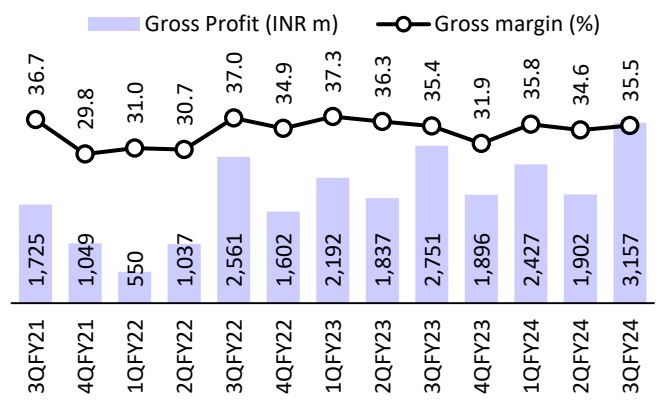


Exhibit 7: Cost control and revenue growth aid EBITDA

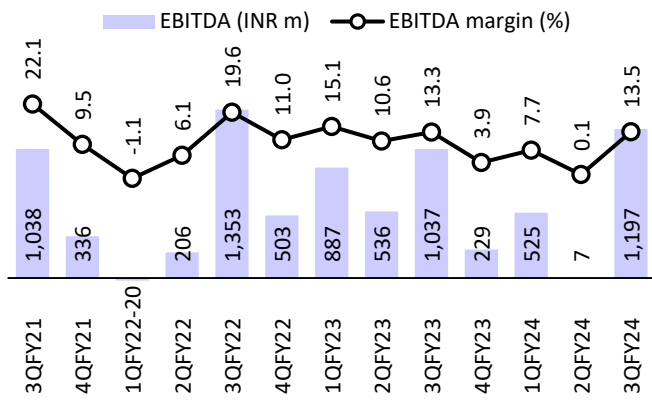
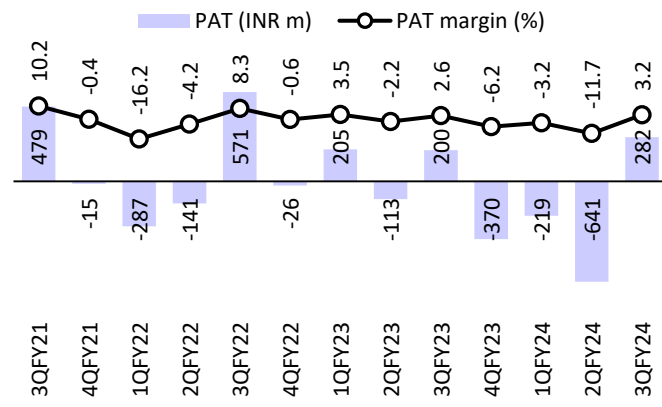
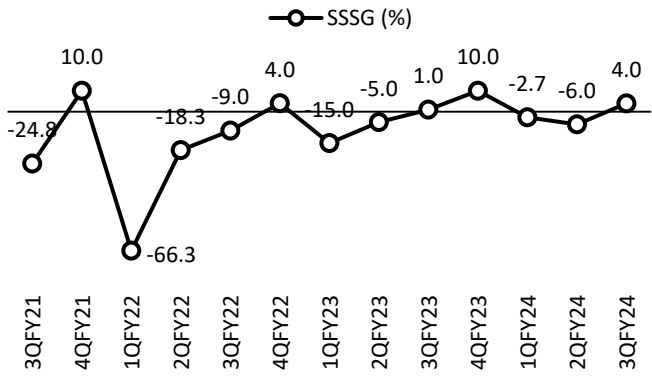


Exhibit 8: VMART turned PAT positive



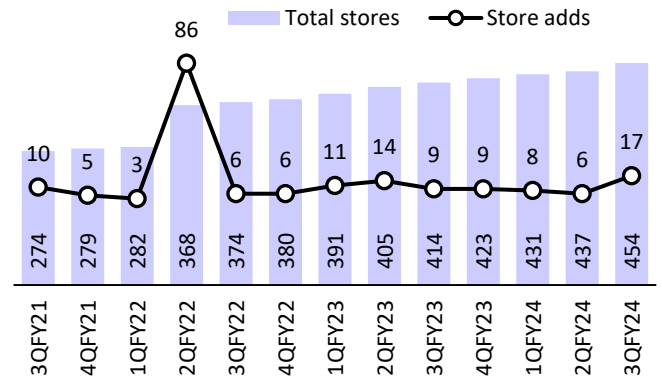
Source: Company, MOFSL

Exhibit 9: SSSG improved to 4% for 3QFY24



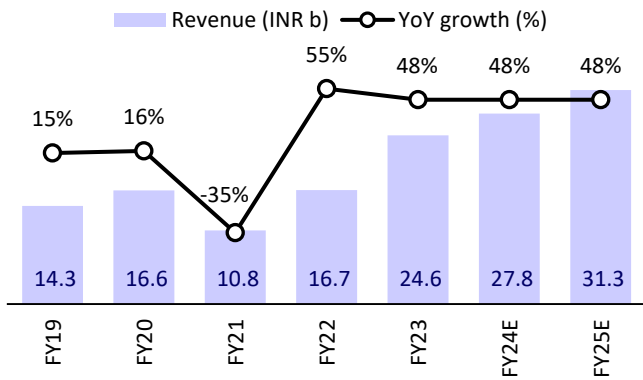
Source: Company, MOFSL

Exhibit 10: Total store count stood at 454



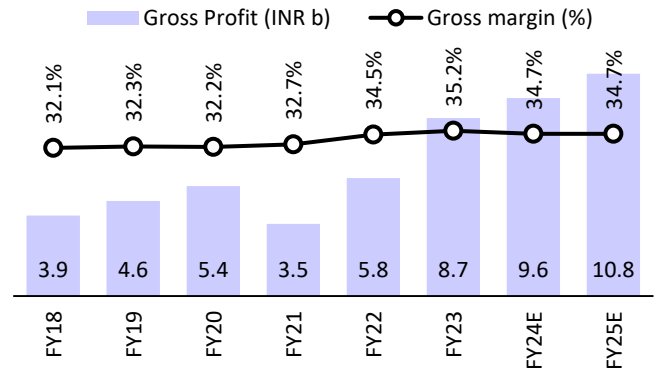
*incl 74 stores for unlimited from 2QFY22 Source: Company, MOFSL

Exhibit 11: Revenue growth and trend



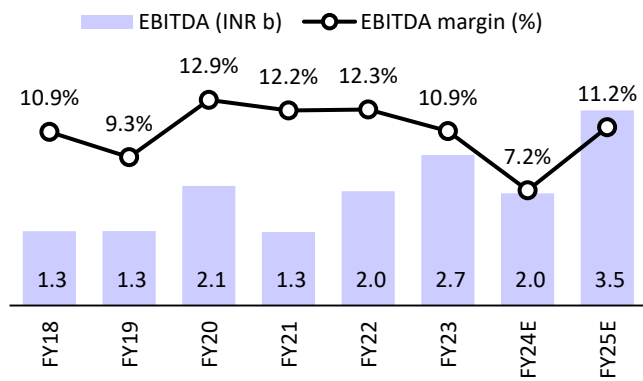
Source: Company, MOFSL

Exhibit 12: Gross margin trend



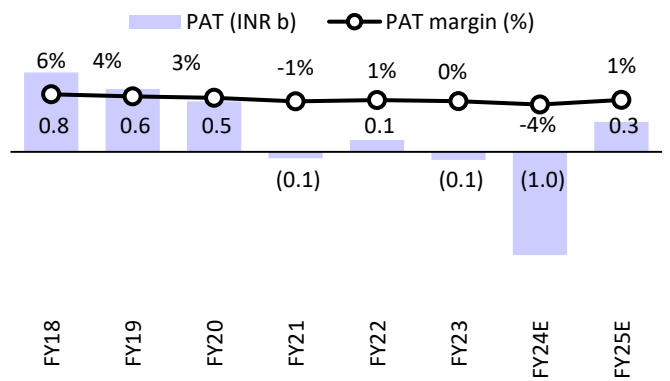
Source: Company, MOFSL

Exhibit 13: EBITDA margin trend



Source: Company, MOFSL

Exhibit 14: 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	27,847	31,275	36,882
Change (%)	17.3	15.9	-35.3	54.9	47.9	13.0	12.3	17.9
Raw Materials	9,703	11,263	7,236	10,911	15,971	18,198	20,438	24,102
Employees Cost	1,257	1,536	1,169	1,796	2,555	2,952	2,971	3,356
Other Expenses	996	396	1,038	1,821	3,178	4,437	4,123	4,632
Total Expenditure	13,008	14,483	9,442	14,618	21,959	25,842	27,788	32,345
% of Sales	90.7	87.1	87.8	87.7	89.1	92.8	88.9	87.7
EBITDA	1,329	2,137	1,312	2,043	2,689	2,005	3,487	4,536
Margin (%)	9.3	12.9	12.2	12.3	10.9	7.2	11.2	12.3
Depreciation	276	939	1,030	1,307	1,800	2,145	1,969	2,013
EBIT	1,053	1,198	282	736	889	-140	1,518	2,523
Int. and Finance Charges	16	548	589	772	1,169	1,425	1,336	1,315
Other Income	59	45	210	140	150	180	220	220
PBT Bif. EO Exp.	1,096	695	-97	104	-130	-1,385	402	1,429
EO Items	-98	0	0	0	0	0	0	0
PBT after EO Exp.	998	695	-97	104	-130	-1,385	402	1,429
Total Tax	382	202	-35	-12	-52	-374	109	386
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	-1,011	293	1,043
Adjusted PAT	715	493	-62	116	-78	-1,011	293	1,043
Change (%)	-8.0	-31.0	-112.6	-287.7	-167.4	1,187.8	-129.0	255.5
Margin (%)	5.0	3.0	-0.6	0.7	-0.3	-3.6	0.9	2.8

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	7,282	7,575	8,618
Net Worth	4,093	4,589	8,252	8,496	8,490	7,479	7,773	8,815
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	11,067	10,512	10,373
Lease Liabilities		5,157	5,678	9,022	11,838	10,995	10,439	10,301
Capital Employed	4,086	9,658	13,750	17,240	21,400	20,016	20,154	21,058
Net Fixed Assets	1,655	6,670	6,965	11,110	14,455	12,775	11,552	11,032
Right to use assets		4,921	5,180	8,283	10,643	9,476	8,597	8,136
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	13,163	15,267	17,905
Inventory	3,290	4,779	4,283	6,682	8,706	9,537	10,711	12,631
Account Receivables	0	0	0	0	0	0	0	0
Cash and Bank Balance	166	50	275	351	202	968	1,570	1,753
Loans and Advances	443	473	1,278	1,153	2,353	2,659	2,986	3,521
Curr. Liability & Prov.	2,114	2,418	2,261	3,368	5,493	6,030	6,772	7,986
Account Payables	1,483	1,968	1,917	2,906	4,883	5,341	5,998	7,073
Other Current Liabilities	534	451	345	462	610	689	774	913
Provisions	97	0	0	0	0	0	0	0
Net Current Assets	1,784	2,884	3,574	4,818	5,768	7,134	8,495	9,919
Appl. of Funds	4,086	9,657	13,750	17,240	21,400	20,016	20,154	21,058

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	-55.8	16.2	57.6
Cash EPS	54.8	79.2	53.5	78.7	95.1	62.7	125.0	168.9
BV/Share	226.1	253.6	456.0	469.5	469.1	413.3	429.5	487.1
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	53.4	77.3	NM	327.7	NM	NM	130.1	36.6
Cash P/E	38.5	26.6	39.4	26.8	22.2	33.6	16.9	12.5
P/BV	9.3	8.3	4.6	4.5	4.5	5.1	4.9	4.3
EV/Sales	2.6	2.3	3.8	2.5	1.7	1.5	1.4	1.1
EV/EBITDA	28.6	20.3	35.8	24.6	20.4	26.8	15.2	11.6
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	73.3	111.3	107.0
Return Ratios (%)								
RoE	18.9	11.4	NM	1.4	NM	NM	3.8	12.6
RoCE	18.1	12.7	2.7	6.2	3.2	0.1	6.2	9.5
RoIC	21.2	13.3	1.8	6.4	3.0	-0.5	5.9	9.8
Working Capital Ratios								
Fixed Asset Turnover (x)	8.7	2.5	1.5	1.5	1.7	2.2	2.7	3.3
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	2.2	2.3	2.2
Interest Cover Ratio	65.3	2.2	0.5	1.0	0.8	-0.1	1.1	1.9
Net Debt/Equity	-0.2	0.0	-0.4	-0.2	0.1	0.1	0.1	0.1

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) Before Tax	993	695	-97	104	-130	-1,385	402	1,429
Depreciation	268	939	1,030	1,307	1,800	2,145	1,969	2,013
Interest & Finance Charges	16	548	589	772	1,169	1,425	1,336	1,315
Direct Taxes Paid	-332	-241	-35	-118	-182	374	-109	-386
(Inc)/Dec in WC	-270	-1,091	182	-1,985	-857	-651	-759	-1,241
CF from Operations	674	850	1,669	80	1,800	1,908	2,840	3,129
Others	89	13	-176	-192	8	-180	-220	-220
CF from Operating incl EO	763	863	1,493	-113	1,808	1,728	2,620	2,909
(Inc)/Dec in FA	-407	-546	-406	-1,494	-2,783	-278	-419	-793
Free Cash Flow	357	317	1,087	-1,606	-976	1,449	2,201	2,117
(Pur)/Sale of Investments	-339	550	-3,092	2,676	1,192	0	0	0
Others	12	2	-690	54	5	180	220	220
CF from Investments	-734	5	-4,188	1,237	-1,586	-98	-199	-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	-2,456	-2,219	-2,154
CF from Fin. Activity	-44	-943	2,869	-1,045	-374	-863	-1,819	-2,154
Inc/Dec of Cash	-14	-75	174	80	-152	766	602	183
Opening Balance (excluding bank bal.)	137	123	48	222	302	150	916	1,518
Closing Balance	123	48	222	302	150	916	1,518	1,701
Bank balance	43	1	53	49	52	52	52	52
Closing Balance (including bank balance)	166	50	275	351	202	968	1,570	1,753

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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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