V-Mart Retail

25 June 2014

Reuters: VMAR.NS; Bloomberg: VMART IN

Management Meet Update

We had a meeting recently with Mr. Lalit Agarwal, chairman and managing director, and Mr. Deepak Sharma, chief financial officer of V-Mart Retail (VRL) to know the company's business plans and prospects. The key highlights are as follows:

- VRL focuses on cash flow and return ratios, but despite this the company has increased its revenue at a 34.3% CAGR over FY08-FY14. The management has given revenue guidance CAGR of 30% over the next three years.
- SSS (same-store sales growth) has been more than 10% in the past three years, which would be maintained going forward.
- Currently, VRL has total 92 stores across India and it has given guidance of adding 25 new stores during the current financial year in Tier II and Tier III cities. Further, it will continue to follow the cluster-based approach (opening of new stores within a radius of 150km from its existing store) in establishing new stores under the mini-hyper market format. The expansion is likely to lead to revenue growth of 10%-15% going forward.
- Average store size is 8,000sq ft, costing Rs10.4mn-Rs11.2mn. The capex needed to set up a store is Rs1,300-Rs1,400 per sq ft.
- For setting up 25 stores in FY14-FY15E, VRL requires a capex of Rs280mn. The company had raised Rs842.31mn from its initial public offer (IPO) in February 2013. It spent Rs590.76mn to meet the objectives of the IPO and the balance sum stands at Rs323.30mn. The funds for setting up new stores will be met from the IPO proceeds, internal accruals and by availing debt, if required.
- The D/E ratio improved from 0.8x in FY09 to 0.3x in FY14. As per the management, it would be under 0.5x going forward.
- With healthy profit margins and stringent control over working capital, VRL has been able to expand its return ratios. Its RoE/RoCE moved up from 4.4%/6.2% to 15.8%/14.6%, respectively, over FY09-FY14. There is scope to improve the working capital position from the current level, which would improve the cash flow.
- VRL's key objective is profitable growth with major focus on non-kirana business (apparel and non-apparel, including footwear, purses, etc). Gross margins in apparel and non-apparel business are at 33% and 37%, respectively, 2.5x the gross margin of kirana at 13%. Since April 2012, VRL has stopped setting up new stores with kirana items. Currently, out of 92 stores, 34 stores have kirana business.
- With the conscious efforts of the management, the contribution of the fashion segment stood at 87.8% and of the kirana segment at 12.2% of total revenue in FY14 compared to the fashion segment's 76%/81% and the kirana segment's 24%/19% contribution in FY12/FY13, respectively, to total revenue.
- Average EBITDA margin for the past five years (FY10-FY14) is 9.4%, which would be maintained going forward. The management's focus would be on driving volume with control over working capital, while maintaining the same margins.
- As most of its stores are located in Tier II & III cities, VRL enjoys relatively lower rentals compared to Indian peers who generally operate in metro cities. The rentals are around 4.0%-4.5% of sales compared to 6.0%-7.0% in case of peers.
- Besides the location advantage, VRL has signed long-term lease agreements for 9-12 years with escalation costs of 10%-12% every three years.
- VRL's staff costs are competitive at 6.7% of net sales as against Shoppers Stop's 7.6% and Trent's 8.6% in FY14.
- Average monthly realisation is likely to be Rs800/sq ft in FY15E as against Rs778/sq ft in FY14.
- A new store takes only two months to break-even. Generally, a store matures in five years and after that management modifies its interior decor to improve SSG. If any store is not profitable for more than 18 months, it is shut. VRL has shut 16 stores in all, out of which 3 stores were in FY14.
- Footfalls per store/per day are 500, and the conversion rate stands at 66%.

NOT RATED

Sector: Retail

CMP: Rs346

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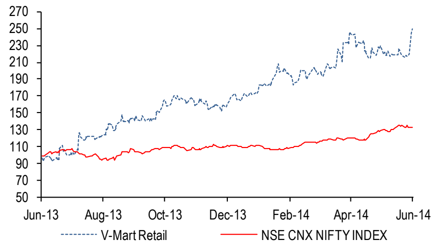
Key Data

Current Shares O/S (mn)	18.0
Mkt Cap (Rsbn/US$mn)	6.3/104.3
52 Wk H / L (Rs)	375/124
Daily Vol. (3M NSE Avg.)	14,354

One-Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
V-Mart Retail	8.9	55.5	149.9
Nifty Index	2.9	20.9	35.6

Source: Bloomberg

Exhibit 1: Financials

Y/E March (Rsmn) cons.	FY10	FY11	FY12	FY13	FY14
Revenue	1,442	2,148	2,819	3,835	5,750
YoY (%)	*1.3*	*49.0*	*31.2*	*36.0*	*49.9*
EBITDA	119	194	283	392	538
EBITDA (%)	*8.2*	*9.0*	*10.0*	*10.2*	*9.4*
Reported PAT	23	63	105	181	252
Adj. PAT	23	63	105	181	252
FDEPS (Rs)	3.4	8.5	14.3	10.1	14.0
YoY (%)	*122.6*	*151.5*	*67.4*	*-29.6*	*39.4*
RoCE (%)	*7.7*	*12.9*	*17.0*	*15.5*	*14.6*
RoIC (%)	*7.8*	*12.9*	*16.9*	*19.2*	*18.5*
RoE (%)	*6.4*	*15.4*	*21.4*	*17.9*	*15.8*
P/E (x)	101.9	40.5	24.2	34.4	24.7
P/B (x)	6.3	5.8	4.7	4.2	3.7
EV/EBITDA (x)	22.3	15.0	10.3	15.3	11.7

Source: Company, Nirmal Bang Institutional Equities Research

Key elements of the company's business model are as follows:

- Focus on Tier II & III cities.
- Follows a cluster-based approach where no store is more than 150km from its existing store.
- Growth rate is controlled, based on the capability of the organisation.
- Growth is funded through internal accruals.
- Maintains low gearing, with a maximum of 0.7x.
- Conserves cash by controlling costs and generates cash by higher sales.
- Provides aspirational products at affordable prices based on strong and high quality vendor base.

Company background

Incorporated in 2002, VRL is a medium-sized hypermarket format retail chain based in New Delhi. It is a multi-brand family store, which offers apparel, general merchandise and kirana bazaar. VRL has established stores in metro, Tier-I, Tier-II and Tier-III cities, which are primarily located as standalone stores in high-street areas and shopping hubs. The company follows the concept of 'value retailing' to target the strata of population belonging to the expanding 'aspiring class' and 'middle class' and is based on customer's socio-economic conditions, purchasing power, demographic details and customer trends. VRL currently has 92 stores across 79 cities including metro cities with a total area of 740,000 sq. ft. VRL operates all of its stores on its own and has not gone for any franchise arrangement.

Out of the current 92 stores, 34 stores also have kirana bazaars, through which it sells branded packaged food and non-food items like personal care products. It doesn't sell perishable goods like fruits and vegetables. Currently, apparel accounts for 87.8% of the company's sales, while 12.2% comes from kirana. With the company not including the kirana bazaar in its new stores, the share of kirana will automatically continue to drop.

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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