October 09, 2017

V Mart Retail Limited

Summary of rated instruments

Instruments*	Amount Rated (Rs. crore)	Rating Action
Cash Credit	73.00	[ICRA]A+ (Positive) reaffirmed; change in outlook from 'Stable'
Non-fund Based Limits	1.00	[ICRA]A1+ reaffirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A+ (pronounced ICRA A plus)[1] of the Rs. 73-crore[2] cash credit facility and the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) on the non-fund based limits of V Mart Retail Ltd. (VMRL). The outlook on the long-term rating has been changed to Positive from Stable.

Rationale

The change in outlook factors in the improvement in VMRL's performance over the last few quarters. The trend continued in Q1 FY2018 with the company reporting an increase in turnover and net profits by 38% and 139%, respectively, on a YoY basis. Year to date (YTD), the company has added 15 more stores to its fleet and is now in a good position to encash upon the buoyant consumer spending that takes place during Q3 each year as the period is filled with festivals and weddings.

The ratings reaffirmation takes into account the established track record of the promoters and the long presence of VMRL in the value-retail industry as well as its diversified product portfolio across various segments such as apparel, non apparel and kirana bazaar. The ratings positively factor in VMRL's widespread geographic presence (149 operational stores in 14 states/union territories as on June 30, 2017), with most of its stores located in tier II and tier III cities. Also, its established relationship with a widespread vendor base, which optimises its cost mix, is a positive. The ratings continue to factor in the strong financial profile of VMRL as is evident from the growth in its operating income, healthy profitability margins, comfortable capital structure and strong debt-protection metrics. The ratings continue to positively factor in the company's comfortable liquidity position as reflected by the negative net debt as on March 31, 2017 and June 30, 2017 and adequate cushion in working-capital limits. ICRA's rating derives further comfort from the healthy operating metrics, with VMRL reporting same-store sales growth of 23.1% and sales per sq feet per month of Rs. 913 in Q1 FY2018 as against -2.7% and Rs. 806 respectively in Q1 FY2017.

The ratings, however, are constrained by the intense competition in the retail sector due to the presence of numerous unorganised as well as organised players in the brick-and-mortar as well as online segments. Further, VMRL's operations remain vulnerable to the low demand for its products that has adversely affected the same-store sales growth metric and overall sales in the past. Moreover, as most of the target customers for the company are dependent upon agriculture for their living, the demand for company's products is directly linked to the performance of monsoon. However, a weaker monsoon may not have an immediate adverse impact on the demand and vice versa and there may be a time lag depending upon the overall macro environment. The ratings also take into account the high working-capital intensity and the risks of carrying high inventory on the books as is inherent in the apparels retail business. However,

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

VMRL has been able to manage its inventory position better over the last few years, as indicated in the decline in inventory days to 90 as on June 30, 2017 and 121 as on March 31, 2017 from 141 as on March 31, 2012.

Going forward, the company is expected to witness a healthy growth driven by higher demand during the festive period. 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.

Key rating drivers

Credit strengths

- **Established track record of promoters and management in the retail industry -** VMRL was incorporated in 2002 and opened its first retail store in 2003. The promoters have been involved within this company since the last 15-plus years and the management includes personnel with rich corporate experience.
- **Widespread geographic presence and diversified product offerings across various segments -** The company had an operational portfolio of 149 stores as June 30, 2017 and these stores were spread across 14 states/UTs. Moreover the company has a diversified product profile comprising apparels, non apparels and kirana (limited to a few stores).
- **Strong operational profile as reflected by robust operational metrics -** The company has reported robust operational metrics over the last few quarters, viz. average transaction size, footfall per store, sales per sq feet per month and same-store sales growth.
- **Established relationships with widespread vendor base -** The company has business relationships with a widespread vendor base, which ensures cost optimisation and smooth running of operations.
- **Consistent scaling up of operations and strong financial profile -** The operations of the company have scaled up pretty significantly since the time of its inception. VMRL's financial profile is characterised by a healthy growth in operating income (OI), moderate profitability margins, comfortable capital structure and strong debt-protection indicators.

Credit weaknesses

- **Intense competition in the retail sector -** The company faces stiff competition owing to the presence of numerous players in the unorganised segment along with competition from various organised players in the brick-and-mortar and online segments.
- **Operations remain vulnerable to low product demand -** Demand for VMRL's products is dependent upon monsoons and macroeconomic factors, primarily the growth in rural economy as well as smaller cities and towns. Monsoon plays a critical role as most of the company's target customers are dependent upon agriculture for their livelihood.
- **High working capital intensity of the retail business –** The company remains exposed to various risks associated with carrying high inventory on the books, as is inherent in the apparels retail business. There continues to be a risk of inventory getting obsolete, damaged, going out of fashion etc.

Analytical approach

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

Corporate Credit Ratings: A Note on Methodology

Rating Methodology for entities in the Retail Industry

About the company

VMRL was incorporated as Varin Commercial Private Limited in 2002. It opened its first retail store in Gujarat in 2003. The company 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.

Key financial indicators

Particulars	FY2016	FY2017
Operating Income (Rs. crore)	809.4	1001.9
Net Profit (Rs. crore)	27.8	39.5
OPBITDA/OI (%)	7.7%	8.3%
RoCE (%)	18.6%	22.8%
Total Debt / Tangible Net worth (times)	0.12	0.13
Total Debt / OPBITDA (times)	0.43	0.43
Interest Coverage (times)	19.92	23.47
NWC/OI (%)	13%	10%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable.

Any other information: Not applicable

Rating history for last three years
Table

S. No.	Name of Instrument	Current Rating				Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. crore)	Month - year & rating In FY2018		Month - year & Rating in FY2017		Month - year & Rating in FY2016	Month - year & Rating in FY2015
				October 2017	June 2017	March 2017	November 2016	November 2015	
1	Fund-based Bank Facilities	Long Term	73	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	
2	Non-fund Based Bank Facilities	Short term	1	[ICRA]A1+	[ICRA]A1+	[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

Instrument Details

Name of the instrument	Date of Issuance/ Sanction	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
Cash Credit	September 16, 2016			62.00	[ICRA]A+(Positive)
Cash Credit	May 9, 2017			1.00	[ICRA]A+(Positive)
Cash Credit	December 28, 2016			10.00	[ICRA]A+(Positive)
Non-fund Based Limits	September 16, 2016			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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