March 02, 2020 Revised

V-Mart Retail Limited: Ratings reaffirmed

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	110.0	135.0	[ICRA]AA- (Stable) reaffirmed
Non-fund Based Limits	15.00	15.00	[ICRA]A1+ reaffirmed
Total	**125.0**	**150.0**	

Rationale

The ratings reaffirmation takes into account the established track record of the promoters, the long presence of V-Mart Retail Limited (VMRL) in the value retail industry and its satisfactory performance in 9M FY2020. 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 (257 operational stores in 19 states/Union Territories as on December 31, 2019) with most of its stores in tier-II and tier-III cities. Also, its established relationship with a wide vendor base optimises cost mix. The ratings continue to factor in VMRL's strong financial profile, as is evident from the primarily volume-driven growth in its operating income (OI), healthy cash accruals, comfortable capital structure and strong debt protection metrics. While reaffirming the ratings, ICRA notes that the 9M FY2020 performance has remained satisfactory on a YoY basis. ICRA's ratings derive further comfort from VMRL's healthy operating metrics, with same-store sales growth of 3.7% and 2.2% in FY2019 and 9M FY2020 respectively on a relatively higher base of 13.3% and 8.9% in FY2017 and FY2018, respectively. The company reported sales per square feet per month of Rs. 805 and Rs. 804 in FY2019 and 9M FY2020 respectively against Rs. 823 and Rs. 834 in FY2018 and 9M FY2019 respectively.

The ratings, however, are constrained by the intense competition in the retail sector due to the presence of numerous unorganised and 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 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 105 as on March 31, 2019 from 141 as on March 31, 2012.

The Stable outlook on ICRA's AA- rating reflects ICRA's expectation that VMRL will continue to report steady operational and financial performance. The company is likely to add about five-seven more stores in Q4 FY020 and ~50-60 stores per financial year, depending upon the accruals generated during the year. Going forward, it is expected to witness healthy growth on the back of increased penetration and modest demand as the consumer sentiment remains buoyant. 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 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 experience in the industry.

Wide geographic presence and diversified product offerings across various segments - The company has an operational portfolio of 257 stores as on December 31, 2019, spread across 19 states/Union Territories. Moreover, it 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 wide 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.

Liquidity position: Adequate

VMRL's liquidity profile is **adequate**, as evident from free cash balance of Rs. 78 crore as on March 31, 2019. Moreover, over the last 12 months, the company has maintained an average utilisation between 25% and 30% of its fund-based sanctioned limits with cushion of ~Rs. 70-80 crore with respect to the sanctioned limits. VMRL has no firm debt payment obligations and primarily utilises its accruals to fund expansion in the number of stores. The nature of the company's business is seasonal and as a result, it utilises working capital limits and surplus cash balances during the festive period (full Q3 and initial part of Q4) to fund inventory and opening of stores. ICRA expects the company to open ~50-55 stores annually over the next two years at a capex of Rs. 55-60 crore, which is expected to be funded through adequate internal accruals to fund this expansion.

Rating sensitivities

Positive triggers: The positive triggers would include sustained increase in scale of operations characterised by OI growth, SSG above 6% and SSF above Rs. 830 on a sustained basis. Consistent improvement in working capital intensity as characterised by reduction in inventory days below 90 days on a sustained basis could also lead to a rating upgrade.

Negative triggers: The ratings could be downgraded in case of pressure on SSG and SSF resulting in deterioration of RoCE below 15% on a sustained basis. Significant rise in working capital intensity as reflected by increase in inventory days beyond 140 days.

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 standalone financials of the company

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 across tier-II, tier-III and tier-IV 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)

	FY2017	FY2018	FY2019	9M FY2020
Operating Income (Rs. crore)	1001.7	1222.4	1433.7	1329.4
PAT (Rs. crore)	43.9	77.7	61.6	57.8
OPBDIT/OI (%)	8.5%	10.9%	9.3%	14.0%
RoCE (%)	25.2%	35.2%	26.3%	-
TOL/TNW (times)	0.79	0.56	0.51	-
Total Debt/OPBDIT (times)	0.42	0.00	0.16	-
Interest Coverage (times)	24.0	86.8	82.9	4.5

**Owing to change in accounting policies (Adoption of Ind AS 116), the overall debt from FY2020 onwards is expected to include lease liabilities henceforth, which would impact the reported leveraging and coverage indicators*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

S. No.	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding March 31,2019 (Rs. crore)	Current Rating Month - year & rating In FY2020	Chronology of Rating History for the past 3 years						
						Month - year & rating In FY2019			Month - year & Rating in FY2018		Month - year & Rating in FY2017	
					02-March 2020	03-December 2018	31-August 2018	28-May 2018	09-October 2017	27-June 2017	14-March 2017	23-November 2016
1	Fund-based Bank Facilities	Long Term	135	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Non-fund Based Bank Facilities	Short term	15	-	[ICRA]A1+	[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	-	-	-	135.00	[ICRA]AA- (Stable)
NA	Non-fund Based Limits	-	-	-	15.00	[ICRA]A1+

Source: VMRL

Corrigendum

Document dated March 2, 2020 has been corrected with revisions as detailed below:

a) Revision on page 3 under the table headed –Key Financial Indicators- TOL/TNW ratio has been mentioned and TD/TNW ratio has been removed

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About ICRA Limited:

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