



“V-Mart Retail Limited Q3 FY17 Earnings Conference Call”

February 02, 2017



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MODERATOR: MR. AVI MEHTA – IIFL CAPITAL LIMITED



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Moderator: Ladies and gentlemen, Good Day and Welcome to V-Mart Q3 FY 2017 Earnings Conference Call hosted by IIFL 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 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. Avi Mehta from IIFL Capital Limited. Thank you and over to you, sir!

Tanmay Sharma: Thank you, Keith, hi, Good Evening Everyone. On behalf of IIFL, I would like to welcome all of you the 3Q FY 2017 Conference Call for V-Mart Retail. From the company, we have with us the key Senior Management including Mr. Lalit Agarwal – Chairman and MD; and Mr. Deepak Sharma – CFO.

I would now like to hand over the call to Lalit Ji for their opening comments. Over to you, sir!

Lalit Agarwal: Good evening, everyone, welcome once again to the call. Thank you for remaining there, being with us.

Finally, a good quarter for us also and even in the distress time where a lot of ups and downs happened in the economy in the public, people’s life and overall financial world. We ended well. We see the economy doing good, the internal thrust that we see in the market is there and people want to consume that may come up may be due to good monsoon which we had in 2016 and also with the marriage event which we see normally impacts the sales. So, even the economy has done better for us. On the consumption side, there is a lot of excitement in the consumer, they want to go out buy. But yes, there is still a lot of cash crunch, there is still some job losses which has happened even in those territories there are people who have faced some problems but on an overall level we felt that in these smaller towns typically people tend to comprise, tend to adjust, tend to make their processes by bringing in people’s trust credibility, no money so, people take things on credit and stuff.

Overall, we see good things happening. We saw a lot of queues outside our store, we see a lot of queue outside banks then we did a lot of activity with people there. Apart from that overall, at global level also we see economic becoming better and I think because of U.S. and stuff we see good economic year even going forward. Even our retail industry people have done well and then overall retail is doing good is what I understand leaving apart from may be luxury brands. Otherwise, demand is being witnessed everywhere.



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Overall, on the Company scenario, we conducted a lot of initiatives at the time of demonetization and otherwise also we are doing a lot of work in engaging customer, regularly connecting with the customer and trying to take some initiatives on customer experience enhancement. Got a program running on customer greeting, every person on our store should greet customers and stuff. So, trying to work a lot on the customer experience giving them better experience at the store and leaving a good taste to them, doing a lot of analytics on customer understanding, customer basket, understanding stuff.

On pre-demonetization, as we had informed earlier we were almost 10% cash and 90% cards. Post-demonetization in the first 10 days we reached to almost 67% card versus 33% cash and then once again, now, in the month of January we saw almost 37% or 38% card, almost 62% cash. So, that is the overall mix. The jump in card sales that we saw almost 90% of the jump came from the debit card sales because people had debit card, people never had credit card, so almost the credit card sale amount was almost constant there was some growth but not too much except in Tier-I cities.

On the other side the vendor supply chain management was a difficult task and we have managed that well. We did a lot of workshops as a vendor because that is where the most effect happened at the mid-level where it is very difficult for them to run the factory to pay to the workers to actually maintain the supply chain because a lot of their workings was on cash, they use to not do everything on white and then pay taxes and stuff. So, they would not pay ESIC at times and try to save. So, we did a lot of workshop with them also try to maintain our supply chain manage successfully thanks to our merchandizing team and our supply chain team for doing that nicely.

On the other side, we continue to focus very highly on the seasonal merchandize, the wedding merchandized in this particular season, we did very good in winter merchandize, and actually gave the competitor a very good fight and we made them suffer this quarter and we are seeing growth because of that also.

Looking forward I see a good growth. I see the disposable income going up, the factors can be the 7th Pay Commission or inflation going down, even U. P. Election adding on to people's kitty, people's basket, and people's pocket, whatever spending they do in U. P. or Punjab. Even the budget proposal that we received yesterday also brings a lot of energy into the rural semi-urban areas, a lot of consumption can be derived, a lot of efforts we are seeing towards agri, rural road spending, social, even the infra, all those money is going to flow down to the territory we operate. So, we see a good amount of growth coming in the future in the next few quarters.

So, we continued opening new stores, we planned to open around between three stores to four stores in this particular quarter and then followed by around six stores to seven stores in the



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next quarter. So, we would once again, have the similar plans of opening around 20 stores in the next year or may be more than that, we are trying to be a little aggressive, let us see we are trying to plan.

So, the growth that we are seeing is basically because in the last year in the same quarter we had seen negative sales growth trend. So, the same store sales growth was almost negative 2%. On a weak base, we have developed this quarter as 17% same store sales growth which we have made up for the loss that we had done yet because of a poor winter low marriage season dates. So, things are panning out good. I think there are a lot of efforts internally that we are taking and which are panning out, which are now being visualized and we will continue doing those key internal improvisations now and then every time for our scalability, for our betterment in operations, for our betterment in treating or feeling the customers, be it inventory management or it be marketing or it be retail operations or it be my HR or the digitalization at the back end. We are targeting regularly every area and try to work on each and every area may it be motivational programs, training programs and stuff.

So, job is getting done and I am little satisfied and I am primarily satisfied with the efforts V-Mart team has put in during this time. A lot of work has been done on demonetization. Team was fully charged up. They took this challenge that we should not go down and people have really farewell and we continue to see the same growth even in the month of January. So, I think things should continue well.

I think, let me hand over the call to Deepak, for further to give you numbers of the quarter and the year.

Deepak Sharma:

Thank you, Lalit Ji and welcome everybody to the call. I would like to dwell on some of the fundamental factors as usual.

First of all, sales growth 24% for the quarter, major factors coming in from a healthy growth in terms of the memos that we have raised which saw a healthy growth of about 16%. Average bill size grew by about 7%; sales per square feet grew at about 6.2%, like-to-like growth overall 17%. Like Lalit Ji said very healthy numbers. I mean, to get a correct perspective it will be appropriate to consider that, last year same quarter was very weak and there are a couple of other normalizations which I would like to introduce to people who are new on the call that first of all, the results of this quarter last year we took the entire warehouse shrinkage in the third quarter itself.

This year that shrinkage got distributed across all the three quarters. So, that element of normalization I would suggest people reviewing the results to normalize it man power cost last year we had a one-off addition on account of bonus enhancement the government had done ,this year that had got distributed and aside of that I would like to also introduce factors that



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this quarter the external factors such as winter also was good. The marriage season was more than satisfactory, last year we had we had a fairly compressed number of days for marriages. This year the season was a normal marriage season. And like Lalit Ji mentioned, a lot of initiatives we have been taking in the past for various domains, they all fell in place together to give us the fairly good results that we have done. Retail was exceptional in terms of having a very good grasp and insight on the data which they needed to achieve their results. Merchandizing team was fantastic in terms of the quality of the merchandize and the price at which the procurement was done.

The key highlight was the supply chain piece where a number of initiatives which they have taken ensured that the right product was there at the right place, at the right time and some of the factors which have really contributed to this exceptional performance from supply chain came on account of replenishment tool which has been developed based on algorithms which generates the supply side guidance to the warehousing team.

The marketing team was bang on target ensuring that the interest of the customers was never lost. Projects chipped in their bit ensuring that the sites they shortlisted this year gave exceptional results and last but not the least the corporate functionality like HR and IT also chipped in with their own contributions.

This year we have had a fairly good improvement in terms of working capital as a percentage to sales whereby we have improved by about 3% to 4% over the similar time last year primarily coming against the backdrop of inventory days being improved. Main contribution for the improvement in inventory days coming in because sales kicked-in very well and also better management on account of supply chain and merchandizing team. Aside of this on the financial health side ROCE has seen a healthy growth on account of all the factors which we mentioned above. Cash flows have improved and debt for the quarter ended has been we are net cash as we report for Q3.

Going forward I see a couple of other points in addition to what Lalit Ji mentioned earlier on is that Rabi crop has been fairly healthy, the sowing has been fairly healthy and also like we mentioned we expect an increase in the disposable income in the hand of the people and the budget also contributing to the positive sentiment with the thrust on the rural and geographies where we exists.

That is it from my side and I would like to throw open the floor for questions. Thank you.

Moderator:

Thank you very much. We will now begin with a question-and-answer session. We have the first question from the line of Jignesh Kamani from GMO. Please go ahead.



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- Jignesh Kamani:** Just want to check we witness very strong footfall close to 24 / 25 percentage partly on account of low base of mild winter in FY 2015 and partly because of the demonetization. So, how is current scenario? This healthy footfall is continued or we have seen some moderation in the footfall?
- Lalit Agarwal:** No, as I informed you the January month we witnessed almost similar run the we saw the similar stuff continuing because even January was weak last year. So, we are seeing things moving the way quarter three has moved in.
- Jignesh Kamani:** Sure. And how is the winter because I believe the winter this time was not as cold as expected to particularly the marriage festival season. So, how is the performance of our winter collection and how is the inventory level right now of the winter product?
- Lalit Agarwal:** I think we are satisfied with the way winter came in because it is not only about the strength or the temperature that dropped, it is more about the timing in which the winter came in and also the timing was coinciding with the events primarily being marriage. So, events plus timing is important for the winter season and went fairly okay, we are on target even in the product lines of winter. We are trying to be a little bullish, trying to get a little more extra sale from winter product because we had lost some sales last year and we also had some carry over inventory. So, trying to do a lot of work and get rid of the last year inventory and also sell a little extra in this year.
- Jignesh Kamani:** So, since January is already over. Are we still left with the winter inventory above the normal level or how is the situation?
- Lalit Agarwal:** I will not be able to give you the exact details right now but yes, we are on target and we keep continue selling winter till February.
- Jignesh Kamani:** Sure. And we have seen that creditor days has come down. So, it is partly because of demonetization where we have early paid our creditor to manage supply chain or structurally we have considered reducing creditor days to get a better deal from them?
- Lalit Agarwal:** If you remember basically we had higher inventory days in the Q2 and that was primarily because we bought the inventory early to keep stock of the inventory because of foreseeing festivals in the wedding days and the seasonal days so, the creditors have normally paid in time and we also did help some of the vendors where they had skewness in their financial health. So, we managed, we did nicely. We did a lot of work shop and did a lot of program with them and also helped them financially at times. But nothing very great but this is part of the plan.
- Jignesh Kamani:** So, creditor days will remain at current level or earlier we use to get higher credit number of days wise?



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- Lalit Agarwal:** Number of days wise it is almost similar but it happens, it is primarily because of the timing of the purchase and the payments made. Its preponed in this particular quarter so, that is why we are not seeing too much of creditors pending.
- Jignesh Kamani:** So, no change in the working capital cycle?
- Lalit Agarwal:** Almost no. Except some efficiency which is being driven by the inventory management and the sales going up.
- Moderator:** Thank you very much. We have the next question from the line of Saurabh Patwa from HDFC Mutual Fund. Please go ahead.
- Saurabh Patwa:** I just want to understand post since last eight months, nine months the cotton price have been moving up and even after arrival of new crops partially due to demonetization partially due to other factors, the prices are significantly up compared to last year and again at the same time in synthetic fibers prices have been may move up because the crude prices started moving up. So, what kind of response you are getting from your suppliers and since our ASPs have been more or less flattish since last year would you able to take the price hike if required what is our sense on that?
- Lalit Agarwal:** Yeah, so, Saurabh, I mean you are correct that there has been some up rise in the prices of cotton and the synthetic yarn both and we anticipate some growth coming from the filament or the synthetic filament partially. In cotton the prices have grown but not too much because the cotton demand in China seems to be low so, that is actually keeping the prices in control. But still it may go up a little bit. Till now have already booked our self for our spring summer requirements, we do not have that impact going forward in the next four months. But yes, going forward we may have some inflation coming from the raw material which I think is the GST rate comes good should get offset by that the efficiency that will have out of GST.
- Saurabh Patwa:** In case assuming your scenario when GST rates has no impact but will be able to hike the prices and still maintain the growth? Your sense, obviously it will be, it is very...
- Lalit Agarwal:** We have a strong merchandizing team, we have new merchandizing team in place they are working a lot on the costing methodology and then the cost bettering methodology. So, we hope that we would have some efficiency driven more efficiency to be driven out of that so, that should also offset some of the crude oil or the cotton prices.
- Moderator:** Thank you very much. We have the next question from the line of Abbas Poddar from Anived PMS. Please go ahead.



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Abbas Poddar: Just to start off with, just wanted to get a better sense of the same store sales growth. So, in the nine months we have added revenue, nine months 19% growth that is about Rs. 118 crores odd. Can you just quantify the SSG number out of this because we say we have grown by 8% for the SSG.

Lalit Agarwal: I did not understand your question. We grew in this quarter slightly around 17%.

Abbas Poddar: Yeah, for the nine-month period we have grown by 19% that is about Rs. 118 crores. Out of this Rs. 118 crores what would be the SSG element? SSG element would be Rs. 50 crores or Rs. 60 crores odd?

Lalit Agarwal: I think Deepak there is a problem. I would not be able to quantify that number because last year total SSG, just a moment.

Deepak Sharma: Hello, hi Abbas, Deepak this side. So, all of the 19% growth that you are looking in the overall YTD segment, about 16% had come in from SSG.

Abbas Poddar: 16% is coming from SSG?

Deepak Sharma: Yes.

Abbas Poddar: Okay. So, then could you just comment upon how the new stores than performing because if 16% is driven by SSG then the newer stores are not performing to the expectations that we have, would that understanding be correct? And if yes, then what is the run rate that how much below our run rate would be in that case?

Deepak Sharma: The new stores are like Lalit Ji has been highlighting over the previous calls, we are still working on the new store settlement which is there and yes, we are seeing some turnaround there and we are working on that.

Abbas Poddar: Okay. So, you expect it to turn around in the next few quarters given the positive outflows that we have?

Lalit Agarwal: So, I think Abbas you should understand this whole piece may be 16% which he is saying is coming out from the existing store which you are there. The last year the sales of those stores were only some percentage of the total sales may be around 75% or 80% of the total sales. So, that is where it is 16%. But yes, the new stores also have given the growth. There are some challenges we are facing from some territory in Odisha (Orissa) and stuff where we are trying to work on and we are hopeful that we will improve.



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- Abbas Poddar:** Okay, that sounds great. Just on the inventory level, you always mention about the quality of the inventory that you have. So, this inventory level that we are seeing in this quarter is the lowest that we have seen in the past many quarters. Would you be comfortable with this level of inventory, this number of days? And do you think you can achieve this consistently going ahead?
- Deepak Sharma:** I am just stepping in to correct myself, the 16% growth that I said was for the quarter. 6% SSG growth was there on a company level for the YTD basis. So out of the 19% growth in sales 6% came from SSG.
- Abbas Poddar:** Yeah, that sounds good, perfect.
- Deepak Sharma:** Yeah, I stand corrected, my apologies for that.
- Abbas Poddar:** Okay. And just on the inventory bit.
- Lalit Agarwal:** As you understand from all our calls, we do not try to chase a number of days but we try to do right things for the right piece. So, it is all about the right effort being put in all the direction whether it be planning, merchandizing, buying, supply chain management, selling, the inventory days final parameter indicator which is reflective right now to you. But we keep working there and this is not something that we have said that this is end of the journey, it is always we feel that the glass is half filled, we have still more ways to go and we should always keep doing whatever we want to do.
- Moderator:** Thank you very much. We have the next question from the line of Abdul Kareem from HDFC Securities. Please go ahead.
- Abdul Kareem:** My first question is, out of 136 stores 64 stores comes from U. P., Punjab, and Uttarakhand, how do you see the impact of polls on your business largely on these three states?
- Lalit Agarwal:** Abdul we do understand that polls always do disturb some operations in this time and there will be some operational disturbances that we will face in the stores during these days. There will be certain days where you will also have to have closure and some sort of tension where women's does not come out to buy. But those are very temporary, only for few one day or two days or three days in particular store. But overall, we see that obviously economy is going to boost because there is a lot of money which is going to flow into the market and a lot of money either it is being spend in the white portion or in the black portion of the economy, everything will be reached to the people of Uttar Pradesh or Punjab and these people are then going to spend that money for their consumption I think that should increase the consumption level economy of U. P. and Punjab.



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- Abdul Kareem:** Okay. Apart from good monsoon, normal marriage season and better winter season facility of smart ATM helped to your business your revenue despite ups and downs you witnessed better numbers in this quarter. Could you see the benefit through the smart ATM going forward?
- Lalit Agarwal:** No, so, Abdul we have stopped now dispensing cash through our smart ATM program and we did it for almost 75 days and that was a very good effort that we took up in a time when it was very distressed and people actually wanted it in the community it was primarily more of a community services and also it gave a lot of branding effects to our brand because all the people started recognizing the brand, it was in their tongue, and it was something the talk of the town, a lot of people came on to our stores, a lot of people have had good look at our stores the product lines, the range and then a lot of customers we discovered in the process who were not earlier our customers who thought that we may be selling higher price products or we may be selling something which is not good here. So, people understood and then it is something which happen very good and if at all we see some stress in the system and if we see something happening we will once again if required start this program. As of now we do not see this to be continuing, so, we have temporarily stopped it.
- Abdul Kareem:** Okay. And sir, one last question from my side. What was the shrinkage ratio in third quarter FY 2017?
- Lalit Agarwal:** I think the shrinkage in the third quarter which was reported was around 1.4%.
- Abdul Kareem:** 1.4%?
- Lalit Agarwal:** Yeah.
- Moderator:** Thank you very much. We have the next question from the line of Piyush Goyal from India Cap. Please go ahead.
- Piyush Goyal:** My question is that this quarter your gross margin was one of the highest for Q3, I mean Q3 is typically good for gross margin but this was one of the highest so, could you tell me the reason for that?
- Deepak Sharma:** Hi, Piyush. I will take that question from you. One of the main reasons for the higher margins is first of all the shrinkage if I compare it versus previous year. Last year the shrinkage was a bit skewed because of about Rs. 9 crores worth of shrinkage recorded for the quarter itself. So, this year we have reported only about close to Rs. 4 crores worth of shrinkage that is number one. The next point I have for the improvement in GP is like I mentioned the merchandizing team did a fantabulous job of procuring very good merchandize at very competitive rates which contributed close to about a percentage and half to the GP. So, overall, if you see 1



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percentage improvement we are seeing on account of the shrinkage element and about a 1 percentage and half is coming on account of the improvement in the product profile.

Piyush Goyal:

Understood. My second question is that, given a lot of your customers shop predominantly for weddings and need based apparel so, they might have benefited because a lot of your unorganized peers not be accepting electronic payment. So, if you could give me a sense of what is your performance pre-demonetization or let us say October and until the 1st week of November to give us a sense of how much of this great set of growth and other metrics was because of demonetization benefit and how much was actually pre-demonetization?

Lalit Agarwal:

I think both, before demonetization there were 38 days that we had and primary we had that post-Diwali effect also, the first week of post-Diwali, 30th October was Diwali and pre-Diwali so, we had a good run to Diwali we had this whole month where we had some days where we had Pooja also. So, typically we had good sales which we generated from the Diwali period and the Chhath typically Chhath is also celebrated highly in Bihar. So, that was good for us and we had good growth even in those days and post-demonetization I think it was a time when wedding started. Typically, the first wedding was on 11th of November and from there typically people's buying generate because that is need based buying once again and seasonality also comes into factor because the winter also is there and with winter when the events are held you get that growth. So, we continued that. And yes, there was after demonetization also, there was one week which was down and we actually suffered a lot there and then we did a lot of activities where we bought in a lot of customer and we gave him a lot of support so that we got those customers it is not that everything happened because unorganized did not had digital POS and we had digital POS. But yes, informing people that we do accept payment of all kinds it was a great effort and I think there a lot of preference we got over others.

Piyush Goyal:

Understood. My last question is that, what are you observing in the behavior of unorganized and Mom and Pop stores in your kind of markets after demonetization since they are not used to do business in white and they do not accept card payment, etc. Are you seeing any change in the way they are doing business or treating their customers or trying to move their business to formal economy?

Lalit Agarwal:

Initial first, one and half month, we saw them in very confuse state and they were almost at a status they did not do a lot of things, they did not do a lot of work neither they sold, nor they bought, not they made payments and stuff. But yes, post that I think once again cash is back into the system. People have moved, people were doing almost 80% cash and 20% via cheque and now they have move to like or even people with 100% cash have moved to certain percentage of cheque and still continue doing almost 70% of amount what they were doing earlier in cash, still in cash. So, I think once again with GST and then now the new scheme of



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SME where Rs. 50 crores and lesser turnover would have lesser corporate tax may give them some incentive and which may make them once again get back into little more cheque, it is not only about the sales tax or the income tax but also on the labor front, people are a little worried on all those ESIC, PF. We saw a lot of discussions happening but still people do not want to change this year that is the biggest problem. We anticipated, we thought it will change but not very happy with seeing those changes still.

Moderator: Thank you very much. Our next question is from the line of Rishab Chudgar from Enam Holdings. Please go ahead.

Rishab Chudgar: Sir, we have seen a sharp increase in your footfalls on a Y-o-Y basis and even if I see on a Q-on-Q basis. A large part of this could also be attributed to because of demonetization some of your regional competitors and unorganized players suffering in the market due to which you could have seen customer walk-ins and I remember in the last call you were focusing on retaining these customers. So, what are we doing internally to retain this footfall? Like, what strategy have we implementing?

Lalit Agarwal: So, Rishab. We have initiated a lot of strategy right from store display, to our store internal as I told in the initial opening comment, our store experience, greetings trying to make connection with people and we have also recently launched our loyalty program. So, we just launched our loyalty program wherein we were trying to retain them, trying to keep them under our umbrella regularly connect them, regularly communicate with them, give them certain rewards wherein and then we have also started doing a lot of analytics on who are the new customers which are coming in, who came in now, how do we give them more scheme so that we can attract them more through SMSs. We are doing a lot of work towards all those couponing and stuff that is on.

Rishab Chudgar: Okay. One of the other issue after demonetization was the vendor supply chain had come under severe cash crunch. How are we seeing that our supply chain, how has that changed now for coming summer season?

Lalit Agarwal: I think it was a tough one to really collect all the orders and connect to vendors and getting them on time, we are still on the job. But yes, we seem to have crossed the hurdle and they were a lot of challenges, there were a lot of problem, people were actually not able to service us well because we initiated this thought very early and we wanted them so, we are helping them in a lot of areas, we are helping them in a lot of motivational programs and also trying to take the through that process if they do not pay in cash, the world is there for them to also work. So how do they convert themselves to check and stuff so we have done that. I think now we are able to manage receiving some merchandise also well, we are receiving those merchandize as per plan in our warehouses.



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- Rishab Chudgar:** Okay. So, there should not be much of an impact for your summer inventory, right?
- Lalit Agarwal:** No.
- Moderator:** Thank you very much. We have the next question from the line of Resham Jain from DSP BlackRock. Please go ahead.
- Resham Jain:** Just one question, you have tried to qualitatively explain pre-demonetization and post-demonetization impact. Would it possible to give a quantitative impact, I understand that last year the festive season was at different time period versus this year. But is the pre-festive or the Diwali season sale of this year versus last year would it be reflecting the similar 25% kind of growth?
- Lalit Agarwal:** Yes, pre-demonetization was around may be 18%, if I speak about value, this is about value. About quantity it was almost similar. So, value we are seeing because normally post-demonetization because of the wedding and seasonal stuff the value of the product goes up. So, the quantity gets down a little bit because there are normally jackets, blazers, suits, salwar suit, sarees and stuff which are costlier sells more because of the wedding festivals and even the pullovers and the sweater and stuff also a little costlier. So, value goes up. I mean value wise post-demonetization was better because of the weddings and seasonality and also demonetization. So, we also got some customers as we have already told because of the wedding people wanted to buy and the need was there and we were the only ones or a few ones who were accepting digital payment. So, we got the credit of those people. So, I think, it was around 18% to 19% pre and post, if I compare pre-Diwali to post-Diwali, to pre-Diwali to pre-Diwali and post-Diwali to post-Diwali not as dates.
- Resham Jain:** Okay. So, what I understand is that the growth probably post-demonetization like-to-like must be slightly higher (+30%).
- Lalit Agarwal:** You are absolutely, right. The growth in the 15th November to 30th December period was better.
- Resham Jain:** Okay. And one more question, I do not know whether you have analyzed this but customers who were first time walking in your stores post-demonetization are the same customer repeating their purchases or something like that, some analysis whether are you able to get those customers back?
- Lalit Agarwal:** Yeah, so, I think Resham we do keep track of mobile numbers and the customer IDs and we have analyzed but normally what we have seen on an annual basis we get turnover of the customer of almost 2.2x in a year or 2.4x in a year. so, normally he comes only in five months or six months' period, not that he will come every month or every week. So, we do not sell



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Kirana too much you understand that. So, normally his cycle is at certain interval and yes, we witness that also and we analyze that we got some 15% to 20% customer new customer which came in at that period repeated in the month of January also.

Resham Jain: Okay. And one last question, if you can say repeat customer typically what is the average use to be earlier versus what you had in quarter three?

Lalit Agarwal: Repeat customer earlier versus Q3?

Resham Jain: Yeah, earlier what was the average and in Q3 has there been any substantial difference between the repeat customer figure?

Lalit Agarwal: Yeah, I think if I look at the purchase figure it was a little lower because we do understand there is an impact on existing customer base also wherein as we acquired new customer we have also lost during those periods some customers which did have money or which did not have bank account, which did not have card and which could not buy and which lost some jobs which had some fund problems, so there were some customers which we lost also. So, we saw a little decline in some customer repetition. I hope I am clear?

Resham Jain: Yeah.

Moderator: Thank you very much. We have the next question from the line of Nirmal Bari from Sameeksha Capital. Please go ahead.

Nirmal Bari: Sir, firstly, is it possible to segregate the 71.2 lakhs footfall on the basis of what was within October, November and December?

Lalit Agarwal: Difficult but if I want to tell you in the first month would contribute to around 30% and the second month would contribute to around may be 33%, 34%. The December month was the best which was around 36%. This is an approximate ballpark figure. You can speak to Deepak later on, if you want, he can give the detail.

Nirmal Bari: And transaction size as you indicated to the previous participant, it would be slightly higher post-demonetization?

Lalit Agarwal: Correct.

Nirmal Bari: Secondly, sir on the competitive intensity it was lower this quarter may be because the supply chain of our competitors also got disrupted quite a bit. So, what kind of impact are we seeing now that the cash is back into the system?



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- Lalit Agarwal:** So, I do not think, I need to worry too much about what others are doing or what others are not doing it is about the strength that we have to build in and strength that we want to build in. So, we are perfectly on and we have to motivate or we have to show enough good things to the customer base that we are targeting and we got some new customers even though we have exposed our range and we exposed our philosophy and then this is what we have to continue, we have to keep doing right things at the right time irrespective of what the competitor we have our own competition internal benchmark competition which we face regularly, so, we have to do what we want to do at the best way. So, I think externally yes, the world is going to suffer the world is going to come back to normalcy. It is more about how effective are they.
- Nirmal Bari:** Okay. And sir, one question from your balance sheet, the long-term loans and advances have increased significantly from Rs. 16 crores to Rs. 24.5 crores, so is there some particular reason for it?
- Lalit Agarwal:** I think Deepak should be able to answer you that. There is no particular reason of increasing but there may be some deposits and advances. I think Deepak will answer you.
- Deepak Sharma:** The reason for the long-term loan and advances going up is because of the advance tax which we have paid has got increased.
- Lalit Agarwal:** So, I think you can connect to Deepak later on. He will give you the details.
- Moderator:** Thank you very much. We have the next question from the line of Anuj Sehgal from Manas Capital. Please go ahead.
- Anuj Sehgal:** Again, I had a question on the competitive intensity. So, obviously, you gained market share from your regional competitors. But number one they would also now start using electronic payment mechanism, so how do you sort of react to that? And secondly with the increase digitization do you think e-commerce would become a more competitive threat for you now?
- Lalit Agarwal:** I think every competition is a challenge and every competition should be taken seriously and every equipment that they add on to their tools is something which has always threaten us. So, we have to keep gearing our self for that and it is not only about what is good to them. It is also about what can we create good for ourselves. So, I think yes, obviously, digitalization can add on to benefits of others. I do not think e-commerce is getting benefited. e-commerce are in shambles. They have a lot of problems in internally they are still under a lot of stress from their fund houses and they are still not able to give away the margins that they originally able to. So, we never had a strong impact of e-commerce and I do not see any surge in the impact from the e-commerce side right now. From the other hand, I think it is welcoming that more and more people come on to the digital space, more and more people accept card payment and it is always welcoming because it is good to transact digitally and if the whole economy or the



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whole society gets onto that platform, I think it is welcoming move and I do not see any business loss happening out of it.

Anuj Sehgal: Okay. And then my next question, what do you think is the potential impact or will be the potential impact of GST on your business?

Lalit Agarwal: As long as I see, I mean it looks positive the way government is trying to bring in, the way opposition is demanding. So, it looks positive because the way they have turned multiple slabs of tax rates and trying to create tax rate similar to existing tax rate. It is just a question of the slab that we fall into or the apparel segment fall into. If it is something around 5% it should be rewarding for us. If it is something in 12% range, then it will be a toll for us where we may get some impact on the business because it will be inflation for our customers.

Anuj Sehgal: Right. No but irrespective of the rate in most other countries when there is GST it basically impacts consumption because prices go up. So, do you envisage a similar situation for yourselves?

Lalit Agarwal: That is what I told, if it is 12.5% apparel is our major category so, if it goes up the prices of the product will go up, it is inflationary for them. When it is inflationary the quantity consumption can de-grow because their pocket size is similar. If they are spending Rs. 1,000 on apparel they keep continue spending Rs. 1,000 on apparel they may end up buying either a cheaper product or a lesser quantity product. So, that is what it may result into because that is what I feel.

Moderator: Thank you very much. We have the next question from the line of Rajat Budhiraja from Banyan Capital Advisors. Please go ahead.

Rajat Budhiraja: I just want to understand the effect of demonetization. So, was it positive, negative or neutral and if you can quantify with some numbers because you mentioned you were giving cash versus card details initially. So, please throw some light on that?

Lalit Agarwal: I think, Rajat we did speak a lot about demonetization. But still I will just like to brief you fast. The effect has been positive for us. We had suffered the first week of demonetization badly and then we made it up and we grew almost better than the pre-demonetization time, if it is the growth rate year-on-year or the festival-to-festival and it was better post-demonetization because of two factors, three factors – our supply chain being well managed. Our digital acceptance of payment versus other unorganized and our smart ATM scheme which we started in the store which brought in a lot of additional new footfall which got converted later on and which created a brand in the area where we operate. So these were effect and we really got benefited post-demonetization more than what we had before.



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- Rajat Budhiraja:** And can you please provide me the number of cash versus card sales pre-demonetization, post-demonetization, and now?
- Lalit Agarwal:** 10% pre-demonetization card, 90% cash. Post-demonetization immediately it was 67% card, 33% cash and now it is 38% card and 62% cash.
- Moderator:** Thank you very much. We have the next question from the line of Anish Jobalia from Jeetay Investments. Please go ahead.
- Anish Jobalia:** I would like to know how has the percentage from your own brands which is Flix, Power, Cavana those kind of ones. How has that changed in this nine months? Has the contribution increased substantially?
- Lalit Agarwal:** Yes, Anish we have been focusing on private labels so, there has been upswing in the private label sales and we are focusing more in this coming spring summer. And we are trying to even increase it further. Trying to work on a lot of good designs, good stuff and something which is core some core products which are normally throughout the year we are trying to work aggressively on those also, it is something which is now being driven by the new merchandizing team and is taking up aggressively.
- Anish Jobalia:** Okay. But there will not be a big change in this particular year, right? I mean obviously we are working on that strategically.
- Lalit Agarwal:** Yes, correct. Not a big change but yes, there will be some change.
- Anish Jobalia:** Okay. But as the contribution increases your gross margins is expected to improve with that?
- Lalit Agarwal:** As of now we do not have differential pricing against them, we do not want to do a lot of stuff with the customer base. We want to first expertise on our private label, have good designs have a great base and give them certain different stuff for which we can charge them extra, not now.
- Anish Jobalia:** Okay. But that will obviously improve the brand and all...
- Lalit Agarwal:** Yes, obviously, that is something we are building up so that we can milk it further.
- Anish Jobalia:** Okay. But over a three year to five-year period that strategy should work out, right?
- Lalit Agarwal:** You are correct. You are absolutely correct Anish.
- Moderator:** Thank you very much. We have the next question from the line of Chandra Shekhar Sridhar from Fidelity Investments. Please go ahead.



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Chandra Shekhar Sridhar: Lalit Ji, just a question, if I just look at your inventories effectively looks like your inventory is down by about Rs. 8 crores or Rs. 9 crores and you have added close to about 13 stores. So, can you just help me as of last year, what was the amount of excess inventory which was sitting last year because the stores have gone up but the industry seems to have come down. And where are the inventory days right now and just prima facie looks like a substantial improvement in the inventory days. Can you just help me through this?

Lalit Agarwal: Yeah, so, Chandra as we discussed over the call also and the effort that we are trying to put in for the last 18 months on the inventory management piece right it be at the forecasting, planning, buying, the supply chain especially, the replenishments and building those logistic model wherein the lead days and so trying to generate efficiency within the inventory model, trying to be a little more fresh. Obviously, the inventory was high in the last year because the winter was not very good so, we had anticipated a better winter.

Chandra Shekhar Sridhar: Yeah, so, just in terms of number of days how much sort of excess number of days or inventory we are carrying last year? it seems like because I mean effectively almost 20 days down on inventory.

Lalit Agarwal: We were at 84 days last year on a YTD basis versus may be something around 82 we use to have and normally we try to better every time. But this time, effectively we got the numbers much better and we can visualize the efforts and the calculations that we had and the processes that we are adopting on bringing in efficiency whether it will be the WMS, the warehouse management system, implementation or the algorithmic rule engine that we build to manage our supply chain replenishment system and the logistics capabilities that we are building at backend. So, I think everything is working and this is very important for us and the sales also performed because it is ultimately our performance on sales. So, we are trying to build just in time inventory model kind of stuff at all the levels right from vendors to, it is very difficult in Indian scenario but still trying to do a lot of work.

Chandra Shekhar Sridhar: Sure, so that Rs. 1,500 per square foot which you had to invest in terms of inventory is that you believe that number can actually go down?

Lalit Agarwal: Not necessarily that is something which we have to keep as a display inventory at the store but the backend inventory which we used to have around Rs. 600 or Rs. 700 logistics and the backend inventory which now can be worked on and which is what we have worked on.

Chandra Shekhar Sridhar: So, this reduction is basically largely on the backend inventory which has been coming?

Lalit Agarwal: Correct.



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- Moderator:** Thank you very much. As there are no further questions from the participants, I would like to hand it over now to the management for any closing comments.
- Lalit Agarwal:** Thank you, gentlemen and ladies if any for being on the call patiently listening to our analysis and taking interest in our company. We will continue to maintain the growth, we will put all the efforts to keep motivating our team, keep their capability up, and just keep doing right things at the right time and take right decisions. There would be some comments from Deepak's side also.
- Deepak Sharma:** My closing comments are sincere thanks to the entire V-Mart team who has made this fantastic set of results materialize. Please do accept that all this appreciation that we are receiving on this call is appreciation for the efforts which you people have put in and thank you from my side also personally for the fantastic set of results. Thank you.
- Lalit Agarwal:** I would just like to also thank our auditors and the directors who have been very good and been on time. All the other ecosystem people who are there to support us to do all these numbers. Thank you so much.
- Moderator:** Thank you very much. On behalf of IIFL Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.