

## V-MART Retail

### Continues to lead apparel universe in recovery

V-MART recovered ~84% (LTL growth at 81%; HSIE: 80%) of base quarter sales (most within our apparel universe along with Trent). Recovery was led by strong festive and marriage season along with early winter sales. Better inventory relevance/control (translating into lower discounting) led to gross margin expansion. GM expanded 40bp to 36.7% (HSIE: 35%). EBITDAM expanded 131bp to 22.1% (the highest since FY14), led by strong cost control. Working capital (WC) remains smartly managed and the company remains net cash positive. Note: VMART recently raised Rs. 3.75bn (for furthering growth aspirations). We revise our FY22/23 EBITDA estimates by ~3% each YoY to account for marginally higher margins, courtesy a struggling ecosystem. Ergo, revise our DCF-based TP to Rs. 2,650/sh (implying 22x FY23 EV/EBITDA)

- 2QFY21 highlights:** Revenue declined 16.4% YoY to Rs. 4.7bn (HSIE: Rs. 4.5bn) - the fastest recovery within our apparel universe given its predominant Tier 2-4 presence and a strong festive and marriage season along with the tailwind of an early winter. LTL growth stood at 81% YoY. Note: footfall recovery (72%) continues to lag top-line recovery (84%). The ASP/average bill sizes/conversion rates remain elevated (+2%/+16%/62% respectively) as consumers continue to prefer purposeful shopping. GM expanded 40bp to 36.7% (HSIE: 35%). EBITDAM expanded 131bp to 22.1% (the highest since FY14), led by strong cost control. Working capital (WC) remains smartly managed and the company remains net cash positive. Inventory levels were down Rs. 1.7bn and -37% on a per store level basis since 4QFY20 – the only apparel retailer to achieve this. PAT declined 18% to Rs. 479mn (HSIE: Rs. 422mn).
- Outlook:** VMART's 9MFY21 gives a glimpse of how an efficient retailer operates during a crisis. We believe that market share gains would expedite in the post-pandemic world as VMART's strong balance sheet (even so post the Rs. 3.75bn fund raise) meets precariously-placed regional peers (suffering from liquidity challenges). Hence, we maintain our ADD recommendation with a DCF-based TP of Rs. 2,650/sh (implying 22x FY23 EV/EBITDA). FY22/23 EBITDA estimates revised upwards by ~3% each respectively.

#### Quarterly financial summary

(Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY19	FY20E	FY21E	FY22E	FY23E
Net Revenue	4,700	5,622	(16.4)	1,755	167.8	14,337	16,630	10,660	16,920	21,833
Adj EBITDA	835	944	(11.5)	(97)	(957.6)	1,329	1,324	442	1,422	1,924
EV/EBITDA (x)						33.2	33.9	98.7	30.7	22.4
Core RoCE(%)						21.5	19.2	1.3	18.5	22.6

Source: Company, HSIE Research, Standalone Financials

#### Change in estimates

(Rs mn)	FY21E			FY22E			FY23E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	10,660	10,660	-	16,920	16,920	-	21,833	21,833	-
Gross Profit	3,439	3,334	3.1	5,475	5,393	1.5	7,108	7,003	1.5
Gross Profit Margin(%)	32.3	31.3	98 bps	32.4	31.9	48 bps	32.6	32.1	48 bps
EBITDA	442	305	44.8	1,422	1,374	3.5	1,924	1,863	3.3
EBITDA margin (%)	4.1	2.9	128 bps	8.4	8.1	28 bps	8.8	8.5	28 bps

Source: Company, HSIE Research

ADD

CMP (as on 5 Feb 2021)	Rs 2,490
Target Price	Rs 2,650
NIFTY	14,924

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 2,425	Rs 2,650
EBITDA %	FY22E	FY23E
	+3.5	+2.7

#### KEY STOCK DATA

Bloomberg code	VMART IN
No. of Shares (mn)	18
MCap (Rs bn) / (\$ mn)	45/621
6m avg traded value (Rs mn)	68
52 Week high / low	Rs 2,613/1,200

#### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	26.4	39.5	18.8
Relative (%)	3.7	4.8	(4.5)

#### SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	50.8	50.6
FIs & Local MFs	17.6	18.5
FPIs	23.2	22.6
Public & Others	8.5	8.3
Pledged Shares	50.8	50.6

Source : BSE

Pledged shares as % of total shares

Jay Gandhi

jay.gandhi@hdfcsec.com  
+91-22-6171-7320

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600

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**HDFC securities****Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 [www.hdfcsec.com](http://www.hdfcsec.com)