Viewpoint

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

V2 Retail Ltd

Mixed Q2

Consumer Discretionary	Sharekhan code: V2RETAIL

Reco/View: Positive ↔	CMP: Rs. 1,226	PT: Rs. 1,445 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Summary

- V2 Retail's (V2R's) Q2FY2025 numbers were a mixed bag, with revenues growing strongly by 64% y-o-y while EBIDTA margins lagged expectation at 8.7% (flat y-o-y) due to lower gross margins and higher employee cost.
- Same-store-sales-growth (SSSG) stood at 34% in Q2FY2025 (~36% in H1FY25). Strong festive and winter season will drive double-digit SSSG in H2 (Q3 is expected to be stronger).
- The company targets to open 60 stores in FY2025 (has guided for opening 40 stores in H2FY2025). Net addition of 22 stores was done in H1FY2025.
- Stock trades at 20x, 13x and 9x its FY25E, FY26E and FY27E EV/EBIDTA, respectively. We stay Positive on the stock maintaining price target at Rs. 1,445.

V2R's Q2FY2025 numbers were a mixed bag with revenues growing by over 60%, while EBIDTA margins stood flat y-o-y at 8.7% (declined by 466 bps q-o-q). Performance was below our expectations mainly on account of lower-than-expected EBIDTA margins. Revenues grew by 64.3% y-o-y to Rs. 380 crore (43% volume growth). Same-store-sales growth (SSSG) stood at 34%. Sales per sq. ft. per month at Rs. 904 grew by 30% y-o-y. Gross margins fell by 279 bps y-o-y to 31.8% as manufacturing benefits were passed on to consumers. Despite a fall in gross margins, EBIDTA margins stood almost flat y-o-y at 8.7% (lower than our expectation of 11.8%) on back of store-level efficiencies. EBIDTA grew by 66.3% y-o-y to Rs. 33 crore in-line with strong revenue growth. Reported loss fell by 66% y-o-y to Rs. 1.9 crore. For H1FY25, revenues grew by 61% y-o-y to Rs. 795 crore, EBIDTA margin stood flat y-o-y at 11.1% and reported PAT stood at Rs. 14.4 crore.

Key positives

- Sales per sq. ft. per month grew by 30% y-o-y to Rs. 904 per sq. ft. per month.
- SSSG came in at 34% y-o-y; Volumes rose by 43% y-o-y.
- MRP sales contribution increased to 89% versus 86% in Q2FY2024.

Key negatives

- Gross margins fell by 279 bps y-o-y to 31.8%

Management Commentary

- SSSG at 34% in Q2FY2025 (36% in H1FY2025) exceeded the company's target of 15% SSSG. Management expects SSSG to beat the internal target on back of strong festive and winter season.
- Maintained its guidance of achieving revenue per sq. ft. of Rs. 1,000 in FY2025 and Rs. 1,200 in FY2026. Around 20 stores are achieving revenues of Rs. 1,400 per sq. ft. and management expects new stores to achieve good revenue run-rate in the coming years due to better product offerings.
- The company has added 22 stores (net) in H1FY2025. It is planning to end FY2025 with store addition of 60-65 stores. Planning to add 20 stores per quarter in H2FY2025.
- Employee cost in Q2 was higher as the company had done pre-recruitment for two new stores it was planning to do in Q3FY2025.
- It has maintained its guidance of pre-Ind AS EBIDTA margin of 8% in FY2025 and reach 10% by FY2027. The company expects profitability to be much better in Q3 on back of strong festive and winter season.
- It expects Inventory days to come down by 10 days over the next two years on back of various measures undertaken for better management of inventory.

Revision in estimates – We have reduced our earnings estimates for FY2025E to factor in lower EBIDTA margins than earlier expected while we maintain it for FY2026. We have introduced FY2027 earnings through this note.

Our Call

View – Retain positive view with an unchanged PT of Rs. 1,455: V2R started FY2025 on strong note with an over 30% SSSG in H1FY2025. The company is focusing on becoming one of the key players in the value retail space with strong store expansion plan and consistent improvement in the same-store-sales in the coming years. We expect revenues and EBIDTA to grow at CAGR of 47% and 50% over FY2024-27E. The stock trades at 20x, 13x and 9x its FY2025E, FY2026E and FY2027E EV/EBIDTA, respectively. We stay Positive on the stock and maintain price target at Rs. 1,455.

Key Risks

Any substantial inflation and weak macro environment will affect consumer sentiments, especially in tier 2 and 3 towns, which will affect the same-store-sales of V2R and have impact on the earnings in the near term.

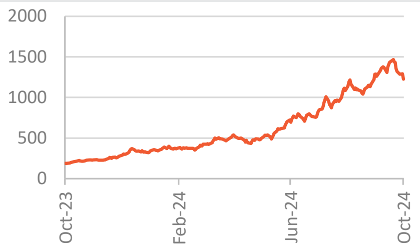
Company details

Market cap:	Rs. 4,241 cr
52-week high/low:	Rs. 1,484 / 186
NSE volume: (No of shares)	0.6 lakh
BSE code:	532867
NSE code:	V2RETAIL
Free float: (No of shares)	1.6 cr

Shareholding (%)

Promoters	54.3
FII	1.6
DII	4.4
Others	39.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.8	46.9	133.4	544.9
Relative to Sensex	2.0	47.7	126.6	520.9

Sharekhan Research, Bloomberg

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenues	839	1,165	1,830	2,794	3,688
EBITDA margin (%)	10.0	12.7	12.8	13.1	13.6
Adjusted PAT	-13	28	77	171	270
Adjusted EPS (Rs.)	-3.7	8.1	22.3	49.8	78.4
P/E (x)	-	-	54.9	24.6	15.6
P/B (x)	17.1	15.3	12.0	8.1	5.3
EV/EBIDTA (x)	55.2	32.2	20.3	12.7	9.1
RoNW (%)	-	10.7	24.5	39.2	41.0
RoCE (%)	3.5	10.5	17.5	27.7	34.2

Source: Company; Sharekhan estimates

Mixed Q2 with strong revenue growth while margin was a miss

V2R's revenues grew by 64.3% y-o-y to Rs. 380 crore driven by ~34% y-o-y same-store-sales growth (SSSG). Volume growth stood at 43% y-o-y. Sales per sq. ft per month increased to Rs. 904 against Rs. 695 in Q2FY2024 (growth of 30% y-o-y). Gross margins fell by 279 bps y-o-y to 31.8%. EBIDTA margins stood flat y-o-y at 8.7% on back of store level efficiencies. EBITDA margin came in lower than our expectation of 11.8% due to higher employee cost (grew by 68% y-o-y to Rs. 39 crore). EBIDTA grew by 66.3% y-o-y to Rs .33 crore in-line with strong revenue growth and improved operating efficiencies. The company registered a reported loss of Rs. 1.9 crore as against reported loss of Rs. 5.7 crore in Q2FY2024. For H1FY2025, revenues grew by 61% y-o-y to Rs. 795 crore, EBIDTA margins stood flat y-o-y at 11.1% and PAT stood at Rs. 14.4 crore versus Rs. 0.5 crore in H1FY2024.

Key business updates

- Sales per sq. ft. per month at Rs. 904 per sq. ft. per month, stood at Rs. 979 per sq. ft per month in H1FY2025.
- Average selling price (ASP) marginally rose to Rs. 269 compared to Rs. 234 in Q2FY2024.
- Average Bill Value (ABV) stood at Rs. 791 versus Rs. 711 in Q2FY2024.
- Product mix comprised - Men's Wear: 40%, Ladies Wear: 29%, Kids Wear: 22% and LifeStyle: 9%.

Results (Consolidated) Rs cr

Particulars	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
Total revenue	**380.0**	**231.3**	**64.3**	**415.0**	**-8.4**
Raw material cost	259.2	151.4	71.3	280.1	-7.5
Employee cost	39.0	23.3	67.5	35.6	9.6
Other expenses	48.7	36.8	32.4	43.8	11.1
Total operating cost	347.0	211.4	64.1	359.6	-3.5
EBITDA	**33.1**	**19.9**	**66.3**	**55.5**	**-40.4**
Other income	2.5	2.1	17.7	1.4	80.3
Interest & other financial cost	15.0	12.3	22.1	13.7	9.1
Depreciation	23.0	18.2	26.3	21.4	7.8
Profit before tax	**-2.4**	**-8.5**	**-71.4**	**21.8**	**-**
Tax	-0.5	-2.8	-82.3	5.4	-
Reported PAT	**-1.9**	**-5.7**	**-66.0**	**16.3**	**-**
Adj. EPS (Rs)	-0.6	-1.6	-66.0	4.7	-
			bps		**bps**
GPM (%)	31.8	34.6	-279	32.5	-72
EBITDA Margin (%)	8.7	8.6	10	13.4	-466
NPM (%)	-0.5	-2.5	195	3.9	-445
Tax rate (%)	20.3	32.8	-	24.9	-464

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Near term outlook bleak; long-term growth prospects intact

With upcoming festive and wedding season in Q3, we expect consumer sentiments to improve in coming months aiding growth of branded apparel & retail companies in the medium to long term, market share gains, higher traction on the e-Commerce platform, a strong retail space expansion strategy and sustained expansion of product portfolio will help branded apparel and retail companies post consistent growth. Better operating leverage, improved efficiencies and an improved mix would help branded apparel & retail companies to post higher margins in the coming years.

■ Company Outlook – Multiple strategies in place to drive growth in medium-long term

A well-defined expansion strategy targeting Tier-II and Tier-III cities (targets to open ~100-120 stores during FY25-26) and management's focus on improving revenue per sq. ft to Rs. 12-13000 per sq. ft. will aid the company to post a 47% revenue CAGR over FY2024-27E. Rising contribution of in-house designing and private labels along with better operating efficiencies will help EBITDA clock a 50% CAGR over FY2024-27E. Strong revenue growth, improvement in profitability and efficient working capital management will drive return ratios, with RoE/RoNW expected to rise to 41%/34% in FY2027E from 11%/10% in FY2024.

■ Valuation – Retain positive view with an unchanged PT of Rs. 1,455

V2R started FY2025 on strong note with an over 30% SSSG in H1FY2025. The company is focusing on becoming one of the key players in the value retail space with strong store expansion plan and consistent improvement in the same-store-sales in the coming years. We expect revenues and EBIDTA to grow at CAGR of 47% and 50% over FY2024-27E. The stock trades at 20x, 13x and 9x its FY2025E, FY2026E and FY2027E EV/EBIDTA, respectively. We stay Positive on the stock and maintain price target at Rs. 1,455.

Peer Comparison

Companies	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
ABFRL	-	-	-	27.5	20.4	16.0	0.3	1.3	1.8
Trent	-	-	90.7	-	74.5	55.7	24.5	40.0	44.2
V2 Retail	-	54.9	24.6	32.2	20.3	12.7	10.5	17.5	27.7

Source: Company; Sharekhan estimates

About the company

V2R is one of the fastest growing retail companies in India and enjoys strong brand equity from customers across segments. The company's product portfolio is comprised of two broad categories of apparels, which constitutes ~90% of total business and lifestyle products, which contribute ~10% to total business. It primarily operates in Tier-2 and -3 cities, with a chain of 'V2 Retail' stores. The company has a strong presence in North and East India and caters to the neo middle class and middle class group of population. At Q2FY2025-end, the company's store network comprised of 139 stores spread across 18 states and ~100 cities with a total retail area of ~14.82 lakh sq. ft.

Investment theme

V2R is one of the fastest growing retail companies in India and enjoys strong brand equity from customers across segments. Management's focus on improving revenue per sq. ft to Rs. 15,000 per sq. ft. and aggressive store additions would aid the company to post 47% revenue CAGR over FY2024-27E. Rising contribution of in-house designing and private labels along with better operating efficiencies will aid in ~100 bps expansion in EBITDA margin over FY2024-27E. Improved operating performance, a lean balance sheet and strategies in place to drive consistent growth make it a strong play in the retail space.

Key Risks

- Slowdown in discretionary demand or increased competition from new players in the branded space would act as a key risk to earnings estimates.
- Volatility in key raw-material prices such as cotton can affect the company's profitability.

Additional Data

Key management personnel

Ram Chandra Agarwal	Chairman & Managing Director
Manshu Tandon	Chief Executive Officer
Pratik Adukia	Chief Financial Officer
Shivam Aggarwal	Company Secretary & Compliance Officer

Source: Company Website

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN: - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office Address - Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

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Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

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