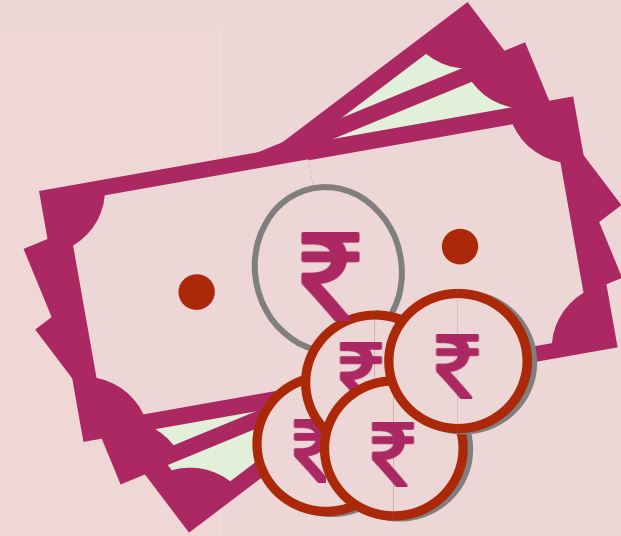




Top Conviction Ideas: Retail

SUHANEE SHOME

Discretionary Witnessed Steady Performance

✓ *Financial Performance*

- **Steady Performance:** Most discretionary categories sustained double-digit revenue growth, though mass and mid-market footwear lagged amid early monsoons, geopolitical pressures, and intensifying unorganised competition. QSR demand remained resilient, while value retailers such as V-Mart and D-Mart outperformed. GST-related channel disruptions and prolonged rains weighed on the quarter, partially cushioned by an early festive season in September.
- **Premium vs. Value segment:** While the premium, luxury, and value segments remain strong, some pockets of urban consumption and footwear continue to face pressure.
- **Store Expansion Continues:** Despite the sluggish demand environment, most companies in our coverage have maintained or even increased their store opening guidance as they expand into smaller towns, supported by strong long-term growth levers.
- **Most retail companies saw EBITDA margin expansion,** driven by operational efficiencies, cost discipline, and backend optimisation.

What Makes the Retail Sector a Good Bet?

- **Rapid Formalisation Underway:** India's retail landscape remains predominantly unorganised, offering substantial headroom for growth in smaller towns and emerging markets. As disposable incomes rise and demand gradually recovers—supported by income tax cuts, GST revisions, lower interest rates, and easing food inflation—consumer preference continues to shift decisively toward branded offerings.
- **Smaller Cities Providing Huge Headroom:** Smaller cities and towns are witnessing faster growth than metros across categories such as apparel, QSR, and footwear. This trend is driven by rising aspirations for branded products and increasing disposable income, further supporting overall growth.
- **Structural Story to Continue**
 - ✓ **Higher Disposable Income:** India's average per-capita income stands at \$2,200, and any increase in income is likely to translate into higher discretionary spending, as per-capita expenditure on essential goods remains largely constant. Furthermore, the recent revision on the GST rate reduction is expected to boost discretionary demand.
 - ✓ **Increased Participation of Women in the Workforce:** Higher disposable income is driving increased sales in the women's wear segment.

Short and Medium-term Outlook

Short term

Demand:
Gradual recovery in discretionary spending supported by GST rate revision.

Margins:
Recovery in margins will be gradual

Domestic Consumption Play:
Likely to deliver better returns in this volatile environment

Rural Demand to Pick Up:

Increase in government spending and urban remittances

Consumer price inflation to start receding

RM prices remain stable

Medium Term

Key Monitorables – Demand recovery; Margins Guidance; Inflation Trajectory; Competitive Intensity

Stock	Reco.	TP	Recommendation Rationale
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V-Mart

BUY

Rs 900*

- ✓ **Resilient Performance:** V-Mart reported 22% YoY revenue growth, and SSSG stood at 11% for both V-Mart and Unlimited stores. However, the quarter was impacted due to the temporary GST transitory, along with unseasonal rains in core Puja markets. Gross margin expanded 3 bps YoY to 33.6%, supported by planned liquidation and better realisation at the end of seasonal sales. EBITDA grew 85.2% YoY to Rs 72 Cr, with margin expansion of 302 bps to 8.9%, driven by improved gross margins and a 53% reduction in Lime Road losses.
- ✓ **Expansion Strategy:** V-Mart continued its aggressive retail expansion in Q2FY26, adding 17 new stores and 6 Unlimited outlets, taking the total store base to 533 (438 V-Mart and 95 Unlimited). The pace remained strong post-quarter, with 16 additional stores opened by mid-Q3, raising the tally to 549 stores. Backed by steady execution and healthy traction across markets, management has marginally revised its full-year target upward, now guiding for around 75 new store additions in FY26.
- ✓ **Positive Long-term View:** V-Mart is well-placed to benefit from rural recovery and market share gains from unorganised players. Strong footfalls, disciplined cost control, and steady store expansion should aid performance, while the recent announcement on GST rate cut is likely to spur consumption and boost discretionary spending.

Note: The Target price is based on our Q2FY26 Result Update. We remain positive on the stock's long-term prospects and recommend 'BUY on Dips.'

Top Conviction Ideas: Retail

Stock	Reco.	TP	Recommendation Rationale
 Avenue Supermarts	BUY	Rs 4,960*	✓ Consistent Revenue Growth: D-Mart has consistently delivered 17-20% CAGR revenue growth over the past several quarters, driven by 14-15% expansion in its network and retail space. The recent investment in D-Mart Ready, to support operations, working capital, and expansion, is a step in the right direction. This strategic move will strengthen the company's position in the competitive online grocery market and is expected to yield long-term benefits. In Q2FY26, D-Mart reported ~15.5% YoY revenue growth, driven by increased footfalls. ✓ Challenges and Strategic Interventions: Despite headwinds from a muted demand environment in recent years, DMart's strategic focus on enhancing store productivity, improving profitability, and reviving the General Merchandise & Apparel (GM&A) segment indicates a clear course correction. Meanwhile, the management noted that following the recent GST reforms, the company has passed on the benefits of rate reductions to customers wherever applicable. With consumer demand improving, macroeconomic conditions stabilising, recent announcements on GST 2.0 reforms, and a robust festive season anticipated in H2FY26, these initiatives are well-aligned to support recovery and drive growth in high-margin GM&A categories. Key risks include a prolonged recovery in consumer demand and heightened competitive intensity.

Note: The Target price is based on our Q2FY26 Result Update. We remain positive on the stock's long-term prospects and recommend 'BUY on Dips.'

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