

Company Update

V-Mart Retail Ltd

Bloomberg Code: VMART IN

India Research - Stock Broking

SELL

Margins Drive Down Performance

Despite top line growth of 16%, margins were impacted on account of higher operating costs and increasing competition. Gross margins declined by 100 bps, employee cost and other expenses (including SGA and Rental expenses) increased by 31% and 20% on YoY basis resulting in EBITDA, EBITDA margin and PAT decline of 23%, 260 bps and 29% on YoY basis. With consumer spending expected to be lower for the upcoming quarters, we revise our estimates downward. Market had factored in strong growth, particularly from smaller cities which has not materialized as per expectations. Hence, we believe the stock is expensive and lower our target P/E valuation to 43x and recommend "SELL", with a TP of Rs. 2032.

Aggressive store expansions yet to pay off: V-Mart expanded heavily in the last 2 fiscals mainly in the smaller cities (48 stores opened in Tier III and IV cities vs. 25 in Tier I and II cities). The smaller cities account for 61% of the total store count of 214. However, rural sales are yet to pick up on the back of low spending and increased competition from big brands such as Reliance and Aditya Birla which has led to price erosion for its private labels. We expect demand to be lower in the next two quarters particularly for the Tier III and IV cities and lower our Revenue and PAT expectations by 10% and 23% (FY21E). V-Mart plans to keep up the same pace in store addition to gain market share from the unorganized sector across the country by expanding beyond UP and North East.

IL&FS CP default: Management reported that the IL&FS has defaulted on interest relating to a Rs. 100 Mn investment by V-Mart. VRL correspondingly made appropriation of 75% of the same amounting to Rs. 74 Mn.

Valuation and Risks

Currently, the stock trades at one year forward P/E of ~65x. The valuation build up was on the expectation of gaining market share in the unorganized space in smaller cities. Management's admittance to have not been able to scale up business in these regions amidst a slowdown and competitive market is a cause for concern. Also, high concentration of stores in North and North East pose additional risk. We value the stock at 43x on FY21E EPS of Rs. 47.2, and recommend "SELL", with a target price of Rs. 2032. Risk to the call is faster than expected recovery in rural market.

Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	FY17	FY18	FY19P	FY20E	FY21E
Net Sales	10017	12224	14338	15948	16724
EBITDA	848	1328	1329	1372	1639
EBITDA Margin (%)	8.5	10.9	9.3	8.6	9.8
Net Profit	439	777	616	720	856
EPS (Rs.)	24.3	42.9	34.0	39.8	47.2
RoE (%)	17.5	25.2	16.3	16.3	16.7
PE (x)	33.9	44.2	79.2	67.8	57.0

Source: Company, Karvy Research; *Represents multiples for FY17 - FY19P are based on historic market price

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Recommendation (Rs.)

CMP (as on May 17, 2019)	2228
Target Price	2032
Previous Target Price	3075
Downside (%)	10

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	40400 / 575
52-wk High/Low (Rs.)	3299 / 1874
3M Avg. daily value (Rs. mn)	30.1
Beta (x)	1.4
Sensex/Nifty	37931 / 11407
O/S Shares(mn)	18.1
Face Value (Rs.)	10.0

Shareholding Pattern (%)

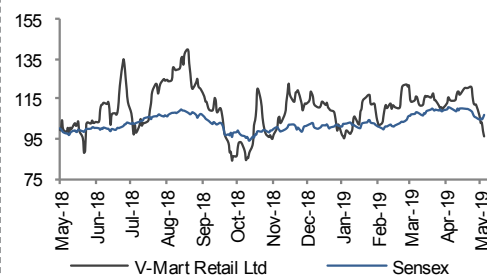
Promoters	53.0
FIIs	30.9
DIIs	5.6
Others	10.5

Stock Performance (%)

	1M	3M	6M	12M
Absolute	(16)	(7)	(1)	(4)
Relative to Sensex	(13)	(12)	(7)	(11)

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

Earnings Revision (%)

YE Mar	FY20E	FY21E
Sales (%)	↓ (3.6)	↓ (10.2)
EBITDA (%)	↓ (22.5)	↓ (19.3)
PAT (%)	↓ (26.6)	↓ (23.2)

Source: Karvy Research

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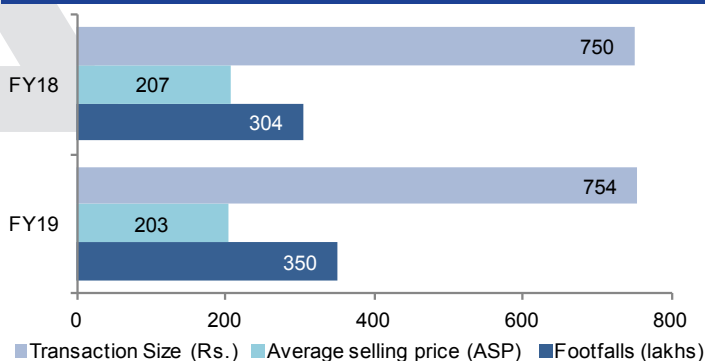
Exhibit 2: Q4FY19

YE Mar (Rs. Mn)	Q4FY19	Q3FY19	QoQ (%)	Q4FY18	YoY (%)
Turnover	3445	4658	(26.0)	2974	15.9
Expenditure	3267	(3925)	(183.3)	2743	19.1
EBITDA	178	734	(75.7)	231	(22.9)
Depreciation	72	72	0.8	67	8.0
Interest	3	9	(60.9)	2	120.1
PBT	102	653	(84.4)	162	(37.1)
Other Income	23	17	30.1	12	82.9
Tax	60	253	(76.3)	16	(284.8)
PAT	(9)	417	(102.1)	159	(105.5)
Adjusted PAT	(9)	417	(102.1)	159	(105.5)
EBITDA Margin (%)	5.2	15.7	(1059) bps	7.8	(260) bps
EBIT Margin (%)	3.1	14.2	(1114) bps	5.5	(245) bps
Net Profit Margin (%)	(0.3)	9.0	(921) bps	5.3	(560) bps

Source: Company, Karvy Research

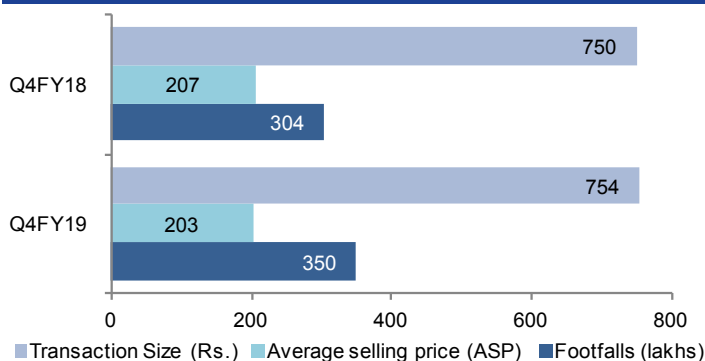
- Margins were higher in Q3FY18 on account of significant increase in the share of private labels.
- Share of private labels stood at 49% in FY18 vs. 20% in FY17.
- Q3FY19 was driven by increasing footfalls and conversion rates owing to store additions.

Exhibit 3: Operational Parameters (FY19 vs. FY18)



Source: Company, Karvy Research

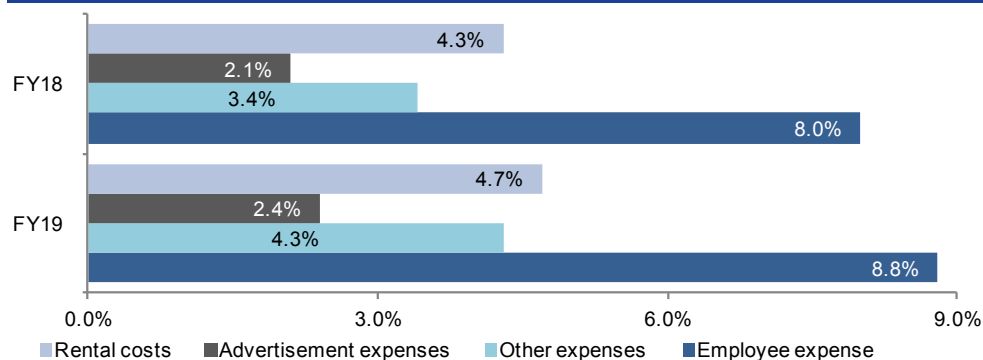
Exhibit 4: Operational Parameters (Q4FY19 vs. Q4FY18)



Source: Company, Karvy Research

- ASP of apparel was lower by Rs. 3 at Rs. 320 for FY19 vs. FY18.
- Management continues to focus on volume led growth and increased penetration. But intense competition and low demand in rural India continues to hamper performance (margins).
- Same store sales growth also declined to 8.3% in FY19 vs. 12.9% in FY18.

Exhibit 5: Expenses break up (as a % of revenue)



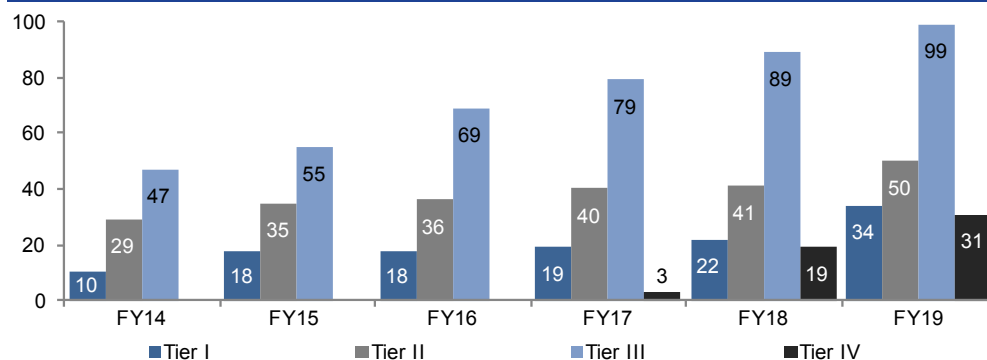
Source: Company, Karvy Research

- Efforts to increase penetration and reach have driven up employee and other expenses (SGA, Rental and Employee cost).
- Advertisement costs and Other expenses have increased as a percentage of revenue and is expected to be higher in the coming fiscals on account of increased penetration and high competition.

Significant expansions have been undertaken in the last 2 fiscals (73 stores added in the period of the total 214, 48 of which are in tier III and IV cities).

Management is looking to continue expansions at the same pace in the coming fiscal.

Exhibit 6: Penetration increases across Tier III and Tier IV cities



Source: Company, Karvy Research

Exhibit 7: Change in Earnings Estimates

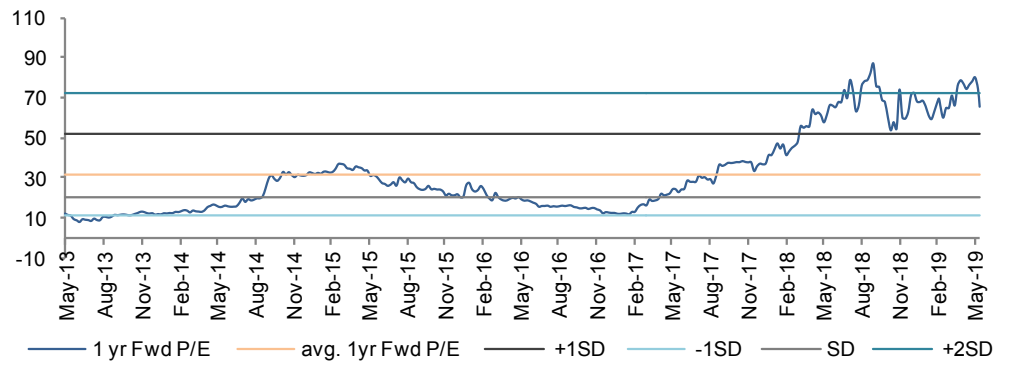
YE Mar - Standalone (Rs. Mn)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Net Sales	16538	15948	(3.6)	18628	16724	(10.2)	We lower our estimates on the back of lower pick up in rural market and price erosion for the private labels.
EBITDA	1770	1372	(22.5)	2030	1639	(19.3)	
EBITDA Margin (%)	10.7	8.6	(210)	10.9	9.8	(110)	
Adj. PAT	981	720	(26.6)	1115	856	(23.2)	
EPS (Rs.)	54.1	39.8	(26.5)	61.5	47.2	(23.2)	

Source: Karvy Research

On the back of aggressive penetration in the rural market, street had factored in growth in line with historic performance.

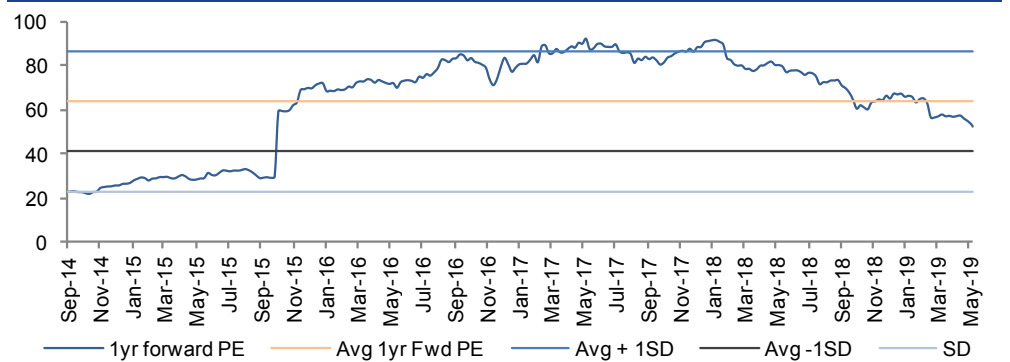
However, stores in smaller cities are yet to signal strong growth.

Exhibit 8: V-Mart Retail - 5 yr PE Band



Source: Bloomberg, Karvy Research

Exhibit 9: PE Band - Nifty Consumption Index



Source: Bloomberg, Karvy Research

Financials

Exhibit 10: Income Statement

YE Mar (Rs. Mn)	FY17	FY18	FY19P	FY20E	FY21E
Revenues	10017	12224	14338	15948	16724
Growth (%)	23.8	22.0	17.3	11.2	4.9
Operating Expenses	9170	10896	13008	14576	15085
EBITDA	848	1328	1329	1372	1639
Growth (%)	36.6	56.7	0.1	3.2	19.5
Depreciation & Amortization	186	229	276	350	417
Other Income	41	41	59	64	67
EBIT	703	1140	1112	1086	1289
Interest Expenses	35	15	16	10	11
PBT	668	1125	1096	1075	1278
Tax	229	348	382	355	422
Adjusted PAT	439	777	714	720	856
Growth (%)	59.1	77.0	(20.7)	16.9	18.9

Source: Company, Karvy Research

Exhibit 11: Balance Sheet

YE Mar (Rs. Mn)	FY17	FY18	FY19P	FY20E	FY21E
Cash & Equivalents	29	184	168	433	1054
Sundry Debtors	62	72	96	96	100
Inventory	2692	3071	3290	3876	3913
Loans & Advances	1	1	1	2	2
Investments	694	419	759	574	602
Net Block	1173	1447	1655	1866	2008
Miscellaneous	256	305	351	263	274
Total Assets	4907	5499	6320	7109	7953
Debt	355	3	3	(1)	0
Other liabilities	1852	2021	2225	23636	2435
Total Liabilities	2207	2025	2228	2363	2433
Shareholders Equity	181	181	181	181	181
Reserves & Surplus	2520	3293	3911	4563	5337
Total Networth	2700	3474	4093	4744	5518
Total Networth & Liabilities	4907	5499	6320	7109	7953

Source: Company, Karvy Research

Exhibit 12: Cash Flow Statement

YE Mar (Rs. Mn)	FY17	FY18	FY19P	FY20E	FY21E
PBT	668	1125	1096	1075	1278
Depreciation	186	222	276	350	417
Interest	35	15	(43)	(53)	(56)
Others	(29)	8	0	(79)	(64)
Inc/dec in Net WC	69	(346)	(862)	139	(29)
Tax paid	243	381	382	355	422
Cash flow from operating activities	686	642	85	1077	1124
Inc/dec in capital expenditure	(415)	(478)	(488)	(561)	(559)
Inc/dec in investments	(337)	395	(45)	275	85
Others	25	(68)	59	64	67
Cash flow from investing activities	(728)	(150)	(474)	(222)	(407)
Inc/dec in borrowings	87	(351)	0	0	(3)
Issuance of equity	0	9	0	0	0
Dividend paid	(4)	(27)	(59)	(69)	(82)
Interest paid	(32)	(15)	(16)	(10)	(11)
Cash flow from financing activities	51	(384)	(75)	(79)	(95)
Net change in cash	10	108	(464)	775	622

Source: Company, Karvy Research

Exhibit 13: Key Ratios

YE Mar	FY17	FY18	FY19P	FY20E	FY21E
EBITDA Margin (%)	14.0	15.4	13.1	15.4	15.9
EBIT Margin (%)	7.0	9.3	7.8	6.8	7.7
Net Profit Margin (%)	4.4	6.4	5.0	4.5	5.1
Dividend Payout Ratio (%)	8.2	2.9	8.0	8.0	8.0
Net Debt/Equity (x)	0.1	(0.1)	(0.0)	(0.1)	(0.2)
RoE (%)	17.5	25.2	16.3	16.3	16.7
RoCE (%)	23.2	33.4	29.6	24.7	25.3

Source: Company, Karvy Research


Exhibit 14: Valuation Parameters

YE Mar	FY17	FY18	FY19P	FY20E	FY21E
EPS (Rs.)	24.3	42.9	34.0	39.8	47.2
DPS (Rs.)	2.0	1.2	2.7	3.2	3.8
BVPS (Rs.)	149.4	192.0	225.8	261.7	304.4
PE (x)	33.9	44.2	79.2	67.8	57.0
P/BV (x)	5.5	9.9	11.9	10.3	8.9
EV/EBITDA (x)	17.5	25.8	36.6	35.2	29.8
EV/Sales (x)	1.5	2.8	3.4	3.0	2.9

Source: Company, Karvy Research; *Represents multiples for FY17 - FY19P are based on historic market price

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Buy	: > 15%
Hold	: 5-15%
Sell	: < 5%

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