V2 Retail Ltd

Acing the retail game

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Long Term Recommendation
V2 Retail

Acing the retail game

V2 Retail (VREL) offers a portfolio of apparel and lifestyle products and caters to the neo middle class in Tier II and III cities. The company operates on the values of 'value and variety' (V2) and sells apparels at affordable prices (ASP of INR280). The company has a strong presence in North and East India and operates 117 stores across 17 states and more than 89 cities with a total retail area of 12.5lk sq. ft. Over the last few quarters, VREL has posted a strong SSSG on greater throughput and by rationalising its store profile which led to a positive operating leverage and return to profitability. Going forward, VREL plans to improve its throughput and open stores aggressively through internal accruals. The company is a strong candidate for a valuation re-rating on better store economics, aggressive growth plans and size of opportunity. We initiate coverage with a 'BUY' rating and TP of INR831 (10x FY26E EV/EBITDA), which offers a potential upside of 77% from its CMP.

Completes store rationalisation, to aggressively open stores going forward

We believe its store rationalisation exercise is complete and it has added 47/15 stores over the last three years/FY24. Going forward, the focus is on aggressive store expansion on healthy demand and a pick-up in store throughput. The management expects to add more than 25+ stores each in FY25 and FY26 mostly in Tier II, III and IV towns (more than half of its stores are in Tier II and III towns) given the scant penetration of organised retail. The company is expected to generate healthy cash flows and hence won't require any external debt for its expansion.

Steady improvement in revenue/sq. ft. leading to positive operating leverage

Post-lifting of COVID-related restrictions, VREL has witnessed steep pick-up in revenue/sq. ft. on higher footfalls and ASP. This rise on account of steps taken by management such as increasing the rack size of displays (higher density on store floor), strictly focusing on SOPs and utilisation of distribution centres which is absent for other value retailers. Revenue/sq. ft. rose to more than INR10,200 in FY24 from ~INR5,700 in FY21. It aims to improve it to INR15,000 over the long term (VREL's revenue/sq. ft. is 20-25% better than its peers). Contribution from private labels grew to 40% in FY23 (private labels make 100–200bps higher gross margins). Greater throughput and contribution from private labels is likely to result in an expansion in operating margin to 7% in FY24 from -3% in FY21. Revenue grew 33%/40% in FY23/FY24 on strong SSSG (31%) in FY23. We expect revenue to grow by 27% CAGR over FY24–26 on healthy store additions and higher throughput.

Valuation and view

VREL turned around its business with a 35%/70% growth in revenue/EBITDA in 9MFY24. Drivers such as new store expansion and a healthy increase in revenue/sq. ft. can lead to a healthy growth in revenue and EBITDA. RoE expansion to over 20% in FY26E from -4% can trigger a valuation re-rating. The scope for expansion for VREL is large as India has more than 5,000 Tier IV towns. This, along with its healthy store economics, gives it a payback period of less than three years. As VREL's peers such as V-Mart Retail and Zudio have 500+ stores each, we think that it can achieve healthy growth rates over a longer period. **We initiate coverage with a 'BUY' rating and TP of INR831 (10x FY26E EV/EBITDA).**

Key financials

Year to March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue (INR cr)	539	629	839	1,165	1,473	1,873
Revenue growth (%)	-23%	17%	33%	39%	26%	27%
EBITDA (INR cr)	37	30	84	153	215	294
EBITDA margin (%)	6.9	4.7	10.0	13.1	14.6	15.7
Net profit (INR cr)	-24	-47	-13	25	59	90
EV/EBITDA (x)	10	21	5	11	8	6
P/E ratio (x)	NA	NA	NA	68	29	19
RoACE (%)	-3.0	-4.6	2.7	8.8	12.4	14.9
RoAE (%)	-8.9	-17.8	-5.1	9.8	19.4	23.9

Source: Nuvama Wealth Research

CMP INR 470
Rating: BUY
Target: INR831
Date: April 19, 2024

Bloomberg:	VREL:IN
52-week range (INR):	75 / 520
M-cap (INR cr):	1,620
Promoter holding (%)	54.28

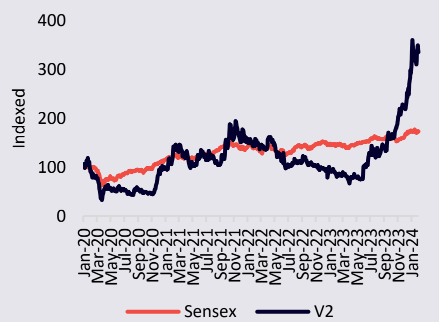

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Exhibit 1: Financial snapshot

	FY21	FY22	FY23	FY24E	FY25E	FY26E
Stores	95	101	102	117	137	162
Net additions	6	6	1	15	20	25
Revenue	539	629	839	1,165	1,473	1,873
Growth (%)	-23%	17%	33%	39%	26%	27%
Area (lk sq. ft.)	10.0	10.6	10.8	12.3	14.4	17.0
ASP (INR)	262	289	283	286	300	315
ABV (INR)	779	790	797	NA	NA	NA
Volume (mn)	19.6	20.7	28.2	38.8	46.7	56.6
Sales/sq. ft.	6,084	5,928	7,812	10,642	11,598	12,527
Rent/sq. ft.	456	480	600	636	668	701
Rent as a percentage of sales	7.5%	8.1%	7.7%	5.6%	5.2%	4.8%
SSSG (%)	-31%	0%	31%	31%	8%	7%
EBITDA (INR cr)	37	30	84	153	215	294
EBITDA margin (%)	6.9%	4.7%	10.0%	13.1%	14.6%	15.7%
Pre-Ind AS margin (%)	-3%	2%	2%	7%	8%	9%
PAT (INR cr)	-24	-47	-13	25	59	90
PAT margin (%)	-4.5%	-7.4%	-1.5%	2.2%	4.0%	4.8%
Product mix (%)						
Men’s wear	42	42	42	42	42	42
Women’s wear	25	25	25	25	25	25
Kids wear	26	26	26	26	26	26
Lifestyle	5	5	5	5	5	5
Sales from proprietary labels (%)	34	34	34	45	70	80
RoE (%)	-8.9%	-17.8%	-5.1%	9.8%	19.4%	23.9%
RoCE (%)	-3.0%	-4.6%	2.7%	8.8%	12.4%	14.9%
Operating cash flows (INR cr)	3	59	86	144	209	260
Working capital days	116	100	75	75	75	75

Source: Nuvama Wealth Research

Focus charts

Exhibit 2: Healthy revenue growth

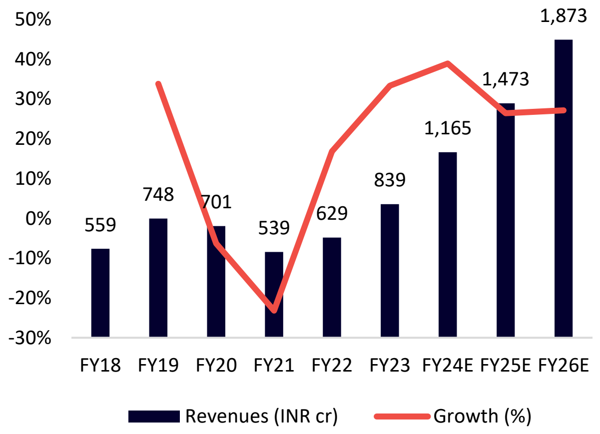


Exhibit 3: Aided by aggressive store additions

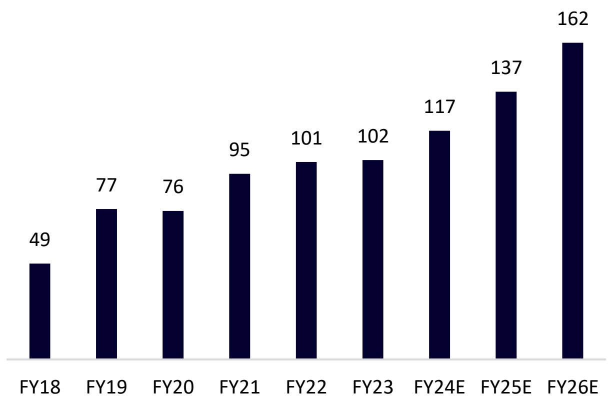


Exhibit 4: Healthy SSSG over a high base

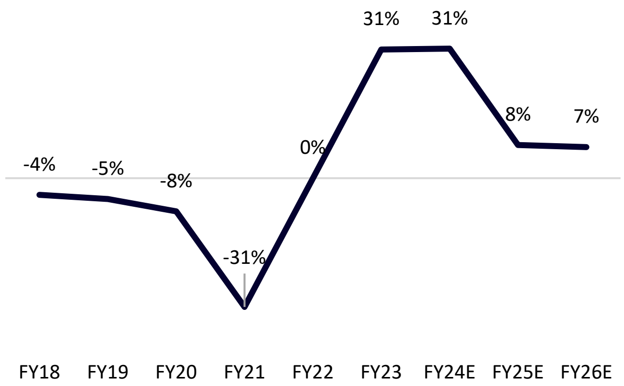


Exhibit 5: Led to a strong recovery in revenue/sq. ft. (INR)

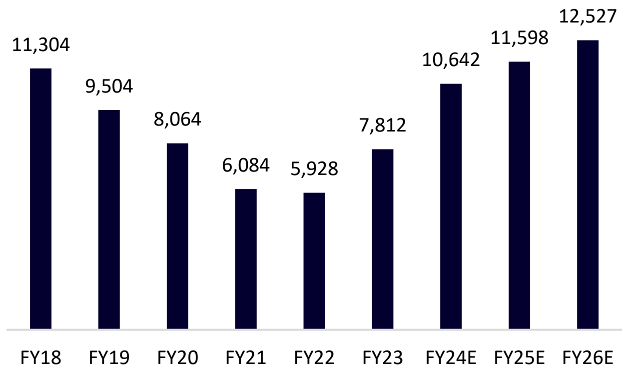


Exhibit 6: Expect EBITDA margin expansion in coming years

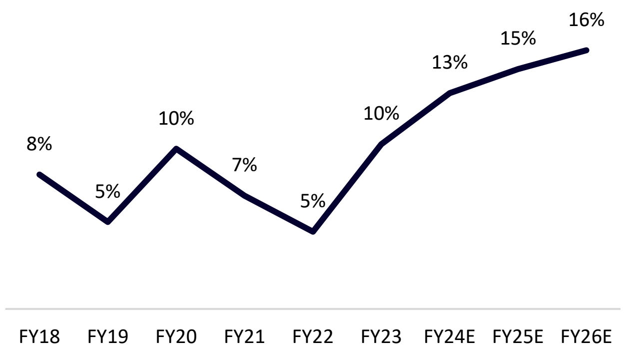
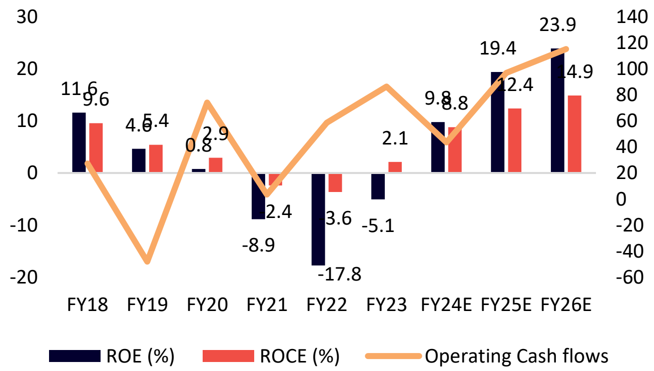


Exhibit 7: Expansion in return ratios and healthy operating cash flows

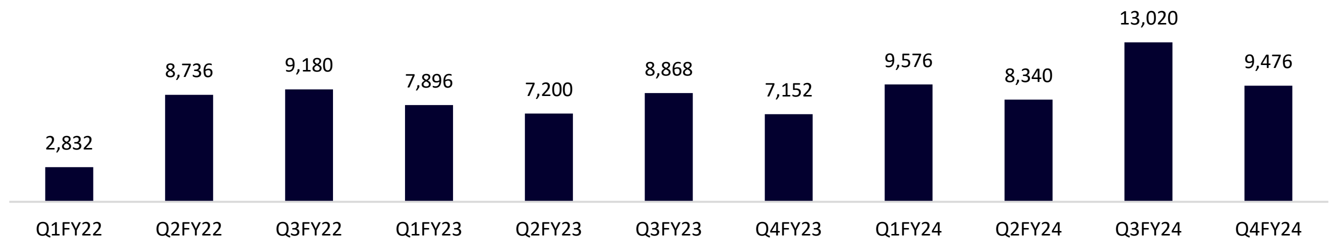


Source: Nuvama Wealth Research

I. Rise in revenue/sq. ft. leading to healthy store economics and profitable growth

In the last eight quarters, revenue/sq. ft. (throughput) for VREL has seen a tremendous improvement along with a strong SSSG print. The reasons for the increase in through put are: i) focus on private labels, which creates awareness and helps in customer stickiness; ii) stores are able to realise their true potential after facing multiple shocks such as the COVID-19 pandemic and higher cotton prices (its customers are value sensitive), iii) the management's focus on raising throughput and better inventory turnovers iv) increasing the size of display racks which improves the density and helps in accommodating more sizes, and v) strictly following SOPs by every employee. We discuss the various measures taken by VREL in detail in this report. This steep increase in throughput led to strong positive operating leverage and return to profit in FY24E.

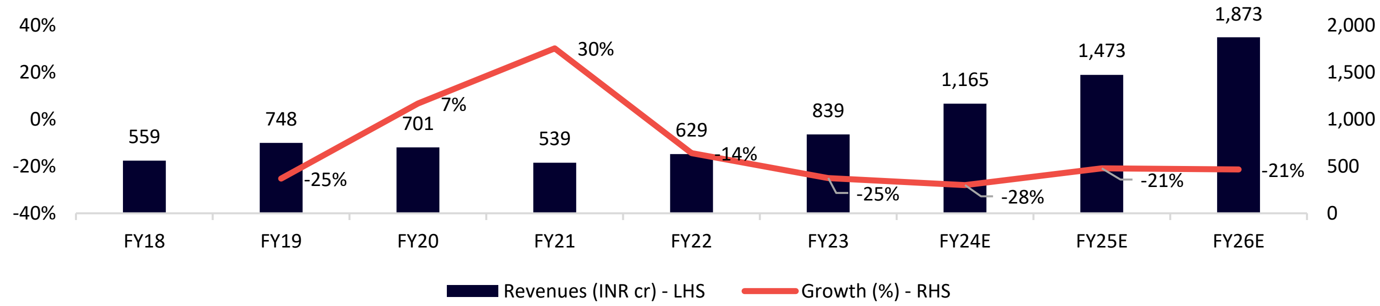
Exhibit 8: Quarterly sales per sq. ft.



Source: Nuvama Wealth Research

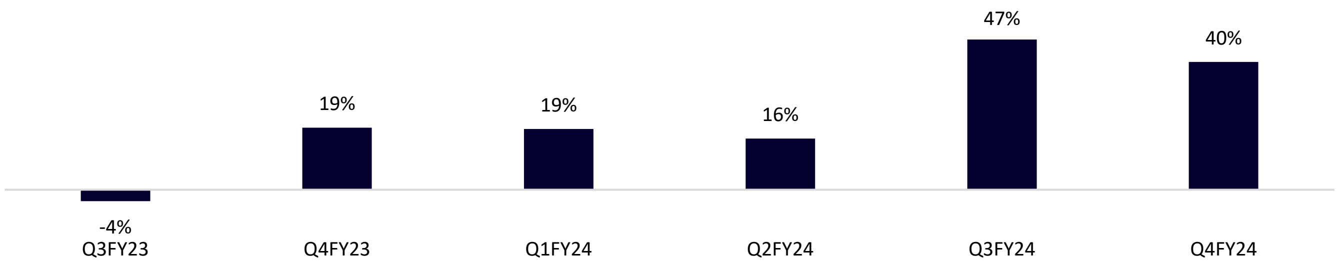
The management's sharp focus on improving store throughput led to better store economics and healthy revenue growth of 33%/39% in FY23/FY24. Going forward, it is planning to floor the pedal on store expansion as revenue per store is growing and as it has turned profitable. It also expects a strong SSSG at 8–10% over the next couple of years, which can lead to a revenue CAGR of 27% over FY24–26.

Exhibit 9: Revenue trends



Source: Nuvama Wealth Research

Exhibit 10: Strong SSSG led by an improvement in revenue/sq. ft.



Source: Nuvama Wealth Research

II. The turnaround story: The management has taken some proactive steps to increase throughput which has yielded results.

- VREL started opening stores aggressively in FY19, which led to a fall in revenue/sq. ft. The timing of the expansion was bad as the onset of the COVID-19 pandemic led to a drop in sales.
- After the lifting of COVID-related restrictions, cotton prices surged which led to higher product MRPs. Volumes fell as VREL's customers are highly price sensitive.
- The steep rise in revenue/sq. ft. is on account of stores catching up to their potential after the lifting of COVID-related restrictions and the correction in cotton prices. We note that revenue/sq. ft. for VREL's competitors have yet to return to pre-COVID levels.
- As most value retail players operate like commodity business, they buy from vendors and sell in their stores. The management believes this is not a sustainable model to operate as there is no brand identity which prevents repeat footfalls.
- VREL started designing its products internally. Around 35% of its products sold are designed internally versus nil prior to the COVID-19 pandemic. It is planning to raise this to 80% in the near term and 100% over the long term. Of the 35% of in-house designs, 20% is manufactured in-house by its team of 32 designers which design 50 samples daily.
- Contribution of private labels, which offer better gross margin, has risen to 40% from 23% in FY19. However, VREL is passing on this margin to customers as the focus is on increasing revenue/sq. ft.
- As cotton prices have corrected, ASP has fallen to INR291 in Q3FY24 from a high of INR341 in Q3FY22. However, volumes have increased which shows that consumers are buying more of its products.
- VREL is witnessing 60% repeat sales as compared to 52% earlier.
- It has also increased the number of sizes available to five from three earlier. This has led to the availability of more size options for its customers.
- VREL's factory has started operating at 70% efficiency compared to 45% earlier, which has resulted in a gross margin from factory products to be at par from less than 30% earlier.
- It has also been able to increase its full price sell through to 88% from 80% earlier. The management plans it to take to 95%.
- The management has focussed on reducing slow-moving inventory by using strong in-house IT systems which led to a reduction in one-year old inventory to ~8% from ~18% earlier.
- Average buying quantity per product has risen to a lot size of INR3,500 from INR1,500 earlier. VREL has started keeping six-to-seven sets of products per store from three earlier. It can do this as it has implemented an automatic replenishment model at its stores. So if a particular product gets sold at a store, an automatic notification is sent to the warehouse to replenish that product. This has led to better inventory turns. The management said it is the only player in the value retail segment to use this technology.
- Before the onset of the pandemic, economy/ value/premium and super premium products contributed 20%/40%/35%. Currently, value products contribute significantly even as the share of economy and premium and super premium products have fallen.
- It has placed an MRP cap on all its products as it realised that its target consumers are price sensitive. For instance, VREL used to retail denim jeans at an MRP of INR1,500–1,700 but it now sells till INR1,049.
- The management aims to boost revenue/sq. ft. and not margin. Increased throughput will result in better churns and higher footfalls.

- VREL undertakes 20–25% higher sales on a per square foot basis. Though not at par with Zudio, it is way ahead of its peers.
- Zudio and VMART have more than 500 stores as compared to 117 for VREL, so the opportunity for VREL is large.
- *Revenue/sq. ft. for Zudio is over INR15,000 as against INR,9000–10,000 for VREL. This is because Zudio has access to a lot of customer data which allows it to stock the right products at the right time. For example, knitted half sleeve shirts were the market favourite last summer, accounting for 30% of VREL's sales and 10% of total inventory. Against this, these shirts accounted for 50% of Zudio's sales and 40% of its inventory. Zudio's ability to correctly predict market trends allowed it to hold higher inventory of a single product which resulted in greater sales.*

We also visited some of the stores in Varanasi to take account of changes that management has brought about. Out of four stores in Varanasi, three were at close proximity to Vmart. We visited 15+ value retail stores in the city and we could conclude that V2 retail is the clear leader in terms of footfalls, availability of products and store formats. Stores looked more organised and planned too. We found that all the stores of V2 had better footfalls than its competitor. Stores looked more organised with employees following their assigned task as compared to other value retail players. Here are some of the key takeaways from our visit:

- The primary reason for the improvement in sales is the increase in the size of racks in stores to 7ft from 5ft to accommodate additional products. The management attributed the higher growth to an increase in the rack size used to display apparels.
- Larger racks have led to higher density/sq. ft. which helped accommodate various sizes of a particular design. It allows VREL to allot a separate hanger to each design, which makes the store appear more organised and appealing vis-à-vis the very cluttered look at peers where multiple designs are put on a single hanger.
- Change in the last two years is the strict to adherence of SOPs inside stores. Earlier on days when there was a surge in footfalls, every store employee used to focus on making a sale which ended up creating a lot of chaos. Each store employee is now assigned a particular role and given certain KPIs, which are tracked daily.
- The company has now started stocking all sizes of all its designs. This practice is yet to be followed by other value retail players.
- It has begun to display inventory design-wise against size-wise (all designs of size M on a single hanger rack). This has led to customers needing lesser help from store employees.
- VREL stores follow an automatic inventory tracking and replenishment system that allows it on-time tracking of fast moving and slow-moving inventories. It helps track which category is not selling or which colour is underperforming inside a particular category and then take an informed decision about placement and discounting. Its peers do not follow this practice, and everything is done manually without following SOPs.
- It is the only value retail player in India to have a separate distribution centre (DC) inside the store. It started with a separate DC a long time ago and slowly improved the system. When inventory arrives at a VREL store, it first goes to the DC where everything is sorted and QR coded and finally stored separately in bins. This allows easy tracking of inventory.
- Other players just dump all the inventory on the store floor and start displaying them. The remaining inventory is stocked below the hangers on the shelf itself. This makes the floor appear cluttered, thus restricting the space for customers to roam around. At times, the stocking happens with customers around, thus impeding the buying process.
- VREL doesn't allow store floor employees to enter the DC. Employees in the DC have a handheld device which notifies them to restock a particular item when it is sold out in the store. Usage of these handheld devices began in the last 12-18 months and has helped increased throughput at stores.
- Visibility of slow-moving inventory is increased for better sales. Even after this if they are not able to sell the product, they then offer a flat 70% discount to drive sales. Multiple announcements are made over the store's speakers (called as *Halla Bol*) to sell the products. Despite this, if there is still any inventory left then photos and videos of the product are sent to the head office, who then decide whether to recall back the product.

- It has also worked on reducing the MRPs of its products. Since its target customer is price sensitive, this has helped increasing footfalls at its stores.
- VREL has introduced home care and personal care products. Sales are ramping up well in these categories.
- Store managers are of the view that footwear sales are healthy, but there is lesser shelf space available despite lesser varieties. They see a lot of potential in this segment.

Exhibit 11: Effect of the increase in throughput on store economics

Per sq. ft.	VREL							
Revenue	6,000	7,000	8,000	9,000	10,000	11,000	12,000	15,000
Gross margin	30%	30%	30%	30%	30%	30%	30%	30%
Employee cost	420	420	420	420	420	420	420	420
Rent	660	660	660	660	660	660	660	660
Other	780	780	780	780	780	780	780	780
EBITDA	(60)	240	540	840	1,140	1,440	1,740	2,640
Margin	(1%)	3%	7%	9%	11%	13%	15%	18%
Depreciation	110	110	110	110	110	110	110	110
EBIT	(170)	130	430	730	1,030	1,330	1,630	2,530
Capex	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,100
Working capital days	50	50	50	50	50	50	50	50
Working capital requirement	822	959	1,096	1,233	1,370	1,507	1,644	2,055
Total capex	1,922	2,059	2,196	2,333	2,470	2,607	2,744	3,155
Store level RoCE	(9%)	6%	20%	31%	42%	51%	59%	80%

Source: Nuvama Wealth Research

The management's sharp focus on increasing revenue/sq. ft. led to better store economics. VREL aims to grow its throughput to INR15,000 over the long-term.

Typically, value retailers in the Indian market earn an EBITDA/sq. ft. of INR600–900. Given its higher revenue/sq. ft., VREL has been able to post an EBITDA of INR1,100–1,200, thus resulting in margin expansion.

Exhibit 12: VREL's rack bigger rack size allows it to have more inventory/sq.ft. as compared to competitors which has made very big difference in last two years

Exhibit 13: Competitors' stores look less hygienic and cluttered as compared to VREL

Exhibit 14: VREL is the only player in the sector to have distribution centre

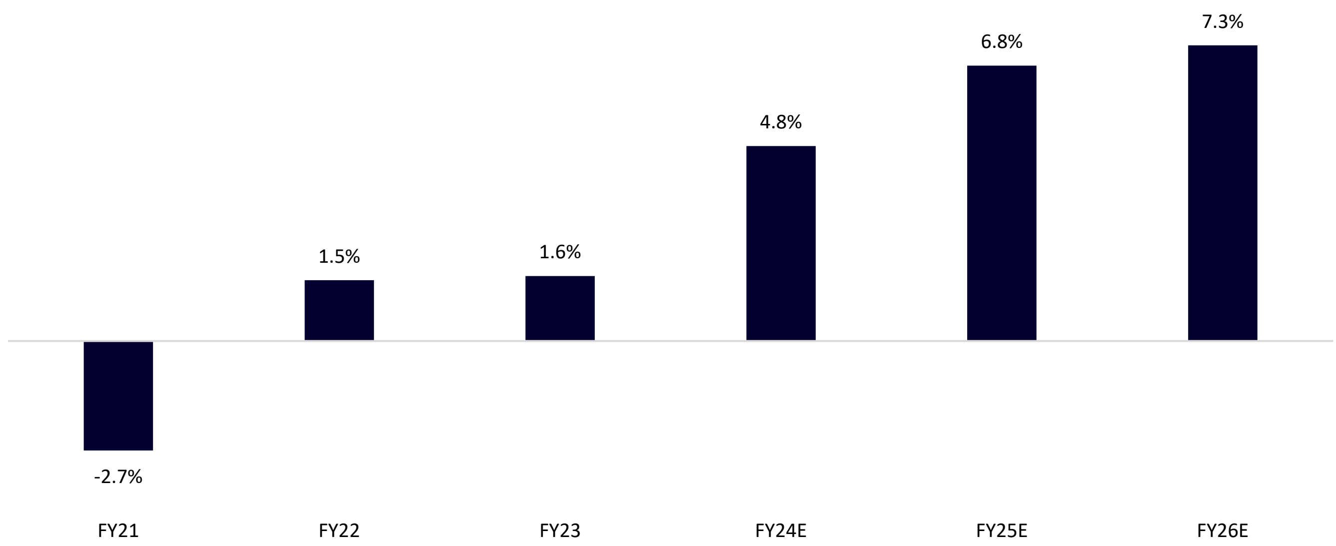
Exhibit 15: VREL's all stores were in the neighbourhood of its competitors and performing well

Exhibit 16:
Competitor Analysis (FY23 – V2 has shown tremendous growth over FY23 levels)

Player	SPSF(INR)	Average inventory per sq. ft (INR)	EBITDA per sq. ft (INR)	Inventory per store (INR Cr)	% Share of Apparel in revenue	Average Transaction Value (INR)	Total Retail Footprint in East India (Lakh sq. ft.)
Style Baazar	7.445	2.500-2,600	800-900	2.1-2.3	0.85	1041	11.4-11.6
M Baazar	6.800-7,000	1.400-1.500	600-700	1.1-1.3	-0.7	NA	8.7-8.9
Citykart	7,100-7.300	2,100-2.200	600-700	1.7-1.9	-0.75	NA	3.3-3.5
V2 Retail	7,812	2.600-2,700	700-800	27-2.9	0.96	797	4.7-4.9
VMart	7,476	2.000-2,100	700-800	1.7-1.9	0.79	1017	10.7-10.9

Source: Technopak Analysis, Annual Reports and DRHP filled by Baazar Style Retail Limited. Calculations on FY 2023 financial data. Above parameters given as ranges/ approximations as these are estimations. Revenue used in SPSF is Gross Sales (before GST). SPSF, ATV, % Share of Apparel data for V2 Retail, V Mart, Style Baazar from their annual disclosures.

Exhibit 17: Pre-Ind AS EBITDA margin



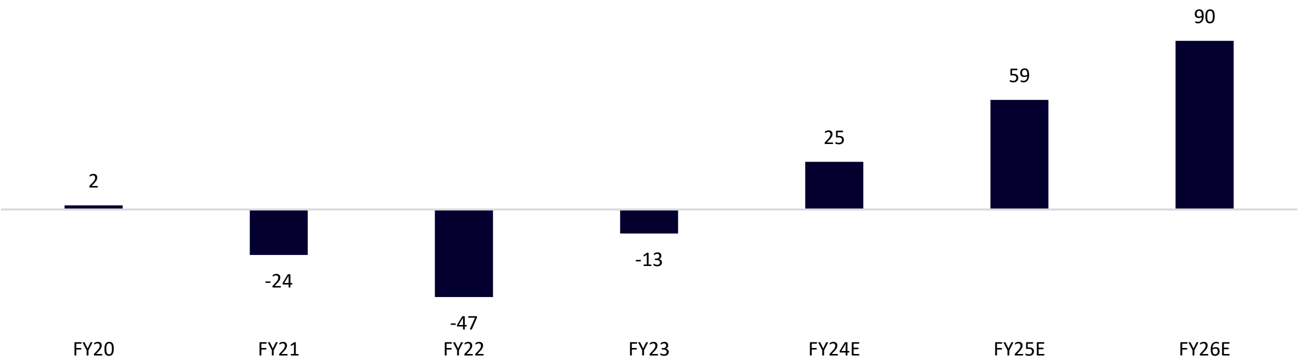
Source: Nuvama Wealth Research

With a strong SSSG and higher revenue per square feet in coming years, margin can expand further.

Beauty of retail business is that the lion's share of the cost to operate a store is of the fixed nature, the more one is able to sell, a positive operating leverage leads to a healthy expansion in margin. As throughput increases, margin expands. Over the longer term, the management aspires to achieve a pre Ind - AS margin of 10%.

VREL turned profitable given the margin expansion over the years. The management expects to grow profitably going forward. VREL posted a loss of INR13cr in FY23 and can post a profit of INR35cr in FY24, which can turn ~4x by FY26E.

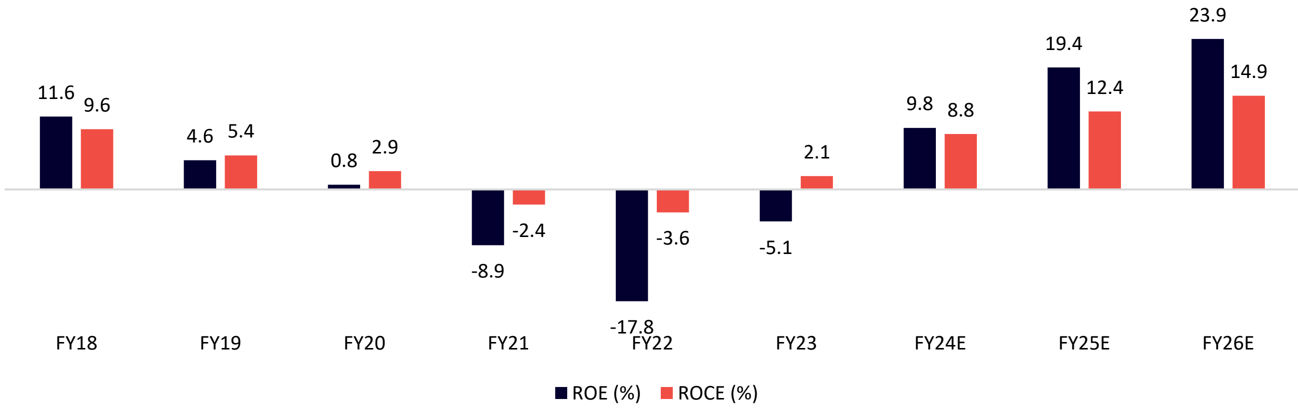
Exhibit 18: Profit potential to grow multi-fold



Source: Nuvama Wealth Research

Healthy margin and expansion through internal accruals will boost return ratios.

Exhibit 19: Expansion in return ratios



Source: Nuvama Wealth Research

III. History at a glance:

VREL came into existence as Vishal Retail in 2001.

Pre-2008, retail in India tasted some success, which prompted companies to grow aggressively without consolidating. As this rapid expansion was merely funded by debt, a lot of organised retailers had to shut shop when the economy slowed.

Vishal Retail was one such victim of this debt-funded expansion. In FY11, the promoters sold Vishal Retail to TPG and Shriram Group for INR70cr on a slump sale basis under the corporate debt restructuring mechanism.

Vishal Retail

- Avg. Store size- 19,373 sqft
- Rev / sqft - Rs5,412
- Gross Margin / sqft - Rs1,429
- WC cycle - 174 days

Misses in Vishal Retail –

- Focus only on revenue growth –
- Less focus on profitability and efficiency
- Presence in all segments (apparel, non-apparel & FMCG) –
- Higher working capital cycle –
- High debt –
- Poor cash flow generation –
- Rapid expansion without hiring professional team

Learnings from Vishal

VREL's transformation

V2 Retail

- Avg. Store size- 10,000 sqft
- Rev / sqft - ~INR9,117
- Gross Margin / sqft – Rs2,800
- WC cycle - 107 days

Reasons for V2 Retail's success:

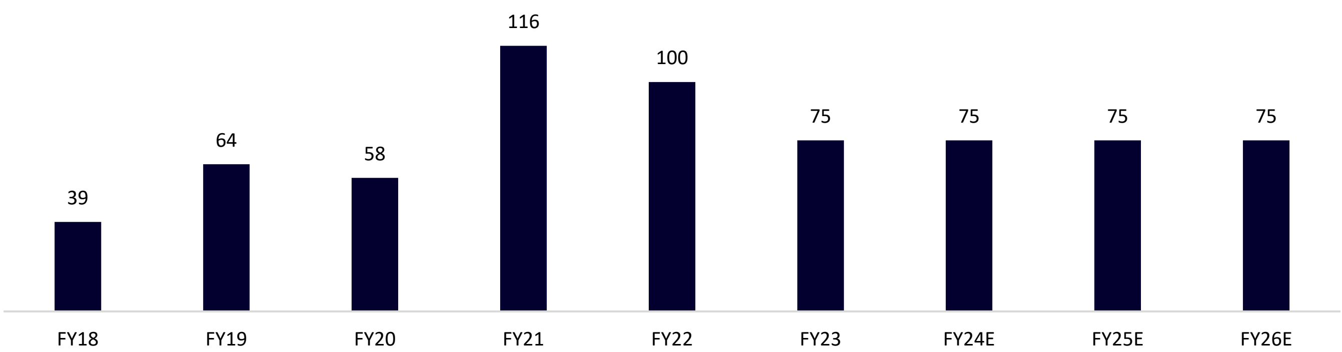
- Focus on revenue per sqft
- Investment in robust MIS
- Focus on high margin apparel segment
- (inherent strength of management)
- Better working capital management
- Zero net debt balance sheet
- Focus on debt free and prudent expansion

Source: Nuvama Wealth Research

Focus on inventory management

Vishal Retail before being taken over failed to manage inventory at the store level. There was no effective system-driven MIS to track inventory at the store level as all stock-taking was manual. In addition to this, slow-moving stocks were not discarded immediately and got accumulated over time.

Exhibit 20: Inventory days



Source: Nuvama Wealth Research

VREL rolled out a customised MIS within its SAP system which allows it to track inventory at each store. It receives live information about: i) inventory levels at stores and warehouses, and ii) products in high demand.

Capital efficient model to expand leading to better ratios

The prime reason for Vishal Retail's failure was poor cash flow generation. Vishal Retail expanded its store count to 171 in FY09 from 53 in FY07, resulting in heavy investments in working capital/inventory (INR590cr) and capex (INR330cr). During the same period, cumulative EBITDA was just INR181cr, making it dependent on new capital/debt (INR140cr/INR660cr) to fund this large shortfall in cash flow.

On the other hand, VREL funded its capex from internal cash flows and new capital over FY15–24. It incurred INR196cr to boost its store count to 102 from 49 over FY18–23, with cumulative pre-Ind AS EBITDA of INR304cr. This shows the management's focus on prudent and cautious expansion plans.

To meet pent-up demand for organised apparel retail in Tier II and III cities

VREL's target customers in Tier II and III cities are households with a monthly income of INR50,000. This consumer segment is seeking the latest fashion at affordable prices. Its average selling price/average billing per customer is INR283/INR797. This under-served market offers a huge potential since per capita income in these cities is rising faster than the national average on a lower base.

Exhibit 21: Competitive Landscape:

	VREL				Vmart				Style bazar			
	FY20	FY21	FY22	FY23	FY20	FY21	FY22	FY23	FY20	FY21	FY22	FY23
Stores	76	95	83	102	266	279	429	447	84	91	135	153
Revenue (INR Cr.)	701	539	629	839	1662	1075	1666	2465	629	427	551	788
Growth		*-23%*	*17%*	*33%*		*-35%*	*55%*	*48%*		*-32%*	*29%*	*43%*
Rev/store (INR Cr.)	9.2	5.7	7.6	8.2	6.2	3.9	3.9	5.5	7.5	4.7	4.1	5.2
EBITDAM (%)	*14.3%*	*9.0%*	*10.3%*	*10.0%*	*12.9%*	*12.2%*	*12.3%*	*10.9%*	*10.2%*	*10.9%*	*12.4%*	*12.9%*
PAT	9	-13	-12	-13	50	-6	12	-7	-10	-18	-8	5
PATM (%)	*1.3%*	*-2.4%*	*-1.9%*	*-1.5%*	*3.0%*	*-0.6%*	*0.7%*	*-0.3%*	*-1.6%*	*-4.3%*	*-1.4%*	*0.6%*

	CityKart				Baazar Kolkata				M Baazar			
	FY20	FY21	FY22	FY23	FY20	FY21	FY22	FY23	FY20	FY21	FY22	FY23
Stores	63	79	69	103	106	116	115	155	NA	118	118	148
Revenue (INR Cr.)	359	267	375	524	651	448	642	NA	556	371	534	716
Growth		*-26%*	*40%*	*40%*		*-31%*	*43%*			*-33%*	*44%*	*34%*
Rev/store (INR Cr.)	5.7	3.4	5.4	5.1	6.1	3.9	5.6	NA	NA	3.1	4.5	4.8
EBITDAM (%)	*9.6%*	*12.0%*	*12.5%*	*10.1%*	16.2%	11.7%	12.0%	NA	7.8%	6.4%	9.2%	10.3%
PAT	21	5	7	1	-17	164	-48		24	12	29	47
PATM (%)	*5.9%*	*1.8%*	*1.8%*	*0.1%*	-2.6%	36.6%	-7.4%	NA	4.4%	3.3%	5.5%	6.6%

Source: Nuvama Wealth Research

Exhibit 22: Number of stores as on FY-23

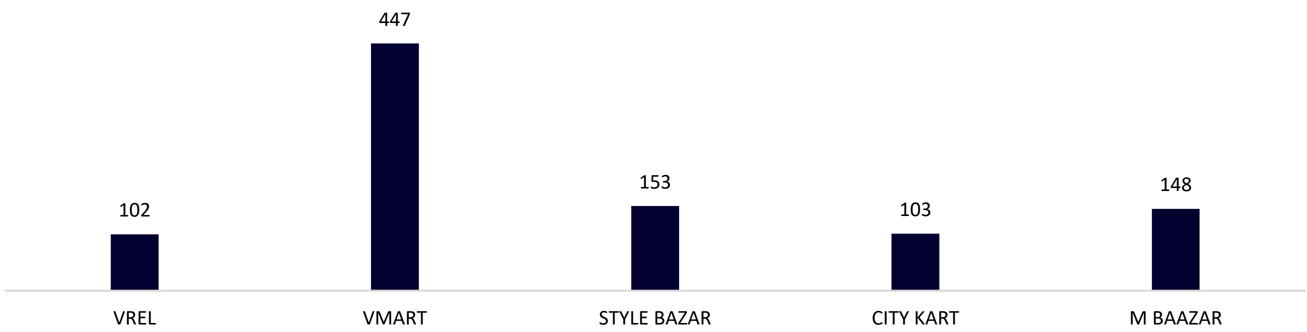
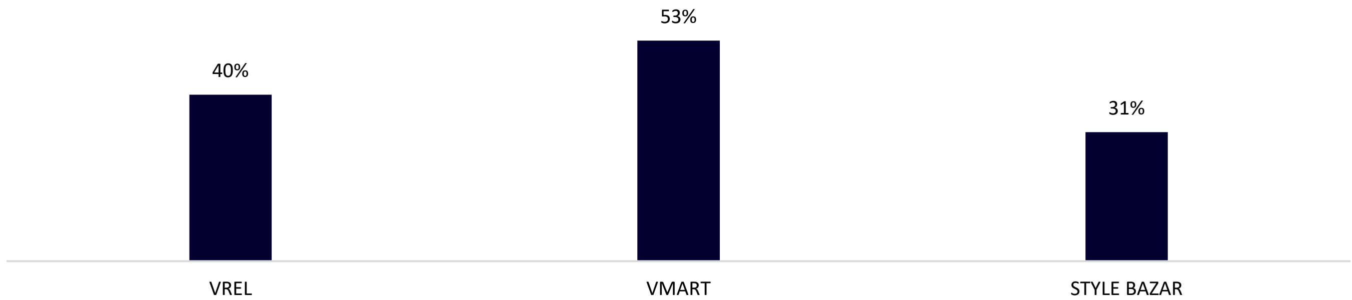


Exhibit 23: Private Label contribution to revenue(%)



Source: Nuvama Wealth Research

Exhibit 24: Store Level Economics:

per sq. ft.	Vmart	V2 Retail	Zudio	Westside
Revenue	8100	9117	17000	14000
GM	32.5%	30%	35%	54%
Employee cost	500	450	500	800
Rent	600	600	600	1535
Other	800	780	1800	3600
EBITDA	733	905	3050	1625
Margin (%)	9%	10%	18%	12%
Dep	167	110	225	350
EBIT	566	795	2825	1275
Capex	1400	1100	2250	3500
WC days	50	50	50	50
WC requirement	1110	1249	2600	1918
Total capex	2510	2349	4850	5418
Store level ROCE (%)	23%	34%	58%	24%

Source: Nuvama Wealth Research

Valuation and view

VREL has rationalised its store portfolio and its revenue/sq. ft. has shown a tremendous improvement and this trend is expected to continue going forward. As a result of higher throughput, margins have shown improvement and the company has turned profitable. As the company is now generating healthy cash flows and stores are generating healthy cash flows, we expect VREL to push the pedal on store additions and add 25+ stores for the next couple of years We expect margin expansion to play out on account of positive operating leverage. The size of opportunity for VREL is large given the lower penetration of value retail in the country. Even compared with its peers in the sector, VREL has a lot of catching up to do.

The management has laid out aggressive plans for VREL and the stores have shown healthy improvement on all the metrics. We visited some of the stores of V2 Retail in Varanasi to gauge the changes made and opportunities lying ahead. We observed that out of its four stores present in the city, three were in close proximity to its biggest peer and all four stores were in proximity to some or the other value retail player. We could see that VREL stores were ahead of all their peers in terms of footfalls and the store looked more hygienic. Hence, we could conclude that VREL has a large opportunity where it can catch up to its peers in terms of store footprint. We expect Revenue/EBITDA to grow at 30%/51% CAGR over FY23-26E driven by healthy store additions, improvement in throughput, and margin expansion. The company has turned profitable in FY24 and profit is expected to become 4x from FY24 levels.

The stock trades at an FY25E/FY26E EV/EBITDA of 8x/6x versus 16x/12x for VMART. The stock deserves a higher multiple from current levels as it has turned around its business and has ample opportunity to grow going forward. There is enough room for margin expansion; high double-digit return ratios; and expansion plans that provide ample scope for growth. We initiate coverage with a 'BUY' rating and TP of INR831 (10x FY26E EV/EBITDA), an upside of 77% from its CMP.

Exhibit 25: Valuation Table:

	CMP	Revenue (INR Cr)				EBITDA Margin				PAT				ROE (%)			
		FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
VREL	471	839	1165	1473	1873	10%	13%	15%	16%	-13	25	59	90	-5	10	19	24
Vmart	2067	2,458	2,790	3,120	3,889	11%	7%	10%	12%	-8	-88	18	55	NA	NA	4	12
Dmart	4635	41726	50404	60814	73294	9%	8%	9%	9%	2556	2624	3373	4192	17	15	16	17
Arvind Fashions	450	4,069	4,302	4,864	5,559	10%	12%	13%	14%	87	82	184	267	10	9	17	20
KKCL	706	780	893	1,043	1,233	19%	20%	20%	20%	119	152	172	201	23	25	24	23
ABFRL	230.3	11683	14012	16386	18672	14%	11%	12%	13%	133	-607	-418	-152	4	-17	-9	-4
Shoppers Stop	759	3,705	4,198	4,963	5,976	19%	17%	17%	18%	119	81	155	215	72	33	44	43
Cantabil	211.3	552	613	761	926	30%	27%	28%	29%	67	60	84	112	35	24	26	27
Trent	4,003	7714	12468	16909	21683	14%	15%	15%	15%	555	958	1325	1792	19	28	30	31

	P/Sales				EV/EBITDA				P/E			
	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
VREL	0.4	1.4	1.1	0.9	5	11	8	6	NA	64	28	18
Vmart	1.7	1.5	1.3	1.1	21	29	18	13	NA	NA	232	75
Dmart	7.2	6.0	5.0	4.1	60	73	58	47	86	114	89	72
Arvind Fashions	1.3	1.4	1.2	1.0	14	12	9	7	63	71	32	22
KKCL	5.3	4.6	4.0	3.4	27	22	19	16	35	27	24	21
ABFRL	3.0	2.0	1.7	1.4	16	22	17	14	153	NA	NA	NA
Shoppers Stop	1.8	2.3	2.0	1.7	13	15	13	10	60	87	53	38
Cantabil	3.6	2.9	2.3	1.9	12	11	8	6	29	29	21	16
Trent	5.9	18.4	11.4	8.4	47	76	55	43	88	151	106	79

Source: Company, Nuvama Wealth Research, Bloomberg

Company at a glance

VREL offers a diverse range of fashionable clothing under one roof. Established in 2001 as Vishal Retail, it went public in 2007. In 2011, due to operational challenges, it rebranded itself to V2 Retail after selling the *Vishal* brand. The company offers an unparalleled retail mix given its variety and value proposition.

Its product portfolio mix is comprised of two broad categories: **i) apparels,** which constitutes ~93% of total business and consist of men's wear (40%), women's wear (25%), and kids wear (28%); and **ii) non-apparels,** which contribute ~7% and includes lifestyle products such as deodorants, wallets, sunglasses, and ladies' purses. It also owns few of the brands Ebellia, Glamora, Godspeed, Herrlich, and Honey Brats.

It has a strong presence in North and East India. It caters to the middle-class population in Tier II and III cities. VREL has expanded its retail footprint to 117 stores across 89 cities, primarily in Uttar Pradesh, Bihar, and Odisha. In FY25, the management aims to grow its retail area by ~30% by expanding its store network.

Given the changing industry landscape, it has tied up with prominent e-commerce players such as Amazon and Myntra, besides launching its own e-commerce portal V2kart to diversify its sales channel. However, contribution from this channel to overall revenue has been minimal in recent years.

Exhibit 26: Regional Mix

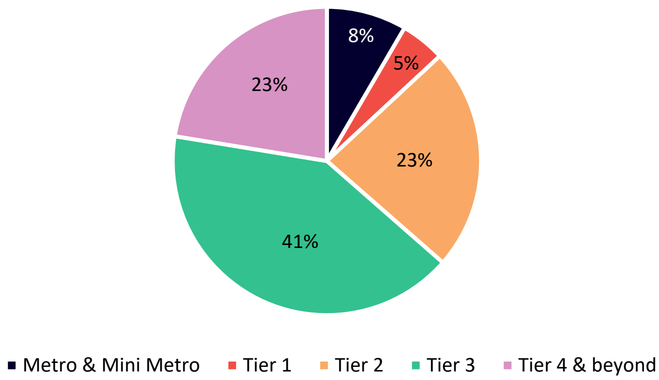
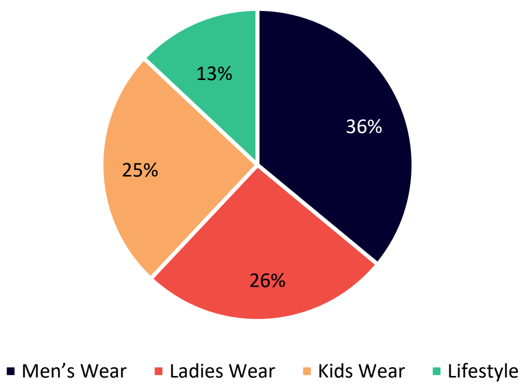


Exhibit 27: Product Mix

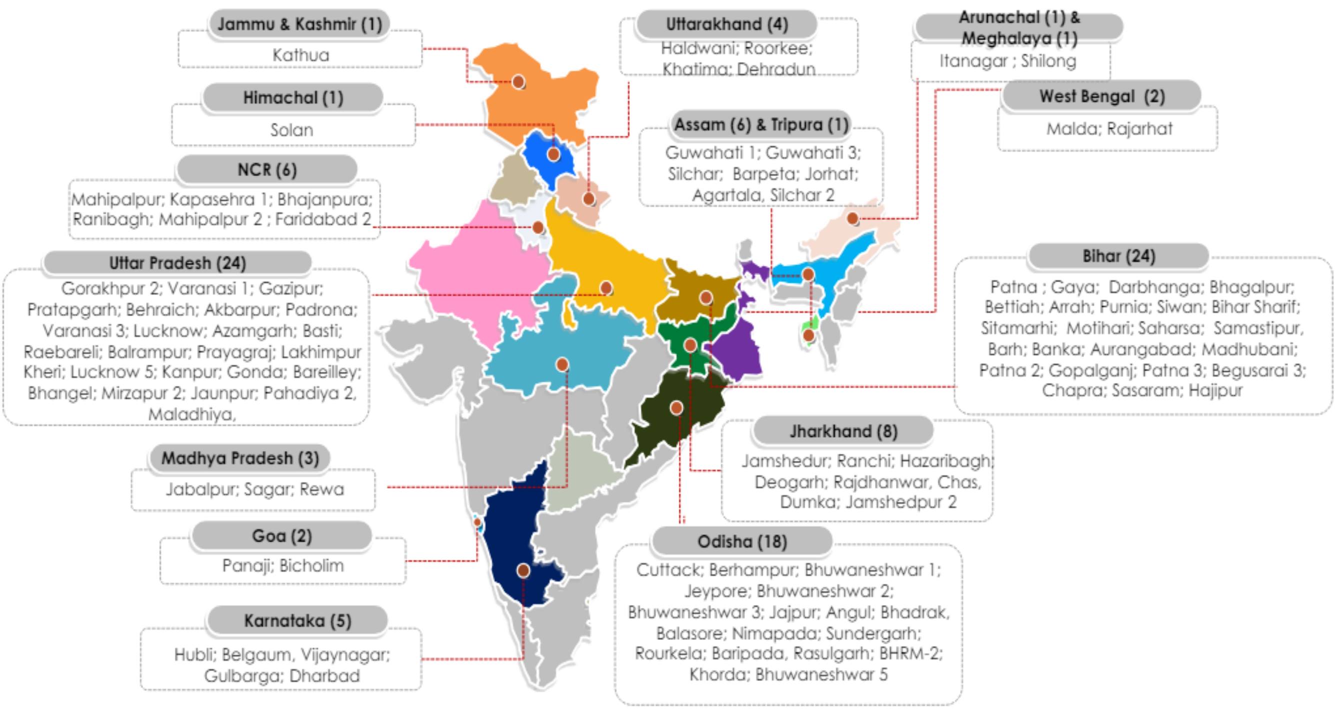


Source: Nuvama Wealth Research

In-House Manufacturing Facility

Source: VREL Investors' presentation

Pan India Presence



Source: VREL Investors' presentation

Key risks

- **Growing competition from online retailers** who have been able to offer similar products to VREL at competitive prices, with a wider geographical reach. Due to various factors, including ease of shopping from home, efficient logistics management, lesser physical presence, and strategic tie-ups, online retailers are able to offer additional discounts and a wider range of apparels and accessories. If the company is unable to adequately address competitive pressures, its financial condition, operations, and cash flows may be adversely affected.
- **The business is characterised by rapidly changing customer preferences**. Rising per capita income in India and increasing consumer spending led to a shift towards focused brand. Fast fashion is a challenge for the company.
- **The challenge of servicing high fixed costs** during periods of revenue volatility presents liquidity concerns. Prudent management of fixed costs is crucial to maintaining financial flexibility in uncertain market conditions.
- **Relationships with suppliers:** Value retail stores are dependent on their relationships with suppliers. Business growth depends on VREL's ability to attract and retain high quality and cost-efficient suppliers to their network. If they are unable to procure supplies at competitive prices, its business will be adversely affected. Competitors may also procure goods from VREL's suppliers at lower prices or may obtain better terms of procurement from suppliers which may adversely impact its advantage as a value retail store.
- **Inefficient supply chain management** may lead to unavailability of adequate merchandise and range of apparels resulting in a mismatch between customer requirements and products available at its stores. This may adversely affect VREL's business, operations, cash flows, and financial condition.

Key managerial personnel

Name and designation	Profile
 **Mr Ram Chandra Agarwal** Chairman & Managing Director	Mr Ram Chandra Agarwal holds a bachelor's degree in commerce and has more than 30 years of experience in the retail sector. He has been a member of the board since VREL's inception and is the driving force behind its growth. He pioneered the value retailing concept in India
 **Mr Akash Agarwal** Whole-time Director	Mr Akash Agarwal holds an international MBA from IE Business School, Spain and a bachelor's degree in business administration from Lancaster University (UK). He possesses ~10 years of experience in the retail industry. He looks after e-commerce, procurement, and finance
 **Mrs Uma Agarwal** Whole-time Director	Mrs Uma Agarwal holds a bachelor's degree in arts and has over 15 years of experience in the retail industry. She has been a member of the board since its inception and oversees the marketing strategies of VREL
 **Mr Srinivas Anand Mannava** Independent Director	Mr Mannava holds a post-graduate degree in business management from IIM, Kozhikode. He has extensive experience in strategy planning, improving shareholder wealth, and financial journalism. He authored the Investor Relations book published by ICFAI. He hosts the annual IR Awards at the BSE along with entities like Bloomberg, BNY Mellon, KPMG, and IR Magazine

Shareholding pattern

Shareholder's name	% of holding
Promoter group	**54.28**
Foreign institutional investor	**6.36**
India 2020 Fund II	**6.36**
Domestic institutional investor	**0.37**
Public holding	**38.80**
Mr Manshu Tondon	**1.03**
Mr Vishal Vishwanath Todi	**2.26**
Mr Sachin Kasera	**1.59**

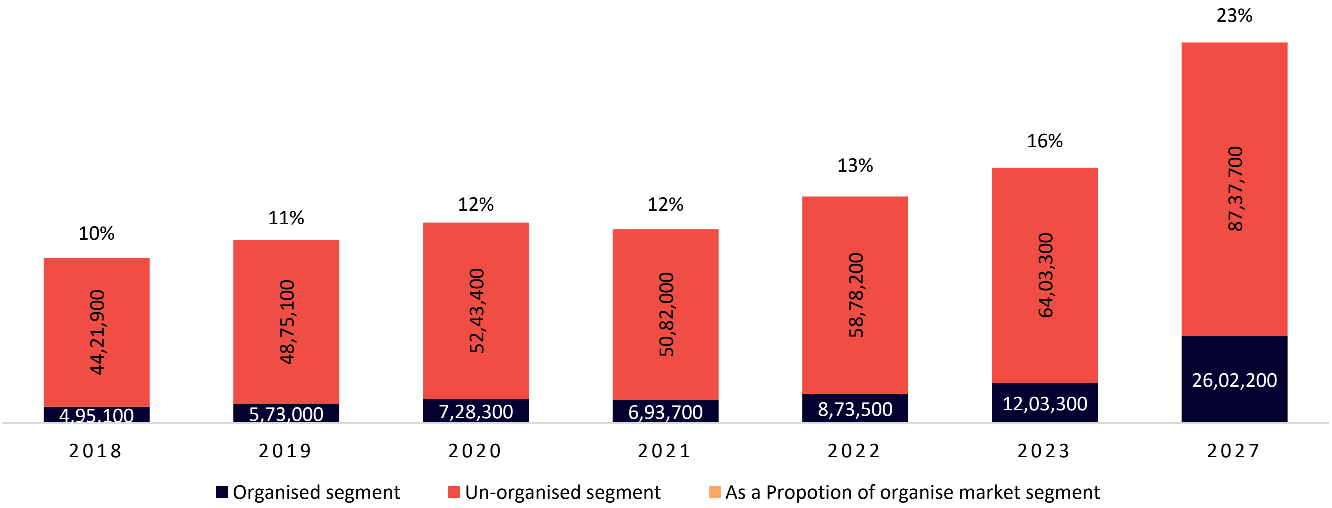
Appendix

Industry overview:

Private consumption accounted for ~60% of India's total GDP in FY23, of which 48% was contributed by merchandise retail comprising food and grocery (31%), jewellery (4%), apparel and accessories (4%), consumer durables (3%). The retail market in India was valued at ~INR76 lakh Cr. in FY23 and is expected to clock ~11% CAGR to reach INR1,13,39,900cr by FY27.

Contribution of organised retail to total retail was low at 10%/~15% (INR 5 lakh Cr./INR 12 lakh Cr.) in FY18/ FY23. Organised retail penetration is expected to increase to ~23% by FY27 which will provide a big boost to the apparel market as it will be the fastest growing category among organised retail.

Exhibit 28: Retail market

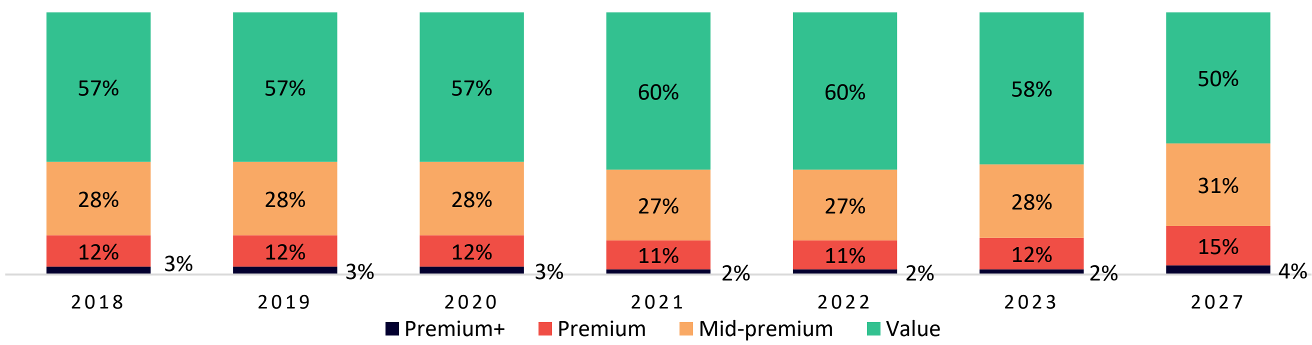


Source: Nuvama Wealth Research

Apparel and accessories/jewellery/consumer electronics are the three key categories, accounting for 7.2%/ 7.3%/6.7% in FY23. The share of apparel and accessories is expected to touch 9.4% in FY27. At 18.1% CAGR over FY23–27, it is the fastest growing category.

The Indian apparel market was valued at INR5,47,628cr in FY23 and is expected to clock ~18.2% CAGR over FY23–27 to reach INR10,68,250cr by FY27 on higher brand consciousness, greater purchasing power, and rising urbanisation.

Exhibit 29: Segmentation in the apparel market



Source: Nuvama Wealth Research

Exhibit 30: Apparel market segmentation in value terms *(INR cr)*

Financial Year	2018	2019	2020	2021	2022	2023	2027
Premium+	10,973	12,058	13,433	6,125	8,235	10,953	37,389
Premium	43,892	48,231	53,730	33,689	45,293	65,715	1,60,238
Mid-premium	1,02,414	1,12,540	1,25,370	82,690	1,11,173	1,53,336	3,36,499
Value	2,08,524	2,29,140	2,55,218	1,83,757	2,47,051	3,17,624	5,34,125

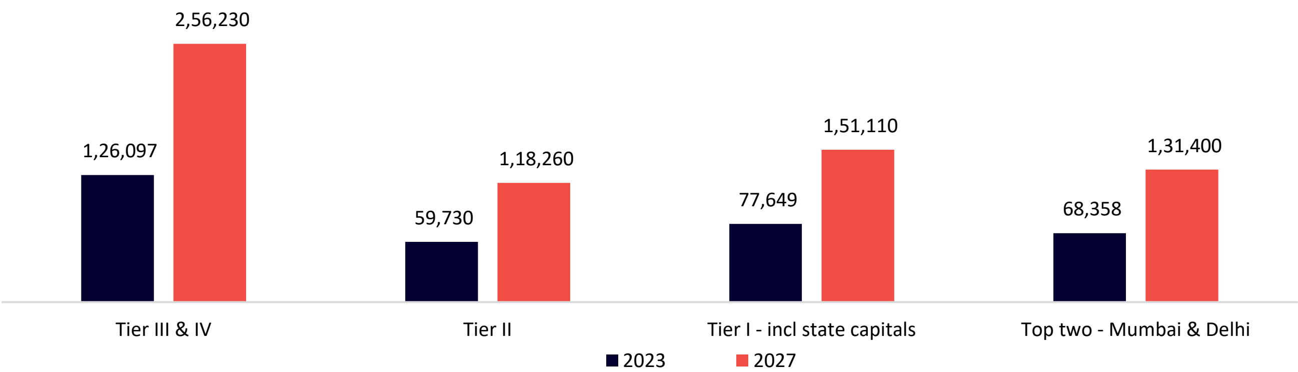
Source: Nuvama Wealth Research

*The value apparel market is expected to clock **14% CAGR** over FY23–27.*

Apparel market segmentation across city types

Urban/rural constituted ~61%/~39% of the total apparel market in FY23. Almost 21% of urban apparel demand can be attributed to Delhi NCR and Mumbai, making these cities the largest consumers of apparel in India. **Growth has been equally distributed across the country, with demand from Tier II, III, and IV cities increasing significantly*. These cities, which are value retail focused, account for 56% of the urban apparel market. They are expected to clock 21% CAGR over FY23–27.***

Exhibit 31: Apparel market segmentation across cities



Source: Nuvama Wealth Research

Target market of value retail

In this market, companies are targeting two main groups: i) consumers who used to buy unbranded clothes but now prefer branded ones, and ii) those in Tier II–IV cities in urban and semi-urban areas who are gravitating to branded fashion.

Focusing on Tier III and IV cities has helped these retailers tap the potential market. Around 23% of all clothing demand accrues from these cities, with ~60% falling in the affordable segment.

Value retailing is all about offering trendy fashion at affordable prices. It is for people who want to wear branded clothes at an ultra-affordable price range.

Based on age group: Value retail consumers are Gen Y and Z customers (in the 10–40 age group or 55–58% of the total Indian population). They represent a significant portion of the market with their increasing purchasing power and evolving preferences.

Based on income level: These customers belong to middle-class households, with an average annual income of less than USD8,000. They are fashion conscious, value and quality seeking youth, and young families which form the bulk of the purchasing power of India's population. In 2020, this group constituted ~68% of all households and is expected to fall to ~55% by 2030.

These consumers may be students, freelancers, gig workers, small business owners, lower-wage office workers, migrants working in sectors like restaurants and in construction, as well as those involved in the informal economy and support services.

Market size of value retail in India

As of FY23, the total market size of value retail in Indian is pegged at INR5,67,356cr and is expected to grow by ~15% to INR9,72,058cr in FY27.

Value fashion led growth

Value retail in domestic apparel clocked ~14% CAGR to ~INR5,34,125cr by FY27 from INR3,17,624cr in FY23.

Exhibit 32: Average product pricing

Product	Category		Nearly selling price (INR)	
		Value retail	Mid-price	Premium
Men's shirt	Men's apparel	400	1,500	5,000
Women's kurta	Women's apparel	350	1,200	4,500
Sports shoes	Men's footwear	500	2,000	5,500
Towels	Home	200	1,000	2,500
Bed cover	Home	400	1,500	4,500

Source: Nuvama Wealth Research

Financials

Income statement (INR cr)

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Income from operations	629	839	1,165	1,473	1,873
Direct costs	438	586	816	1,038	1,311
Employee costs	63	89	104	118	140
Other expenses	99	81	93	101	127
Total operating expenses	600	755	1,012	1,258	1,578
EBITDA	**30**	**84**	**153**	**215**	**294**
Depreciation and amortisation	59	67	77	89	113
EBIT	-29	17	76	125	181
Interest expenses	37	41	49	54	68
Other income	16	7	7	7	7
Profit before tax	-50	-17	34	78	120
Provision for tax	-3	-4	9	20	30
Core profit	-47	-13	25	59	90
Minority Interest	0	0	0	0	0
Profit after tax	-47	-13	25	59	90
Extraordinary items & share of profit from associates	0	0	0	0	0
Reported net profit	-47	-13	25	59	90
Adjusted Net Profit	**-47**	**-13**	**25**	**59**	**90**
Equity shares outstanding (cr)	3.4	3.4	3.4	3.4	3.4
EPS (INR) basic	(13.6)	(3.7)	7.4	17.0	26.2
Diluted shares (Cr)	3.4	3.4	3.4	3.4	3.4
EPS (adj) fully diluted	(13.6)	(3.7)	7.4	17.0	26.2
Dividend per share	0.0	5.8	0.0	0.0	0.0
Dividend payout (%)	0%	-154%	0%	0%	0%

Common size metrics- as % of net revenues

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Operating expenses	95.3	90.0	86.9	85.4	84.3
Depreciation	9.3	8.0	6.6	6.1	6.0
Interest expenditure	5.8	4.8	4.2	3.7	3.6
EBITDA margins	4.7	10.0	13.1	14.6	15.7
Net profit margins	(7.4)	(1.5)	2.2	4.0	4.8

Growth metrics (%)

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Revenues	16.8	33.3	38.9	26.4	27.1
EBITDA	(20.4)	184.3	82.0	40.5	37.1
PBT	86.9	(66.1)	(300.8)	129.6	53.8
Net profit	92.7	(72.6)	(298.4)	130.2	53.8
EPS	91.1	(72.6)	(298.4)	130.2	53.8

Balance sheet (INR crs)

As on 31st March	FY22	FY23	FY24E	FY25E	FY26E
Equity share capital	34	34	34	34	34
Reserves & surplus	224	213	238	297	387
Shareholders funds	258	247	273	332	422
Secured loans	6	7	7	7	7
Unsecured loans	49	46	46	46	46
Borrowings	55	54	54	54	54
Net Debt	47	49	84	82	88
Minority interest	0	0	0	0	0
Other liabilities	313	335	411	458	586
Sources of funds	**626**	**636**	**738**	**843**	**1,061**
Gross block	103	204	239	285	342
Depreciation	0	106	124	148	177
Net block	103	99	115	137	166
Capital work in progress	0	0	0	0	0
Total fixed assets	103	99	115	137	166
Other non-current assets	342	365	439	484	610
Investments					
Inventories	291	279	367	444	564
Sundry debtors	1	0	0	0	0
Cash and equivalents	7	5	-30	-29	-34
Other current assets	43	43	43	43	43
Total current assets	343	327	380	458	573
Sundry creditors and others	166	159	198	238	289
Provisions	2	2	2	2	2
Total CL & provisions	169	161	201	240	291
Net current assets	174	166	179	218	282
Uses of funds	**619**	**629**	**734**	**839**	**1,058**
Book value per share (INR)	75	72	79	96	123

Cash flow statement (INR crs)

Year to March	FY22	FY23	FY24E	FY25E	FY26E
EBIT	-15	-17	76	125	181
Add: Depreciation	59	67	77	89	113
Add: Others	31	45	47	52	65
Gross cash flow	75	95	200	266	360
Less: Changes in W. C.	16	8	55	57	99
Operating cash flow	59	86	144	209	260
Less: Capex	17	13	17	13	35
Free cash flow	**42**	**73**	**128**	**196**	**226**

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Ratios

Year to March	FY22	FY23	FY24E	FY25E	FY26E
ROE (%)	(17.8)	(5.1)	9.8	19.4	23.9
ROCE (%)	(4.6)	2.7	8.8	12.4	14.9
Debtors (days)	1	0	0	0	0
Current ratio	2.0	2.0	1.9	1.9	2.0
Debt/Equity	0.2	0.2	0.2	0.2	0.1
Inventory (days)	169	121	115	110	110
Payable (days)	69	47	47	47	47
Cash conversion cycle (days)	100	75	68	63	63
Debt/EBITDA	1.8	0.6	0.4	0.3	0.2
Adjusted debt/Equity	0.2	0.2	0.3	0.2	0.2

Valuation parameters

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Diluted EPS (INR)	(13.6)	(3.7)	7.4	17.0	26.2
CEPS (INR)	3.5	15.8	29.7	43.0	59.1
Diluted P/E (x)	0.0	0.0	63.7	27.7	18.0
Price/BV(x)	0.0	0.0	5.9	4.9	3.8
EV/Sales (x)	1.0	0.5	1.5	1.2	0.9
EV/EBITDA (x)	20.6	4.8	11.1	7.9	5.8
Diluted shares O/S	3.4	3.4	3.4	3.4	3.4
Basic EPS	(13.6)	(3.7)	7.4	17.0	26.2
Basic PE (x)	0.0	0.0	63.7	27.7	18.0
Dividend yield (%)	-	-	0%	0%	0%

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