



“V-MART Q3 Financial Year 2015 Results Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the V-Mart Retail Limited Q3 FY 2015 conference call, hosted by Nirmal Bang Equities. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Jignesh Kamani of Nirmal Bang Equities. Thank you and over to you Mr. Kamani!

Jignesh Kamani: Thank you. Ladies and gentlemen, a very warm welcome for Q3 FY 2015 V-Mart conference call. We have with us Mr. Lalit Agarwal, Chairman and Managing Director of V-Mart Retail and Deepak Sharma – CFO, of the Company. Congratulations for good set of numbers. Thank you for your valuable time. I will request Mr. Lalit Agarwal and Mr. Deepak Sharma to start the opening remarks regarding the current performance and then we will start the question and answer session. Over to you Sir!

Lalit Agarwal: Thank you Jignesh. This is Lalit Agarwal. Good day everybody, all the listeners from the investor’s fraternity. Thank you for having the patient session with us and being with us, trusting us and giving us the confidence that yes we can do it.

Overall the quarter has been pretty good. Still not as per my expectation, but yes, it is fairly good looking at the market scenarios. The market this quarter, the Diwali period was not very attractive for all the retailers and including us, but yes it did pick up in the month of November and some part in December also. So, we could not attain the kind of level that we wanted to, but still yes we closed at a healthy 7% growth of same store sales growth and had a commendable sales growth in overall numbers given the overall market scenario.

We have taken up a lot of new initiatives in the last quarter and going forward we are taking some new initiatives so the key initiatives that we are trying to take on is trying to work more on the product lines, the merchandize and the fashion area. So trying to bring in a lot of expertise in that area, trying to group in new capabilities, trying to have certain new processes in place. We are trying those product creating mechanisms where we try and understand and get to the design level part of the product and so trying to build those and trying to also ensure that we have certain priority on the private label side. We are taking initiatives for Vendor management such as organizing vendor meets in various regions across India and trying to meet vendors and bringing them to a single platform. We also launched the vendor portal recently where we are trying to give vendors a lot of information and also trying to give them benefits of the information and also hence increasing the sales and knowing what products are selling more. The main objective of the vendor portal is to consolidate all performance parameters related to a vendor so that he has visibility on the same and can of his own take remedial measures in case they are below the benchmarks. This would have an overall impact on the performance improvement of vendors and impact areas such as inventory management, fill rates and slow /nonmoving items. We had initiated the process of consolidating our warehousing operations at a single location which we have concluded now and going forward we shall be trying for

stabilization and optimization by utilising the technology, bringing in the expertise from the AP Logistics. Till now full benefits of AP Logistics expertise has not been realized due to initial teething problems, but we are hopeful of the same achieving stable state in the coming quarter. The full benefits of warehouse consolidation and APL expertise will be realized over the coming quarters.

We are working lot on the human capital side, manpower is the key thing that would lead us for the sustainable margins in the future and we believe that capability building, organization building is something, which is on the top of our priority and I am personally overseeing these initiatives, trying to bring in all those new resources, those new cultures, have professionalism in the system, bring in processes. We also have Ernst & Young as our internal auditors and they are supporting us in developing and the internal control side. They have been giving us a lot of new ideas, new controlling mechanisms and identifying areas where we have deficiencies / weaknesses which need strengthening.

So the whole management team is working and we are strengthening our Board also to guide us in the challenging environment. We have inducted new board members with varied experience in their different domains, which is a priority for the company, which is at a growing stage, so that we can enhance capability building particularly in areas pertaining to performance enhancement and HR development. So we are trying to bring in those diversity on the board including identifying specific areas that they can contribute based on their domain expertise. The promoters in line with their long term vision of segregating the management from ownership in a phased manner have taken a step in such direction with my younger brother Hemant stepping down from Executive / Whole time member of the board to a Non-Executive role. We are about to shift our corporate office from the existing place to Gurgaon, a new office, which has been taken on lease in the next week to come.

Then I think rest of the scenario is looking good. Coming quarter also looks almost good. We are trying to concentrate on clearing the last season inventory, trying to concentrate on getting on the new summer season on the roll, setting fresh inventories in the coming quarter and trying to capture the Holi sales, which will be a good sale for us because more than 60% of our stores are based in UP, Bihar and Uttarakhand and Jharkhand where the festival of Holi is celebrated and a lot of new clothes are being bought at this time. So we aspire to have better results in this quarter also. Let us hope for good. Thank you. I will pass this on to Deepak Ji, who will take you through the numbers. Deepak Ji!

Deepak Sharma:

Thank you Lalit Ji and thank you Jignesh for the introduction earlier on. From my side, as usual in my other calls I will focus on the business parameters. First the business parameters have been fairly healthy in terms of footfalls, conversions, sales per square feet and transaction size. There have been improvements along all these parameters which have resulted in a better sales numbers being recorded in terms of the topline. The second important parameter, which has been a major focus area for us in this particular quarter, has been on the cost control side. I mean people who would have had time to take a look in terms of the growth numbers for expense on an absolute basis, we have managed to bring down the growth in terms of expense and that has resulted in

better numbers translating from a GP level to the EBITDA level so that the EBITDA enhancements are better than the GP enhancements over the previous year.

These initiatives have been for expenses such as manpower, power and fuel, and advertisements. These initiatives had been taken up at the beginning of the year and now they have begun to show results in terms of numbers really showing healthy savings. The last aspect which I usually touch upon is the inventory side. For this quarter, we have really not been in a position to show a radical improvement in terms of the days of inventory; however, it was much along the expected lines because this was the time when the consolidation process was on, where we were moving from multiple warehouses to a single warehouse and also because inventory was being managed at two locations, there would have been a certain level of inefficiencies; however in times to come, the consolidation as Mr. Lalit gave a briefing during his introduction, is over and we are moving to a new location, so those efficiencies will start kicking and this number will start improving, which is one of our focus areas in times to come.

Also another important area pertaining to inventory is that we monitor the ageing side and we are working and making endeavors to ensure that the ageing of the inventory is improving on a regular basis. The third side of course is that we have been working in a pretty focused manner towards the shrinkage side, which is a major concern for the management side and even though on an overall number basis the shrinkage has been improving. I would like to segregate that into shrinkage on account of the frontend side which is at the stores and shrinkage on account of the warehousing operations. I feel pretty happy that on the store front which used to be a major concern in the earlier times has started to show a lot of improvements in terms of the average shrinkage per store in the current year versus the previous year. Warehouse of course we have been guiding all along that this year it is going to be a slightly distorted year and in times to come that also will start getting corrected because once the consolidation happens, the controls and the focus and the initiatives can then be taken on by the management.

From my side that is all. I would like to open the floor for questions now. Jignesh!

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Aksh Vora from Praj Financial. Please go ahead.

Aksh Vora: Congratulations for a stellar performance. I just wanted to know we have seen a good volume growth in this quarter compared to the last couple of quarters so what has been the change in this quarter. It has been like the demand has improved or something?

Lalit Agarwal: You can visualize that there is a deflation basically I would say for the sector that we are in. There has not been too much of increase in the raw material prices also so the prices have a little bit gone down, so our procurement has been very good for this quarter, so we have had a very good planning over the merchandize procurement process and we procured at a very attractive prices, which resulted into lesser average sales per price and increase in the volumes of the products. So the more attractive the pricing of the product is the more the sales come in.

- Aksh Vora:** So we expect to maintain the same kind of volume growth in the coming quarters?
- Lalit Agarwal:** We always keep this on the positive note and we feel that we should be able to do it, but it all depends upon the situation and the geography is so wide that I cannot provide those numbers now.
- Aksh Vora:** Also another part, Sir we have always maintained that sales store growth should be around 10% or more, so do we see that coming in quarter-on-quarter basis coming back to 10% in near future?
- Lalit Agarwal:** Obviously yes. I still feel that personally that the glass is still half full and there is more to go. 10% is also an economical number, which I project and which I anticipate that it should happen, but anyway there are market scenario, there are internal performance, there are issues within the geographies, so it is a matter of the output that actually will result in the numbers, but yes right now the actual is that it is 7% so just let us wait for 10% to happen. We always expect that it will happen.
- Aksh Vora:** Lastly Sir, sales per square feet touched around Rs.1000 this quarter per month. So, do we expect it to maintain at these levels or there will be some fluctuation going in?
- Lalit Agarwal:** See the third quarter always is the best quarter. So in this quarter our average sales per square feet would be around Rs.800 per square feet but in this particular quarter it goes higher because last year also it was Rs.980, now it is Rs.1000 and above. So on an average line on per square feet basis there is no huge development. It is almost in line because there are some few stores, which we have opened which are of a little bigger size in this quarter and the benefits of their full potential in terms of sales generation is yet to be realised. So we have done some experimentation here of opening two stores with a slight increase in size over our average, of 12000 square feet or 10000 square feet. So obviously we will have to wait for the results to come from those square feet also.
- Aksh Vora:** Lastly Sir, we have seen good amount of increment in our operating margins. So, will we sustain such kind of margins going in future?
- Deepak Sharma:** Our margins of course are dependent to a large extent on the season which we enter into. Usually if you look at the business cycle where the company operates in Q3 is again the best in terms of margins realizations. Q4 is one of the weaker quarters in the year. Of course on year-on-year basis we would be targeting for sure to make an improvement, but if you are expecting the margins to be along the same lines as Q3 that will certainly not be there, but we would be certainly targeting to improve on the margins that we had realized last year.
- Aksh Vora:** Thanks a lot Sir. All the best for the future.
- Moderator:** Our next question is from the line of Pratik Jain from I-Alpha Enterprise. Please go ahead.

- Pratik Jain:** Congratulations Sir for good set of numbers. My question is for Lalit Sir. Since rural demand for most companies has slowed down which we are currently seeing and what is your sense in terms of the demand at the ground level and what has been our experience? When do you expect the improvement in the same demand?
- Lalit Agarwal:** What we have realized till now people had been saying it and maybe yes we may understand that there is a slowdown in the rural side, but on the semi-urban side, due to the aspiration in coming up and due to the people understanding more on the aspiration side or the fashion side the need is getting up to the level where the demand starts inching up. So, we are able to match those two but on the rural side obviously it is a temporary phenomenon because a lot of activities from the government side have still not kicked off. So, the agriculture side is doing good. There is not a huge challenge there, but on the infrastructure side and other employment opportunity that comes in with the initiatives of the new government those will take some time but it will be achieved. I think it may take another six or eight months to get to that level.
- Pratik Jain:** Sir, another question is regarding depreciation charges. Sir, why have we shifted from WDV to SLM method and what kind of impact more depreciation impact changes we can see for the next one to two quarters and when will it start stabilizing?
- Lalit Agarwal:** The audit committee in fact had considered these earlier also with the auditors and also they had suggested to hire a specialist who can give a correct methodology to estimate the useful life of the assets based on which the depreciation is to be calculated. So we have taken the useful life based on such inputs and the judgment of the management to arrive at a practical useful life. Also we had shifted from a WDV basis to an SLM based method as in the WDV method the depreciation is higher in the initial years of the asset usage and declines over the balance life. This results in a distortion of profits as the asset is used on an equitable basis over the entire life and is somewhat unfair to current investor.
- Pratik Jain:** Sir what kind of impact will be seen in the next one or two quarters?
- Lalit Agarwal:** I think because we have done straight lining the impact should be flat and because there has been some adjustment in this particular quarter which was due for the last two to three quarters, so now I think it should be very flat. I think Deepak can answer you in a little more detail.
- Deepak Sharma:** I would just like to take that up in terms of the future quarters we can expect an average rate of depreciation of about 4%.
- Pratik Jain:** 4% in absolute number how much?
- Deepak Sharma:** Absolute number I guess, we would have a loss of exact numbers, but on an ad hoc basis in percentage terms it is going to be about 4% of gross block.
- Pratik Jain:** Thank you Sir.

Moderator: Thank you. The next question is from the line of Sangeetha Tripathi from Sharekhan. Please go ahead.

Sangeetha Tripathi: Good evening Sir. Congratulations for good set of numbers. I have basically two questions. The first is on the growth aspect. In your opening remarks you mentioned that the growth has not been in line with what you were thinking. No doubt the growth has been good at 23% on a YOY basis. Still you talked about some moderation in the demand and the Diwali not being good. Also would like to understand whether e-tailing also had an impact on our business because we hear from the comments from the e-tailer that demand in the tier II and tier III cities have been really good. So, just wanting to understand that impact?

Lalit Agarwal: I could not refuse this that they have not created a market for themselves. So yes everybody has created a market and they have acquired a new set of market for themselves and they have also penetrated into the smaller towns but still it is a way long to go. I may not clearly set out this low numbers or a low performance level due to them, but there is always a market, which they would try and capture and which may also be an effect of that, but obviously still actually visualizing those effects it would be hard to say because only maybe 200 to 300 or 400-odd families would be approaching from these smaller towns to these online channel platforms and those also for those particular products, which are very branded and has a serial number or a mobile number or something of those kind because in this industry where we are there we are more stronger in fashion and apparel and in this industry it does not seem to me that this would have created a bigger impact, but maybe that is one of the points.

Sangeetha Tripathi: The next question was on your store opening guidance for the next two years FY 2016 and FY 2017. What would you guide for and what would be the total capex and likewise how would you finance that because what I understand is the IPO money we have already completed the IPO money proceeds and 80 to 85 Crores whatever 90 Crores that we had raised so how would you finance the good growth of expansion?

Lalit Agarwal: We continue to have a similar approach what we have been doing for the last two to three years. So we would continue to open around two stores a month on an average and anticipate to do that unless and until we stabilize our existing operations and we find good new locations and we still feel that we have some money left with the IPO proceed, but balance I think we have become an earning company, so there will be certain internal accrual, which will keep on happening and we will utilize those and also we have a very lower bank limits so I think the debt equity ratio as of now is very low, which is around 0.3 to 0.2 X. We have scope to borrow more and do as required.

Sangeetha Tripathi: So, you would not look for equity expansion in the near future?

Lalit Agarwal: As of now, I do not see those on cards, because I need to watch for the return on equity part also. I think people should have better visibility from the funds that they have provided.

- Sangeetha Tripathi:** Sir, you continue to guide for around 25% to 30% revenue growth for the next two to three years?
- Lalit Agarwal:** This is what we anticipate and this is what we have been doing for the last seven years. So we expect a similar thing to happen with us.
- Sangeetha Tripathi:** Also a question for Mr. Deepak. On the inventory front, you mentioned in your comments that there has not been a radical change in the inventory cycle that you were expecting. So, what kind of targets do you keep for yourself in the next one year timeframe as far as the inventory is concerned?
- Deepak Sharma:** The target is very simple Madam that there should be continuous improvement in that. We really do not keep a specific number in mind that has to be taken into account taking that the company is expanding and we are looking at changing a lot in our assortment mix and the merchandize section as Mr. Lalit mentioned in his introduction but the only factor which we stand by is there should be a continuous improvement in that number because that number itself reflects the efficiencies, improvements in at least four or five other domains starting from planning to procurement to warehouse management to replenishment to store sales all these cumulative have a combined effect on the inventory days. So, if you continue to see some element of improvement, I guess, you should feel secure from the fact that the company is working towards improving all these areas together.
- Lalit Agarwal:** I would like to add on to that. These numbers which you are seeing are in spite of the new stores, which have not reaped the full year sales in spite of having the full inventory which is required for the store to operate. So that inventory investment has already happened. So I think till the time you continue to grow your store even if on a certain improvement it will not be immediately visible.
- Sangeetha Tripathi:** Thanks. That is all from my side.
- Moderator:** Thank you. We have the next question from the line of Darshit Shah from Equirus. Please go ahead.
- Darshit Shah:** Good afternoon Sir. Congratulations for good set of numbers. Sir, my question is on the similar lines of the earlier participant. Sir, I understand that we are targeting around 20 to 25 stores on per annum basis. Sir if I look at the cash flow from operations, we probably did around 10 to 11 Crores in the first start of our operations in the first nine months and Sir, I understand that per store capex would be around 2 to 2.5 Crores so probably we will be requiring 40 to 50 Crores to open 20 to 25 stores so do you foresee probably the working capital a bit improving and you will be generating more cash flows to fund this 20 to 25 stores per annum, which we are planning to add, so basically I just wanted to understand your thoughts on that?
- Lalit Agarwal:** I will take that question from you, Darshit. The fact is that we have added about close to 60 stores in the last three financial years. I am talking about a position as we close March 2015 and

these have been funded entirely through the IPO proceeds that we have raised. These will start contributing to our internal accruals from this year onwards where the major benefits of the stabilization of these store openings will start reflecting in the cash flows from the next financial year onwards. That is our projection side. We feel that the internal accruals which will come from the stores which we have opened in the last few years, will help us sustain the growth at least for completely for the next financial year and if required we always have that option of securing lines of credit from our bankers because as of today when we stand we are at 0.3X in terms of debt equity and we always have that option of exploring that side too; however, as a matter of policy, we do not like to expand our store expansion particularly capex from lines of credit from the bank or through any form of debt. So, we expect that the funding for the capex side at least will come from internal accruals.

Deepak Sharma: I would like to add to that Darshit, and I would like to correct you also maybe for our store expansion, the capex requirement per store does not go up to 2 to 2.5 Crores. It is only around 1.25 to 1.5 Crores. We would not require 45 to 50 Crores for 25 stores.

Darshit Shah: I think I was including inventories?

Deepak Sharma: So, if you include inventory, yes.

Darshit Shah: Sir just to understand I agree all these benefits will start accruing from next year. But given a choice probably would we be looking to go for some debt or equity dilution?

Deepak Sharma: Our preferable mode would be to look at that because equity dilution it is not something which you can plan overnight. As of now we have no planning in the pipeline and I hope you all the market participants will appreciate that for IPO or equity dilution a minimum lead time is at least about six months. So as of now we do not have any plans and we are fairly sure that we would be able to meet the capex requirement which is about 1 to 1.25 Crores per store and for 25 stores it translates to about 28 to 29 Crores so we are fairly comfortable that we would be able to generate that much amount of cash from the business.

Darshit Shah: Thank you so much and I wish we would be able to fund it all through the internal accruals.

Moderator: Thank you. Our next question is from the line of Natasha Lulla from Birla Sunlife Asset Management. Please go ahead.

Vishal: This is Vishal, her colleague. Thanks for the opportunity. I wanted to know from what I understand about the inventory management. You purchase inventory and then sell it out rather than getting inventory on consignment basis. So wanted to understand how this helps you? Does it help you in having more gross margins because of the model that you follow?

Lalit Agarwal: Thank you Vishal for coming on the line. Basically we have had a series of earlier interactions where we have always said and we have continued saying that we believe on creating value for the customers and once we feel that we can create value is only when we can take those risks and buy the inventory on our book and have those confident to sell it to the customer because we feel

that anybody who was supposed to give you inventory on consignment either he is not able to sell his inventory at the required market or he is pricing it higher, so we do not believe those overall concept and we are basically for value for money concept and we are not dealing with brands, so here the whole concept is bought out inventory and it is not only for margins but it is actually providing the right correct value to the customer and those products, which are not available on consignment and those products, which are not available on consignment.

Vishal: So does it mean that the products that we procure have we developed supply chain as in dedicated sources of supply for the products that we sell?

Lalit Agarwal: Yes, obviously so we have more than 1200 vendors who continuously actively feed us throughout India and these vendors are primarily have a long association with the company for maybe almost a decade. There are certain vendors who have been dealing with the company for a decade and we have been nurturing them, growing with them and they have been also growing with us. So it is a basic partnership model that we follow and we try to create value for everybody whether it be vendor or it be our stakeholders or it be our customers or my team members. So, it is value creation for everybody, which is supposed to be there and yes obviously the quality parameters are there which has to be watched for.

Vishal: I do understand that you take the inventory risk, but in case of defective inventory is the vendor responsible for it or is it to be accounted by us?

Lalit Agarwal: Obviously if there is a manufacturing defect always the vendor has to be responsible for that. There is no doubt on that.

Vishal: That is all from my side. Thanks a lot.

Moderator: Thank you. The next question is from the line of Swagato Ghosh from Jefferies. Please go ahead.

Swagato Ghosh: Good afternoon Sir. I had a question can you give an indication about how the lease rentals are moving in the areas that you are prospecting to open new stores?

Lalit Agarwal: Lease rentals are almost on the similar lines. It would be very difficult for us to find locations, which has lease rentals of the kind that we want because our average lease rentals are still below Rs.30 square feet or may be Rs.28 or Rs.29 a square feet so it is actually a tough job finding properties at these prices, but there has been a process by which we keep on doing those and finding those properties. If you ask me the comparison between last year and this year I do not see there is a huge change. There is obviously a real estate downtrend which is happening which is on the property sale purchase side, but on the rental side, if there is a good property there is no such effect being seen in the market.

Swagato Ghosh: Actually Sir, on the rental side, the demand is slowly outpacing the supply actually. So I am kind of getting an insight from the industry that the lease rentals are actually increasing sharply or starting to increase sharply. Have you seen any indication of that?

Lalit Agarwal: This is once again a very variable kind of phenomenon, dynamic kind of phenomenon where it depends purely on location, the city, the geography, the actual location in size of the store because we are not only in malls, or we do not go for this corporate or organized builder, so it is very difficult to map those across but yes there are certain geographies where it can still be available at similar prices but there are once again certain geographies where the demand is so high that any inventory of real estate is not available. So there they demand prices. Once again it is a very variable phenomenon where you cannot really have a platform or a benchmark but I do not see those upsurge in the rentals.

Swagato Ghosh: Sir, again going back to the e-tailing competition question that was asked by one previous participant, as you rightly said the e-tailing demand is mostly for branded products, electronic products, so at least for those categories are you seeing like increased competition from the e-tailers and on a larger point of view is there a price competition from the e-tailing. Is there a concept price which probably was not there maybe a year back?

Lalit Agarwal: For your information, V-Mart does not deal in lot of such brands or lot of such products, which e-tailers have a competitive edge over. So we are primarily selling value for money, fashion apparels, which are not very known brands, and these are not comparable actually and I do not see any kind of pressures, still what we observe is that they call it as a bargain deal or a very big deal on certain apparels and we have got certain sample purchases of apparel from the online people so still the pricing that they are charging to the customer and the price at which we sell there is almost a 60% or 50% discount of the online retailers are offering the apparel side. So I do not see those demands. Once the customer understands the quality there have to experience it to understand that.

Swagato Ghosh: Sir, one last question from my side maybe this is kind of out of the box question, but have you thought at any point of time in the future of tying up with any of these e-channels?

Lalit Agarwal: I think we are not into B2B as of now. So we have our own capabilities, source of capabilities and we have our own customer base, and there we think we are capable of capturing or catering to these customers who are present online we can always Ophthalmology and go into the online module which is not very far from us and we are already into brick and mortar so it is only the technology part, which is required. We do not see as of now the market is very mature or even we are not very focused or matured on those sides. We will do appropriate things whenever things come, but yes, obviously we may not try and support other e-tailer to sit on our warehouse and procure inventory.

Swagato Ghosh: Thank you Sir. That would be all from my side.

Moderator: Thank you. Our next question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Thanks for taking my question. Sir, I actually wanted to first understand the demand scenario a bit and if I look at the wage data that is coming in it suggests there is weakness that is coming into the rural market, while your numbers suggest continued strength in a way or growth is it a

state phenomenon or are you seeing pockets of demand wherein probably UP is doing much better and it is not the similar across, if you could give me a clarity on that Sir?

Deepak Sharma:

I will take that question Avi, and the point that I would like to make here is that you must understand the kind of geographies and the kind of customer base that we are trying to service. The geographies where we are present, the consumption is driven based on festivals as well as on actual events that happen in and around the localities where people are staying. What do I mean by that is if there is a marriage in the family, there is a festival, there is change of season, these are the only occasions where people look forward to going and buying and set of apparels. They are not into the same kind of spending pattern as people in the metros do, which is more of a discretionary spend. So if you talk about the demand, the demand still continues to be the same. It is only the quantum may vary depending on how the macroeconomic situation at the ground level is evolving and how is that effected, suppose if we talk about the monsoons, if the monsoon is extremely good, the demand is always there, but the only factor that changes is the quantum of purchases that happens goes up by a small amount. So basically the demand it is pure, pure demand assumption actual consumption. There is no element of discretionary over there. So we continue to see a good growth in demand at the local demand primarily driven by fundamental reasons of consumption.

Avi Mehta:

If I may but that will be that this is what you are suggesting it is a planned purchase rather than the discretionary purchase, but if it is a discretionary purchase then that kind of suggests that the uptick on this growth may not be visible on the demand improvement, if you could just help that or are you see that there are large section of people who have come off because of the price increases because I am just trying to tie those two things together your expectation of SSS growth going to 10% plus and your guidance that the demand is actually planned and hence it does not necessarily get impacted significantly because of weakness in spends etc.

Lalit Agarwal:

Avi, I would like to elaborate this. Basically you have to understand that there are two level of people and yes there are certain stores or certain areas of certain population pockets, which has those as soon as they get more money in their pocket they would like to get on to a little more fashion and little more consumption and little more meeting their demand aspirations because in smaller towns people do not have too much of things to get lavished. So they would not spend on restaurants, they would not have EMIs, they would not spend on cars and vehicles, they would not spend too much on entertainment facilities or going out, so they have only certain things which they would spend on, maybe on themselves or on their house. So yes obviously if their income level goes up, if the economy does well, what Deepak was trying to say is whatever we are getting right now is only the necessity part, because something which is required for any individual to live is a two pair of cloth a year. So that is what is important and everybody who wants to buy even those two pairs has a planned buying and wants to buy something which is aspirationally looking good. So, they would do the similar kind of consumption would continue to happen and yes very correct, as the economy grows up, the extra uptick is going to be out in the market and we would be the first one to capture those also.

- Avi Mehta:** This is very good. Sir, on the second bit, if I look at the positioning, we are a value for money kind of positioning, so for us it is get the good quality merchandize at an affordable pricing. In that environment does online kind of give you concerns given the concepts of lost leadership that these guys tend to focus on, you know trying to give discounts which are sometimes be in negative gross margins etc., are you concerned that those can by this behavior of online peers if not if you could explain that Sir?
- Lalit Agarwal:** To put it on the lighter note, I am sorry, but what you are saying is obviously it creates a temporary threat to the market, but hopefully the kind of market we are in the penetration of these players are not very high and they do not continue to attract our customers very actively and our customers are not those customers who are very e-commerce friendly or e-tailer friendly or an internet friendly or may not be even carrying a smart phone so the economy needs to grow up, the economies such as US also have the internet e-commerce penetration has not gone more than 10% there also, so I still feel it is a long way to go and these questions are still baseless according to me.
- Avi Mehta:** That helps. Sir, lastly, just two questions; one is on the debt side. I missed that part. The guidance on the debt levels given the kind of store addition that you are looking at and second is the depreciation we should assume at 4% of sales you meant or I am sorry, I missed that, if you could clarify those two things? That is all from me.
- Lalit Agarwal:** Avi, the debt which you missed out the only fact that we were trying to make is that we have adequate flexibility available with us in terms of the capital structure available on the balance sheet by way of having just about 0.2X in terms of gearing or leverage and though we are fairly sure about the fact that we would be able to fund all our store expansion in terms of capex through internal accruals if the need arises, we always have the option of securing lines of credit from the banks. And that too internally the company has a policy that they would not exceed 0.75X ever.
- Avi Mehta:** 0.75X is the peak debt to equity that you would have and that you are saying that would not even be required because you see internal accruals kind of taking care of?
- Lalit Agarwal:** We are fairly comfortable and sure of the fact that we would generate that internally.
- Avi Mehta:** That Sir is a mix of working capital reduction and obviously profits that we generated. Is that a fair understanding Sir?
- Lalit Agarwal:** Avi, of course internal accruals would be a net effect of all these activities.
- Avi Mehta:** What I am trying to get to is it largely driven by profits, if you could give us rough mix? Are you see that there is substantial improvement if possible in the inventories because you were highlighting that part?
- Deepak Sharma:** Obviously we would like to better on all the fronts and yes, we are trying to reduce inventory, maximize the working capital and also to earn more, reduce the expenses, increase the sales,

increase the margins and open new stores, increase and get more profitability. So these are phenomena's by doing good to all the areas once we start doing in all the areas, we will have to do that.

Avi Mehta: That is all from my side. Thanks a lot.

Moderator: Thank you. The next question is from the line of Prashant Tiwari from Athena Investments. Please go ahead.

Prashant Tiwari: Gentlemen, just wanted to ask something about the same store sales growth mostly in fashion. Like in your presentation it says same store sales growth in fashion is 7.6% and if the selling price has improved by 9% so volume growth was negative?

Deepak Sharma: No that is not the case. So average volume growth you said was around 4% is what we have stated.

Prashant Tiwari: Same store sales growth including fashion is given as 7.6% and same store volume growth you have written is 6.9%. So I just wanted to know what is that volume growth? Is that in fashion or overall?

Deepak Sharma: This is overall.

Prashant Tiwari: But average selling price of fashion has improved by 9%, so if that is improved by 9%, so average selling price is basically per piece, right?

Lalit Agarwal: Yes, per piece.

Prashant Tiwari: So overall if you say like how has the prices increased like I am just trying to tie this same store sales growth in revenue and can you break it up?

Deepak Sharma: The average selling price is the output of not only same store sales growth it is the average selling price across all the store. Same store sales growth only comes from those stores which have been operating for one year completely. So, you may not tie that up immediately.

Prashant Tiwari: Do you have that number for same store volume growth in terms of fashion only?

Deepak Sharma: Same store volume growth in terms of fashion, this is 6.9%, but the average selling price that you are seeing is total. That is not only same store.

Prashant Tiwari: So that is different?

Deepak Sharma: Yes.

Prashant Tiwari: Same store sales growth is 7.6% and same store volume growth is 6.9% you have a little bit pricing difference, not much?

Deepak Sharma: Yes.

Prashant Tiwari: In fashion?

Deepak Sharma: Yes. That is what I told because the raw material prices have been down so we have been able to have leverage on those and try to give more facility to the customer and try to provide them at a lesser value.

Prashant Tiwari: So you have not increased too much?

Deepak Sharma: We have actually decreased the price.

Prashant Tiwari: Right now for a new store, what is the capex per square feet in terms of the actual store fittings and inventory?

Deepak Sharma: It has improved. I think it is Rs.1450 per square feet for the capex and it is almost similar number for the inventory or maybe a little lesser.

Prashant Tiwari: So equally, like some 2800 or 3000?

Deepak Sharma: Yes.

Prashant Tiwari: Finally can you comment on the increased shrinkage and how do you plan to bring it down?

Lalit Agarwal: It is not something which can actually controlled by ourselves. We try to maximize the control, but it is something which is the output of the result and there are certain items which are supposed to be written off also. So it is a part of both, one is prilliferage and two is the actual write off of the old inventory or the spoiled inventory or the nonsalable inventory. This I mean there is a scope improvements and we are continuously monitoring it. There is a separate loss prevention department, which is trying to monitor it and now with the introduction of EY into the whole process they are trying to give a whole diligence and try to understand the process, improvise the process on certain fronts, so obviously all these efforts will lead to result, what we can do is pure action.

Prashant Tiwari: So you believe you can bring this a little bit down, right?

Lalit Agarwal: The belief is always to do good things, yes.

Prashant Tiwari: Finally can you like list two or three drivers for your expectation of same sales growth is doing by 10%, right. That is your expectation in future. So what will be the two or three driving factors for that?

Lalit Agarwal: I take the driving factor as very simple. The market is very big. The areas where we operate has the district population is around 1.5 to 2 million population. Even a two pair of clothes per person is acquired and the business the market size is very big and there are not too many organized

players operating in those areas so even if I look at the market size and I look at the percentage of market share that I would be sharing would not be around maybe 1% to 1.5% so still 99% or 98% market is left for me to safely bring into my pocket. So there is a huge scope. It is all about internal capabilities and internal developments that we can do and try and grab more. There need not be lots of ifs and buts it is all about your internal understanding about the product, about the customer, about your process and about your supply chain and store itself.

Prashant Tiwari: But you would like to see like the same store sales growth coming purely from volume or large part of this from volume right?

Lalit Agarwal: Both the things, we are trying to also improve the customer's acquisition of product because the product line also we are trying to improve taking to the next level, so till yesterday if we used to sell maximum Rs.299 shirt, now we would like to scale up to maybe Rs.325 or Rs.345 shirt, which would be a little slightly better quality and which would be giving him a better output and a better fashion. So we would like our customer to escalate and elevate to the next level.

Prashant Tiwari: And if we increase the customer's profile from say Rs.299 to Rs.325 to Rs.350 products then also its price sensitivity goes down right?

Lalit Agarwal: It is only certain set of customers because attrition level is going up, media is penetrating into the market, everybody wants to look a little good, he will ask less, but I will buy nice thing, so everybody wants to do that and even the farmer's child also if he comes to the city, he will also wants nice dress. He also wants to look like an actor in one of the movies / programs on tv.

Prashant Tiwari: Because I would expect if they move to a higher value product, they would be less sensitive to price changes.

Lalit Agarwal: I understand and that is always a give and take formula, which always will keep on happening, you have to always keep on try and driving those people, those customers to the next level.

Prashant Tiwari: That is fine. Thanks.

Moderator: Thank you. Our next question is from the line of Rohit Gajare from UTI asset management. Please go ahead.

Rohit Gajare: Good afternoon Sir. Sir, I have a few questions. One regarding your future expansion plans. I think you mentioned a target of around 22% to 25% revenue growth. Let us say 5% to 10% pricing out and it implies 20% to 25% store growth. How do you want to go about this in various geographies? Do you still want to concentrate in your current regions, which I would imagine a UP, part of Rajasthan, Madhya Pradesh and Gujarat or would you look at expanding further. That is the growth question. Do you still want to be in these geographies Sir? Next question, I have is on the profitability. The way I compute the ROIC of your company is maybe 60% to 70% at this point do you have any target on that? Are you comfortable with this number or do you want to increase it further?

- Lalit Agarwal:** It is a good question. One, on the cluster base the approach that we already have we would continue to exist on the cluster base approach that we have. We would obviously give us reference to the nearest locality in the nearest geography, which would fall to our existing store and yes we do not hesitate and we will not hesitate into penetrating into a newer geography or a newer state. So we have our in plans to look going forward in the next year to enter into states like West Bengal or Odisha or even Assam. So it is not mandatory first we will have more geographies in the same states and nearby state.
- Rohit Gajare:** Sir, let us see you decide to move into a slightly distant geographies if I may put it that way. Would that imply higher capex perhaps in terms of warehousing costs or perhaps transportation cost or do you think that with the improvement in profitability of existing stores the business on an overall basis should be able to absorb that sort of an expansion?
- Lalit Agarwal:** The approach of going through farther geographies once again that is a strategic question. So our strategy is always to open the next store in the limited geography of 100 km from our existing store. So that is a cluster approach that we take and that is what we take and doing that if we are little farther away from our existing central base of warehousing and the offices, so that I do not think it is still a big concern because till now the logistic cost is not a very huge in numbers, it is around 1% of the total cost and total sales but that still will not be a big challenge. We do not see a big challenge and we are not into a strategy where we would open up multiple warehouses in those areas. They still feed from the centralized warehouses also.
- Rohit Gajare:** Sir at this point most people are looking at may be let us say maybe 1.5 to 2 Crores capex per store that should continue for another year or two. We would not need to add any warehousing capacity or something which we would need?
- Lalit Agarwal:** Yes we would add some warehousing capacity in the existing place, and we already have signed up for those and we continuously have those that is part of our business plan, which has been taken up, but that is not such a big large number. You had second question on ROCE. I would like to correct you we do not have ROCE of 16%. We right now have an ROCE of more than 24%. So, I think this number is still starting of the utilisation of the money earned from the IPO proceeds; still there is lot of money balance to be earned because all the money invested has not resulted into the complete full year sales, so we would like to see a better result here.
- Rohit Gajare:** Definitely, but the number you are talking about is a pretax ROCE?
- Lalit Agarwal:** That is correct.
- Rohit Gajare:** That is fine, but even on those numbers do you see that or do you have a target of improving that 23% or higher or do you think that on a steady state basis your business can and should earn this much and not less, not more, I mean average?
- Lalit Agarwal:** I think those are numbers which can also calculate. I do not need to give you those figures. So, you are smart enough to calculate those looking at the projections.

Rohit Gajare: Thank you.

Moderator: Thank you. Our next question is from the line of Chintan Sheth from SKS Capital and Research. Please go ahead.

Chintan Sheth: Sir, my questions have been answered. Thanks for my call.

Moderator: Thank you. The next question is from the line of Parag Bansal from HSBC. Please go ahead.

Parag Bansal: Sir first of all congratulations on a very strong Q3 performance from HSBC. I have two questions. First is around your strategy to deal with competition. As I believe you do not face a lot of competition from larger tier I players in the current cities that you operate in, but also we understand that some of the players like probably Trend might open up a few stores in the locations maybe not in the locations, it is cities that you operate in but going forward that could be a threat versus your business strategy to believe in that. The second question is around your focus on the fashion business you are consciously reducing your focus on the Kirana business and will that not lead to a reduction in footfall at the stores and so then what is your strategy to continue driving the footfall at your business stores?

Lalit Agarwal: Good question. So first question was on the competition. I would like to update you that still we have almost more than 40 locations where we have one or the other competition maybe likes of Reliance Trend or Tata Westside or Pantaloon Store or Vishal Mega Mart store or future Big Bazaar store or Fashion for Big Bazaar FBB stores so there are multiple competitions which are available in our existing territories also but yes that still does not seem to be a big threat because the market size is too big for everybody to get accommodated and yes, obviously the more capable you are the more you can fetch the sales and then that is more of an internal performance rather than getting threatened from the external players. So I think it is more internal that we need to have. Internal competition is more and that is to be sustained. Externally I do not think because we we understand the real requirements of these smaller town people so we have become a specialist in understanding the real town consumption, understanding what is the requirement, understanding the regional balances because the kind of clustering that we have done in our geographies we have a much more deeper understanding towards those geographies is what we believe. I do not know whether the market believes the same or not but this is what we believe and we feel that in spite of competitions there are several locations where we had been doing better than them also. There are certain locations we have increased our sales whenever the competition has opened up because there is reasoning and there is a comparison, which can be done from what we are selling to what they are selling on the product lines. So we still do not feel that is a big threat. Second question that you had was on the Kirana side, obviously our strategy of not opening any new store with the FMCG floor so we have not been opening any new store with the FMCG area or the Kirana Bazaar so we had 34 store, which we operate along with Kirana Bazaar so we have been continuing with those, all the new sales, which is coming up from the new store is contributing towards fashion only. So that is why we are not getting additional sales of Kirana, but yes additional sales of fashions only.

Parag Bansal: Sir, just to add how are you planning to drive up footfall because Kirana obviously has a lot more footfall like we see from stores like D-Mart in the net?

Lalit Agarwal: If you notice the footfall figures we have sent out in our presentations also, so our footfalls have been increasing in spite of out of 107 stores that we operate right now there are only 34 stores which has Kirana and so Kirana has never been a footfall driver for V-Mart. It has been always value for money fashion or affordable fashion, which is footfall driver, that is what we understood and this is why we have stopped having Kirana in our floor. So Kirana is always a convenient item for the customers. So we have never extracted the footfalls based on Kirana sales or Kirana product. So this is not something which V-Mart is known for. V-Mart is known for its fashion and affordable fashion.

Parag Bansal: Thank you so much.

Moderator: Thank you. We have the next followup question from the line of Prashant Tiwari from Athena Investments. Please go ahead.

Prashant Tiwari: Sir, wanted to know like what would be the number of stores and square feet that you will start the next year with?

Lalit Agarwal: It is a tricky question. So we expect to open another four stores maybe in this quarter still expectation if the properties are provided on time, but hopefully this is what we can do.

Prashant Tiwari: If you open four stores that will be 111?

Lalit Agarwal: Yes.

Prashant Tiwari: That will be around?

Lalit Agarwal: Additional maybe 30000 square feet.

Prashant Tiwari: So around 9 lakhs square feet over there.

Lalit Agarwal: Yes.

Prashant Tiwari: Have you given any expectation for the growth that you would close this financial year with?

Lalit Agarwal: We continue to do the same and this is what we should do because we have opened up some stores in this quarter also maybe nine stores that has not resulted into complete three quarter sales or three month sale so that would also add up to this quarter's sale and I think we can expect a little better percentage on the growth side in the next quarter.

Prashant Tiwari: In the revenue?

Lalit Agarwal: Yes.

- Prashant Tiwari:** The same store sales growth you would continue to do this?
- Lalit Agarwal:** As of now the situation looks great, but I do not know about the future. We expect to improve it.
- Prashant Tiwari:** Are there going to be any inventory loss in any subsequent quarters?
- Lalit Agarwal:** In the coming quarter we always have a higher degree of stock taking processes due to a weak quarter and end of the year so yes we usually have a higher degree of inventory write off in this quarter.
- Prashant Tiwari:** Will it be larger than last year or similar?
- Lalit Agarwal:** If we would have known it we would have stopped it.
- Prashant Tiwari:** This loss will be there?
- Lalit Agarwal:** It is ought to be there and I cannot tell you there will not be any theft.
- Prashant Tiwari:** Very true. That is fine. Thanks.
- Moderator:** Thank you. Participants due to the time constraints that was the last question. I now hand the floor back to Mr. Jignesh Kamani for closing comments. Thank you and over to you Sir!
- Jignesh Kamani:** Thank you. Sir, I have two strategic level questions on the very long-term vision. Sir, if you take many of our geographies we are one of the low cost benefit, be it the lease rentals, be the employee cost, but if the market in that area develop in the next four to five years, the lease rental in the other low cost benefit also will increase drastically. So what will be the strategy of V-Mart to increase and realize so that we can be at a high cost or to vacate the space? For example we already have experience in Indore which is marketed right now developed over a period of time. So can you share some our personal experience on that outlet?
- Lalit Agarwal:** I think when most of the stores we have at many stores which have completed their operations so out of which we are continuing with some of the stores without any new increment or the regular increment like we had our original store for store Ahmadabad or Vadodara that the lease period have expired or even in Delhi, but still the stores are continuing with the existing lease arrangement that we had with a slight increment as already agreed and that is the situation and once again that is not the end of the story. There is a huge market and lot of real estate is still vacant in the whole city and we are a known brand in that city so we always get new deals and new places where we can go. If we do not get it then we will get another city. That is not a very big problem. In India there are lots of places vacant.
- Jignesh Kamani:** But like markets like Indore where we are there since many years?
- Lalit Agarwal:** Indore.

- Jignesh Kamani:** Yes.
- Lalit Agarwal:** I do not think we are very big in Indore.
- Jignesh Kamani:** Ludhiana and everything.
- Lalit Agarwal:** Ludhiana is also not there, we have closed it down.
- Jignesh Kamani:** So because of the profitability matrix or it is more about the market is too mature right now?
- Lalit Agarwal:** I did not get you.
- Jignesh Kamani:** In some of the markets we vacated because of the cost has increased?
- Lalit Agarwal:** Yes, we were not able to generate a good store EBITDA at those levels. We were not able to generate those kind of per square feet sales as we had already been speaking that we have a very rigorous month-on-month MIS system where we do not have any emotions with their stores which are not operating. The stores which are not operating for a year is flagged off and anything which is negative on this side there is some amount of working which is done to improve those and when it does not happen then we do not take it as ego and we close it down.
- Jignesh Kamani:** Thanks a lot Sir. Thanks a lot for your valuable time.
- Lalit Agarwal:** Thank you Jignesh. Thank you for arranging the whole thing. Thank you all the participants. Have a great day. Thank you. Bye. Thanks.
- Moderator:** Thank you very much. Ladies and gentlemen, with that we conclude this conference. Thank you for joining us. You may now disconnect your lines. Thank you.