June 27, 2022

V-Mart Retail Limited: Ratings reaffirmed, outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based bank facilities (WC)	185.00	132.43	[ICRA]AA-(Positive) reaffirmed; outlook revised to Positive from Stable
Non-fund based bank facilities	10.00	16.57	[ICRA]A1+; reaffirmed
Unallocated	-	46.00	[ICRA]AA-(Positive)/[ICRA]A1+; reaffirmed; Outlook on the long-term rating revised to Positive from Stable
Total	**195.00**	**195.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the outlook on the long-term rating of V-Mart Retail Limited (VMRL or the company) factors in ICRA's expectation of a healthy growth in turnover and a sustained improvement in profitability, led by continued network expansion, recovery in sales per sq. ft. from the pandemic impact, and profitable ramp-up in operations of the 'Unlimited' stores acquired in FY2022. Together with calibrated expansions and minimal reliance on debt, this is expected to keep the company's financial risk profile strong, characterised by a conservative capital structure, strong liquidity profile and robust debt coverage metrics.

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. Basis the trend so far, ICRA expects VMRL to profitably ramp up operations of Unlimited stores by increasing their 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 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 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 has an operational portfolio of 381 stores spread across 25 states/union territories as of May 2022. The company's presence was restricted to northern, western and eastern states of the country till FY2021. With acquisition of Unlimited stores in 2021, the company has ventured into the southern markets as well. As a result, its dependence on Uttar Pradesh and Bihar markets has decreased significantly. Going forward, company plans to open new stores in both northern and southern states of the country, under both its brands (V-Mart and Unlimited). 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 strong financial profile – VMRL's revenues have consistently increased (CAGR of 19% between FY2012 and FY2022, this is despite pandemic led slowdown in FY21 and FY22), on the back of consistent increase 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. from the pandemic impact. Further, VMRL has been able to maintain a strong financial risk profile over the years, characterised by a conservative capital structure (nil debt, adjusted for IndAS 116 impact, as on March 31, 2022) and robust debt coverage metrics (interest cover and DSCR of ~162x and ~167x [both adjusted for IndAS 116 impact], respectively in FY2022). ICRA expects the company's debt protection metrics to continue to remain robust in FY2023, supported by higher profits and accruals on the back of higher scale of operations and in the absence of any debt-funded capex plans in the ongoing fiscal.

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.

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 macro-economic 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, with a significant increase in cotton prices in the recent months, the company is facing increasing cost pressure. While the company is hiking prices and is increasing the use of blended fabrics, presence in the value segment and the target market's preference for cotton products restrict its ability to fully insulate its profit margins. Accordingly, the company's ability to protect its margins on a sustainable basis remains to be seen.

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.

Liquidity position: Strong

VMRL's liquidity profile continues to be **strong**, as evident from cash and bank balance and liquid investments of ~Rs.156 crore, and unutilised fund-based working capital facilities of ~Rs. 132 crore as on March 31, 2022. The company's strong liquidity in the past 15 months has been partially supported by the QIP proceeds of ~Rs. 375 crore raised in February 2021, only part of which got deployed towards acquisition of Unlimited stores. 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 strong position.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company reports a 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 a 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 name of the company was changed to V-Mart Retail Pvt. Limited and in 2008 the constitution of the company was changed to public limited, and name of the company 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	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. cr)	Amount O/S* (Rs. cr)	Rating	FY2022	FY2021		FY2020
					Jun 27, 2022	Aug 02, 2021	Mar 09, 2021	Mar 05, 2021	Mar 02, 2020
1	Fund-based bank facilities (WC)	LT	132.43	0.00	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Non-fund-based bank facilities	ST	16.57	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Unallocated	LT/ST	46.00	--	[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)	-	-	-	132.43	[ICRA]AA- (Positive)
NA	Non-fund-based bank facilities	-	-	-	16.57	[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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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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