

**CMP: INR 1,942**

**Outlook: Positive**

**Stock Info**

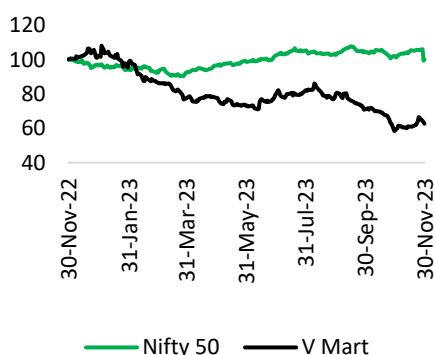
BSE	534976
NSE	VMART
Bloomberg	VMART:IN
Reuters	VMAR.NS
Sector	Value Retailing
Face Value (INR)	10
Mkt Cap (INR Bn)	38.4
52w H/L (INR)	3,110 / 1,595
Avg. Yearly Volume (in 000')	42

**Shareholding Pattern %**

(As on Sept, 2023)

Promoters	44.33
DII's	32.64
FII's	14.28
Public & Others	8.75

**V- Mart Retail Ltd Vs Nifty 50**



Source: Arihant Research, Company Filings

Abhishek Jain  
abhishek.jain@arihantcapital.com  
022 67114851

V-Mart is an omni retail store chain which caters to a diverse range of products including fashion apparel, footwear, home furnishings, general merchandise, and kirana. The brand is committed to the concept of 'value retailing,' addressing the rising aspirations of the expanding middle class by providing affordable, high-quality fashion. V-Mart extends its reach through D2C, LimeRoad, and is also available on various other leading marketplaces.

**Investment Rationale**

**LimeRoad acquisition will help in servicing omni consumer**

The limeRoad acquisition can be a turn around story for V mart as it will facilitate in servicing omni-consumer, requiring the flexibility to shop from both offline and online mode. LimeRoad's focus is on optimizing the bottom line and reducing customer acquisition costs. The integration of limeRoad with V-Mart's offline stores aims to provide a omnichannel experience for customers. Progress has been made in catalog integration and achieving higher profitability with limeRoad orders. In the coming months, limeRoad aims to significantly limit the overall EBITDA loss to 20% of the overall V-Mart EBITDA level.

**Increasing penetration in its key markets of UP**

The company is increasing its presence that is UP through online platform along with increased focus on offline markets like Maharashtra, Karnataka, & West Bengal. The company opened 30 new stores Q2FY24 in key regions like Kerala, Madhya Pradesh, Uttar Pradesh, Gujarat, Karnataka, and Uttarakhand. The company's offline sales increased by 5% due to 8 new stores opened this quarter as well as 9 new stores opened in Q1FY24, while the overall revenue, including LimeRoad's contribution, increased by 9%. This shows the company is focusing to expand, increase sales with a target to grow by 15-20% in FY24. It aims to add 50-plus stores by the end of this year resulting in a total of 450 stores across 291 cities. The company sees traction in FMCG business along with the retail business.

**Focus on increasing contribution from South Unlimited stores**

In the last two years, the company prioritized competitive pricing by increasing V-Mart inventory in South Unlimited stores, which has impacted the gross margins leading to a partial decline in overall margins for the quarter, with Unlimited's EBITDA at 3.1%. The focus is on attracting new audience, particularly the lower-middle-class consumers in South India, expanding Unlimited's presence in the market.

**Competitive Pricing**

In Q2FY24, a 12% ASP (average selling prices) reduction, along with a 6% YTD drop in apparel ASPs, drove a positive 6% L2L volume growth. The company emphasized increasing sales quantities by significantly reducing the ASP. The South region's 19% ASP decline showcased targeted pricing improvements. This approach aligns prices with customer budgets, maintaining quality.

**Outlook:** With the acquisition of limeRoad, V-Mart will gain substantial online synergies in the form of ready customer base of 17 mn and much greater foot traffic of 215 mn visits on web and applications as per FY22 numbers, with 97% of those visits occurring on mobile vs 29 mn foot traffic in shops and only 2% online. This aquisition will boost its online presence which otherwise would have been a huge effort for the company. LimeRoad's performance had been weak, had reported losses at EBITDA level in the past, but going forward, we believe the limeRoad acquisition will add immense value to the V Mart performance. Additionally, the company sees recovery in demand, particularly in rural areas. Strategic initiatives focus on tech leverage, store renovations, organized retail, 25-30% revenue share expected to come from winter wear in Q3FY24, new store openings, and reduced limeRoad losses contributes to an optimistic outlook.

**V-Mart Retail Limited - Concall Highlights**

**Short Summary:** Q2 was a weak quarter, but Q3FY24 and Q4FY24 could more than offset the weak H1 and on a full year basis. The company plans to deliver higher absolute EBITDA (ex of Limeroad (online) EBITDA losses). Limeroad unit economics in terms of cash burn is progressively improving as per the plan. Most of the high cost inventory from last year is behind now.

**Vmart's Schemes and Trends:**

The company launched the Red Alert sale on Unlimited i.e., shop for INR 3,000 and get merchandise worth INR 3,000 free on December 11, 2023. In July 2023, Vmart expanded the sale on Unlimited, providing up to 60% off on clothing. The company anticipates that the festive seasons of Durga Puja, Diwali, Dussehra, and weddings, along with an increase in demand for winter wear, will boost their revenue in Q3FY24.

**Detailed Commentary:**

Operational highlights: Footfalls increased 13% YoY while conversion rate continues to hover at 55%. Same-store sales growth (SSSG) came in at - 6% from a level of 10% positive in Q2FY23. Overall ASP as well as Apparel only ASP declined by 12/13% respectively. Overall performance in Durga Pooja markets has been good. Monsoons has been good overall, barring a few locations etc. There was pain in consumer sentiment in the rural markets/small towns due to inflation, but that is getting better. The consumption cycle is classically lead by rural demand lead by farmers and rural households. Adhikmaas and shift of festive season by ~20 days has had its impact on the performance. Full year guidance is to open 50 new stores.

**Strategy:** New processes and technology platforms are being leveraged to drive the operations. Organized retail market is getting better and will get better and its share will go up. Lot of focus has been put on renovation of existing stores with small incidental capex.

**Q3 & FY expectation:** On the back of ongoing festive demands, winter range, marginally improving rural consumer sentiment and wedding calendar et management expects Q3FY24 to be a good profitable quarter. The operating profits for the full year will be lower on YoY basis in % margin terms but definitely be higher in INR terms. 14 stores have already opened in Q3. Need to do at least INR 2,200 mn of EBITDA in Q3FY24 and Q4FY24 put together to meet last year's numbers.

**Limeroad/digital business:** EBITDA losses declined QoQ in this area in line with expectation. Marketing spends have been rationalised further in Q3 and that would continue into future as well. The business has mostly been performing to plan. FY24 loss at Limeroad is expected to be curtailed to 20% of overall V-mart EBITDA level. Indian digital customers are of 2 groups - fashion forward/fashion following. Former is not price sensitive, but the later is highly price sensitive. Per unit dynamics (cash burn) is better by 40% QoQ and the trajectory continues. Strategy behind Limeroad is not to have a great online platform but only to have an omni channel presence to meet all the customer needs with an objective to create a sustainable and profitable growth. Million unique visitors online per day now.

**Capex** thus far has been on new store additions, store refurbishments, newly operationalised warehouse. Despite new stores and festive push, total inventory reduced by INR 740 mn YoY.

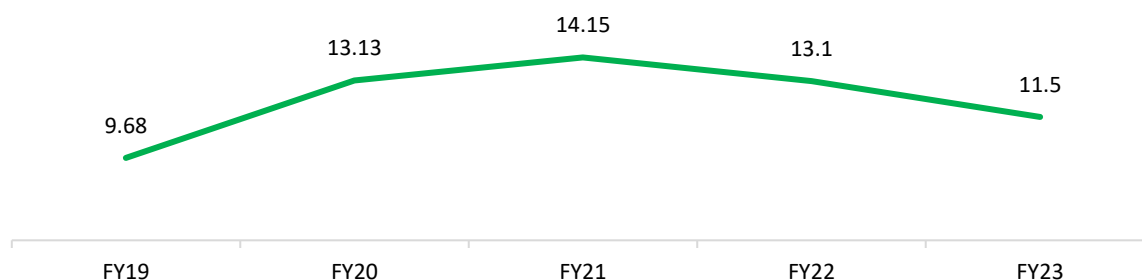
**Price :** Worst is behind mostly, but ASP will decrease this season as well. Last inventory was of high prices most of which is either liquidated or price corrected by now – 70% of it is liquidated by now and remaining in rest of the year.

**Inventory mix:** 90% of the inventory in the stores is fresh and the rest is the higher priced content from previous year- most of the higher priced inventory is at the warehouse level.

**Standalone Financials**

P&L (INR Cr)	Q2FY24	Q1FY24	Q2FY23	FY23	FY22
Revenues	551.4	680.0	508.8	2,479.8	1,680.1
Operating profit	0.7	52.5	53.6	271.5	204.3
Operating profit margin (%)	0.1	7.7	10.6	10.9	12.2
PBT	(86.4)	(28.9)	(15.7)	(13.0)	10.4
PAT	(64.1)	(21.9)	(11.3)	(7.8)	11.6
PAT Margin(%)	(11.6)	(3.2)	(2.2)	(0.3)	0.6
EPS	(32.4)	(11.1)	(5.7)	(3.9)	5.9

Source: Arihant Research, Company Filings

**EBITDA Margin (%)**


Source: Arihant Research, Company Filings

**Financial Performance**

- Revenue reached INR 5,490 Mn, with a 9% YoY growth due to increase in online sales from Limeroad and addition of new stores but witnessed a 19% QoQ decrease due to Adhikmaas and shift of festive season by 20 days.
- EBITDA amounted to INR 6 Mn, a significant drop from INR 525 Mn and INR 536 Mn in Q1FY24 and Q2FY23, respectively. This decline is primarily due to INR 200 Mn losses incurred in the Limeroad business and decline in Average Selling Price (ASP).
- Net Loss stood at INR 641 Mn, compared to INR 220 Mn and 113 Mn in Q1FY24 and Q2FY23.
- It is important to view the result from the context that festive sales period leading to Durga Pooja & Dussehra slipped into Q3FY24.
- Limeroad's (digital initiative) revenue increased stood at to INR 219 Mn showing a growth of 26% QoQ ,while it's EBITDA Loss reduced by 23% QoQ to INR 198 Mn.

**Arihant Research Desk**Email: [instresearch@arihantcapital.com](mailto:instresearch@arihantcapital.com)

Tel. : 022-42254800

**Head Office**

#1011, Solitaire Corporate Park  
 Building No. 10, 1<sup>st</sup> Floor  
 Andheri Ghatkopar Link Road  
 Chakala, Andheri (E)  
 Mumbai – 400093  
 Tel: (91-22) 42254800  
 Fax: (91-22) 42254880

**Registered Office**

Arihant House  
 E-5 Ratlam Kothi  
 Indore - 452003, (M.P.)  
 Tel: (91-731) 3016100  
 Fax: (91-731) 3016199

**Stock Rating Scale**

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

**Research Analyst  
Registration No.****Contact****Website****Email Id**

INH000002764

SMS: 'Arihant' to 56677

[www.arihantcapital.com](http://www.arihantcapital.com)[instresearch@arihantcapital.com](mailto:instresearch@arihantcapital.com)

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Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
 Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
 Tel. 022-42254800 Fax. 022-42254880