

HSIE Results Daily

Contents

Results Reviews

- Berger Paints:** BRGR's topline delivery (8% YoY; three-year CAGR: 14% INR21.9bn in Q4) missed expectations (HSIE: INR23.6). FY19-22 CAGR (standalone) has lagged that of APNT (12% vs APNT's 15%). However, BRGR has managed to better balance growth and margin as we reckon the focus on lower ASP products has been less intense vs APNT over FY19-22. Standalone volume growth remained flat/grew 19% YoY in Q4/FY22. FY22 price hikes are yet to catch up with inflation but are inching closer. Long-term risk of growth potential being split post Grasim's entry looms large. We have cut our FY23/24 EPS estimates by 8% each to account for lower GM. Ergo, our DCF-based TP stands revised at INR600/sh (implying 49x FY24 EPS). We downgrade the stock to REDUCE (earlier: ADD).
- Aditya Birla Fashion and Retail:** ABFRL's Q4FY22 print beat expectations; Q4 revenue grew to INR21.8bn (three-year CAGR: 4%; HSIE: INR 21.4bn). Both flagships aided the beat. It nearly recouped pre-pandemic sales (96% recovery) in FY22. EBITDAM expanded 261bps to 17%, led by (1) higher GM (given higher full price sales), (2) price hikes, (3) scale recoup. Expansion remains healthy, but working capital management remains inferior (rising creditors' support). Against this backdrop, a further raise seemed imminent but the quantum perplexed us. Our FY23/24 estimates broadly remain unchanged and our ADD rating stays but we do adjust for the share dilution. Hence, DCF-based TP stands revised to INR270/sh (implying 25x EV/EBITDA). Note: Capital allocation will be a key monitorable from here on.
- Bata India:** Bata's Q4 topline came in line at INR6.65bn and nearly hit pre-pandemic sales in Q4 (98%). However, its path to recovery has been the most arduous amongst peers (FY19-22 CAGR for Bata stands at -7% vs Metro's +3%, Relaxo's +5%, and Campus Activewear's 26%). Margins surprised positively. We suspect (1) higher full-price sales, (2) lower inventory markdowns, (3) price hike absorption and (4) cost optimisation to have played a part. Treading the growth-margin equation across Bata's volume drivers is tough to execute, but these are early days and we give the benefit of execution (although untested) in our estimates. We maintain our SELL rating, with a DCF-based TP of INR1,400/sh, implying 40x FY24 EPS. Note: EPS estimates broadly remain unchanged.
- Fine Organic Industries:** We downgrade Fine Organics from BUY to ADD, with a revised target price of INR 5,290. The downgrade is largely owing to 22% increase in the stock price in the past three months. The stock is trading at 40x FY24E EPS (EPS CAGR of 21% over FY22-24E, RoE of 31.7/28.0% in FY23/24E). We like Fine Organics, owing to (1) leadership in oleo-chemical based additives in the domestic and global markets with a loyal customer base, (2) unique business model with high entry barriers, (3) diversified product portfolio, and (4) pricing power. Q4 EBITDA/APAT were 96/143% above our estimates, owing to a 31% rise in revenue, lower-than-expected raw material cost, higher-than-expected other income, lower-than-expected tax outgo, but were offset by higher-than-expected other expense.

HSIE Research Team

hdfcsec-research@hdfcsec.com

- **V-MART Retail:** V-MART reported 30% growth YoY. Organic business (ex-Unlimited acquisition) recovered fully in FY22 (INR3.85bn in Q4) from the pandemic blues. Footfall density is yet to catch up, while transaction sizes remain elevated vs. pre-pandemic levels. Unlimited format's inferior unit economics certainly remains a drag on portfolio unit economics. Profitability beat (11% vs HSIE's 6%) was primarily a function of (1) better topline recovery and (2) higher-than-expected GM (higher full price sales). We continue to realign profitability (-20/-40%) for FY23/FY24, given the Unlimited drag, and maintain our ADD rating, with the DCF-based TP of INR3,500/sh (unchanged, implying 25x EV/EVITDA).
- **TCNS Clothing:** TCNS' journey to pre-pandemic sales remained underwhelming, partly due to category-specific idiosyncrasies. At INR2.34bn (broadly in line), revenue was at ~81% of pre-COVID level. Recovery continued to lag that of peers (Trent/Madura clocked 21/8% three-year CAGRs). Profitability missed expectation (EBITM at -3.8% vs HSIE's 0.4%) as cost of retailing remained inefficient. We largely maintain our FY23/24 EBITDA estimates and leave our DCF TP of INR575/sh unchanged (implying 13x FY24 EV/EBITDAR). We upgrade the stock to REDUCE, as valuation is more palatable after the recent correction.

Berger Paints

Print lags that of leader

BRGR's topline delivery (8% YoY; three-year CAGR: 14% INR21.9bn in Q4) missed expectations (HSIE: INR23.6). FY19-22 CAGR (standalone) has lagged that of APNT (12% vs APNT's 15%). However, BRGR has managed to better balance growth and margin as we reckon the focus on lower ASP products has been less intense vs APNT over FY19-22. Standalone volume growth remained flat/grew 19% YoY in Q4/FY22. FY22 price hikes are yet to catch up with inflation but are inching closer. Long-term risk of growth potential being split post Grasim's entry looms large. We have cut our FY23/24 EPS estimates by 8% each to account for lower GM. Ergo, our DCF-based TP stands revised at INR600/sh (implying 49x FY24 EPS). We downgrade the stock to REDUCE (earlier: ADD).

- Q4FY22 highlights:** Consol. revenue grew 8% to INR21.87bn (HSIE: INR 23.6bn). Standalone revenue growth of 12.5% has lagged APNT's 17% in Q4. Standalone volume growth remained flat/grew 19% YoY in Q4/FY22 (vs APNT's 21% in FY22). Decorative segment continued its strong momentum despite the recent price hikes. Industrial segment growth remained healthy too. BRGR continued to add dealers at a healthy clip (12-15%). Standalone GM at 38.3% declined 550bps YoY. Excluding the impact of one-off project contract in base, GM would have been 40.6% (HSIE: 39%). Subsidiaries missed estimates; hence, on a consolidated basis, EBITDA grew 3% YoY (three-year CAGR: 15% vs APNT's 18%).
- Outlook:** Our thesis of valuation multiples converging between APNT and BRGR, owing to the inconsequential variance in medium to long term performance between the two, has played out. While our EPS estimate cuts (8% each) factor in lower GM, the long-term risk of incremental growth being split with a deep-pocketed player looms large. Ergo, we downgrade the stock to REDUCE, with a DCF-based TP of INR600/sh (earlier INR700/sh), implying 49x FY24 P/E.

Quarterly financial summary

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenue	21,875	20,261	8.0	25,508	(14.2)	63,658	68,176	87,618	1,00,095	1,12,693
EBITDA	3,464	3,356	3.2	3,921	(11.6)	10,610	11,880	13,311	16,356	19,879
APAT	2,203	2,086	5.6	2,530	(12.9)	6,561	7,197	8,330	10,064	12,197
EPS (Rs)	2.3	2.1	5.6	2.6	(12.9)	6.8	7.4	8.6	10.4	12.6
P/E (x)						91.0	82.9	71.6	59.3	48.9
EV/EBITDA (x)						56.5	50.2	45.1	36.6	29.9
Core RoCE(%)						21.0	20.6	19.4	20.0	21.5

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(Rs mn)	FY22E			FY23E			FY24E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	87,618	89,328	(1.9)	1,00,095	1,00,269	(0.2)	1,12,693	1,12,918	(0.2)
Gross Profit	33,327	34,283	(2.8)	39,674	41,289	(3.9)	45,907	47,062	(2.5)
Gross Profit Margin (%)	38.0	38.4	(34.2)	39.6	41.2	(154.2)	40.7	41.7	(94.2)
EBITDA	13,311	13,559	(1.8)	16,356	17,726	(7.7)	19,879	20,719	(4.1)
EBITDA margin (%)	15.2	15.2	1 bps	16.3	17.7	(134 bps)	17.6	18.3	(71 bps)
APAT	8,330	8,520	(2.2)	10,064	10,961	(8.2)	12,197	13,248	(7.9)
APAT margin (%)	9.5	9.5	(3 bps)	10.1	10.9	(88 bps)	10.8	11.7	(91 bps)
EPS (Rs)	8.6	8.8	(2.2)	10.4	11.3	(8.2)	12.6	13.6	(7.9)

Source: Company, HSIE Research

REDUCE

CMP(as on 01 Jun 22)	INR 601
Target Price	INR 600
NIFTY	16,523

KEY CHANGES	OLD	NEW
Rating	ADD	REDUCE
Price Target	INR 700	INR 600
EPS %	FY23E	FY24E
	-8.2	-7.9

KEY STOCK DATA

Bloomberg code	BRGR IN
No. of Shares (mn)	971
MCap (INR bn) / (\$ mn)	584/7,845
6m avg traded value (INR mn)	484
52 Week high / low	INR 873/544

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(13.0)	(18.9)	(24.7)
Relative (%)	(11.4)	(14.9)	(31.3)

SHAREHOLDING PATTERN (%)

	Dec-21	Mar-22
Promoters	74.99	75.5
FIs & Local MFs	1.25	0.96
FPIs	11.3	11.28
Public & Others	12.46	12.26
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

Jay Gandhi

jay.gandhi@hdfcsec.com
+91-22-6171-7320

Premraj Survase

premrj.Survas@hdfcsec.com
+91-22-6171-7348

Aditya Birla Fashion and Retail

Recovery healthy; decision to dilute further perplexes

ABFRL's Q4FY22 print beat expectations; Q4 revenue grew to INR21.8bn (three-year CAGR: 4%; HSIE: INR 21.4bn). Both flagships aided the beat. It nearly recouped pre-pandemic sales (96% recovery) in FY22. EBITDAM expanded 261bps to 17%, led by (1) higher GM (given higher full price sales), (2) price hikes, (3) scale recoup. Expansion remains healthy, but working capital management remains inferior (rising creditors' support). Against this backdrop, a further raise seemed imminent but the quantum perplexed us. Our FY23/24 estimates broadly remain unchanged and our ADD rating stays but we do adjust for the share dilution. Hence, DCF-based TP stands revised to INR270/sh (implying 25x EV/EBITDA). Note: Capital allocation will be a key monitorable from here on.

- Q4FY22 highlights:** Revenue grew by 22.3% YoY to INR 21.81bn (3-yr CAGR: 4%; HSIE: 21.37bn). Madura/Pantaloons clocked a 3-year CAGR of 8/2% resp in Q4 to INR15.6/6.75bn (HSIE: 14.9/6.48bn resp). Note, in FY22, both flagships clocked 109/82% of pre-pandemic sales resp, led by (1) higher full price sales, (2) higher Madura skew in the mix, and (3) price hikes. Standalone EBIT stood at INR1.2bn (vs HSIE: -INR190mn). The operational beat was sharper due to (1) GM gains trickling down, (2) rental concessions, and (3) better cost control. ABFRL added 143/31 (net) stores in Lifestyle brands/Pantaloons resp (store count: 2,522/377). Net debt stood at ~INR5bn. Working capital management remains inferior (increasing creditors' support); part of the fund raise may be used to alleviate it.
- Outlook:** While we are encouraged by ABFRL's topline/margin recovery, we've always been uncomfortable with its working capital management (increasing creditors' support). The INR21.95bn fund raise may help alleviate the issue; however, capital allocation remains a key monitorable in the medium to long term. Our DCF-based TP stands revised to INR270/sh (implying 25x EV/EBITDA). Our FY23/24 estimates broadly remain unchanged and our ADD rating stays.

Quarterly financial summary

(Rs mn)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	FY21	FY22E	FY23E	FY24E
Net Revenue	28,728	20,590	40	19,960	44	51,811	76,420	98,472	1,13,194
Adj EBITDA	5,553	3,685	51	3,147	76	5,943	9,527	16,379	19,676
APAT	1,908	664	187	141	1,254	(6,496)	(1,995)	2,138	3,990
EPS (Rs)	2.03	0.81	151	0.15	1,221	(7.1)	(2.2)	2.3	4.4
P/E (x)						NM	NM	NM	NM
EV/EBITDA (x)						10.7	7.2	6.9	6.5
Core RoCE(%)						(34.5)	(6.0)	5.3	9.3

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(Rs mn)	FY22E			FY23E			FY24E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	76,420	74,052	3.2	98,472	95,465	3.2	1,13,194	1,09,869	3.0
Gross Profit	39,602	38,153	3.8	51,523	49,663	3.7	59,112	56,991	3.7
Gross Profit Margin (%)	51.8	51.5	30 bps	52.3	52.0	30 bps	52.2	51.9	35 bps
EBITDA	9,527	11,701	(18.6)	16,379	17,058	(4.0)	19,676	20,297	(3.1)
EBITDA margin (%)	12.5	15.8	(334 bps)	16.6	17.9	(123 bps)	17.4	18.5	(109 bps)

Source: Company, HSIE Research

ADD

CMP(as on 01 Jun 22)	INR 274
Target Price	INR 270
NIFTY	16,523

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 310	INR 270
	FY23E	FY24E
EBITDA %	-1.6	-1.7

KEY STOCK DATA

Bloomberg code	ABFRL IN
No. of Shares (mn)	938
MCap (INR bn) / (\$ mn)	257/3,460
6m avg traded value (INR mn)	907
52 Week high / low	INR 322/189

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	2.3	5.2	38.9
Relative (%)	3.8	9.2	32.3

SHAREHOLDING PATTERN (%)

	Dec-21	Mar-22
Promoters	56.42	56.09
FIs & Local MFs	13.29	13.59
FPIs	13.51	13.18
Public & Others	16.78	17.14
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

Jay Gandhi
 jay.gandhi@hdfcsec.com
 +91-22-6171-7320

Premraj Survase
 premraj.survasa@hdfcsec.com
 +91-22-6171-7348

Bata India

Chugging along; execution remains untested

Bata's Q4 topline came in line at INR6.65bn and nearly hit pre-pandemic sales in Q4 (98%). However, its path to recovery has been the most arduous amongst peers (FY19-22 CAGR for Bata stands at -7% vs Metro's +3%, Relaxo's +5%, and Campus Activewear's 26%). Margins surprised positively. We suspect (1) higher full-price sales, (2) lower inventory markdowns, (3) price hike absorption and (4) cost optimisation to have played a part. Treading the growth-margin equation across Bata's volume drivers is tough to execute, but these are early days and we give the benefit of execution (although untested) in our estimates. We maintain our SELL rating, with a DCF-based TP of INR1,400/sh, implying 40x FY24 EPS. Note: EPS estimates broadly remain unchanged.

- Q4FY22 highlights:** Revenue grew 12.8% YoY to INR6.65bn (a 3-year CAGR: -0.7%; HSIE: INR6.65bn). Volume continued to lag value recovery. Over FY19-22, Bata's recovery significantly lagged that of immediate peers (FY19-22 CAGR for Bata stands at -7% vs Metro's +3%, Relaxo's +5%, and Campus Activewear's 26%). Franchisee/wholesale salience in mix is estimated to have improved in FY22 to ~20% vs pre-COVID level of 10-12%. Assortment relevance is improving too, with increasing salience of sneakers in the portfolio (now 20% of sales). GM/EBITDAM improved 449/539bps YoY to 57.6/24.4% resp in Q4 (HSIE: 56/20%). We suspect (1) higher full-price sales, (2) lower inventory markdowns, (3) price hike absorption and (4) cost optimisation to have played a part. Bata added 19/75 net franchise stores in Q4/FY22 (franchise count: 303, total store count: 1,569). PAT is still at 31% of pre-pandemic level in FY22 (INR1.03bn).
- Outlook:** Treading the growth-margin equation while pivoting to different growth channels (wholesale, franchise) and realigning assortment isn't a walk in the park. Execution remains untested. We maintain our SELL rating, with an unchanged DCF-based TP of INR1,400/sh (implying 40x FY24 EPS).

Quarterly financial summary

(Rs mn)	4QFY22	4QFY21	YoY (%)	3QFY22	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenue	6,652	5,899	12.8	8,413	(20.9)	30,561	17,085	23,877	33,669	38,122
EBITDA	1,621	1,120	44.8	1,686	(3.9)	4,994	(900)	1,273	4,957	6,243
APAT	630	294	114.0	723	(12.9)	3,431	(429)	773	3,576	4,502
EPS (Rs)	4.9	2.3	113.7	5.62	(12.9)	26.7	(3.3)	6.0	27.8	35.0
P/E (x)						65.6	NM	291.1	63.0	50.0
EV/EBITDA (x)						43.2	NM	169.2	44.3	34.7
Core RoCE(%)						29.1	NM	4.7	30.7	37.1

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(Rs mn)	FY22E			FY23E			FY24E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	23877	23872	0.0	33669	33669	-	38122	38122	-
Gross Profit	13009	12903	0.8	18263	18263	-	20519	20519	-
Gross Profit Margin (%)	54.5	54.0	43 bps	54.2	54.2	-	53.8	53.8	-
Pre-IND AS EBITDA	1273	971	31.2	4957	4957	-	6243	6243	-
Pre-IND AS EBITDA margin (%)	5.3	4.1	127 bps	14.7	14.7	-	16.4	16.4	-
Post IND-AS 116 EPS	8.0	6.9	15.9	29.4	29.0	1.4	36.5	36.7	(0.6)

Source: HSIE Research

SELL

CMP(as on 01 Jun 22) INR 1,852

Target Price INR 1,400

NIFTY 16,523

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	INR 1,400	INR 1,400
	FY23E	FY24E
EPS %	+1.4	-0.6

KEY STOCK DATA

Bloomberg code	BATA IN
No. of Shares (mn)	129
MCap (INR bn) / (\$ mn)	238/3,199
6m avg traded value (INR mn)	761
52 Week high / low	INR 2,262/1,528

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	2.1	(2.1)	20.2
Relative (%)	3.7	1.9	13.6

SHAREHOLDING PATTERN (%)

	Dec-21	Mar-22
Promoters	52.96	52.96
FIs & Local MFs	18.1	19.49
FPIs	6.01	6.66
Public & Others	22.93	20.89
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

Jay Gandhi

jay.gandhi@hdfcsec.com

+91-22-6171-7320

Premraj Survase

premrj.survas@hdfcsec.com

+91-22-6171-7348

Fine Organic Industries

Blockbuster quarter!

We downgrade Fine Organics from BUY to ADD, with a revised target price of INR 5,290. The downgrade is largely owing to 22% increase in the stock price in the past three months. The stock is trading at 40x FY24E EPS (EPS CAGR of 21% over FY22-24E, RoE of 31.7/28.0% in FY23/24E). We like Fine Organics, owing to (1) leadership in oleo-chemical based additives in the domestic and global markets with a loyal customer base, (2) unique business model with high entry barriers, (3) diversified product portfolio, and (4) pricing power. Q4 EBITDA/APAT were 96/143% above our estimates, owing to a 31% rise in revenue, lower-than-expected raw material cost, higher-than-expected other income, lower-than-expected tax outgo, but were offset by higher-than-expected other expense.

- Financial performance:** Revenue grew 33/91% QoQ/YoY to INR 6.2bn in Q4 on the back of higher realisations, courtesy full pass-through of input cost price hikes, on boarding of new customers, repeat orders, better product mix, foreign exchange gains, and inability of competitors to supply their products, owing to non-availability of raw materials. The contribution of exports to total revenue was 60% in FY22. EBITDA came in at INR 1.6bn, +100/+230% QoQ/YoY, with EBITDA margin improving significantly to 26% (+868/+1,090bps QoQ/YoY), owing to shift in the product mix towards high-margin value-added products, new customers, and new approvals in Q4. APAT came in at INR 1.2bn (+135/+283% QoQ/YoY).
- Con call highlights:** (1) Currently, all plants are running at their optimum capacities. The company expects them to reach full capacity by Mar-23. (2) It is in the final stage of acquiring a big land parcel in Gujarat for further expansion. It has already finalised the roadmap of the capacities for the same, along with the product pipeline and future plans. (3) The company produces green surfactants, which are made from vegetable oils. It doesn't have any domestic competition in this product segment. (4) The company has currently sent its technical team to Thailand to evaluate opportunities in its JV. (5) The company's dependency on palm oil as its key raw material is less as it can be substituted by any other vegetable oil.
- Change in estimates:** We raise our FY23/24 EPS estimates by 30.4/24.9% to INR 112.5/124.3, to factor in higher realisations and better margins, owing to a better product mix, new customers, and capacity ramp-up.
- DCF-based valuation:** Our target price is INR 5,290 (WACC 11%, terminal growth 5.5%). The stock is trading at 40x FY24E EPS.

Financial summary (consolidated)

INR mn	Q4 FY22	Q3 FY22	QoQ (%)	Q4 FY21	YoY (%)	FY20	FY21	FY22P	FY23E	FY24E
Net Sales	6,169	4,634	33.1	3,229	91.0	10,381	11,332	18,763	24,088	27,079
EBITDA	1,597	797	100.3	484	230.0	2,405	1,993	3,645	4,802	5,457
APAT	1,219	519	134.8	318	283.4	1,648	1,203	2,597	3,448	3,811
AEPS (INR)	39.8	16.9	134.8	10.4	283.4	53.7	39.3	84.7	112.5	124.3
P/E (x)						92.5	126.6	58.7	44.2	40.0
EV/EBITDA(x)						63.0	75.6	41.3	31.1	27.0
RoE (%)						29.5	17.8	30.7	31.7	28.0

Source: Company, HSIE Research

Change in estimates (Consolidated)

YE Mar	FY23E Old	FY23E New	% Ch	FY24E Old	FY24E New	% Ch
EBITDA (INR mn)	3,942	4,802	21.8%	4,525	5,457	20.6%
Adj. EPS (INR/sh)	86.2	112.5	30.4%	99.5	124.3	24.9%

Source: Company, HSIE Research

ADD

CMP (as on 31 May 22)	INR 4,869
Target Price	INR 5,290
NIFTY	16,585

KEY CHANGES	OLD	NEW
Rating	BUY	ADD
Price Target	INR 4,380	INR 5,290
EPS %	FY23E +30.4%	FY24E +24.9%

KEY STOCK DATA

Bloomberg code	FINEORG IN
No. of Shares (mn)	31
MCap (INR bn) / (\$ mn)	149/2,006
6m avg traded value (INR mn)	152
52 Week high / low	INR 5,044/2,735

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	13.5	35.6	68.0
Relative (%)	14.7	38.2	61.0

SHAREHOLDING PATTERN (%)

	Dec-21	Mar-22
Promoters	75.00	75.00
FIs & Local MFs	11.21	11.64
FPIs	7.26	7.25
Public & Others	6.53	6.11
Pledged Shares	0.00	0.00

Source: BSE

Nilesh Ghuge

nilesh.ghuge@hdfcsec.com
+91-22-6171-7342

Harshad Katkar

harshad.katkar@hdfcsec.com
+91-22-6171-7319

Rutvi Chokshi

rutvi.chokshi@hdfcsec.com
+91-22-6171-7356

Akshay Mane

akshay.mane@hdfcsec.com
+91-22-6171-7338

V-MART Retail

Recovery better than expected

V-MART reported 30% growth YoY. Organic business (ex-Unlimited acquisition) recovered fully in FY22 (INR3.85bn in Q4) from the pandemic blues. Footfall density is yet to catch up, while transaction sizes remain elevated vs. pre-pandemic levels. Unlimited format's inferior unit economics certainly remains a drag on portfolio unit economics. Profitability beat (11% vs HSIE's 6%) was primarily a function of (1) better topline recovery and (2) higher-than-expected GM (higher full price sales). We continue to realign profitability (-20/-40%) for FY23/FY24, given the Unlimited drag, and maintain our ADD rating, with the DCF-based TP of INR3,500/sh (unchanged, implying 25x EV/EVITDA).

- Q4FY22 highlights:** V-MART reported 30% growth YoY at INR 4.58bn (HSIE: INR4.3bn). Organic business (ex-Unlimited acquisition) recovered fully in FY22 from the pandemic blues to INR 14.18bn (INR3.85bn in Q4). Effective footfalls/store still remain significantly lower (79/58% of FY19/Q4FY19). LTL transaction sizes remain elevated in Q4, +1.2x/1.3x of Q4FY19 resp for organic/overall business. FY22 SSSG value/volume stood at 23.1/21% resp. GM improved 513bps YoY to 34.9% (HSIE: 31%), led by (1) Unlimited's addition, (2) lower EoSS sales, and (3) price hikes. Cost of retailing (24% vs HSIE: 25.5%) despite the Unlimited drag remains disciplined. EBITDA grew 50% YoY to INR0.5bn (HSIE: INR0.24bn) – a function of revenue/GM beat. V-MART added 6/26 net stores (ex-Unlimited) in Q4/FY22 resp and it intends to continue adding 20% to the network every fiscal. Growth investments (warehousing capacity) would pick up (INR1.01/3.7bn of QIP money stands unutilised). Core WC cycle at 73 days remains elevated but is likely to normalise in FY23.
- Outlook:** While V-MART remains among the stronger value fashion retailers within the ecosystem, profitability may be under pressure in the near term, courtesy Unlimited. Consequently, we've toned down our FY23/24 EBITDA estimates by -11/-3% resp. Our DCF-based TP remains unchanged at INR 3,500/sh, implying 25x FY24 EV/EBITDA. Maintain ADD as risk-reward continues to get more favourable.

Quarterly financial summary

(Rs mn)	Q4 FY22	Q4 FY21	YoY (%)	Q3 FY22	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenue	4,588	3,519	30.4	6,920	(33.7)	16,630	10,755	16,662	25,953	33,138
Adj EBITDA	503	336	50.0	1,353	(62.8)	1,324	368	792	1,806	2,651
APAT	(26)	(15)	77.2	571	(104.6)	799	224	501	993	1,567
EPS (Rs)	(1.3)	(0.7)	76.8	28.9	(104.6)	44.0	11.4	25.4	50.4	79.5
P/E (x)						70.9	274.3	122.7	61.9	39.2
EV/EBITDA (x)						42.7	157.6	75.6	33.0	22.3
Core RoCE(%)						19.7	0.1	6.0	12.4	17.9

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(Rs mn)	FY22E			FY23E			FY24E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	16,662	16,376	1.7	25,953	27,468	(5.5)	33,138	33,343	(0.6)
Gross Profit	5,751	5,481	4.9	8,854	9,441	(6.2)	11,272	11,527	(2.2)
Gross Profit Margin(%)	34.5	33.5	104 bps	34.1	34.4	(26 bps)	34.0	34.6	(56 bps)
EBITDA	792	524	51.1	1,806	2,038	(11.4)	2,651	2,734	(3.1)
EBITDA margin (%)	4.8	3.2	155 bps	7.0	7.4	(46 bps)	8.0	8.2	(20 bps)

Source: Company, HSIE Research, Pre IND AS 116 financials

ADD

CMP(as on 01 Jun 22)	INR 3,325
Target Price	INR 3,500
NIFTY	16,523

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 3,500	INR 3,500
	FY23E	FY24E
EBITDA %	-11.4	-3.1

KEY STOCK DATA

Bloomberg code	VMART IN
No. of Shares (mn)	20
MCap (INR bn) / (\$ mn)	66/882
6m avg traded value (INR mn)	98
52 Week high / low	INR 4,849/2,720

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(2.5)	(13.9)	19.8
Relative (%)	(0.9)	(9.9)	13.2

SHAREHOLDING PATTERN (%)

	Dec-21	Mar-22
Promoters	46.4	46.2
FIs & Local MFs	22.0	23.2
FPIs	21.1	20.2
Public & Others	10.4	10.3
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

Jay Gandhi

jay.gandhi@hdfcsec.com
+91-22-6171-7320

Premraj Survase

premrj.survas@hdfcsec.com
+91-22-6171-7348

TCNS Clothing

Underwhelming print; recovery lags that of peers

TCNS' journey to pre-pandemic sales remained underwhelming, partly due to category-specific idiosyncrasies. At INR2.34bn (broadly in line), revenue was at ~81% of pre-COVID level. Recovery continued to lag that of peers (Trent/Madura clocked 21/8% three-year CAGRs). Profitability missed expectation (EBITM at -3.8% vs HSIE's 0.4%) as cost of retailing remained inefficient. We largely maintain our FY23/24 EBITDA estimates and leave our DCF TP of INR575/sh unchanged (implying 13x FY24 EV/EBITDAR). We upgrade the stock to REDUCE, as valuation is more palatable after the recent correction.

- Q4FY22 highlights:** Revenue grew 6% YoY to INR 2.34bn (HSIE: INR2.38bn; 3-yr CAGR: -7%). Recovery in offline sales remained underwhelming (82% of Q4FY19 levels). EBO/LFS/MBO sales clocked -8/-7/+3% CAGRs on a three-year basis in Q4. Online salience continued to normalise towards pre-pandemic levels. Note: There was an inventory realignment within online that impacted growth (~400-500bps). Profitability missed expectation (EBITM% -3.8% vs HSIE: 0.4%) as (1) D2C sales in online sales (lower profitability currently) increased and (2) offline unit economics improvement lagged expectations. EBIT losses came in at INR 90mn (HSIE: loss of INR10 mn). TCNS added 48 EBOs/175 LFS doors in FY22 and it intends to go aggressive on store expansion (targets 100 EBO additions in FY23). Cash position remained healthy (INR1.56bn). Net losses stood at INR58mn.
- Outlook:** While INR1.56bn in cash & reserves seems comfortable, capital (especially WC) efficiency remains a concern for the category (as was the case pre-COVID too). Immediate peers are worse off. Also, with increasing online reliance (even post-COVID), the risk of conceding pricing power, ergo margins to platforms, remains high for the category in the medium-to-long term. Concerns seem to be reflected in the recent price correction. Hence, we upgrade the stock to REDUCE, as valuation is more palatable now. We have a DCF-based TP of INR575/sh (unchanged), implying 13x FY24 EBITDAR.

Quarterly financial summary

(INR mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY20	FY21	FY22E	FY23E	FY24E
Net Revenue	2,344	2,211	6.0	3,285	(28.6)	11,487	6,355	8,961	12,869	14,957
EBITDA	198	229	(13.8)	630	(68.6)	865	24	800	2,335	2,810
APAT	(58)	39	(249.9)	251	(123.2)	839	(564)	(57)	643	1,088
EPS (Rs) (Reported)	(0.9)	0.6	(252.7)	3.9	(123.2)	11.8	(8.7)	(2.4)	9.6	16.6
P/E (x)						44.7	(67.3)	NM	59.0	34.9
EV/EBITDA (x)						39.7	1,400.6	43.0	14.4	11.5
Core RoCE(%)						11.4	(8.6)	(0.6)	9.7	19.1

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(INR mn)	FY22E			FY23E			FY24E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	8,961	8,995	(0.4)	12,869	13,006	(1.0)	14,957	14,820	0.9
Gross Profit	5,865	5,725	2.4	8,229	8,199	0.4	9,415	9,335	0.9
Gross Profit Margin (%)	65.5	63.6	180 bps	63.9	63.0	91 bps	62.9	63.0	(4 bps)
EBITDA (Reported)	800	945	(15.3)	2,335	2,308	1.2	2,810	2,758	1.9
EBITDA margin (%)	8.9	10.5	(157 bps)	18.1	17.7	40 bps	18.8	18.6	18 bps

Source: HSIE Research

REDUCE

CMP(as on 01 Jun 22)	INR 618
Target Price	INR 575
NIFTY	16,523

KEY CHANGES	OLD	NEW
Rating	SELL	REDUCE
Price Target	INR 575	INR 575
	FY23E	FY24E
EBITDA %	+1.2	+1.9

KEY STOCK DATA

Bloomberg code	TCNSBR IN
No. of Shares (mn)	62
MCap (INR bn) / (\$ mn)	38/512
6m avg traded value (INR mn)	41
52 Week high / low	INR 933/517

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(3.8)	(23.7)	15.5
Relative (%)	(2.3)	(19.7)	8.9

SHAREHOLDING PATTERN (%)

	Dec-21	Mar-22
Promoters	32.3	32.3
FIs & Local MFs	3.9	4.5
FPIs	17.6	17.0
Public & Others	46.2	46.3
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

Jay Gandhi
 jay.gandhi@hdfcsec.com
 +91-22-6171-7320

Premraj Survase
 premraj.survasa@hdfcsec.com
 +91-22-6171-7348

Rating Criteria

BUY: >+15% return potential

ADD: +5% to +15% return potential

REDUCE: -10% to +5% return potential

SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Jay Gandhi	Berger Paints, Aditya Birla Fashion and Retail, Bata India, V-MART Retail, TCNS Clothing	MBA	NO
Premraj Survase	Berger Paints, Aditya Birla Fashion and Retail, Bata India, V-MART Retail, TCNS Clothing	MBA	NO
Nilesh Ghuge	Fine Organic Industries	MMS	NO
Harshad Katkar	Fine Organic Industries	MBA	NO
Rutvi Chokshi	Fine Organic Industries	CA	NO
Akshay Mane	Fine Organic Industries	PGDM	NO

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities**Institutional Equities**

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com