Date: March 03, 2023

To,

National Stock Exchange of India Limited Exchange Plaza, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra(East), Mumbai-400051 **NSE Code-** V2RETAIL	**BSE Limited** 25th floor, Phiroze Jeejeebhoy Tower, Dalal Street, Mumbai-400001 **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] BB+ (Stable) ISSUER NOT COOPERATING	[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
Digitally signed by Sudhir Kumar
Date: 2023.03.03 15:19:18 +05'30'
Sudhir Kumar
Company Secretary & Compliance Officer

Encl: As above

March 02, 2023

V2 Retail Limited: Rating upgraded and removed from 'Issuer Not Cooperating' category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Working Capital Facilities	50.00	50.00	[ICRA]BBB- (Stable); removed from 'Issuer Not Cooperating' category and upgraded from [ICRA]BB+ (Stable)
Total	50.00	50.00	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has upgraded the rating of V2 Retail Limited (VRL) and removed the same from the 'Issuer Not Cooperating' category based on adequate information received from the client for carrying out a detailed credit assessment.

The rating factors in the weaker-than-expected performance of VRL in the current fiscal, led by sustained pressure on its profitability. While VRL's scale of operations improved significantly by 37%, on a YoY basis in 9M FY2023, the company's operating profitability[1] remained low at 2.8% in the same period (1.6% reported in FY2022) and is expected to remain rangebound in the near to medium term, on account of lower gross margins vis-à-vis the pre-Covid levels. Following the pandemic, there was significant inventory build-up at the stores, which had resulted in a moderation in the company's liquidity profile. The company had funded its working capital requirements through higher working capital borrowings, which along with the moderation in profitability led to a deterioration in its coverage metrics in FY2022 and H1 FY2023. However, Q3 FY2023 onwards, led by healthy recovery in sales and liquidation of the built-up inventory, the company's liquidity position improved as corroborated by lower utilisation of working capital facilities. However, sustenance of the same is yet to be seen. Further, given the company's new store addition plans in the upcoming fiscals, its ability to enhance and maintain a healthy liquidity cushion will remain a crucial determinant of its credit profile.

The 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 expectations that V2 Retail will stabilise its operational metrics and report an improvement in performance in the medium term. Further, the absence of any term debt repayment obligations in the upcoming fiscals is expected to keep the coverage indicators adequate and help maintain a stable financial risk profile in the medium term. The company's ability to scale-up its operations in the face of competition, improve operational indicators, efficiently manage its working capital cycle, and maintain a healthy financial profile will remain monitorable.

[1] *ICRA's estimates after adjusting for impact of IndAS116 i.e., adjustments related to lease liabilities*

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 99 stores across 84 cities, primarily in Uttar Pradesh, Bihar and Odisha. 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 had increased to 38% in FY2022 from 2% in FY2016. In 2019, the company established its in-house capacity for manufacturing its private label apparels under a wholly-owned subsidiary, V2 Smart Manufacturing Private Limited, to achieve better cost control and quality. At present, VRL can meet 30% of its apparels requirments captively from its subsidiary.

Geographically diversified store presence; scaling through cluster-based approach and omni channel strategy - With approximately 99 stores spread across 84 Indian cities, VRL benefits from healthy geographic diversity. In FY2022, the company generated ~55% of its revenue from the East zone, ~33% from the North and ~15% 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 due to a higher number of tier-II and III towns in these states. 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; however, the contribution in the recent years from this channel to the company's overall revenues has remained minimal at less than ~1%.

Credit challenges

Weak operating performance and sustained pressure on profitability since last two fiscals – In line with other apparel retail companies, VRL's performance had been adversely affected by the pandemic over the past two fiscals. While on 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. had declined to Rs. 490 in FY2022 from Rs. 672 in FY2020. This followed a declining trend witnessed in the 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 FY2022 stood at 1.8%, compared with 3.8% in FY2020, 6.4% in FY2019 and 9.4% in FY2018. Further, in the current fiscal, pressure on profitability continued as operating margins remained subdued at 2.8% (adjusted for IndAS 116) in 9M FY2023 as the company liquidated its accumulated inventory at discounted prices.

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 to 33% in FY2022 from 18% in FY2020. However, with the company liquidating its built-up inventory and reducing fresh purchases in the current fiscal, there has been healthy improvement, with NWC/OI reducing to 21% in 9M FY2023 as per provisional estimates. It is noted that the reduction in working capital intensity in the recent months has resulted in

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

considerable improvement in the company's liquidity position as well but timely enhancement of the company's working capital limits remains crucial to further ease the liquidity situation.

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 had 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 at ~84% the last 12 months (till January 2023). This, in turn, has also affected the company's coverage metrics, as reflected in an adjusted interest cover of 4.5 times in 9M FY2023 (provisional), 2.4 times in FY2022 compared with 9.4 times in FY2021 and 14.0 times in FY2020.

Environmental and Social Risks

Environmental considerations: The sector remains exposed to the risks of elevated input costs owing to increased compliance costs faced by suppliers stemming from tightening environmental regulations. However, given that these costs account for only a fraction of the overall costs as well as given the high demand for products, retailers can over time, pass on these costs to consumers and/or diversify their sourcing and product mix to ensure sustainable supply chains.

Social considerations: From the social risk standpoint, the retail industry needs to adapt to the changing consumer preferences from time to time. Being a manpower intensive segment, entities are exposed to the risks of disruptions due to inability to properly manage human capital in terms of their overall wellbeing. Besides, human rights issues and inability to ensure diversity, while providing equal opportunity could pose social risks for the company. As a retailer, the company is also subject to other social factors such as responsible sourcing, product and supply chain sustainability, given the high reliance on external suppliers. The company strictly forbids hiring or use of child force at workplace and expects the same from its vendors. As per the annual report, the company also makes efforts to provide a healthy and safe working environment to its employees. This apart to improve the capacity and capability of local and small vendors, VRL procures goods & services from small scale industries and small producers to the extent possible and provides early payment facilities to MSMED vendors to enable them to manage their finances properly.

Liquidity position: Stretched

VRL's liquidity profile continues to be stretched, with fund-based working capital limit utilisation averaging at 84% in the last 12 months (till January 2023) with the cushion averaging at ~Rs. 8 crore and with peak utilisation of ~99% during the period. While liquidation of built-up inventory from Q2 FY2023 onwards resulted in considerable reduction in utilisation of working capital limits, discretionary nature of the capex and a healthy cushion available in the drawing power provide comfort. Timely enhancement of the company's working capital limits remains crucial to always ensure adequate cushion in the working capital limits.

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 – Pressure on the rating could arise, if there is any 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. A specific metric for a downgrade is if interest cover is less than 3 times (adjusted for the impact of Ind AS 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, 2022, 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 the company opened its first store at Jamshedpur (Jharkhand) in 2011.

At present, VRL operates 99 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.

Key financial indicators (audited)

VRL Consolidated	FY2021	FY2022	FY2021	FY2022
	Reported	Reported	Adjusted*	Adjusted*
Operating income	540	630	540	630
PAT	(13)	(12)	(7.2)	(9.0)
OPBDIT/OI	9%	10%	1.9%	1.8%
PAT/OI	(2.4%)	(1.9%)	(1.3%)	(1.4%)
Total outside liabilities/Tangible net worth (times)	1.9	2.0	0.6	0.6
Total debt/OPBDIT (times)	7.9	6.1	5.3	4.9
Interest coverage (times)	1.6	1.8	9.4	2.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

** Adjusted for IndAS 116 impact*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)*	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Mar 02, 2023	Jan 16, 2023	Dec 20, 2021	Dec 18, 2020	--
1	**Fund-based – Working Capital Facilities**	Long term	50.00	22.6	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable) ISSUER NOT COOPERATING	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	--

**Amount outstanding as on January 31, 2023*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund-based – Working Capital Facilities**	NA	NA	NA	50.00	[ICRA]BBB-(Stable)

Source: *Company*

Annexure II: List of entities considered for consolidated analysis –

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

Source: *Company*

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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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Branches