V-Mart Retail Limited

August 31, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	110.0	110.0	[ICRA]AA- (Stable); upgraded from [ICRA]A+(Positive)
Non-fund Based Limits	15.00	15.00	[ICRA]A1+ reaffirmed
Total	**125.0**	**125.0**	

Rating action

ICRA has upgraded its long-term rating to [ICRA]AA- (pronounced ICRA double A minus) from [ICRA]A+ (pronounced ICRA A plus) on the Rs. 110-crore[1] cash credit limits of V-Mart Retail Limited (VMPL)[2]. ICRA has also reaffirmed its short-term rating at [ICRA]A1+ (pronounced ICRA A one plus) on the Rs. 15-crore non-fund-based limits of the company. The outlook on the long-term rating is revised to Stable from Positive.

Rationale

The rating upgrade factors in the improvement in VMRL's performance over the last few quarters with the company reporting a year-on-year (YoY) increase in turnover and net profits by 22% and 77%, respectively in FY2018. The top line and bottom line further registered a YoY increase of 15% and 11%, respectively in Q1 FY2019. The turnover of the company increased because of higher sales volumes in new as well as existing stores due to more footfall. This indicates the growing popularity of VMRL's chains. The profitability improved because of operational efficiencies including decline in shrinkages, lesser discounts during the year and benefits on account of imposition of GST which resulted in eligibility of tax credit on rental expenses for VMRL. Up to Q1 FY2019, the company had 179 operational stores and is currently in a good position to encash upon the upcoming festive season.

The ratings continue to take into account the established track record of the promoters and the long presence of VMRL in the value-retail industry. Also, the company's diversified product portfolio across various segments such as apparel, non-apparel and *kirana bazaar* support the ratings. These apart, the ratings positively factor in VMRL's wide geographic presence (179 operational stores in 14 states/union territories as on June 30, 2018), with most of its stores located in tier-II and tier-III cities. Also, its established relationship with a wide vendor base optimises cost mix, which 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 (OI), 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, 2018, 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 9% and sales per square feet per month of Rs. 823 in FY2018 against 13.3% and Rs. 799 in 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

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[1] 100 lakh = 1 crore = 10 million

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

remain vulnerable to the low demand for its products that has adversely affected 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 livelihood, the demand for the 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 high inventory on the books, as is inherent in the apparel retail business. However, VMRL has been able to manage its inventory position better over the last few years, as indicated by the decline in inventory days to 116 as on March 31, 2018 from 141 as on March 31, 2012.

Going forward, the company is expected to witness a healthy growth driven by increased penetration and expectation of higher demand as the consumer sentiment remains strong. 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.

Outlook: Stable

A Stable outlook reflects ICRA's expectation that VMRL will continue to report steady operational and financial performance. The company is likely to add a total of 35 new stores in FY2019 and continue to expand its scale of operations. The outlook may be revised to Positive in case of improvement in consumer spending sentiment, market share gains, sustainable improvement in profitability and better management of working capital cycle. The outlook may be revised to Negative in case of deterioration in consumers' spending sentiment, market share decline, adverse movement in profitability and working capital cycle.

Key rating drivers

Credit strengths

Established track record of promoters and management in retail industry - VMRL was incorporated in 2002 and opened its first retail store in 2003. The promoters have been involved in this company's operations for more than 15 years and the management includes personnel with extensive industry experience.

Wide geographic presence and diversified product offerings across various segments - The company has an operational portfolio of 179 stores as on June 30, 2018, spread across 14 states/union territories. Moreover, the company has a diversified product profile comprising apparels, non-apparels and *kirana* (limited to a few stores).

Strong operational profile reflected by robust operational metrics - The company has reported robust operational metrics in the last few quarters, viz. average transaction size, footfall per store, sales per square feet per month and same-store sales growth.

Established relationships with widespread vendor base - The company has business relationships with a wide vendor base, which ensures cost optimisation and smooth operations.

Consistent scaling up of operations and strong financial profile - The operations of the company have scaled up significantly since the time of its establishment. VMRL's financial profile is characterised by a healthy growth in OI, moderate profitability margins, comfortable capital structure and strong debt protection indicators.

Credit challenges

Intense competition in 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 depend on agriculture for their livelihood.

High working capital intensity of retail business - The company remains exposed to various risks associated with high inventory on the books, as is inherent in the apparel retail business. There continues to be a risk of inventory becoming obsolete, getting damaged, or 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 Rating 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 operations spread across tier-II and tier-III 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 (Audited)

	FY2016	FY2017	FY2018	Q1 FY2019
Operating Income (Rs. crore)	809.4	1001.7	1222.4	361.2
PAT (Rs. crore)	27.8	43.9	77.7	24.9
OPBDIT/OI (%)	7.7%	8.5%	10.9%	12.0%
RoCE (%)	18.6%	25.2%	35.2%	41.9%
Total Debt/TNW (times)	0.12	0.13	0.00	0.02
Total Debt/OPBDIT (times)	0.43	0.42	0.00	0.04
Interest Coverage (times)	19.92	24.05	86.85	218.27

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding March 31,2018 (Rs. crore)	Current Rating (FY2019)		Chronology of Rating History for the past 3 years				
					Date & Rating in FY2019		Date & Rating in FY2018		Date & Rating in FY2017		Date & Rating in FY2016
					August 2018	May 2018	October 2017	June 2017	March 2017	Novemb er 2016	November 2015
1	Cash Credit	Long Term	110.00	-	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Non-Fund Based Limits	Short Term	15.00	-	[ICRA]A1+	[ICRA]A1+	[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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	110.00	[ICRA]AA- (Stable)
NA	Non-fund Based Limits	-	-	-	15.00	[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.

For more information, visit www.icra.in

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