CARE Ratings
Professional Risk Opinion

V-Mart Retail Limited

March 19, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Remarks**
Long-term Bank Facilities	45.00	**CARE A+; Positive (Single A Plus; Outlook Positive)**	**Reaffirmed**
Short-term Bank Facilities	8.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Facilities	**53.00 (Rupees Fifty three crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in 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 FY18 and 9MFY19 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 200 as on December 31, 2018. 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 moderation in the same-store sales, intense competition from both organized and unorganized players and vulnerability in the retail sector.

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 continues to remain 'Positive' on account of CARE's expectation of improvement in the operating and financial performance of the company backed by same-store sales growth, performance of additional stores and benefits of economies of scale, coupled with increase in average size of transaction.

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 53.95% of the company's shares as of December 31, 2018. 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 Agarwal has more than three decades of experience in the retail industry. They are supported by a well-qualified and experienced management team.

Strong geographical presence in North & East and effective logistics

The company has consistently grown its presence nation-wide and had 200 stores with a total area of 17 lakh square feet (lsf) as on Dec 31, 2018. 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. Further, 72% of th total stores are in North and East.

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.

Strong operating and financial performance in FY18 and 9MFY19

VMRL has achieved consistent growth in the total operating income of 21.93% in FY18 and 24.06% in FY17 to reach Rs. 1220.97 crore and Rs. 1000.63 crore respectively.

The increase in the total operating income is attributable to improvement in operational parameters like increase in number of stores (from 141 stores as on March 31, 2017 to 171 stores on March 31, 2018) leading to 22% growth in footfalls, higher sales per sq ft per month (FY18: Rs.823; PY: Rs.799) and higher average transaction size (FY18: Rs.750; PY:

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

Rs.713) indicating popularity of VMRL stores. However, the same store sales growth significantly decreased to 3.7% in 9MFY19 vis-à-vis 9.5% in 9MFY18 and average selling price also decreased from Rs. 207 in FY18 to Rs. 202 in 9MFY19.
With the improvement in average revenue per unit and average transaction size pushed the PBILDT margins to 11.10% in FY18 from 8.76% in FY17. PAT margin improved to 6.34% (PY: 4.37%).
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. As on March 31, 2018, VMRL had debt only to the tune of Rs. 0.60 crore as vehicle loan. Other debt coverage indicators were strong with interest coverage at 88.93x in FY18 (PY: 24.99x) & total debt to GCA at 0.01x as on March 31, 2018 (PY: 0.58x).

9MFY19 results: VMRL's strong performance continued with 18% growth in operating income in 9MFY19 vis-à-vis 9MFY18, backed by sales from increased number of stores (200 on 31-Dec-18; PY: 167). However, on account of moderation in VMRLs performance in Q2FY19 (PBILDT loss), the PBILDT margins deteriorated. The loss was on account of increased stock clearance sale and liquidation of inventory at a lower margin as all the festivals shifted to Q3 in FY19. Further, in Q2FY19 the company also wrote off Rs. 2.45 crore (25% of total investment of Rs. 9.80 crore) of its investment in the commercial paper issued by Infrastructure Leasing and Financial Services Ltd (IL&FS).

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.

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. There were no trade receivables as on March 31, 2018 as the customers make cash payment for purchases at the stores. The company has to, however, maintain large inventory for apparel and other items and has an average inventory holding of 3 months. The company has renegotiated payment terms with suppliers with bulk purchasing and established credibility resulting in average creditor days increased from 41 days in FY16 to 54 days in FY18. Thereby, the operating cycle reduced from 56 days in FY16 to 44 days in FY18.

Intense competition in retail sector

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 whereby existing stores in vicinity shall feed online demand.

Industry Outlook

CARE Ratings expects the retail industry to register a growth rate of about 12-14% over the next 4 years and reach about USD 1,150 billion by 2020, with the Private Final Consumption Expenditure (PFCE) expected to grow by about 12-13% y-o-y till 2020 (has grown at about 10-12% historically) and real GDP expected to go up to ~8.5- 9% during the same period.

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 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. The company operated 200 stores covering a total area of 17 lakh square feet (lsf) as on December 31, 2018. The company operates all

its stores on its own and has not issued any franchisees. Majority of stores are located in UP (80), Bihar (40), Jharkhand (16), Uttarakhand (8), Odisha (10), Gujarat (6), Madhya Pradesh (6), etc.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1004.77	1225.10
PBILDT	88.06	135.97
PAT	43.90	77.70
Overall gearing (times)	0.13	0.00
Interest coverage (times)	24.99	88.93

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.

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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+

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	45.00	CARE A+; Positive	-	1)CARE A+; Positive (23-Mar-18)	1)CARE A+ (23-Sep-16)	1)CARE A (21-Oct-15)
2.	Non-fund-based - ST-BG/LC	ST	8.00	CARE A1+	-	1)CARE A1+ (23-Mar-18)	1)CARE A1+ (23-Sep-16)	1)CARE A1 (21-Oct-15)
3.	Commercial Paper	ST	-	-	-	1)Withdrawn (23-Mar-18)	1)CARE A1+ (07-Oct-16)	-

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