



“V-Mart Retail Q3 FY2018 Earnings Conference Call”

February 14, 2018



ANALYST: **MR. TEJAS SHAH – SPARK CAPITAL ADVISORS INDIA PRIVATE LIMITED**

MANAGEMENT: **MR. LALIT AGARWAL – CHAIRMAN AND MANAGING DIRECTOR - V-MART RETAIL LIMITED**
MR. ANAND AGARWAL – CHIEF FINANCIAL OFFICER - V-MART RETAIL LIMITED



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Moderator: Ladies and gentlemen good day and welcome to the V-Mart Retail Q3 FY2018 Earnings Conference Call, hosted by Spark Capital Advisors India Private 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 the conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Tejas Shah from Spark Capital. Thank you and over to you Mr. Shah!

Tejas Shah: Thanks Karuna. First of all sorry for the delay because of the technical issues. Good evening everyone. On behalf of Spark Capital I would like to welcome all of you to Q3 FY2018 earnings call of V-Mart Retail Limited. From the company, we have with us the senior management represented by Mr. Lalit Agarwal, Chairman and Managing Director and Mr. Anand Agarwal, CFO. I would now like to hand over the call to the management for their opening remarks. Over to you Sir!

Lalit Agarwal: Good evening. Thank you for once again being on the call and apologies for the delay due to some technical issues. The good days continue and we have as expected not seen a lot of growth in the last quarter, but yes the good news is that on a base of a very good quarter last year post demonetisation we were able to maintain the sales and we were able to maintain similar sales even in this year quarter and we have been able to retain those customers, which came in during those times.

There was something excellent that our team was able to do because of lot of introduction of loyalty and program and stuff, but before this let me speak something about the overall environment. I think the overall environment in smaller towns and in geographies where we are actively present. UP relatively we have seen a little low spending because relatively there is a good government in place so the good government also brings in good discipline, good government brings in the legality of doing things, reduces corruption, reduces the black money, so right now the overall money in the hands of the consumers looks little lesser to whatever money that was getting distributed in the hands of the consumer through all the social schemes and stuff is also getting reduced. So we are seeing little lower money to spend at the ground level, but yes the aspiration levels are very high, people want to spend more.

Bihar looks little better, Bihar is better in their spending and then Jharkhand there is some pressure we have seen in Jharkhand, Odisha, but otherwise overall I think things are good, there has been certain impact of little low monsoon in certain parts of Uttar Pradesh and



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stuff where potato agriculture farming is happened, so we are seeing a little lower agriculture output of the potato farming and even sugarcane people are getting some little impact, but otherwise I think we have seen good days, the wedding festival, the wedding times has given good response. The season has been by and large almost equal the winter season typically is a major season for us. So we have seen an average winter, we have not seen a very, very chilly winter this year and we have not seen too much that temperature not going too down, the winter fear has been almost flattish and we have not seen too much of growth there we have rather seen a little downfall in the winter sales. Otherwise I think the industry we see once again lot of value retailers coming up, lot of nationalized retailers coming up to the value segment who want to chase either customer base want to once again get onto the Tier-II, Tier-III cities we are seeing lot of such retailers also coming in smaller towns, everyone wants to cater to that value segment customer, which is a good news I think the opportunity is being seen by every retailer.

We have seen sale being major loud noise being created out of sale, so lot of discounts, lot of promotions in the market led by the online players and also the offline players, major brands, major changes have came up with lot of new festivals, lot of new discounts, so it is a larger discount days, number of days and discounts were larger as far as the industry is concerned, but yes coming to V-Mart, V-Mart has primarily in the last quarter seen more of the full price sale, we have not really given out too much of promotions, we have not given out too much of schemes, we have relied more on the full price sale, we have realized more sales on the customer that was organic only developed, so we had been keeping our fingers crossed saying that we would get those consumption even from those because our product lines are very good, we had launched good amount of winter wear, the merchandisers were very, very attractive at the down to earth prices, so we continued our approach and giving customer the value and that has happened because of our relentless work that we have been putting in on the merchandize development piece and the supply chain management piece bringing in technology in the supply chain and overall trying to generate efficiencies out of the data that we are collecting and trying to use the analytics in such a way so that we are able to generate enough efficiency and provide right product to the right customer, so that was the most important thing, so that I think we have seen some betterment, which is getting reflected in our reduction in shrinkage also and we can see that further going ahead and also there has been lot of work, which has been done in the people side also, so we are trying to generate a five-year plan for the people and trying to see how to scale up the people's capability, how to look at the organization from a five-year view, what is needed right now and what all should we need by when, how do we generate more efficiency out of people, so we have tied up with some consultants who are trying to work with the company,



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we are trying to work with the standard for this organization. So lot of work has been done on both sides other than that I think the company keeps itself very vigil on the competition side.

We are seeing lot of competition in our areas, we have seen in the last quarter also good amount of stores getting opened from the competitors and the competitors are trying to chase similar areas in the market, but yes they have not been really able to dent us, we have been able to keep our stake alive and we have been able to actually generate more sales in certain locations wherever we have seen competition because comparatively whenever we have fallen into the comparison we get rewarded is what we have seen in lot of areas, but yes in certain areas we also seen competition putting pressure on us, there are some margin pressures that we are able to see, competition coming out with lot of schemes, lot of promotions, lot of price discounting, so I think it can be tackled up with our value approach. The approach of trying to provide the best quality product at the best prices so I think that is the overall thought process. Overall I think we have some reduced the average selling price a bit, we are trying to create sales because we have seen that we have grown more in small town and we have also experimented this year in Tier-IV towns. This is something that we have done in which is below the district level, so we used to open the stores in the distant quarter. Now we have tried some pilot stores in the taluka level or the tehsil level and some pilot stores have really achieved good numbers, we have seen numbers almost equal to the Tier-III towns and Tier-II towns. So these are already there, but still we are very, very positive because if that is true then it opens up a huge number of town opportunity that we can have where we can open up a retail store. I think these are some of the inputs that I have more on the financial numbers I think I can pass on the call to my CFO Anand, so Anand can you please take this forward and give the input about the financial numbers.

Anand Agarwal:

Thank you Lalit for a wonderful ramp up of where the company is heading towards and I am happy to share some of the financial insights with all of you and so on this quarter's performance. So overall a good quarter if I look at the comparison with Q3 of last year with the base effect of 17% same store sales growth happening in Q3 of FY2017, a flat growth this quarter is definitely something, which may not be extremely good, but definitely promising in terms of that we are able to increase our overall sales by 13% and the YTD number has touched Rs.925 Crores as compared to last year full year number of Rs.1000 Crores. So we added 10 new stores for the quarter in the states of UP, Odisha, Bihar and Jharkhand. The major expansion as Lalit also mentioned is happening as a pilot in Tier-IV towns, so in fact in this year we have opened almost 16 stores in the Tier-IV towns, which remains pilot, but very happy with the early results, hopefully that should do well for us in



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the coming future. We also remain bullish on the eastern part of India, we continue to expand in north while we have opened stores in UP and Bihar, but we also continue to open stores in Odisha and Jharkhand. So Odisha which was not doing so well for us last year has begun to show some promise and has become a good market. Winter as we all know was slightly delayed and also subdued especially in the northern parts of the country. We have also seen some smaller number of marriage days in this quarter versus last year. Demonetization as we all know was a game changer last year, which helped the company immensely in the last quarter and therefore the base impact was difficult to beat this year. So as a result we have had a slightly flattish same store sales growth, but otherwise on our overall level sales have remained in line with our expectations with 13% growth to touch Rs.368 Crores.

The sales mix has remained almost in line with our previous estimates for Kirana contributing to around 5.6% of the overall sales and apparel leading the way at almost 80%, so in line with what our strategy is to keep opening more apparel stores and discontinue opening Kirana stores or composite stores and this is a trend that should continue. On the footfall side, we have seen good footfalls coming in and they continue to grow at 16% again in line with our expectations the conversion rates have remained in the same range as last year around 56% as compared to 58% last year. Last year a higher conversion because of the smart ATM facility that we launched last year, which saw a lot of new customers coming in who experienced the V-Mart impact and getting finally becoming loyal customers. The average bill size has grown by a healthy 6% while as a strategy the ASP or the average selling price has come down marginally, which reflects the management conviction in leading a volume net growth rather than purely value net growth, so which is again a good sign. As we penetrate more into Tier-IV town's product variety at lower price points becomes more strategic and therefore the strategy of having lower price points and therefore lower average sale size is now beginning to pay off.

The sales per square feet has also grown by roughly around 4% and I am also happy to say that the customer loyalty program that began in the early part of 2017 has grown into a good sizeable number with over 9 million customers enrolled in the last one year. On the inventory side, happy to say that the inventory days have come down by 2 days to 75 days and this is beside the fact that we had slightly smaller and slower winter this year, but definitely good impact and benefit of technology deployment at the warehouse and also automation of the store supply system, which is now beginning to payback. There is a better inventory planning cycle and also both these technology interventions have also helped us in reducing the shrinkages, so there has been higher focus on reducing the shrinkage



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throughout the year, we have had more orders, more focused efforts around controlling shrinkage at all levels whether at the store or at the warehouse. The warehouse management system that we implemented one-and-a-half years back is again beginning to show results and which is reflecting not only in the inventory days coming down, but also in the lower shrinkages. This year we also implemented the automated packing and the shrink wrap system at the warehouse, which has also helped us controlling shrinkage in transit, so overall because of all these three or four efforts the shrinkage has been substantially under control if I compare this percentage to last year and the years before last. This still remains work in progress, so this is not a final number, but definitely set in the right direction. We continue to focus and reduce the shrinkage as we go along and alongside the shrinkage control we would also want to keep the quality of the inventory especially very, very healthy.

On the EBITDA side, happy to say EBITDA is increased by 30% so while the sale has increased by roughly 13% EBITDA increased by 30% to Rs.64 Crores again as a comparison last year full year EBITDA was around Rs.80 Crores this year Q3 alone is almost Rs.64 Crores. EBITDA margin also expanded during the quarter by almost 240 basis points from 15% in last year to 17.4% in current year. Q3 has always been the best quarter in terms of sales and profitability on the back of higher price winter and festive merchandize, but the margin expansion has largely been possible because of one reduction in shrinkages, which has gone down by almost like 0.5%.

As Lalit also mentioned there is a slight reduction in the promotions that we did during the quarter, so we focus more on full price sales rather than discounting the product or creating more schemes and promotions around the products, which has not only helped us increase the sales, but also ensure that the margins remained very healthy, so good quarter in terms of margin and the EBITDA both coming out healthy. There has been a slight increase in the expenditure largely led by the manpower cost, but not a substantial but a very, very marginal increase, which is again part of a thought out strategy as again Lalit mentioned during his discussion that we continue to invest in more better and generating more efficiency out of the manpower pool to be ready for the next five years, so there is a bit of investment that is going in there.

In terms of the other expenditures, rents and other service expenditure has come down marginally as I mentioned largely because of the GST impact, so expenses remain under control. As a result if I look through the PAT line there is increase of 27% in the quarter on the back of lower interest cost. There is a significant reduction in interest cost largely



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because of healthy cash flow because the company is able to generate and also the reinvestment of this healthy cash flow back into interest yielding securities as a short term investment, which helps boosted the other income by almost 27% to Rs.1 Crore, not a core business but definitely adding to the bottom-line to some extent. So overall good set of numbers, good profitability and some part of which is sustainable and I look forward to a lot of good earnings over the next few quarters. So that is all from my side, happy to take any questions that you might have. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Manoj Gupta from Perfect Research. Please go ahead.

Manoj Gupta: Can you throw more light on our competitive advantage and vis-à-vis other organized players entering in our catchment areas and also how cheap our products offering versus them?

Lalit Agarwal: The competitive advantage for us is that we are primarily Tier-II, Tier-III city retailer because we operate in a clustered base approach. We have a much better understanding of the market that we are in and we make all our efforts to only understand those customer segments, which lives in this area and which are in those income earning segments. So our customer, our focus is very, very clear from the time that we are here and for almost a decade we have been focusing on these customer segments. We have a huge database, which gives us much more analysis into the customer segment and do the understanding of their preferences, control over their supply chain management and even the logistic management. Our brand continues to be a little more nicely known and we continue to demand higher aspirations out of the customers that come into us. I think that is the key thing and I think every competitor who is putting his best effort to create a price, which is much more valuable for every customer, but I think yes we continue to focus on our existing thought process of procurement of merchandize and also whole supply chain wherein we keep our cost very low. So there are different types of competitors, there may be seven products where we are higher than the competitors, but the primarily what we have seen, there are various channels may be unorganized competitor would have at least 25% to 30% costlier than our prices. The national competitors would also have almost 30% to 35% higher than the similar kind of products I may not say the same we may almost feel that we are cheapest, but I do not know it is all about the customer who decide and maintain and what are we act.

Manoj Gupta: What works like any organized players entering into our catchment areas?



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Lalit Agarwal: I could not understand what do you say?

Manoj Gupta: Any organized player entering into our catchment areas?

Lalit Agarwal: No, I do not think we need to do lot of things. We need to be continuing our standard, we need to keep uplifting our standard, we need to continue the key proposition that we need to, we do not need to get panic, we do not need to keep doing something great to really stop them as you have heard that we have not given too much of discounts, we do not want to do anything extra, we just want to continue doing what we were doing and do it nicely that is it.

Manoj Gupta: How much higher in our case per square feet versus our competitors?

Lalit Agarwal: I am not aware Sir Competitor sales you have to drag and understand, we track our sales.

Manoj Gupta: Our sales per square feet?

Lalit Agarwal: 847 per square feet per month is our Y-o-Y, it is till date per square feet sale.

Manoj Gupta: 847?

Lalit Agarwal: 957 on this year YTD, 851 till in this particular year and 957 for the quarter.

Manoj Gupta: Just to reiterate our focus continues should be on apparel only or do we plan to go into any other adjacent areas as well?

Lalit Agarwal: No, we are very clear every time that we are completely focused to our fashion and we will keep our focus to our fashion only.

Manoj Gupta: Is there any impact of GST on unorganized players?

Lalit Agarwal: Right now I think it is almost similar, there are some organized players, unorganized players who are trying to adhere to GST, but till now we are not seeing any huge compliance or enforcement from the government side, so not able to see lot of response from the unorganized segment, but it will come up in the times to come when the e-way bill starts.

Manoj Gupta: Thanks a lot Sir.



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Moderator: Thank you. The next question is from the line of Alok Shah from Edelweiss Securities. Please go ahead.

Abneesh: This is Abneesh here. Sir, you mentioned same store growth was impacted because of weak winter and less marriage days any number you are able to put to these two I know it is difficult, but you are there in the business, what would have been the growth if most of these would have been normalized?

Lalit Agarwal: I do not think we have mentioned that we feel that there is a low **(inaudible) 25:42** almost there and there was some **(inaudible) 25:46** and winter yes there was slightly decreased winter so that is why we have a little lower winter sales, but I think our growth was almost good, so the same store sales growth because you have always stated that the last year same quarter we had a good growth on the base of that good growth we may not actually get a very high growth, so I think that is what it is, there is nothing very, very different.

Abneesh: And this same store growth you expect revival in Q4 and Q1?

Lalit Agarwal: Once again the Q4 also last year was very, very good, very bullish. We had a very high same store sales growth if you remember in Q4 2017, so once again our positive that we would want to have some same store sales growth, but we are maintaining our targets in the business because there is a focus that we want to right now have that we want to maintain at least similar sales that we got because we had lot of new customer as Anand mentioned.

Abneesh: But if you see Westside for example reports almost on a double rate SSG base. You are seeing this kind of issue in the market, which is much less penetrated will it not be fair to say that you are slowdown SSG is mostly because of competition?

Lalit Agarwal: You can always claim that can happen, but I do not think anyway competition is affecting us because we are looking at the store wise reports, so there are mix responses and they will always be whenever you have more players in the market initially there will be some sharing, which will happen, but ultimately the market grows.

Abneesh: Sir you mentioned Odisha some green shoots are visible, is that because of your practice or as a market Odisha GDP there is some revival?

Lalit Agarwal: There are both the things as of now the GDP we have not seen too much of revival, the continuous problem of power sector, steel sector continues in those areas because that is a very big money generation machine for the area people and for the employment. I think it is



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also something that we were missing and there were some stuff that we were not able to do correctly, which we have got a better grip on and that is what working for V-Mart.

Abneesh: Can you elaborate that if it is not competition sensitive?

Lalit Agarwal: We need to because that was a new market for us and we were primarily a north India player, so those places have different seasonality and we were supposed to understand the seasonality little much better and we wanted the base and the size mix and the colour mix was little different, so it took some time for us to understand that much better and now I think the team is getting a grip of it and they will be able to do it better.

Abneesh: Last question is on Tier-IV market, you said it is in pilot phase till then it remains in that, second is in Tier-IV market lot of people go to Tier-III to buy the stuff so are you seeing cannibalization of your own stores in Tier-III, so is it getting again SSG in Tier-III, is it getting impacted because of new stores in Tier-IV?

Lalit Agarwal: Abneesh I think the market is too big for getting cannibalized because one district has like a potential of 2 million people and even understand the 2 million people even if they consume two pairs of clothing every year, market size is like Rs.500 Crores to Rs.800 Crores and within that Rs.500 Crores, Rs.800 Crores one store of mine at the one district headquarter would be getting Rs.10 Crores of sale so even then I am not even catering to 3% of the market share, so I think the market size is huge, it may be yes there may be certain period of time but it cannot continue because the market is too big for us to cater to and for any competitor to come into.

Abneesh: When it remains in pilot?

Lalit Agarwal: We want to watch it for a year so that we get a complete cycle of the year and we understand if we are able to continue the growth and on the numbers that we have got I think that is a very interesting area to work on and that will throw a great amount of opportunity for us to grow.

Abneesh: Next one year you will continue to add pilot stores right?

Lalit Agarwal: No I think we make some more experimentation, but yes our concrete plan is only rollout after a year.

Abneesh: That is all. Thank you.



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- Moderator:** Thank you. The next question is from the line of Poorvi Khandelwal from Systematix Shares. Please go ahead.
- Himanshu Nayyar:** Congratulations on great set of numbers. Firstly given the success now have we talked about that we have seen in our Tier-IV and our increasing confidence on revival in demand do we plan to offer store opening guidance from the general trend that we follow or will still be conservative in that sense?
- Anand Agarwal:** Himanshu I think you will see definitely what we target is not fixed number of stores that we want to open, but we want to keep on adding to 15% to 17% in terms of our retail area if it translates to, there is 25 stores or 30 stores it will remain slightly larger number of stores and as we grow bigger we definitely would want to grow at a slightly higher pace so definitely we should look at slightly improved number of store openings in the coming year.
- Himanshu Nayyar:** Got it and Secondly what I wanted to understand is from what I understand generally we passed on any sort of benefits on the costing front or on the mixed front to our consumers I mean to drive more SSG rather than improve our margins, but seeing the stock sort of margin improvement, which you said some of it is sustainable so just wanted to understand whether we are looking at in general operating at slightly higher margin level than our earlier targeted levels of around 10%?
- Anand Agarwal:** See there are two parts, one is the first thing that you mentioned about passing on the benefits onto the consumers so I think as a company the strategy of the company right from day one has been to ensure that all the stakeholders of the company are always kept rewarded to the maximum and consumers being the biggest stakeholder have always benefited from the honest pricing model of the company. So giving back to the consumer even in terms of any margin extraction that we are able to get from the vendors or in terms of sourcing volumes or in terms of efficiency in management, etc., the strategy of the company always has been to give back maximum to the consumers and that is the way the company has grown and I surely believe that is the philosophy that we will continue to serve. The second part is the sustainability of the margins or the expansion in the margins as I mentioned during my talk there is some part of the margin expansion that is sustainable not the 100% part. The other parts are variables like for instance the shrinkage, shrinkage in this quarter and this year so far has been definitely under control and as a company and as a management I would definitely want to keep it under check and reduce it even further, but that is something, which is variable, so I am not too sure whether it can be guaranteed or committed for the long term in the coming future, but whatever is sustainable we will definitely add it back to the bottomline and try to grow in the same pace.



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- Himanshu Nayyar:** Understood Sir and finally on the working capital side given the measures that we are implementing inside the company I mean what do you think is a sustainable level of inventory and payable periods or what is the sort of optimum working capital cycle that we can reach?
- Anand Agarwal:** So the current working capital cycle is roughly around 45 days so while we continue to improve at both the end so we were working with the vendors, we were working with even third party agencies to improve our payment solutions and payment mechanism with the vendors so that we are able to pay early and at the same time working with our warehouse management system and the supply chain efficiencies to decrease the inventory at the store and also at the warehouse level. The optimum number if you were to ask me I think on inventory days where we are currently at 75 days the optimum number may be 50 days or lower than 50 days. There are companies in the world, which operate at even 15 days so it is a continuous cycle of improvement and as you have seen in the last couple of quarters we have continued to improve on both the front continuously so there is not a real end goal that we have not site, but definitely improvement goal that we have on quarter-on-quarter.
- Himanshu Nayyar:** Got it. Understood Sir. Thanks Sir. That is all from me. Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Ronak Morjaria from Edelweiss Asset Management. Please go ahead.
- Ronak Morjaria:** My first question is respect to the GST benefit, which is reflected in the gross margin if you could help me quantify what would it be in terms of percentage?
- Anand Agarwal:** Roughly we pass through currently around 0.6% to 0.7%, which is coming in from savings on account of GST on the rentals and on certain other service related expenditure, whatever GST benefit we have accrued at the product level we are obliged to pass it back to the consumer and that we have consistently done for the past two quarters and we will continue to do that.
- Ronak Morjaria:** Also I just wanted to understand since we have lowered our ASP so is it primarily to tackle competition or what is the thought process for reducing the ASP?
- Anand Agarwal:** As I mentioned during the talk this is a thought out strategy and if you also look at our past three quarter numbers so the ASP has consistently been marginalized by around 0.5% to 2% quarter-on-quarter and that is in line with our strategy of leading a growth, which is led by volume rather than value or only value, so it is not that we are decreasing prices to tackle



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competition, but we are not decreasing prices rather making products available at slightly lower price also to increase consumption and increase the billing per memo and therefore as a result if you look at the average billing size or the average number of pieces that are sold per invoice they have consistently been increasing, which is a validation of the working of the strategy that we have put in place.

Lalit Agarwal: More coming out of the real efficiency that our team is putting in and the work that they are doing so we are not trying to price lower, we are not trying to reduce our margin that I need lower. We are trying to buy lower at a lower price and give that value to the customer. So that is overall approach where we want the customer to get those products at cheaper price because market seems to be little down, some of the raw material prices also went down during the last two quarters. So we are trying to pass on those benefits to the customers.

Ronak Morjaria: So you are trying to procure it at a lower cost and then pass it on that is the reason you were seeing ASP?

Lalit Agarwal: Yes.

Ronak Morjaria: Thank you Sir. That is it from me Sir.

Moderator: Thank you. The next question is from the line of Jignesh Makwana from AMSEC. Please go ahead.

Jignesh Makwana: Our ASP broadly remains same over the last year and seen any much change in sales mix so just want to know give why the result which was gross margin improvement apart from the GST benefit?

Anand Agarwal: So Jignesh the gross margin improvement has come in from three factors, one is that the marginal saving on the GST, which I just mentioned. Second is the savings coming in on account of reduced shrinkage so if you look at the shrinkage for Q3 of last year the shrinkage was almost 1.8% so that has come down to around 0.9% so there is a clear 0.9% shift happening because of that and third we have also done lower amount of promotions and schemes in this quarter compared to last quarter of last year, so because of these three reasons there is shift or expansion in the margins.

Jignesh Makwana: So I am talking about the gross margin, reduced shrinkages and third I think it is related to EBITDA margin?



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- Anand Agarwal:** So the first two reasons will straightaway attribute into the gross margin and the third reason will attribute into the EBITDA margin, GST impact also partially there in the octroi and the transportation service cost, which are there as part of cost of goods sold, so therefore the gross margin also gets partially impacted because of the GST savings.
- Jignesh Makwana:** Can you just quantify the GST benefits?
- Anand Agarwal:** At overall entity level what I just stated couple of minutes back at overall entity level we are looking at 1.7% in terms of GST savings, but substantially all of that is getting passed through to customers by way of lower pricing and promotions.
- Jignesh Makwana:** If I remember we are consolidating our vendor base, we used to have more than 2000 vendors now around FY2017 we had some 800 vendors so currently how many vendors we have?
- Anand Agarwal:** We worked close to around 700 vendors across India and we continue to work very closely with them identifying the strength and even identifying within them, which are the partners with whom we would want to increase our business further.
- Jignesh Makwana:** Just finally how many vendors are exclusive to us?
- Anand Agarwal:** We do not work on exclusive arrangements so while there are many vendors who work only for us, but we do not have signed contracts or exclusivity contracts with them where they are not permitted to work with anybody else. So there are many vendors with whom we buy a lot and some of the vendors only sell to us, but it is not out of contractual obligation.
- Jignesh Makwana:** That is fine, but what could be the percentage of that vendors who actually 100% work for you without any cost?
- Anand Agarwal:** I do not think we will be able to answer that Jignesh.
- Jignesh Makwana:** Thank you. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Girish Pai from Nirmal Bang. Please go ahead.
- Girish Pai:** What could be the peak revenue per square feet per month that store can hit beyond which seems to sales growth would be difficult for you to achieve? What is the peak revenue per



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square feet per month that store should hit before which and after which it would be difficult for you to show same stores sales growth?

Lalit Agarwal:

I do not think Girish Pai any such peak that we have identified is all about the kind of store that we have if the stores are only seasonal kind of stores where they work only on the peak period, which are festival period or some peak days. There is bottleneck, but if the store continues to perform on everyday basis or on day basis, so there are certain stores, which were only on the weekend and there are certain stores, which only generate high sales on those festival period. There is some bottleneck that we receive during those peak days, but otherwise I do not think there is real peak per square feet sales because within our stores also we have stores, which are performing Rs.800, stores which are performing at Rs.1300, stores which are performing at Rs.500 so there are stores of all kind that you have within the booking and then you can also have told, which can perform up to Rs.2000 per square feet so I do not think that is a challenge because on certain days we do get those kind of sales.

Girish Pai:

So this Rs.1300 per square feet per month stores I mean are they moving you say, you can that those can book Rs.2000 per square feet?

Lalit Agarwal:

Why not opportunity is huge.

Girish Pai:

Secondly you mentioned about hyper competition how is that impacting real estate prices and rental cost for you?

Lalit Agarwal:

I think that numbers are showing picture on you I mean so we have not really moved our numbers, we have been always clear. Our policy has been very, very clear that we will only get into a place, which is able to generate almost 22 or 25 times of the rental that we are paying, so we are almost there and we continue to get the premises on those similar rentals so there are situations in the market where at present time we may not get some property and the competitor can take away the property at a higher value and we do not mind that I think it is all about the competitor to understand whether they can sustain those costs that they are paying. For us we very, very clear understanding we see a business plan, which is profitable in nature. We may not go and find those places wherever what really with that place is very good.

Girish Pai:

Lastly you mentioned about consumer sentiment being a little subdued in UP you think this thing can continue for some more time or when do you see this sentiment lifting up?



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Lalit Agarwal: No I did not say that sentiment looks this is subdued I said that people whether the earning or capability of the people in UP region had seen a little low they had because of the changes happening in the system, which is constructive and which is very good so which leads to a better future for everyone there so I was recently we were there in Lucknow, we had board meeting done in Lucknow at this time where we went to all the stores, we talked to lot of consumers, we interacted with people, we got lot of views, so there is good things that people are saying about the government and right now yes there is some pressure, which is there in the system, but that will immediately get eradicated because the government is doing very good work and that the work will bring in lot of results for the people and I think generally these economies are more dependent on the agricultural so I think with the MSPP, which is going to come in we should kick in more money for people.

Girish Pai: Thank you.

Moderator: Thank you. The next question is from the line of Arun Baid from BOB Capital. Please go ahead.

Arun Baid: One question regards to your revenue per square feet I am a bit confused why that number come down in this quarter particularly historically I have seen your company and you typically do Rs.1000 square feet in this quarter even in that year you have done somewhere close to that, why that number coming down?

Lalit Agarwal: I think it is marginal so I think there is a mix of new stores and old stores and then there were some last year we had opened up some stores many stores, which were around 9000 to 10000 square feet, which is little higher than what we have done in the past so I think it is factor of down, it is always the mix of square feet is that we have got so certain stores that is little over size stores because at times you do not get properties, which suits your size so you have to go in for a little higher square feet stores. Somewhere it is just may be Rs.30, Rs.40 here and there and this is primarily also because of the shift in the festival quarter-on-quarter, so last year I think Diwali was in November and in October, and this year I think it is some sales has shifted in the second quarter. I think we are seeing the growth.

Arun Baid: Second thing is just correctly if I got it wrong we have been talking of volume growth being focused area so I was just looking numbers last year you had 13% volume growth in Q3, but that was on a back of SSG volume degrowth of 5% and this year you have reported 0% volume growth in fact CAGR just give an example if I go to the Q3 FY2015 your volume was 100, it came out 95 in Q3 FY2016, which is a bad winter you all remember, went to 107 so CAGR of 6% if I look at number perspective from 2016 to 2018 am I missing



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something because our entire focus, which you very rightly is on volumes, but if I tried to do number breakup am I missing something?

Anand Agarwal:

Let me answer that so the graph probably that you are looking at or the report that you are looking at YTD last year till Q3 we had same stores volume growth of 4% and YTD this year the volume growth has been 15%, 14.7%, while the same stores sales growth overall this year YTD is around 10% so this is in line with what the numbers when we say volume led growth strategy so the same stores sales is growing YTD at 10% and the same stores volume is growing at 14.7% so there is absolute consistency in the numbers.

Arun Baid:

No Anand what I am trying to indicate is when I look in numbers because you had a tepid pace of FY2016 and nine-month, which actually helped the numbers for FY2017 the growth looks very good, but if I do CAGR it just it is not great because our entire focus is that and what I want to add is when your revenue per square feet is not growing in tandem despite such high volumes there is something amiss because if I am getting more volumes revenue per square feet should go up why should it come down and for nine-month if I look at revenue per square feet it is up from 815 last year to about 851. It is all great number revenue per square feet reported numbers. There is some base somewhere in the calculation, which I am getting I do not know you guys could be right, but somehow I am not able to get that floor together?

Anand Agarwal:

The calculation has to be gone like-to-like basis so when you look at the sales per square feet number it is mix of all these stores so for doing or calculating the right CAGR for volume net growth or volume net growth or sales per square feet under the undergoing parameter has to be the same so probably I can do that separately and probably we can have a chat sometime later on, but as of now what the numbers are shown to you are uploaded on the website do not have that exact breakup to answer you is that question, but suffice to say that if you break it up on same stores sales basis the numbers will absolutely be in tandem.

Arun Baid:

See the area growth from last year's Q3 FY2017 to this year Q3 FY2018 is about 44% and when I look at the numbers growth be it revenue per square feet it is too low what I am trying to indicate that?

Lalit Agarwal:

Arun you have to understand that all the stores have not performed full year of operation, which are opened in the quarter and also not performed complete 90 days. There are stores which are upfront, so you cannot relate because what Anand is trying to make you understand that numbers are not consistent you are not dividing by the same number so you need to understand that more you can connect him directly they can give you a complete



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guidance because whatever sales square feet percentage that we have seen is a total square feet percentage may be some stores only operated for some three days. You getting me?

Arun Baid: Okay I got that point. Even if I look at last year numbers at 1.13 million square feet till first half you had 1.33 million square feet, which went to 1.4 still the number is pretty high anyway I will talk to Anand later on about this Sir. Second thing is just one thing, which you mentioned just to want credit clarify is that target 12% to 15% area addition right?

Anand Agarwal: 15% to 17% area addition.

Arun Baid: And that would roughly means again what 25-30 stores at least is that correct?

Anand Agarwal: You can take down that we are at 14 lakh square feet currently and average stores size is let us say 8000 square feet so you can just do the maths, which is around 35 odd stores.

Arun Baid: Sir on SSG historically we have been saying that we want to be at 8% to 10% based on what you see right now in the competition round is there numbers still you would like to think about or anything has changed today Sir?

Lalit Agarwal: No Arun I think the focus once again is very clear, the opportunity is there, it is all about we doing it and happening it though market is going or market is not going, so the same stores sales growth is I think competition will not be able to dent that. The competition is there and the market is growing, everyone is trying to come on to the organized fray and we will get that.

Arun Baid: And Sir capex per square feet still is at Rs.1500 or anything has changed there also?

Lalit Agarwal: No.

Arun Baid: Great Sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Sir I just wanted to know was there any material divergence in state wise SSG that we opted in or you would like to call out?



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- Lalit Agarwal:** There may be some states like Jharkhand we saw a little degrowth, we did not see too much of growth coming in primarily because once again there is some political pressure and some once again the mining problems, which are happened in Jharkhand, so we are seeing some pressure in Jharkhand where we do not see too great growth, but otherwise I think every state we saw some revival coming in from Gujarat, Punjab, good things happening in Bihar, so I think UP as I have already told that it has been a little lower than average.
- Tejas Shah:** You are dealing on UP in particular was slightly contrary to what we picked up from the earnings call and the season on UP across so do you believe that the consumer base, which I am assuming is largely from informal sector for us, it gets impacted more in the clean up that is going on under the current government versus the formal sector?
- Lalit Agarwal:** Yes can be true because the scheme, which used to go to the smaller town or the village level, has got reduced. There is some impact that has been able to see and all the distribution of money, the political money has also got reduced so that impact we will see more in this sector that we operate that is true and also agricultural income little downfall of that, all these relate to that. I am not spelling out thought that our performance is almost in sink, but it is almost whether real ground level situation that I want to know.
- Tejas Shah:** Sure. And lastly Lalit for last almost a year you have been mentioning that in terms of value proposition we are trying to bring some exclusivity of merchandize if not vendors in our collections and that should create or provide some exclusive value proposition to our consumer more than price in detailed experience so just wanted to know where we are on that journey?
- Lalit Agarwal:** No I think we have started that journey it is a long journey, it is not certain that anyway reach even 60% of what you want to. It is always be incremental and we will always want to keep doing because lot of work, which supposed to be done in the product development. We have right from that designing, assortment planning, manufacturing, private labels, presentation, everything is involved I think there is huge work to be done and we have started some part of it because we were doing it now we are changing those lines a little bit, but I think whatever we have done is giving lot of confidence and lot of hope for future betterment.
- Tejas Shah:** Great. That is it from my side Sir. Thanks.
- Moderator:** Thank you. The next question is from the line of Ronak Morjaria from Edelweiss Asset Management. Please go ahead.



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- Ronak Morjaria:** Just one followup question if you could just help me on the SSG front, which we usually give one year old store, one to three years old stores and three to five years old stores?
- Lalit Agarwal:** So Ronak for the three vintages while we track the SSG at a vintage level also and at a store level also it remains largely in the same range so there are some areas, geographies, which have not performed well or which have outperformed the others, but in terms of vintages SSG while it has remained flat at overall level, stores which are less than one year old have grown probably, but stores which are greater than one year or more than two years they have performed better than the others.
- Ronak Morjaria:** Also I just wanted to understand since we are seeing competition over there so are we planning to expand private label share so as to attract new customers and retain existing customers?
- Lalit Agarwal:** So definitely we are working on private label strategy and as we mentioned in our last quarter's earnings call our private label share was in excess of 50%, but having said that the private labels strategy right now is to put the label in place and not really differentiate we are currently not differentiating in terms of the value proposition or the product proposition between a private label product and a third party product. So even in terms of pricing or margins both the products remain the same. Private label till the time consumer is able to see difference in terms of the product proposition or the value proposition we cannot charge a premium. So as of now I think we stand that we have is that while we continue to increase the share of private labels, but we are not really looking at pricing differential or margin differential from private label in the immediate future.
- Ronak Morjaria:** Thank you and all the best.
- Moderator:** Thank you. Ladies and gentlemen this was the last question for today I now hand over the conference to the management for their closing comments. Over to you Sir!
- Lalit Agarwal:** Thank you so much. Once again gratitude for all our investors for taking care of us and also chasing up and tracking us and giving lot of valuable insight asking the right question so that we really question our standing on the business and our belief on the business and also try to see what better things can we generate out of your questions, so great call. Thank you so much, selling well doing and performing well keeping up to your expectations. Have a great day.



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Moderator:

Thank you very much Sir. Ladies and gentlemen on behalf of Spark Capital that concludes this conference call. Thank you for joining us. You may now disconnect your lines.