

Sharp price hike subdues demand; hopes pinned on festive recovery...

About the stock: V-Mart, having over the years built its fortress in non-tier I cities, is well poised to capture market share in the growing ~₹ 2.5 trillion value fashion industry. The company enjoys strong moats that would provide it an edge over increasing competition in tier III-IV regions.

- V-Mart follows a cluster based approach of adding stores within a radius of 50-100 km. This gives it better economies of scales, supply chain efficiencies and better understanding of fashion needs of the specific region

Q1FY23 Results: V-Mart's results were a mixed bag wherein revenue was below our estimates while profitability was better than anticipated owing to higher GMs.

- On a favourable base, revenue grew 231% YoY to ₹ 587.9. Newly acquired Unlimited stores contributed 20% to sales. Excluding Unlimited, revenue recovery rate was at 104% of pre-Covid levels
- Gross margins improved 630 bps YoY to 37.3% owing to increased revenue share of Unlimited and higher than required price hikes taken (~17-18%) to offset RM inflation. EBITDA margins were at 15.1% (up 410 bps QoQ)
- Higher depreciation, interest expense owing to integration of Unlimited business led V-Mart to report PAT of ₹ 20.4 crore (three-year CAGR: 5%)

What should investors do? V-Mart has been a consistent compounder with the stock appreciating at 25% CAGR in last five years. However, it has been under pressure in last six months (down 20%) as higher inflation is pinching consumer spending, especially for people salaried < ₹ 25000 (its main target consumer). Also, heightened competition from large retailers in Tier III/IV cities is exerting pressure. We believe healthy b/s, proven ability to operate low cost profitable business in non-tier I cities would provide it an edge over peers and weather near term challenges.

- We maintain **BUY** recommendation on the stock with a revised target price

Target Price and Valuation: We value V-Mart at ₹ 3465 i.e. 16x FY24E EV/EBITDA.

Key triggers for future price performance:

- We like V-Mart as a structural long term story to play the unorganised to modern retail shift. We pencil in revenue, EBITDA CAGR of 35%, 44%, respectively, in FY22-24E (on favourable base)
- Recent acquisition of *Unlimited* store brand (74 stores) will enable V-Mart to cater to the fashion needs in western and southern markets of India (where V-Mart has minimal presence)
- We expect total retail space to increase at ~15% CAGR in FY22-24E with total area of 4.3 million square feet by FY24E

Alternate Stock Idea: Apart from V-Mart, in our retail coverage we also like Trent.

- Inherent strength of brands (Westside, Zudio, Zara) and proven business model position Trent as a key beneficiary of economy unlock theme
- BUY with target price of ₹ 1470/share



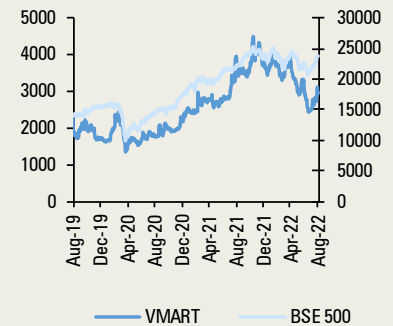
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	5,826.3
Total Debt (FY22) (₹ crore)	-
Cash & Investment (FY22) (₹ crore)	161.8
EV (₹ crore)	5,664.5
52 Week H / L	4620 / 2406
Equity Capital (₹ crore)	19.7
Face Value (₹)	10.0

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	46.7	46.4	46.4	46.2	46.1
FII	23.4	22.1	21.1	20.2	18.2
DII	20.9	21.7	22.0	23.2	25.6
Others	9.1	9.8	10.5	10.3	10.1

Price Chart



Key risks

Key Risk: (i) Slow ramp up of store network (ii) Sustained RM inflation may hamper demand

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Key Financial Summary

Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-FY22)	FY23E	FY24E	2 year CAGR (FY22-FY24E)
Net Sales	1,433.7	1,662.0	1,075.5	1,666.2	11.0%	2,529.7	3,043.4	35.2%
EBITDA	132.9	213.7	131.2	204.3		334.3	421.5	43.6%
PAT	61.6	49.3	-6.2	11.6		68.2	115.4	
P/E (x)	86.9	108.6	NA	501.0		85.4	50.5	
EV/Sales (x)	3.7	3.2	5.0	3.4		2.3	1.9	
EV/EBITDA (x)	39.6	25.0	41.1	27.7		17.1	13.6	
RoCE (%)	27.2	27.0	6.0	10.3		20.1	24.5	
RoE (%)	15.0	10.7	-0.8	1.4		7.5	11.3	

Key takeaways of recent quarter & conference call highlights

- As anticipated, revenue recovery for V-Mart is sluggish compared to other apparel players as higher RM costs and subsequent price hikes (17-20%) have materially impacted demand since the target audience is price sensitive (apparel ASP: < ₹ 400). The management indicated it had overpriced certain inventory in anticipation of volatile yarn prices and also GST rate hike on apparels from 5% to 12% (decision was reversed later on). Also, inflationary demand scenario has had a higher impact in Tier II-IV cities (V-Mart has ~60% stores in Tier III-IV regions) compared to Tier I cities. Erratic monsoons have led to lower planting of primary staples in V-Mart's key states such as UP and Bihar
- On a favourable base, revenue for the quarter grew 231% YoY to ₹ 587.8 crore (I-direct estimate: ₹ 622.4 crore). Revenues also includes contribution from Unlimited format (~20% of sales, ₹ 113 crore), which was integrated in Q3FY22. Excluding the Unlimited format, revenue recovery was at ~104% of pre-Covid levels. ASPs for apparel grew 25% YoY to ₹ 370, whereas at the company level it increased 20% to ₹ 233. Volumes de-grew ~20% over pre-Covid levels as consumers were unable to get accustomed to the sharp price hikes. Also, on a like to like basis, footfalls were down ~20% over pre-Covid levels
- The company recorded one of its highest gross margins of 37.3% (up 630 bps YoY). Lower discounting, higher revenue contribution of Unlimited format (that yields 400-500 bps higher GMs) and sharp price hikes resulted in inflated gross margins. The company is on course to correct certain article prices by ~5-7% before the festive season to perk up volumes. Hence, the management expects gross margins in the range of 32-34%, which is sustainable, going forward. On the opex front, employee and other expenses increased 65% and 220% YoY, respectively, mainly on account of higher marketing spends and integration of Unlimited business format. On a three year CAGR basis, absolute EBITDA grew 15% to ₹ 88.7 crore
- Newly acquired Unlimited stores in the southern region are witnessing healthy traction with consistent improvement in profitability. Also, since majority of the stores are located in Tier I and in malls, the performance has been relatively better than V-Mart during the quarter. The company is gradually changing the product portfolio of *Unlimited* stores and is introducing V-Mart products in these stores. The ASPs for south zone grew ~11% YoY. The new stores added in southern region (approximately six new Unlimited stores) have yielded healthy revenue/sq ft of ₹ 700/month which is 20-30% higher than the legacy stores. Also store operating metrics such as rental/sq ft is similar to V-Mart stores (₹ 35/month vs. ₹ 75/month for Unlimited legacy stores)
- Store addition was healthy during the quarter as the company added 11 new stores (four Unlimited stores) taking the total store count to 391 (3.4 million square feet). The company is on track to add 60+ stores in FY23
- For FY23E, the company plans to spend ₹ 70-80 crore on warehouse, ₹ 60 crore for addition of 60 new stores, ₹ 10-15 crore on refurbishment of existing stores and around ₹ 5 crore in improving digital capabilities

Exhibit 1: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	587.9	622.4	177.4	231.4	458.8	28.1	Standalone revenue (excluding Unlimited) stood at 104% of pre-covid levels. Revenue from Unlimited format contributed ~20% of overall topline
Raw Material Expense	368.6	433.5	122.4	201.2	298.5	23.5	
Gross Profit	219.2	188.9	55.0	298.6	160.2	36.8	
Gross Profit Margin	37.3	30.4	31.0	629 bps	34.9	237 bps	Sharp Increase in ASP's and higher contribution of Unlimited format led to higher gross margins
Employee exp	55.2	56.2	33.4	65.2	51.1	8.1	
Other Exp	75.3	68.1	23.5	220.0	58.9	28.0	Other expenses are higher owing to sales reverting to back to pre-covid levels and integration of Unlimited format
EBITDA	88.7	64.7	-2.0	LP	50.3	76.3	
EBITDA Margin (%)	15.1	10.4	-1.1	-1,458.9	11.0	1350 bps	
Depreciation	40.2	38.4	25.5	58.0	37.6	7.0	
Other Income	4.1	2.8	4.5	-9.3	2.8	46.6	
Interest	24.7	24.0	15.6	58.6	23.5	5.1	
Exceptional Income	-	-	-	-	-	-	
PBT	27.8	5.1	-38.5	LP	-8.0	LP	
Tax Outgo	7.4	1.3	-9.8	-175.3	-5.4		
PAT	20.5	3.9	-28.7	LP	-2.6	LP	

Source: Company, ICICI Direct Research

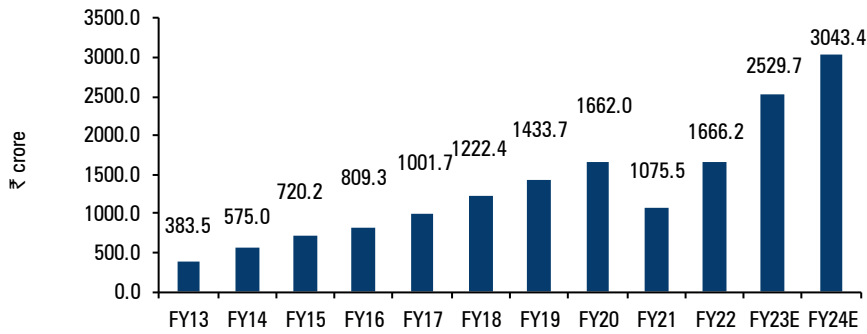
Exhibit 2: Change in estimates

(₹ Crore)	FY 23E			FY 24E		
	Old	New	% Change	Old	New	% Change
Revenue	2,526.0	2,529.7	0.1	3,052.6	3,043.4	-0.3
EBITDA	325.5	334.3	2.7	421.6	421.5	0.0
EBITDA Margin (%)	12.9	13.2	33 bps	13.8	13.8	4 bps
PAT	67.9	68.2	0.4	117.2	115.4	-1.5
EPS (₹)	34.4	34.5	0.4	59.4	58.4	-1.6

Source: Company, ICICI Direct Research

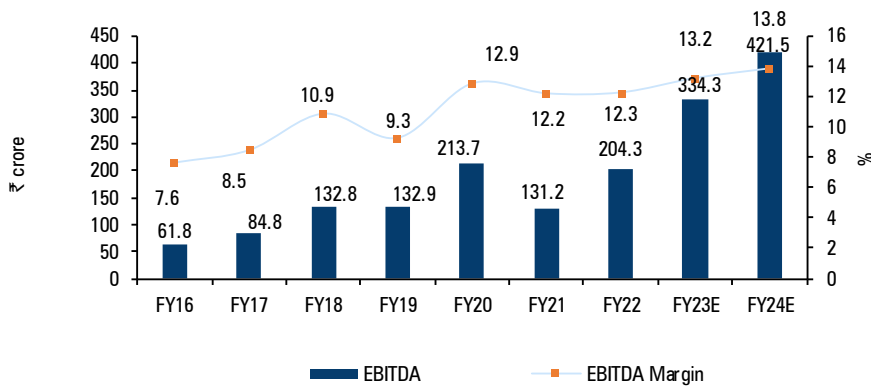
Financial story in charts

Exhibit 3: Revenue trend



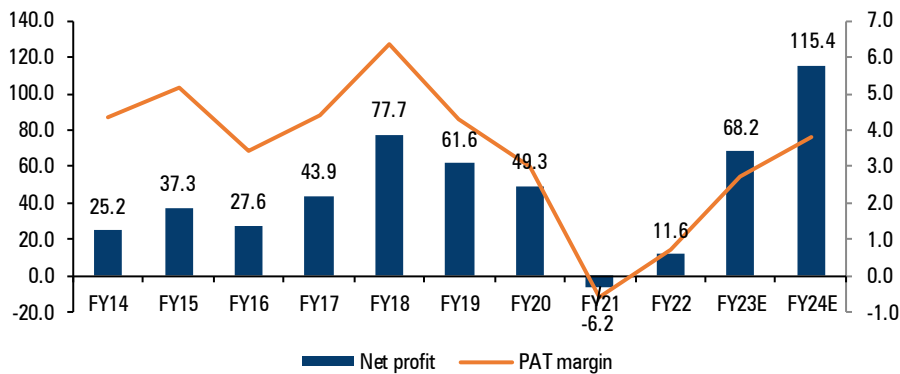
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margin trend (post Ind-AS 116)



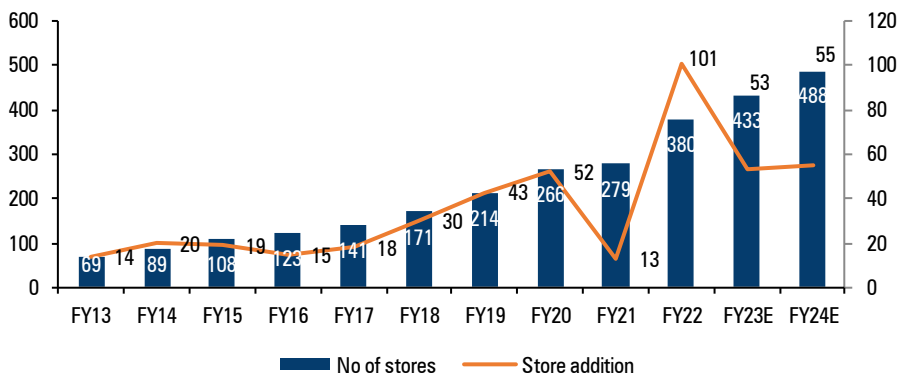
Source: Company, ICICI Direct Research

Exhibit 5: Net profit trend



Source: Company, ICICI Direct Research

Exhibit 6: Total stores and store addition pace



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Net Sales	1,075.5	1,666.2	2,529.7	3,043.4
Growth (%)	(35.3)	54.9	51.8	20.3
Total Raw Material Cost	723.6	1,091.1	1,631.7	1,978.2
Gross Margins (%)	32.7	34.5	35.5	35.0
Employee Expenses	116.9	179.6	253.0	295.2
Other Expenses	103.8	191.1	310.8	348.5
Total Operating Expenditure	944.2	1,461.9	2,195.4	2,621.9
EBITDA	131.2	204.3	334.3	421.5
EBITDA Margin	12.2	12.3	13.2	13.8
Interest	59.0	77.2	92.2	95.8
Depreciation	103.0	130.7	166.9	187.4
Other Income	21.0	14.0	16.0	16.0
Exceptional Expense	-	-	-	-
PBT	(9.7)	10.4	91.2	154.3
Total Tax	(3.5)	(1.2)	23.0	38.9
Profit After Tax	(6.2)	11.6	68.2	115.4

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/(Loss) after taxation	-6.2	11.6	68.2	115.4
Add: Depreciation	103.0	130.7	166.9	187.4
Net Increase in Current Assets	29.6	-309.5	-60.8	-146.8
Net Increase in Current Liabilities	-18.2	111.1	21.4	63.4
CF from operating activities	108.2	-56.0	195.7	219.4
(Inc)/dec in Investments	-381.6	262.7	74.5	10.4
(Inc)/dec in Fixed Assets	-39.9	-152.2	-145.5	-122.1
Others	0.0	-24.9	0.0	0.0
CF from investing activities	-421.5	85.7	-70.9	-111.6
Inc / (Dec) in Equity Capital	1.5	0.1	0.0	0.0
Inc / (Dec) in Loan	-1.1	0.0	0.0	0.0
Others	334.5	-22.1	-112.4	-124.0
CF from financing activities	334.9	-22.1	-112.4	-124.0
Net Cash flow	21.7	7.6	12.3	-16.3
Opening Cash	5.8	27.5	35.1	47.4
Closing Cash	27.5	35.0	47.4	31.1

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	19.7	19.8	19.8	19.8
Reserve and Surplus	805.5	829.9	893.3	1,000.6
Total Shareholders funds	825.2	849.6	913.0	1,020.4
Total Debt	-	-	-	-
Non Current Liabilities	587.3	924.7	924.7	924.7
Source of Funds	1,412.5	1,774.3	1,837.7	1,945.0
Gross block	295.3	442.8	592.1	714.2
Less: Accum depreciation	119.5	163.3	222.5	293.9
Net Fixed Assets	175.8	279.5	369.6	420.3
Capital WIP	2.2	6.4	2.5	2.5
Intangible assets	2.8	3.2	3.2	3.2
Investments	389.5	126.7	52.2	41.8
Inventory	428.3	668.2	762.4	875.5
Cash	27.5	35.1	47.4	31.1
Debtors	-	-	-	-
Loans & Advances & Other	53.1	110.8	77.3	110.9
Total Current Assets	508.9	814.1	887.0	1,017.4
Creditors	191.7	290.6	311.9	375.2
Provisions & Other CL	22.4	34.6	34.7	34.8
Total Current Liabilities	214.1	325.2	346.6	410.0
Net Current Assets	294.8	488.9	540.4	607.4
LT L& A, Other Assets	547.4	869.6	869.7	869.9
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	1,412.5	1,774.3	1,837.7	1,945.1

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	-3.2	5.9	34.5	58.4
Cash EPS	49.2	72.1	119.0	153.3
BV	419.2	430.2	462.3	516.6
DPS	0.0	0.4	2.4	4.1
Cash Per Share	14.0	17.7	24.0	15.7
Operating Ratios (%)				
EBITDA margins	12.2	12.3	13.2	13.8
PBT margins	-0.9	0.6	3.6	5.1
Net Profit margins	-0.6	0.7	2.7	3.8
Inventory days	145.4	146.4	110.0	105.0
Debtor days	0.0	0.0	0.0	0.0
Creditor days	65.1	63.7	45.0	45.0
Return Ratios (%)				
RoE	-0.8	1.4	7.5	11.3
RoCE	6.0	10.3	20.1	24.5
RoIC	12.1	12.7	22.5	26.4
Valuation Ratios (x)				
P/E	NA	501.0	85.4	50.5
EV / EBITDA	41.1	27.7	17.1	13.6
EV / Sales	5.0	3.4	2.3	1.9
Market Cap / Revenues	5.4	3.5	2.3	1.9
Price to Book Value	7.0	6.9	6.4	5.7
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.0
Debt/EBITDA	0.0	0.0	0.0	0.0
Current Ratio	2.2	2.4	2.4	2.4
Quick Ratio	0.2	0.3	0.2	0.3

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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