

**Mr. Deepak Sharma**  
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January 04, 2013

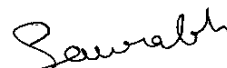
**Confidential**

Dear Sir,

**IPO Grading**

Please refer to your request for IPO Grading for V Mart Retail Limited's Initial Public Offering (IPO).

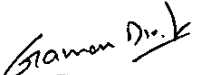
2. It has been decided to reaffirm the grading of '**CARE IPO Grade 3**' [**Grade Three**] to the proposed IPO of V Mart Retail Limited. **CARE IPO Grade 3 indicates average fundamentals**. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the 'fundamentals' of the issuer.
3. Please note that wherever '**CARE IPO Grade 3**' [**Grade Three**] appears, it should invariably be followed by the definition '**CARE IPO Grade 3** [Grade Three] indicates average fundamentals'.
4. The explanatory notes regarding the grading symbols of CARE for IPO grading are given in **Annexure 1**. The rationale for this grading will be communicated to you separately.
5. Please arrange to get the grading revalidated, in case the proposed IPO is not made within three months from the date of this letter. In case the grading is not revalidated, the grading would stand withdrawn.
6. Please note that the IPO grading is a one time exercise undertaken before an IPO and does not have any ongoing validity.

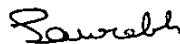


7. Please note that as per the existing regulations, CARE is required to disclose all IPO gradings. As such, in the absence of any request for review of grading within a week of this letter, CARE will disclose this IPO grading to the public.
8. Users of this grading may kindly refer our website [www.careratings.com](http://www.careratings.com) for latest update on the outstanding grading.
9. Please note that the disclaimer as given hereunder should be disclosed wherever the IPO grading assigned by CARE is mentioned, including offer document and issue prospectus.
10. If you need any clarification, you are welcome to approach us in this regard.

Thanking You,

Yours faithfully,

  
**Gaurav Dixit**  
Assistant General Manager

  
**Saurabh Passi**  
Dy. Manager

Encl : As above

**Disclaimer**

CARE's IPO grading is a one time assessment and the analysis draws heavily from the information provided by the issuer as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE, does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. CARE's IPO grading does not take cognizance of the price of the security and it is not a recommendation to buy, sell or hold shares/securities. It is also not a comment on the offer price or the listed price of the scrip. It does not imply that CARE performs an audit function or forensic exercise to detect fraud. It is also not a forecast of the future market performance and the earnings prospects of the issuer; also it does not indicate compliance/violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the IPO grading.

**Annexure 1**

**CARE IPO grading Scale**

<b>CARE IPO grade</b>	<b>Evaluation</b>
CARE IPO Grade 5	Strong fundamentals
CARE IPO Grade 4	Above average fundamentals
CARE IPO Grade 3	Average fundamentals
CARE IPO Grade 2	Below average fundamentals
CARE IPO Grade 1	Poor fundamentals

**Grading Rationale**  
**V Mart Retail Limited**

**Grading Assigned**

Facilities/Instruments	Grading <sup>1</sup>	Remarks
IPO	CARE IPO Grade 3 [Grade Three]	Assigned

**Grading rationale**

*The grading derives strength from the experienced promoters with more than three decades of experience, comfortable capital structure, widespread geographical presence and a large supplier base.*

*The grading, however, is constrained by the working capital intensive nature of operations, intense competition, moderate scale of operations and regulatory uncertainties surrounding the retail sector.*

**Background**

V Mart Retail Limited (VMRL) was incorporated as Varin Commercial Private Limited in 2002. The company started its operations in value retail segment by opening their first retail store in Gujarat in 2003. In 2006, the name was changed to V Mart Retail Pvt. Limited and in 2008 the constitution was changed to public limited and name of the company was changed to the present one. VMRL currently operates 59 stores with a total store area of 4.82 lakh sq.ft spread across 51 cities in 10 states & union territories. All stores have lease agreements with 2 stores having revenue sharing clause. VMRL operates all its stores on its own and has not issued any franchisees. VMRL's operations are mainly spread in tier 2 and tier 3 cities of Northern, Eastern and Western part of the country. Some of the major states in which company operates are New Delhi, Gujarat, Madhya Pradesh, Uttar Pradesh, Bihar, Punjab and Rajasthan.

**Promoters and Management**

VMRL is a closely held company with the promoters together holding 75.6% of the company's shares. Mr Lalit Agarwal, the current CMD of the company currently holds 15.7% of the company and has more than 16 years of experience in the retail industry. He has also been the

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<sup>1</sup> Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

CEO of Vishal Retail and was instrumental in the growth of the company. He left Vishal Retail to start up his own venture in 2002. His father Mr. Madan Agarwal has more than 3 decades of experience in the retail industry and is the mentor and guiding force behind the company. They are ably supported by Mr. Hemant Agarwal, brother of Mr. Lalit Agarwal, who has been instrumental in developing a huge vendor base. All other independent directors also have rich experience in the retail industry.

### **Corporate Governance**

VMRL has complied with the requirements of the applicable regulations, including the Listing Agreement to be entered in to with the Stock Exchanges and the SEBI (ICDR) Regulations, in respect of corporate governance including constitution of its Board of Directors and Committees thereof. There are six members on the board including three independent directors.

VMRL has constituted the Audit Committee, Investor Grievance Committee, Remuneration Committee; IPO Committee; and Operations Committee, for compliance with corporate governance requirements and efficient functioning of the operations.

The company is facing some litigations which include cases related to adulteration of food items, recovery of rent, Overcharging for products and overweighing of various products.

### **Current Operations**

VMRL's business is based upon the concept of value retailing. The business can be classified in mainly 3 business verticals viz. Apparels, General Merchandise and Kirana Bazaar. The general merchandise section is further divided into non apparels and home mart. 39 stores are Mini Hyper Markets which have all the three verticals and the remaining 20 are Family Fashion Stores which do not have the Kirana Bazaar facility. The business model involves trading of items from all the verticals which are procured mainly from indigenous suppliers. VMRL has a central supply chain department responsible for the procurement of apparel and non apparel goods. It centrally procures these goods and distributes them through its distribution centers located at Delhi (2) and Ahmedabad (1) with the help of their in-house transport fleet and third party transporters. Most of the transportation services are outsourced with the remaining being fulfilled by the fleet of 7 company owned trucks. VMRL has more than 3000 suppliers and the average ticket size per transaction per supplier is around 2 to 3 lakh rupees. VMRL also engages with some intermediaries who introduces them to new suppliers and provides credibility about them.

Kirana Bazaar goods are procured locally by every store or in some cases together by a group of stores.

### **IPO Details**

The proposed IPO will constitute of fresh issue of 40 lakh shares and an offer for sale of 17 lakh shares by PE firm Naman Finance and Investment Private Limited, which is a part of Aditya Birla Group of Companies. The post IPO shareholding of the promoters will drop to 58.8% from its current 75.7%. The company intends to open sixty new stores and additional space of distribution centres over the next three fiscal years by utilizing the net proceeds of the issue.

### **Project Details**

VMRL plans to further increase their reach in tier 2 and tier 3 cities and towns over the next three financial years and utilize the net proceeds for the same. VMRL plans to add an additional store area of 4.77 lac sq.ft. by opening 60 new stores in the next 3 fiscal years. The main expenditure will constitute of interior works, air conditioning, Furniture, electrical fittings and IT hardware and software. The company currently has a storage capacity of 82,500 sq.ft. and would require an additional capacity of 73,305 sq.ft. to cater to the additional stores. The company plans to either extend the present facilities or lease new ones. The additional working capital requirements will be met through IPO proceeds only.

### **Financials**

Financial performance is characterized by steady growth in turnover over the years contributed by increase in sales volume on the back of increased outlets of the company. However, during FY10 the turnover was affected on account of increased competition and slowdown in the economy which led to closure of some stores. PBILDT margins have significantly improved on account of increasing sales from the apparels business for which the margins are high. Profitability has also improved because of discontinuation of Kirana bazaar business from new stores as it had a lower yield. The capital structure of VMRL continues to be comfortable with overall gearing at 0.77 times as on March 31, 2012. In line with improvement in the profitability, the returns to shareholders in terms of EPS and RONW have been increasing. The nature of business being retail, the company is required to maintain a large amount of inventory at its disposal at all times. The average inventory days stood at 118 days in FY11 and 115 days in

FY12. The high inventory days resulted in high operating cycle which stood at a high of 75 days for FY12.

Consequently, the company's operations are working capital intensive, which is also reflected by average utilization of around 81% of its cash credit limits over the past 12 months from August 2011- July 2012.

### **Industry Analysis**

The Indian Retail industry has grown at a CAGR of 14.6% for the period FY07-12. The said growth can be attributed to the growing Indian economy, increase in Private Final Consumption Expenditure (PFCE) and the change in consumption pattern of the Indian populace. The PFCE is expected to record marginally lower y-o-y growth of 14.5% during FY13 as against 14.9% recorded during FY12. With the mall culture fast catching-up in tier-II & tier-III Indian cities and the organized retailers planning to capture a greater share of the growing retail pie through increased store presence, the growth of organised retailing in India is expected to outpace the Indian retailing growth.

In organized retailing, clothing & footwear segment is expected to account for the highest share at 33.9% of the total organised retail pie aggregating Rs.1,30,189 cr. during FY15. The spend on discretionary segments i.e. clothing & footwear, furniture & furnishing and entertainment, and books & sports equipment is collectively expected to account for 55.2% of the total organised retail size by FY15. With approximately 60-70% of the total mall space centered in tier-I cities, the growth potential of organised retailing from tier-II & III cities has largely remained untapped. CARE Research expects the said expansion to be driven primarily due to growing urbanisation, growing store formats catering to needs & aspirations of consumers of diverse populace, easy availability of mall spaces as compared to tier- I cities and early breakeven at store-level due to lower capex and store operating costs. However, the efficient inventory management remains important.

Non-uniformity in the taxation structure of various states in relation to taxes such as VAT, octroi tax and entry tax has deterred the growth of efficient supply chain management system and resulted in differential pricing of the same product across states. The main challenges internal to the industry's growth include the regulatory uncertainties surrounding the retail sector, inefficiencies in supply chain management of the organised retailers in India as compared to their global

counterparts such as Wal-Mart, Carrefour etc in terms of facilities i.e. cold storage systems, warehousing etc. The Indian retailers are also faced with the problem of high shrinkages with India recording the highest shrinkage at 2.38% percentage of retail sales as against the global average of 1.45%.

### Financial Performance

(Rs. Crore)

For the year ended / As on March 31,	2010	2011	2012
	(12m,A)	(12m,A)	(12m,A)
Income from Operations	144.05	214.54	281.55
PBILDT	11.94	19.27	27.97
Interest	4.01	4.98	6.74
Depreciation	4.17	4.85	5.83
PBT	3.87	9.70	15.80
PAT (After def Tax)	2.22	6.21	10.46
Gross Cash Accruals	6.17	10.84	16.01
<b>Financial Position</b>			
Equity Share capital	6.85	7.34	7.34
Net Worth	37.38	43.54	53.30
Total Capital Employed	66.89	82.65	94.80
<b>Key Ratios</b>			
<b>Growth(%)</b>			
Growth in Total income (%)	1.28	48.93	31.23
Growth in PAT (%)	109.49	180.17	68.44
<b>Profitability (%)</b>			
PBILDT / Total Income (%)	8.29	8.98	9.93
PAT / Total Income (%)	1.54	2.89	3.71
ROCE (%)	11.59	19.45	25.33
RONW (%)	6.10	15.34	21.59
EPS (Rs.)	1.79	4.75	7.61
<b>Solvency</b>			
<b>Long Term</b>			
Debt Equity Ratio	0.07	0.09	0.06
Overall Gearing	0.78	0.89	0.77
Interest coverage (PBILDT/Interest)	2.98	3.87	4.15
Term Debt/GCA	0.73	0.36	0.21
<b>Liquidity</b>			
Current ratio	1.37	1.22	1.16
Quick ratio	0.27	0.20	0.19
<b>Turnover</b>			
Avg. Colln. Period (days)	0	0	0
Average Inventory (days)	144	118	115
Average Creditor (days)	40	37	40



For the year ended // As on March 31,	2010	2011	2012
	(12m,A)	(12m,A)	(12m,A)
Operating cycle (days)	104	81	75

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"Credit Analysis and Research Limited proposes, subject to receipt of requisite approvals, market conditions and other considerations, to make an initial public offer of its equity shares and has filed a draft red herring prospectus ("DRHP") with the Securities and Exchange Board of India (the "SEBI"). The DRHP is available on the website of SEBI at [www.sebi.gov.in](http://www.sebi.gov.in) as well as on the websites of the Book Running Lead Managers at [www.investmentbank.kotak.com](http://www.investmentbank.kotak.com), [www.dspml.com](http://www.dspml.com), [www.edelcap.com](http://www.edelcap.com), [www.icicisecurities.com](http://www.icicisecurities.com), [www.idbicapital.com](http://www.idbicapital.com), and [www.sbicans.com](http://www.sbicans.com). Investors should note that investment in equity shares involves a high degree of risk and for details relating to the same, see the section titled "Risk Factors" of the DRHP."

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### Press Release

## **CARE assigns 'CARE IPO GRADE 3' to the proposed Initial Public Offering of V Mart Retail Limited (VMRL)**

### **Grading Assigned**

Facilities/Instruments	Grading <sup>1</sup>	Remarks
IPO	CARE IPO Grade 3 [Grade Three]	Assigned

### **Grading rationale**

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*CARE classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries /regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.*

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