

Q2FY25 Result Update

V2 Retail

Store expansion target upgraded; re-rating to continue

- V2 Retail (VREL) posted a 64% YoY growth in revenue to INR380cr (est. INR375cr) on the back of strong (34%) SSSG and footprint expansion.
- The company added 12 stores (net) in Q2FY25. On a YoY basis, volume grew 43%, ASP rose 15% to INR269, and total area grew 35% to 14.8lk sq. ft.
- Revenue/sq. ft. grew 30% YoY to INR10,848 (annualised) on healthy SSSG. Gross margin contracted by 80bp YoY to 27.3% due to sale of slow-moving inventory at a discount.
- EBITDA rose 66% YoY to INR33cr (est. INR40cr). Employee expenses were higher than expected on the back of an aggressive line-up of new stores in H2FY25. Pre-IND AS operating margin expanded by 190bp YoY to 2%, despite a contraction in gross margin, on positive operating leverage led by a pick-up in store throughput.
- Net loss contracted to -INR2cr on higher EBITDA versus our PAT estimate of INR2cr.
- We reaffirm 'BUY' with a revised TP of INR1,800 (from INR1,754 earlier), based on 18x FY26E EV/EBITDA which is at a discount to its peers.

Store additions aggressive, to gather pace further

VREL added 22 stores (net) in H1FY25. Due to a strong pickup in its newly added stores, the management aims to open 40 stores in H2FY25 as against our earlier estimate of 20–25. All operational stores are profitable at the EBITDA level which bodes well for the company. Volume grew 49% in Q2FY25 on aggressive store additions and sale of inventory at lower prices vis-à-vis its peers. Total area at the end of Q2FY25 grew 53% YoY to 14.8lk sq. ft. We are raising our FY25 store addition target to 55 from 50 earlier. The management expects a SSSG of 20% in FY25. We are confident it will achieve this target led by a strong festive and wedding season, along with timely arrival of winter. We expect 50% revenue CAGR over FY24–26 on the back of an aggressive push towards store additions and higher throughput.

Higher revenue/sq. ft. leads to positive operating leverage

SSSG stood at 36% in H1FY25, way above the management's expectations. It expects throughput to improve on greater footfalls which are the result of multiple factors like: i) increase in the rack size of displays (higher density on the store floor), ii) strict focus on SOPs, and iii) utilisation of distribution centres which is absent in other value retailers. It is targeting a revenue/sq. ft. of INR15,000 in the long term. Revenue/sq. ft., at 20–25%, is higher than its peers. VREL's strategy of selling inventory at lower prices is yielding results. Despite this, full price sell-through stood at 91% versus 85% in H1FY24. Higher throughput is leading to an expansion in operating margin despite a contraction in gross margin. Though contribution from private labels has risen to over 80%, the management plans to take it to 100% in the medium term which will lead to better brand recognition. We expect pre-IND AS margin to expand to 7%/8% over FY25/FY26 (from 5.9% in FY24) which can result in 110% PAT CAGR over FY24–26. VREL aspires to be operating at 10% pre-IND AS margin over the next three years.

Valuation and view

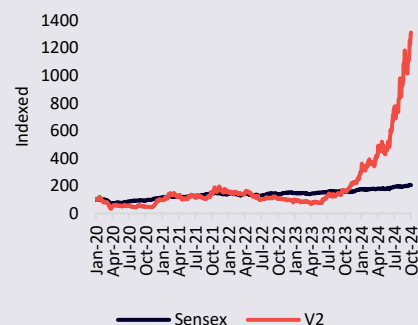
VREL's sales have a potential to grow at CAGR over the next three-to-four years which can result in margin expansion and improved store metrics. It plans to maintain RoE at 20%+. Drivers such as new store expansion and higher revenue/sq. ft. can lead to a healthy growth in revenue and EBITDA. Given the upgrade to its store addition targets and higher-than-expected SSSG, we raise our FY26 revenue/EBITDA/PAT estimate by 2%/3%/4%. As peers such as V-Mart Retail and Zudio have over 500 stores each, we believe VREL can achieve healthy growth rates over a longer period. There is a long term opportunity of operating 3000-4000 value retail stores in India according to the management. **With aggressive and profitable growth, we reaffirm 'BUY' with a revised TP of INR1,800 (from INR1,754 earlier) based on 18x FY26 EV/EBITDA, which is still at discount to its peers. The company should continue to re-rate in upcoming quarters.**

Key financials

Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	FY23	FY24	FY25E	FY26E
Net sales (INR cr)	380	231	64.3	415	(8.4)	839	1,165	1,749	2,618
Gross profit (INR cr)	104	65	59.8	120	(13.6)	253	346	481	720
Gross margin (%)	27.3	28.1	(76bp)	29	(165bp)	30.2	29.7	27.5	27.5
EBITDA (INR cr)	33	20	66.3	55	(40.4)	84	148	241	389
EBITDA margin (%)	8.7	8.6	10bp	13.4	(466bp)	10.0	12.7	13.8	14.9
PAT (INR cr)	(2)	(6)	(66.2)	16	(111.8)	(13)	28	61	122
EV/EBITDA ratio (x)						9	32	21	13
P/E ratio (x)						na	153	70	35

CMP: INR1,226
Rating: BUY
Target price: INR1,800
Upside: 47%
 Date: October 25, 2024

Bloomberg:	VISH:IN
52-week range (INR):	124/936
M-cap (INR cr):	3,239
Promoter holding (%)	54.30



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Store expansion target upgraded; re-rating to continue

Q2FY25 result highlights

Particulars (INR cr)	Q2FY25	Q2FY24	% YoY	Q1FY25	% QoQ	FY23	FY24	FY25E	FY26E
Income from operations	380	231	64	415	-8	839	1,165	1,749	2,618
Gross Profit	104	65	60	120	-14	253	346	481	720
Gross margins %	27.3	28.1	-76bp	29.0	-165bp	30.2	29.7	27.5	27.5
Employee expenses	39	23	68	36	10	89	105	133	177
Other expenses	32	22	18.5	29	9	81	93	107	154
EBITDA	33	20	66	55	-40	84	148	241	389
EBITDA margins %	8.7	8.6	10bp	13.4	-466bp	10.0	12.7	13.8	14.9
Depreciation	23	18	26	21	8	67	77	106	151
Interest expenses	15	12	22	14	9	41	47	64	88
Other income	3	2	18	1	80	7	7	9	11
Profit before tax	-2	-8	-71	22	NA	-17	31	81	162
Profit after tax	-2	-6	NA	NA	NA	-13	28	61	121
Extraordinary items	-	-	NA	-	NA	-13	28	61	121
Adjusted net profit	-2	-6	-66	NA	-112	-13	28	61	121

Revised estimates

(INR cr)	FY25E			FY26E		
	Old	Revised	Change (%)	Old	Revised	Change (%)
Net sales	1,728	1,749	1.2	2,568	2,618	1.9
Other income	9	9		11	11	
Total income	1,737	1,758		2,579	2,629	
EBITDA	238	241	1.1	378	389	2.9
EBITDA margin (%)	13.8	13.8		14.7	14.9	
PBT	83	81	(2.6)	158	163	3.4
PBT margin	4.8	4.6		6.2	6.2	
Net profit	62	61	(2.4)	118	122	3.7
EPS (INR)	18.1	17.6	(2.6)	34.3	35.5	3.6
Adjusted EPS (INR)	18.1	17.6	(2.6)	34.3	35.5	3.6

Store expansion target upgraded; re-rating to continue

Financials in charts

Exhibit 1: Revenue trend (INR cr)

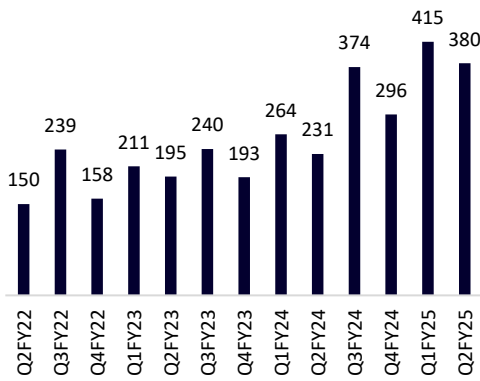


Exhibit 2: Store additions gather pace

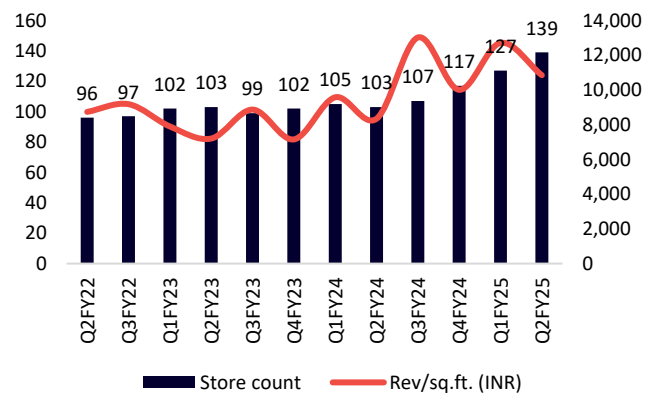


Exhibit 3: Strong SSSG print continues

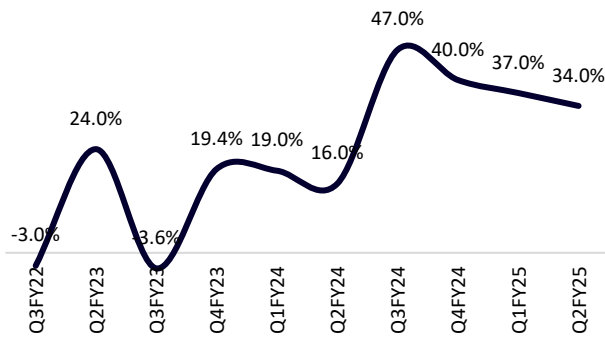


Exhibit 4: Sharp focus on margin expansion

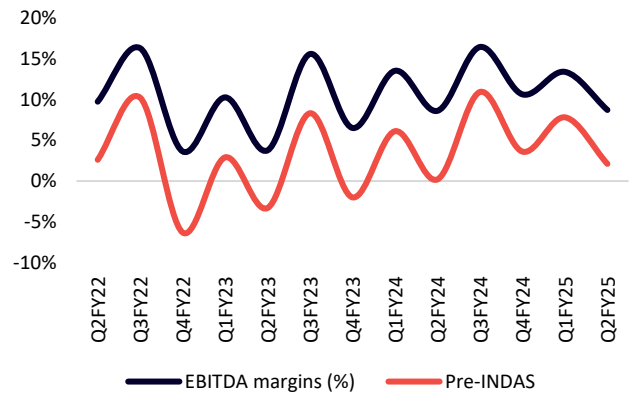


Exhibit 5: Maintains ASP and volume growth

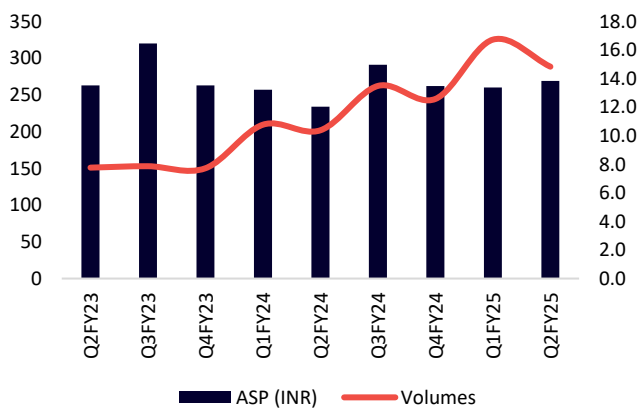
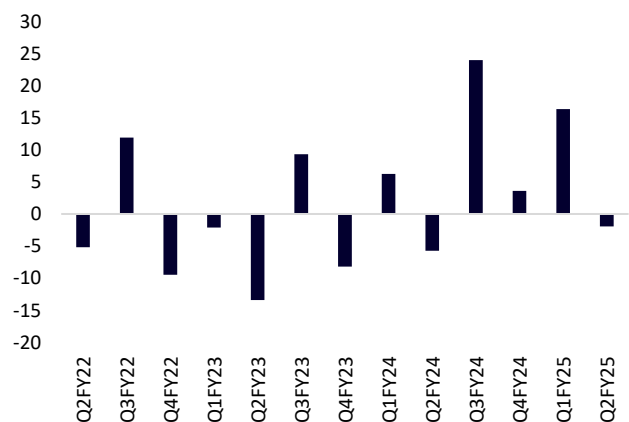


Exhibit 6: Losses (INR cr) contract



Source: Nuvama Wealth Research

Store expansion target upgraded; re-rating to continue

Exhibit 7: Healthy revenue growth...

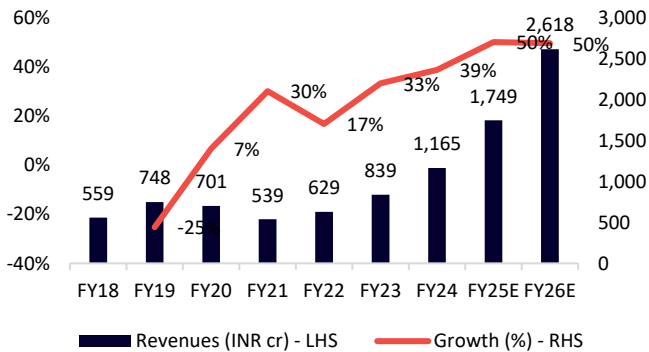


Exhibit 8: ...aided by aggressive store additions

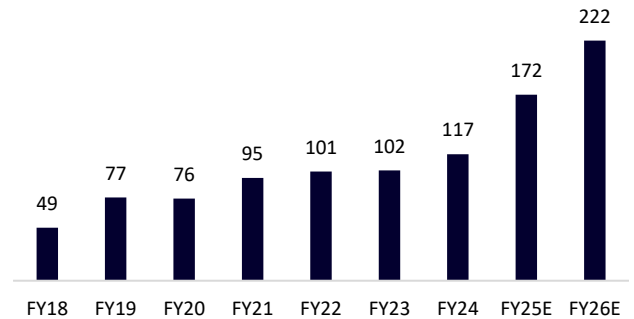


Exhibit 9: SSSG healthy despite coming off a high base...

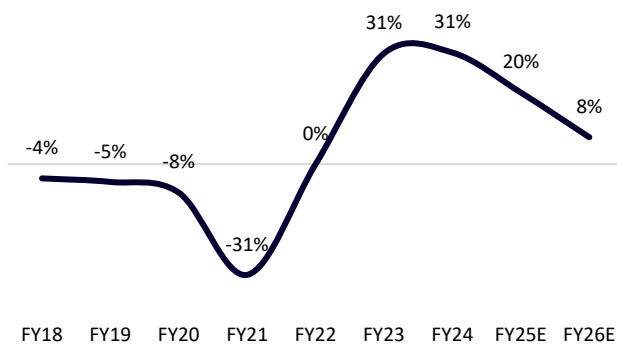


Exhibit 10: ...led to a strong recovery in revenue/sq. ft. (INR)

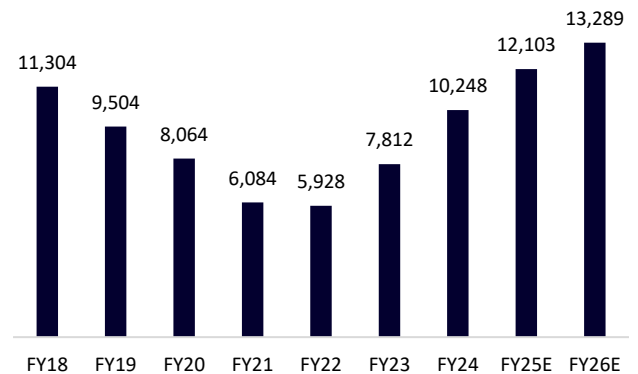


Exhibit 11: Expect EBITDA margin expansion in coming years

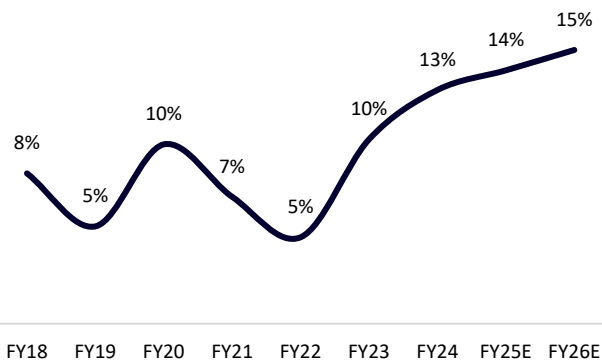
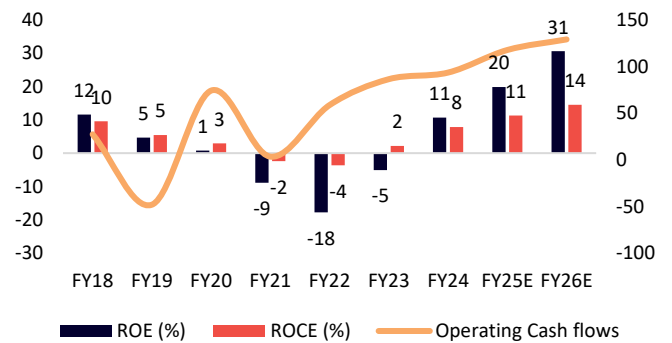


Exhibit 12: Healthy expansion in return ratios and operating cash flows



Source: Nuvama Wealth Research

Store expansion target upgraded; re-rating to continue

Previous outlook

Q4FY24: VREL has turned around its business with a healthy growth in revenue and EBITDA in FY24. Drivers such as new stores and a hearty increase in revenue/sq. ft. can lead to a robust growth in revenue and EBITDA. RoE expansion to over 20% in FY26E from an adverse 4% can trigger a valuation re-rating. The scope for expansion 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 VMART and TRENT have over 500 stores each, we feel it can achieve superior growth rates over a longer period. We reaffirm 'BUY' with a revised TP of INR841 (from INR817 earlier).

Q1FY25: VREL is targeting 30–40% sales CAGR over the next three-to-four years which can result in margin expansion and improved store metrics. It plans to maintain RoE at 20%. Drivers such as new store expansion and higher revenue/sq. ft. can lead to a healthy growth in revenue and EBITDA. Given the upgrade to its store addition targets and higher-than-expected SSSG, we raise our FY26 revenue/EBITDA/PAT estimate by 15%/20%/28%. As peers such as V-Mart Retail and Zudio have over 500 stores each, we believe VREL can achieve healthy growth rates over a longer period. With aggressive and profitable growth, we upgrade our target multiple to 15x FY26 EV/EBITDA (from 12x earlier) and reaffirm 'BUY' with a revised TP of INR1,352 (from INR841 earlier), which implies a FY26 P/E ratio of 40x.



Store expansion target upgraded; re-rating to continue

Financials

Income Statement

(INR cr)	FY22	FY23	FY24	FY25E	FY26E
Income from operations	629	839	1,165	1,749	2,618
Direct cost	438	586	819	1,268	1,898
Employee cost	63	89	105	133	177
Other expenses	99	81	93	107	154
Total operating expenses	600	755	1,017	1,508	2,229
EBITDA	30	84	148	241	389
Depreciation and amortisation	59	67	77	106	151
EBIT	-29	17	71	135	239
Interest expenses	37	41	47	64	88
Other income	16	7	7	9	11
Profit before tax	-50	-17	31	81	162
Provision for tax	-3	-4	4	20	41
Core profit	-47	-13	28	61	121
Minority interest	0	0	0	0	0
Profit after tax	-47	-13	28	61	121
Extraordinary items and share of profit from associates	0	0	0	0	0
Reported net profit	-47	-13	28	61	121
Adjusted net profit	-47	-13	28	61	121
Equity shares outstanding (cr)	3.4	3.4	3.5	3.5	3.5
Basic EPS (INR)	(13.6)	(3.7)	8.0	17.5	35.0
Diluted shares (cr)	3.4	3.4	3.5	3.5	3.5
Fully diluted EPS (adjusted)	(13.6)	(3.7)	8.0	17.5	35.0
Dividend per share	0.0	5.8	0.0	0.0	0.0
Dividend payout (%)	0%	-154%	0%	0%	0%

Common size metrics as a percentage of net revenue

Year to March	FY22	FY23	FY24	FY25E	FY26E
Operating expenses	95.3	90.0	87.3	86.2	85.1
Depreciation	9.3	8.0	6.6	6.0	5.7
Interest expenditure	5.8	4.8	4.1	3.6	3.4
EBITDA margin	4.7	10.0	12.7	13.8	14.9
Net profit margin	(7.4)	(1.5)	2.4	3.5	4.6

Growth metrics (%)

Year to March	FY22	FY23	FY24	FY25E	FY26E
Revenue	16.8	33.3	38.8	50.2	49.7
EBITDA	(20.4)	184.3	76.0	62.8	61.7
PBT	86.9	(66.1)	(285.1)	157.7	100.1
Net profit	92.7	(72.6)	(317.0)	117.5	100.3
EPS	91.1	(72.6)	(315.7)	117.5	100.3

Store expansion target upgraded; re-rating to continue

Balance Sheet

(INR cr)	FY22	FY23	FY24	FY25E	FY26E
Equity share capital	34	34	35	35	35
Reserves and surplus	224	213	240	301	423
Shareholders' funds	258	247	275	336	457
Secured loans	6	7	17	67	97
Unsecured loans	49	46	74	74	94
Borrowings	55	54	91	141	191
Net debt	47	49	81	127	185
Minority interest	0	0	0	0	0
Other liabilities	313	335	395	569	792
Sources of funds	626	636	761	1,045	1,441
Gross block	103	99	116	264	379
Depreciation	0	0	0	41	72
Net block	103	99	116	223	307
Capital work in progress	0	0	0	0	0
Total fixed assets	103	99	116	223	308
Other non-current assets	346	369	424	596	818
Investments					
Inventories	291	279	419	479	717
Sundry debtors	1	0	0	0	0
Cash and equivalents	7	5	10	13	6
Other current assets	43	43	58	58	58
Total current assets	343	327	486	550	781
Sundry creditors and others	164	156	263	319	470
Provisions	2	2	3	5	15
Total current liabilities and provisions	166	159	267	324	485
Net current assets	176	168	220	226	295
Uses of funds	626	636	761	1,045	1,421
Book value per share (INR)	75	72	79	97	132

Cash Flow Statement

(INR cr)

Year to March	FY22	FY23	FY24	FY25E	FY26E
EBIT	-15	-17	71	135	239
Add: Depreciation	59	67	77	106	151
Add: Others	31	45	59	60	84
Gross cash flow	75	95	207	301	473
Less: Changes in working capital	16	8	74	43	147
Operating cash flow	59	86	133	258	326
Less: Capex	17	13	41	127	115
Free cash flow	42	73	91	131	211

Store expansion target upgraded; re-rating to continue

Ratios

Year to March	FY22	FY23	FY24	FY25E	FY26E
RoE (%)	(17.8)	(5.1)	10.7	19.8	30.6
RoCE (%)	(4.6)	2.7	7.8	11.3	14.5
Debtor days	1	0	0	0	0
Current ratio	2.1	2.1	1.8	1.7	1.6
Debt/equity ratio	0.2	0.2	0.3	0.4	0.4
Inventory days	169	121	115	100	100
Payable days	69	47	47	47	47
Cash conversion cycle (days)	100	75	68	53	53
Debt/EBITDA ratio	1.8	0.6	0.6	0.6	0.5
Adjusted debt/equity ratio	0.2	0.2	0.3	0.4	0.4

Valuation parameters

Year to March	FY22	FY23	FY24	FY25E	FY26E
Diluted EPS (INR)	(13.6)	(3.7)	8.0	17.5	35.0
CEPS (INR)	3.5	15.8	30.2	48.0	78.6
Diluted P/E ratio (x)	0.0	0.0	152.5	70.1	35.0
Price/BV ratio (x)	0.0	0.0	15.4	12.6	9.3
EV/sales ratio (x)	1.5	0.9	4.0	2.8	2.0
EV/EBITDA ratio (x)	31.1	8.8	31.9	20.5	13.4
Diluted shares outstanding	3.4	3.4	3.5	3.5	3.5
Basic EPS	(13.6)	(3.7)	8.0	17.5	35.0
Basic P/E ratio (x)	0.0	0.0	152.5	70.1	35.0

Store expansion target upgraded; re-rating to continue

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