



**“V-Mart Retail Limited Q3 FY 2016  
Earnings Conference Call”**

**February 12, 2016**



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*V-MART Retail Limited  
February 12, 2016*

**Moderator:** Ladies and gentlemen good day and welcome to the V-Mart Q3 FY 2016 results conference call, hosted by India Infoline Capital Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance joining this conference call, please signal for an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Avi Mehta from India Infoline Capital Limited. Thank you and over to you!

**Avi Mehta:** Thank you Daryl. Good evening everyone. On behalf of IIFL, I would like to welcome all of you to the Q3 FY 2016 conference call for V-Mart Retail from the company we have with us the key senior management including Mr. Lalit Agarwal – Chairman and Managing Director and Mr. Deepak Sharma – CFO. I would now like to hand over the call to management for their comments. Over to you Sir!

**Lalit Agarwal:** Good afternoon everyone. This is Lalit Agarwal one again back to explaining the results this quarter. So I just start with overall situation. The overall situation that we are able to witness in the rural and the semi-urban economy is pretty bad is what I will speak today. One what we understand today people are spending a little less because they seem to have little less of money in the pocket because of the various schemes that we have discussed a couple of times.

I think now it is being witnessed in these territories more because the people becoming a little more cost conscious of the fact that they had two bad monsoon and they want to wait and watch what the third monsoon will result into. They have not generated any additional income levels or they have youngsters in the family has not got any new job while education cost has grown up and even the day-to-day cost has gone up, leaving aside all those different other money generating schemes which government had introduced, all the social schemes.

There is lot of compliance issues which the government has now introduced on the all those social schemes, so not everybody is able to access the social skills also and beyond what we see lesser MSP increment in agriculture , which has also given lot of concern over the basic status of the cash flow in the family. What we have also seen is also the corruption income going down, has also result into lesser money in those areas because lot of corruption money used to flow down to this small towns and small villages which has also stopped is what we visualized.

Now we are seeing a little lesser consumption overall when we speak to everyone including people who are operating in the two-wheelers or even small other kind of retailers we have witnessed a lot of people are really reeling under pressure. This time the urban consumption is not that highly effected, but still even that is also not very, very good and what we have seen is overall people have curtailed in some of the core areas like kids wear, mens’ wear the average price has come down tremendously but in the ladies fashion people have spent more is what we are seen, the average selling price has gone up, people are buying little more fashionable



*V-MART Retail Limited*  
*February 12, 2016*

products in woman wear otherwise festival season has been not to great. Diwali was better okay. There was Durga Puja in this quarter also which is resulted from betterment in some eastern part stores; during the quarter we just entered the states of Orissa and Bengal so we would get that effect in the Durga Puja.

This year we have seen only Diwali being okay and Chhath was still better. Now the weather has played a big havoc this time in the northern part of the country. The temperature was primarily on an average 5 to 7 degrees up than what it usually is. So we have seen the winter temperature not clicking in early part of November, December so there is a lot of sales loss that we are seeing on the winter wear apparel and especially footfall reducing and people are not buying too much of thick or heavy winter clothing, people have rather bought more of light weight clothing which is a lesser priced product, so we are seeing all this happening.

We are also seeing better penetration from the online players. We have seen lot of areas which have increased in the services, the courier services and delivery services have come into newer areas also, but still we see more than 40 to 60% areas where they are not being served still. Other than that offline competition has also walked in, a lot of offline regional competitors have come in and we are seeing greater numbers in those festival days, we have seen lot of new names which have cropped in multiple territories.

So this has also created an impact almost 30 of our stores had faced some or the other new competition which has come up only in this quarter and so we have also opened up almost 13 stores in this quarter, we have entered these two geographies of Bengal and Orissa. The response of the most of the stores is good so we are still learning in these territories. Orissa being a little different because the weather conditions are different, Bengal also is a little different. So we are learning the nuances of this small geography and trying to understand the culture and the buying pattern and wearing pattern of the habit of the people. So that learning is still on.

We have seen new fashion; people's adoption in the fashion at least in the ladies wear is better. We need some technology drive, analytics drive with a lot of analysis on the customer insight and customer behavior; how are the customers performing so we have also mapped our stocks accordingly so still trying do it better by introducing this warehouse management system which is supposed to go-live in this particular quarter at the our Bilaspur warehouse. So we are bringing in this technology. I think that will also help us to better our replenishment system, and better our customer or convert the customer insights into action so this is what we are trying to do, trying to figure out each and every process, trying to attack all those processes because of the new compliance which is coming in IFC, so we are very well focusing on the processes, we are bringing in new people, a lot of new people have joined in, in this particular quarter especially in the merchandising area and we have seen overall at a transition level the footfall has been lower so has also been in the conversion compared to the earlier years and what we have seen is also that average selling price dropping down and the volume also dropping down this year.



*V-MART Retail Limited*  
*February 12, 2016*

The volume overall has come down by almost 11%. What we are seeing overall these are temporary scenarios, but even this particular current quarter the scenario does not seem very promising and is also acting below our expectation. I think rest of the things; Deepak can take you through the numbers and then talk something on the inventory and then the numbers of the balance sheet. Thank you.

**Deepak Sharma:**

Thank you Lalit Ji. Good afternoon everyone. As always Lalit Ji provided you with an overview, and I will focus a little bit around fundamental aspects which have resulted in the numbers. From the sales side, EBITDA and I will focus on couple of points, which pertains to footfalls conversion and the average sales prices.

Footfalls have been little below average this time because we have grown about 12% on quarter-on-quarter basis and 15% on a YTD basis which is a little below our expectation in terms of the growth. The conversions have dropped by 2% for the qtr and 1% YTD and the average transaction size has grown at about 6% on an average.

The margin for the quarter has dipped by about 1.63%. I would like to add a small comment here that on account of high shrinkage number that we have reported for the quarter which is coming primarily on the backdrop of the fact that normally we conduct the stock take of our warehouse happens in Q4 and this time we have conducted it in Q3 primarily because of the reason that in January we were expecting to go live on WMS which is Warehouse Management System and for that we needed a complete inventory input of the stock take would have not been ready and facilitated going live on the WMS so the company took a conscious call to conduct that in Q3 and hence the results for Q3 need to be normalized for the shrinkage, the write offs primarily being at the warehouse. We get a normalized number, which is more or less at parity at or better than what we were at last year.

On the expense side, we are more or less on track with the primary increments coming on account of the back-end operations as well as the front-end side. Front-side primarily because of the new store additions and on a like-to-like basis, they are more or less at parity. Major impact on the expense side coming from the amendment in the payment of bonus act which added about Rs.1.5 Crores as an expenditure to manpower cost during the quarter and another normalization which I would like to highlight has been depreciation which is amount of Crore plus.

If we normalize it for these major impacts the EBITDA is coming off primarily on account of a weak topline. GP margins of course like I mentioned earlier we have managed to hold out, if we segregate it in terms of the product level GP and shrinkage and if we normalize it for the shrinkage that we have accounted for that is what has caused a major impact this year for this quarter as explained earlier then we are at parity. I would not like to take too much time on delving of the numbers and I am sure that the audience would prefer to have a lot of questions this time. So, I would like to throw the floor open for questions.



*V-MART Retail Limited*  
*February 12, 2016*

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Aabhas Poddar from Anived PMS. Please go ahead.

**Aabhas Poddar:** Thanks for taking my question. I just wanted to understand could you explain more on the competition part. You are saying 20 of a store face new competition, could you please as to how it goes they spend more initially and then the word of mouth spreads or there is an initial support and then it settled down and then they come back to quality?

**Lalit Agarwal:** Whenever any kind of any form of competition comes in through we treat as a competition if it has something, which is similar in price or similar in product range and targeting similar, set of customers. So, there are certain stores which have come up, which are similar in sizes which across our stores and similar in concept, but obviously the product lines would not be as good as that, but whenever there is a new game in the city, so people would try to experiment that and people will always try to go and have a look at it. Because all the inventories would be a fresh inventory, all the collection would be a very new collection. They would tend to attract first for footfall and people whoever comes to our stores, first try to visit them also see what is available and then whoever do not like it will come back to us and buy it. So initially for the first three, four months, we do see certain level of impact may be to the tune of 10% in that particular store where the sales dropped down 5%, 10% or 8% or 5%. We would always try to come up with lot of promotions, schemes and all those stuff. So even they tried to do it and then similarly they also attract, because the town is not very big. People start knowing when people are coming to our store before there is a new store, try to experiment. So that is what happens. But typically what we have seen the first three months we see an impact, but overall people start coming back to us and because of the good quality, the good fashion and the experience and value that we are able to provide. So that is temporary shift which will happen. During the festival time just before the festival time even those competitors come up with such kind of stores, so whoever want to come up this store, they will only come at the festival time. So we have seen in this particular quarter.

**Aabhas Poddar:** Okay, that is helpful. I also wanted to understand the gross margin part again would 160-basis points completely be explained only by shrinkage or would there be some of the element to it?

**Lalit Agarwal:** I think this is only purely shrinkage because what we typically do is, we analyze the inventory on the ageing basis and anything which is older, we are not seeing the salability of that particular inventory, what we do is we transfer all those product to the warehouse and once again we take a look at it in the warehouse and then whatever is nonsalable, we write off them once in a year. So, normally we do it in the fourth quarter, this time we did in the third quarter, so lot of first write off is basically due to the product which are either damaged or nonsalable and some part of it is which is actual pilferage, so major part has come due to that.

**Moderator:** Thank you. The next question is from the line of Sunil Kothari from Unique Investment. Please go ahead.



*V-MART Retail Limited*  
*February 12, 2016*

**Sunil Kothari:** Good afternoon Sir. One thing, from the understanding point of view, you are saying there is increasing competition from offline and online stores also. The way online e-commerce is providing very discounted offers and all these things. So, would you say in detail little bit more to understand how you see over next two, three years the scenario? How you will be competing? What is our ability, which is very difficult for others to copy, something on competition scenario for the next, little bit longer term?

**Lalit Agarwal:** Obviously everyone knows in the world that online players are putting in lot of money, they want their share go up, they are putting in hell lot of money in advertisement, promotions, discounts, schemes, so they are putting their best and they have been funded very heavily by all these investors. So they are trying to grab the customers and they are creating all those fiasco by regularly putting in lot of such events where they say it is cheaper 70% off, 60% off, but post that there would be certain segment, certain percentage of population which would try to follow them and which would get converted by their mere pressure on all the marketing process that they have adopt. So there is some level of conversion which happened, but not that every customer is happy post that also. Because we have experienced number of customers turning back saying that what is return on the website is purely like cotton rich shirt or shirt at Rs.1000 and flat by 50% to Rs.450, but when they purchase and now they are checking with our store, they are finding still that particular product is costlier after the discount also, so our store selling the similar product at Rs.300 and he has bought at Rs.450. So there are such kind of thing, so in this product lines where we are selling it is very difficult for them to also compare and because they are operating a market place model and vendors was supplying them or traders was supplying them are not very big. They are very small time; traders who are doing some part time jobs, sitting at home are very small trader who is charging much higher to the customer. So, I do not think this is a very sustainable model, but market is always going to be there the more it is getting exposed, the more people are coming in as retailer, so they will be such challenge, but you have to keep yourself focus and delivering value to the customer till the time we are able to deliver right value with right fashion and continuously keep doing that I think our services will never be forget it, so they will come back and they will once again, we will see that to happen. It will already be occasions whenever there is some competition, which is walking in, people will try and then once again come back whenever their experience is bad with them.

**Sunil Kothari:** We talked about some other stores opening in the small town in giving competition, it is a very easy for them also to create this new segment, new stores and how it is difficult for them, because you are there to make money?

**Lalit Agarwal:** I do not want to really jump into straightaway going into making money, because small time entrepreneur never looked at in a very organized fashion and does not understand is value for money and does not understand is cost for money, it does not understand all the compliances, do not added to all the taxation principles, do not added to all the policies. So, he would like to get into any kind of practices and start converting that. But it is purely what kind of margin are you able to derive and what kind of losses are you able to make. So, there are certain losses which are



*V-MART Retail Limited*  
*February 12, 2016*

visible and which are transitionary and there are certain losses which are back-end which are invisible, so like the inventory, or the inventory filing up or wrong inventory coming in, nor the inventory not selling or in the long term you offering discount. So, immediately let me not jump into what is the profitability, but good businessmen will try to always do it in a better way and we will always try to earn on the whole assignment. Because they would be local in nature, so they would have a little hold in that particular geography, so they can acquire some space, they can bring in some material, so there are multiple kind of manufacturer and wholesaler who are nearby available who will try and supply them some product, so will get the stock, but not that everything can sell.

**Sunil Kothari:** So basically you do not see any threat from this situation and it may be temporary challenge?

**Lalit Agarwal:** We do not say that we are taking that lightly. We do not say that, we do not treat them as a strong competitor. We are internally taking them seriously and we are trying to deal with every kind of competition, which is available there. So, we want to be alert and aware and we want to always try and counter that with the best of the effort.

**Sunil Kothari:** One more thing about account, this Rs.8 Crores write off inventory in this Q3. Can we have comparable numbers current nine months and last nine months?

**Lalit Agarwal:** Last year for the nine months, the shrinkage that we have written off was nine-month figure is 6.34 on a consolidated total basis and this year we have written 14.51.

**Sunil Kothari:** That is because of you said normally you do in Q4, but now we have managed the Q3.

**Lalit Agarwal:** Yes, primarily it is on account of that.

**Sunil Kothari:** And last full year number if you can provide me?

**Lalit Agarwal:** It was Rs.13.3 Crores.

**Sunil Kothari:** We have done during 12 months.

**Lalit Agarwal:** Yes.

**Sunil Kothari:** I am a new investor, so I just wanted to you in the sense, the change in depreciation policy, this nine months we have provided Rs.14 Crores and last year it was not there, so what is the change we made.

**Deepak Sharma:** Can I make a small suggestion? Last year what we have done was we had changed as per the company's act, a provision based on useful life for the asset rather than the percentage base depreciation which were provided in the company's act earlier and further to that the useful life



*V-MART Retail Limited*  
*February 12, 2016*

which was mentioned as per the company's act, V-Mart felt that for certain categories of assets, the useful life was a shorter period, so due to this change in accounting policy of the depreciation from WDV to a straight line method there was substantial write back of depreciation, which happened till the third quarter reporting that we had. So it resulted in add back of depreciation, resulting in negative depreciation expense for the nine-month period last year verses Rs.14 Crores depreciation expense for current year.

- Sunil Kothari:** Last thing is , the shrinkage has been accounted in what expenses ?
- Lalit Agarwal:** As part of GP, it has been incorporated as a part of GP itself.
- Moderator:** Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.
- Nikhil Upadhyay:** Good afternoon Sir. Thanks for the opportunity. Sir, just dwelling on this online retail channel with you discussing earlier, I just wanted one perspective, so if we look at our average selling price which is around Rs.308 for the latest quarter. So to some extent when we increase our prices does the branded sales or the amount of discount, which is available on online sale, does that act as a cap for us?
- Lalit Agarwal:** I could not understand your question?
- Nikhil Upadhyay:** My point is that if a consumer is buying a jean and he goes to Flipkart and sees that a branded jeans of some XYZ brand is available after discount at Rs.500 or Rs.600, when we are setting the price of our product we cannot set it beyond Rs.500 or Rs.600, because the person will always purchase the branded product which is available at this price?
- Lalit Agarwal:** I think for you and for me when we learn a word called jeans, but within the jeans but within the jeans there is a jeans which can be made available at Rs.300, there can be jeans in my store which can be made available at Rs.1400 and there can be a brand who can supply the same jeans at Rs.2000, there can be a brand who supply similar kind of jeans or what are different fabric in different material is Rs.5000. So, now I do not know what jeans and what product. Even the customer is similar, customer does not understand jeans , and it will try to understand within the jeans what is the product and what is the fashion? What is the element? What is the fabric? What is the wash? What is the fit? So it is too deep into it, so you cannot just compare the jeans of Rs.500 with a jeans of Rs.500. Even if the brand is selling may be certain jeans in Rs.1200 and then Flipkart is giving a discount of 50%, it will be costing in Rs.600, but may be that jeans is not even worth Rs.400 at my store. So similar product is something, which is important. You understand that. Because that is very, very important, the customers understand, because the customer has to ultimately wear it. It is not just going to wear the tag, it is going to where the actual product, so products should be usable and product fabric should be very good.





*V-MART Retail Limited  
February 12, 2016*

- Nikhil Upadhyay:** I get that point.
- Lalit Agarwal:** We do not have the caveat. We do not have any cap. We are giving out all the kind of product and our customer knows what product at what price is available at V-Mart. So what is the kind of quality which is available, so may be there would be certain fraction of customer who are still forget that and go with that marketing call which the online place has given and he will end up in the trap and buy, but not everyone would be happy what I am saying.
- Nikhil Upadhyay:** So there are dissatisfied customers.
- Lalit Agarwal:** Whatever examples have come across I am stating that.
- Nikhil Upadhyay:** Secondly Sir, with this WMS system which we were implementing, so basically now all the stores would be completely on the inventory management along with the warehouses, so the activity which were doing last one year, so basically to a large extent, it is complete implementation of that is done, can we?
- Lalit Agarwal:** The inventory model was always there. even now the store was visible with all the inventory, within the warehouse the implementation process and warehouse inventory management process is what we have benefited by WMS and the visibility of the inventory within the warehouse, productivity level within the warehouse, the efficiency within the warehouse and the accuracy within the warehouse, off the replenishment is important and which will get benefited by WMS. Even the warehouse is a very big warehouse where the productivity also needs to come out to replenish the right product to the right customer.
- Nikhil Upadhyay:** Lastly Sir, you mentioned that when we are entering into Odisha or Bengal and we are trying to understand the customer preference for products and all. So, how does this work, so initially when we set up a store and we replenish the inventory, so how do we decide upon, what type of inventory we have maintained and then finally how do we define sourcing, because to me , the consumer preference?
- Lalit Agarwal:** We do carry out a survey when we do the business development activity and store location activity or the town location activity. So we try to do survey and we try to speak to lot of customers, we try to go to lot of stores, try to understand what are the products which are salable, what are the preferences of the people, we track all those data, use the data and share it to the merchandizing team and supply chain team based on that they try to align one of our existing store along with that similar nature and that is we called proxy store to what percentage in what kind of product and based on those we try and plan something and give a product line and may be post that we may find a different reaction we may have assume something with the actualization would have been something else, so now based on data once again we changed the whole theory and we tried once again get align with the customer requirement.



*V-MART Retail Limited*  
*February 12, 2016*

- Moderator:** Thank you. The next question is from the line of Arun Baid from Religare Capital. Please go ahead.
- Arun Baid:** Sir, just a few question. One is, you have already opened the 14 stores till now this year. So what do you think you will end the year at?
- Lalit Agarwal:** We have plans to open another three stores, so these are the plans till the time, still there is one property which is handed over, but other two properties have landlord have not handed over the complete property, so most probably we hope that we will open the three stores in March.
- Arun Baid:** Typically your normal guidance is 20 odd, so we are going to look at in FY2017, 20 odd stores?
- Lalit Agarwal:** We would have opened three in March and then some would roll up to April, so some would go in April.
- Arun Baid:** Second thing is tough one I am going to ask, SSG part of it, what do you think going ahead we can build in numbers?
- Lalit Agarwal:** I am asking my people the same question. There is not a question, which I have an answer to. We will have to keep our finger crossed, because things are very bad. January month was very bad as I have already stated, so it was negative since last year because weather is playing very bad this year, so I do not know how is going to plan out, let us hope something better in March.
- Arun Baid:** The winter wear obviously is high-ticket priced product, but that affected your revenue per square feet. But in January, could you clear that inventory, how is the response there?
- Lalit Agarwal:** Obviously the sale that we have lost may be Rs.15 Crores to Rs.20 Crores worth of goods. We may not be able to make it up, so there will be some extra left over which will be there this year.
- Arun Baid:** So that would be cleared now or you have to carry it forward Sir?
- Lalit Agarwal:** We will have to carry it forward.
- Arun Baid:** Because typically give lot of discounts in January at 75%
- Lalit Agarwal:** What is said and done, people saying that I do not have money to buy your product give me a discount now, because the need is not being visualized very strongly.
- Arun Baid:** Second question was first for Deepak Ji that is Rs.1.5 Crores, which was spaced because of the new Bonus Act, is that recurring or it is one-off how do we look at that?
- Deepak Sharma:** It is going to be a recurring expense as Rs.1.5 Crores is for nine-month period and they will be expensing for balance three months in Q4 and it is a recurring expense. Only thing is during the



*V-MART Retail Limited*  
*February 12, 2016*

current year we could not accrue it over the nine-month period and that entire impact has been reflected in the results for the nine-month period. Just one other aspect that I wanted to highlight was that though the act required for the retrospective implementation of the payment of bonus act that means that for 2014-2015 also we were required to provide for it in the books. The Kerala High Court has come out with the ruling, which has stayed the retrospective implementation. So the company has not provided for the retrospective amount, which even there has been disclosure in clause 41 filing stating that amount of tentatively about Rs.84 lakhs.

**Arun Baid:** Depreciation typically what you mentioned was there, but we have right now at about Rs.14 odd Crores, in the last quarter Rs.4.9 Crores, the number should be similar in Q4 also right?

**Lalit Agarwal:** Yes.

**Moderator:** Thank you. The next question is from the line of Mike Sell from Alquity. Please go ahead.

**Mike Sell:** Good evening. Could you please talk about the balance sheet and where you see Debt equity going over the rest of the year and to next year please?

**Lalit Agarwal:** We are fairly conservative company so far as debt is concerned, we do not take any debt for expansion side or the capex side on the expansion front and the only debt that we have on the balance sheet is on account of working capital. We also have substantial amount of investments and cash. So, if we look at the financial for the current period, our total debt is about Rs.38 Crores and against which we have cash and cash equivalence amounting to roughly about Rs.20 Crores. So, the net debt if you look at it we have just about may be Rs.15 Crores to Rs.18 Crores. On a total network about Rs.232 Crores, so I would take that as a practical nil debt on the balance sheet.

**Moderator:** Thank you. The next question is from the line of Shirish Pardeshi from Anand Rathi. Please go ahead.

**Shirish Pardeshi:** Good afternoon Lalit Ji and Deepak Ji. There is couple of questions. This is basically on the same store sales growth. I am sure you would have not been happy for this growth, but I just wanted to check the largest store represent UP and Bihar. Is the similar trend found across both the states?

**Lalit Agarwal:** It has been almost across pan India, so most of the Bihar and UP has been a major hit especially Bihar and Jharkhand, so that part of the country was really very down for the winter products in the winter time, because that part winter has been very, very bad. So, at least we have been able to see some betterment in Uttarakhand and these spaces.

**Shirish Pardeshi:** What kind of merchandize contribution comes from the winter products, if I have Y-o-Y comparison?



*V-MART Retail Limited*  
*February 12, 2016*

- Lalit Agarwal:** In this particular quarter, what we exclude basic and we exclude summer, these are typically 50% of the product sales which comes from such kind of product what we called as pre-winter, winter and what we called as an autumn wear, something it is full sleeves in all those stuff, so this is almost like 53% contribution should come.
- Shirish Pardeshi:** This reduction in footfall and of course what you have said that per square feet sales, which has dropped, you will attribute primarily because of winter care products?
- Lalit Agarwal:** One-and-a-half months we saw a very huge downfall due to weather post 15 November, post Diwali exactly. So, post Diwali generally it is particular season which clicks in and with marriages coming in, people do buy a product whenever they want to go to attend some marriage. They want to buy some new cloth to meet their winter requirement. Now, because winter was not there, so they can now use the similar product we bought for Diwali. What they bought for Diwali and what they will wear and go for marriage, because they do need to buy it for the extra covering. So that is why we have seen a little lesser footfall coming in from there and also you also know that because the economical situation, we also give some part of the downfall to the economic situation, some part also goes to online or offline competition that we have had in multiple territories. So there are multiple factors, but major factor would be weather.
- Shirish Pardeshi:** I am not understanding that you said the same store sales growth for fashion is 3% and when we are saying that with a premise we are providing basically fashion which is at the price. So is that there was a discounting which was lesser in this period or what is exactly or people have really not purchase in the goods?
- Lalit Agarwal:** People have not purchased, because the requirements have gone down, now because earlier what happens you have come, you would bought a jacket which would have worth Rs.1200. so now either you have not bought or you have bought light weight sweat shirt which will be priced at Rs.300 or Rs.400. So once the value goes down to lot of the places people say I have ordered such shirt, why should I buy one more shirt. So, let me not buy jacket or not buy anything. It is either of the two, the products value get goes down and he buys the cheaper product which is a conversion, which is substitute to that product and or he does not buy anything.
- Shirish Pardeshi:** We will go slow on opening of new stores in next two, three quarters.
- Lalit Agarwal:** We never said that. We still feel that the territories where we are present, where the organized retail is not present. There still a very large amount of scope, which is available there. So we have continued searching new locations and we are working on in the line of our plan, which is consistent in nature, which are around 20 stores every year.
- Shirish Pardeshi:** I also heard that you said January sale is slow, so does mean that you will have to carry this winter inventory for next year?



*V-MART Retail Limited*  
*February 12, 2016*

- Lalit Agarwal:** We will have to carry some part of inventory for the next year.
- Shirish Pardeshi:** What could be the tune about Rs.40 Crores, Rs.50 Crores?
- Lalit Agarwal:** No, something around Rs.20 Crores. Normally it is Rs.7 Crores to Rs.8 Crores, this time we are still having this season and we are trying to sell them off, but what the projection we see something around Rs.10 Crores, Rs.12 Crores I have explained inventories what we will carry.
- Shirish Pardeshi:** What are the outside weather what are the other challenges we are seeing in terms of growth?
- Lalit Agarwal:** As I said you one is this, two is competition, three is also the major factor that I am seeing is the overall people's capability and capacity to spend more it is reducing and then we are able to visualize that in regular detail discussion with my store manager that people are filling a pressure and there is a pressure especially in these particular belt which are primarily Tier 3 cities, so we are seeing more pressure on those town.
- Moderator:** Thank you. The next question is from the line of Ravi Mehta from IIFL. Please go ahead.
- Ravi Mehta:** I just wanted to understand this while the winter wear clearly has impacted us, would we be having any data to share, what would be the ex-winter wear, fashion or something of that sort have been done any cuts like that?
- Lalit Agarwal:** I could not understand what you saying?
- Ravi Mehta:** If you could break the fashion segment into winter wear and non-winter wear and see whether how is the growth in the ex-winter wear kind of segment, could you be able to share on the same store sales basis?
- Deepak Sharma:** Like Lalit Ji highlighted a short while ago that we do break up the analysis along seasonal breakup, so winter is the one of the seasons. We break up the entire sales along winter, summer, basics, autumn, pre-winter, so we have these categorizations. Did I understand your question correctly?
- Ravi Mehta:** I meant in this quarter would you able to share any slice of saying that ex-winter, fashion sales were 8%, just to get a sense that I am trying to understand if I have to isolate the impact of the weather how much would be SSG growth be is there any way to do that, what is trying to come to?
- Deepak Sharma:** We really have not prepared a slide around that, but I am sure that we can make an effort.
- Ravi Mehta:** And Sir secondly just if you could share the capex plans for FY2016-2017?



*V-MART Retail Limited*  
*February 12, 2016*

- Deepak Sharma:** FY2016-2017 as Lalit Ji mentioned that we plan to open about 20 stores, so for 20 stores the capex at about may be Rs.1.1 Crores per store will aggregate to about Rs.23 Crores and on account of certain stores might be requiring refurbishment plus additional capex requirement at warehouse and the HO, the total amount we expect as somewhere in the range of Rs.28 Crores to Rs.30 Crores for next year.
- Moderator:** Thank you. The next question is from the line of Anuj Sehgal from Manas Capital. Please go ahead.
- Anuj Sehgal:** I just wanted to understand, your average selling price has gone down, but the transaction size has gone up, so how should we think about this? Is that to say that prices have come down because of lower cotton prices and you are passing on the benefit, but each consumer is buying more in a transaction?
- Lalit Agarwal:** Anuj, we have seen, because there are lot of new stores have also opened up, so we have seen this particularly in some newer store where the transaction size were little large and the transaction size will go up, because all these new stores which we are opening up are primarily fashion stores, they do not have kirana. So the kirana stores typically have smaller transaction size, because of the non-kirana stores also their transaction size primarily goes up and in the newer store normally the transaction size are also little higher, so we have had a lot of new stores in this particular quarter.
- Anuj Sehgal:** Then related question is, now that your fashion segment to total revenues as expanded to 92% and kirana is only 8%. Are you seeing any gross margin benefit because of the mix change, because we do not actually see it in your reported numbers and of course Deepak explained the shrinkage, but if you just look at the fashion segment or if you exclude the shrinkage part, how much is the margin increasing, because of the mix change towards fashion?
- Lalit Agarwal:** So, there should has been 1% increase in the margin, but this time, we have not been able to realize that because of this lower sales, we have also given some extra promotions and discounts, schemes and promotions during those months, so it would have been primarily, obviously the margin remains the same. So now if you do not give because you want to attract more customers, you want to convert them more, you give some part of the margins, on the schemes.
- Anuj Sehgal:** Lastly on the existing stores where you have kirana, will you continue to run them or will you ultimately shift all stores to 100% fashion?
- Lalit Agarwal:** No, we do not have any plans of take a call to shift them to 100% fashion. The towns and the locations where the store is doing good with kirana, we will continue with them. We are trying to take a review. All those stores where the kirana segment is depreciating or depleting we would stop in those locations, but not in all locations. Because their supply chain management is primarily local from the distributors who are in this local territory. So, we do not have extra



*V-MART Retail Limited*  
*February 12, 2016*

pressure with supply chain, we do not mind continuing those stores with kirana, because the location is used and the people are used to that particular store with kirana.

**Anuj Sehgal:** Then lastly, usually your fourth quarter EBITDA margins are much lower at 4.5%, but now that you have taken the shrinkage impact in Q3, it should be expect a better margin in fourth quarter?

**Lalit Agarwal:** Yes obviously, the particular shrinkage that we used to have in the fourth quarter would have shifted, I do not know how much better, can we do it, because the quarter is not being good.

**Moderator:** Thank you. The next question is from the line of Yatin Mukhi from DW Investment. Please go ahead.

**Yatin Mukhi:** Basically to understand that this year has been pretty bad especially for the rural sector, but going forward hopefully with the budgetary support and the expectation that we are going to have kind of a La Nina monsoon season next year. Can we think of basically ramping up our stores at a higher speed may be instead of 20 we may go for 40 stores, so that when the rural cycle reverses, we will be in a better position to leverage that? Anyway as far as equity is concerned, it sells at a premium in the market, so we can leverage that premium raise some private equity or some other source of funding and basically speed up our expansion plan, so that when the cycle reverses we will be the first to take advantage of it?

**Lalit Agarwal:** Anyways whether the cycle reverses or not reverses the newer territory always has a market and there is a market which is unserved by organized players. So there is always a scope that is primarily what I want to do here is we take this call purely on an internal capability mechanism.. So, we will try to take this call and we are always cognizant of the fact that opportunities are there and opportunity is there even now. As we are bringing in new processes, new technology and new people, so we are trying to aim for a better rate of growth, so we will take this call not on the pure pressure or not on the pure expectation that the economy is going to do good, but on the basic thought process and confident step that this organization can handle it well.

**Yatin Mukhi:** And we have already in a process of strengthening the organization right?

**Lalit Agarwal:** That is a continuous effort that we already on, I mean we are growing the organization every year, so we are bringing in new store, so that is already on and that is what has been utilized.

**Moderator:** Thank you. The next question is from the line of Rajat Buddhiraja from Banyan Capital. Please go ahead.

**Rajat Buddhiraja:** Thanks for taking my question. You have mentioned that one of the challenges is the competition. The competition was always there from the local guys right, but so do you want to mention E-com especially and if yes then is it few perception or have you done any kind of study



*V-MART Retail Limited  
February 12, 2016*

which is saying that the competition is increasing because of that and if yes then how are you going to tackle that?

**Lalit Agarwal:**

We did not say that the competition is a challenge. We have stated that the position is such that there are such kind of competition which has cropped up in these kind of territories, which are almost not those Mom And Pop type not those bazaar type, but all are similar type of stores being build up in those territories, so we called as a competition, but yes obviously we do not mind having those competition. The competition is always going to come and we believe that the market is too large for every competitor to come in and have a party. So we are still occupying or enjoying only 3% to 4% of the market share with the kind of store that we opened up in the territory and apart from that online yes, there has been some penetration, there is no doubt and we also have carried out certain survey from almost 30000 customers who come to shop at our store, so trying to understand how much they go online, whether they go online or not and what have they bought and whom they have bought from and what is the penetration. When was the first time that they bought or still have they bought or not. So we got a conclusion that yes. So 15% of our customers have bought from something other from online, 30% of the customers do go online and some of the stuff, 50% of the customers do have smart phone, so we are trying to get those understanding in the pulse of the data saying that whether it is the right time for us to get technological more, but still we feel the market is very immature and premature and as of now the smoke or the dust in the air is purely on the basis of discount and promotions and the schemes. Let the dust settles down and then obviously there is a scope for us to also guide in on approach and then I try to see that our customer also get convenience and benefit of a digital platform.

**Rajat Buddhiraja:**

Right, but 15% is a big number right? In case of it continues to expand 15% to 20%, ultimately this is going to affect you and may be your feeling the pinch on the winter, but online may be one of the factors that you did not get the same store sales growth right. So, at one point of time, you will decide this, you should also go for it and have some kind of online platform and finalize that?

**Lalit Agarwal:**

So 15% is what they bought online, I did not specify that the bought apparel, so only 3% of the people bought apparel from that out of that 15%, so we got that survey also done, so out of 15% most of them have ended up buying some other electronics, mobile, most of the mobiles or some furniture items or some household items and shoes also. 3% bought apparel and 2% bought shoes and now out of that also lot of it was branded. So anyway let me not get into there it is still the survey but what we understand yes, there is a potentiality and we are organizing of the track and we on board are regularly discussing on it, so we are building a plan and we are trying to build a plan which is also not cost intensive and also not high very capex and also will not make us bleed, because most of the e-commerce companies are bleeding and making losses by getting into this, so we do not want to get into a model which will also create a loss for us, so we are trying to build a model which can be better and we have offline and online both resources are





*V-MART Retail Limited*  
*February 12, 2016*

used and we give better experience to the customer. So I think it will take another year for us to rollout.

**Moderator:** Thank you. As there are no further questions, I would now like to hand the floor over to the management for closing comments. Over to you Sir!

**Lalit Agarwal:** Thank you so much. Thank you for standing by and understanding our challenges, and our operations and giving us motivation to work better in the forward days. We would need your support, because days are not very good, so these are testing time for us also and for our customers. So, be with us and give a support all the time going ahead.

**Moderator:** Thank very much members of the management. On behalf of IIFL Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.