

## Margins continue to trend downwards...

**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

**Q4FY23 Results:** V-Mart reported a weak operational performance as profitability came in below our estimate.

- On a favourable base, revenue for the quarter grew 29% YoY to ₹ 593.9 crore. Growth was mainly driven by higher store additions (43 YoY)
- Gross margins declined 300 bps YoY to 31.9% (I-direct estimate: 31.5%), which was on account of price cuts taken by the company. Furthermore, other expenses grew sharply by 68% YoY crore mainly owing to higher expenses related to LimeRoad acquisition (D2C website)
- Subsequently, EBITDA margins contracted 710 bps YoY to 3.9%

**What should investors do?** The stock has been under pressure on a YTD basis (down 27%) as higher inflation is pinching consumer spending, especially for people salaried < ₹ 25000 (its main target consumers). Also, heightened competition from large retailers in Tier III/IV cities is exerting pressure. **We expect RoIC for the company to be below historical levels as incremental cashflows generated by the legacy business would be deployed towards new initiatives (like LimeRoad that would require 20% of V-Mart EBITDA), which would be margin dilutive.**

- We had downgraded the stock in the previous update. We reiterate our HOLD rating on the stock

**Target Price and Valuation:** We value V-Mart at ₹ 2150 i.e. 11x FY25E EV/EBITDA.

### Key triggers for future price performance

- Recent acquisition of 'Unlimited' store brand (82 stores) will enable V-Mart to cater to the fashion needs in the western and southern markets of India (where V-Mart has minimal presence)
- We expect the total retail space to increase at ~14% 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 like Trent.

- Inherent strength of brands (Westside, Zudio, Zara) and proven business model position Trent as a key beneficiary of the economy unlock theme
- BUY with a target price of ₹ 1730/share



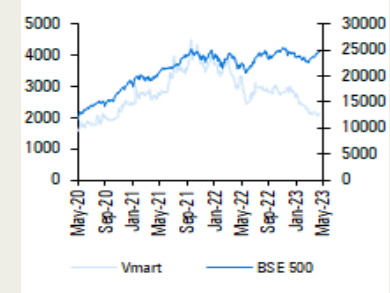
### Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	4,078.4
Total Debt (FY23) (₹ crore)	147.8
Cash & Investment (FY23) (₹ crore)	53.6
EV (₹ crore)	4,172.6
52 Week H / L	3426 / 1994
Equity Capital (₹ crore)	19.8
Face Value (₹)	10.0

### Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	46.2	46.1	46.1	45.8	44.3
FII	20.2	18.2	11.5	11.2	14.2
DII	23.2	25.6	31.5	32.7	31.8
Others	10.3	10.1	10.8	10.4	9.7

### Price Chart



### Key risks

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

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### Key Financial Summary

Financials	FY19	FY20	FY21	FY22	FY23	4 year CAGR (FY19-FY23)	FY24E	FY25E	2 year CAGR (FY22-FY24E)
Net Sales	1,433.7	1,662.0	1,075.5	1,666.2	2,464.8	14.5%	2,825.4	3,239.9	14.6%
EBITDA	132.9	213.7	131.2	204.3	268.9	19.3%	340.8	405.6	22.8%
PAT	61.6	49.3	-6.2	11.6	-7.8	PL	30.5	62.9	
P/E (x)	60.8	76.0	NA	350.7	-520.2		133.9	64.8	
EV/Sales (x)	2.6	2.2	3.4	2.4	1.7		1.5	1.3	
EV/EBITDA (x)	27.6	17.5	27.8	19.2	15.5		12.5	10.5	
RoCE (%)	27.2	27.0	6.0	10.3	10.4		14.8	18.5	
RoE (%)	15.0	10.7	-0.8	1.4	-0.9		3.5	6.7	

## Key takeaways of recent quarter

- On a favourable base, revenue for the quarter grew 29% YoY to ₹ 593.9 crore (I-direct estimate: ₹ 572.9 crore). Growth was mainly driven by higher store additions to the tune of 43 in FY23 taking the total store count to 423. As per our calculations, revenue per store for the V-Mart format (quarterly) was at ~₹ 1.45 crore (~100% of pre-Covid levels). Though revenue throughput per store appears to be nearing pre-Covid levels, this was mainly a factor of higher realisations (increased ASPs). Volume SSSG continues to be below pre-Covid levels as the inflationary demand scenario continues to have a higher impact on Tier II-IV cities (V-Mart has ~60% stores in Tier III-IV regions). We build in SSSG of ~6% for FY24-25E with addition of new 78 stores taking total V-Mart stores to 419 (FY23: 341)
- Revenue for the Unlimited format (15%) grew 14% YoY to ₹ 88 crore in Q4FY23 and 38% to ₹ 456 crore (acquired in Q3FY23). The company is gradually changing the product portfolio of 'Unlimited' stores and is introducing V-Mart products in these stores. The new stores added in the southern region (about eight new Unlimited stores) have yielded healthy revenue/sq ft of ₹ 624/month, which is 20-25% higher than legacy stores. Also, with higher store additions, mainly in Tier III cities (~75% of new stores), the rental expense per sq ft per month is aligned with V-Mart's metric (₹ 39 vs. ₹ 70 of legacy stores). On the profitability front, ~43% of stores are generating >7% EBITDA margins while 20% of stores continue to make losses. We expect the company to add 10 Unlimited stores annually and contribute ~20% of overall revenues
- LimeRoad (latest D2C acquisition) reported revenue of ₹ 11.8 crore (2% of sales) in Q4FY23. The company records only commission revenue (net merchandise value: ₹ 31.1 crore). The segment recorded EBITDA loss of ₹ 21.5 crore in Q4FY23, which significantly dragged down overall profitability for the company. The management expects quarterly losses to gradually come down, going forward but expects to incur ~₹ 50 crore loss in FY24E. Expect the new venture only to be profitable by end of FY25E
- On the balance sheet front, the company has managed to reduce inventory days to 128 days (but continues to remain higher than average of 85-90 days). It generated negative FCF of ₹ 260 crore mainly owing to higher capex of ₹ 275 crore (pertaining to setting up of new warehouse). Subsequently, the company had to resort to debt funding to the tune of ₹ 147 crore (D/E: 0.2x). We expect RoE to gradually improve to 7% by FY25E but significantly below FY19 levels (~15%)

V-Mart- ESG Disclosure Score*			
Score	FY20	FY21	FY22
Environmental	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA
Overall ESG Score	NA	NA	NA

Source: Bloomberg, ICICI Direct Research, \*Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

Exhibit 1: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Revenue	593.9	572.9	458.8	29.5	776.9	-23.6	SSSG: 10%, V-Mart: 11%, Unlimited: 4%
Raw Material Expense	404.3	392.5	298.5	35.4	501.7	-19.4	
Gross Profit	189.6	180.5	160.2	18.3	275.2	-31.1	
Gross Profit Margin	31.9	31.5	34.9	-300 bps	35.4	-349 bps	Company has taken price cuts to the tune of 12% in Unlimited to ₹ 498 and 5% for Vmart to ₹ 382. Consequently, gross margins declined by 300 bps YoY
Employee exp	68.0	68.8	51.1	33.2	76.3	-10.8	
Other Exp	98.7	74.5	58.9	67.6	95.2	3.7	other expenses grew sharply by 68% YoY to ₹ 98.6 crore mainly owing to higher expenses related to LimeRoad acquisition (D2C website).
EBITDA	22.9	37.2	50.3	-54.5	103.7	-77.9	
EBITDA Margin (%)	3.9	6.5	11.0	-711 bps	13.3	-949 bps	
Depreciation	48.4	47.7	37.6	28.8	47.3	2.4	
Other Income	7.5	0.7	2.8	169.5	0.7	974.3	
Interest	33.6	27.6	23.5	42.9	30.7	9.5	
Exceptional Income	-	-	-		-		
PBT	-51.6	-37.4	-8.0	NA	26.4	PL	
Tax Outgo	-14.6	0.0	-5.4		6.4		
PAT	-37.0	-37.4	-2.6	NA	20.0	PL	

Source: Company, ICICI Direct Research

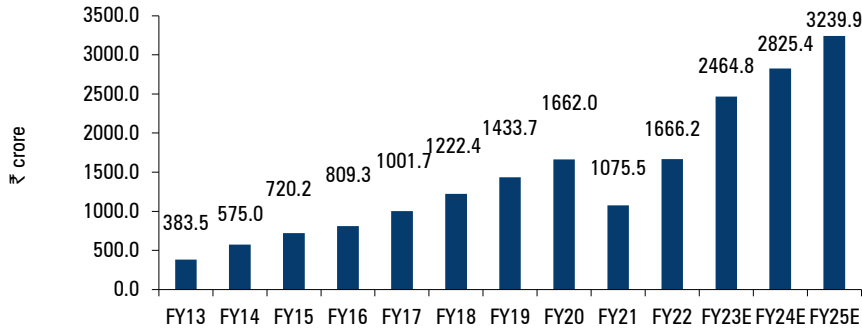
Exhibit 2: Change in estimates

(₹ Crore)	FY 23E	FY 24E			FY25E
	Actual	Old	New	% Change	Introduced
Revenue	2,464.8	2,926.4	2,825.4	-3.5	3,239.9
EBITDA	268.9	377.6	340.8	-9.8	405.6
EBITDA Margin (%)	10.9	12.9	12.1	-84 bps	12.5
PAT	-7.8	68.0	30.5	-55.2	62.9
EPS (₹)	-4.0	34.4	15.4	-55.2	31.9

Source: Company, ICICI Direct Research

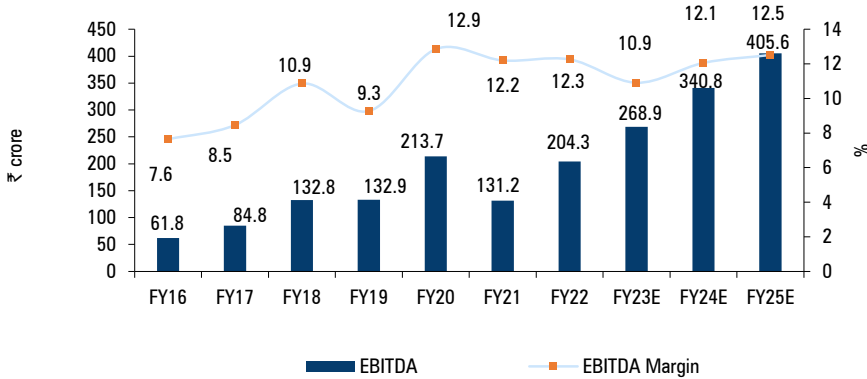
## Financial story in charts

Exhibit 3: Revenue expected to grow at CAGR of 15% in FY23-25E



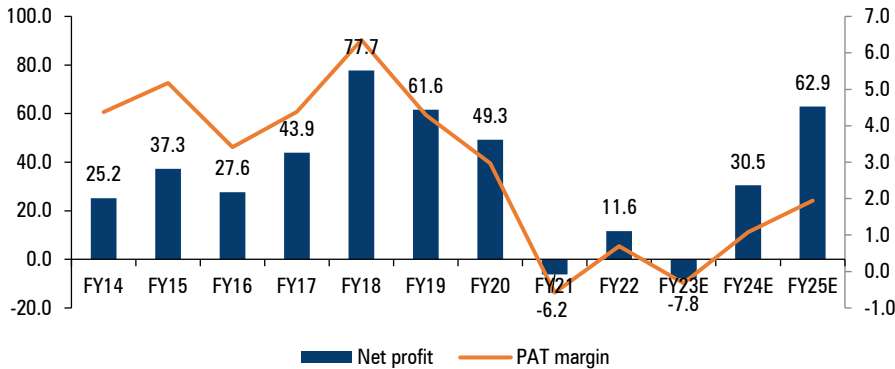
Source: Company, ICICI Direct Research

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



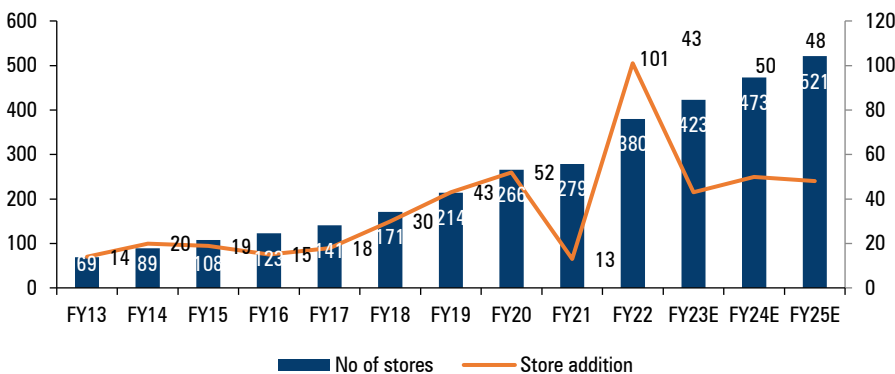
Source: Company, ICICI Direct Research

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)	FY22	FY23E	FY24E	FY25E	
<b>Net Sales</b>	<b>1,666.2</b>	<b>2,464.8</b>	<b>2,825.4</b>	<b>3,239.9</b>	
Growth (%)	54.9	47.9	14.6	14.7	
Total Raw Material Cost	1,091.1	1,597.1	1,878.9	2,154.5	
Gross Margins (%)	34.5	35.2	33.5	33.5	
Employee Expenses	179.6	255.5	276.9	311.0	
Other Expenses	191.1	343.3	328.8	368.7	
Total Operating Expenditure	1,461.9	2,195.9	2,484.6	2,834.3	
<b>EBITDA</b>	<b>204.3</b>	<b>268.9</b>	<b>340.8</b>	<b>405.6</b>	
EBITDA Margin	12.3	10.9	12.1	12.5	
Interest	77.2	116.9	118.5	125.6	
Depreciation	130.7	180.0	195.5	209.9	
Other Income	14.0	15.0	14.0	14.0	
Exceptional Expense	-	-	-	-	
PBT	10.4	(13.0)	40.7	84.1	
Total Tax	(1.2)	(5.2)	10.3	21.2	
<b>Profit After Tax</b>	<b>11.6</b>	<b>(7.8)</b>	<b>30.5</b>	<b>62.9</b>	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement						₹ crore
(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E	
Profit/(Loss) after taxation	-6.2	11.6	-7.8	30.5	62.9	
Add: Depreciation	103.0	130.7	180.0	195.5	209.9	
Net Increase in Current Assets	29.6	-309.5	-313.9	-99.2	-117.7	
Net Increase in Current Liabilities:	-18.2	111.1	224.1	14.9	73.9	
<b>CF from operating activities</b>	<b>108.2</b>	<b>-56.0</b>	<b>82.4</b>	<b>141.7</b>	<b>229.0</b>	
(Inc)/dec in Investments	-381.6	262.7	93.3	26.7	5.3	
(Inc)/dec in Fixed Assets	-39.9	-152.2	-274.8	-96.5	-80.6	
Others	0.0	-24.9	0.0	0.0	0.0	
<b>CF from investing activities</b>	<b>-421.5</b>	<b>85.7</b>	<b>-181.4</b>	<b>-69.8</b>	<b>-75.3</b>	
Inc / (Dec) in Equity Capital	1.5	0.1	0.0	0.0	0.0	
Inc / (Dec) in Loan	-1.1	0.0	147.8	52.2	0.0	
Others	334.5	-22.1	-63.6	-132.0	-142.8	
<b>CF from financing activities</b>	<b>334.9</b>	<b>-22.1</b>	<b>84.2</b>	<b>-79.8</b>	<b>-142.8</b>	
Net Cash flow	21.7	7.6	-14.9	-7.9	11.0	
Opening Cash	5.8	27.5	35.1	20.2	12.2	
<b>Closing Cash</b>	<b>27.5</b>	<b>35.0</b>	<b>20.2</b>	<b>12.2</b>	<b>23.2</b>	

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
Equity Capital	19.8	19.8	19.8	19.8	
Reserve and Surplus	829.9	829.2	857.5	916.1	
Total Shareholders funds	849.6	849.0	877.3	935.8	
Total Debt	-	147.8	200.0	200.0	
Non Current Liabilities	924.7	1,196.4	1,196.4	1,196.4	
<b>Source of Funds</b>	<b>1,774.3</b>	<b>2,193.2</b>	<b>2,273.7</b>	<b>2,332.2</b>	
Gross block	442.8	538.1	713.8	794.4	
Less: Accum depreciation	163.3	219.0	284.7	356.2	
Net Fixed Assets	279.5	319.1	429.2	438.3	
Capital WIP	6.4	109.2	30.0	30.0	
Intangible assets	3.2	62.1	62.1	62.1	
Investments	126.7	33.4	6.7	1.3	
Inventory	668.2	870.6	967.6	1,082.9	
Cash	35.1	20.2	12.2	23.2	
Debtors	-	-	-	-	
Loans & Advances & Other	110.8	165.7	165.7	165.7	
Total Current Assets	814.1	1,056.4	1,145.5	1,271.8	
Creditors	290.6	488.3	503.1	577.0	
Provisions & Other CL	34.6	61.0	61.1	61.2	
Total Current Liabilities	325.2	549.3	564.2	638.2	
Net Current Assets	488.9	507.1	581.3	633.7	
LT L& A, Other Assets	869.6	1,162.2	1,164.5	1,166.8	
Other Assets	0.0	0.0	0.0	0.0	
<b>Application of Funds</b>	<b>1,774.3</b>	<b>2,193.2</b>	<b>2,273.7</b>	<b>2,332.2</b>	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios					
(Year-end March)	FY21	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>					
EPS	-3.2	5.9	-4.0	15.4	31.9
Cash EPS	49.2	72.1	87.2	114.4	138.1
BV	419.2	430.2	429.9	444.2	473.8
DPS	0.0	0.4	0.7	1.1	2.2
Cash Per Share	14.0	17.7	10.2	6.2	11.8
<b>Operating Ratios (%)</b>					
EBITDA margins	12.2	12.3	10.9	12.1	12.5
PBT margins	-0.9	0.6	-0.5	1.4	2.6
Net Profit margins	-0.6	0.7	-0.3	1.1	1.9
Inventory days	145.4	146.4	128.9	125.0	122.0
Debtor days	0.0	0.0	0.0	0.0	0.0
Creditor days	65.1	63.7	72.3	65.0	65.0
<b>Return Ratios (%)</b>					
RoE	-0.8	1.4	-0.9	3.5	6.7
RoCE	6.0	10.3	10.4	14.8	18.5
RoIC	12.1	12.7	11.0	15.0	18.9
<b>Valuation Ratios (x)</b>					
P/E	NA	350.7	-520.2	133.9	64.8
EV / EBITDA	27.8	19.2	15.5	12.5	10.5
EV / Sales	3.4	2.4	1.7	1.5	1.3
Market Cap / Revenues	3.8	2.4	1.7	1.4	1.3
Price to Book Value	4.9	4.8	4.8	4.6	4.4
<b>Solvency Ratios</b>					
Debt / Equity	0.0	0.0	0.2	0.2	0.2
Debt/EBITDA	0.0	0.0	0.5	0.6	0.5
Current Ratio	2.2	2.4	1.9	2.0	2.0
Quick Ratio	0.2	0.3	0.3	0.3	0.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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