

V2 Retail Limited - Q3 FY19 Result Update

Company Profile

V2 Retail Limited (V2 Retail) offers a portfolio of products, including apparel and life style products. V2 stands for 'Value and Variety' it sells, good quality fashion garments at affordable prices, which suits every individual and household. The company caters to the neo middle class group of population living in Tier II and Tier III cities. The Company operated 74 stores in 17 states and 69 cities covering a total retail area of 8.75 lac sq. ft. as on Dec 31, 2018.

Q3FY19 Result beats our estimates; PAT margin improves by 80 basis points YoY

- V2 Retail's revenue increased by 58.24% YoY to INR 241.08 crore in Q3FY19 on the back of strong festive and wedding season demand.
- The company has expanded 4 new stores on net addition basis during the quarter. Its total number of stores increased to 74 in Q3FY19 from 70 in Q2FY19.
- V2 Retail has about 8.75 lakh sq. ft. retail space spread across 17 states and 69 cities as on Q3FY19.
- The company's Gross Profit also rose by 57.37% YoY to INR 84.75 crore in Q3FY19. The company's Gross Profit margin contracted by 20 basis points to 35.15% in Q3FY19 on yearly basis due to 58.7% YoY rise in cost of raw material.
- V2 Retail's EBITDA increased by 39.22% to INR 32.88 crore in Q3FY19. However, EBITDA margin contracted by 186 basis points to 13.64% in Q3FY19 due to Employee expense which rose by 140 basis points as a percentage of net sales and other expense by 60 basis points as a percentage of net sales on yearly basis.
- The company's PAT boosted by 72.6% YoY to INR 23.59 crore in Q3FY19. The company's PAT margin expanded by 82 basis points to 9.79% in Q3FY19 on yearly basis.

Q3FY19 Con call Highlights

- V2 Retail's same store sales growth (SSG) stood at 9% in Q3FY19. The company's Sales per sq. ft. per month stood at INR 945 in Q3FY19 against INR 679 in Q2FY19. Its Average Selling price remained at INR 299 in Q3FY19 against INR 243 in Q2FY19.
- The company has closed 2 stores in West Bengal due to lower sales and higher rental cost in these stores. The company has opened 2 new stores in January 2019 and plans to open 2 new stores by the end of FY19.
- V2 Retail is focusing on consolidation of its newly added stores in last one year. Going forward management expect 30% top line growth without adding any new store.

Financials : (Standalone)

(In INR Cr.)

| | FY 2017 | FY 2018 | FY 2019E | FY 2020E | FY 2021E |
|-----------|---------|---------|----------|----------|----------|
| Net Sales | 472 | 559 | 722 | 896 | 985 |
| EBDITA | 43 | 55 | 59 | 64 | 90 |
| PAT | 39 | 31 | 17 | 35 | 52 |
| EPS (INR) | 13.9 | 9.6 | 5.4 | 10.8 | 16.0 |
| P/E (x) | 13.7 | 43.4 | 51.9 | 25.9 | 17.5 |

Source - DSPL Research, Company

RATING: HOLD

Target: 321

Upside: 14%

CMP : 280.75 (As on 28/01/2019)

Reuter Code : VREL.NS

Bloomberg Code : VREL:IN

Market Data

| | |
|---------------------------|--------|
| Face Value (INR) | 10.0 |
| Equity Share Capital (cr) | 34.0 |
| Share Outstanding (cr) | 3.4 |
| Market Cap (INR cr) | 952.4 |
| Book Value / share | 81.0 |
| Daily Avj. Volume | 13,830 |
| 52 W High | 497.7 |
| 52 W Low | 245.4 |

Shareholding

| | % |
|-----------------|------|
| Promoter | 51.1 |
| Foreign | 10.4 |
| Institutions | 3.3 |
| Public & Others | 35.2 |

Sensex and Stock Movement



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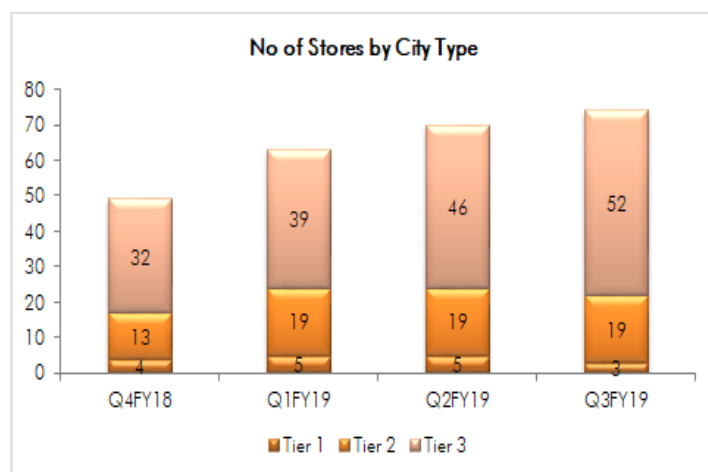
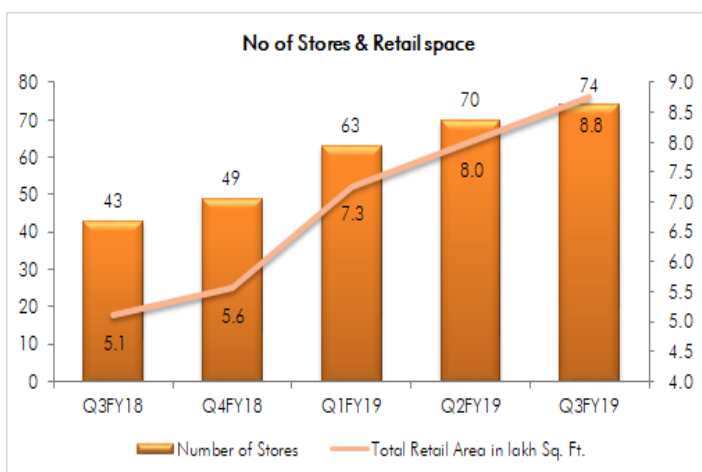
Q3FY19 Con call Highlights (Continue)

- V2 Retail management is targeting 25-26% of total revenue from private Label in next six months. The company is focusing to increase per sq. ft. Gross Profit for its stores through penetration of private labels.
- V2 Retail's management expect to maintain its EBITDA margin around 8-9%. The company's average Rental cost sq. ft. per month remained at 43-45 (5-6% as a percentage of net sales).
- The company's Inventory days stood at 95 in Q3FY19 against 105 in Q3FY18. The company is targeting on an average inventory days at 90, going forward.
- The company is comfortable at cash level. It has negligible borrowings at the end of Q3FY19 and debt will come down to zero at then end of FY19.
- Recently, V2 Retail has opened a warehouse in Bengaluru to cater southern region stores and company may open a warehouse in Eastern region if required in future.
- V2 Retail's e-commerce website work is going as per plan and website to go live after 6 months.

Valuation

V2 Retail caters to Tier II & III cities in India with 92% of its stores are in these cities - Almost 65% of V2 Retail stores are in Tier III cities, which are under-served by the organized retailers. V2 Retail emphasized on asset light business model and smaller store formats with an average size of 10,000-11,000 sq ft where payback period is 3-4 years, which reduces the risk of store failure significantly. This strategy has yielded benefits like low operating cost and helping it to maintain profit margin.

We recommend a HOLD on V2 Retail with a TP of INR 321, valuing it at 20x FY21E earnings, considering earnings CAGR of 23.3% over FY18-21E and improving margin with healthy inventory turnover. V2 Retail is currently trading at PE of 17.5x and EV/EBITDA of 9.9x FY21E. It's nearest listed competitor V-Mart Ltd is trading at 59x TTM PE.



Source – Company, DSPL Research

Financials - Standalone (in INR Cr.)

| Particulars | Dec-18 | Sep-18 | QoQ (%) | Dec-17 | YoY (%) |
|--|---------------|----------------|---------------|---------------|---------------|
| Total revenue from Operation | 241.08 | 155.67 | 54.86% | 152.35 | 58.24% |
| Cost of Material Consumed | - | - | | - | |
| Purchases of stock-in-trade | 149.43 | 157.42 | -5.08% | 75.20 | 98.70% |
| Changes in inventories of finished goods & WIP (Inc)/Dec | 6.90 | (48.08) | | 23.30 | |
| Total Cost of Material | 156.33 | 109.35 | 42.97% | 98.50 | 58.71% |
| Employee Cost | 23.00 | 20.26 | 13.53% | 12.38 | 85.74% |
| Other Expenses | 31.19 | 33.98 | -8.23% | 18.78 | 66.07% |
| Operating Expenses | 210.52 | 163.59 | 28.69% | 129.66 | 62.35% |
| Operating EBITDA | 30.56 | (7.92) | | 22.69 | 34.70% |
| Op. EBITDA Margin (%) | 12.68% | -5.09% | | 14.89% | |
| Other Income | 2.32 | 5.14 | | 0.93 | 150.20% |
| EBITDA | 32.88 | (2.77) | | 23.61 | 39.22% |
| EBITDA Margin (%) | 13.64% | -1.78% | | 15.50% | |
| Deperication | 3.77 | 3.50 | 7.62% | 2.16 | 74.10% |
| EBIT | 29.11 | -6.27 | | 21.45 | 35.71% |
| EBIT Margin (%) | 12.07% | -4.03% | | 14.08% | |
| Finance Cost | 0.32 | 0.11 | 184.06% | 0.05 | 501.69% |
| Exceptional Item | (1.32) | (25.30) | | - | |
| PBT | 27.47 | (31.69) | | 21.40 | 28.38% |
| PBT Margin (%) | 11.39% | -20.35% | | 14.04% | |
| Tax | 3.88 | (13.16) | | 7.73 | -49.83% |
| Tax Rate (%) | 14.12% | 41.52% | | 36.12% | |
| Share of minority & Associate | - | - | | - | |
| PAT | 23.59 | (18.53) | | 13.67 | 72.60% |
| PAT Margin (%) | 9.79% | -11.90% | | 8.97% | |
| Other Comprehensive Income | 0.02 | (0.02) | | (0.00) | |
| Total Comprehensive Income | 23.61 | (18.55) | | 13.67 | 72.72% |
| Earnings Per Share | | | | | |
| Basic EPS (INR) | 6.93 | (5.44) | | 4.30 | 61.13% |
| Diluted EPS (INR) | 6.88 | (5.44) | | 4.29 | 60.37% |
| Gross Profit | 84.75 | 46.33 | 82.93% | 53.85 | 57.37% |
| Gross Profit Margin (%) | 35.15% | 29.76% | | 35.35% | |

Financials - Standalone (in INR Cr.)

| Particulars | 9MFY19 | 9MFY18 | % Change |
|--|----------------|---------------|----------------|
| Total revenue from Operation | 584.50 | 432.16 | 35.25% |
| Cost of Material Consumed | - | - | |
| Purchases of stock-in-trade | 478.17 | 290.93 | 64.36% |
| Changes in inventories of finished goods & WIP (Inc)/Dec | (87.69) | (0.08) | |
| Total Cost of Material | 390.47 | 290.85 | 34.25% |
| Employee Cost | 60.66 | 34.22 | 77.27% |
| Other Expenses | 90.84 | 59.04 | 53.84% |
| Operating Expenses | 541.97 | 384.11 | 41.10% |
| Operating EBITDA | 42.54 | 48.05 | -11.47% |
| Op. EBITDA Margin (%) | 7.28% | 11.12% | |
| Other Income | 8.25 | 1.80 | 357.80% |
| EBITDA | 50.78 | 49.85 | 1.88% |
| EBITDA Margin (%) | 8.69% | 11.53% | |
| Deperication | 10.15 | 6.02 | 68.47% |
| EBIT | 40.64 | 43.83 | -7.28% |
| EBIT Margin(%) | 6.95% | 10.14% | |
| Finance Cost | 0.43 | 0.57 | -24.58% |
| Exceptional Item | (26.62) | - | |
| PBT | 13.58 | 43.25 | -68.59% |
| PBT Margin(%) | 2.32% | 10.01% | |
| Tax | (2.71) | 15.90 | |
| Tax Rate (%) | -19.94% | 36.77% | |
| Share of minority & Associate | - | - | |
| PAT | 16.29 | 27.35 | -40.43% |
| PAT Margin (%) | 2.79% | 6.33% | |
| Other Comprehensive Income | (0.02) | (0.00) | |
| Total Comprehensive Income | 16.27 | 27.35 | -40.50% |
| Earnings Per Share | | | |
| Basic EPS (INR) | 4.75 | 8.72 | -45.54% |
| Diluted EPS (INR) | 4.70 | 8.55 | -45.00% |
| Gross Profit | 194.03 | 141.31 | 37.31% |
| Gross Profit Margin (%) | 33.20% | 32.70% | |

Financials - Standalone (in INR Cr.)

| Profit & Loss Statement | | | | | Balance Sheet | | | | |
|--|----------------|---------------|---------------|---------------|--|--------------|--------------|--------------|--------------|
| | FY2018 | FY2019E | FY2020E | FY2021E | | FY2018 | FY2019E | FY2020E | FY2021E |
| Net Sales | 559.4 | 721.7 | 895.8 | 985.0 | Share Capital | 33.9 | 33.9 | 33.9 | 33.9 |
| Total Revenue | 559.4 | 721.7 | 895.8 | 985.0 | Reserves and Surplus | 240.0 | 257.5 | 292.5 | 344.3 |
| Raw Material Cost | 379.0 | 483.6 | 600.2 | 650.1 | Shareholders Fund | 274.0 | 291.4 | 326.5 | 378.2 |
| Gross Profit | 180.4 | 238.2 | 295.6 | 334.9 | Minority Interest | - | - | - | - |
| Employee Cost | 48.5 | 75.8 | 85.1 | 93.6 | Total Loan | - | - | - | - |
| Other Manufacturing Cost | 80.2 | 111.9 | 152.3 | 157.6 | Deferred Tax Liabilities | - | - | - | - |
| Operating EBITDA | 51.7 | 50.5 | 58.2 | 83.7 | Total Liabilities | 274.0 | 291.4 | 326.5 | 378.2 |
| Op. EBITDA Margin (%) | 9.2% | 7.0% | 6.5% | 8.5% | Net Fixed Assets | 69.1 | 96.4 | 95.7 | 95.4 |
| Other Income | 3.3 | 8.7 | 5.4 | 5.9 | Deferred Tax Assets | 4.75 | 4.75 | 4.75 | 4.75 |
| Deperication | 8.4 | 10.2 | 11.1 | 12.0 | Goodwill | - | - | - | - |
| EBIT | 46.6 | 49.0 | 52.5 | 77.6 | Investments | 89.7 | - | - | - |
| EBIT Margin | 8.3% | 6.8% | 5.9% | 7.9% | Sundry Debtors | - | - | - | - |
| Finance Cost | 0.6 | 0.5 | - | - | Cash & Bank | 4.8 | 22.8 | 26.0 | 67.5 |
| Exceptional Item | - | (26.6) | - | - | Loans & Advances | 3.4 | 3.6 | 4.5 | 4.9 |
| PBT | 46.0 | 21.8 | 52.5 | 77.6 | Inventories | 160.2 | 257.1 | 306.8 | 323.8 |
| Tax | 14.9 | 4.4 | 17.5 | 25.8 | Other Current Assets | 45.0 | 58.0 | 72.0 | 79.2 |
| PAT | 31.1 | 17.5 | 35.0 | 51.8 | Total Current Assets | 213.4 | 341.5 | 409.3 | 475.5 |
| Share O/S (in cr) | 3.2 | 3.2 | 3.2 | 3.2 | Sundry Creditors | 100.3 | 138.4 | 164.4 | 175.4 |
| Basic EPS (INR) | 9.6 | 5.4 | 10.8 | 16.0 | Provision | 1.9 | 3.6 | 4.5 | 4.9 |
| Diluted EPS (INR) | 9.6 | 5.4 | 10.8 | 16.0 | Other Current Liabilities | 13.2 | 21.7 | 26.9 | 29.5 |
| Cash EPS (INR) | 12.2 | 8.6 | 14.3 | 19.8 | Total Current liabilities & Provision | 115.4 | 163.7 | 195.8 | 209.9 |
| | | | | | Net Assets | 98.0 | 177.8 | 213.5 | 265.6 |
| | | | | | Miscellaneous Expenditure | 12.4 | 12.4 | 12.4 | 12.4 |
| | | | | | Total Assets | 274.0 | 291.4 | 326.5 | 378.2 |
| | | | | | | | | | |
| Cashflow Statement | | | | | Ratios Analysis | | | | |
| | FY2018 | FY2019E | FY2020E | FY2021E | | FY2018 | FY2019E | FY2020E | FY2021E |
| PBT | 46.0 | 21.8 | 52.5 | 77.6 | Per Share Value | | | | |
| Depreciation & Amortization | 8.4 | 10.2 | 11.1 | 12.0 | EPS (Rs) | 9.6 | 5.4 | 10.8 | 16.0 |
| Finance Cost | 0.6 | 0.5 | - | - | BVPS (Rs) | 80.8 | 85.9 | 96.2 | 111.5 |
| Others | 0.4 | 26.6 | - | - | DPS (Rs) | - | - | - | - |
| (Incr)/Decr in Working Capital | (17.7) | (61.8) | (32.5) | (10.6) | Turnover Ratio | | | | |
| Tax Paid | (0.4) | (4.4) | (17.5) | (25.8) | Inventory Days | 90 | 130 | 125 | 120 |
| Cash Flow from Operating | 37.3 | (7.0) | 13.6 | 53.2 | Debtors Days | 0 | - | - | - |
| (Incr)/ Decr in Gross PP&E | (24.1) | (37.5) | (10.4) | (11.7) | Creditors Days | 54 | 70 | 67 | 65 |
| Others | (86.9) | 89.7 | - | - | Cash Conversion Cycle | 36 | 60 | 58 | 55 |
| Cash Flow from Investing | (111.0) | 52.2 | (10.4) | (11.7) | Asset Turnover Ratio | 1.4 | 1.6 | 1.7 | 1.7 |
| Proceeds from issue of Shares & Warrants | 81.5 | - | - | - | Profitability Ratio | | | | |
| (Decr)/Incr in Debt | (8.6) | - | - | - | EBITDA Margin | 9.8% | 8.2% | 7.1% | 9.1% |
| Interest Paid | (0.6) | (0.5) | - | - | PAT margin | 5.6% | 2.4% | 3.9% | 5.3% |
| Others | - | (26.6) | - | - | ROA | 8.0% | 3.8% | 6.7% | 8.8% |
| Dividend Paid | - | - | - | - | ROE | 11.3% | 6.0% | 10.7% | 13.7% |
| Cash Flow from Financing | 72.3 | (27.1) | - | - | ROCE | 11.6% | 15.3% | 10.7% | 13.7% |
| Incr/(Decr) in Balance Sheet Cash | (1.4) | 18.0 | 3.2 | 41.5 | Solvency Ratio | | | | |
| Cash and cash equivalents op. bal | 6.2 | 4.8 | 22.8 | 26.0 | Debt / Equity Ratio | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Bank Balances | - | - | - | - | Current Ratio | 2.4 | 1.7 | 1.7 | 1.9 |
| Cash and cash equivalents cl. Bal | 4.8 | 22.8 | 26.0 | 67.5 | Quick Ratio | 1.0 | 0.1 | 0.1 | 0.3 |
| | | | | | Interest Coverage Ratio | 95.7 | 0.0 | 0.0 | 0.0 |
| | | | | | Valuation Ratios | | | | |
| | | | | | PE (x) | 43.4 | 51.9 | 25.9 | 17.5 |
| | | | | | P/B (x) | 5.2 | 3.3 | 2.9 | 2.5 |
| | | | | | EV/EBITDA (x) | 24.1 | 15.7 | 14.6 | 9.9 |
| | | | | | Mcap/Sales (x) | 2.5 | 1.3 | 1.1 | 1.0 |
| | | | | | Earning Yield (%) | 2.3% | 1.9% | 3.9% | 5.7% |
| | | | | | Dividend Yield (%) | 0.0% | 0.0% | 0.0% | 0.0% |
| | | | | | Free Cash Flow Yield (%) | 0.9% | -4.7% | 0.3% | 4.4% |

Source - DSPL Research

DISCLOSURE

| Investment Rating | Expected return (Over 1 year) |
|-------------------|--|
| Buy | > 15% |
| Hold | > -10% to 15% |
| Sell | < -10% |
| Not Rated | We have forward looking estimates for the stock but we refrain from assigning recommendation |

| Trading Rating | Expected return (less than 1 year) |
|----------------|------------------------------------|
| Buy | > 5% |
| Hold | > -5% to 5% |
| Sell | < - 5% |

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