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DALAL STREET INVESTMENT JOURNAL
DEMOCRATIZING WEALTH CREATION

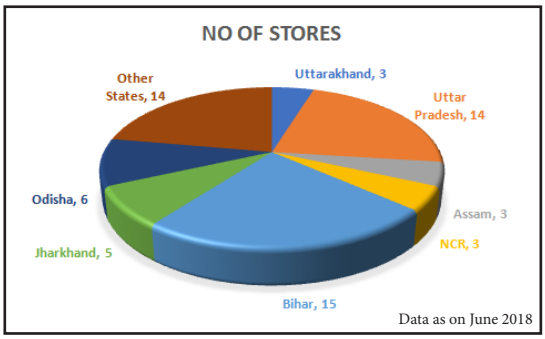
Vriddhi Growth

Ocotber 2018

V2 Retail Ltd

CMP : ₹317	Target price: ₹491	HP* : **Upto 3 years**

Our Vriddhi Pick for the month of October is V2 Retail Ltd. V2 Retail Limited provides a wide range of products which targets the fashion aspirations of a 'neo middle-class' and 'middle-class' population. The company markets apparel and general merchandise products for the entire family. As on July 31, 2018, the company's store count stood at 66 across 17 states and 60 cities spread in a total retail area of more than 7.2 lakh sq. ft. During FY13-18, its revenue has grown at a CAGR of 38.4 per cent.



Expansion plan to drive revenue

The company aims to scale-up its store to around 125-130 by 2020 from current 66 stores, which would expand its total retail space to around 1.05 million, which in turn will drive its topline. The company invests ~Rs.2.2 crore for opening a 10,000 square feet store. The payback period for one store is only two years, which reduces store failure risk sharply. We believe the minimal investment for a store would help the company to achieve its expansion target without any delay or strain on its balance sheet. The company's rent per square feet per month over the last four years has been at a comfortable level of Rs 44 to 53. Notably, during these four years, the company's cash profit per square feet per month has surged from a loss of Rs 18 to a profit of Rs 92 in FY18. Moreover, the superior merchandise resulted into strong revenue per sq. ft of Rs 942 for FY18 as compared to other payers in the apparel industries in India. Considering strong revenue per sq ft, low rent per sq ft and healthy cash profit per sq ft, we conclude that amid favourable macro factors, the company's plan to expand its store would pay back handsomely.

Favourable macro factors

Presently, India's organised retail industry is dominated by unorganised players which contribute around 93 per cent to overall retail industry. We believe due to various structural reforms such as GST, organised retail players are likely benefit going forward as there will be shift in consumer demand from unorganised to organised players. Also, with increasing disposable incomes of people in tier-II and tier-III cites, coupled with other

*HP : Holding Period

Company Details	
Industry	Retailing
Chairman	Ram Chandra Agarwal
Managing Director	Ram Chandra Agarwal
Company Secretary	Umesh Kumar
ISIN	INE945H01013
Bloomberg Code	VREL IN
BSE Code	532867
Key Market Indicators (Standalone)	
Latest Date	09-Oct-2018
Latest Price (Rs)	287.25
Previous Close (Rs)	267.30
1 Day Price Var%	7.46
1 Year Price Var%	-34.22
52 Week High (Rs)	555.45
52 Week Low (Rs)	261.50
Beta	0.97
Face Value (Rs)	10.00
Industry PE	95.04
TTM Period	201806
TTM EPS(Rs)	9.87
TTM CEPS(Rs)	12.63
Price/TTM CEPS(x)	22.74
TTM PE (x)	29.11
Price/BV(x)	3.48
EV/TTM EBIDTA(x)	16.29
EV/TTM Sales(x)	1.61
Dividend Yield%	0.00
MCap/TTM Sales(x)	1.62
Latest Book Value (Rs)	82.65
Market Cap (Rs. In Crores)	978.78
EV (Rs. In Crores)	974.01
Latest no. of shares (In Crores)	3.41
Share Holding Pattern as on 201809	
Promoter No of shares (In Crores)	1.74
Promoter %	51.14
FII No of Shares (In Crores)	
FII %	
Total No of Shares (In Crores)	3.41
Free Float %	48.86

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favourable factors such as increasing preference for branded products, would lead to acceleration in demand for branded products. India's strong demographics dominated by youth (65% below the age of 35 years) and increasing urbanisation would lead to pick-up in pace of organised retail sector growth in the years to come. Besides, rising per capital income would result in higher consumer discretionary spend which, in turn, would benefit to organised players in the retail space.

Scaling up private labels

As the margins for in-house products is higher than the other brands, the company is focusing on private labels across all price points. The management seems to be seriously focusing on this commitment as the revenue contribution from private labels have gone up from a mere 2 per cent in FY16 to 13 per cent in FY18. The company aims to double the revenue share of in-house brands from the current level by 2020. However, the company is trying to keep a favourable mix of third-party brands and private labels to ensure higher footfalls. The margins in the private labels are 100 to 200 bps higher at the gross level. We believe the company's focus on the high margin in-house brands would help improve its margins in the years to come which, in turn, would lead to higher profitability for V2 Retail.

Failures is the best Guru holds true for V2 Retail - what has changed

Earlier, Vishal Retail's focus was on large stores of 25,000 sq ft size, where it used to sell apparels, FMCG products and household items, etc. However, the company's share of high margin apparel sales declined from 63% to 52% over FY07-FY10 and pershibables acted as drag. This resulted in lower EBITDA/sq ft, as operating costs remained high. Vishal Retail was saddled with poor inventory management systems where everything was manual and, as a result, slow-moving stocks were not discarded immediately and got piled-up over a period. Further, to ramp-up its sales in a short span of time, Vishal Retail went to expand its store by taking heavy debt, but without hiring professional team, which had resulted in failure of Vishal Retail. This led to bankruptcy and high debt. But promoters vowed to take the failure in stride and learn lessons from the same.

Hence the new V2 Retail was born with core focus on apparel business, which accounts for almost 95 per cent of its revenue. New company V2 Retail, the inventory is managed with customised MIS within its SAP system where it is able to track its inventory at each store. Also, management has adopted an asset-light business model, and in FY18, the company has retired all its debt. We believe the management has learned a lot from its past mistakes, which can be seen from the transformation of V2 Retail.

Financial

Over the last few years, V2 Retail's financial performance is consistently improving, and during FY13-18, its revenue has grown at a CAGR of 38.4 per cent. During the same period, the company has not just turned around its bottomline, but it has also managed to grow steadily. In the latest quarter (Q1FY19), the company's revenue increased to Rs. 187.8 crore from Rs. 142.3 crore in the corresponding quarter of last year, which represents impressive growth of 32 per cent. Also, its EBITDA for the quarter surged to Rs. 19.9 crore from Rs. 15.4 crore in the corresponding quarter of last year, representing 30 per cent growth. However, its EBITDA margin for the

> ***Over the past few years, it has maintained its revenue per sq ft of more than Rs. 900 per month***

> ***Store expansion plan to lift its revenue going forward***

> ***Presence in Tier II & III an added advantageous as big players' presence in these cities are minimal***

Inc/Exp Statement(Standalone) (Rs in Crore)					
Description	201803	201703	201603	201503	201403
Net Sales	559.40	472.05	333.68	298.32	237.82
Total Income	562.66	473.64	336.21	300.86	240.02
Total Expenditure	505.60	429.06	301.88	270.00	232.86
PBIDT	57.06	44.57	34.33	30.86	7.17
PAT	31.08	39.03	12.17	9.75	-4.51
Adj. EPS(Rs)	9.16	12.62	4.89	4.14	-2.01

Quarter On Quarter (Standalone) (Rs in Crore)					
Particulars	201806	201803	Q on Q Var%	201706	Y on Y Var%
Net Sales	187.75	126.58	48.33	142.26	31.98
Total Expenditure	167.86	123.56	35.86	126.90	32.28
PBIDT (Excl OI)	19.89	3.02	558.93	15.36	29.48
PAT	11.23	3.74	200.62	8.69	29.28
PBIDTM% (Excl OI)	10.60	2.39	343.51	10.80	-1.85
PBIDTM%	11.01	4.06	171.18	11.16	-1.34
PATM%	5.98	2.95	102.71	6.11	-2.13
Adj. EPS(Rs)	3.30	1.10	200.00	2.81	17.44

quarter largely remained at same level of 10.6 per cent as compared to 10.8 per cent in the same quarter of last year. Also, the company reported 29 per cent growth in net profit at Rs 11.2 crore in Q1FY19 over the corresponding quarter of last year.

Valuation

The company has maintained its consistency in focusing on the high-margin apparel business (apparel form 95 per cent of its overall revenue) and is not willing to enter in the FMCG segment. The company's per square feet revenues over the last three years is more than Rs. 900 per month. For FY2018, the company's ROE and ROCE were at 14.4 per cent and 22.4 per cent, respectively. Promoters shareholding in the company is around 51.14 per cent, out of which 71 per cent is pledged. The company has not taken any debt on this pledged shares, promoters have pledged their shares to corporate debt restructuring bankers, while selling Vishal Retail's asset. The bankers have kept these shares as collateral in lieu of the sale. This pledge is likely to be released by June 2019.

The recent fall in the market has given an opportunity to enter in the stock at an attractive valuation of 29.11x P/E on TTM earnings. Owing to all these factors, we recommend BUY in this scrip. We expect this stock has potential to reach level of Rs. 491 in next three year which translates upside of almost 55 per cent from current level.

Emphasis on high margin private labels to boost profitability

Healthy and lean balance sheet lends confidence

Low pay back period for a store reduces probability of failures

About the company

The company was incorporated on July 23, 2001 as Vishal Retail Pvt Ltd. Due to operational loss from Vishal, the company sold it to TPG and Shriram group in the year 2011 under the corporate debt restructuring (CDR) mechanism led by State Bank of India. After this, the management again started value retailing business under a different brand name called V2 Retail Ltd. V2 Retail's areas of focus are mainly tier-II and tier-III cities. The company now has interest only in apparel retailing, which is the inherent strength of the promoters. An asset-light business model allows V2 Retail to focus on its core competencies. In terms of region-wise break-up, the company's major revenue comes from the East region, which contributed around 59 per cent to total revenue, followed by North (29 per cent) and South (12 per cent). The product mix for FY18 was men's wear (44 per cent), ladies wear (26 per cent), kid's wear (25 per cent) and the rest from lifestyle.