October 28, 2022

V-Mart Retail Limited: Update on material event

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based bank facilities (WC)	139.00	139.00	[ICRA]AA-(Positive); Outstanding
Non-fund based bank facilities	10.00	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

On October 17, 2022, V-Mart Retail Limited (VMRL) announced that it has entered into a business transfer agreement with A.M. Marketplaces Private Limited (LimeRoad) and certain other parties for the acquisition of its LimeRoad business as a going concern, on a slump sale basis for a certain consideration. LimeRoad is an online fashion marketplace that operates through a mobile and web application-based information technology platform, and acts as a facilitator between third-party sellers/vendors and buyer of goods (largely apparels), and provides ancillary services. As part of the transaction, VMRL shall pay a sum of Rs. 31.12 crore, acquire assets worth approximately Rs. 14.61 crore and assume current liabilities of Rs. 36.26 crore. The transaction is expected to be completed in 60 days subject to completion of due diligence and customary terms and conditions precedent.

The ratings for VMRL remain unchanged at the earlier ratings of [ICRA]AA-(Positive)/[ICRA]A1+, as the proposed deal is not expected to materially alter the credit profile of the company. The acquisition is proposed to be funded from internal accruals. As there will be no incremental borrowings, the company's capital structure is expected to remain comfortable. Further, despite an outflow of Rs. 67 crore in the near to medium term, the company's liquidity position is expected to remain strong, with free liquid balances and unutilised fund-based working capital limits aggregating to more than ~Rs. 100 crore.

Operationally, the acquisition would help VMRL strengthen its digital capabilities and expand its presence as an omni channel value fashion retailer. Further, the acquisition is expected to help VMRL capitalise 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%. ICRA notes that the acquisition is in line with VMRL's efforts in the recent years to broaden its online presence through its own web portal as well as other online shopping portals and its plans of investing a considerable amount towards strengthening its digital infrastructure in the upcoming fiscals.

However, despite the initiatives and investments made in strengthening the digital capabilities, the revenue share from the online segment has remained below ~3% in the last three fiscals. While the deal would increase contribution from the online channel in the near to medium term, VMRL's ability to turn around LimeRoad's operations would remain crucial for its profitability and debt metrics, as LimeRoad's operations have remained loss-making in the previous two fiscals. ICRA will continue to monitor the developments on this front, as well as the operational and financial performances of the company, and will take appropriate rating action as and when required.

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.

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 a minor presence in non-apparels (footwear, accessories, toys/ games, home textile, furnishing, décor and appliances etc.) and the 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 400+ stores with total retail area of ~33 lakh sq. ft. as of September 2022. Most of the VMRL stores are located in tier-II, III and IV cities of India. 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)

	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. crore)	Amount outstanding* (Rs. crore)	Date & rating in FY2023			Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
					Oct 28, 2022	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-(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+	[ICRA]A1+
3	Unallocated	Long /Short term	46.00	--	[ICRA]AA-(Positive)/[ICRA]A1+	[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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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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