

Dear Member,

We are pleased to inform you that Value Pick of June 2018 is released by our team today on 29th July 2018. Value Pick stock of the month is V2 Retail Ltd (**BSE Code: 532867, NSE Code: V2RETAIL**). V2 Retail has a market capital of Rs. 1470 crores and operates in retail industry.

1. Company Background:

V2 Retail is one of the fastest growing retail company in India. The company offers a portfolio of products, including apparel and non-apparel. V2 Retail Ltd., which stands for 'Value and Variety', sells good quality fashion garments at prices significantly lower than other clothing brands. Currently, V2 Retail has 66 retail stores which are between 3,500 to 25,000 sq feet in size. The company has these 66 operational stores across 16 states with strong presence in northern and eastern India.

V2 Retail offers fashion at affordable prices which suits every individual and household. The stores cater to the major chunk of our population and have more than 70,000 products which fulfills all household needs. The benefit derived from centralised procurement system in the form of reduced costs is passed down the value chain to the consumer.

Mr. Ram Chandra Agarwal, Promoter of the company had set up his first Vishal Garments store in Kolkata in 1994. In 2001 he had moved to Delhi to launch Vishal Retail, taking it public in June 2007 to raise Rs. 110 crore. Ram Chandra Agarwal got carried away by his success. In a desperate bid to cash in on the popularity of Vishal Retail and rake in big bucks during the stock market boom of 2007, he borrowed heavily to set up facilities. The company came out with an IPO in 2007 at price of Rs.270 per share which oversubscribed by a whopping 81 times and hits a high of Rs.1001 in 2008. Unfortunately, the Lehman crises happened in 2008 and the stock markets went into a tailspin.

Vishal Retail went into insolvency because it could not repay its creditors and Ram Chandra Agarwal was back where he started. Company sold its old business to TPG and Sriram Group in 2011 for Rs.70 crores (liabilities to the extent of Rs. 823.20 crores and assets of Rs. 393.78 crores transferred in this deal), Ram Chandra Agarwal lost everything he had built over 24 years. With the little corpus left after paying back major portion of debt and his personal savings, Ram Chandra Agarwal restarted the same business with some differences and with lot of precautions to avoid his earlier mistakes. He changed the name of his company from Vishal Retail to V2 Retail.

Even after losing entire Vishal Retail business, Ram Chandra Agarwal did not give up. Instead, he restarted the retail business from scratch in the name of V2 Retail ensuring

that he does not repeat the mistakes he made in Vishal Retail and calibrated high progress in a slow and steady manner to build V2 Retail.

Mr. Ram Chandra Agarwal holds a bachelor's degree in Commerce. He has more than 25 years of entrepreneurial and business experience. He has been a member of the Board of Directors since inception. He provides strategic direction to the company and is the driving force behind the establishment and growth of the company.

Mr. Akash Agarwal is a Commerce Graduate. He has more than 5 years of experience in the Retail industry. He is the son of Mr. Ram Agarwal and Mrs. Uma Agarwal.

2. Recent Developments:

i) V2 Retail aims to have 100 outlets by March 2019 – July 2018

V2 Retail has chalked out aggressive retail expansion plan, aiming to double its store presence and take it upto 100 stores by the end of next fiscal. As on date, the company has already opened 66 stores and plans to open the next 34 stores by end of March 2019. Currently, the stores are spread across 17 states and 60 cities.

With the total retail area spread across 1.1 million square feet, the company expects to generate a revenue of Rs 900 crore in FY19. For FY18, it achieved a growth of 18.5 per cent in its top-line at Rs. 559 crore.

ii) Private Equity firm Lighthouse invests Rs. 76 crore in V2 Retail – Oct 2017

Lighthouse, a middle market private equity firm focused on growth investments in India's consumer sector invested Rs 76 crore in V2 Retail Ltd. The investment will be used to accelerate V2 Retail's store expansion plans.

Lighthouse Advisors believe that the next few years will be transformational for V2 Retail. India has added more than 400 million consumers into the middle-income bucket over the past 15 years. It is this bucket which is driving consumerism in India and V2 Retail is well positioned to cater to this aspiration which presents a strong tailwind for growth.

V2 Retail plans to further penetrate in its core markets, such as Bihar and Uttar Pradesh, due to large number of high potential Tier II and III cities, which remain significantly underpenetrated in terms of organized retail.

3. Financial Performance:

V2 Retail reports net profit of Rs 3.74 crore in the March 2018 quarter

Net profit of V2 Retail reported to Rs 3.74 crore in the quarter ended March 2018 as against net loss of Rs 0.98 crore during the previous quarter ended March 2017. Sales rose 17.87% to Rs 126.58 crore in the quarter ended March 2018 as against Rs 107.39 crore during the previous quarter ended March 2017.

For the full year, net profit declined 20.37% to Rs 31.08 crore in the year ended March 2018 as against Rs 39.03 crore during the previous year ended March 2017. Sales rose 18.50% to Rs 559.40 crore in the year ended March 2018 as against Rs 472.05 crore during the previous year ended March 2017.

V2 Retail standalone net profit declines 59.84% in the Dec 2017 quarter

Net profit of V2 Retail declined 59.84% to Rs 13.67 crore in the quarter ended Dec 2017 as against Rs 34.04 crore during the previous quarter ended Dec 2016. Sales declined 0.30% to Rs 152.35 crore in the quarter ended Dec 2017 as against Rs 152.81 crore during the previous quarter ended Dec 2016.

4. Investment Rationale:

i) India is expected to become the world's third-largest consumer economy, reaching US\$ 400 billion in consumption by 2025, according to a study by Boston Consulting Group. India is ranked first in the Global Retail Development Index 2017, backed by rising middle class and rapidly growing consumer spending. India's huge population with large proportion of young, increasingly brand-and fashion-conscious population, high potential growth in consumer expenditure, growing middle class are some of the factors due to which the macro trends for the sector looks favorable. Further, organised retails penetration in India's total retail is on increase. Organized retail whose share in total retail was 8% in 2012 is expected to have 24% share of total retail market in India in 2020.

ii) Of the total Indian retail market, 8% constitutes the organized retail segment which is estimated to grow at a rate of almost 30% by 2020, at a much faster pace than the overall retail market which is forecast to grow by 16% in the same period. Clothing & Apparel make up almost a third of the organized retail segment, followed by Food & Grocery and Consumer Electronics. India has one of the largest numbers of retail outlets in the world. The sector is witnessing strong growth, with retail development taking place not only in major cities and metros, but also in Tier-II and Tier-III cities.

iii) V2 Retail has paid its debt despite incurring capex in last few years, the company paid all of its debt in FY18 and is now a debt-free company. The company raised new capital of Rs. 76 crores in FY18 from PE fund Lighthouse. This resulted in issuance of 20 lakh new shares at Rs. 380 per share with equity dilution of 6.1%. The funds raised would be used for store expansion, company plans to open 100 stores by end of this fiscal year.

iv) V2 Retail is going through aggressive expansion plan and has opened 12 stores during last 2 months and now has presence in 17 states with total 66 stores. During last 2 months, the company has opened one store at Kota (Rajasthan), one at Jammu (J&K), one at Farrukhabad & one at Lucknow (Uttar Pradesh), one at Saharsa, one at Lakhisarai & one at Samastipur (Bihar), one at Belgaum (Karnataka), two at Bhubaneswar (Odisha), one at Udupi (Karnataka) and one at Khatima (Uttarkhand).

v) We believe that overall competition in retail apparel business will continue to rise. However, there is enough room for growth for company like V2 retail mainly on account of increasing preference of customers for organised retail, value for money proposition and rising per capita income. We expect V2 Retail to increase its revenue at a CAGR above 45% over next 2 years led by doubling of store count by end of this financial year.

vi) V2 Retail has an edge over local stores as it enhances the overall shopping experience apart from offering a range of products at different price points. The company is expected to continue stringent control on costs to tackle competition. The management has given guidance of achieving an operating margin of 10% during this financial year and aims to improve it to 11% over next 2 years.

vii) V2 Retail being a turnaround company has registered sales CAGR of 29.3% during last 3 years with ROE of 4.5%. As on June 2018, promoter's shareholding in the company is at 51.14% out of which 71.04% shares are pledged. We do not see this as a major concern considering the fact that the company has successfully restructured its business and reduced pledged shares percentage from 96.61% in Dec'14 to 71.04% in Jun'18. Institution shareholding in the company is at 10.95%.

viii) As per our estimates, V2 Retail can deliver PAT of 71.6 crores for full financial year 2019-20 with annualized EPS of Rs. 21.1. At current price of Rs. 431.45, stock is available at forward P/E multiple of 20.4X based on FY19-20 earnings which makes it attractively valued compared to other retail players in the Industry.

5. Key Concerns & Risks:

i) With the entry of big players in retail Industry due to the permissible 100% FDI in Single Brand Retailing and 51% in multi brand retailing, the competition will become intense. Increase in competition is expected to alter the dynamics of business and further sustaining/ acquiring space and manpower resources.

ii) The Company strategy is to increase the number of departmental stores, and increase its market share in existing Tier II and Tier III cities through additional new stores in those cities. However, any economic slowdown may affect the direct consumption which may impact the revenue growth of the company.

6. Saral Gyan Recommendation:

India's demographics in terms of its young population with 65% of population below the age of 35 years, increasing urbanization and rising incomes will act as a major catalyst for the growth of organized retail going ahead. Moreover, the pace of shift from unorganised to organised is also picking up due to increasing preference for brands by retail customer.

Considering the company's aggressive expansion plan with strong revenue growth visibility over 2 years, increasing preference of branded clothing in young middle class population living in smaller town and cities and reasonable valuations of the company compared to other retail players in the Industry, Saral Gyan team recommends "Buy" on V2 Retail Ltd at current market price of Rs. 431.45 for target of 680 over a period of 12 to 24 months.

Buying Strategy:

- 70% at current market price of 431.45
- 30% at price range of 320 – 350 (in case of correction in stock price in near term)

Portfolio Allocation: 4% of your equity portfolio.

Regards,

Team – Saral Gyan,
Saral Gyan Capital Services.

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- a. Buy recommendation: This means that the investor could consider buying the concerned stock at current market price keeping in mind the tenure and objective of the recommendation service.
- b. Hold recommendation: This means that the investor could consider holding on to the shares of the company until further update and not buy more of the stock at current market price.
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