August 02, 2021

V-Mart Retail Limited: Update on Material Event

Summary of rating(s) outstanding

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Fund-based Working Capital Limits	185.0	185.0	[ICRA]AA- (Stable) outstanding
Non-fund Based Limits	10.0	10.0	[ICRA]A1+ outstanding
Total	**195.0**	**195.0**	

**Instrument details are provided in Annexure-1*

Rationale

On July 22, 2021, V-Mart Retail Limited (VMRL) announced signing a definitive agreement for acquisition of all running existing stores under the brand, 'Unlimited', from Arvind Lifestyle Brands Limited (ALBL), a wholly owned subsidiary of Arvind Fashions Limited (AFL), for a cash consideration. Unlimited operates a chain of 74 value-fashion retail stores across South and West India and retails fashion apparel and accessories for men, women and children at affordable prices. As part of the transaction, V-Mart will acquire the assets of all stores, warehouse, inventory as well as the 'Unlimited' store brand at their book value, at an estimated outlay of about Rs. 150 crore, and contingent payments based on certain milestones achieved in these stores over the next few years, following the acquisition. The transaction is expected to be completed in 60 days subject to completion of due diligence and customary terms and conditions precedent.

The ratings for VMRL remain unchanged at the earlier ratings of [ICRA]AA-(Stable)/[ICRA]A1+, as the proposed deal is not expected to materially alter the credit profile of the company. The acquisition is proposed to be funded from surplus cash proceeds from the Rs. 375-crore QIP issuance by the company in February 2021. As there will be no incremental borrowings, the company's capital structure is expected to remain comfortable. Further, despite an outflow of Rs. 150 crore, the company's liquidity position is expected to remain strong, with free liquid balances and unutilised fund-based working capital limits aggregating to more than Rs. 300 crore.

Operationally, the acquisition would facilitate VMRL's swift entry into new geographies (southern and western India) and enable it to capitalise on Unlimited's established market presence, brand recognition, asset base and employee experience, given the commonalities in target customer base and segmental presence (value-fashion retail) of both the companies. While the deal would yield revenue synergies in the near to medium term, VMRL's ability to turn around operations would remain crucial for its profitability and debt metrics, as Unlimited's operations have remained loss-making in recent years. Accordingly, this would remain a key monitorable. ICRA will continue to monitor the developments on this front, as well as the operational and financial performances of the company, and will take appropriate rating action as and when required.

ICRA has also noted the operational disruptions in recent months due to the second wave of the pandemic and the resultant lockdown restrictions in some of the key states where VMRL operates. While this is expected to affect the pace of recovery vis-à-vis earlier expectations, ICRA continues to draw comfort from VMRL's strong financial profile, corroborated by a conservative capital structure with absence of any term loans, healthy debt protection metrics and strong liquidity position.

Please refer to the following link for the previous detailed rationale that captures Key rating drivers and their description, Liquidity position, Rating sensitivities, and Key financial indicators: **Click here**

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Retail Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

Incorporated in 2002 as Varin Commercial Private Limited, V Mart Retail Limited (VMRL) is involved in value retailing across three verticals, namely apparel, non-apparel and 'kirana bazaar'/FMCG, with most of its operations spread across tier-II, III and IV towns and cities of northern, eastern and western India. Some of the major states VMRL operates in, include Uttar Pradesh, Bihar, Jharkhand, Madhya Pradesh, West Bengal and Rajasthan.

The company started operations in the value retail segment by opening its first retail store in Gujarat in 2003. In 2006, it was renamed as V Mart Retail Pvt. Limited; and in 2008, its constitution was changed to a public limited one and rechristened as VMRL.

Key financial indicators (audited)

VMRL Standalone	FY2019	FY2020	FY2021
Operating Income (Rs. crore)	1,433.7	1,662.0	1,075.5
PAT (Rs. crore)	61.6	49.3	-6.2
OPBDIT/OI (%)	9.3%	12.9%	12.2%
PAT/OI (%)	4.3%	3.0%	-0.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	1.6	0.9
Total Debt/OPBDIT (times)	0.2	2.4	4.3
Interest Coverage (times)	82.9	3.9	2.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Note: Debt outstanding in the books of the company primarily includes lease liabilities, arising on account of transition to IndAS 116 from FY2020 onwards

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019		
					Aug 02, 2021	Mar 09, 2021	Mar 05, 2021	Mar 2, 2020	Dec 3, 2018	Aug 31, 2018	May 28, 2018
1	Fund based Limits	Long-term	185.0	NA	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)
2	Non-Fund Based Limits	Long -term	10.0	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based Working Capital Limits	Simple
Non-fund Based Limits	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA’s website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based Limits	-	-	-	185.0	[ICRA]AA-(Stable)
NA	Non-Fund Based Limits	-	-	-	10.0	[ICRA]A1+(Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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For more information, visit www.icra.in

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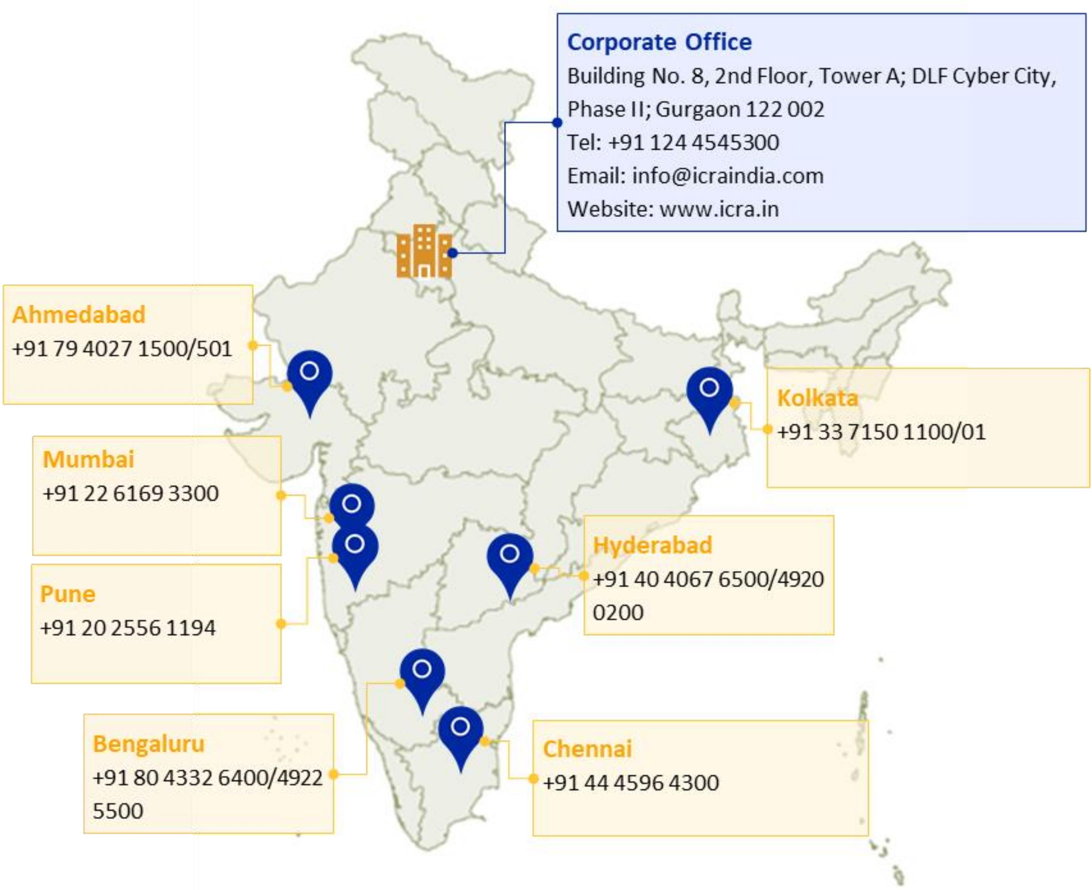

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