V Mart Retail Ltd

March 23, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	45	**CARE A+; Positive (Single A Plus; Outlook Positive)**	**Reaffirmed**
Short-term Bank Facilities	8	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Facilities	**53.00 (Rupees Fifty Three crore only)**		
Short-term Instruments (Commercial Papers)#	-	-	**Withdrawn**

Details of instruments/facilities in Annexure-1

#The rating has been withdrawn as the instrument was not issued by the company and is no amount outstanding against the said instrument

Detailed Rationale & Key Rating Drivers

The ratings of the bank facilities of assigned to V-Mart Retail Limited (VMRL) continue to take into account the improved operating and financial performance of the company in FY17 (refers to the period April 01 to March 31) and 9MFY18 (refers to the period April 01 to December 31) marked by growth in revenue and profitability margins along with comfortable capital structure. The company has been increasing its presence with opening of new retail stores which increased to 167 as on December 31, 2017. The ratings continue to derive strength from the experienced promoters, widespread geographical coverage and large supplier base.

The rating strengths are, however, partially offset by intense competition in the retail sector and working capital intensive nature of business.

Going forward, the company's ability to increase the scale of operations in line with expansion in the number of stores as envisaged without any adverse impact on profitability and capital structure and efficient supply chain management shall be the key rating sensitivities.

Outlook: Positive

The outlook for the rating is 'Positive' on account of CARE's expectation of further improvement in the operating and financial performance of the company backing by increased number of stores and benefits of economies of scale, coupled with positive industry scenario. The outlook may be revised to 'Stable' in case of any moderation in envisaged growth in sales as well as the profitability of the company.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters

VMRL is a closely-held company with the promoters together holding 54.40% of the company's shares as of December 31, 2017. Mr Lalit Agarwal, the current CMD of the company, has more than two decades of experience in the retail industry and has also been the CEO of Vishal Retail Ltd which he left to start up his own venture in 2002. His father, Mr Madan

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications.*

Agarwal has more than three decades of experience in the retail industry. They are ably supported by a well-qualified and experienced management team.

Widespread geographical presence and effective logistics

The company has consistently grown its presence nation-wide and had 167 stores with a total area of 14 lakh square feet (lsf) as on December 31, 2017. A majority of the company's stores are located in tier-2 and tier-3 cities under a cluster-based approach (stores located within 50-100 km from each other) which helps in cost rationalization and better understanding of customer preferences.

VMRL has a central supply chain department responsible for the procurement of apparel and non-apparel goods. It centrally procures these goods and distributes them through its 2.2 lsf distribution centre located in Bilaspur. Improved logistics & store operations have aided cost-reduction & enhanced productivity.

Large supplier base

VMRL being in the retail segment relies a lot on its suppliers. The company has rationalized its supplier base over a period of time to 700-800 suppliers which has helped increasing the average ticket size per transaction per supplier. This is also crucial for supplier development and it was imperative to bring the supplier base to a manageable level in order for the company to have effective & quality procurement. The current spread of supplier base helps the company in mitigating supply risk with high bargaining power.

Strong operating and financial performance in FY17 and 9MFY18

VMRL has achieved consistent growth in the total operating income in the past attributable to improvement in operational parameters like growth in number of stores, footfalls, average selling price and average transaction size. Despite increase in number of stores in FY17, the profitability improved as each of the stores achieved breakeven within 60 to 80 days of launch. The growth in sales in FY17 was primarily driven by 'Apparels' segment which constituted 78% of the net sales (PY: 76%) followed by 'Non-Apparel' with 15% (PY: 16%) and Kirana with 7% (PY: 8%).

The opening of new stores, which are mostly located within 50-100 kms from each other, lead to strengthening of supply chain and decline in average logistics and administration costs. Additionally, the PBILDT margins increased to 8.49% in FY17 (PY: 7.37%) and PAT margin to 3.93% (PY: 3.41%).

Interim results: VMRL's strong performance continued with 23% growth in operating income backed by sales from increased number of stores (167 on 31-Dec-17; PY: 136). Sales per sq feet also grew by 4.4% to Rs.851 in 9MFY18. The PBILDT margin saw major jump to 12.14% during the period (PY: 9.66%) led by strong operating results.

Capital structure: VMRL's debt levels remain low owing to low funds requirement on account of the asset light model followed by the company wherein store space is taken on lease of 9-12 years with lock-in period 1-2 years and 10% escalation in rental after every 3 years. The overall gearing remained comfortable at 0.13x as on March 31, 2017 (PY: 0.12x). Coverage indicators remained strong with interest coverage at 24.20x in FY17 (PY: 21.83x) and total debt to GCA at 0.60x as on March 31, 2017 (PY: 0.63x).

Favorable industry outlook

The performance and growth of the retail industry is linked with the economic growth, urbanization and growth in disposable income. This growth is backed by expected rise in consumer spending, increasing India's share in global consumption. The sector is important for the GoI as it constitutes over 10% of the country's GDP and around 8% of the employment and is valued at USD 672 billion in 2016 (CARE Report: Indian Retail Industry – Jul 2017). Therefore, the GoI has taken various measures including allowing 51% FDI in multi-brand retail and 100% in single-brand retail and for cash and carry (wholesale) trading and exports, implementation of GST, etc.

Key Rating weaknesses

Working capital intensive nature of operations

The nature of business being retail, the company is required to maintain a large amount of inventory at its disposal at all times. The average inventory holding stood at more than three months in FY17. There were no trade receivables as on March 31, 2017 as customers make cash payment for purchases at the stores. Operating cycle streamlined from 53 days in FY16 to 43 days in FY17.

Intense competition

VMRL faces intense competition from both the organised and unorganised players in the apparels and kirana business. The high competition and low brand loyalty prevailing in these lines keeps profitability of VMRL under pressure, while the competitive and dynamic nature of the garment business increases inventory risk for the company. Furthermore, with the increasing penetration of e-commerce players the competition is expected to be further intensified in the future. The company, although is aware of the developments in this space and the potential threat from the competition. The management has launched mobile app-based platform to sell products to tap e-commerce segment in the future whereby existing stores in vicinity shall feed online demand.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short-term Instruments
CARE's methodology for financial ratios – Non-Financial Sector
Rating Methodology: Retail

About the company

V Mart Retail Limited (CIN: L51909DL2002PLC163727) was incorporated as Varin Commercial Pvt Ltd in 2002. The company had started operations in 'Value Retail' segment by opening its first store in Gujarat in 2003. In 2006, the name of the company was changed to V Mart Retail Pvt Ltd and in 2008 the constitution was changed to public limited and name of the company was changed to the present one. The company came out with an IPO in February 2013.

VMRL's operations are mainly spread in Tier-2 and Tier-3 cities of Northern, Eastern and Western India. It operated 167 stores with a total area of 14 lakh square feet (lsf).

Brief Financials

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	810.05	1,004.44
PBILDT	62.83	85.30
PAT	27.63	39.53
Overall gearing (times)	0.12	0.13
Interest coverage (times)	21.83	24.20

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:
Name: Manek Narang
Tel: 011-4533 3233
Email: manek.narang@careratings.com

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	45.00	CARE A+; Positive
Non-fund-based - ST-BG/LC	-	-	-	8.00	CARE A1+
Commercial Paper	-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	45.00	CARE A+; Positive	-	1)CARE A+ (23-Sep-16)	1)CARE A (21-Oct-15)	1)CARE A (14-Oct-14)
2.	Non-fund-based - ST-BG/LC	ST	8.00	CARE A1+	-	1)CARE A1+ (23-Sep-16)	1)CARE A1 (21-Oct-15)	1)CARE A1 (14-Oct-14)
3.	Commercial Paper	ST	-	-	-	1)CARE A1+ (07-Oct-16)	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691