

7 July 2016

BUY

TP: INR 620.00

▲ 26.7%

V-Mart Retail

VMART IN

Demand pick-up likely from H2, BUY

We meet the management of VMART and following were the key takeaways:

(1) Demand remains muted but should revive post a good monsoon. (2) Improved demand, a normal winter and stable commodity prices should rev up SSSg from Q3FY17 onwards. (3) The company plans to add ~20 stores in FY17. While we see strong earnings growth and SSSg improvement ahead, we pare estimates to factor in a slower-than-expected demand revival. Maintain BUY; Mar'17 TP Rs 620 (Rs 685 earlier).

- ➔ **FY17 store addition target:** VMART plans to add ~20 stores of ~8000sqft each in FY17. These stores would be opened across existing geographies and recently-entered markets such as Orissa and West Bengal.
- ➔ **Demand revival in H2FY17:** Demand remains tepid but should revive in H2FY17, post a good monsoon. Also a normal winter (unlike last year) should aid growth.
- ➔ **SSSg/revenue per sqft to improve:** VMART reported negative SSSg of 1.1% and a ~5% decline in revenue/sqft in FY16 as an unfavourable winter and poor monsoons led to tepid demand; also, a drop in commodity prices pushed down ASPs. With expectations of a good monsoon in FY17, management is hopeful of revival in SSSg. Besides, a normal winter with stable/higher commodity prices should lead to higher revenue per sqft in FY17. We factor in SSSg of 5%/8% for FY17E/FY18E.
- ➔ **Estimates pared:** We cut our FY17/FY18 revenue estimates by ~4% on a slower-than-expected demand revival. We accordingly pare our PAT estimates by ~9%.
- ➔ **Valuations:** VMART currently trades at a PER of 15.1x FY18 which is attractive given its solid growth prospects and improving return ratios. Maintain BUY with a revised Mar'17 TP of Rs 620 (from Rs 685 earlier).

Financial Highlights

Y/E 31 Mar	FY14A	FY15A	FY16P	FY17E	FY18E
Revenue (INR mln)	5,750	7,205	8,094	9,856	12,290
EBITDA (INR mln)	521	636	622	880	1,109
Adjusted net profit (INR mln)	251	375	269	439	586
Adjusted EPS (INR)	13.9	20.7	14.9	24.3	32.4
Adjusted EPS growth (%)	44.4	49.2	(28.2)	63.4	33.4
DPS (INR)	1.0	1.5	1.3	1.5	1.8
ROIC (%)	14.5	18.0	11.5	16.2	18.2
Adjusted ROAE (%)	15.8	20.0	12.3	17.5	19.6
Adjusted P/E (x)	35.2	23.6	32.9	20.1	15.1
EV/EBITDA (x)	16.6	14.0	14.3	10.2	8.1
P/BV (x)	5.2	4.3	3.8	3.2	2.7

Source: Company, Bloomberg, RCML Research



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PRICE CLOSE (07 Jul 16)

INR 489.25

MARKET CAP

INR 8.8 bln

USD 131.0 mln

SHARES O/S

18.1 mln

FREE FLOAT

42.8%

3M AVG DAILY VOLUME/VALUE

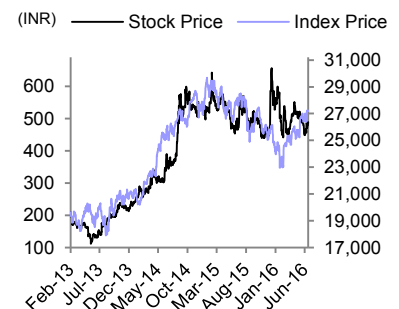
0.0 mln / USD 0.2 mln

52 WK HIGH

INR 684.90

52 WK LOW

INR 425.00



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Company Update

INDIA
RETAIL

Per Share Data

Y/E 31 Mar (INR)	FY14A	FY15A	FY16P	FY17E	FY18E
Reported EPS	13.9	20.7	15.3	24.3	32.4
Adjusted EPS	13.9	20.7	14.9	24.3	32.4
DPS	1.0	1.5	1.3	1.5	1.8
BVPS	94.4	113.7	128.1	150.7	181.1

Valuation Ratios

Y/E 31 Mar (x)	FY14A	FY15A	FY16P	FY17E	FY18E
EV/Sales	1.5	1.2	1.1	0.9	0.7
EV/EBITDA	16.6	14.0	14.3	10.2	8.1
Adjusted P/E	35.2	23.6	32.9	20.1	15.1
P/BV	5.2	4.3	3.8	3.2	2.7

Financial Ratios

Y/E 31 Mar	FY14A	FY15A	FY16P	FY17E	FY18E
Profitability & Return Ratios (%)					
EBITDA margin	9.1	8.8	7.7	8.9	9.0
EBIT margin	7.2	8.2	5.3	6.8	7.2
Adjusted profit margin	4.4	5.2	3.3	4.5	4.8
Adjusted ROAE	15.8	20.0	12.3	17.5	19.6
ROCE	13.8	17.8	11.3	15.8	18.0
YoY Growth (%)					
Revenue	49.9	25.3	12.3	21.8	24.7
EBITDA	38.6	22.0	(2.2)	41.6	26.0
Adjusted EPS	44.4	49.2	(28.2)	63.4	33.4
Invested capital	26.5	9.7	11.7	15.0	18.4
Working Capital & Liquidity Ratios					
Receivables (days)	0	0	0	0	0
Inventory (days)	126	126	124	124	124
Payables (days)	35	39	42	42	42
Current ratio (x)	1.8	1.9	1.7	1.9	1.9
Quick ratio (x)	0.3	0.2	0.2	0.1	0.1
Turnover & Leverage Ratios (x)					
Gross asset turnover	6.3	5.8	5.2	5.2	5.5
Total asset turnover	2.2	2.3	2.3	2.4	2.5
Net interest coverage ratio	11.1	16.0	13.9	19.8	28.1
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

DuPont Analysis

Y/E 31 Mar (%)	FY14A	FY15A	FY16P	FY17E	FY18E
Tax burden (Net income/PBT)	66.5	67.6	65.5	67.0	67.0
Interest burden (PBT/EBIT)	91.6	93.9	95.2	97.2	98.6
EBIT margin (EBIT/Revenue)	7.2	8.2	5.3	6.8	7.2
Asset turnover (Revenue/Avg TA)	219.7	231.5	227.3	240.0	253.9
Leverage (Avg TA/Avg equities)	164.7	166.0	163.5	163.6	162.0
Adjusted ROAE	15.8	20.0	12.3	17.5	19.6

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Company Update

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Income Statement

Y/E 31 Mar (INR mln)	FY14A	FY15A	FY16P	FY17E	FY18E
Total revenue	5,750	7,205	8,094	9,856	12,290
EBITDA	521	636	622	880	1,109
EBIT	412	590	431	674	886
Net interest income/(expenses)	(37)	(37)	(31)	(34)	(32)
Other income/(expenses)	2	1	10	15	20
Exceptional items	0	0	0	0	0
EBT	378	554	411	656	874
Income taxes	(127)	(180)	(142)	(216)	(289)
Extraordinary items	1	(1)	7	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	252	374	276	439	586
Adjustments	(1)	1	(7)	0	0
Adjusted net profit	251	375	269	439	586

Balance Sheet

Y/E 31 Mar (INR mln)	FY14A	FY15A	FY16P	FY17E	FY18E
Accounts payables	641	752	956	1,096	1,463
Other current liabilities	101	115	157	167	237
Provisions	55	68	82	55	55
Debt funds	438	306	329	350	280
Other liabilities	0	0	0	0	0
Equity capital	180	180	181	181	181
Reserves & surplus	1,522	1,869	2,126	2,534	3,083
Shareholders' fund	1,702	2,049	2,307	2,714	3,263
Total liabilities and equities	2,936	3,289	3,832	4,382	5,299
Cash and cash eq.	366	252	236	232	161
Accounts receivables	0	0	0	0	0
Inventories	1,677	1,832	2,044	2,654	3,205
Other current assets	162	212	383	211	530
Investments	0	0	0	0	0
Net fixed assets	691	981	1,103	1,219	1,338
CWIP	10	7	23	23	23
Intangible assets	9	0	0	0	0
Deferred tax assets, net	22	6	42	42	42
Other assets	0	0	0	0	0
Total assets	2,936	3,289	3,832	4,382	5,299

Cash Flow Statement

Y/E 31 Mar (INR mln)	FY14A	FY15A	FY16P	FY17E	FY18E
Net income + Depreciation	361	419	466	645	808
Interest expenses	37	37	31	34	32
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(270)	(67)	(122)	(316)	(431)
Other operating cash flows	(14)	15	(36)	0	0
Cash flow from operations	113	405	339	362	409
Capital expenditures	(331)	(324)	(329)	(322)	(341)
Change in investments	64	124	25	43	0
Other investing cash flows	0	(3)	0	0	0
Cash flow from investing	(267)	(202)	(304)	(279)	(341)
Equities issued	0	9	8	0	0
Debt raised/repaid	83	(132)	24	21	(70)
Interest expenses	(37)	(37)	(31)	(34)	(32)
Dividends paid	(27)	(32)	(26)	(32)	(37)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	20	(192)	(26)	(45)	(138)
Changes in cash and cash eq	(134)	10	9	39	(71)
Closing cash and cash eq	23	33	43	82	11