June 15, 2023

V-Mart Retail Limited: Ratings reaffirmed; outlook revised to Stable from Positive; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based bank facilities (WC)	139.00	290.00	[ICRA]AA-(Stable); reaffirmed/assigned and outlook revised to Stable from Positive
Non-fund-based bank facilities	10.00	10.00	[ICRA]A1+; reaffirmed
Unallocated	46.00	--	--
Total	**195.00**	**300.00**	

**Instrument details are provided in Annexure-1*

Rationale

The change in the outlook to Stable from Positive represents ICRA's expectations of moderation in V-Mart Retail Limited's (VMRL or the company) coverage metrics in the near term, led by pressure on the operating margins and higher reliance on short-term debt owing to planned spends on building up the recently acquired LimeRoad business and increasing working capital fund requirements from the growing offline retail stores business, respectively. ICRA notes that in the past 12 months, VMRL's healthy liquidity profile was partially supported by accumulated cash and bank balances and liquid investments from the QIP proceeds of ~Rs. 375 crore raised in February 2021, which were pending deployment towards warehouse development, stores expansion and investments in technology initiatives. With the deployment of these funds recently, the company's available liquid investments have moderated from the past levels, and the liquidity position going forward, is expected to be supported by adequate cushion in the company's sanctioned working capital facilities and healthy cash profit generation ability in the near to medium term. This apart, ICRA expects sustained improvement in the company's operational risk profile, led by growth in turnover and sustained profitability from the offline retail stores business in the near to medium term. The 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, acquired in the recent past. VMRL reported ~48% YoY revenue growth in FY2023 against ~55% in FY2022, on the back of sizeable increase in the retail area (to more than 37 lakh sq ft in March 2023 from ~23 lakh sq ft in March 2021) from both organic and inorganic expansions in the last few fiscals. Together with calibrated expansions and limited reliance on debt, the company's financial risk profile continues to be healthy, characterised by a conservative capital structure, comfortable liquidity profile and debt coverage metrics.

The ratings 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. ICRA expects VMRL to benefit from LimeRoad's experienced management with demonstrated capabilities of running online business, an advanced tech platform capable of handling high gross merchandise value (GMV) (GMV of more than Rs. 700 crore handled in FY2019) and a 1.7-crore loyal customer base with a repeat rate of ~60%. In the current fiscal, VMRL intends to spend on customer acquisition in the LimeRoad business to increase its scale and customer base, which is expected to negatively impact the overall VMRL OPBITDA by Rs.40-50 crore but help build higher revenue and customer base for future years from the LimeRoad segment. Nonetheless, the company's operating profitability is expected to remain comfortable in the near to medium term on the back of its sustained profitability from the offline retail stores segment.

The ratings continue to be 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. As most of the target customers of the company are dependent upon agriculture, the demand for its products is linked to the performance of 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.

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 set up across the northern, eastern and western regions of the country over the years, VMRL has established a healthy brand presence and recall value in the domestic value fashion retail segment.

Wide geographical presence and diversified product offerings across various segments – VMRL had an operational portfolio of 423 stores across 26 states/Union Territories as of March 2023. The company's presence was restricted to the northern, western and eastern states of the country till FY2021. With acquisition of Unlimited stores 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 the acquisition, the company has been further expanding/diversifying its store network in both the northern and southern regions of the country, under both its brands (V-Mart and Unlimited), enabling higher geographical diversification across the country. Moreover, the company has a diversified product profile comprising apparels, non-apparels and *kirana* (limited to a few stores), with apparels comprising close to 80% of the turnover.

Consistent scaling up of operations and healthy financial profile – VMRL's revenues have consistently increased (CAGR of 19% between FY2012 and FY2023, despite pandemic-led slowdown in FY2021 and FY2022), on the back of consistent expansion in its retail area. ICRA expects growth in the 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 to pre-Covid levels. Further, VMRL has been able to maintain a healthy financial risk profile over the years, characterised by a conservative capital structure (TD/TNW of 0.1 times, adjusted for IndAS 116 impact, as on March 31, 2023) and comfortable debt coverage metrics (interest cover and DSCR of ~17 times and ~18 times [both adjusted for IndAS 116 impact], respectively, in FY2023). ICRA expects the company's debt protection metrics to remain healthy in FY2023, supported by higher profits and accruals on the back of higher scale of operations, absence of any debt-funded capex plans in the upcoming fiscals and with reliance only on short-term debt to manage the incremental working capital requirements, as the company plans to add ~15% incremental retail space each year.

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

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. Some of the organised players present in the smaller towns include Reliance Retail Limited, Max, V2 Retail Limited, etc.

Higher-than-expected losses in LimeRoad business may constrain VMRL's performance in the near to medium term – With the company focusing on broadening VMRL's online presence, which has remained minimal in the recent fiscals, the company intends to use LimeRoad as a medium to expand the online presence gradually. In order to turn around the Limeroad business, the company is expected to incur operational expenditure, largely in the form of customer acquisition costs in FY2024, which is expected to result in LR operations being EBITDA negative in the current fiscal. Any unforeseen or higher-than-estimated costs in the LR business segment may have an adverse impact on VMRL's overall profitability, resulting in moderation in the profitability thereby impacting the overall financial risk profile. However, with the management's intent on limiting these spends and not exceeding EBITDA loss of ~Rs. 50-60 crore from the LimeRoad segment, provides some comfort.

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 the consumers' changing tastes and preferences. Besides, given the target market, a large part of which comes from rural towns of the country, most of the products offered by the company are cotton based. Therefore, any material upward movement in the cotton prices may result in increased cost pressure for the company. Accordingly, the company's ability to protect its margins in such 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 the books, as inherent in the apparel retail business. There continues to be the risk of the inventory becoming obsolete, getting damaged, or going out of fashion, etc. Further, with the company venturing into South India for the first time, the inventory levels in Unlimited stores may remain higher in the current fiscal, as the company tries to develop an understanding of the tastes and preferences of the local customers by offering new and diverse portfolio in the stores. However, in the medium term, ICRA expects VMRL to maintain close to 90-120 days of inventories.

Environmental and Social Risks

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

Social considerations: From the social risk 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 segment, entities are exposed to the risks of disruptions due to inability to properly manage human capital in terms of their overall wellbeing. Besides, human rights issues and inability to ensure diversity, while providing equal opportunity could 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 use of child force at workplace and expects the same from its vendors.

Liquidity position: Adequate

VMRL's liquidity profile is expected to remain **adequate**, evident from free cash and bank balance and liquid investments of ~Rs. 27 crore, and unutilised fund-based working capital facilities of ~Rs. 152 crore as on March 31, 2023. 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 comfortably 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 any sustained growth in the operating income along with an 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 any significant decline in the operating income and/or a contraction in the profit margins, results in a decline in RoCE, on a sustained basis. Further, sizeable capex/investments or an increase in the working capital intensity, adversely impacting the liquidity/leverage 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

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 company was renamed 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 420+ stores with total retail area of ~37 lakh sq ft as of March 2023. Most of the VMRL stores are in tier-II, III and IV cities of India and with the acquisition of 74 Unlimited stores in FY2022, the company had 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)

	FY2022	FY2023	FY2022	FY2023
	Reported	Reported	Adjusted*	Adjusted*
Operating Income (Rs. crore)	1,666	2,465	1,666	2,465
PAT (Rs. crore)	12	-8	50	50
OPBDIT/OI (%)	12.3%	10.9%	4.9%	3.7%
PAT/OI (%)	0.7%	-0.3%	3.0%	2.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	2.2	0.3	0.7
Total Debt/OPBDIT (times)	4.4	5.0	0.0	1.6
Interest Coverage (times)	2.6	2.3	165.1	16.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

** Adjusted for IndAS 116 impact by ICRA*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2024)				Chronology of rating history for the past 3 years					
		Type	Amount rated (Rs. crore)	Amount outstanding* (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022	Date & rating in FY2021	
					Jun 15, 2023	Oct 28, 2022	Aug 03, 2022	Jun 27, 2022	Aug 02, 2021	Mar 09, 2021	Mar 05, 2021
1	Fund-based bank facilities (WC)	Long term	290.00	148.00	[ICRA]AA- (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Positive)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]A A- (Stable)	[ICRA]A A- (Stable)
2	Non-fund-based bank facilities	Short term	10.00	--	[ICRA]A1+	[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+	-	-	-

**Outstanding as on March 31, 2023*

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, are available on ICRA's website: Click Here

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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: V-Mart Retail Limited

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:

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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