V2 Retail

India | Consumer Discretionary | **Initiating Coverage**

march 15, 2025 09:00 AM IST

Playing a Perfect Hand

Investment Summary:

Almost a third of Indian consumers are pivoting towards organized retail and branded goods, creating a $600 billion market opportunity as per Bernstein. V2 Retail is a small fish in the value fashion industry, which is still dominated by unorganized retailers.

Zudio leads the value fashion race with 635 stores in 165 cities across India as of Q3 FY25. V2 Retail, on the other hand, has 160 stores in 140 cities. To put this into perspective, Domino's, Lenskart, and Manyavar are present in 421, 425, and 243 cities respectively, giving an indication about potential Total Addressable Market (TAM) for value-fashion players who can scale the correct way.

V2 Retail, a retail chain operator sells apparel targeting tier 2 and tier 3 cities, has delivered stellar performance in past few quarters along with rising per square foot (PSF) sales and is aggressively expanding its store count. We expect store additions to grow at ~36% CAGR over FY25-27, with PSF reaching approximately ₹1200 by FY27E.

We expect V2 Retail to deliver revenue and PAT CAGR of 34.89% and 55%, respectively, over FY25-27E, along with pre-IND AS EBITDA margin expansion from 5.9% in FY24 to 9.2% by FY27E driven by 1. private labels 2. in house product development 3. cost cutting initiatives 4. passing cost benefits to customers 5. better product assortment

Rating: ★★★☆☆

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History of V2 retail

Ram Chandra Agarwal began his retail journey in 1994 in Kolkata with a small store called Vishal Garments, later expanding this venture into a chain known as Vishal Retail by 2001. company became a success and went through a period of rapid growth. By 2007, Vishal Retail had over 100 stores nationwide and launched a successful IPO, which valued the company at about ₹2,000 crore.

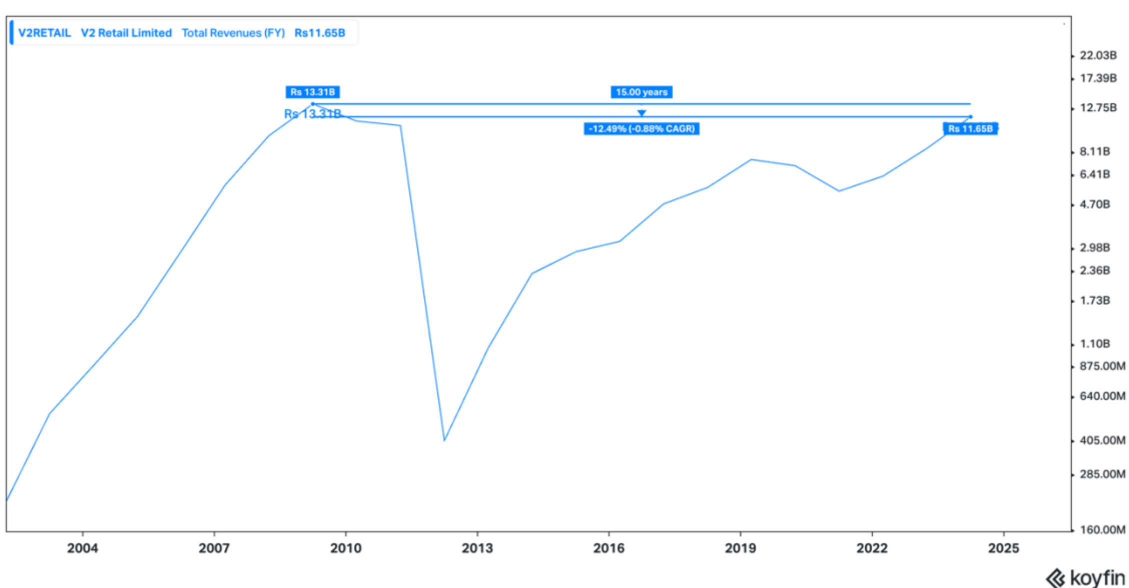
The rapid expansion was on the back of multiple problems. The business was heavily debt-funded—RC took short-term loans to open new stores and build capacity, assuming he could later pay these off by bringing in equity investors. When the 2008 economic downturn hit, Vishal's sales fell, and investors lost appetite; RC found himself unable to raise the new equity he needed to repay the debt.

The company's debt raised to about ₹730-750 crore by 2009, revenues kept falling, and RC didn't have the cash flow to repay the debt. This caused a liquidity crisis. Ultimately, RC had no choice, and in 2011, he was forced to sell Vishal Retail's assets and store network to private equity for ₹70 crore. After settling most of the liabilities, Agarwal was left with capital of about 10-12 cr.

In 2011, the company was rebranded as V2 Retail Ltd. The first V2 retail store opened in 2012 in Jamshedpur, Jharkhand.

During the 2018-2021 period company went through consolidation, which led the management re-think their whole business model. key initiatives such as product first approach, working on supply chain, in house product development, passing cost benefits to consumers, helped them turnaround; and now scale.

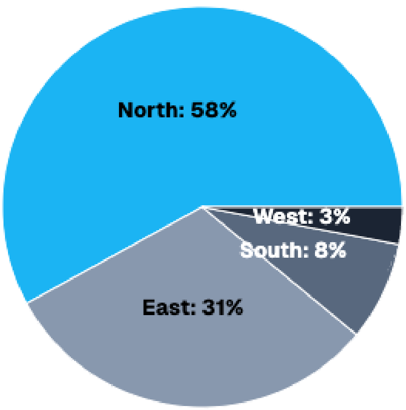
***Exhibit 1**: Sales of V2- Retail since inception; took 15 years to get back to peak revenue levels of 2009*



Business Overview

V2 Retail is a fast-growing value fashion retail chain operating in India, focusing on India's neo-middle class. The company offers affordable apparel and lifestyle products priced between ₹199-499, with an average selling price (ASP) of ₹293, making them ideal for attracting value-conscious customers. The company positions itself as a one-stop destination for family customers.

Exhibit 2: Stores Mix

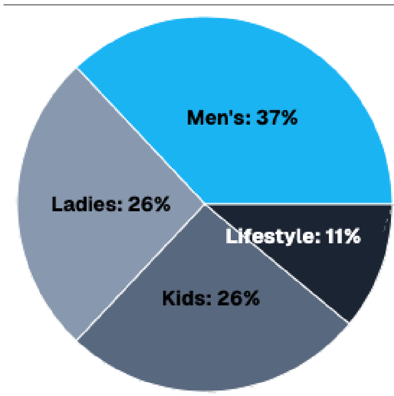


Source: Annual report

As of FY2023-24, apparel contributes roughly 89% of the total sales mix. Within apparel, men's clothing is the largest sub-category (about 37% of revenue), closely followed by women's apparel (26%) and children's apparel (26%). The remaining approximately 11% comes from lifestyle products such as deodorants, wallets, sunglasses, and women's purses. About 90%-95% of the business comes from private labels, whose benefit is passed on to consumers, which in turn brings more customers as evident by repeat sales. Around 16% of sales are from in-house manufacturing, while the rest is sourced from third-party vendors spread across India. majority of manufacturing is done in India, while the company is exploring Bangladesh as an alternative sourcing destination.

The average size of a V2 Retail store is 10,000 square feet. V2 Retail has a strong presence in Northern and Eastern India, operating 160 stores across 18 states and around 130 cities, with a total retail area of 17.22 lakh square feet as of Q3 FY2025. The company follows a cluster model for expansion—opening about 80% of stores within existing clusters and the remaining 20% in new geographies to gather learnings before further expansion. Given Zudio's presence with 673 stores, V2 Retail has substantial growth potential and a large Total Addressable Market (TAM) ahead.

Exhibit 3: *Product Mix*

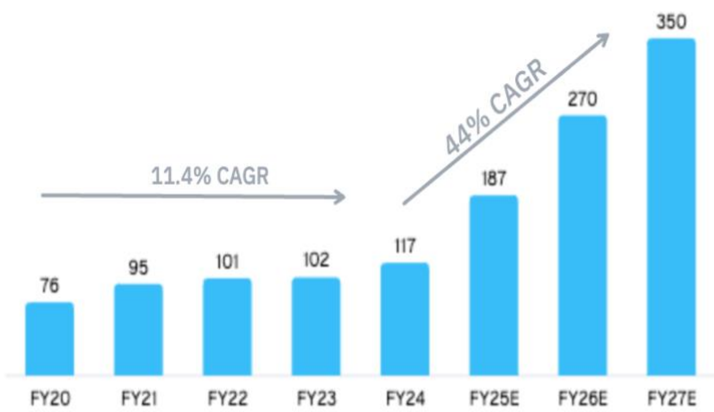


Source: Annual report

Product development currently accounts for 35% of total offerings and is expected to increase to 80% by summer FY2026. This shift has contributed to strong volume growth and double digit Same-Store Sales Growth (SSSG) in recent quarters. Full-price sales have reached 91%, compared to 86% a year ago. As per Management "Not a single store is in loss, first time in company's history" indicating customer acceptance and strong unit economics.

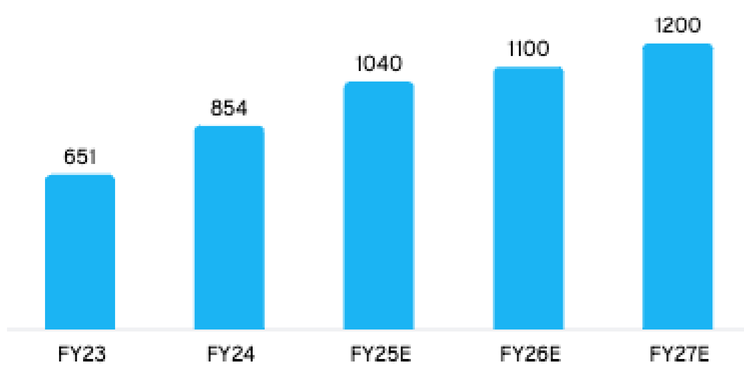
Stories in charts …

Exhibit 4: Stores addition to grow at 44% CAGR between FY24 - FY27E



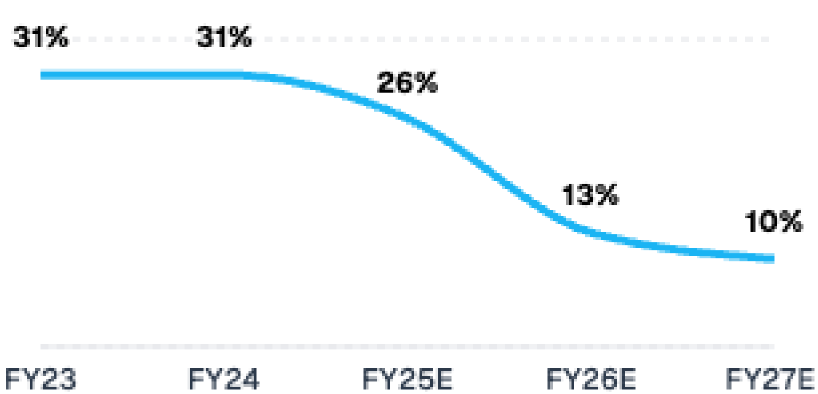
source: company's AR; Abhay's research

Exhibit 5: with a Rising Sales per square Feet Per month



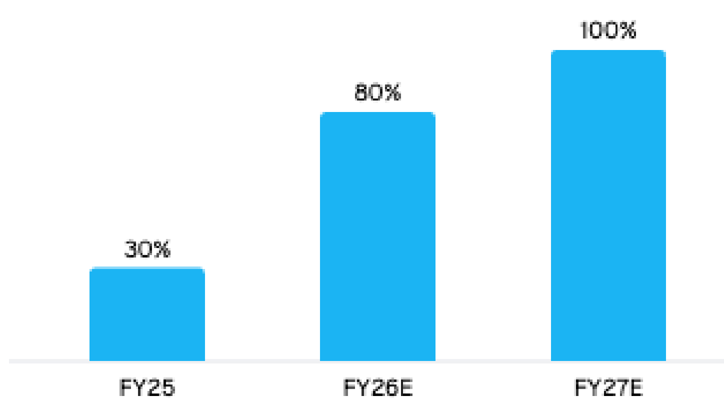
source: company's AR; Abhay's research

Exhibit 6: SSSG growth should normalize as base gets bigger



source: company's AR; Abhay's research

Exhibit 7: In house Product Development to reach 80% by FY26



source: company's AR; Abhay's research

Exhibit 8: Sales is expected to grow at 35% over FY25-27

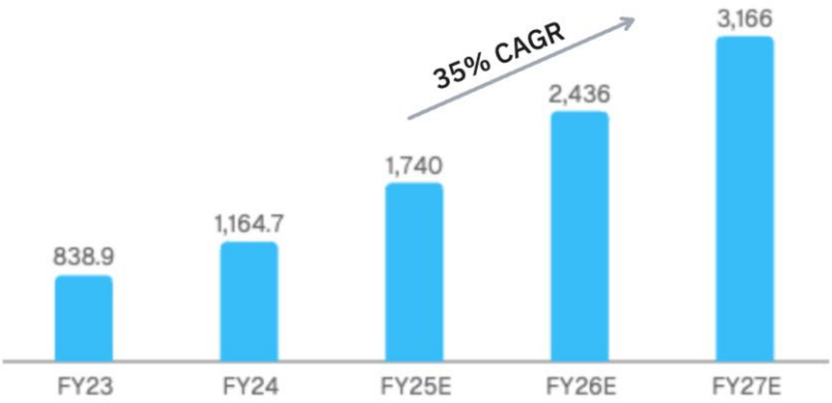


Exhibit 9: Adjusted Debt / Equity

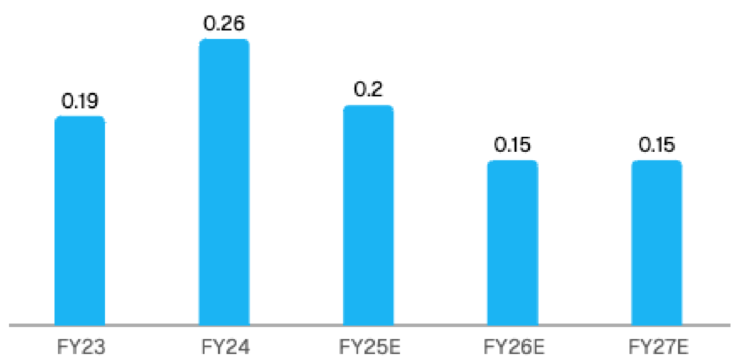


Exhibit 10: adjusted ROE to reach 25% by FY27E

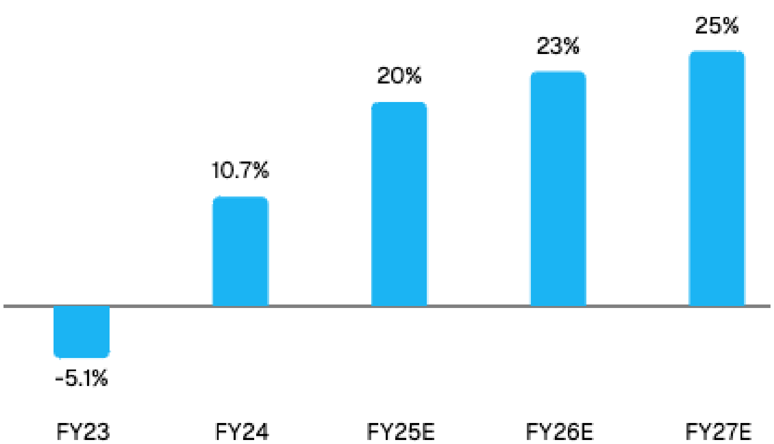


Exhibit 11: Operating Leverage to kick in; margins to expand

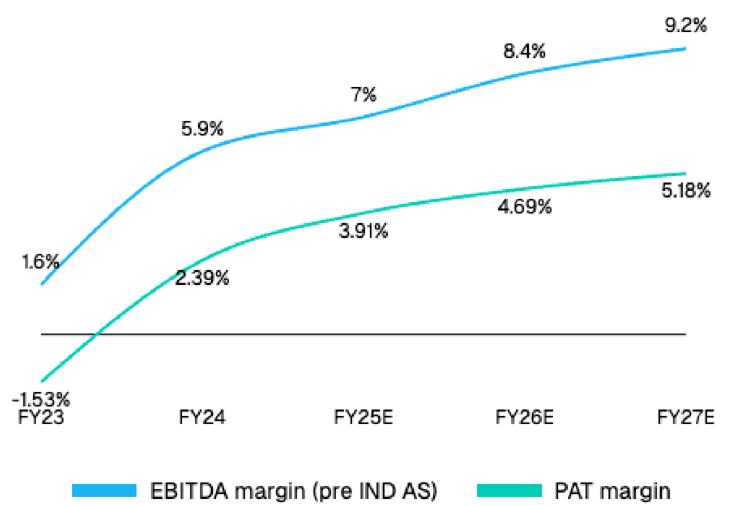


Exhibit 12: Fast Fashion to Gain 27.5% share in apparel segment

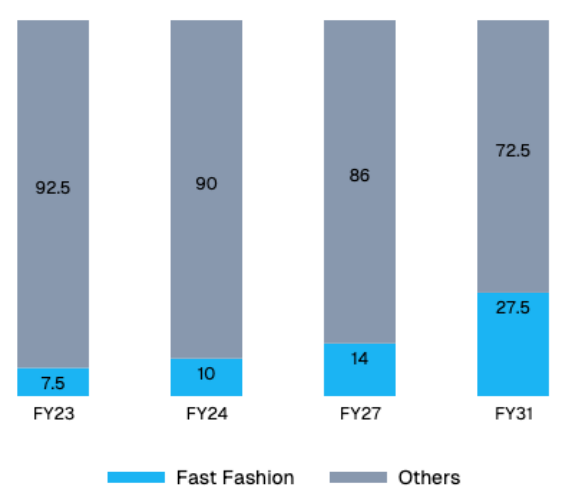
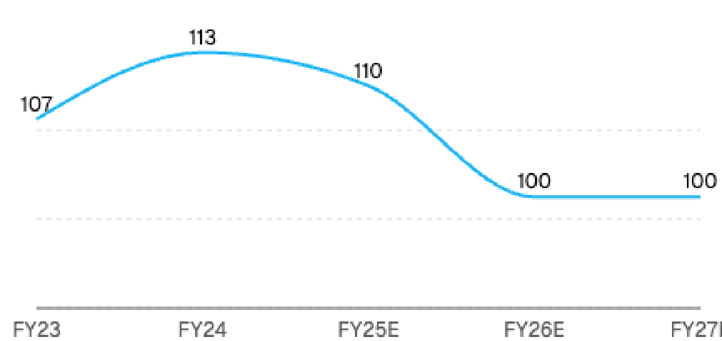


Exhibit 13: Days of Inventory



 source: Bernstein

Winning Cards

1. **Private Labels & Passing Cost Benefits to Consumers**: The majority of V2 Retail's sales come from private labels, providing the company greater control over pricing, quality, and margins compared to external brands. The company passes these cost savings to customers, which in the long term, along with a better assortment, enhances customer loyalty, as demonstrated by repeat sales growth. In mature stores, repeat sales now constitute 70-75% of total sales, up from 55-56% a few years ago.

Exhibit 14: Sales From Private Labels Expected to reach 100% by FY26

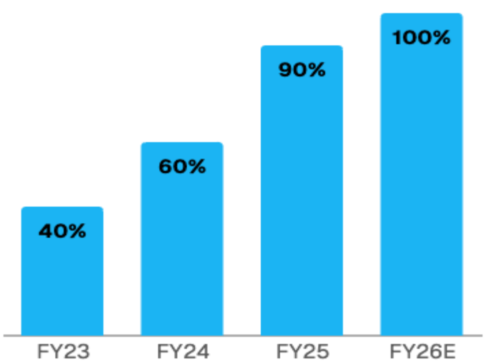
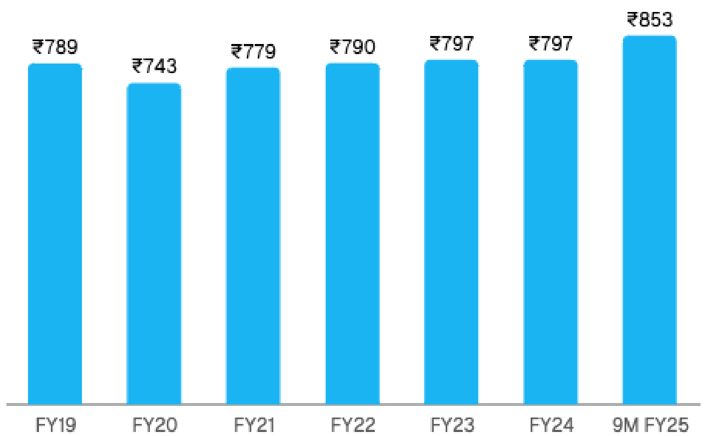


Exhibit 15: Average Bill Value (ABV)



2. **having a Focused Approach for differentiation**: Earlier, the company used to offer T-shirts starting from INR 99, going up to INR 700-800. Now, the company has removed many lower-priced SKUs and focuses exclusively on products priced between INR 199 and INR 499. This targeted price segment enables the company to concentrate on areas where it believes it can differentiate and ensures they do not offer substandard products.

Exhibit 16: Volume Growth of Past Few Quarters

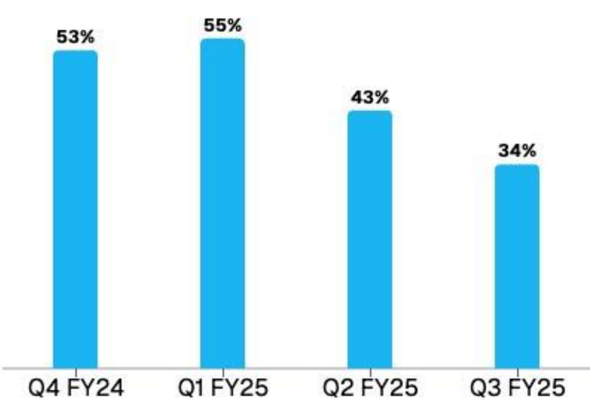
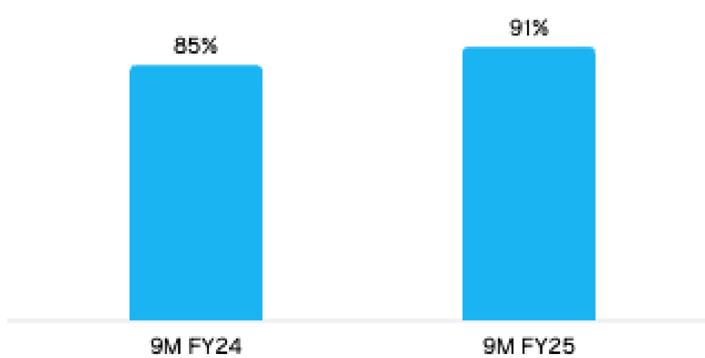


Exhibit 17: Full Price sales contributed 91% of sales



3. **In-House Design and Product Development**: company currently has 35% of product development done in house which it wants to take to 80% by Fy26 summer and 100% eventually in long term by ramping up in-house design, V2 can differentiate its styles and respond to trends faster, shortening the concept-to-shelf cycle. (concept to shelf cycle is currently 90-120 days).

4. **Leveraging Data for Understanding Trends**: Company has a strong focus on technology and leveraging data for assortment planning. The buying/design team tracks nearly 40 attributes for every product and analyzes the gross profit per square foot contribution of each attribute. An extract from management's comment highlights this: "Last year, a 3-button Henley neck in T-shirt sold the best. It provided a gross profit per square foot almost 40% higher than men's tees. Therefore, this year, instead of offering 4 options, we are offering 12 options in that style." The company is very quick in identifying slow movers. Typically, after 2 weeks, if a certain SKU is identified as a slow mover, the company puts it on discount. If it still doesn't sell, discounts are increased to 50% or more.

5. **Having a Robust Supply Chain**: Many of V2's suppliers are small manufacturers (often without advanced ERP systems), which historically led to erratic fulfillment. V2 worked closely with vendors on knowledge transfer, process consolidation, and forecasting. In the last 1–2 years, the on-time delivery rate from vendors improved from around 40% to about 70%, which in turn improved the working capital cycle. Inventory aging has also improved significantly: the share of stock older than 12 months in the system has reduced from about 17–18% a year ago to less than 5%.

6. **Cluster Based Approach for Expansion**: V2 follows cluster-based approach for expansion wherein it operates 80% of stores in existing geographies and 20% testing newer regions; this allows them to get an idea about that new geography, understand the market and then scale if unit economics and demand is positive.

Understanding Supply Chain

V2 Retail's supply chain is built on a blend of in-house manufacturing and a broad network of third-party vendors, supported by efficient distribution and inventory, which helps them maintain costs and shorten the idea to shelf days. The entire supply chain runs on unified IT platform - SAP HANA, which allows real-time sales data across all stores.

In-house Manufacturing: V2 established a wholly owned subsidiary, "V2 Smart Manufacturing Pvt Ltd," in 2019 to manufacture some portion of apparel in-house. The primary rationale behind setting up in-house manufacturing was to gain better insights into costs, as they have fabric costs directly thus strengthening negotiation power with vendors. Currently, this contributes 10% of sales, down from 15% in the previous year, with no plans to increase it further as the original objective has been fulfilled. In-house manufacturing saves 10-15% in costs, whose benefit company passes on to the customers.

Third-Party Vendors: The bulk (80-85%) of merchandise is sourced from a network of vendors and manufacturers across India. V2 leverages strong relationships with small and mid-sized garment manufacturers in hubs such as Delhi-NCR, Ludhiana, Jaipur, and Surat, who can produce large volumes at low cost. Orders are placed seasonally based on trend forecasts and sales data. Additionally, the company is currently exploring Bangladesh as an alternative manufacturing location.

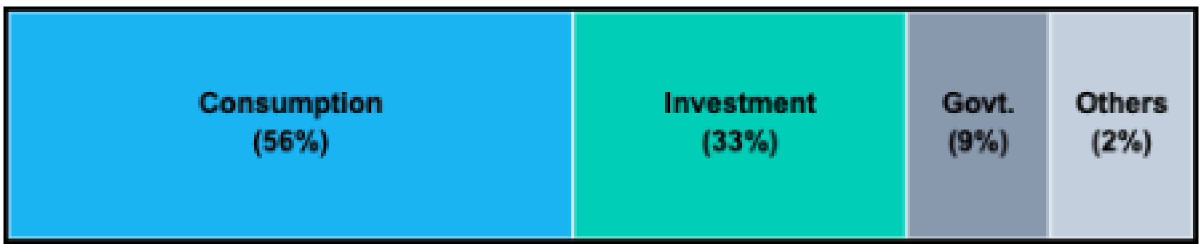
Distribution & Inventory: V2 operates centralized warehouses (distribution centers) which serves as the logistics hub for collecting products from factories and vendors and dispatching them to stores nationwide. company has a primary central warehouse (distribution center) located in North India that handles distribution for the chain and is capable of catering to 15 lakh sq. ft. of retail space. From the DC, merchandise is distributed to stores across 17+ states using an in-house fleet of vehicles once a week.

Store-level Inventory Optimization: By maintaining most inventory centrally until it is required at the store level, there is no overstock at individual stores. Each store holds a targeted assortment and inventory levels that reflect their sales needs, while surplus inventory is maintained at the distribution center.

Making Sense of the Opportunity

Consumption Dominate our Economy: India is ranked as the world's fifth-largest economy in FY 2023 and is expected to become one of the top three global economies by FY 2030 with consumption growth outpacing that of major economies.

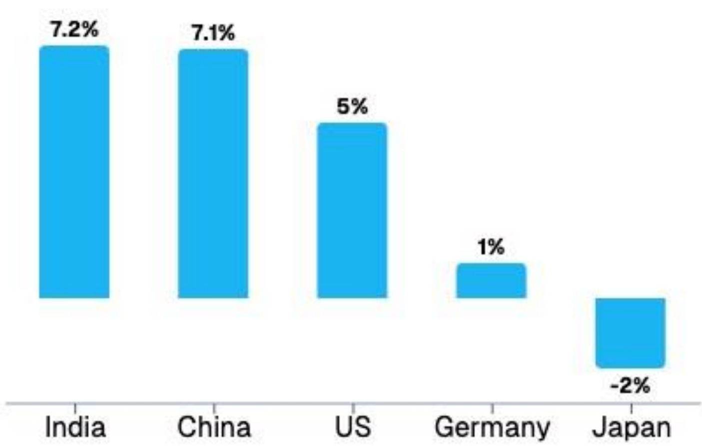
Exhibit 18: India’s GDP by expenditure components



source: MOSPI ; Blume ventures IR

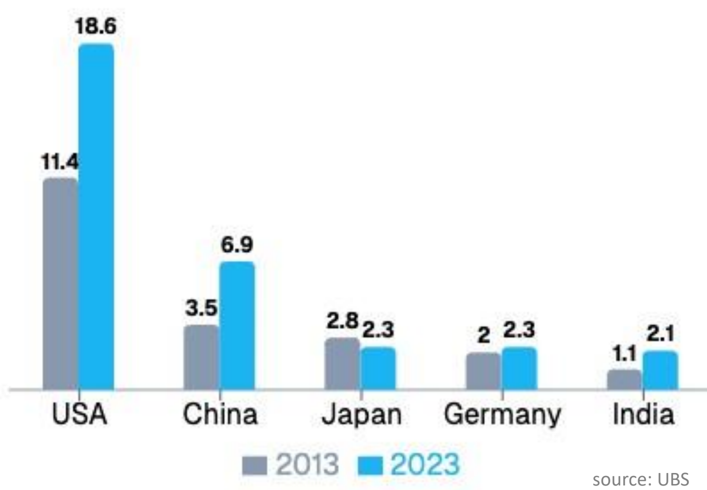
GDP growth in India is expected to be driven by the rising Private Final Consumption Expenditure (PFCE). India is currently the fifth-largest consumption market globally and consumption growth outpaced major global economies, driven by rising disposable incomes and a golden age of rising youth population along with rising per capita income.

Exhibit 19: Last 10 Year Consumption CAGR 2023 (%)



source: UBS

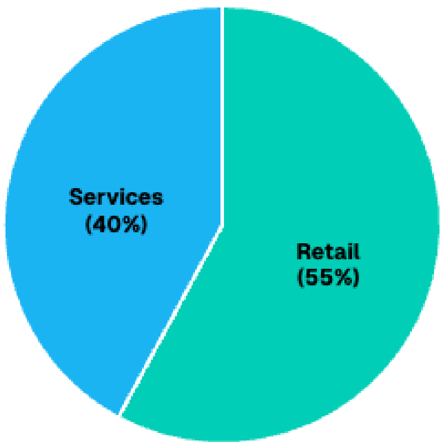
Exhibit 20: Global Consumption 2013 v 2023 (in USD trillion)
India is 5th largest consumption market globally



source: UBS

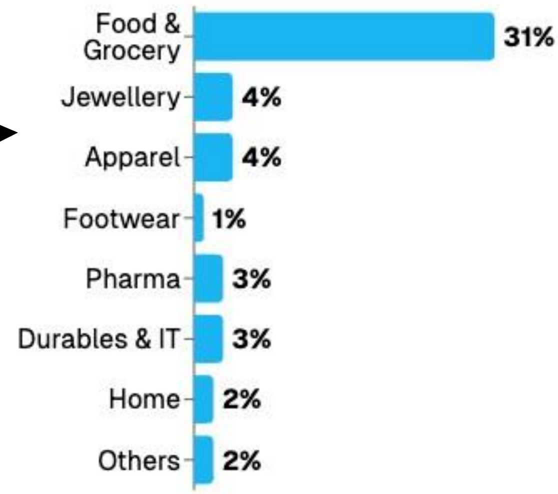
Breaking Down Consumption

Exhibit 21: **How Consumption Splits Up**



Source: Blume Ventures report, Bernstein, NSSO, Redseer

Exhibit 22: **How Retail Splits Up**



Source: MOSPI

Nearly 40% of total private consumption was contributed by service industry sectors such as Healthcare, Travel, Hospitality, Food Services etc. and the rest 55% was contributed by merchandise retail comprising, Food & Grocery (31.0%), Consumer Durables (3.0%). Apparel and Jewelry form 4% of total wallet spending. However, buying jewelry is also driven from an investment perspective which makes apparel largest category within pure discretionary spend.

Apparel & Apparel Accessories, Jewelry and Consumer Electronics are the three key categories that accounted for 7.2%, 7.3% and 6.7% respectively in FY 2023. The share of Apparel & Apparel Accessories is expected to reach 9.4% in FY 2027, and it is the fastest growing category growing at a CAGR of ~18.1% from FY 2023 to FY 2027. Non-Apparel Accessories are expected to grow at a CAGR of 14.8% at the same time, followed by Footwear at a CAGR of 17.4%.

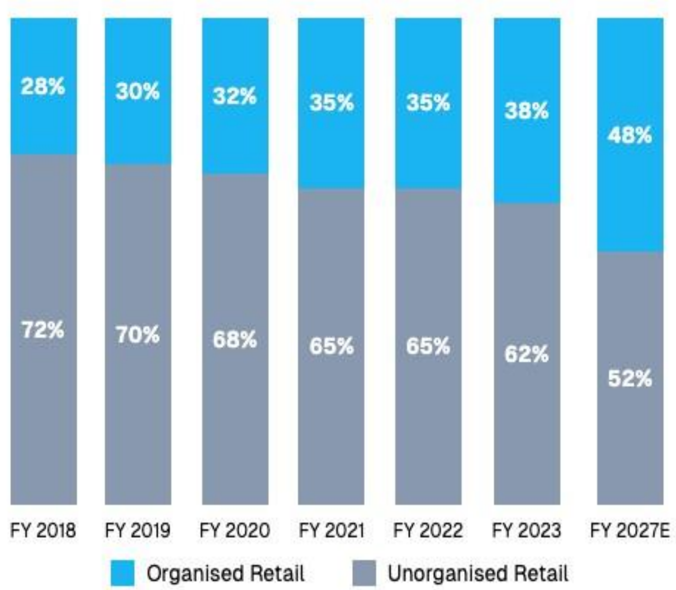
The Retail Market in India was Valued at INR 76 lakh Cr in FY2023 and is expected to grow at a CAGR of 10.5% to reach INR 1,13,39,900 Cr by FY 2027.

While organized retail, primarily brick & mortar, has been in India for 2 decades now, its contribution to total retail was low at 10.1% (INR 4,95,100 Cr) in FY 2018 and 15.8% (INR 12,03,300 Cr) in FY 2023. The organized retail penetration is expected to increase to ~22.9% by FY 2027.

Shift From Unorganized to Organized

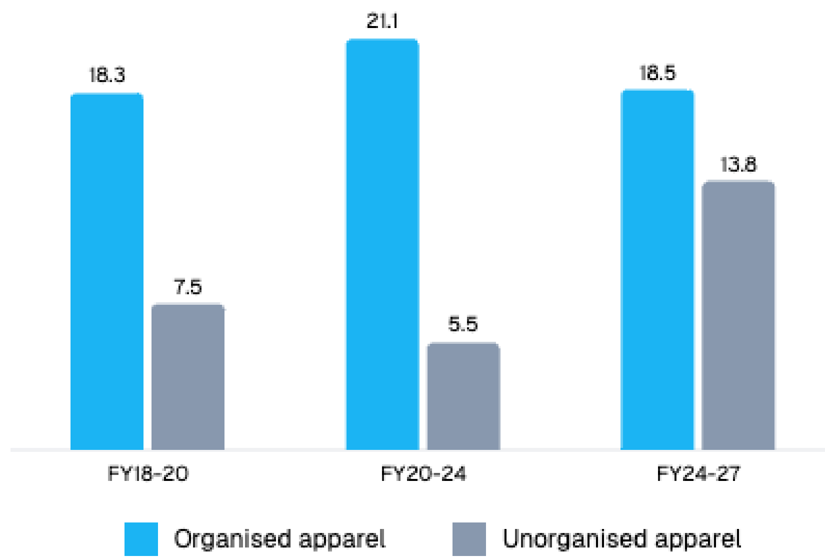
The apparel retail landscape is undergoing a structural shift as organized retail (branded stores, chains, malls, and e-commerce) gains ground over traditional unorganized outlets.
Organized retail's share of Apparel has increased from ~14% in FY 2007 to ~38% in FY 2023 and is expected to increase further to ~48% by FY 2027. Underlying this shift are factors such as better apparels, on trend fast fashion, rising GenZ population and private labels. Indian fast fashion industry is poised to reach over $50 bn by FY31 reports redseer. As Youths are more inclined towards fast fashion, organized players are poised to do better.

***Exhibit 23**: Organized Retail to Grow its share to 48%*



source: Bazaar style DRHP

Exhibit 24: Growth Phrases in Unorganized & Organized Sectors



source: Bazaar style DRHP

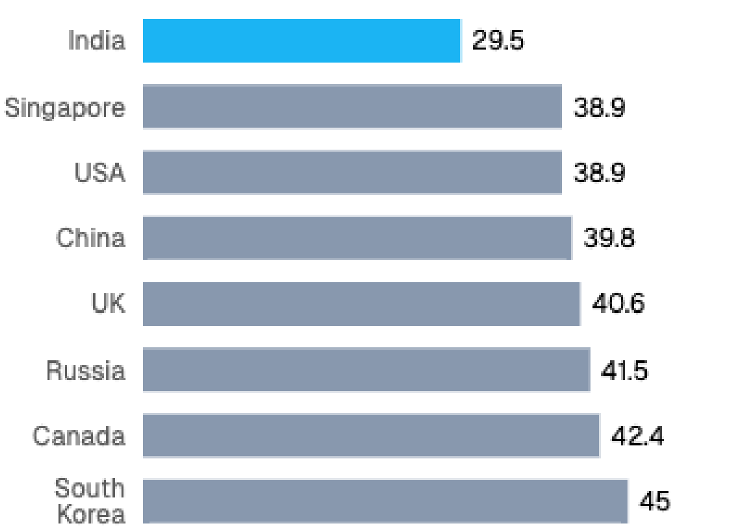
The gap between the organized and unorganized channels in the past six years has been reduced by 57% to just INR 685bn in FY24 from INR 1,610bn in FY18. Despite organized retail's rapid growth, unorganized retail still accounts for about 60-70% of apparel sales in small towns, presenting a significant growth opportunity for organized players. Organized players with better processes at scale – superior product market fit, better supply chain dynamics, ability to keep up with trends, offerings at affordable prices with desired quality will drive this growth.

What's Driving the Growth?

1. **More than half of India's population falls in the 15-49 years age bracket**

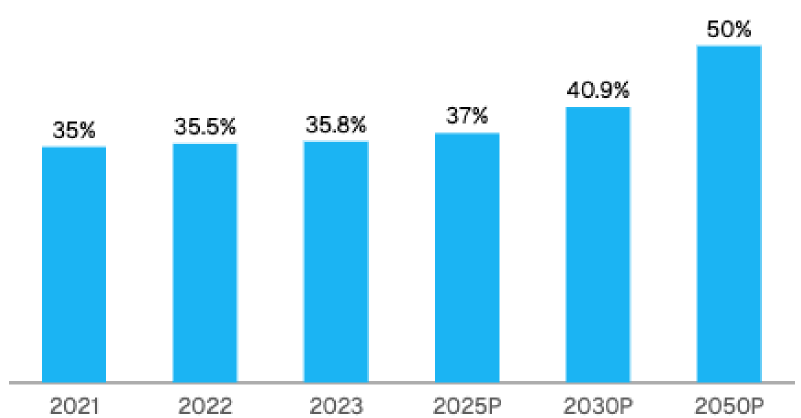
India has one of the youngest populations globally compared to other leading economies. The median age in India is estimated to be 29.5 years for CY 2023 as compared to 38.5 years and 39.8 years in the United States and China, respectively. India's youthful population is at the core of the fast fashion boom, with two key groups, Gen-Z and Millennials, driving the demand as they are looking for on-trend Fashion which are of good quality at low prices.

Exhibit 25: Median Age of Key Economies (CY23)



source: Bazaar style DRHP

Exhibit 26: Increasing Urbanization in India



source: Bazaar style DRHP

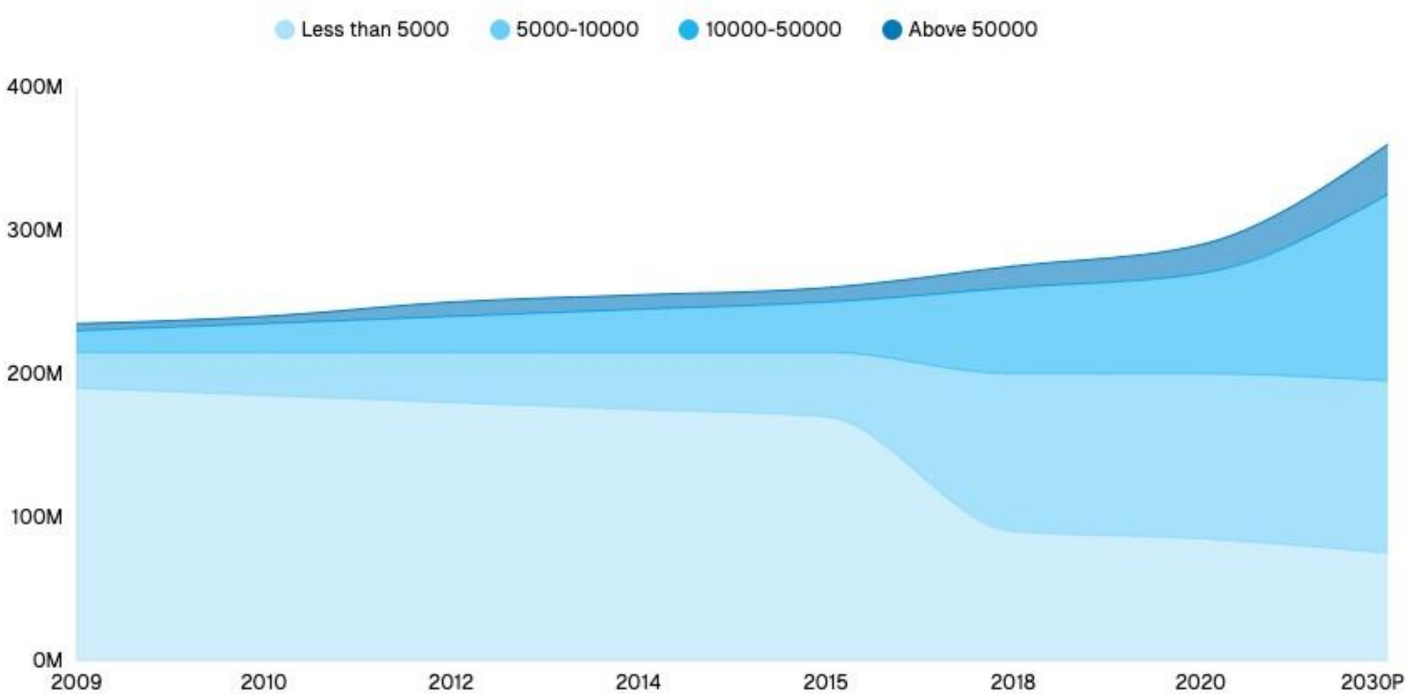
2. **Urbanization and Tier-3 Development**

Urbanization is one of the key pillars in the retail sector growth. India had the second-largest Urban population in the world behind China. Indian Urban system constitutes ~11% of the total global Urban population. However, only ~36% of India's population is classified as Urban, compared to a global average of ~57%. Consumers in Tier-2/3 cities have rising disposable incomes and aspire to shop in modern outlets; Shoppers in small towns want the variety and experience of branded stores at accessible price points. Many Value retailers are tapping into this opportunity and rapidly opening stores in tier 3 cities.

3. Growing Middle Class

Middle class represents 31% of India's population. It is projected to hit 38% by 2031 and 60% by 2047. The increase in number of households with annual earnings ranging from USD 10,000 to USD 50,000 is poised to drive the value fashion industry, as this section of people are value conscious and looking for value for money products. Households with an annual income between USD 10,000 and USD 50,000 constituted a minor portion, accounting for 5.8% of the total population in FY 2010. This share increased to 30.6% in FY 2020 and is expected to continue in the same vein, rising to 42% of the total population by FY 2030.

Exhibit 27: **Household Annual Earning Details; Middle Class is Growing**



source: Bazaar style DRHP

4. **Rising Consumption in Tier-2+ Cities**: Smaller cities are emerging as key consumption hubs, with value retailers thriving by addressing the growing demand for affordable yet quality products.
5. **Private Label Expansion**: Increased private label offerings are boosting margins and enabling cost savings for consumers and helping value fashion retailers to have better control over designs.
6. **Operational Efficiencies**: Leaner store formats, streamlined supply chains, and reduced costs enhance profitability while delivering value to customers.

Understanding Industry

Exhibit 28: Key Players in Indian Fashion Space

Brand	Segment	Market Positioning
Zara	high street Premium Fast Fashion	One of the Pioneer of Fast Fashion. Operates via JV with Trent in India, targets India 1 consumers
Tommy Hilfiger	premium casual wear	targets affluent millennials and has stores in tier 1 cities.
Calvin Klein	Premium casual wear	known for jeans, underwear, and youth-oriented style. maintains Urban trendy image
H & M	Mid fast fashion	Global fast-fashion retailer with mid-range pricing in India, expanding stores in tier 1 &2 cities, focused on ecommerce as well
Uniqlo	value driven fashion (mid premium)	Japanese retailer known for quality and evergreen basics. focused on tier 1 cities but plans for tier 2 expansion as well
Levi's	denim and casualwear brand	International denim leader known for jeans. presence in India 1 & 2
Westside	affordable premium	Positioned as trendy yet accessible – higher than value retailers, but below luxury. targets India 2 ~ India 1
Shopper's Stop	department store	Premium department store housing cosmetics, apparel and accessories. Focuses on mid-to-high end brands
Snitch	D2C	Mass fast fashion brand. gained a lot of popularity in recent years.
Trends	Family fashion for budget conscious	Pan-India presence, strong in India 2 and 3.
Zudio	Value fashion for genz and youth	paved the path and a market leader in fast fashion for tier 2 and tier 3 cities. strong brand value
Pantaloons	Family fashion department store	Large format fashion retailer offering value apparel. Offers a mix of private labels and mid-tier brands.
V2-Retail	family / youth focused value fast fashion	V2 (value & variety) stands for its name, offers high quality apparel at affordable prices.
V-Mart	Value fashion for families	Wide assortments for whole family, value conscious customers

Value Fashion: Players

Exhibit 29: Players in Value Fashion industry

	Target Customer	Store count	Average store size(sqft)	Store Addition Guidance (FY25)
Zudio	Genz, Youth	635	~7000-10,000	~ 120-140
V2 Retail	Family & youth	160	~ 10,000	100+
V-mart Retail	Family & youth	488	~ 8,500-9000	55-58
Bazaar Style	Family	199	~ 9000	40-50
Style up	Men & women	39	~3,000-4000	50
Yousta	Genz, women	55	~5,000-10000	~ 1000 next 2 years
Intune	women	50	~8,000-9,000	90-100

Exhibit 30: Store Additions CAGR. Zudio Leads the Way

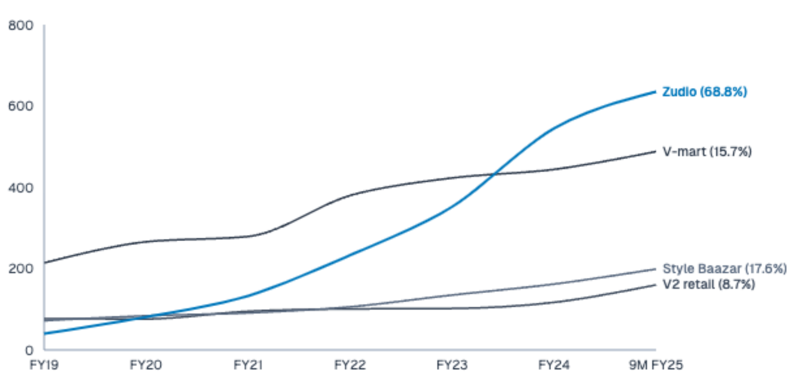
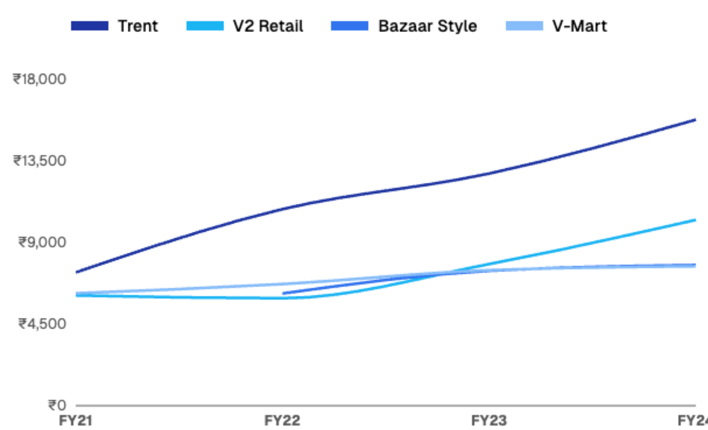


Exhibit 31: PSF sales (per annum)



source : company, Abhay's Research

Exhibit 32: 5 Year Returns of Value Fashion Retailers

Exhibit 33: **Value Fashion Still Underpenetrated; Headroom of 2000+ stores per player**

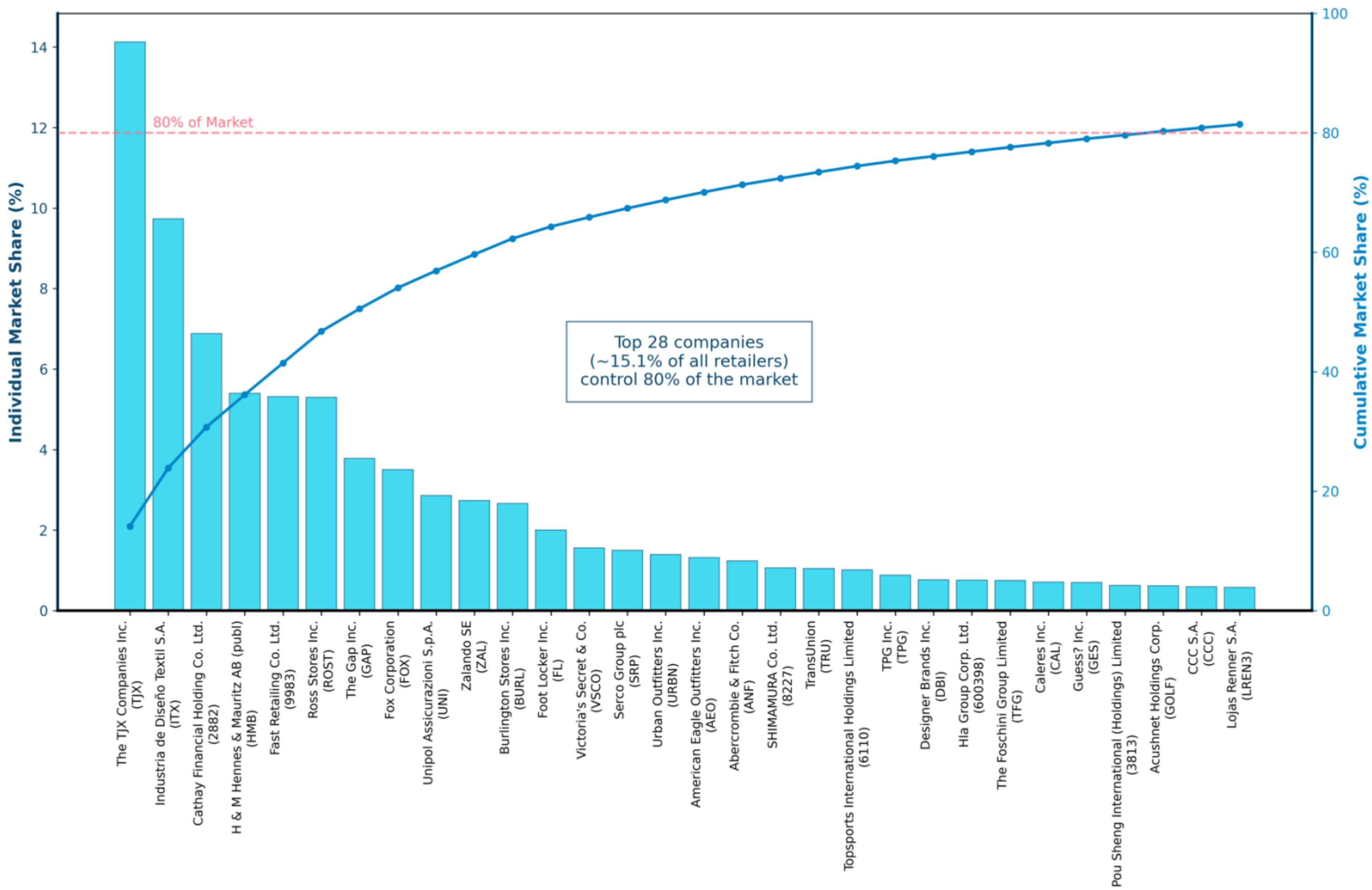
State	**Population (Mn)**	**Zudio**	**V2-Retail**
Andhra Pradesh	53	18	1
Arunachal Pradesh	2		1
Assam	36	9	11
Bihar	128	9	35
Delhi	22	14	8
Goa	2	5	2
Himachal Pradesh	7	1	1
J & K	14	2	2
Jharkhand	40	6	12
Karnataka	68	58	9
Madhya Pradesh	87	15	7
Meghalaya	3	1	1
Odisha	46	8	24
Rajasthan	82	21	1
Tripura	4		1
Uttarakhand	12	7	4
West Bengal	99	23	9
Maharashtra	127	86	
Gujrat	72	82	
Kerala	36	44	
Telangana	38	42	
UP	237	33	
Tamil Nadu	77	42	
Punjab	33	15	
Haryana	30	13	

Zudio remains a dominant player in the fast fashion space in terms of both profitability and store count and is expected to lead the fast fashion race. V2 Retail, on the other hand, is largely concentrated in North and East India and aims to become a national-level retailer within the next 2-3 years. Compared to Zudio, V2 Retail has a significantly larger runway in terms of potential store expansion. If we compare Value fashion Industry’s Store Count to population / Region, Value fashion retailers are still underpenetrated and have a good visibility in terms of store openings.

Is the industry profitable?

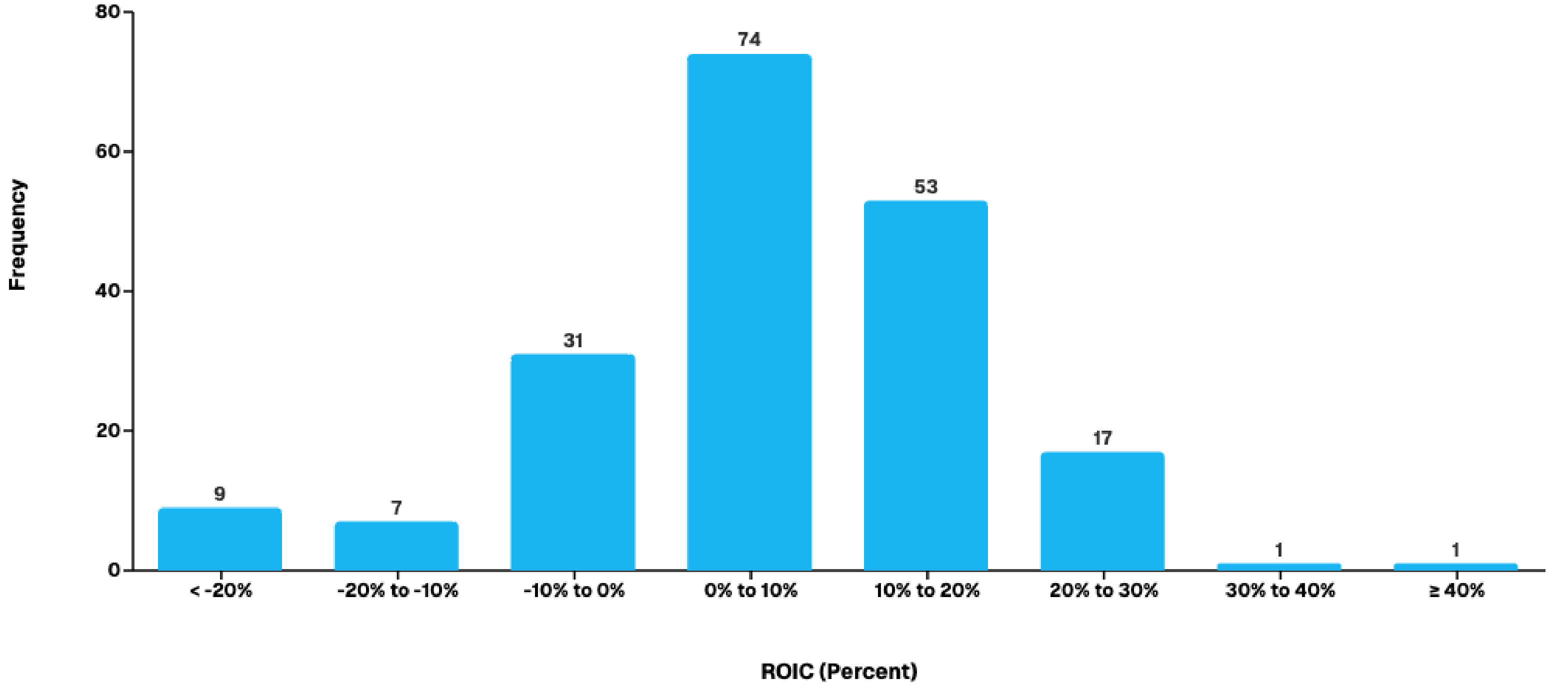
We Took a Sample of around 179 companies around the world operating in apparel retail sector. We wanted to understand the state of the industry and at the same time "Does this Industry create Value for Shareholders?". **Based on our study; 47% of companies have negative returns (returns since inception) out of which 31% of them have lost more than 50% value**. Median Return is only 8.5%. 56 companies (30%) have delivered returns above 200%.

Exhibit 34: Market Share Analysis; 15% of companies control 80% of



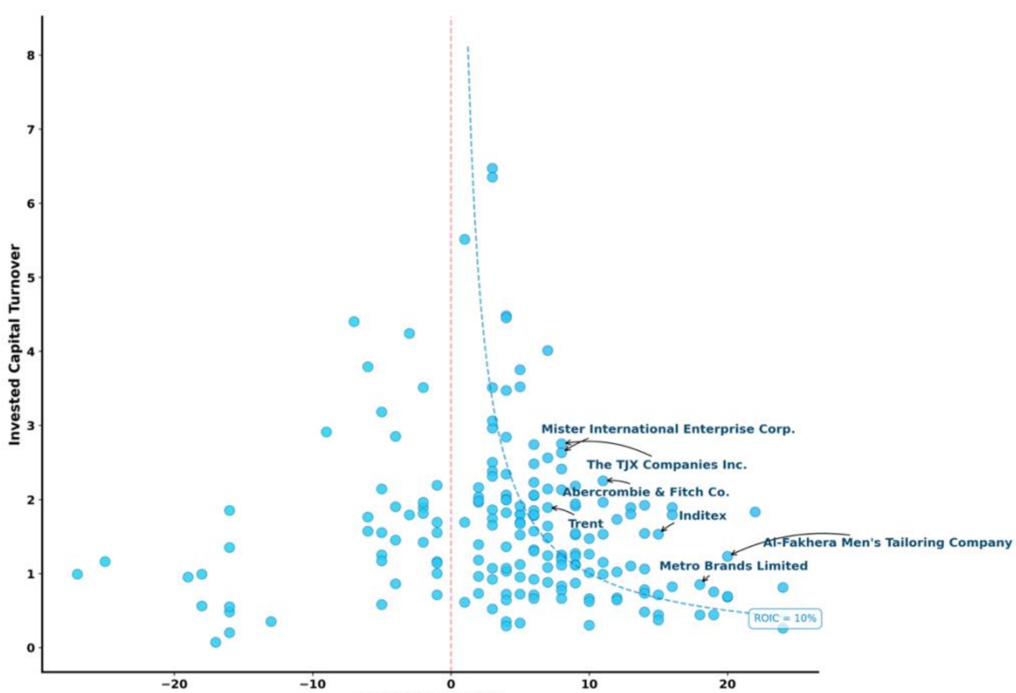
Total Revenue of the sample was $398.98 Billion; 37 retailers control 80% of sales volume in the industry. Top 15 retailers account for 68% of revenue, while the remaining 170 companies just share 31% of revenues. Industry is concentrated and once a company make it big economies of scale emerge which makes compounding work for them. Most of retailers don't try to expand beyond their traditional market could be one reason for the concentration.

Exhibit 35: **Distribution of ROICs for 179 Companies Globally Operating in Apparel**



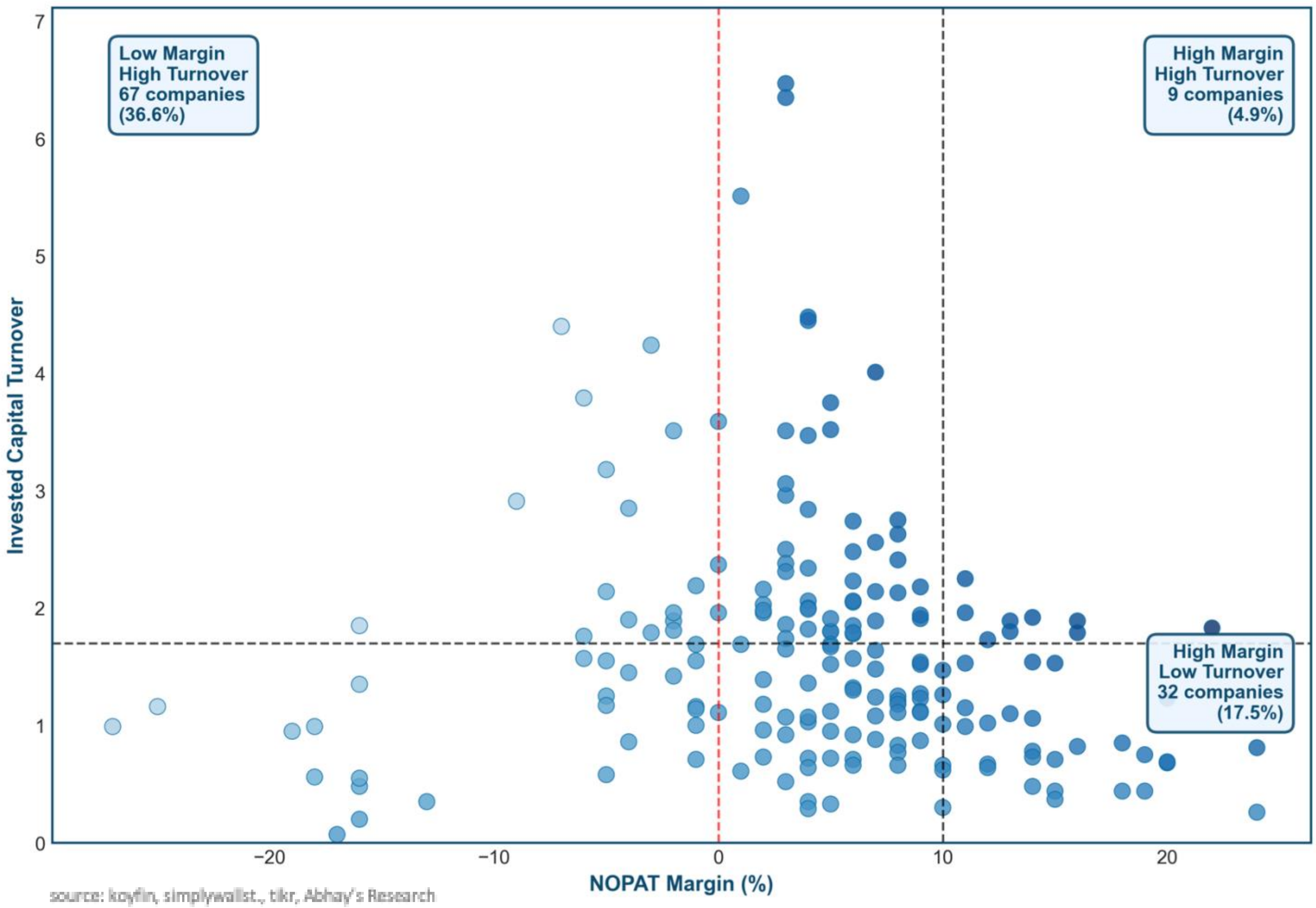
To Understand Value creation by companies, we use ROIC (return on invested capital) as proxy. Based on our research, most retailers (77.1%) generate positive returns; but only 36.9% of retailers achieve a ROIC above 10%. About 113 companies have ROIC less than 10%, 41 companies which is about 22% have negative ROIC.

Exhibit 36: **Drivers of ROIC for Apparel retailers**



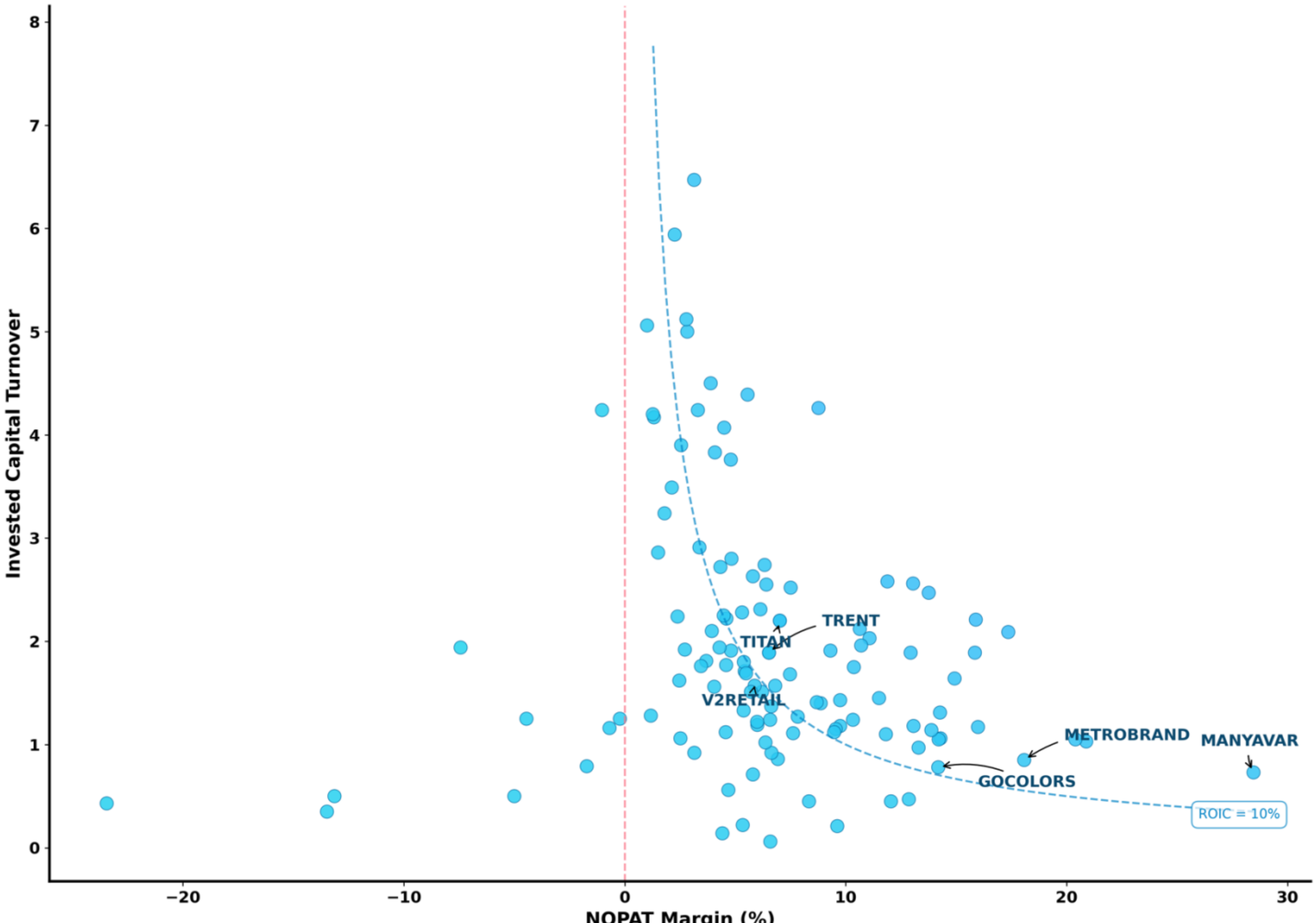
We further break down ROIC to understand what drives ROIC for retailers as shown in exhibit 25. There are 2 ways to get more ROIC: either have a cost advantage (high invested capital turnover) or offer differentiated products (high NPM margin). There are 31 companies with 15% + ROIC out of which 45% of their ROIC is driven by NOPAT margin while high turnover drive ROIC for other half of companies. 23% of companies are currently incurring losses hence negative ROICs.

Exhibit 37: **36% of retailers follow Cost Differentiation**



About 30% of companies fall into the low margin low asset turnover quadrant. A good portion of companies follow the cost differentiation strategy wherein they have a low margin but is compensated by better asset turns as they benefit from scale.

Exhibit 38: **Value drivers of ROIC for 118 Indian Consumer Discretionary Companies**



source: koyfin, simplywallst., tikr, Abhay's Research

Indian Consumers companies compared to global peers seems to be in a better position in terms of value creation. On average 50% of companies have ROIC above 10%. what drives ROIC for Indian companies is same as global retailers; most of them focus on costs benefits, few such as metro brands, Manyavar, go colors are focused on margins but have low asset turns. Some companies are in sweet spot of high margins and better asset turns like Trent. There are only 10 companies with a negative ROIC, 41% of companies have ROIC below 10%.

Growth Triggers

1. **Strong Pipeline of New Stores**: V2 retail has 160 stores as of Q3 FY25 and has plans to open 100+ new stores in FY26, which will be funded through internal accruals. We except the store count to double in 3-4 years as the company spent last 4 years thinking and working on business model and how to differentiate their business.
   Here's what management said about aggressive store expansion:

if you look at the last 4 years, it was a period of consolidation and there wasn't much growth, and we did not add a lot of stores. We were focusing on selling our model. We were focusing on selling our product. And now we see the results of the hard work that we put in the last 4 years. So now we feel like if we get an ROE of around 20%, then we can easily open 50, 60 stores in a year. So, I don't think it's a very ambitious number. And that is why like if we get a good location and even the new stores, the base is much higher now. So, 2 years back, the new store used to do INR 600 per square feet per month. But now even the new stores have a base of INR900 per square feet per month. So, we don't want to keep money in the bank when we can we have the management bandwidth and the merchandising bandwidth to be able to open 50, 60 new stores with internal accruals, because we are not leveraging our business in order to open these stores. So, I think that's a very realistic and a target that we can easily achieve without compromising on business metrics.

2. **Double Digit SSSG growth**: V2 has consistently delivered high double-digit SSSG in the last few quarters. While this pace may not be sustainable every quarter due to larger base, we expect SSSG growth to normalize to 12% in FY26 and 10% in FY27. even with 10% SSSG and 1000+ PSF sales per month; it should be healthy for the business. company has delivered double digit SSSG growth due to 1. Enhanced product assortments 2. Fast Idea to Shelf cycle 3. Efficient Supply Chain 4. Better Value proposition

3. **Better Assortments**: As the company gets more control over its product development (which is still 30% and company plans to take it to 80% by next year), it can adapt to trends faster and provide better assortments, which bring more footfalls and repeat customers. The fact that 91% sales were full-price suggests minimal stock remains unsold – indicating stores have the "right" product mix that customers want. This lowers clearance sales and effectively increases net sales per store.

4. **Operating leverage & Margin Expansion**: Retail operations have a large fixed-cost component (store rents, staff salaries, corporate overhead). As revenue grows, these fixed costs become a smaller percentage of sales, meaning incremental revenue flows disproportionately to the bottom line**.**

5. **Industry Growth**: value fashion industry in India is growing at an estimated 14–15% CAGR, and on top of that if we add shift from unorganized to organized growth should be even faster; 1. rising middle class 2. rising disposable income 3. youth population should drive the growth of value fashion players; Value Retailers penetration in Tier 3-4 cities is still very low, which creates opportunity for players to penetrate.

Key Variables to Track: **SSSG, Stores addition, volume growth, Competition, Days of Inventory**

KPI	FY23	FY24	FY25E	FY26E	FY27E
SSSG	31%	31%	26%	13%	10%
Sales per square feet (per month)	651	854	1040	1100	1200
Store count	102	117	187	270	350
Adjusted ROE	-5.1%	10.7%	20%	23%	25%
Days of Inventory	107	113	110	100	100

What Could Go Wrong?

1. Competition and Pricing Pressure: Due to favorable industry dynamics and success of Zudio, many national retailers are trying to enter into value fashion industry. According to our analysis, more than 1000 stores will be opened by industry in FY26 (organized retailers), as competition heats up, cost of acquiring a customer may also rise putting a pressure on company's margins.

2. **Quick Commerce**: Quick Commerce is India's Fastest growing industry segment ever with user base doubling ever YoY. Players such as Blinkit, Zepto are entering into Fast fashion with 60 minutes delivery targeting GenZ. Slikk is one such quick commerce player already into 60 minutes delivery service in some Tier 1 cities. It's still early and worth noticing how quick commerce players scale beyond tier 1 cities.

3. **Growth Slowdown**: Company trades at a rich valuation, in order to justify valuations growth must keep coming; if there is a growth slowdown, there might be event of derating.

4. **Not anticipating Trends Right:** Being in the apparel business, V2 is exposed to fast fashion trends. A few bad calls on design or a shift in consumer taste could leave it with unsold stock.

5. **Historical baggage:** v2 Retail promoter Ram Chandra Agarwal has a history of failure in Vishal mega mart where he expanded to quicky by taking excessive leverage. Company is Again expanding stores rapidly, so one must look for any poor capital allocation decision.

6. **Ecommerce Companies Entering Fast Fashion:** Myntra with fwd, Flipkart with spoyl, Amazon with Next Gen Store is entering into value fashion targeting genz consumers.

Valuations

	FY23	FY24	FY25E	FY26E	FY27E
Revenue	838.9	1164.7	1740	2436	3166
Revenue growth		38.84%	49.39%	40%	29.97%
Ebitda margin (pre ind as)	1.6%	5.9%	7%	8.4%	9.20%
Ebitda	13.6	68.3	121.8	204.6	291.2
Depreciation	20	23.1	30	48	65
Interest	4.7	7.5	8	11.2	14.5
Other income	1.7	3.3	7	7	7
PBT	-9.5	41.1	90.7	152.4	218.7
Tax rate			25%	25%	25%
Pat	-12.8	27.8	68	114.3	164
Pat growth			144.9%	67.8%	43.4%
EPS	-3.73	8.09	19.68	33.03	47.4
FORWARD P/E			82.75	49.29	34.35

Current mcap: 5635cr	P/E	Expected market cap.	Return CAGR
Bull	70	11482.19cr	43%
Base	60	9841.87cr	32%
Bear	50	8201.56cr	21%

Based on our analysis of Value Fashion industry and understanding V2's business model; we expect company to grow its revenue at 30-35% CAGR over FY25-27 and EBITDA margins (PRE IND-AS) to expand from 5.9% to 9.2%. This growth projection is based on company's aggressive store expansion plans, Double digit SSSG growth and better PSF sales.

The opportunity size for value fashion retailers is large and generally they trade at a premium; company is currently trading at 86 times its earnings. We assume company will trade at 70/60/50 times its earning in bull/base/bear case scenarios. Current market condition is in sideways / downtrend and corrections are happening across sectors, so one should be careful and do your own due diligence as to Do they want to take a bet here?

Appendix

Thinking Extreme

Recognizing the opportunity in the industry, an increasing number of national retailers are entering and rapidly expanding their presence. As competition intensifies, price remains the primary differentiator.in order to tackle this competition. v2 retail start taking debt to open the stores rapidly as they did in 2006-07.

few years later Offline retailers go into a slowdown phrase due to:

1. Ecommerce players like Myntra with fwd, Flipkart with spoyl, amazon with Next Gen Store is taking market share from organized players as they offer more SKUs, at lower prices not necessarily good quality, but average consumer didn't care as long as Item as on trend.

2. Quick commerce players like blinkit, zepto have started 30 mins apparel stores; you get variety on trend fashion apparels at lower costs delivered at your home in 30mins with easy return within 1 hour.

3. New Player has emerged in Ecom space which thought instead of guessing and understanding what customers want, let's just make prototypes and put in our website and see what interests' consumer and produce it after customer places an order; doubling down on what worked.

This changing trend impacts SSSG and Volume growth of v2 retail. Margins started to depress as interest cost was rising due to excessive leverage. Due to this slowdown working capital started piling up and cash flows started getting stuck in inventory. Now for further expansion, company has to take additional debt or dilute equity. Company's ROIC fall below cost of capital and starts destroying shareholder's value. Eventually company had to start closing down stores and rethink about its business model again.