May 06, 2024

V-Mart Retail Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based bank facilities (WC)	290.00	290.00	[ICRA]AA-(Stable); reaffirmed
Non-fund based bank facilities	10.00	10.00	[ICRA]A1+; reaffirmed
Total	**300.00**	**300.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for V-Mart Retail Limited (VMRL) reflects ICRA's expectation of improvement in the company's financial performance in FY2025, as marked by higher revenue growth and improvement in operating margins and debt protections metrics. The company's growth was impacted in 9M FY2024 by moderation in demand, heightened competition and lower than anticipated ramp up of performance of its stores in southern India, under the Unlimited brand. Coupled with continued high losses (estimated at Rs. 70-75 crore in FY2024, primarily owing to high marketing spend) in the recently acquired Limeroad business, this has exerted pressure on the company's operating margins and coverage metrics. However, ICRA notes the reduction in losses in the Limeroad business on a QoQ basis in 9M FY2024 and expects the same to decline substantially in FY2025.

Moreover, there has been recovery in demand as demonstrated by positive same store sales growth (SSSG) in recent quarters and the sustenance of the same is expected to aid improvement in operating margins of the core business as well as the company as a whole. Additionally, revenue growth is expected to be driven by continued network expansion, healthy growth in sales per sq. ft. and continued profitable ramp up in operations of the Unlimited stores. These factors, coupled with no material increase in the company's debt levels, are expected to support the improvement in credit metrics in FY2025. Thus, VMRL's ability to scale up its operations amid intensifying competition, efficiently manage its working capital cycle and improve profitability mainly in the Limeroad and Unlimited businesses, will be the key rating monitorables.

While VMRL's available liquid investments have moderated from past levels due to deployment of Qualified Institutional Placement (QIP) funds towards various earlier envisaged avenues, its liquidity position remains adequately supported by undrawn working capital facilities and higher accrual generation over the near term. Together with calibrated expansions and limited reliance on debt, the company's capital structure is expected to remain comfortable. The ratings also continue to factor the recent acquisition of the Limeroad business, an online marketplace, which is expected to help VMRL strengthen its digital capabilities and expand its presence as an omni channel value fashion retailer in the medium term.

The ratings continue to be constrained by the intense competition in the retail sector from numerous unorganised as well as organised players in the brick-and-mortar as well as online fields. As most of VMRL's target customers are dependent on agriculture, the demand for its products is linked to agro-climatic conditions, such as the monsoons, to some extent. The ratings also consider the high working capital intensity and the risks of high inventory on the company's books, as inherent in the apparel retail business.

The Stable outlook on the long-term rating reflects ICRA's expectation that VMRL will register steady growth and improvement in its operating profitability, leading to strengthening of its credit metrics while sustaining its comfortable liquidity profile.

Key rating drivers and their description

Credit strengths

Established track record of promoters and management in retail industry with healthy brand presence – VMRL, incorporated in 2002, opened its first retail store in 2003. The promoters have been involved in this business for nearly two decades and the management includes personnel with extensive experience in the industry. Through its extensive store network across northern, eastern and western India, VMRL has established a healthy brand presence and recall value in the domestic value fashion retail segment over the years.

Wide geographical presence and diversified product offerings across segments – VMRL had an operational portfolio of 444 stores across 25 states/Union Territories (UTs) as of March 2024. The company's presence was restricted to the northern, western and eastern parts of the country till FY2021. With acquisition of the Unlimited business in FY2022, the company ventured into the southern markets as well. As a result, its dependence on Uttar Pradesh and Bihar has decreased significantly. Since its acquisition, the company has been further expanding/diversifying its store network in the northern as well as southern domestic markets, under both its brands (V-Mart and Unlimited) respectively enabling higher regional diversification across the country. Moreover, the company has a diversified product profile comprising apparels, non-apparels and *kirana* items (limited to a few stores), with apparels comprising close to 80% of the turnover.

Consistent scaling up of operations– VMRL's revenues have consistently increased, on the back of consistent expansion of its retail area. ICRA expects growth in its scale to continue at a healthy pace in the upcoming fiscals as well, led by an increase in retail area as well as recovery in sales per sq. ft. ICRA also expects the company's debt protection metrics to improve, going forward, supported by higher accruals on the back of increasing scale of operations, reduced losses in the Limeroad business and absence of any debt-funded capex plans in the upcoming fiscals.

Established relationships with vendor base – The company enjoys established business relationships with its wide vendor base, which ensures cost optimisation and smooth operations.

Credit challenges

Intense competition in retail sector – The company faces stiff competition from the numerous players in the unorganised retail sector, along with competition from various organised players in the brick-and-mortar as well as online segments. Some of these organised players operating in smaller towns include Reliance Retail Limited, Max, and V2 Retail Limited, etc.

Operations remain vulnerable to weak demand conditions, increasing raw material prices and changing consumer preferences/spending trends – VMRL's sales, profitability and cash accruals, like any other apparel retailer, are closely linked to macroeconomic conditions, consumer confidence and spending patterns. Its sales also remain vulnerable to changing consumer tastes and preferences. Besides, given VMRL's target market, a large part of which lies in rural India, most of its products are cotton based. Therefore, any material upward movement in cotton prices may result in increased cost pressures on the company. Accordingly, the company's ability to protect its margins in such a scenario remains critical.

High working capital intensity of retail business and inventory obsolescence risk – The company remains exposed to various risks associated with high inventory on books, as inherent in the apparel retail business. There also continues to be the risk of its inventory getting damaged or going out of fashion. Further, with the company venturing into South India for the first time, the inventory levels in its Unlimited stores may remain high, as it tries to understand the preferences of local customers by offering a new and diverse product portfolio. However, in the medium term, ICRA expects VMRL to maintain around 90-120 days of inventory.

Environmental and Social Risks

Environmental considerations: The domestic apparel retail sector remains exposed to the risks of elevated input costs, owing to increased compliance costs faced by suppliers from tightening environmental regulations. However, given that these costs account for only a fraction of the overall costs and given the high demand for such products, over time, retailers can pass on such costs to end-consumers and/or diversify their sourcing and product mix to ensure sustainable supply chains. Further, the company has put in place procedures for sustainable sourcing of its products to mitigate the associated operational risks.

Social considerations: From the social standpoint, increasing usage of customer data following growing penetration of e-commerce, poses privacy and legal risks for retail entities. The retail industry also needs to adapt to the changing consumer preferences from time to time. Being a manpower-intensive sector, entities are exposed to the risks of disruptions from the inability to properly manage human capital in terms of their overall wellbeing. Besides, human rights issues and the inability to ensure diversity, while providing equal opportunity could also pose social risks for the company. As a retailer, the company is also subject to other social factors such as responsible sourcing, product and supply chain sustainability, given the high reliance on external suppliers. The company makes efforts to provide a healthy and safe working environment to its employees and strictly forbids hiring or using child labour and expects the same from its vendors.

Liquidity position: Adequate

VMRL's liquidity profile is expected to remain **adequate**, supported by free cash and bank balance and liquid investments of ~Rs. 20-30 crore, and unutilised fund-based working capital facilities of ~Rs. 180 crore as on March 31, 2024. Further, the company has no debt repayment obligations and primarily utilises its internal accruals to fund its network expansion. ICRA expects the company's fund flow from operations to be adequate to meet the foreseeable capex as well as working capital requirements in the near to medium term, placing it in a comfortable position.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company reports a sustained growth in its operating income along with improvement in return metrics, while efficiently managing its working capital cycle and maintaining a healthy liquidity profile.

Negative factors – The ratings could be downgraded if a significant decline in the operating income and earnings, results in a decline in RoCE on a sustained basis. Further, sizeable debt-funded capex and or an increase in the working capital intensity, adversely impacting the company's liquidity profile, could put pressure on the ratings.

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

VMRL was incorporated as Varin Commercial Private Limited in 2002. The company started its operations in the value retail segment by launching its first store in Gujarat in 2003. In 2006, the company was renamed as V-Mart Retail Private Limited. Subsequently, in 2008, the constitution of the company was changed to public limited and renamed once again as V-Mart Retail Limited.

VMRL is mainly involved in value retailing of apparels with minor presence in non-apparel (footwear, accessories, toys/ games, home textiles, furnishings, and appliances, etc.) and *kirana* products. It is one of the largest value retail chains in India in terms of store count and retail area, operating 444 stores admeasuring ~40 lakh sq. ft., as of March 2024. Most of VMRL's stores are in tier-II, III and IV cities and towns of India. With the acquisition of 74 Unlimited stores in FY2022, the company ventured into South India, diversifying its presence across the country. While its highest concentration of stores continues to remain in Uttar Pradesh and Bihar, Tamil Nadu and Karnataka have also become major markets following the acquisition.

Key financial indicators (audited)

VMRL Standalone	FY2022	FY2023	9MFY2024*
	Reported	Reported	Reported
Operating Income (Rs. crore)	1,666	2,465	2,117
PAT (Rs. crore)	12	-8	-58
OPBDIT/OI (%)	12.3%	10.9%	8.2%
PAT/OI (%)	0.7%	-0.3%	-2.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	2.2	2.4
Total Debt/OPBDIT (times)	4.4	5.0	5.8
Interest Coverage (times)	2.6	2.3	1.6

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore *unaudited*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding * (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022
					May 06,2024	Jun 15, 2023	Oct 28, 2022	Aug 03, 2022	Jun 27, 2022	Aug 02, 2021
1	**Fund-based bank facilities (WC)**	Long term	290.00	-	**[ICRA]AA - (Stable)**	[ICRA]AA - (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Positive)	[ICRA]AA- (Positive)	[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	--	--	**--**	--	[ICRA]AA- (Positive)/[ICRA]A1 +	[ICRA]AA- (Positive)/[ICRA]A1 +	[ICRA]AA- (Positive)/[ICRA]A1 +	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based bank facilities (WC)	Simple
Non-fund-based bank facilities	Very Simple

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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based bank facilities (WC)	-	-	-	290.00	[ICRA]AA- (Stable)
NA	Non-fund-based bank facilities	-	-	-	10.00	[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

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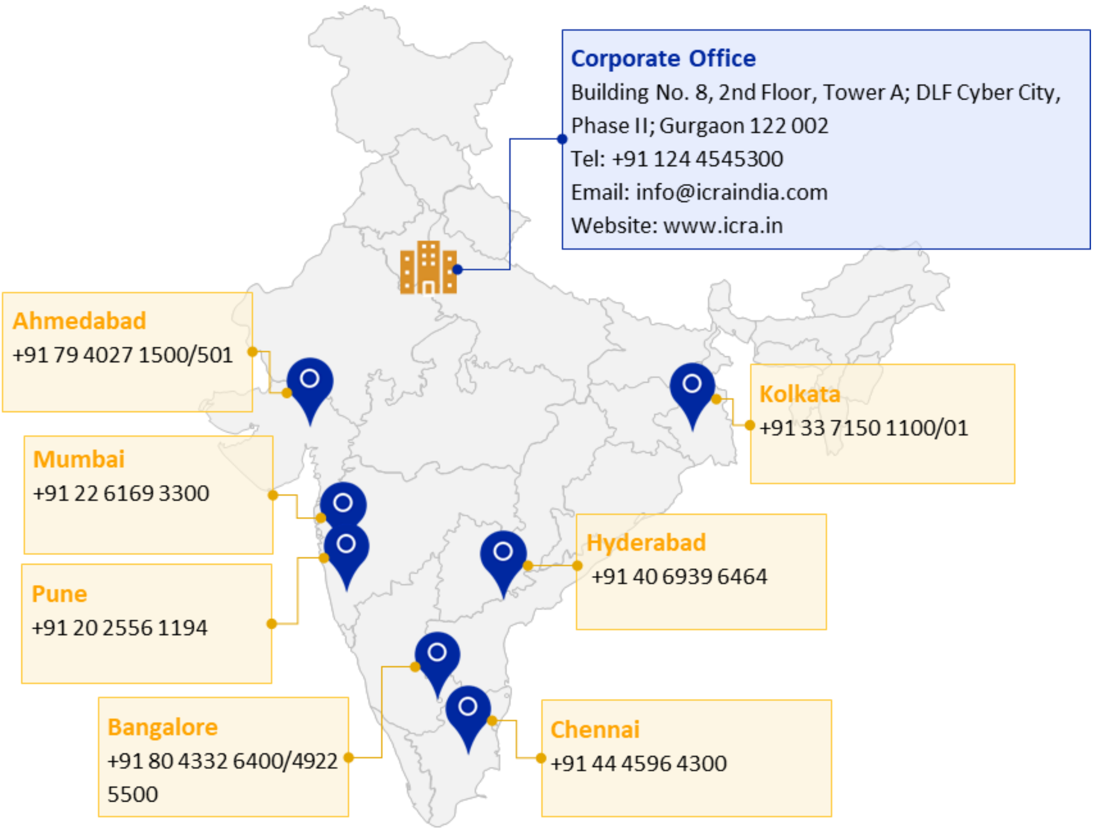

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