

## Results Update

# V-Mart Retail Ltd

Bloomberg Code: VMART IN

India Research - Stock Broking

**SELL**

## Long Term Benefits Over Priced at Current Valuations

We continue to maintain our stand of low demand for the fiscal despite festive and harvest season benefits to fall through in Q2 and Q3. The impact of pandemic and dynamic lockdowns continues to affect consumer spending patterns. Textile industry at large is heavily impacted by the ongoing pandemic and with V Mart's revenue share highly skewed towards this segment (nearly 90% revenue contribution), we expect significant drop in revenues in FY21. For the next 3 quarters, we expect an average revenue dip exceeding 25% on YoY basis, leading to revenue and PAT estimates downgrades by 22% and 49% for FY21E. However, we expect the numbers to pick up in early parts of FY22. Although there exists significant opportunities for market share gains post the pandemic era, we believe the same will be spread across the various organized players that have been providing competition to VMART in recent times. We retain our 'SELL' rating with a target price of Rs. 1698.

**Covid continues to run rampage on sales:** VMART reported sales of Rs. 781 Mn for the quarter vs Rs. 4530 Mn in the subsequent quarter last year, down 82.8%. It reported EBITDA loss for only the second time since FY13, at Rs. 58.2 Mn (the only other period of EBITDA loss was in Q2FY19). Gradual opening since Q1 has led to increased footfalls which as per management currently stood at 70%-75%. Additionally, customers have also gradually shifted to regular purchases of casual wear vs. essentials that were witnessed in Q1. Like to like sales across the stores currently stands at 60% vs a year ago period. Management stated that the inventory continues to be low (one of the lowest in the sector) and was looking at ramping up as festive season approaches. It has only utilized 15% of working capital limits so far. Cost rationalization efforts are expected to save the company Rs. 300 Mn to Rs. 400 Mn in the year (employee cost rationalization and re negotiation of rentals, each for ~Rs. 150 Mn to Rs. 200 Mn).

## Outlook and Valuation

We expect the valuations to continue to be at a premium the segment, size and the market share of the company. The stock currently trades at an exceedingly rich one year forward valuation of 110x. The high valuation is due to higher presence in rural market and hence the expectation to replace the unorganized space over time given the stress on the smaller players during this crisis. However, we believe these valuations will correct as the quarterly results for the fiscal come in, and street downgrades estimates further for the current and next fiscal. We value the stock at a discount of ~20% from the 5 year average 1yr fwd P/E of 72x on FY22E EPS of Rs. 29.3.

### Exhibit 1: Valuation Summary

YE Mar (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
Net Sales	12224	14338	16620	9367	16322
EBITDA	1328	1329	1009	571	1192
EBITDA Margin (%)	10.9	9.3	6.1	6.1	7.3
Adj. Net Profit	777	616	494	122	531
EPS (Rs.)	42.9	34.0	27.2	6.7	29.3
RoE (%)	25.2	16.3	11.4	2.6	10.8
PE (x)	44.3	79.2	51.9	296.0	68.1

Source: Company, Karvy Research, \* ex-IndAS 116 in most parts

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### Recommendation (Rs.)

CMP (as on Sep 29, 2020)	1994
Target Price	1698
Previous Target Price	1735
Downside (%)	15

### Stock Information

Mkt Cap (Rs.Bn/US\$ Bn)	36.21 / 0.49
52-wk High/Low (Rs.)	2545 / 1294
3M Avg. daily value (mn)	1035.8
Beta (x)	1.13
Sensex/Nifty	37973 / 11222
O/S Shares(mn)	18.2
Face Value (Rs.)	10.0

### Shareholding Pattern (%)

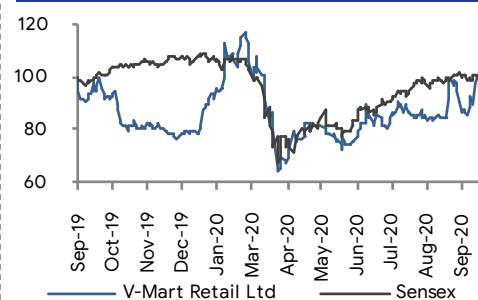
Promoters	51.2
FIIs	23.1
DII	17.2
Others	8.5

### Stock Performance (%)

	1M	3M	6M	12M
Absolute	0	18	38	(5)
Relative to Sensex	3	10	11	(4)

Source: Bloomberg

### Relative Performance\*



Source: Bloomberg; \*Index 100

### Earnings Revision

%	FY21E	FY22E
Revenue	↓ (22.4)	↓ (5.9)
EBITDA	↓ (22.4)	↓ (5.9)
EPS (Rs.)	↓ (48.6)	↓ (8.7)

Source: Karvy Research

### Analyst Contact

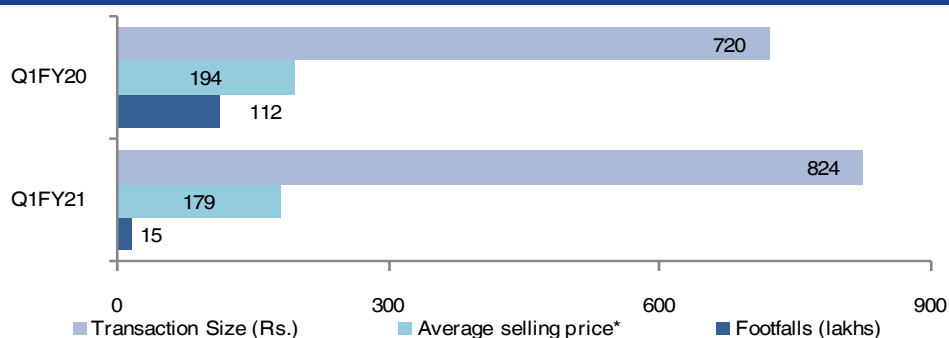
**Thomas V Abraham**

thomas.abraham@karvy.com

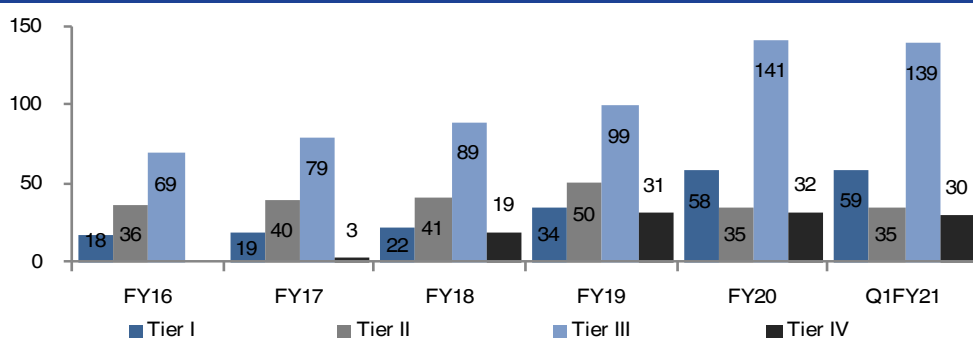
**Exhibit 2: Quarterly Performance**

YE Mar (Rs. Mn)	Q1FY21	Q4FY20	QoQ %	Q1FY20	YoY %
Turnover	781	3327	(76.5)	4530	(82.8)
Expenditure	839	3048	(72.5)	3952	(78.8)
EBITDA	(58)	278	(120.9)	578	(110.1)
Depreciation	263	252	4.3	220	19.6
Interest	146	139	5.4	120	21.9
PBT	(467)	(112)	316.2	238	(296.5)
Other Income	14	8	78.2	21	(33.2)
Tax	(117)	188	(162.5)	83	241.4
PAT	(336)	(292)	15.1	176	(291.3)
Adjusted PAT	(336)	(292)	15.1	176	(291.3)
EBITDA Margin (%)	(7.5)	8.4	(1583) bps	12.8	(2022) bps
EBIT Margin (%)	(41.2)	0.8	(4195) bps	7.9	(4906) bps
Net Profit Margin (%)	(43.1)	(8.8)	(3430) bps	3.9	(4696) bps

Source: Company, Karvy Research, \* not comparable due to adoption of IAS 116 from FY20 onwards

**Exhibit 3: Key Matrices**


Source: Company, Karvy Research

**Exhibit 4: Store count**


Source: Company, Karvy Research

**Exhibit 5: Change in Estimates**

YE Mar (Rs. Mn)	FY21E			FY22E			Comments
	New	Old	% change	New	Old	% change	
Net Sales	12068	9367	(22.4)	17348	16322	(5.9)	Keeping in line with our theme for th textile sector, we do not believe that despite the festive season on the horizon, that the sales numbers will pick up significantly towards previous YoY levels.
EBITDA	736	571	(22.4)	1266	1192	(5.9)	
EBITDA Margin (%)	6.1	6.1	0	7.3	7.3	0	Revival looks on the cards more towards FY22, but second half particularly in the smaller towns should see demand pick up on the back of good monsoons.
APAT	238	122	(48.6)	582	531	(8.7)	
EPS (Rs.)	13.1	6.7	(48.6)	32.1	29.3	(8.8)	

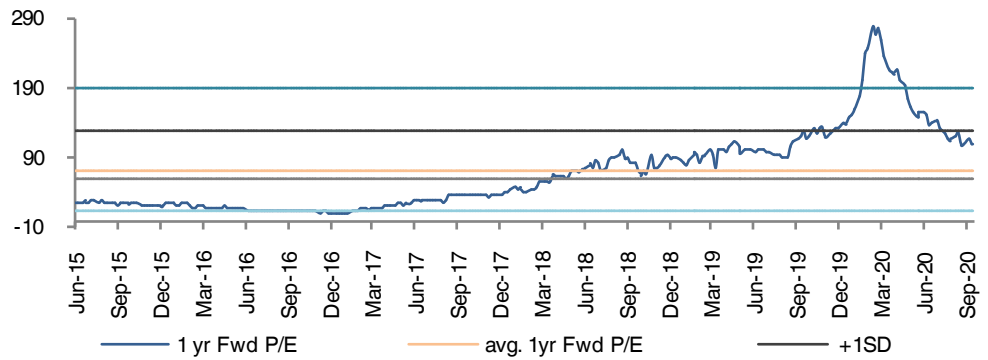
Source: Company, Karvy Research

- The conversions are higher and so are the transaction sizes as customers are more specific in requirements and purchases.
- However, the footfalls were significantly lower leading to poor set of numbers for the quarter.

- Net store additions for the quarter stood at -3. store additions to pick up partially albeit at lower pace.

Current 1 year forward valuations stand at 110x on expect of market share gains. We believe the market share gains will be highly split over other organized competitors and given the trends prior to the pandemic, the sales growth is expected to narrow further w.r.t competitors even post the covid era. We value @ 58x, a discount of 20% to 5 year avg. 1 year fwd PE.

**Exhibit 6: 1 year forward P/E (5 year data)**



Source: Company, Karvy Research

## Financials

### Exhibit 7: Income Statement

YE Mar (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
Revenue	12224	14338	16620	9367	16322
Growth (%)	22.0	17.3	15.9	(43.6)	74.3
Operating Expenses	10896	13008	15611	8795	15130
EBITDA	1328	1329	1009	571	1192
Growth (%)	56.7	0.1	(24.1)	(43.4)	108.5
Depreciation & Amortization	229	276	325	417	454
Other Income	41	59	45	37	65
EBIT	1140	1112	729	192	802
Interest Expenses	15	16	34	9	9
PBT	1125	1096	696	183	793
Tax	348	382	202	60	262
Adjusted PAT	777	714	494	122	531
Growth (%)	77.0	(20.7)	(19.9)	(75.2)	334.5

Source: Company, Karvy Research, \*to be aligned with IAS post release of annual report

### Exhibit 8: Balance Sheet

YE Mar (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
Cash & Equivalents	184	168	50	346	970
Sundry Debtors	72	96	119	94	82
Inventory	3071	3290	4779	6240	4641
Loans & Advances	1	1	0	1	2
Investments	419	759	346	328	571
Net Block	1447	1655	1749	2008	1863
Miscellaneous	305	351	5192	3797	4225
<b>Total Assets</b>	<b>5499</b>	<b>6320</b>	<b>12236</b>	<b>12813</b>	<b>12354</b>
Debt	3	3	789	0	0
Other liabilities	2021	2225	6858	8113	7174
<b>Total Liabilities</b>	<b>2025</b>	<b>2228</b>	<b>7647</b>	<b>8113</b>	<b>7174</b>
Shareholders Equity	181	181	182	182	182
Reserves & Surplus	3293	3911	4408	4518	4999
<b>Total Networth</b>	<b>3474</b>	<b>4093</b>	<b>4589</b>	<b>4700</b>	<b>5180</b>
<b>Total Networth &amp; Liabilities</b>	<b>5499</b>	<b>6320</b>	<b>12236</b>	<b>12813</b>	<b>12354</b>

Source: Company, Karvy Research

**Exhibit 9: Cash Flow Statement**

YE Mar (Rs. Mn)	FY18	FY19	FY20	FY21E	FY22E
PBT	1125	1096	696	183	793
Depreciation	222	365	939	417	454
Interest	15	(2)	538	(28)	(56)
Others	(2)	7	24	32	32
Inc/dec in Net WC	(295)	(581)	(1092)	67	1147
Tax paid	381	332	241	60	262
Cash flow from operating activities	684	554	863	610	2109
Inc/dec in capital expenditure	(478)	(407)	(546)	(676)	(310)
Inc/dec in investments	395	201	550	(221)	(272)
Others	(2)	12	2	37	65
Cash flow from investing activities	(84)	(194)	5	(859)	(516)
Inc/dec in borrowings	(351)	(3)	(371)	789	0
Issuance of equity	9	19	13	0	0
Dividend paid	(27)	(44)	(37)	(12)	(51)
Interest paid	(15)	(16)	(548)	(552)	(918)
Cash flow from financing activities	(384)	(44)	(943)	225	(968)
Net change in cash	216	316	(75)	(24)	625

Source: Company, Karvy Research

**Exhibit 10: Key Ratios**

YE Mar	FY18	FY19	FY20	FY21E	FY22E
EBITDA Margin (%)	10.9	9.3	6.1	6.1	7.3
EBIT Margin (%)	9.3	7.8	4.4	2.0	4.9
Net Profit Margin (%)	6.4	5.0	3.0	1.3	3.3
Dividend Payout ratio (%)	2.9	8.0	8.0	8.0	8.0
Net Debt/Equity (x)	-	-	0.2	-	-
RoE (%)	25.2	16.3	11.4	2.6	10.8
RoCE (%)	33.4	29.6	14.7	3.6	16.4

Source: Company, Karvy Research

**Exhibit 11: Key Ratios**

YE Mar	FY18	FY19	FY20	FY21E	FY22E
EPS (Rs.)	42.9	34.0	27.2	6.7	29.3
DPS (Rs.)	1.2	2.7	2.2	0.5	2.3
BVPS (Rs.)	192.0	225.8	252.8	258.9	285.3
PE (x)	44.3	79.2	51.9	296.0	68.1
P/BV (x)	9.9	11.9	5.6	7.7	7.0
EV/EBITDA (x)	25.8	36.6	25.3	43.0	30.3
EV/Sales (x)	2.8	3.4	1.5	2.6	2.2

Source: Company, Karvy Research

Return ratios to be severely impacted during the fiscal. However, a rebound is expected in the next fiscal, but towards pre covid levels will take longer (FY23E).

P/E on FY21E EPS is high on account of lower profitability in the fiscal.

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: < 5%

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## Karvy Stock Broking Limited

Plot No.31, 6th Floor, Karvy Millennium Towers, Financial District, Nanakramguda, Hyderabad, 500 032, India

Tel: 91-40-2331 2454; Fax: 91-40-2331 1968

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