

## V-Mart Retail Limited

December 03, 2018

### Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	110.0	110.0	[ICRA]AA- (Stable) reaffirmed
Non-fund Based Limits	15.00	15.00	[ICRA]A1+ reaffirmed
<b>Total</b>	<b>125.0</b>	<b>125.0</b>	

### Rationale

The ratings reaffirmation takes into account the established track record of the promoters, the long presence of V -Mart Retail Limited in the value retail industry and satisfactory performance in H1 FY2019. Also, the company's diversified product portfolio across various segments such as apparel, non-apparel and *kirana bazaar* support the ratings. These apart, the ratings positively factor in VMRL's wide geographic presence (190 operational stores in 15 states/union territories as on September 30, 2018) with most of its stores in tier-II and tier-III cities. Also, its established relationship with a wide vendor base optimises cost mix, which is a positive. The ratings continue to factor in the strong financial profile of VMRL that is evident from the primarily volume-driven growth in its operating income (OI), healthy cash accruals, comfortable capital structure and strong debt protection metrics. While reaffirming the ratings ICRA notes that the growth in OI in H1 FY2019 was not commensurate to the growth in number of stores and net profits in Q2 FY2019 were negative. The primary reason for a lesser growth in turnover was the shifting of major festivals like Durga Puja/Navratri which took place in Q2 last year to Q3 in the current fiscal. Moreover, most of the new stores opened in the last 12 are in the North East, Jharkhand and West Bengal, which are relatively new territories for the company and is expected to take a higher gestation period to achieve the desired level of sales. The profitability was suppressed in Q2 because of an increase in employee costs, general overheads and one-time investment write-offs.

The ratings continue to positively factor in the company's comfortable liquidity position as reflected by the negative net debt as on September 30, 2018 and adequate cushion in working capital limits. ICRA's rating derives further comfort from the healthy operating metrics, with VMRL reporting same-store sales growth of 9% and 1.2% in FY2018 and H1 FY2019 respectively on a relatively higher base of 13.3% and 16.6% in FY2017 and H1 FY2017, respectively. The company reported sales per square feet per month of Rs. 823 and Rs. 740 in FY2018 and H1 FY2019 respectively against Rs. 799 and Rs. 791 in FY2017 and H1 FY2018 respectively.

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 that has adversely affected same-store sales growth metric and overall sales in the past. Moreover, as most of the target customers for the company are dependent upon agriculture for their livelihood, the demand for the company's 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 and 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. However, VMRL has been able to manage its inventory position better over the last few years as indicated by the decline in inventory days to 116 as on March 31, 2018 from 141 as on March 31, 2012.

Going forward, the company is expected to witness a healthy growth driven by an increased penetration and expectation of higher demand as the consumer sentiment remains strong. 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 rating sensitivities.

## Outlook: Stable

A Stable outlook reflects ICRA's expectation that VMRL will continue to report steady operational and financial performance. The company is likely to add about 15 more stores in H2 FY019 and continue to expand its scale of operations. Moreover, it is expected to gain considerably during H2 FY2019 on account of various festivals and the coming winter. The outlook may be revised to Positive in case of improvement in consumer spending sentiment, market share gains, sustainable improvement in profitability and better management of working capital cycle. The outlook may be revised to Negative in case of deterioration in consumers' spending sentiment, market share decline, adverse movement in profitability and working capital cycle.

## Key rating drivers

### 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 190 stores as on September 30, 2018, spread across 15 states/union territories. Moreover, the company has a diversified product profile comprising apparels, non-apparels and *kirana* (limited to a few stores).

**Strong operational profile reflected by robust operational metrics** - The company has reported robust operational metrics in the last few quarters, viz. average transaction size, footfall per store, sales per square feet per month and same-store sales growth.

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

**Consistent scaling up of operations and strong financial profile** - The operations of the company have scaled up significantly since the time of its establishment. VMRL's financial profile is characterised by a healthy growth in OI, moderate profitability margins, comfortable capital structure and strong debt protection indicators.

### 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.

**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

The robust liquidity profile of the company is reflected by the presence of surplus cash as on H1 FY2019 and availability of working capital limits which have adequate cushion. The net debt of the company as on H1 FY2019 and FY2018-end was negative. Moreover, the overall debt comprises only working capital limits and there are no term loans/NCDs on the books of VMRL. Going forward, the free cash flows are expected to be adequate. As most accruals for VMRL are realised in Q3 and Q4 of each fiscal year, the liquidity position is expected to remain comfortable. ICRA expects the opening of another 15 stores in H2 FY2019 which would entail a capex of Rs. 18-20 crore, which is expected to be funded through internal accruals.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">RATING METHODOLOGY FOR ENTITIES IN THE RETAIL INDUSTRY</a>
Parent/Group Support	Not Applicable
Consolidation / Standalone	Not Applicable

## 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*, with operations across tier-II, tier-III and tier-IV cities of northern, eastern and western India. Some of the major states in which the company operates are Gujarat, Madhya Pradesh, Uttar Pradesh, Bihar, Jharkhand, Punjab and Rajasthan.

## Key financial indicators (Audited)

	FY2016	FY2017	FY2018	H1 FY2019
Operating Income (Rs. crore)	809.4	1001.7	1222.4	625.3
PAT (Rs. crore)	27.8	43.9	77.7	20.8
OPBDIT/OI (%)	7.7%	8.5%	10.9%	6.6%
RoCE (%)	18.6%	25.2%	35.2%	14.9%
Total Debt/TNW (times)	0.12	0.13	0.00	0.12
Total Debt/OPBDIT (times)	0.43	0.42	0.00	0.55
Interest Coverage (times)	19.92	24.05	86.85	106.22

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

**Rating history for last three years**

Instrument	Type	Amount Rated (Rs. crore)	Current Rating (FY2019)				Chronology of Rating History for the past 3 years					
			Amount Outstanding	Date & Rating in FY2019			Date & Rating in FY2018		Date & Rating in FY2017		Date & Rating in FY2016	
				March 31, 2018 (Rs. crore)	November 2018	August 2018	May 2018	October 2017	June 2017	March 2017	November 2016	November 2015
1	Cash Credit	110.00	-	[ICRA]A A-(Stable)	[ICRA]A A-(Stable)	[ICRA]A +(Positive)	[ICRA]A +(Positive)	[ICRA]A +(Stable)	[ICRA]A +(Stable)	[ICRA]A +(Stable)	[ICRA]A +(Stable)	
2	Non-Fund Based Limits	15.00	-	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1	[ICRA]A 1	

**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 [www.icra.in](http://www.icra.in)

### 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	Cash Credit	-	-	-	110.00	[ICRA]AA- (Stable)
NA	Non-fund Based Limits	-	-	-	15.00	[ICRA]A1+

Source: VMRL

## ANALYST CONTACTS

**Sabyasachi Majumdar**  
+91 124 4545304  
[sabyasachi@icraindia.com](mailto:sabyasachi@icraindia.com)

**Jatin Arya**  
+91 124 4545313  
[jatin.arya@icraindia.com](mailto:jatin.arya@icraindia.com)

**Avneet Kaur**  
+91 124 4545319  
[avneetk@icraindia.com](mailto:avneetk@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**  
+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

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