



**“V-Mart Retail
Q3 FY2019 Earnings Conference Call”**

February 06, 2019



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V-MART Retail Limited
February 06, 2019

Moderator: Ladies and gentlemen, good day, and welcome to the V-Mart Retail Limited Q3 FY2019 Earnings Conference Call hosted by Edelweiss. 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 phone. Please note this conference is being recorded. I now hand the conference over to Ms. Sangeeta Tripathi from Edelweiss. Thank you and over to you Madam!

Sangeeta Tripathi: Thank you Vikram. On behalf of Edelweiss, it gives immense pleasure to have V-Mart retail for discussing their Q3 FY2019 earnings. For the call, we have senior leadership from V-Mart, Mr. Lalit Agarwal who is the Chairman and the promoter of the company along with Mr. Anand Agarwal, the CFO of the Company. Firstly I would request Mr. Lalit Agarwal to give an overview on the business post which Mr. Anand will provide a glimpse on the results and finally we can open the floor for Q&A session. Over to you Sir Mr. Agarwal!

Lalit Agarwal: Thank you Sangeeta. Good evening everyone. Once again lots of thanks for the continued support that you all have given us. Good festival quarter Q3 results yes. This is the best quarter for V-Mart always and this particular quarter we saw three festivals kicking in here Durga Puja, Chhath, and Diwali all coming in this particular quarter.

Large part of the sales of all the three festivals were here and we saw a very good start of the quarter in the first one month and a half months there was a lot of buzz in the society, festivities around and people in smaller towns responded very nicely, so overall at the industry level, I think it was a great festival period and then the whole economy wanted to celebrate it and we also saw early winter coming in, so the market was little in the boom on the overall demand, which spurred up sales in the first half of the quarter.

Overall the economy looks little soft now. Consumption looks little softer. We have seen demand coming in only when the needs are there, but otherwise people do not have too much of money. We saw some softness in the smaller towns also and little betterment in the tier two and tier one, but smaller towns specifically have seen a little softer approach, but yes overall still the aspiration levels are high.

Consumers want to look good. They want to buy, but yes they will want to buy a little lesser price product. This is what we have realized in this piece and that is where the whole market is moving towards, so the whole industry is now trying to target the value segment.



V-MART Retail Limited
February 06, 2019

Everyone is trying to introduce the brand or the concept for lower set of the society right from the national brands to the regional brands becoming aggressive trying to target the similar markets.

Everyone now feels that this is the market, which is big in size and will be growing because the government is looking at that area. The government has all the focus towards the rural, semi-urban, the urban consumers who lives in this small town to try and promote their lifestyle, try and promote their consumption and their earning capability, so I think from the government what we have seen in the budget and what we have seen in the overall policies, I think there has been a lot of cheers in these areas.

Farmers have got some benefits that will obviously add onto the feel good factor on Rs.2000 per quarter or whatever it is, so that will add up some feel good factor and then I think all those policies, which are trying to protect the farmers or protect the semi-urban rural consumers in their problems in the risk areas giving them insurance benefits, providing those facilities where they can take those loans at a much cheaper price and then loan waivers and all those things have added onto the feel good factor, but still not enough money in their pocket right now, which we feel should come in because election month is going to come in.

The election quarter is going to come in and in this quarter we expect more money to flow into these markets, which will enrich people's pocket more and that should get into consumption, which is what we feel, should be witnessed in the first quarter of the next year. Overall, there are some investments happening in Infrastructure. We can see road construction happening in small town areas. We can see some amount of employment getting generated through that, but otherwise I do not see lot of factory buildings coming up and I do not see those activities happening, but once again there are challenges of employment. There are challenges in the youth that we can witness, but yes overall the consumption is there.

Wedding periods were few in the second half of the quarter, which normally is after Diwali. This time we had very few weddings because of some inauspicious days in the Indian calendar or the Hindu calendar, so that showed a little softer approach in the second half of the quarter. The overall market also I think suffered because of that. We saw end of season sales coming in little early in December. In fact most of the brands came out with the sales, so that affected some of the margins for everyone and also diminished the sales and otherwise I think we have seen lot of formats coming in from national players, lot of retailers in the regional side coming up, challenges on these front of accessing properties



V-MART Retail Limited
February 06, 2019

and acquiring properties, but I think we are on track. We have done our bit. We have internally developed our self so that we will be able to meet our goals.

We have challenged ourselves internally and brought in a lot of thought process around so that we can bring in more resources. We also are planning to add up another warehouse maybe in the coming six to eight months in the Eastern part of India. We are aggressive on our store opening strategy. We opened up 10 stores in the last quarter. We opened up one store in this month. We would want to open up another five to six stores in this particular quarter, so store opening strategy is continuing.

We may accelerate that in the coming future. We will want to aggressively start the spring summer collection. Now the spring summer collection has been launched in the new stores getting launched. End of season sales are still continuing in the stores. We saw winter period as moderate. There were few highs and few lows. Some part of India had good winter. Other parts of India did not see enough winter this year, so that also had a mix response. The weather continues to play. It is hot now in Delhi, but expecting to be colder once again, so all these things are going on, which creates more challenges on the forecasting and planning mechanisms for us and so that the margin consistency is maintained, so we are doing our piece.

The new auditor is in place. The EY team is in place in auditing challenging us in individual areas. We are looking at certain processes and bettering our processes. We have new member on the board, Govind Shrikhande, who has starting giving us a lot of feedback and asking a lot of right questions, bringing the corporate governance practices to even better level. So we are doing all those areas so that we can excel in our practices, excel in our processes and better our consistent approach reducing the risk and then bettering our outcomes, so that is where we are. I think Anand will take forward on the numbers and then we can answer your questions. Thank you.

Anand Agarwal:

Thank you so much Lalit for a good brief of the economy and how operations have been fairing and also something on what we are likely to do next. What I will do is I will quickly take you through some of the financial highlights for the quarter and then we will throw open the house for questions.

As Lalit stated, it has been a very good quarter. At a broad level, we have seen growth all around and especially in the festive season right from the Durga Puja period to Diwali to Chhath, we have seen very good amount of growth coming in from all quarters in all markets and in particular I would want to mention that Bengal where traditionally we have



V-MART Retail Limited
February 06, 2019

not really been a very strong player, this year we saw some spectacular growth coming in from East and aiding in the expansion in North East where we have opened stores in two new states and between the two new states of Assam and Meghalaya where we have opened a total of six stores, we also saw some good growth coming in from that new territory.

Overall, the festive period gave us some very, very good numbers and also we ran good promotions during the festival period. But however post the festive period, we saw some softness, which was related largely due to lower number of marriage dates and also some softness in demand post the festive season, but otherwise our same store sales growth of 11% has been a very healthy number and given the fact that new expansion in North East has started to reap dividend, while it is too early to say the exact trajectory there, but whatever we are seeing from North East, it has been a mix response and we are still trying to increase our presence in that area.

A couple of new stores that we had opened during the quarter have done exceedingly well especially in some parts of UP and also in Jharkhand and we still remain quite optimistic on discovering and establishing new strongholds of excellence in the existing territories while we also go out and conquer newer areas. So while we are already there in 16 states, two states getting added this year. We will further look forward to adding more states and expanding our geographical presence inch by inch in the cluster based format.

The quarter also saw the sales mix coming back in favor of apparel and we have always maintained that we will focus more on fashion apparel sales so the apparel mix has inched back to 80%. There has been a slight improvement in the mix for Kirana, which was again slightly festive led, like we mentioned in the last quarter's call, we've changed our strategy of introducing some fast-selling impulse items at all our fashion stores right along the billing counter, which has also aided in increasing a small percentage of the Kirana sale. But otherwise, as a company, we remain still very focused on delivering fashion and apparel through all our stores, and we will continue to drive that strategy.

Looking back at the profitability, I think the quarter has, again, been a very good quarter, delivering 15.7% EBITDA, which is in line with what we had thought. And while on a YTD basis, it is at 10.3%, with the highest amount of shrinkage that we have provisioned for in this quarter and slightly higher amount of promotions has led to some softness in the EBITDA. But otherwise, we look at this level of EBITDA as a healthy number. There are also some investments that we have done on the manpower side and on building capability at all levels in the organization, which has also further deepened its impact on the profitability. But these are investments for the future, and we are fully committed to making



V-MART Retail Limited
February 06, 2019

V-Mart a story, which is going to continue and grow year-on-year. And therefore, these are much-needed investments, which we will keep on doing as we go forward.

The footfalls for the quarter have been quite good, increasing by 21%, led by the Durga Puja campaign and the heightened campaign that we launched in the Northeast because of our new entry this season and also the promotions that we ran around the Diwali season. So overall, increase of 21% in the footfall commensurating with 27% increase in sales while the conversion rate has remained almost flat, just increasing by 0.1% year-on-year. But the conversion rate is again at a healthy 56.5%.

The average bill size or the transaction size has grown by 4%, which is again a good sign and reflects, the effectiveness of the strategy while we design the promotions of driving in more sales value and higher bill sizes through the campaigns that we ran. And we continue to do this in spite of the ASP marginally going down by 2% and which is a reflection of our strategy of growing sales through volumes. So we still believe that we are a mass value fashion apparel retailer, and we would want to have more customers participate in our vision and not really give them cheaper goods, but give them all variety of goods at different price points, and keep tweaking the price points as we traverse the journey of growth and keep providing them more options to choose from at even lower price points.

So overall, the volume-led growth strategy has been continuing for some time now, and we will still want to maintain that same trajectory. The sales per square feet on a quarterly basis, has grown by 5% while on a YTD basis, it is a negative 2%, which is largely because of the opening of large number of new stores. So we opened 10 new stores in this quarter alone, which is an addition of almost 10% -12% on the base and 20% year-on-year. If I look at the store area, the store area has gone up by 1 lakh versus last quarter, 1 lakh square feet, which is again the 10 new stores that are added.

While this year, the number of stores and the area that we have added per store has been slightly above our normal average of 7,500. It does not change our strategy of still looking for and opening 7,500 square feet stores. Just that, coincidentally, we are getting and opening slightly higher square footage stores. The same store sales growth, as I mentioned earlier, has been 11%, which is a healthy number for the quarter. While YTD, we are looking at the same number at 3.7%. The volume growth YTD is at 14.7% sorry, 9.5% while for the quarter, it is at 14%.

On the P&L side, we have seen slight pressure, majorly because of small investments in the manpower side. As I mentioned earlier, we are investing into capability building for the



V-MART Retail Limited
February 06, 2019

future. We are inducting better quality and more manpower in selective areas. We have added the capabilities in visual merchandising, in warehousing and a lot of other areas. And we have also increased some of our expenditure on refurbishment and maintenance of existing stores. There has been a slight pressure on the fuel cost front. So while we all know that the fuel cost went up, for almost the major part of the year and have only started correcting since December onwards, but the impact of that has led to an increase by almost 0.3% in the overall cost for power and fuel this year.

Marketing remains at around 2.2% to 2.4%, which is in line with what we had thought. So at a overall level, in terms of our P&L, while the sales grow at 27%, expenses have been growing at around 28%. But we remain optimistic that we will still want to close the year with good set of numbers.

On the working capital side, the inventory days have marginally come down by 2 days, which has been achieved through better product merchandising and replenishment and also use of good technology across all layers of the replenishment cycle. So all the investment that we have been doing for the last 2, 3 years in terms of getting in the AI-based tool, and the warehouse automation and the planning tool and the range assortment tools etc., are now beginning to show results. And we'll still want to look at how we can optimize this further.

On the shrinkage side, we've taken a slightly higher provision. We have not really written off inventory, but we have taken a slightly higher provision for the quarter. So last year, we had written off 0.4% of the inventory. For the current year, current quarter, that number stands at 1.3%, which is purely from a conservative side accounting for higher amounts sitting in our kitty if the need arises.

So that is more or less around the P&L and how the working capital is flowing in. The cash flow has been stable. So on a capex side, we have done an investment of around Rs.30-odd Crores. As I mentioned in the call last quarter also, there is some amount of capex we are getting financed through lease financing, but that's a very small amount. But otherwise, overall cash flow remains net debt positive and while cash flow has been marginally negative for the quarter.

So that sort of wraps up the financial highlights. And I hand over the channel back to Sangeeta, and we can get some of your questions to answer.



V-MART Retail Limited
February 06, 2019

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have our first question from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Thanks for the opportunity. Sir first question is pertaining to our SSG, so what will you attribute our nine-month SSG drop to 3.7% versus 9.5% last year.

Lalit Agarwal: We have to attribute it to the last year because on the better base, you are getting 3.7%. But I think, yes, not attributing anything. As I told that even the second quarter, we had fewer weddings and then in third quarter second half we had fewer weddings in this particular year, which we did not get too much of conversion, so this is what we can see right now. Other than that, I think on the softness of the economy is one part, but the other thing is, yes, we are also trying to work that there is a huge competitive pressure across the regions. So maybe we have not been able to elevate our SSG, but yes, we have been able to control that and operating because there is a long list of competitors, which are opening up in these territories.

Tejas Shah: Sir the second quarter is pertaining to that only. In your opening remarks you actually outlined scenario where even national brands are chasing the same consumption basket of price conscious rural and semi urban consumers, so as a consumer what unique value proposition I should look in V-Mart and around which you are building the whole business model around?

Lalit Agarwal: No, I think it is purely about the consumer that we are targeting because our consumers are very, very clear that we do have a young youth and young families who are aged between 20 and 40. And these customers want to look good. They are not those kinds of people who are urban kind of customers who wear sober product, plain products, and simple product. They are someone who want little more embellished, little more value added, little more extra in their product lines, which we understand and which we know. So that is our key USP that we know what is their need, at what prices are they able to consume and how should we serve them so that they are able to accept it. So I think it is not about having a cheap product, it is not about having something in straight price point but it is also having about something, which is what they want. If that guy is wearing in Simmba, a particular kind of product which has a particular kind of shirt and particular kind of trouser, my customer look forward to ask for those kind of products, which he wants, which he has seen in that movie. So I think that is the aspiration that we try to drive, which he can find in our



V-MART Retail Limited
February 06, 2019

store rather than I am sure that the competitor will always try to do that and maybe better that, but this is what he asked and which customer acknowledges.

Tejas Shah:

Sure. That helps a lot and third if I may squeeze in one more, so Lalit, it has been now 19 quarters or so, I was just looking at the numbers where employee cost will be somewhere around at least the lowest we have seen employee cost inflation YoY is 17% and even if I adjust for ESOP this quarter then also we are 20% so two questions is the new hiring pertaining to same roles replaced by better resources or is it widening the talent pool or is it both and if you can share some thoughts on the same, at what point we will see operating leverage coming out of this line item?

Lalit Agarwal:

Tejas, I think, once again, I have been repeatedly telling and yelling to everyone that please do not ask for operating leverage from me and I do not target that because I believe in the story and I believe in the long-term story. I feel there is enough potentiality in the market for a multiple number of stores to come in, so I do not want to cap it at somewhere and I am once again outspokenly telling it in the conference call that please do not target that, so let us focus on capability building and we are not trying to win. Yes, obviously, there will be some replacement because we are looking at digitalization. We are looking at bringing in that digital transformation. We are looking at people who can then understand, analyze, do effective work and create better decision making processes because what bought us here may not take us there, so there are set of skills, which are required for that particular role, which is there and then you need much better expertise to do it better, so that is where we are getting into so that we do not fail and we do not create higher risks and we are sure shot that we would succeed and we would not die down.

Tejas Shah:

This is essentially, as you have been mentioning for the last few quarters so this is essentially to strengthen the back end and this is not the store-level staff, which is actually creating inflation in the pool is that understanding correct?

Lalit Agarwal:

It is everything. It is both. There is competitive intensity at the store level. There are more people on the minimum wages, which we do not want them to, because today, surviving at a minimum wage is also difficult, so we have variable incentive plans that we have built up. We are trying to give them more, more benefits, more, more trainings, more resources, so there are some direct costs and there are some indirect costs, which was imposed on the employee and there you need to have a talent pool, you need to have a training team, you need to have the hand holders, you need to have a better store manager, you need to have someone who can support them with data, and you need multiple things, which you have to do so that you are able to create those kind of buzz in the market and then better the



V-MART Retail Limited
February 06, 2019

employee base in that particular area so that your employee retention is also better and your employee is much more motivated so that he can satisfy the customer.

- Tejas Shah:** Great Sir. I will come back in the queue for more questions. Thanks and all the best Sir.
- Moderator:** Thank you. We have the next question from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.
- Nitin Gosar:** Sir, if one were to see the store concentration fact UP, Bihar, and Jharkhand is where you are largely concentrated and in past, you have mentioned more specifically about West Bengal and Odisha should that be considered as a natural extension to your store concentration strategy?
- Anand Agarwal:** While in the past, we have remained quite focused on UP, Bihar and Jharkhand, but as I said earlier during my introductory remark, we follow a cluster based approach and we will keep expanding in all possible areas and all possible directions, which is not limited only to, let us say West Bengal or Odisha. We at any point of time, we have a whole list of stores and whole list of locations and cities, which we keep benchmarking against each other and whatever location we get to first or whatever location seems highest on the ROI scale or on our ease of opening scale, we will open that first. Having said that we will definitely also not go out and only target one state in particular that we only want to open up in West Bengal or only in Odisha. We will keep evaluating options as and when they keep coming by.
- Nitin Gosar:** In the whole scheme of things, UP is important, so sugar belt does it impact our economics of cycle is not going well and attached to it how critical is winter in that particular belt?
- Lalit Agarwal:** Winter is an important season and winter along with marriages becomes much more important and that is very important in the whole belt of UP and at least Western UP and sugar belt yes there are always concerns in sugar belt, but yes most of the sugar belt farmers are a little richer in class, so I think they have a higher consumption capability, but as you know I mean obviously, the MSP are there and stuff are there, but still farmers are not getting the highest ever yield even now. There are concerns over their earnings and that is true, so that is a small concern, which is there.
- Nitin Gosar:** Thank you.



V-MART Retail Limited
February 06, 2019

Moderator: Thank you Sir. We take the next question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir you mentioned marriage season and days two to three times, so now going ahead how do you see marriage season? Is it good for the next few quarters including Q4?

Lalit Agarwal: Yes. I think we have marriages now. We are able to see lot of marriages in this particular month, but eventually marriages during these periods do not turn out to be very, very good for us because normally these are end of season periods and the whole market is down on sale and discounts, so effectively, the marriages in this part of the time of the season happens. The resultant is not too great that we watched over the years, but yes there are marriages and then now the marriages continue. Even in the month of April, May, June and the whole season, we have enough marriages, which are lined up this time.

Abneesh Roy: Sir on a yearly basis, any idea how much could be marriage related demand and EOSS in tier three and tier four market is it that relevant because mostly, it is in tier one and tier two right?

Lalit Agarwal: Not exactly because now it is no more tier two, tier three and even tier three are targeted heavily by all kind of brands and all kind of retailers, so I think, anyway EOSS is end of season sale, every brand wants to come down to the sale whether they are selling it through MBOs or EBOs. They will come down because they want to get rid of their inventory, so it will be there, but yes marriages because of our territory and our kind of consumer base, marriages are important occasions to spend because they spend most of their saving during marriage times and either they give gifts to the bride or they want to be a guests of bridegroom or they want to attend the party. Everyone wants to wear good clothes, want to gift, and spend some money in the whole family around those times, so we believe marriages are an important event of consumption and spending for the customers who live in our territory.

Abneesh Roy: Sir my second question is on the tier three and tier four essentially rural or urban kind of consumption. Now this new policy by government of Rs.6000 per annum to the poor farmers how beneficial is it because my sense is this will benefit more of FMCG rather than your kind of consumption and in your view is this kind of dole better or the MSP hike, which Congress used to give very high price hike of MSP is that better? Which one is better from a consumption point of view not for the farmer necessarily, but for the consumption?



V-MART Retail Limited
February 06, 2019

Lalit Agarwal:

Obviously, something which is a regular income generation activity will always be better. These are all small incentives, which will be received and maybe forgotten and may be misused, but we would always want our consumer to have sustainable earnings and that is what effects into a better consumption and we understand that these are small time triggers which may add on in one quarter, but what will happen with Rs.1000, Rs.2000, Rs.3000 for a family. I understand that it is not, but it is more about that feel good factor when they receive some amount of money in their bank account, so it is all about that bonus and that incentive that they receive and then followed by the election practices, which are happening. Anyway, not MSP, I would say it should be the total income of the farmer, which is a regular practice. MSP is also ultimately a subsidized piece. Where MSP, people do not want to sell on MSP. People want to sell at a market rate, which is much easier and much more viable.

Abneesh Roy:

Sir last question this FDI e-commerce, Amazon, Flipkart and all other players seemed to be very worried. Already their market cap in US, there is a big reflection in Walmart and Amazon, so my question is in tier two and tier three market and tier four also a lot of buying was happening by customers, so is this a big benefit for you or this is more likely to be backed and in India, we know always regulations are there, but then how much is the actual compliance that matters, so what is your take on this?

Lalit Agarwal:

No. I think we have always been stating that our consumer base and the kind of product that they buy and the areas that they live, they are not too prone to or not too attached or glued to the online space, but still there are some consumers who would go and who spend on the online piece and there will be stress on the supply chain of the online marketplaces and it will be a difficult scenario for them, which can create an opportunity for people like us or even other retailers. I do not know I mean whether it is good for the system or good for the society, but yes it is something where no ethical practices can get into place ad compliance, I think it is more about US compliance laws and Indian compliance laws because most of the biggest online retailers are summoned by US laws now, so in their country, it is a big challenge. But I am sure that they will be able to find out some solutions so that their consumers are not compromised with those kind of products. It should be a little positive in the overall retailing sector.

Abneesh Roy:

You are still not present on Flipkart and Amazon, right?

Lalit Agarwal:

We are not a product company so we do not produce our products and we are not a brand, so we do not sell on any of the channels. We are a retailer and they are also a retailer. We are competitors, so we would want to exploit ourselves and not help others.



V-MART Retail Limited
February 06, 2019

- Abneesh Roy:** Sir thanks a lot.
- Moderator:** Thank you Sir. We take the next question from the line of Varun Singh from Antique Stock Broking Limited. Please go ahead.
- Varun Singh:** Thanks for the opportunity. Sir just wanted to understand that like during current nine month FY2018, we have added only eight stores in tier four cities as compared to 14 store addition that we did last year, so I mean is there any shift in the strategy or are we not receiving encouraging feedback from the stores that we have opened in tier four cities?
- Anand Agarwal:** Varun as I stated just five minutes back, we do not really choose a territory or a tier, because it is that tier or that territory. We look at many different options and evaluate all possible choices on a scale of let us say ROI, capex, ease of opening of store quickly, how soon we can open that store, etc., there is almost like a 500 point checklist on which we benchmark each of the possible location. It is just coincidental that last year we had a higher number of store openings in tier four and this year in this quarter, we have lesser number of stores in tier four, but we keep looking at all possible options and we will keep perfecting and keep getting people into tier four as time goes by.
- Varun Singh:** Sure so in that Sir my followup question would be Sir if we look at the store economics of tier four cities. I mean I know that obviously, as you highlighted also in last couple of calls that capex and other investments will be relatively lower, so consecutively not much impact from return on equity perspective, but on margin perspective just wanted to understand that would it be margin dilutive in terms of gross and EBITDA margins?
- Anand Agarwal:** No.
- Varun Singh:** You would be taking lower ASP products there?
- Anand Agarwal:** No. There is some confusion there, so we have never stated that tier four towns require lesser amount of capex or lesser amount of investments. The investments are largely very, very similar. The only minor difference may be in terms of the rentals, which might be marginally lower. It is not a make or break difference. It is a very, very small cost, which may be lower than let us say a tier one or tier two town or a tier three town, but otherwise the cost of operations remains very, very similar. I think what has happened is in the past one and a half years since the time that we have started opening stores in tier four, we have not seen 100% success in all these stores, so we have maintained that we are still perfecting that model. We are still tweaking that model and trying to arrive at a business model, which



V-MART Retail Limited
February 06, 2019

is at par or better than the other tiers, but we still remain very, very bullish on tier four and we see that the future growth of the company and the future potential lies in getting further down the tiers.

Varun Singh:

Sure. Thank you so much.

Moderator:

Thank you Sir. We take the next question from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar:

Good evening. Thanks for the opportunity. I am sorry if I have missed this in your opening remarks, but could you help us understand the SSG split between the store vintages of one year, two year and three years and obviously the once above three years and also if you could split up SSG between tier four and ex tier four?

Lalit Agarwal:

Mr. Sarkar, I think you will have to get down or take a small personal note with Anand and then take this input, but we have not analyzed it separately right now, but on the vintage side, we have seen a good amount of growth coming in from greater than five year store on the SSG front in this particular year. Lot of tier one and tier two stores, which were greater than five year store has come back and we have seen good amount of growth coming in the Gujarat store, Delhi store and stuff. Other than that it will be difficult for me to comment right now. You can have a one-on-one chat and get that and the year wise SSG, I do not think we have seen that.

Baidik Sarkar:

Because I remember the Q1 call, we did have a great conversation on the new vintage store especially in tier three and tier four actually exhibiting some amount of degrowth, so while I can check with the CFO later any comments on that? Have the new vintage stores showed any degrowth per se?

Lalit Agarwal:

It is normally whenever you open a new store anyway these stores, which are tier four towns that have been opened in the last year and normally whenever we take a SSG calculation, it is all the store, which is 365-day operational in the last year and in the SSG framework, so we do not count that within the SSG. There will always be an upswing in sales in the first year or first opening of the store, which is a honeymoon period what we call, so we will have a small downfall in the consecutive year in every new store, which gets opened up, so I think as such, we do not see such a concern and large concern on that, but yes we can try and see it separately and give you the answer.

Baidik Sarkar:

Sure all the best.



V-MART Retail Limited
February 06, 2019

- Moderator:** Thank you Sir. We take the next question from the line of Akhil Parekh from Elara Capital. Please go ahead.
- Akhil Parekh:** Thanks for taking my question. Sir my question is on the sales per square feet size. If I look at tier four stores, which we have opened in nine months, for this year is almost 13% of the total store versus 10% last year, so is that the reason why our sales per square feet is marginally lower as compared to last year?
- Lalit Agarwal:** Can you repeat this question?
- Akhil Parekh:** Sure, I'll repeat it.
- Lalit Agarwal:** You were saying that tier four store count has increased what is the question?
- Akhil Parekh:** The tier four store count has increased and they are almost 13% of the total stores for first nine for this year versus 10% last year, so is there any reason why sales per square feet is marginally low for this first nine months versus last year?
- Lalit Agarwal:** No, I think the new store that we opened up are little bigger in sizes, which we opened up, so average was around 8200 square feet or 8500 square feet, so that is why new stores still now has not given that kind of sales, so that is why we are able to see a little lesser on the sales per square feet piece and also the same store sales growth did not increase too much and we also have added up certain areas in the existing stores of some three to four stores, which was vintage store because there we are doing good, so we have added some areas to increase the overall sales of that particular location, we have not been able to yield higher amount of sales from those areas also.
- Akhil Parekh:** Got it. So Anand sir mentioned that in terms of investment per square feet is pretty much similar in tier three and tier four stores, so sales per square feet also there is not much difference right as compared to tier one and tier two, if I interpret it correctly?
- Lalit Agarwal:** Yes, right now, the tier four as Anand has also told and we have also told repeatedly that 40% of store are still not on our benchmark list. 60% of the stores, we are able to have those sales per square feet which we are seeing in the tier 3, but 40% still are challenging where we are working on trying to understand what can we do better.
- Akhil Parekh:** Got it. Sir another question is on wedding apparel side how much is our percentage of sales from wedding apparels as percent of total?



V-MART Retail Limited
February 06, 2019

- Lalit Agarwal:** Akhil, it is not about wedding apparel. It is about spend during the wedding. Also, there are wedding apparels like suits, blazers, even frock for a kid or a boy, and lacha set for a girl. Those kinds of apparels, which the guests of the bridegroom and the party attenders wear is bigger for us. We do not sell something for the bride and the bridegroom, but yes there are other kind of apparels, which are type of wedding apparels because in small town people do not have a differential wearing for the party. They are a little premium products.
- Akhil Parekh:** Got it. Sir last question, so in terms of store addition plan for the next how much are we expecting to add?
- Lalit Agarwal:** Next year, we should accelerate. We are trying to open up around 38 to 39 stores by the year-end and we would want to accelerate that count in the next year.
- Akhil Parekh:** Sir thank you and best wishes.
- Moderator:** Thank you. We take the next question from the line of Aliasgar Shakir from Motilal Oswal Securities. Please go ahead.
- Aliasgar Shakir:** Sure thanks for the opportunity Sir. The first question is on the product mix you mentioned in one of the questions earlier that you understand the consumer psyche and your earlier products are not just price conscious, but also related to what typically rural or semi urban customers require? I just wanted to understand from the point of view of what proportion of your products would be exclusive in that context both in terms of the brands and some of the private labels also, the overall product mix? I am asking this more from the point of view that in some of the stores that we visited in the UP belt, we observed that some of the stores in the same vicinity of your stores had similar brands available, so just trying to understand when you say product exclusive is that USP that we hold or it is something which may be available with other players also in the same region?
- Lalit Agarwal:** Yes. I think anyway 65% of the sales that we do from apparel right now is our private label. We have already reached that level. There are still some market labels, which we are selling, which are good labels, so we would once again say about the product and not the brand. We would not say that we are only dealing in exclusive labels. We are trying to say that this is a product and which are unique in nature. The kind of product, the fashion of the product, the embellishment and at the price, which is available, but still we do not confirm that we are the only one selling it. There may be someone who can replicate the same thing and who can also try to get it similar stuff, which are getting sold, but this is what our uniqueness and overall level is. There may be certain products, which may be similar,



V-MART Retail Limited
February 06, 2019

which is getting sold even in the competitive space note that we are able to copyright it, but yes there are some uniqueness in our approach that we try to understand and that is what we try to do. We just do not want to do because it is unique. We want to do because it is a demand of the customer. This is what my customer wants and this is what I will try and perpetually do so that we are able to satisfy the needs of the customer and this is not only the only piece, but also about the quality because we have recently accelerated our approach towards the quality up-keeping and we have formed a separate team, a complete 20 member team, which are acting very aggressively on the quality and improvement of the quality piece, which is very much with V-Mart so that is one of the big thing, which is something, which the user will know and which the user will understand that whatever quality is good, they will want to only come back to those kind of stores, which has given them a good product.

Aliasgar Shakir:

This was very, very helpful Sir thank you. The second question on your margins and profitability, so you mentioned that while you are not looking at the business from an operating leverage point a view, but is it safe to believe that your current and not just quarterly, but overall annualized margins can be maintained? I am asking this more from the point of view that this quarter we have seen about 50 BPS to 60 BPS sort of impact in your gross margin and more from the point of view that you mentioned that you are seeing a lot of national chains opening more and more value stores in your region and also this quarter, the EOSS came out early, so in terms of the challenging environment and maybe you have to probably keep your products more attractively priced, so you think the current gross EBITDA margin will come on an annualized basis probably an FY2018 number that we did can be maintained or you think there is a downward pressure probably in that number?

Lalit Agarwal:

I think we have been repeatedly telling out from the last year itself that the last year number was in fact the best number that we have received, which is surprise and which is not repeatable very easily, so we still do not want to chase that number, but yes we will once again say that it will be very difficult to replicate the same number in this year, but yes, there is no such pressure of any kind from the competitive scenarios. There are those tactical moves, which every retailer has to do and which we also do and at times, those tactical moves are dependent on our seasonality, our forecasting mechanisms, and our ability to sell, the sell through, the market, the market scenarios and also the competition, which will always be off and on and which will be there. But there are all the margin pressure and the margin that we are seeing, we are all doing it with our plans and with our intentions, which we want to do, so I do not think there is any such worry or any such



V-MART Retail Limited
February 06, 2019

anxiety that you should have and please, we are working on a longer stretches. We want from a long standpoint. On a quarter-to-quarter basis and on a year-on-year basis, there are some movements, which will happen, which are genuine to the business, which are true to the business and which should happen and that is what we will expect to happen and we cannot predict and forecast what will happen in this year, so let us wait for the results to come out.

Aliasgar Shakir: 100% Sir. Thanks a lot. This is very helpful.

Moderator: Thank you Sir. We take the next question from the line of Varshit Shah from Emkay Global Financial Services Limited. Please go ahead.

Varshit Shah: Thanks for the opportunity and I think it was a decent show considering the competitive pressure. Sir, my question is more on the broad competition evolving around your focused locations, so Sir can you just elaborate on the part that which of these retail brands are coming in aggressive in the competition? Is this the same competition, which was earlier mentioned or they were newer brands who are expanding in tier three, tier four and tier two, so is the competition getting intense in the form of number of players or is that they are coming down to closer to our price points? Can you just elaborate on that?

Anand Agarwal: As Lalit just mentioned while competition is there and has always been there and the number of competition is also increasing, but we really have not seen pressure because of the competition because of two facts. Number one, even when we are in a market where there is no competition even then we do not have more than 3% to 5% of the market share and even when there is a lot of competition, let us say in a market like Banaras or in Lucknow or many, many such markets where there are at least 15 to 16 competitive players were present. Even there, our market share is in the very similar kind of range, so the market is actually very big and the customer is very intelligent and customer also develops a bond and customer also recognizes where he wants to go and shop. Now the issue around that if the competition comes and he matches up with our pricing, is the customer going to go away? I think that it is a hypothesis, which does not really work always and which will also not, not work always, so it is a mixed bag. It is a mixture of many, many different factors and we will continue to deliver value and we will continue to deliver what we feel is the best for our consumer given our understanding of what his requirements are and so far we have seen that has worked and we have only improved it and therefore, from that perspective and with the added impetus of the initiatives that we have been taking is improving our quality and improving the entire look and feel of the store, improving the



V-MART Retail Limited
February 06, 2019

merchandise, improving the product quality and all things associated. Competition, so far really does not really make so much of a difference that we have seen.

Varshit Shah:

And sir just follow up on that, so the national brands, which you mentioned they inherently have some brand value, so are we doing some work on augmenting our brand appeal? That is the last question?

Lalit Agarwal:

I think for us, brand is an experience here. It is not about that name, which someone can come up with, so there are big industrial houses, which have been trying to address this market from a long and a decade, like the Reliance, Tata and I do not want to name them, but there are the houses, which are India-based houses, but if brand could only appeal them, people would have given them positive EBITDAs and positive PAT, so I think it is not only about that name, it is all about the experience and all about the product that they are getting into, so I think our brand appeal is not largely going to be led by huge experimentation or expenses on marketing activity or advertisement. We will just try to once again deliver those brand promises, deliver those higher-quality products and deliver not only prices, but also quality product and a quality fashion, which then brings in the brand value and then the services and the environment in the store, which is what customer wants from us. Yes, obviously, we will have to try and look at the whole brand proposition and brand perspective and then always have to be careful about that right from attracting talent to maybe attracting good vendors and then attracting customers, so I think there is always a parallel activity, which is going on, but we are not trying to spend over actively on that brand proposition or brand appeal.

Varshit Shah:

Thank you Sir. Thank you.

Moderator:

Thank you Sir. We take the next question from the line of Neeraj Mansingha from Goldman Sachs Asset Management Company. Please go ahead.

Neeraj Mansingha:

Sir thank you for the opportunity. Sir I might have missed this why has the rent and the other expenses gone up for the company?

Anand Agarwal:

The rent has gone up marginally. It is not a substantial increase, but the rent has gone up marginally because of the new store openings that we have had and couple of stores or some of those stores that have opened have not delivered at full SPSF or the sale value for the commensurate part of the year, but in terms of other expenses, there is some amount of capacity addition that we have done at the warehouse. We have done some more refurbishments. We also have some amount of provisions that we had earmarked in the last



V-MART Retail Limited
February 06, 2019

quarter against a security investment, which is appearing in the other expenses and therefore, the other expenses have marginally gone up by 0.6% on a YTD basis.

Neeraj Mansingha: The security will be how much is Crores?

Anand Agarwal: That was around Rs.9.8 Crores as a total exposure against, which we have done a 25% provision.

Neeraj Mansingha: I am just trying to get the competitive scenario. I think you said it in the call, again, a few minutes back, but is it not that there have been a lot of scale up and most of the players are trying to open up next to the organized players and I would be surprised it is not having any impact on your same store sales?

Lalit Agarwal: I think, out of the total 200 stores that we have got today, Neeraj, there are more than 177 locations where we have competitors opened up next door, so if that would have been a case, we would have not received any growth in sales, so believe us when we are saying it. We are not joking and there is not one competitor, which is opened up. There are multiple competitors, which has come up near our store, so yes, here we do not want to say that we are exceedingly good that is why we are not getting affected. We are saying that there is a market, which is getting increased. I am not saying that our competitor is not getting the sales. I understand you are also an investor in one of the retailers, so we understand the numbers that you have and we give full credit to those people also, but the market size is growing up and it is very good news that the whole moment or the market, the retail, consumers are coming up to the organized fray and they want to buy more from the organized place, so that is what is happening.

Neeraj Mansingha: Yes. Any comments on how the industry's working capital is or any thoughts on that? Not about you, more about like the industry data and others of the industry?

Lalit Agarwal: I am sorry to say this, but I don't have access to that information, but I think I do not want to really work on that, but we know that we are we are really sharp on the inventory piece and we believe the inventory is the deciding point. The freshness of the inventory is the biggest piece, which is will affect the sales of the organization and the health of the organization in the near future because I think that is where the whole piece lies because we have seen in the past also in the last decade, if you can remember there are a lot of retailers who had this problem of inventory getting piled up and old inventory getting piled up and we know about Vishal's and Koutons of the world, which had those problems, so I think inventory is one of the piece which has to be right. It is not that over inventory or higher



V-MART Retail Limited
February 06, 2019

inventory is the only piece that we need to have. We should have the right inventory and our supply chain has to be agile enough to try and service the stores and try and fulfill the requirements of the inventory and you need to bring in digitization, you need to bring in data analytics, you need to bring in those kinds of newer opportunities, which are available so that you are able to meet those and we also feel that still our glass is just half filled. We have a lot to learn and lot to bring in because that is where we are trying to work on. That is the amount of opportunity that we are witnessing and envisaging.

Neeraj Mansingha: Thank you very much.

Moderator: Thank you. We have the next question from the line of Rohit Bharande from Dalmia Securities. Please go ahead.

Rohit Bharande: Thank you Sir. My question is regarding your payback period. If you open a new store in a particular region what will be your payback period? What is your cash payback period cash breakeven?

Anand Agarwal: The typical investment in a new store is around Rs.1.2 Crores in terms of capex and around Rs.1 Crore in terms of the working capital and typically what we have seen is the payback happens between two to two and a half years.

Rohit Bharande: Two to two and years and my second question would be around like what is your private label contribution to your top line?

Anand Agarwal: I think Lalit just mentioned that five to 10 minutes back, it is around 65% of apparel business and we only do private label in the apparel side of the business, which is 80% of the total revenue mix.

Rohit Bharande: Can you Sir please let us know like what would be the difference between the private label brand like general you can say, other you can say apparel, what differs it from other apparel category?

Lalit Agarwal: As an investor, I think I would invite you guys to please come down to our stores and witness it yourself because it will be very difficult for me to explain that over the call because ultimately, the product quality and the product differentiation has to be felt and understood that what is the difference, so that is how it comes up because that is how you will be able to substantiate what is the differentiation. It is very difficult because you work on the whole private label to try and improvise the product quality, improvise the product



V-MART Retail Limited
February 06, 2019

design and give something extra to the customer, which is unique in itself. That is what we are trying to do so that it is a focused area towards the theme and the story of the product.

Rohit Bharande: Sir my next question would be around like for my understanding itself like for private labels the EBITDA margins for the particular private label would be better than other apparel category?

Lalit Agarwal: I think we have been repeatedly saying over the calls and over our interactions that we have never targeted higher margins from any kind of private labels. We are always trying to give better product and give better services or unique things to the customer. We do not want to target higher margin in the private labels.

Rohit Bharande: Thanks a lot Sir and best of luck.

Moderator: Thank you Sir. We have the last question from the line of Abhijeet Kundu from Antique Stock Broking Limited. Please go ahead.

Abhijeet Kundu: This is Abhijeet from Antique not Emkay. Thanks for the opportunity Sir. One question was that you were saying that your store openings in Northeast, you got a mixed bag response, so what do you think are the challenges there in terms of fashion because North East that way is relatively fashionable, so what kind of challenges are you facing there? Any color on that?

Lalit Agarwal: I think it is not about fashion. Yes, there will be, obviously, you will have to learn more about particular kind of area wherever you go into, but the challenges right now is, there are one or two locations, which we thought would do good, but are not really clicking up, but otherwise, I think we had a great openings in the North East and it is more seasonal in nature once again their businesses. We need to understand it more, the regional taste, the regional seasonality, and the festivals, so we are trying to understand the whole cycle. How will the winter season pan out? What kind of wearings are there? There are little tribal belts in the North East where there are regional kinds of ethnic wear. Normal saris would not sell there, so there is something different in those kinds of territories. In Meghalaya, there is something different that you want, in Assam. There is something different that is worn, so you need to understand a little more to the perspective of that North East, which we are trying to learn and then do. It is not very, very similar.

Abhijeet Kundu: Right, but otherwise it is a very high potential market?



V-MART Retail Limited
February 06, 2019

Lalit Agarwal: Yes, I know it is a very high potential market and it is very high fashion market also and especially in ladies wear at least. We have seen the western wear as a high fashion market. There are markets within the ladies wear where there is ethnic market, which is a very different ethnic market, so I think we were trying to understand it more and the whole North East has a lot of potentiality and we are targeting aggressively to penetrate that.

Abhijeet Kundu: Sure and Sir my second question was on your cash flow, so primarily on working capital. On the current asset side, you have managed it really well? I mean, inventory days have also come off, it is pretty visible, but when I look at your cash, which is in used in working capital, it has gone up? There is the moment in working capital part that it has gone up and it has gone up because your trade payables and other financial liabilities have come off, it has reduced any particular reason for that I mean you have?

Lalit Agarwal: So Abhijeet, see, you will have to understand that normally in this quarter, we would buy inventory at the start of the season and, which is generally September, October, where high inventories is being bought and those credit periods are normally 45 to 60 days, so you pay off most of the creditors before the December end and then you do not receive new inventory before December, so that is the seasonality effect. This year, particularly, it has been a little higher because we have planned it better and we had that inventory and we also have a Unnati scheme where in we tried to help our vendor base in giving them a little early payment so that they get that working capital and they get their capital to prepare for the next season and we take some discounts from them. We have also done that piece a little aggressively.

Abhijeet Kundu: Because I was looking at that primarily when I look at your free cash flow, I mean, which has been negative this quarter, I mean, for the end of this quarter, this could then see a slight improvement by the end of this year because your investing has been at about Rs.38 Crores, of which Rs.29.8 Crores has been in fixed assets, which has been quite higher as compared to last year. Just from the cash flow perspective, how do you see it ahead because if you go aggressive, this first question is of this Rs.29.8 Crores is a significant part of it also into warehouses because you said that you have invested in warehouses as well?

Anand Agarwal: I believe that is not a very significant part. There is a small part. Major significant part is in the 29 new stores that have got open. It is just some small part on the warehouse capacity augmentation and yes you are right for the quarter while the free cash flow remains slightly negative, but averaging that out and progressing it further for the full year should not show a lot of stress for the full year-end.



V-MART Retail Limited
February 06, 2019

Abhijeet Kundu:

Thanks. That is it from me.

Moderator:

Thank you very much Sir. Ladies and gentlemen that was the last question. I now hand the conference over to the management for closing comments. Sir, over to you!

Lalit Agarwal:

Thank you once again for being on the call patiently listening it and being with us. There are ups and downs in the markets and we will get all sort of news and all sorts of concerns. I appreciate all that and I would invite everyone to once again, go around in the market, please come down to our stores, go around in the territories, and understand the consumption phenomena. We expect lot of good things coming in. There is always going to be a little shaky ground because of the election processes going ahead and so is the consumption going to be and the law and order situation in the areas, so we are watching it very closely. We are watching the next move of the governments also, so I think wish us all the best. We are trying to be a little aggressive. We are trying to be a little more closer to the market and that is where we are and then, trust we will try to do something better. We will try to work on a longer-term strategy rather than the shorter-term goals. Thank you so much.

Moderator:

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