March 14, 2017

V Mart Retail Limited

Instruments*	Amount Rated (Rs. Cr.)	Rating Action
Cash Credit	62.0	[ICRA]A+(Stable) (Reaffirmed)
Non Fund Based Bank Facilities	1.0	[ICRA]A1+ (Upgraded from [ICRA]A1)

**Instrument details are provided in Annexure-1*

Rating Action

ICRA has reaffirmed the long term rating of [ICRA]A+ (pronounced ICRA A plus)[1] outstanding on the Rs. 62.0 Cr.[2] fund based bank facilities of V Mart Retail Ltd (VMRL). ICRA has upgraded the short term rating to [ICRA]A1+ (pronounced ICRA A one plus) from [ICRA]A1 (pronounced ICRA A one) outstanding on the Rs. 1.0 Cr. non fund based bank facilities of VMRL. The outlook on the long term rating is 'Stable'.

Rationale

The short term rating upgrade is driven by improvement in VMRL's liquidity position with the company reporting improved financial performance during Q3 FY17. The reported net debt figure continued to remain negative as on 31st December 2017 and average working capital utilisation stood at ~45% for the previous 12 months thereby reflecting a comfortable liquidity position. VMRL reported significant growth in its revenues and profitability during Q3FY17 driven by recovery in same store sales growth metric and contribution from new stores.

The ratings continue to take into account the established track record of the promoters and the long-term presence of the company in the retail industry. VMRL has a diversified product portfolio across various segments such as apparel, non apparel and kirana bazaar. The ratings positively factor in VMRL's widespread geographic presence (136 operational stores as on December 31, 2016); most of its stores are located in tier II and tier III cities. The ratings continue to factor in the strong financial profile of VMRL as is evident from the growth in operating income, healthy profitability margins, comfortable capital structure and strong debt protection metrics. The ratings continue to positively factor in the company's established relationships with around 1200 vendors, which ensures cost optimisation and smooth operations.

The ratings are, however, constrained by VMRL's modest scale of operations and high competitive intensity in the retail sector due to the presence of numerous unorganised players as well as organised players in the brick-and-mortar and online segments. The ratings also take into account the industry's high working capital intensity of operations and the risks to the inventory in the form of obsolescence, damage, being out of fashion etc. which may adversely impact the company's profit margins. However, VMRL has been able to manage its inventory position better over the last few years, as indicated in the decline in inventory days to 101 and 114 as on December 31, 2016 and March 31, 2016 respectively, from 141 as on March 31, 2012. VMRL' operations remain vulnerable to the low demand for its products, which has affected the same store sales growth metric adversely during the past.

Going forward, the company is expected to report moderate growth. The company's ability to scale up its operations in the face of competition, efficiently manage its working capital cycle, improve operational indicators and maintain a healthy financial profile will be the key rating sensitivities.

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1 For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

2 100 lakh = 1 crore = 10 million

Key rating drivers

Credit Strengths

- Established track record of promoters and management in retail industry
- Widespread geographic presence and diversified product offerings across various segments viz. apparel, non apparel and kirana bazaar
- Strong operational profile as reflected by increase in some metrics viz. average transaction size, conversion ratio and number of footfalls per store whereas sales per sq. feet metric continues to remain robust
- Established relationships with around 1200 vendors, which ensures cost optimization and smooth running of operations
- Strong financial profile characterized by healthy growth in operating income, moderate profitability margins, comfortable capital structure and strong debt protection indicators

Credit Concerns

- Modest scale of operations
- High competitive intensity in the retail sector owing to the presence of numerous players in the unorganized segment along with competition from various organized players
- Operations remain vulnerable to the low demand for its products, which has affected the same store sales growth metric adversely in the past
- High working capital intensity of operations exposing the inventories to risk of obsolescence, damage, being out of fashion etc.

Description of key rating drivers highlighted above:

VMRL is key player in the organized segment, especially in the states of Uttar Pradesh and Bihar, wherein majority of its stores are located. The product mix of the company continues to be diversified across apparels, non apparels and kirana bazaar segments; however the fashion segment (apparels + non apparels) continues to dominate the overall sales mix of the company (~92% of the sales over the last 3 years). The operating parameters of VMRL continue to be strong. Prior to demonetization, the company used to derive ~90% of its sales through cash route and hence an adverse short term impact of demonetization was expected. However, during the period of demonetization, the proportion of card/wallet sales increased to ~67% and as a result there was no adverse impact on account of demonetization. The operating income of VMRL has been on an increasing trend with the profitability margins being robust over the last few years. There continues to be no long term debt on the books and the coverage indicators are strong.

Despite the number of stores being 136 as on 31st December 2016, the scale of operations of the company continued to remain modest. This is primarily on account of lower average selling price & lower average transaction size for VMRL. The company continues to operate in a competitive environment with there being presence of numerous players in the unorganized segment along with competition from various organized players. Despite the decline in inventory levels over the years, the inventory position continues to be exposed to risk of obsolescence, damage, being out of fashion etc.

Analytical approach

Not Applicable

Links to applicable Criteria
[Corporate Credit Ratings: A Note on Methodology]()

About the Company:
VMRL was incorporated as Varin Commercial Private Limited in 2002. It opened its first retail store in Gujarat in 2003. VMRL is involved in value retailing across three verticals, namely, apparel, non apparel and kirana, with its operations spread across tier-2 and tier-3 cities of northern, eastern and western India. Some of the major states in which the company operates are Gujarat, Madhya Pradesh, Uttar Pradesh, Bihar, Jharkhand, Punjab and Rajasthan.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S. No.	Name of Instrument	Current Rating				Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month - year & rating In FY2017		Month - year & Rating in FY2016	Month - year & Rating in FY2015	Month - year & Rating in FY2014
				March 2017	November 2016	November 2015		
1	Fund Based Bank Facilities	Long term	62	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)		
2	Non Fund Based Bank Facilities	Short term	1	[ICRA]A1+	[ICRA]A1	[ICRA]A1		

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Fund Based Limits	-	-	-	62.00	[ICRA]A+(Stable)
Non Fund Based Limits	-	-	-	1.00	[ICRA]A1+

Source: VMRL

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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