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SYSTEMATIX INSTITUTIONAL EQUITIES

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Institutional Equities

V-Mart Retail

10 August 2023

Steady revenue growth; margin pressure exacerbated by *LimeRoad* losses

RESULT UPDATE

Sector: Retail Rating: HOLD
CMP: Rs 2,380 Target Price: Rs 2,270

Stock Info

Sensex/Nifty	65,688/ 19,543
Bloomberg	VMART IN
Equity shares (mn)	19.8
52-wk High/Low	Rs 3,162/1,948
Face value	Rs 10
M-Cap	Rs 47bn/USD 0.6bn
3-m Avg volume	USD 1.4mn

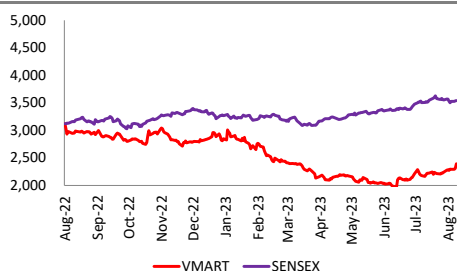
Financial Snapshot (Rs mn)

Y/E Mar	FY23	FY24E	FY25E
Sales	24,648	28,939	34,949
PAT	(78)	65	327
EPS (Rs)	(4.3)	3.6	18.0
PE (x)	(599.6)	724.2	144.0
EV/EBITDA (x)	22.4	19.2	15.6
P/BV (x)	1.9	1.6	1.3
EV/Sales	2.4	2.1	1.8
RoE (%)	(0.9)	0.8	3.8
RoCE (%)	5.3	5.7	7.9
NWC (days)	57	55	51
Net gearing (x)	0.2	0.2	0.1

Shareholding Pattern (%)

	Jun 23	Mar 23	Dec 22
Promoter	44.3	44.3	45.8
-Pledged	-	-	-
FII	14.8	14.2	11.2
DII	31.0	31.8	32.7
Others	9.9	9.7	10.4

Stock Performance (1-year)



V-Mart Retail's (VMART) 1QFY24 results were in-line with our muted expectations, with margins under significant pressure given losses in *Limeroad* exacerbated by higher discounting during EOSS. Revenue witnessed steady growth at 15.4% (SSSG -2.7%; SSSV +2.9%). VMart's core business grew 15% YoY with 0% SSSG (80% contribution to sales) whereas *Unlimited* grew 4% YoY with -10.9% SSSG (17% contribution to sales). *LimeRoad* revenue got consolidated wef 11th November, with VMart's online business; *LimeRoad* business grew 47% QoQ contributing 3% to revenue. ASPs contracted on an overall level (-6%YoY) and apparel (-6%YoY) due to focus on lower price points and are expected to reduce further going forward; while footfalls grew 23% YoY, partially offset by a decline in conversion rate from 60% to 56% during the quarter. Gross margin declined 152bps YoY to 36% due to lower *Unlimited* sales and higher discounting while EBITDA margin contracted sharply to 7.7% (-736bps YoY) due to *LimeRoad* losses and 467bps increase in other expenses. VMART added 9 new stores and closed 1 store in 1QFY24, taking the total store count to 431 (VMART: 349, *Unlimited*: 82). Total retail area grew 12% YoY to 3.8mn sqft (including *Unlimited*). Debt is expected to increase by end of Q2FY24 to build up inventory prior to the festive season during Q3FY24.

Management maintained a positive outlook on the demand front going ahead with signs of inflation coming down and consumer confidence inching back. They do not intend to slow down on footprint expansion or online investments as of now, which in our view would keep the financials depressed for the forthcoming quarters. We build in 19%/21% revenue/EBITDA CAGR over FY23-25E despite the low base. Our cautious outlook stems from 1) Sales per sq ft (SPSF) remaining well below pre-COVID levels given soft demand, 2) margin and return ratio impact of investments in *Unlimited*, *LimeRoad* and warehousing and 3) increasing competitive intensity. We maintain our HOLD rating with a TP of Rs 2,270 based on an EV/EBITDA multiple of 15x FY25E. We would revisit our view once we see an improvement in demand conditions/revenue throughput and tangible benefits of the recent investments made by the company driving a recovery in return ratios.

Demand remains soft across Tier 3 cities especially in South India and UP: Revenue growth stood steady at 15.4% during the quarter led by SSSV of 2.9%. States of East, North-East and Bihar witnessed healthy growth while South and Uttar Pradesh belt continued to struggle due to formalization of economy. Consumers in smaller towns continue to face inflationary pressures and have been postponing shopping. There has been more supply than demand in value retail in Tier 3 cities compared to pre-Covid with multiple national retailers expanding in those markets. While management remains upbeat that consumer confidence and spending will rebound with inflation cooling off and sentiment improving, we remain cautious on that front at least for the next couple of quarters. We expect SSSG to be 4%/8% during FY24/FY25E for existing stores going ahead. We are building in SPSF CAGR of 4% driving revenue CAGR of 19%.

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Investors are advised to refer disclosures made at the end of the research report.

Shift to new warehouse impacted sales: Company's newly owned warehouse in Haryana became operational during the quarter. This transition to the new warehouse disturbed the supply chain for c. 45 days resulting into issues at store level, sales were impacted during the months of June and July. Benefits of the new warehouse are expected to be seen post 6 months of stabilization of operations. We expect this to lead to better turnaround time and better replenishment at stores going ahead.

Margin impacted due to *LimeRoad* losses and inferior sales mix: The company reported 36% gross margin which declined 152 bps YoY due to the strategic price cuts and an inferior sales mix, while EBITDA margin contracted 736 bps YoY to 7.7% due to *LimeRoad* losses and 467 bps increase in other expenses. PAT loss stood at Rs 219 mn (vs Rs 205 mn PAT in 1QFY23). Going forward, *LimeRoad* losses are expected to be c. 20% of Group EBITDA. We expect *LimeRoad* losses to be in the range of Rs500-600 mn annually, which will improve sequentially going ahead.

V-Mart business enjoys better Pre Ind AS margin compared to *Unlimited*: During the quarter, Post Ind AS EBITDA margin for *Unlimited* stores stood at 12.3% vs 11.7% for V-Mart stores. *Unlimited* has a higher rent as percentage of sales and hence optically the post Ind AS EBITDA appears to be higher compared to Vmart; however on a Pre Ind AS basis V-Mart commands higher margins.

Higher footfalls not translating into higher growth: Footfalls grew 23% YoY to 13 mn; however there has been a shift in consumers purchasing pattern which impacted sales alongside the growth in competition among value retailers further added to the decline in conversion rate to 56% from 60% in 1QFY23. We expect the company to come up with much better designs at attractive price points to regain some lost market share and improve conversion rates at its stores.

Better design and sourcing team coupled with a renewed strategy for value fashion consumers to drive growth: With the change in the design and sourcing personnel company is expecting better fashion inventory to kick in during the upcoming autumn-winter season. The team is more focused towards bringing in more edgy designs and fashion trends focused towards youth and women (60% of customers). V-Mart's new strategy towards value fashion consumers focuses on providing differentiated merchandise at good price with better quality alongside better search and discoverability access which will aid in fulfilling customers aspirations.

Competition and pressure on mass segment consumers remain key headwinds: Consumers in smaller towns and rural areas continue to bear the impact of inflationary pressures on consumption. While some recovery can be expected with inflation cooling off and the company focusing on lower priced products, given the aggressive area addition, SPSF numbers would take more time than expected earlier to reach pre-COVID levels. Moreover, intense competition from pan-India retailers, who have more than doubled their store presence in smaller cities vs the pre-pandemic period, is also resulting in market share loss for value retailers. Overall, the company is focusing on product design, sourcing, vendor development and digital transformation to get ready for a scale up, as soon as the environment improves.

Exhibit 1: Quarterly performance

YE March (Rs mn)	Q1FY24	Q1FY23	Q4FY23	YoY (%)	QoQ (%)
Net Revenues	6,785	5,879	5,939	15.4	14.2
Purchase of traded goods	4,358	3,686	4,043	18.2	7.8
(% of sales)	64.2	62.7	68.1		
Employee cost	717	552	680	29.8	5.3
(% of sales)	10.6	9.4	11.5		
Others	1,186	753	987	57.5	20.2
(% of sales)	17.5	12.8	16.6		
EBITDA	525	887	229	(40.9)	128.8
EBITDA margin (%)	7.7	15.1	3.9		
Other income	15	41	75	(63.1)	(80.0)
PBIDT	540	928	305	(41.8)	77.2
Depreciation	499	402	484	24.0	3.1
Interest	330	247	336	33.6	(1.8)
PBT	(290)	278	(516)	(204.1)	(43.8)
Tax	(70)	74	(146)		
ETR (%)	24.2	26.5	28.3		
Adjusted PAT	(219)	205	(370)	(207.3)	(40.6)
PATAMI margin	(3.2)	3.5	(6.2)		
Reported PAT	(219)	205	(370)		
No. of shares (mn)	19.7	19.7	19.7		
Adj EPS (Rs)	(11.1)	10.4	(18.7)		

Source: Company, Systematix Institutional Research

Exhibit 2: Change in estimates

Particulars	Old Estimates		Revised Estimates		Variation (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Sales	28,745	34,443	28,939	34,949	1%	1%
EBITDA	2,946	3,772	3,140	3,967	7%	5%
EBITDA Margin	10.2%	11.0%	10.9%	11.4%		
Adj. PAT	(129)	142	65	327	-150%	130%

Source: Company, Systematix Institutional Research

Presentation takeaways

Revenue channel mix: V-Mart: 80% (including 2% digital); Unlimited: 17%; Limeroad: 3% (commission revenue).

Revenue segment mix: Fashion: 89% (including *LimeRoad*); Kirana: 11%.

SSSG: Total SSSG -2.7%; SSSG flat for V-mart; Unlimited SSSG at -10.9%

SSSV: Total SSSV 2.9%; 2.6% for V-mart; Unlimited SSSG at 6.4%

Steady store expansion: 431 total stores (VMart: 349/ Unlimited 82); opened 9 stores, closed 1 store during the quarter.

Increased footfalls: 13 mn footfalls in 1QFY24 vs 10 mn footfalls in 1QFY23.

Conversion rate: 56% in 1QFY24 vs 60% in 1QFY23.

Decline in Total ASP: Total ASP: Rs219 (-6%YoY), V-Mart: Rs197 (-4%YoY), Unlimited: Rs451 (-17%YoY).

Contraction in Apparel ASP: Total ASP: Rs345 (-6%YoY), V-Mart: Rs320 (-3% YoY), Unlimited: Rs485 (-18%YoY).

Retail space: Total retail space of 3.8 mn sq.ft (3 mn sq.ft of V-Mart, 0.8 mn sq.ft of Unlimited).

Increase in shrinkage: 1.3% in 1QFY24 vs 0.1% in 1QFY23.

Limeroad: NMV stood at Rs 445 mn (+43% growth); Service revenue at Rs 174 mn (+47% growth); Average order value declined 13% to Rs 719 vs Rs 826 in Mar'23.

Conference call takeaways

Macro scenario – Company is witnessing improvement in market conditions on month-on-month basis; Indian fashion industry has remained muted due to International economic pressures and increase in tourism leading to people shopping outside India; Value market saw positive growth; Wedding dates saw a shift to 2HFY24 leading to deferment in sales.

Growth in volumes – SSSV grew due to reduction of prices.

Like for like growth – Company targets LFL of c. 5% during FY24 led by volume growth of 8-9% ; ASP will continue to be lower.

Improvement in contribution margin from 1% to 8% for Limeroad– Identification and resolving leakages such as GMV to NMV conversion, logistics costs, marketing inefficiencies led to improvement in contribution margin.

Unlimited EBITDA – Unlimited has a higher rent as percentage of sales and hence optically the post Ind AS EBITDA appears to be higher compared to Vmart; however on a Pre-Ind AS basis it is lower than Vmart.

Limeroad – Limeroad ASP stands at Rs 600-650; this ASP is expected to soften going ahead as the company gives better price points for high fashion products on the platform which will also increase the volumes.

Region wise business growth – East, North-East and Bihar witnessed healthy growth while South and Uttar Pradesh belt continued to struggle due to the transition of informal to formal economy; in South – Telangana and Andhra Pradesh saw marginal de-growth while Tamil Nadu and Kerala witnessed strong sales growth; Tier 4 stores performed better compared to Tier 1,2 & 3; in Tier 3 towns demand continues to witness inflationary pressure and rising competition in the value space impacting sales.

Footfalls and Conversion – Footfalls grew 23% YoY however there has been a shift in consumers purchasing pattern and growth in competition which further led to a decline in conversion rate to 56% from 60% in 1QFY23; conversion was also impacted due to clerical error in counting process in the last year.

Strategy for Limeroad – Provide supply of differentiated products at good price and quality; Better search and discoverability access; trust on online (especially on quality of the product); core capabilities in tech and data strengthening Limeroad; Limeroad will also cater to the ultra-modern youth segment.

Impact of shift to new warehouse – This disturbed the supply chain for c. 45 days resulting into issues at store level; sales got impacted in the month of June and July; the benefits are expected to be seen post 6 months of stabilization of operations which will result in better turnaround time and better replenishment at stores.

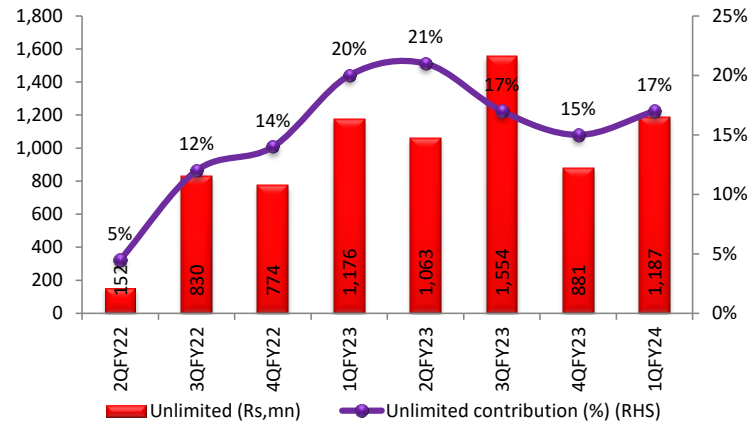
Impact of changes in design & sourcing team – Company is expecting better fashion inventory to come up in upcoming autumn-winter season; focus is on more edgy designs, youth fashion and women fashion (60% of customers).

Vmart Inventory – Company targets to clear up inventory now so that it can stock in fresh inventory in stores for upcoming festive season.

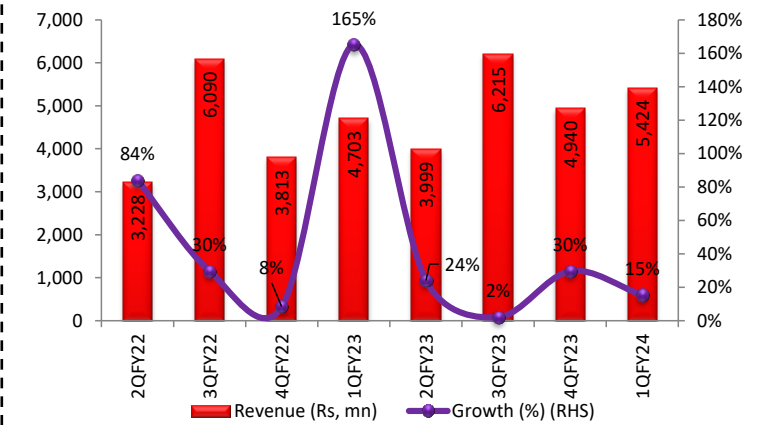
Kirana Inventory – Kirana Inventory stood at 60 days (50 days at store, 10 days at warehouse) which is majorly buffer stock; store level inventory stands at c. Rs 140 mn; no major perishable inventory, non-food and packaged inventory forms the major part; upcoming gifting season has also lead to a rise in this inventory; the inventory majorly includes deodorants, perfumes, lotions, diapers, sanitary pads, chocolates; some of this inventory has also been kept in fashion stores as these products have shelf life of 1.5-2 years.

Debt – Company expects debt to increase by end of Q2 as it will build up inventory prior to festive season.

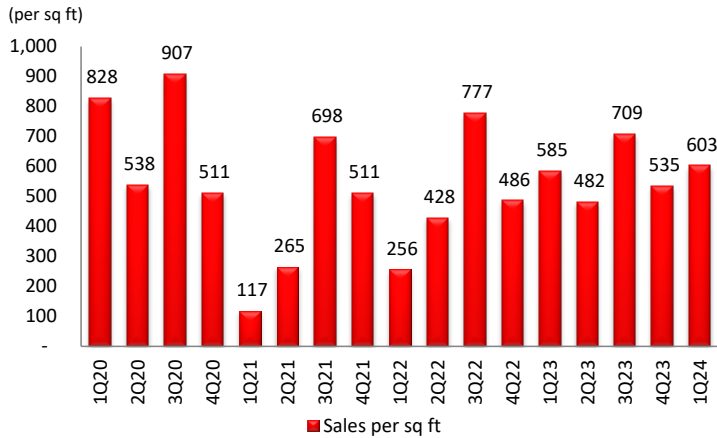
Outlook – Company expects consumption to improve from Q3 onwards.

Exhibit 3: Unlimited contributed 17% to revenue

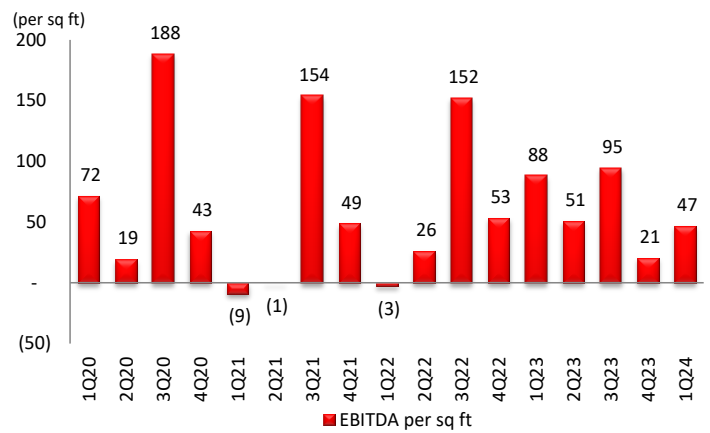
Source: Company, Systematix Institutional Research

Exhibit 4: VMart revenue (ex-Unlimited) grew 15% YoY

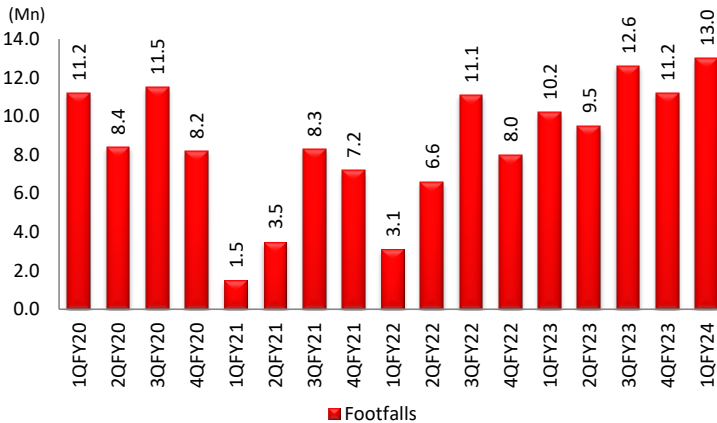
Source: Company, Systematix Institutional Research

Exhibit 5: Calculated sales per sq ft/month grew 3.1%

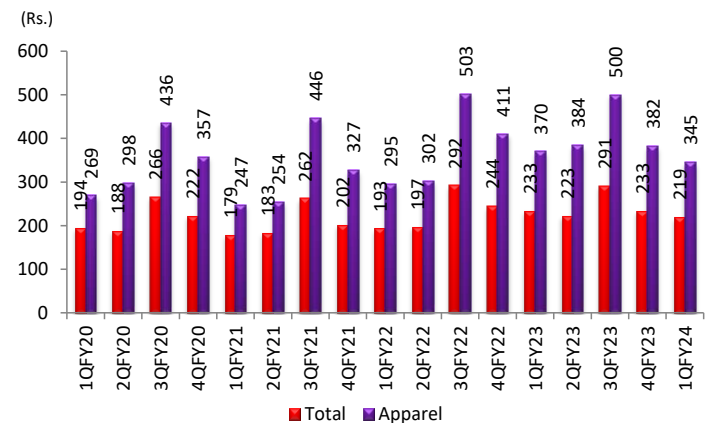
Source: Company, Systematix Institutional Research

Exhibit 6: EBITDA per sq ft/month stood at Rs 47

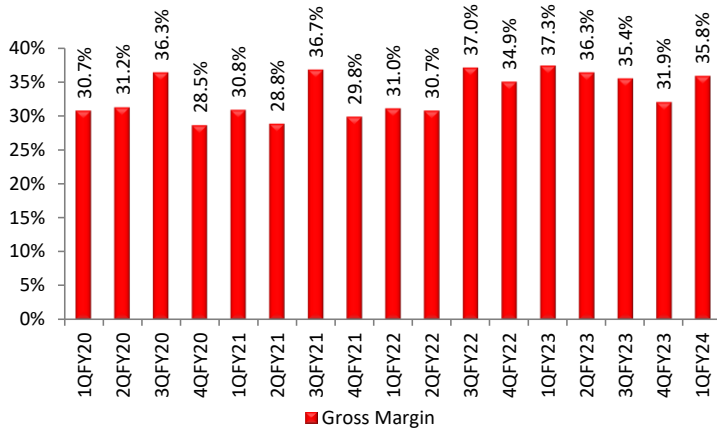
Source: Company, Systematix Institutional Research

Exhibit 7: Customer footfalls increased 27.5% YoY to 13mn

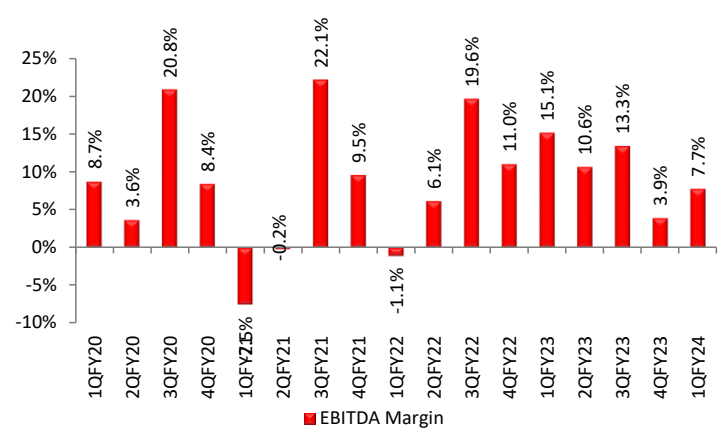
Source: Company, Systematix Institutional Research

Exhibit 8: ASP declined 6% YoY, Apparel ASP fell 6.8% YoY

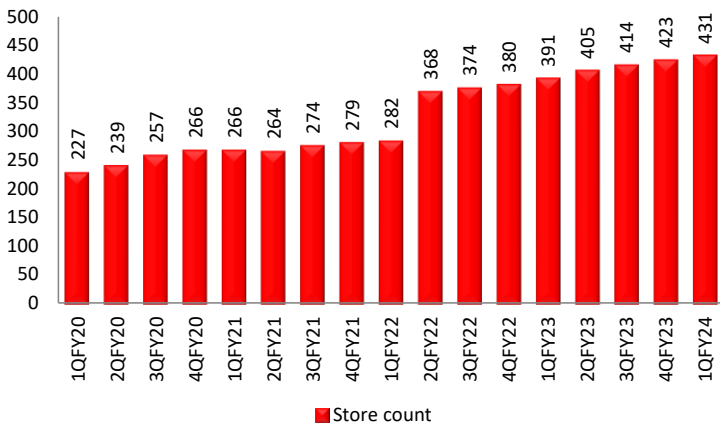
Source: Company, Systematix Institutional Research

Exhibit 9: Lower Gross margin led by inferior mix and price cuts

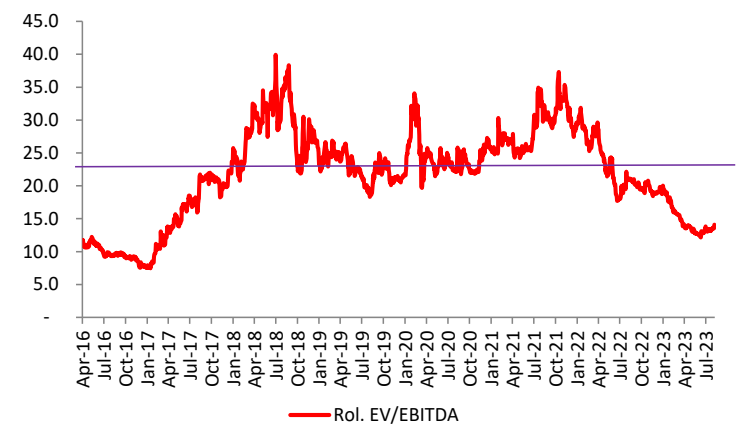
Source: Company, Systematix Institutional Research

Exhibit 10: EBITDA margin contracted sharply to 7.7%

Source: Company, Systematix Institutional Research

Exhibit 11: 8 net store additions in 1QFY24

Source: Company, Systematix Institutional Research

Exhibit 12: Currently trades at 14x one-year forward EV/EBITDA

Source: Bloomberg, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	10,755	16,662	24,648	28,939	34,949
Purchase of trad. goods	7,236	10,911	15,971	19,100	23,066
RM costs/inventories					
Gross Profits	3,519	5,751	8,677	9,839	11,883
Employee costs	1,169	1,796	2,555	2,894	3,408
Other expenses	1,038	1,911	3,433	3,805	4,508
Total Expenses	9,442	14,618	21,959	25,799	30,982
EBITDA	1,312	2,043	2,689	3,140	3,967
Depreciation	1,030	1,307	1,800	2,040	2,307
Other income	210	140	150	174	210
EBIT	493	876	1,039	1,273	1,870
Interest cost	589	772	1,169	1,187	1,433
PBT	(97)	104	(130)	87	437
Taxes	(35)	(12)	(52)	22	110
Adj. PAT	(62)	116	(78)	65	327
Extraordinaries	-	-	-	-	-
Reported PAT	(62)	116	(78)	65	327
No. of shares (mn)	20	20	20	20	20
Adj. EPS	(3.4)	6.4	(4.3)	3.6	18.0

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	197	197	198	198	198
Reserves and surplus	8,055	8,299	8,292	8,342	8,654
Total Equity	8,252	8,496	8,490	8,540	8,852
Total Debt	-	-	1,478	1,978	1,978
Other LT liabilities	5,690	8,997	11,964	12,002	13,995
Total Liabilities	13,942	17,493	21,932	22,521	24,825
Net Block	1,785	2,827	3,812	4,602	5,293
Net deferred tax	253	386	531	531	531
Other assets	5,291	8,436	11,413	10,222	10,816
CWIP	22	64	1,092	1,092	1,092
Investments	3,190	1,248	85	85	85
Cash	275	351	202	654	1,150
Inventories	4,283	6,682	8,706	9,514	10,533
Loans & Advances	5	5	4	4	4
Current Assets	5,666	7,773	10,492	11,752	13,267
Creditors	1,917	2,906	4,883	5,154	5,649
Other CL	121	116	29	29	29
Current Liabilities	2,264	3,241	5,493	5,764	6,259
Net Working Capital	3,401	4,532	4,998	5,989	7,007
Total Assets	13,942	17,493	21,932	22,521	24,825

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
PBT	(97)	104	(130)	87	437
Add: Depreciation	1,030	1,307	1,800	2,040	2,307
Add: Interest	589	772	1,169	1,187	1,433
Less: taxes paid	(35)	(118)	(182)	(22)	(110)
Add: other adjustments	(149)	(130)	8	-	-
Less: WC changes	182	(1,985)	(857)	(538)	(523)
Total OCF	1,493	(113)	1,808	2,754	3,544
OCF w/o WC changes	1,311	1,872	2,664	3,292	4,066
Capital expenditure	(410)	(1,512)	(2,783)	(1,600)	(1,600)
Creation of leased assets	-	-	-	-	-
Change in investments	(5,478)	(5,918)	(2,795)	-	-
Interest/Dividend recd.	1,701	8,666	3,992	-	-
Total ICF	(4,188)	1,237	(1,586)	(1,600)	(1,600)
Free Cash Flows	1,083	(1,624)	(976)	1,154	1,944
Share issuances	3,713	76	35	-	-
Change in borrowings	(0)	-	1,478	500	-
Dividends	-	-	(15)	(15)	(15)
Interest payment	(566)	(767)	(1,122)	(1,187)	(1,433)
Others	(278)	(354)	(750)	-	-
Total FCF	2,869	(1,045)	(374)	(701)	(1,448)
Net change in cash	174	80	(152)	453	496
Opening cash & CE	50	275	351	202	654
Closing cash & CE	224	354	199	654	1,150

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
Yoy growth in Revenue	(35.3)	54.9	47.9	17.4	20.8
Yoy growth in EBITDA	(38.6)	55.7	31.6	16.8	26.3
Yoy growth in Net income	(112.6)	(287.7)	(167.4)	(182.8)	402.8
Effective tax rate	35.8	(12.0)	39.7	25.2	25.2
EBITDA margin	12.2	12.3	10.9	10.9	11.4
PAT margin	(0.6)	0.7	(0.3)	0.2	0.9
RoCE	3.9	5.2	5.3	5.7	7.9
RoE	(1.0)	1.4	(0.9)	0.8	3.8
Net debt to equity (x)	(0.0)	(0.0)	0.2	0.2	0.1
Inventory days	145	146	129	120	110
Loans & Advances days	-	-	-	-	1
Payable days	65	64	72	65	59
NWC days	80	83	57	55	51
Per share numbers (Rs)					
Reported earnings	(3.4)	6.4	(4.3)	3.6	18.0
Dividend	-	0.8	-	0.8	0.8
Free cash	59.6	(89.5)	(53.7)	63.6	107.1
Book Value	418.8	430.2	429.4	431.9	447.7
Valuations (x)					
Price to diluted earnings	(756.2)	403.9	(599.6)	724.2	144.0
EV / EBITDA	39.8	27.2	22.4	19.2	15.6
Price to sales	4.4	2.8	1.9	1.6	1.3

Source: Company, Systematix Institutional Research

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