V2 Retail Limited

Date: December 21, 2021

To,

National Stock Exchange of India Limited	BSE Limited
Exchange Plaza, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra(East), Mumbai-400051	25th floor, Phiroze Jeejeebhoy Tower, Dalal Street, Mumbai-400001
NSE Code- V2RETAIL	**BSE Code**-532867

Sub: Intimation of Revision in Credit Rating under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015

Dear Sir/Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, please find below the details of revision in rating of V2 Retail Limited :

Credit Rating Agency	Type of Rating	Previous Rating	Revised Rating
ICRA Limited	Rating of Fund Based – Working Capital Facilities (Cash Credit) amounting to Rs. 50 Crores	[ICRA] A – (Stable)	[ICRA] BBB+ (Stable)

The report from the credit rating agency covering the rationale for revision in credit rating is enclosed herewith.

Kindly take the above information on record.

Thanking you,

Yours truly,
For V2 Retail Limited

Sudhir Kumar
Company Secretary & Compliance Officer

Encl: As above

Khasra No. 919,921,926,928, Extended Lal Dora Abadi Village Kapashera Teshil Vasant Vihar,
South West Delhi -110037 Land Mark:- Fun N Food Village Amusement Park • Tel.: 011-41771850
• E-mail : customercare@vrl.net.in, cs@vrl.net.in • Website: www.v2retail.com • CIN : L74999DL2001PLC147724

December 20, 2021

V2 Retail Limited: Rating downgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Working Capital Facilities (Cash Credit)	50.00	50.00	[ICRA]BBB+ (Stable); Downgraded from [ICRA]A- (Stable)
Total	**50.00**	**50.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating downgrade factors in the weaker-than-expected improvement in the performance of V2 Retail Limited (VRL) following the pandemic impact last year, amid incremental waves and sustained pressures on discretionary consumer spends during the current fiscal. While lockdown restrictions were less stringent and for a lesser duration this year compared to previous year, higher impact of the second wave seen on the company's target markets (tier-II/ III cities) impacted its sales and profits in H1 FY2022, resulting in a weaker than anticipated recovery trajectory. Together with inventory buildup at the stores, this resulted in a moderation in the company's liquidity profile, increased reliance on working capital borrowings and deterioration in its coverage metrics. However, ICRA notes that the company's performance continues to recover and is likely to be materially better in H2 FY2022 than H1 FY2022, with easing of mobility restrictions facilitating demand recovery. It is also noted that the consistently high working capital utilisation in recent months, despite funds getting released from working capital with increased sales, is partly attributable to company's focus on making faster payments to creditors to avail cash discounts. Having said that, company's ability to enhance and maintain a healthy liquidity cushion will remain a crucial determinant of its credit profile.

Further, ratings continue to draw comfort from the company's position as an established value retailer in the country and the extensive experience of its promoters in the retail sector. Operationally, the company benefits from a healthy share of private label sales backed by backward integration, its wide geographic presence, and established relationships with a wide and diversified vendor base that optimises its cost structure.

The Stable outlook reflects ICRA's expectation that the continued recovery in sales would support an improvement in VRL's profitability and working capital cycle, which would help it achieve an improvement in its credit metrics and liquidity profile. Further, the steps being taken by the company to enhance its working capital facilities and tie up fresh loans are also expected to shore up its liquidity profile.

Key rating drivers and their description

Credit strengths

Established value retail player in India with presence in tier-II and III cities; extensive track record of promoters in retail industry - VRL is an established player in the value retailing segment in India with its stores located primarily in tier-II and III cities that offer healthy potential for growth. The company is promoted by Mr. Ram Chandra Agarwal who established 'Vishal Megamart' in 2001. The promoter's vast experience in India's retail sector, especially in the value segment of small town India, remains a credit positive. Over the past five years, the company has expanded its retail footprint to 96 stores across 84 cities, primarily in Uttar Pradesh, Bihar and Odisha, with revenues growing at a CAGR of 22%. Over the next three years, the company aims to expand its store network by penetrating further into its core markets.

Business profile characterised by healthy share of private label sales, backward integration and competitive cost structure – Over the years, the revenue share of private labels for the company has increased from 2% in FY2016 to 34% in FY2021. In 2019, the company established its in-house capacity for manufacturing its private label apparels under a wholly-owned subsidiary to achieve better cost control and quality.

Geographically diversified store presence; scaling through cluster-based approach and omni channel strategy - With approximately 96 stores spread across 84 Indian cities, VRL benefits from healthy geographic diversity. In FY2021, the company generated ~55% of its revenue from the East zone, ~27% from the North and ~18% from the South. The company's total retail footprint is also adequately spread across the three regions; although with major concentration in Uttar Pradesh, Odisha and Bihar where ~42% of its total stores are located due to a higher number of tier-II and III towns. With a changing industry landscape, the company has also tied up with prominent e-commerce players, such as Amazon and Myntra, along with the launch of its own e-commerce portal—V2kart—to diversify its sales channel.

Conservative capital structure - Over the years, the company has funded its expansion largely through promoter funds and internal cash accruals resulting in a low leverage. As of March 31, 2021, the borrowings on the company's balance sheet primarily comprised working capital loans of Rs. 49 crore with long-term debt of only Rs. 4.1 crore. As a result, the company's gearing (Total Debt/ Tangible Net Worth, adjusted for IndAS 116[1]) stood comfortable at 0.2x as on March 31, 2021 and September 20, 2021.

Credit challenges

Weak operating performance in past two years; lockdowns due to ongoing pandemic significantly impacted operations – In line with other apparel retail companies, VRL's performance has been adversely affected by the pandemic over the past two years. While on the one hand, the associated lockdowns curtailed operations; on the other hand, consumer scepticism to step out affected footfalls while the economic slowdown affected discretionary consumer spending. As a result, VRL's average sales per sq. ft. declined to Rs. 507 in FY2021 from Rs. 672 in FY2020. This followed a declining trend witnessed in previous years as well owing to increased competition from new entrants in the value retail segment and subdued consumption demand. As a result, the company's operating margins (adjusted for the impact of IndAS 116) have consistently declined over the past three fiscal years. Adjusted OPBITDA margin[2] in FY2021 stood at 1.4%, compared to 3.8% in FY2020, 6.4% in FY2019 and 9.4% in FY2018. Further, amid the continuing pandemic led disruptions, the company reported operating losses (adjusted for IndAS 116) in H1 FY2022 as well.

High working capital intensity of retail business – VRL's operations are characterised by high working capital intensity primarily because of its need to maintain inventory at stores as well as warehouses. Further, owing to slower than anticipated sales and lockdown-led deferment of plans to open new stores, for which inventory had been built up, the company's NWC/OI went up from 18% in FY2020 to 37% in FY2021, and further to 44% in H1 FY2022. It is noted that the mid-year increase in inventory is partly driven by the need to build fresh seasonal stocks in stores prior to the festive and autumn/ winter season. Accordingly, pick up in sales together with seasonal run down of inventory is expected to bring down NWC/OI to some extent by the end of the current fiscal.

Significant moderation in coverage metrics and liquidity profile, owing to reduced profits and increased working capital intensity– Pressures on sales and profitability together with increased working capital intensity have resulted in a significant moderation in the company's liquidity profile and increased its reliance on working capital borrowings, with utilisation of fund-based limits averaging ~94% in five months up to November 2021. This, in turn, has also affected the company's coverage metrics, as reflected in an adjusted interest cover of 6.3x in FY2021 compared to 14.0x in FY2020.

[1] *After excluding lease liabilities*

[2] *Adjusted for the impact of IND AS 116*

Exposure to intense competition and cyclicity in retail sector - The company faces stiff competition from numerous players in the unorganised segment along with competition from various organised players in the offline as well as online segments. Additionally, the demand for VRL's products is dependent upon the prospects of the rural economy as well as small cities and towns, with the agri economy and the monsoons playing a critical role in its sales.

Liquidity position: Stretched

VRL's liquidity profile is stretched, with fund-based working capital limit utilisation remaining consistently high in the current fiscal, averaging at ~94% in the past five months (up to November 2021), with the cushion averaging at ~Rs. 3 crore (~Rs. 10 crore including free cash and bank balances). While a minimal debt repayment burden, discretionary nature of the capex and a healthy cushion available in drawing power provide comfort, timely enhancement of the company's working capital limits remains crucial to ease the liquidity situation. In this context, ICRA notes the company's plan to avail GECL loan/ enhancement in limits, which should help it maintain a comfortable liquidity profile going forward.

Rating sensitivities

Positive factors – The rating could be upgraded if the company demonstrates a sustained healthy recovery in sales and profitability, along with an improvement in liquidity profile.

Negative factors – Negative pressure on the rating could arise if there is a sustained pressure on revenues and profitability. Additionally, the company's continued inability to improve the liquidity cushion could exert a downward pressure on the rating. Specific metric to include interest cover of less than 3x (adjusted for the impact of IndAS 116) on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Retail Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the consolidated financial profile of the company. As of March 31, 2021, it had only one subsidiary, whose details can be found in Annexure 2.

About the company

V2 Retail Limited, earlier known as Vishal Mega Mart Limited, was incorporated in 2001 by Mr. Ram Chandra Agrawal. The company was a pioneer in creating a value retail chain in India. Vishal Mega Mart offered both apparel and FMCG products from its stores in India's tier-II and III cities and towns. The company expanded across the country at a swift pace and went public in FY2007. However, it faced headwinds and turned loss-making due to multiple reasons. These included an aggressive debt-funded expansion strategy and weak store locations with poor economics, coupled with lack of IT-backed supply chain management, which led to piling of stocks. To overcome financial constraints, the promoters sold their 'Vishal' brand in 2011. Mr. Agarwal restructured the business and introduced the 'V2 Retail Limited' brand when opened its first store at Jamshedpur (Jharkhand) in 2011.

VRL currently operates 96 retail stores, which mainly sell fashion apparel for men, women and children along with lifestyle products from its stores located primarily in India's tier-II and III cities. The company's presence is concentrated in the northern and eastern states of Uttar Pradesh, Bihar, Odisha, Jharkhand and Assam, etc. The company is primarily focused on the value retailing segment in India, catering to mass market consumers. In line with evolving trends in the retail industry, the company is also present on e-commerce platforms; however, revenues from its online sales account for less than 7% of its turnover at present.

Key financial indicators (audited)

Consolidated	FY2020*	FY2021*
Operating Income (Rs. crore)	701	539
PAT (Rs. crore)	19.4	-7.2
OPBDIT/OI (%)	3.8%	1.4%
PAT/OI (%)	2.8%	-1.3%
Total Debt/OPBDIT (times)	1.2	7.3
Interest Coverage (times)	14.0	6.3

Source: VRL's Annual Report

** the numbers have been adjusted for impact of IndAS116 w.r.t adjustments related to lease liabilities*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current Rating (FY2022)				Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated	Amount Outstanding	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Dec 20, 2021	Dec 18, 2020		-
1	Fund based- Working Capital Facilities (Cash Credit)	Long Term	50.00	-	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	-	-

Amount in Rs. crore

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund- based - Working Capital Facilities	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: Click Here

Annexure-1: Instrument details

Bank Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
Punjab National Bank	Fund-based working capital facilities	-	-	-	50.00	[ICRA]BBB+ (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
V2 Smart Manufacturing Private Limited	100%	Full Consolidation

Source: *Company*

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1100
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Nidhi Marwaha
+91 9818 455224
nidhim@icraindia.com

Devanshu Gupta
+91 9818 994824
devanshu.gupta@icraindia.com

RELATIONSHIP CONTACT

Mr. Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91 9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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ICRA Limited

Registered Office

B-710, Statesman House 148, Barakhamba Road New Delhi-110001
Tel: +91 11 23357940-45

Branches