

V-Mart Retail Ltd

BUY

CMP Rs 2,690

Target Rs 3,089

Upside 15%

Strong balance sheet to drive share gains; valuations rich but still a good 2-3 year buy

We conducted a round of channel checks on V-Mart Retail and other peers. The feedback is encouraging on the back of several initiatives taken by the management to drive recovery in footfalls. While the recovery is shaping up well so far and should help the company get back to positive trajectory in 4Q with footfalls recovering above 80% for 4Q and above 90% for March, the growing number of COVID cases remains the key risk which can again impact store operations and footfalls. The company is also very comfortable on the inventory levels and freshness with strong sales without aggressive discounting. Given liquidity issues for weaker peers, the company would have gained market share. The company is taking a 8-10% price increase on fresh inventory from April to pass on the yarn inflation. The recent QIP fund raise of Rs 3.75bn will be spent on setting up a new owned warehouse and aggressive omni-channel investments over the next 2-3 years which will improve supply chain efficiencies, take care of next 10 year requirements and improve their digital offerings. The 25% annual footprint expansion will be comfortably funded from internal accruals. We adjust our EPS estimates to build in the QIP dilution. We continue to believe that VMART remains a strong play on the value retail story with best-in-class operating metrics, solid execution, capable management and a strong balance sheet to support market share gains with limited threat of online competition. We reiterate BUY rating and increase our TP to Rs 3,089 from Rs 2,400 earlier based on 55x FY23E P/E (18x FY23E EV/EBITDA).

Channel check takeaways

Strong sales recovery: VMART is set to benefit from the festival season as one of the biggest festivals in the Hindi belt 'Holi' is driving footfalls. Healthy demand is seen across the region as customers are quite upbeat on the upcoming Holi festival. The optimism was visible as almost all the stores are expected to exceed the internal targets by ~20% for March'2021 sales (running in excess of targets at time of discussion). February sales recovery stood at 90-100% while January month sales recovery was lower than expected owing to end of season sales (EOSS) and downtrading by the customers. VMART is also trying to open a few new stores ahead of Holi and Eid to get maximum traction. The company's continued focus on online sales is visible as it has created 2 omni-channel stores out of 21 stores in Lucknow. To further push online sales, on in-store shopping of Rs2,000, customers receive 4 coupons of Rs500 each out of which one must be absorbed through online purchase. We expect revenue to be marginally positive in Q4FY21 as lockdown concerns over the second wave of COVID has again started to impact consumer sentiment just before the quarter end.

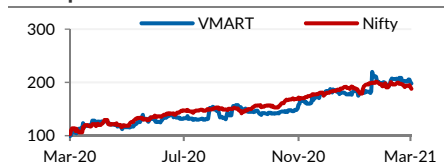
Innovative schemes driving footfall conversion: Customers are enthused by the incentive schemes offered during the festival season which is visible in high footfalls and conversion rate. We observed that a 20% yoy reduction in footfalls is offset by a 15-20% increase in conversion rate in Q4FY21. Presently, two schemes on the shelves are 1) Duffle bag worth Rs2,000 on the shopping of Rs4,000 by paying only Rs149 more 2) Dinner set worth Rs1,000 on the shopping of 2,000 by paying only Rs99 more. The response is so encouraging that stores are running out of stock with Duffle bags.

Cost reduction efforts to improve profitability: VMART is significantly operating at lower employee strength to minimize cost of retailing and improve profitability. Some stores are even operating at 50% employee strength by staffing temporary employees to manage high rush festival season. Some stores were able to renegotiate rent during 9MFY21 while some are still operating at full rental expense.

Stock data (as on Mar 25, 2021)

Nifty	14,325
52 Week h/l (Rs)	3129 / 1200
Market cap (Rs/USD mn)	53010 / 730
Outstanding Shares (mn)	20
6m Avg t/o (Rs mn):	72
Div yield (%):	Na
Bloomberg code:	VMART IN
NSE code:	VMART

Stock performance



	1M	3M	1Y
Absolute return	-0.4%	7.6%	96.7%

Shareholding pattern (As of Sept'20 end)

Promoter	50.8%
FII+DII	40.7%
Others	8.5%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	3,089	2,400

Δ in earnings estimates

	FY21e	FY22e	FY23e
EPS (New)	-4.9	34.6	56.2
EPS (Old)	-5.3	38.0	60.0
% change	7.5	-9.0	-6.4

Financial Summary

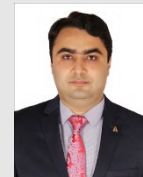
	FY21E	FY22E	FY23E
Revenues	10,793	19,039	23,798
Yoy growth (%)	-35.1	76.4	25.0
OPM (%)	12.0	13.0	13.5
EPS (Rs)	-4.9	34.6	56.2
EPS growth	nm	nm	62.4
P/E (x)	nm	77.8	47.9
Price/Book (x)	5.9	5.5	5.0
EV/EBITDA (x)	37.3	19.9	15.4
Debt/Equity (x)	-0.6	-0.4	-0.3
RoE (%)	-1.5	8.0	11.8
RoCE (%)	4.1	10.1	13.3

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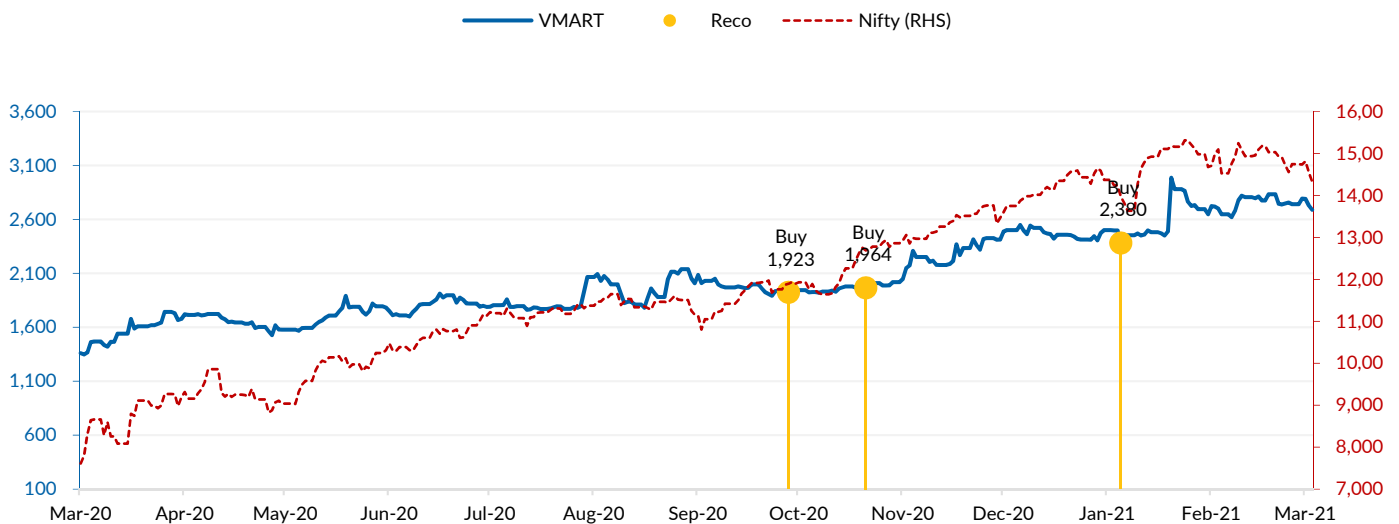
Trends in consumer buying: Some stores are performing better in Men's category while others are getting better traction in Women's category depending on store location. Casual wear is in high demand while formal wear is still lagging.

Strong growth on the cards in Q1FY22: Store managers are expecting healthy sales in the month of May 2021 as Ramzan is kickstarting from 15 April, 2021. We are estimating 5-10% SSSG in Q1FY22. Green shoots are already visible during Holi where stores are ahead of their internal sales targets by ~20%.

How peers like V2 Retail are performing?

- ✓ March'2021 sales is recovering to 100% for most of the V2 Retail stores. Some small competitors are lagging behind. The company should be able to recover 85-90% of the sales YoY in 4Q.
- ✓ Footfall is lower compared to last year but incentive schemes in festival season are driving customers to stores. Although, smaller competitors are struggling to gather footfall. They are at ~50% of their average footfall in the month of Jan and Feb while March is a bit better.
- ✓ Some of the V2 stores closed during the pandemic and VMART opened at some of those locations. One example being V2 store at Jagrani, Lucknow. Clearly, VMART benefitted from being the leader and giving landlords better deals compared to competition.
- ✓ Competitor stores expect ~100% sales recovery in Q1FY22 owing to festival season provided no further lockdown comes into effect.
- ✓ Other stores as well continue to operate at 50-60% employee strength.
- ✓ V2 Jagrani and V2 Alambagh (both in Lucknow) closed during the crisis given lower sales which was not sufficient to cover rental expense.

Recommendation Tracker



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