

V-Mart Retail

12 March 2019

Reuters: VMAR.BO; Bloomberg: VMART IN

Preparing For The Long Haul; Time Correction Likely

We had a meeting with the management of V-Mart Retail (VRL) recently to get its thoughts on the way forward after what has been a weaker-than-expected FY19. The expectation at the beginning of FY19 was of high single-digit same-store sales growth (SSG), but in YTD FY19 it has been just 3.7%. VRL is of the view that such SSG is not likely to be the new normal and expects the situation to improve going forward. According to VRL, rural incomes have been impacted adversely (likely because of adverse pricing of farm produce) and that had an impact on demand. Demand in March 2019, driven by the festival of 'Holi', will determine VRL's performance in 4QFY19 which has otherwise been weaker than expected. VRL expects some of the money from the first tranche of farmer income support scheme - that has been launched by the central government - to be spent on Holi festivities. In our view, weak rural incomes and higher competitive intensity could weigh on growth and margins in FY20 also before things likely ease up in FY21. A slightly slower SSG than the five-year average of 8% would be compensated with a higher-than-previously-targeted retail space expansion. This, in our view, should keep revenue growing at ~20%-25% over FY19-FY21. Strategically, we believe the company is doing the right things to prepare the organisation to grow at ~20% on an increasing base, profitably. These include (1) strengthening senior and middle management quality talent acquisition. (2) Continuing to remain focused on apparel retailing only with a moderately stepped-up retail area expansion without going overboard. (3) Investment in technology and processes to cater to a larger business in the future. (4) Working on its online and omni-channel initiatives. We expect the omni-channel initiative to be piloted in the next six to nine months. (5) Not overpaying for real estate despite a significant increase in competitive pressure. (6) To be disciplined in M&A and also not be reactive to aggressive moves of some regional players funded by private equity (PE) money. Quite a number of points were repeated of what we heard in another such meeting in 2018 ([Sticking To The Basics- Growth Thrust Through Tier-4 Cities](#)). After the meeting, we reinstate rating on VRL with an Accumulate rating and a new target price of Rs2,694. We had put the rating of VRL under review after its 3QFY19 results ([Festivals Drive Revenues, Margin Falls Short](#)). We have lowered our EPS estimates for the company for FY19 and FY20 (primarily driven by lower margins), while broadly maintaining our FY21 EPS estimate. We have valued VRL at 36x FY21E EPS (against 1HFY21E EPS earlier). Our target P/E multiple remains constant. 36x P/E multiple is at a premium to its five year average of 25x. But is in line with the two year average. While this is partly due valuation rub-off from Avenue Supermart, it is also partly markets positive view on the opportunity in value retailing and V-mart's disciplined execution over the last 15 years.

Market opportunity: We could glean a few more details (also see links on the next page). The 4,000 cities/towns overall opportunity stems from the 200,000-plus population centres. VRL is of the view that 10% of these towns can actually accommodate multiple stores.

Competition: It remains high from both national as well as regional players. VRL reiterated the view that the market is very large and can accommodate many players. In its view, there is significant growth of the organised retailing market and its own growth need not be at the expense of other players. VRL believes that market expansion has happened through higher level of education, access to media, greater fashion consciousness consequent to that, rising incomes, higher aspirations and lastly higher availability. VRL gave the example of Varanasi where it expanded from one store four years ago generating revenues of Rs50mn to five stores now generating revenues of Rs400m.

Consolidation in market share is overdue: VRL is of the view that a number of regional players have come on the back of PE money. While many of them have shown topline growth, they are not running operations profitably. VRL is of the view that a shakeout in the industry is likely sooner rather than later. We are partly factoring that in based on our margin expansion estimate for FY21.

GST has made an impact on lower pricing for customers, but the shift to organised retailing has not been high against initial expectations: The market share shift, in our opinion, would happen after the general elections in 2019. We understand that there are significant leakages in the Goods and Services Tax or GST system, despite the introduction of E-way Bill. We believe the government is not taking any harsh steps currently, but we expect revenue pressure to force it to crack down on such leakages in FY20 and beyond. That, in our view, may lead to a shift in market share to the formal sector with a lag.

ACCUMULATE

Sector: Retail

CMP: Rs2,811

Target Price: Rs2,694

Downside: 4%

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Key Data

Current Shares O/S (mn)	18.1
Mkt Cap (Rsbn/US\$m)	51.3/733.7
52 Wk H / L (Rs)	3,299/1,814
Daily Vol. (3M NSE Avg.)	20,590

Price Performance (%)

	1 M	6 M	1 Yr
V-Mart Retail	11.2	0.8	48.2
Nifty Index	3.1	(1.8)	7.2

Source: Bloomberg

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Revenues	10,016	12,224	14,117	17,248	21,388
YoY (%)	23.7	22.0	15.5	22.2	24.0
EBITDA	823	1,328	1,344	1,665	2,290
EBITDA (%)	8.2	10.9	9.5	9.7	10.7
Reported PAT	410	777	757	944	1,354
EPS (Rs)	22.6	43.2	41.8	52.2	74.8
YoY (%)	53.1	90.9	(3.2)	24.7	43.4
RoE (%)	16.3	25.2	19.1	18.8	21.5
RoCE (%)	22.2	33.1	25.8	24.6	28.2
Pre-Tax RoIC	15.8	24.0	20.2	20.9	25.0
P/E (x)	124.2	65.0	67.2	53.9	37.6
EV/Sales (x)	5.1	4.1	3.6	2.9	2.4
EV/EBITDA (x)	61.8	38.1	37.5	30.2	22.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in our earnings estimates

Y/E March (Rsmn)	New			Old			Deviation (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Net sales	14,117	17,248	21,388	14,387	17,310	20,294	(1.9)	(0.4)	5.4
EBITDA	1,344	1,665	2,290	1,521	1,838	2,116	(11.6)	(9.4)	8.2
EBITDA (%)	9.5	9.7	10.7	10.6	10.6	10.4	-	-	-
PAT	757	944	1,354	932	1,111	1,314	(18.7)	(15.0)	3.1
EPS (Rs)	41.8	52.2	74.8	49.9	61.2	72.4	(16.1)	(14.8)	3.4

Source: Nirmal Bang Institutional Equities Research

Links to key reports released recently on the company

[V-Mart Retail- 3QFY19 Result Update- Festivals Drive Revenues, Margin Falls Short](#)

[V-Mart Retail - SSG Guidance Lowered To Mid-Single-digit Versus High Single-digit](#)

[V-Mart Retail- Softer SSG Due To Geo Mix And Curtailed Marriage Season](#)

[V-Mart Retail- Management Meet Update- Sticking To The Basics- Growth Thrust Through Tier-4 Cities](#)

Exhibit 3: P/E multiple charts



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 4: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	10,016	12,224	14,117	17,248	21,388
Growth (%)	23.7	22.0	15.5	22.2	24.0
Purchases of stock-in-trade	7,675	8,682	10,178	12,393	15,089
Change in inventories	(647)	(379)	(479)	(579)	(679)
COGS	7,027	8,303	9,699	11,813	14,410
Gross Profit	2,988	3,921	4,418	5,435	6,978
Gross Margin (%)	29.8	32.1	31.3	31.5	32.6
Employee expenses	780	984	1,201	1,499	1,872
Other expenses	1,385	1,609	1,873	2,271	2,816
Prior period items	0	0	0	0	0
Total expenditure	9,192	10,896	12,773	15,584	19,098
EBITDA	823	1,328	1,344	1,665	2,290
Growth (%)	32.3	61.3	1.2	23.8	37.6
EBITDA Margin (%)	8.2	10.9	9.5	9.7	10.7
Other income	31	41	51	61	104
Interest costs	35	15	15	15	15
Depreciation	198	229	250	301	357
Exceptional Items	0	0	0	0	0
PBT	621	1,124	1,130	1,409	2,021
Tax	206	348	373	465	667
Effective tax rate (%)	33.2	30.9	33.0	33.0	33.0
PAT	410	777	757	944	1354
Growth (%)	48.1	89.7	(2.5)	24.7	43.4
PAT Margin (%)	4.1	6.4	5.4	5.5	6.3
EPS (Rs)	22.6	43.2	41.8	52.2	74.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Equity	181	181	181	181	181
Reserves	2,523	3,293	4,265	5,431	6,781
Net worth	2,703	3,474	4,446	5,612	6,963
Short-term Borrowings	349	93	454	550	600
Long-term Borrowings	6	3	3	3	3
Total Debt	355	96	457	553	603
Deferred tax liabilities	(70)	-	(84)	(101)	(117)
Other non-current liabilities	148	81	235	277	321
Total Liabilities	3,135	3,651	5,055	6,341	7,769
Gross Block	2,096	2,463	2,943	3,543	4,203
Accumulated depreciation	821	1,051	1,292	1,549	1,820
Net Block	1,275	1,412	1,651	1,993	2,383
Capital WIP	12	35	35	35	35
Long-term investments	58	63	63	63	63
Other non-current assets	201	301	467	517	669
Current Investments	619	277	512	664	1,584
Inventories	2,692	3,071	3,614	4,369	5,330
Cash & Bank	29	196	673	917	691
Other current assets	34	142	193	394	194
Total Current Assets	3,374	3,686	4,992	6,344	7,798
Creditors	1,599	1,668	1,940	2,363	2,882
Other current liabilities/provisions	186	180	214	248	296
Total current liabilities	1,785	1,848	2,154	2,611	3,178
Net current assets	1,589	1,839	2,838	3,733	4,619
Total Assets	3,135	3,650	5,053	6,341	7,769

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
PBT	623	1,125	1,130	1,409	2,021
(Inc.)/Dec in working capital	(90)	(425)	(287)	(500)	(192)
Cash flow from operations	533	700	843	909	1,829
Other income	(30)	(41)	(51)	(61)	(104)
Other expenses	228	15	15	15	15
Depreciation	220	229	250	301	357
Tax paid	(243)	(348)	(373)	(465)	(667)
Net cash from operations	709	556	684	700	1,431
Capital expenditure	(416)	(389)	(489)	(643)	(747)
Net cash after capex	293	167	195	56	684
Other investing activities	(312)	277	(349)	(141)	(966)
Cash from financial activities	49	(270)	416	106	63
Opening cash	20	29	137	614	858
Closing cash	29	137	614	858	632
Change in cash	8	109	477	244	(226)

Source: Company, Nirmal Bang Institutional Equities Research

Note: Closing cash represents cash & cash equivalents

Exhibit 7: Key ratios

Y/E March	FY17	FY18	FY19E	FY20E	FY21E
Per share (Rs)					
EPS	23	43	42	52	75
Book value	149	192	246	310	385
Valuation (x)					
P/E	124.2	65.0	67.2	53.9	37.6
P/sales	5.1	4.1	3.6	2.9	2.4
P/BV	18.8	14.6	11.4	9.1	7.3
EV/EBITDA	61.8	38.1	37.5	30.2	22.1
EV/sales	5.1	4.1	3.6	2.9	2.4
Return ratios (%)					
RoE	16.3	25.2	19.1	18.8	21.5
RoCE	22.2	33.1	25.8	24.6	28.2
Pre- Tax RoIC	15.8	24.0	20.2	20.9	25.0
Margins (%)					
Gross margin	29.8	32.1	31.3	31.5	32.6
EBITDA margin	8.2	10.9	9.5	9.7	10.7
EBIT margin	6.2	9.0	7.7	7.9	9.0
PBT margin	6.2	9.2	8.0	8.2	9.5
PAT margin	4.1	6.4	5.4	5.5	6.3
Turnover ratio					
Asset turnover ratio (x)	2.0	2.2	2.0	1.9	2.0
Avg inventory days	123	127	126	123	123
Avg payable days	82	85	79	81	81
Cash Conversion Cycle	41	42	46	42	42
Solvency ratios (x)					
Debt-equity	0.1	0.0	0.1	0.1	0.1
Growth (%)					
Sales	23.7	22.0	15.5	22.2	24.0
EBITDA	32.3	61.3	1.2	23.8	37.6
PAT	48.1	89.7	-2.5	24.7	43.4

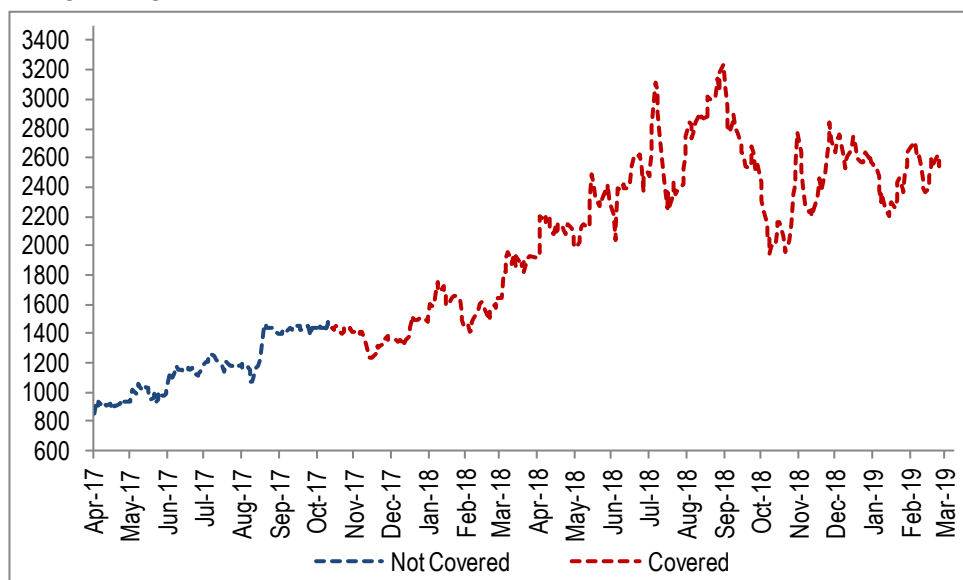
Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price	Target price (Rs)
16 October 2017	Buy	1,435	1,797
13 November 2017	Buy	1,399	1,797
15 February 2018*	Buy	1,600	2,039
28 May 2018	Accumulate	2,314	2,318
18 June 2018	Accumulate	2,398	2,318
26 July 2018	Accumulate	2,351	2,318
9 November 2018	Accumulate	2,383	2,369
7 February 2019	Under Review	2,700	-
12 March 2019	Accumulate	2,811	2,694

*Transfer of coverage to Girish Pai with effect from 15 February 2018

Rating track graph



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