V2 Retail Limited

Date: March 27, 2024

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 upgradation 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 upgradation 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) for enhanced amount of Rs. 125 Crores from previous amount of Rs. 50 Crores	[ICRA] BBB- (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

Digitally signed by Sudhir Kumar
DN: c=IN, o=Personal, title=7442,
pseudonym=eF5twQL8O1pxv6t3Go2OtQT7mej1pHrv,
2.5.4.20=8edc311a0981d2420ac646247179bed33b315e2efbc59425f42c73d18c889956,
postalCode=244501, st=Uttar Pradesh,
serialNumber=d46ed6b4ead888644a172239615025d9db47f4be824743b18574276187b20461,
cn=Sudhir Kumar
Date: 2024.03.27 13:13:22 +05'30'

Sudhir Kumar
Company Secretary & Compliance Officer

Encl: As above

March 26, 2024

V2 Retail Limited: Rating upgraded to [ICRA]BBB (Stable); rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Working Capital Facilities	50.00	125.00	[ICRA]BBB (Stable); rating upgraded from [ICRA]BBB- (Stable) and assigned for enhanced amount
Total	**50.00**	**125.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade factors in V2 Retail Limited's (VRL) better-than-expected performance in the current fiscal, led by a sustained improvement in the scale due to healthy increase in sales per square foot and robust same store sales growth. VRL's scale of operations expanded significantly by ~35%, on a YoY basis in 9M FY2024 to ~Rs. 869 crore on the back of a 29% same store sales growth. Besides, the operating margins rose to ~13.4% in 9M FY2024 from ~10.8% in FY2023. This has resulted in a healthy improvement in debt coverage indicators in the current fiscal with an interest coverage of 3.4 times in 9M FY2024 and Debt to OPBDITA of 3 times in 9M FY2024. ICRA expects the company to report a ~30% growth in turnover and an operating margin of 12-13% in FY2024. VRL is likely to sustain its healthy revenue growth and profitability in the coming fiscals. Following the pandemic, there was a significant inventory build-up at the stores, which had moderated the company's liquidity profile. Increased reliance on working capital borrowings resulted in a deterioration in its coverage metrics till H1 FY2023. However, from Q3 FY2023, led by healthy recovery in sales and liquidation of the built-up inventory, the company's liquidity position improved, as corroborated by better working capital intensity, lower utilisation of working capital facilities and adequate cash and bank balances. Nevertheless, given the company's new store addition plans in the upcoming fiscals, its ability to 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 geographical presence, and established relationships with a wide and diversified vendor base that optimises its cost structure.

The above strengths are, however, partially mitigated by the company's working capital intensive nature of operations owing to high inventory levels, which led to moderate coverage indicators and limited cushion in working capital limits barring some improvement in the current fiscal. Moreover, the operating margins have remained thin in the past owing to intense competition from new entrants in the value retailing segment. ICRA also notes that the company's operations are exposed to the risks of aged inventory build-up, as inherent in the apparel retail business.

The Stable outlook reflects ICRA's expectations that VRL will report an improvement in performance in the medium term and would maintain a stable financial risk profile.

Key rating drivers and their description

Credit strengths

Healthy improvement in revenues and profitability in the current fiscal – In line with other apparel retail companies, VRL's performance had been adversely impacted by the pandemic over FY2022 and FY2023. However, in 9M FY2024, the company's operational performance improved significantly on a YoY basis. VRL reported revenues of ~Rs. 869 crore in 9M FY2024 vis-à-vis ~Rs. 646 crore in 9M FY2023 largely on account of an increase in sales per square foot from ~Rs. 680 to ~Rs. 862. With minimal net store addition during this period, higher sales per square foot was a result of significantly higher same store sales growth of ~30% in 9M FY2024. The operating profits (adjusted for the impact of IND AS 116) in 9M FY2024 stood higher at ~Rs.58 crore vis-à-vis ~Rs. 18 crore reported in 9M FY2023. The turnaround of operations was largely led by clearing the obsolete inventory in FY2023 from the stores by offering discounts. Subsequently, with fresh inventory hitting the stores, the footfalls increased, resulting in higher sales.

Established value retail player with presence in tier-II and tier-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 tier-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 107 stores across 89 cities, primarily in Uttar Pradesh, Bihar and Odisha. In the upcoming fiscal, the company aims to increase its retail area by ~30% by expanding its store network through further penetration into its core markets.

Business profile characterised by healthy share of private label sales, backward integration and competitive cost structure –The revenue share of the company's private labels has increased to more than 30% in FY2023 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 15-20% of its apparels requirments captively from its subsidiary.

Geographically diversified store presence, scaling through cluster-based approach and omni channel strategy – With 107 stores spread across 89 Indian cities, VRL benefits from healthy geographical diversity. In FY2023, the company generated ~51% of its revenue from the East India, ~27% from the North and ~22% from South India. The company's total retail footprint is spread across the said three regions, although with major concentration in Uttar Pradesh, Odisha and Bihar due to higher number of tier-II and tier-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, contribution from this channel to the company's overall revenues has remained minimal in the recent years.

Credit challenges

High working capital intensity of retail business – The company remains exposed to various risks associated with high inventory on the books, as inherent in the apparel retail business. There continues to be the risk of the inventory becoming obsolete, getting damaged, or going out of fashion among others. In the past, owing to slower-than-anticipated sales from the pandemic-led lockdown, significant inventory had built up, increasing the company's net working capital intensity (NWC/OI) to 33% in FY2022 from 18% in FY2020. However, with the company liquidating its built-up inventory and reducing fresh purchases in FY2023, its NWC/OI reduced to 24% in FY2023 and further improved to 19% in 9M F2024 (as per provisional estimates).

Moderate coverage metrics despite an improvement in the current fiscal – Owing to relatively lower margins and working capital intensive operations, the debt coverage indicators remained moderate despite an improvement in the current fiscal. However, in the current fiscal, with the operational performance improving significantly vis-à-vis FY2023, VRL's coverage metrics improved with an interest cover of 13 times (adjusted for the impact of IND AS 116) in 9M FY2024.

Exposure to intense competition and cyclicity in retail sector – The company faces stiff competition owing to the presence of numerous players in the unorganised segment along with competition from various organised players in the brick-and-mortar and online segments. The retail sector also remains susceptible to adverse macroeconomic environment for being discretionary in nature. Moreover, the company remains exposed to various risks associated with carrying high inventory on the books, as inherent in the retail business. The risk of the inventory getting obsolete, damaged, or out of fashion remains.

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, these costs account for only a fraction of the overall costs. 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 –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. To improve the capacity and capability of local and small vendors, VRL procures goods and 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: Adequate

VRL's liquidity profile is adequate, characterised by fund-based working capital limit utilisation of 76% on an average in the last six months (till February 2024) with the cushion averaging at ~Rs.13 crore during this period and ~Rs.28 crore in February 2024, with sanctioned limits increasing to ~Rs.75 crore from ~Rs. 50 crore earlier. ICRA expects the company's cash flow from operations to be adequate in the upcoming fiscals to meet its planned capital expenditure requirements towards store additions (~Rs. 30 crore in FY2025) and repayment obligations (~Rs.2.3 crore in FY2025).

Rating sensitivities

Positive triggers – The rating could be upgraded if the company demonstrates a sustained healthy increase in sales and profitability, along with an improvement in debt coverage metrics and liquidity profile.

Negative triggers – The rating could be downgraded if there is sustained pressure on revenues and profitability. Additionally, the company's continued inability to improve the liquidity cushion could put pressure on the rating. A specific metric for a downgrade includes an interest cover of less than 2.5 times 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, 2023, it had only one subsidiary, details of which 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 tier-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 V2 Retail Limited brand when the company opened its first store in Jamshedpur (Jharkhand) in 2011.

At present, VRL operates 107 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 primarily concentrated in Uttar Pradesh, Bihar, Odisha, Jharkhand and Assam. The company is mainly focused on the value retailing segment in India, catering to mass-market consumers.

Key financial indicators (audited)

VRL Consolidated	FY2022	FY2023	9M FY2024*
Operating income	630	840	869
PAT	(12)	(13)	24
OPBDIT/OI	10%	10%	13%
PAT/OI	(2%)	(2%)	3%
Total outside liabilities/Tangible net worth (times)	2.0	2.1	2.2
Total debt/OPBDIT (times)	6.1	5.0	3.0
Interest coverage (times)	1.8	2.1	3.4

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

** Provisional/unaudited*

***Note:** Company's total long term debt of ~Rs.424 crore in FY2023 (~Rs.369 crore in FY2022), includes lease liabilities of ~Rs.369 crore (~Rs.343 crore in FY2022)*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)*	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Mar 26, 2024	Mar 02, 2023	Jan 16, 2023	Dec 20, 2021	Dec 18, 2020
1	**Fund-based – Working Capital Facilities**	Long term	125.00	-	[ICRA]BBB (Stable)	[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	125.00	[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.

For more information, visit www.icra.in

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Branches