March 05, 2021

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 Working Capital Limits	135.0	135.0	[ICRA]AA- (Stable) reaffirmed
Non-fund Based Limits	15.0	15.0	[ICRA]A1+ reaffirmed
Total	**150.0**	**150.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation takes into account the established track record of the promoters, the long presence of V-Mart Retail Limited (VMRL) in the value retail industry and a strong recovery in its performance in Q3 FY2021. The uptick in performance in Q3 is primarily driven by the pent up and festive demand along with opening up of markets post lifting of lockdown restrictions. The rating continues to factor in VMRL's diversified product portfolio across various segments such as apparel, non-apparel and *kirana bazaar* along with its wide geographic presence (274 operational stores in 19 states/Union Territories as on December 31, 2020) with most of its stores in tier-II and tier-III cities. The ratings also positively factor in the company's established relationship with a wide vendor base, which optimises cost mix. The ratings continue to factor in the strong financial profile of VMRL as reflected by healthy profitability and return metrics, comfortable capital structure with absence of any term loans and strong debt protection metrics. ICRA also takes note of the successful qualified institutional placement (QIP) done by the company in Q4 FY2021, when it raised additional equity of Rs. 375 crore. These funds are expected to be deployed towards purchase of a new warehouse, strengthening technology and digital infrastructure and refurbishment of the existing stores among others.

The ratings, however, are 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. Further, VMRL's operations remain vulnerable to the low demand for its products. The demand has been adversely impacted in FY2021, primarily on account of the Covid-19 pandemic. This has led to moderation in operational metrics like footfalls, same-store sales growth (SSG) and sales per square feet (SSF) among others. Moreover, as most of the target customers of the company are dependent upon agriculture for their livelihood, the demand for its products is directly linked to the performance of monsoon. However, a weaker monsoon may not have an immediate adverse impact on the demand and vice versa. Hence, there may be a time lag, depending upon the overall macro environment. The ratings also take into account the high working capital intensity and the risks of high inventory on the books as is inherent in the apparel retail business.

Further, during the current fiscal, the company's operations have been adversely impacted by the disruption caused by the pandemic. As a result, the average store availability was down to 34% and 79% in Q1 and Q2, respectively. This has sequentially improved to ~90% in Q3 FY2021 as lockdown-related restrictions have eased. The overall revenues have declined by ~45% in 9M FY2021 on a YoY basis. However, there has been a strong recovery in Q3 FY2021 with operating income (OI) being ~84% of Q3 FY2020. VMRL has reported a loss at PBT level of Rs. 7 crore in 9M FY2021 against a profit of Rs. 80 crore in 9M FY2020. While there has been some tangible recovery in Q3 FY2021, ICRA expects the company's performance to fully return to the normal levels over the next three to four quarters, provided there are no further pandemic-related disruptions.

The Stable outlook on the AA- rating reflects ICRA's expectation that VMRL will continue to recover over the next few quarters as consumer sentiment is on the rise and is expected to stay buoyant. ICRA expects the company to add ~40–45 new stores in FY2022. The growth in OI in FY2022 is expected to come from an increase in the number of stores along with returning of things back to pre-Covid-19 level, which is expected to improve the performance of the existing stores. The company's ability to scale up its operations in the face of competition, efficiently manage its working capital cycle, improve operational indicators and maintain a healthy financial profile will be the key monitorables.

Key rating drivers and their description

Credit strengths

Established track record of promoters and management in retail industry – VMRL was incorporated in 2002 and opened its first retail store in 2003. The promoters have been involved in this company's operations for more than 15 years and the management includes personnel with extensive experience in the industry.

Wide geographic presence and diversified product offerings across various segments –The company has an operational portfolio of 274 stores as on December 31, 2020, spread across 19 states/Union Territories. Moreover, it 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.

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

Successful QIP of Rs. 375 crore in Q4 FY2021 – VMRL successfully completed a QIP of Rs. 375 crore, post which the shareholding of the promoter group declined to 46.7% from 50.6%. The funds raised through this QIP would be deployed in business operations over the next four to five years with primary utilisation towards buying a new warehouse, strengthening technology and digital infrastructure and refurbishment of the existing stores.

Strong financial profile – The company continues to maintain a strong financial profile as reflected by healthy profitability margins and return metrics, comfortable capital structure, strong coverage and debt protection metrics. Even though the financial performance has been adversely impacted in the current year, the company has posted a strong recovery in Q3 FY2021, clearly demonstrating the revival in demand and that things are heading towards normalcy.

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.

Operations remain vulnerable to low product demand – Demand for VMRL's products is dependent upon monsoons and macroeconomic factors, primarily the growth in rural economy as well as smaller cities and towns. Monsoon plays a critical role as most of the company's target customers depend on agriculture for their livelihood.

Moderation in operational metrics on account of pandemic-related lockdown – Post the spread of Covid-19, the Government imposed lockdown in the country, which resulted in the stores of VMRL remaining closed. The operational days for the company were 34% and 79% in Q1 and Q2 FY2021, respectively. This has adversely impacted the operating metrics like number of footfalls, SSG, SSF in the current year. There has been an uptick in the operational metrics in Q3 FY2021; however, the metrics remain short of the historical levels.

High working capital intensity of retail business – The company remains exposed to various risks associated with high inventory on the books, as is inherent in the apparel retail business. There continues to be a risk of inventory becoming obsolete, getting damaged, or going out of fashion, etc.

Liquidity position: Strong

VMRL's liquidity profile is **strong**, as evident from free cash balance of Rs. 116 crore as on December 31, 2020. Post that, the company has successfully raised Rs. 375 crore from a QIP in February 2021, which is expected to take the overall cash balances as on FY2021 end to above Rs. 400 crore. The company does not have any term loans on its balance sheet and the utilisation in working capital limits has been negligible over the last 12 months. The unutilised working capital facilities as on date stand at ~Rs. 185 crore. The company has no firm debt payment obligations and primarily utilises its accruals to fund expansion in the number of stores. The nature of VMRL's business is seasonal and as a result the company utilises working capital limits and surplus cash balances during the festive period (full Q3 and initial part of Q4) to fund inventory and to open stores. The funds available to the company are expected to be adequate to comfortably meet the foreseeable expenditure, placing it in a strong position.

Rating sensitivities

Positive factors – The ratings can be upgraded in case of growth in OI along with improvement in profitability margins and return indicators on a sustained basis. The ratings may be upgraded in case of reduction in working capital intensity with a decline in inventory days to below 90 on a sustained basis along with the company maintaining a strong liquidity profile.

Negative factors – The ratings could be downgraded in case of de-growth in OI and contraction in profitability margins, which may result in a decline in RoCE. The rating may be revised downwards in case of a significant increase in working capital intensity and deterioration in liquidity profile.

Analytical approach

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

About the company

VMRL was incorporated as Varin Commercial Private Limited in 2002. It opened its first retail store in Gujarat in 2003. The company is involved in value retailing across three verticals, namely apparel, non-apparel and *kirana bazaar*, with operations across tier-II, tier-III and tier-IV cities of northern, eastern and western India. Some of the major states in which VMRL operates are Uttar Pradesh, Bihar, Jharkhand, Madhya Pradesh, West Bengal and Rajasthan.

Key financial indicators (audited)

VMRL Standalone	FY2019^	FY2020	9M FY2021*
Operating Income (Rs. crore)	1433.7	1662.0	723.6
PAT (Rs. crore)	61.6	49.3	-4.7
OPBDIT/OI (%)	9.3%	12.9%	13.5%
PAT/OI (%)	4.3%	3.0%	-0.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	1.6	1.4
Total Debt/OPBDIT (times)	0.2	2.4	4.1
Interest Coverage (times)	82.9	3.9	2.2

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

^The financial statements of FY2019 are not comparable with FY2020 and YTD FY2021 and the FY2019 statements do not factor in the adjustments related to IndAS-116. Consequently, the lease liabilities are not reflected as debt which primarily impacts the leverage and debt coverage indicators.

**Unaudited*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019			Date & Rating in FY2018	
					March 05 2021	March 2, 2020	December 3,2018	August 31, 2018	May 28, 2018	October 9, 2017	June 27, 2017
1	Fund based Limits	Long-term	135.0	NA	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)
2	Non-Fund Based Limits	Long - term	15.0	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based Limits	-	-	-	135.0	[ICRA]AA-(Stable)
NA	Non-Fund Based Limits	-	-	-	15.0	[ICRA]A1+(Stable)

Source: *Company*

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

ANALYST CONTACTS

Sabyasachi Majumdar
·91 124 4545304
sabyasachi@icraindia.com

Jatin Arya
·91 124 4545313
jatin.arya@icraindia.com

Girishkumar Kadam
·91 22 6114-3441
girishkumar@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.