

August 03, 2022

V-Mart Retail Limited: Change in Limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based bank facilities (WC)	132.43	139.00	[ICRA]AA-(Positive); Outstanding
Non-fund based bank facilities	16.57	10.00	[ICRA]A1+; Outstanding
Unallocated	46.00	46.00	[ICRA]AA-(Positive)/[ICRA]A1+; Outstanding
Total	195.00	195.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings of V-Mart Retail Limited (VMRL or the company) continue to factor in its strong financial risk profile, characterised by minimal reliance on debt, a conservative capital structure, strong liquidity profile and robust debt coverage metrics. The positive outlook on the long-term rating reflects ICRA's expectation of a healthy growth in turnover and a sustained improvement in profitability, led by continued network expansion, recovery in sales per square foot (sq. ft.) and profitable ramp-up in operations of the Unlimited stores acquired in FY2022.

VMRL has grown both organically and inorganically at a healthy pace in the recent past (corroborated by a 5-year CAGR of 22% in its retail area), supported by its extensively experienced management team. In FY2022, VMRL acquired 74 stores under the brand, Unlimited, from Arvind Lifestyle Brands Limited (ALBL), a wholly-owned subsidiary of Arvind Fashions Limited (AFL), for a cash consideration. The acquisition gave it a swift entry into new geographies (southern and western India) and enabled it to capitalise on Unlimited's established market presence, brand recognition and asset base. In Q4 FY2022, Unlimited stores contributed 16% to VMRL's overall revenues. On the basis of the trend so far, ICRA expects VMRL to profitably ramp up operations of Unlimited stores by increasing sales per sq. ft. (~Rs.995 per sq. ft. vis-à-vis ~Rs.1,578 per sq. ft. for VMRL in Q4 FY2022) to full potential and rationalise the cost structure for Unlimited stores, in line with VMRL's operating costs.

The ratings, however, continue to be constrained by 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. As most of the target customers of the company depend on agriculture, the demand for its products is linked to the monsoon to some extent. The ratings also consider the high working capital intensity and the risks of high inventory on the books, as inherent in the apparel retail business.

Please refer to the following link for the previous detailed rationale that captures key rating drivers and their description, the liquidity position and rating sensitivities: [Click here](#)

Analytical approach

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

About the company

V-Mart Retail Limited (VMRL) was incorporated as Varin Commercial Private Limited in 2002. The company started its operations in the value retail segment by opening its first retail store in Gujarat in 2003. In 2006, the name of the company was changed to V-Mart Retail Private Limited and in 2008 the constitution of the company was changed to public limited, and the name was also changed accordingly.

VMRL is mainly involved in value retailing of apparels with minor presence in non-apparel (footwear, accessories, toys/ games, home textile, furnishing, décor and appliances etc.) and kirana bazaar. It is one of the largest value retail chains in India in terms of store count and retail area as the company operates 380+ stores with total retail area of ~33 lakh sq. ft. as of May 2022. Most of the VMRL stores are located in tier-II, III and IV cities of India and with the acquisition of 74 Unlimited stores in FY2022, the company has ventured into South India, enabling it to have a diversified presence across the country. While the highest concentration of stores continues to be in Uttar Pradesh and Bihar, Tamil Nadu and Karnataka have also become major markets post the acquisition.

Key financial indicators (audited)

	FY2021	FY2022	FY2021	FY2022
	Reported	Reported	Adjusted*	Adjusted*
Operating Income (Rs. crore)	1,075	1,666	1,075	1,666
PAT (Rs. crore)	-6	12	7	50
OPBDIT/OI (%)	12.3%	12.3%	3.5%	4.8%
PAT/OI (%)	-0.6%	0.7%	0.6%	3%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	1.4	0.2	0.3
Total Debt/OPBDIT (times)	4.3	4.4	0.0	0.0
Interest Coverage (times)	2.2	2.6	16.5	161.7

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

* Adjusted for IndAS 116 impact

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years						
		Amount rated (Rs. crore)	Amount outstanding* (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020	
				Aug 03, 2022	Jun 27, 2022	Aug 02, 2021	Mar 09, 2021	Mar 05, 2021	Mar 02, 2020	
1	Fund-based bank facilities (WC)	Long term	139.00	0.00	[ICRA]AA-(Positive)	[ICRA]AA-(Positive)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
2	Non-fund-based bank facilities	Short term	10.00	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Unallocated	Long /Short term	46.00	--	[ICRA]AA-(Positive)/[ICRA]A1+	[ICRA]AA-(Positive)/[ICRA]A1+	-	-	-	-

*Outstanding as on March 31, 2022

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based bank facilities (WC)	Simple
Non-fund-based bank facilities	Very Simple
Unallocated	Not Applicable

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 analysing 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

Bank Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based bank facilities (WC)	-	-	-	139.00	[ICRA]AA- (Positive)
NA	Non-fund-based bank facilities	-	-	-	10.00	[ICRA]A1+
NA	Unallocated	-	-	-	46.00	[ICRA]AA- (Positive)/ [ICRA]A1+

Source: V-Mart Retail Limited

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

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