



“V-Mart Retail Limited Post Result Conference Call”

February 06, 2020



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MODERATOR: **MR. PRAVEEN SAHAY – ANALYST, EDELWEISS BROKING LIMITED**



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Moderator: Ladies and gentlemen, good day, and welcome to the V-Mart Retail Limited Post Result Conference Call hosted by Edelweiss Broking 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Praveen Sahay from Edelweiss Broking Limited. Thank you, and over to you, sir.

Praveen Sahay: Thank you, Aisha. Hello, everyone, and thank you for joining to the earning call of V-Mart Retail Limited. On behalf of Edelweiss Broking, I would like to welcome the management team of V-Mart Retail Limited to discuss the result and the outlook. We have with us Mr. Lalit Agarwal - CMD of the company, Mr. Anand Agarwal - CFO of the company; and Mr. Samir Misra - COO of the company.

I would now request Lalitji for his opening remarks, post which we can open the floor for Q&A. Over to you, sir.

Lalit Agarwal: Good afternoon, everyone. Welcome back to the conference. The most exciting quarter that we have on this is the third quarter because of the festivals, marriages, winter season. So happy to come on the call after this quarter. So a lot of areas and a lot of hue and cry, lot of different kind of emotions coming out from the economy, from the industry, from the consumption, consumer sector, from the political scenario. So it has been a very eventful quarter, and we have seen all kind of matter coming in right from election following year, right from the CAA protests happening all around the country affecting lot of areas. We have a lot of news around economy slowdown. We have a lot of data, which indicates low growth rate for a lot of people whom we benchmarked and we look at. And within these scenarios, still the world is moving on, still the businesses are happening, consumption is happening. We have seen continuous flow in the market from the consumer side. People in the small town, we don't see too much affected, but yes, when the media channels highlight it too much, they do understand that there should be some concern that is why they're highlighting so much. So they get into a little shell mode. They start spending a little slower, they start investing a little lesser. And that is the overall environment of the economy. I think rains have been good, the crop has been good. So people are celebrating festivals, people are celebrating the marriages. There were a lot of marriages in the society in the last quarter.

We saw winter season as a little late, but yes, it came up almost end of December, but it was okay and not too good in that quarter. January was a little more harsher winter. And so, we are seeing average demand in the economy, nothing new, but yes, as you know, because of the information availability, because of the social media activities, people or the consumption of the youth is typically going up. The youngsters want to really look good, want to consume more, want to change their wardrobes. So that aspiration is always there, but yes, they are fighting with their budgets, they are fighting with their income level, they are fighting with their pocket size,



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so that is on. And overall the industry, I think, has fairly on an average done okay, because not too many players, I see, having the high same-store sales growth.

Overall, I think the regional retailers who had prospered too much in the last 2, 3 years seem to be, there are lot of retailers who seem to be in a little difficult situation, trying to find out their ways, not able to really manage their operations very well, but maybe some of them are consolidating some of the stores and are in real cash crunch problem. So I think there are a lot of lessons, which are getting learned, and there's a lot of consolidation also happening there. So people are learning, people are developing themselves. And so we have seen their honeymoon period has over. Now we are seeing their stressful times, and they have to operate larger number of stores. So there we don't see too much of threat.

On the organized side, I think, yes, all the players, most of those big conglomerates of retail, national players, they are also getting into the smaller towns, getting into these areas. They all want to work heavily on value retail. So we have seen a lot of new store openings from those retailers. But, as a strategy, we don't think we have very much do get threatened from them because their price points are still higher, their value driving processes are little different. So we are watching at them. We are learning from them. And there are lot of changes that they are also bringing in. So we are very active and very vigilant. But yes, they are developing our market, they are developing these markets. So the markets are becoming better. We are seeing the organized retail in itself is going to a certain level, and value retail within organized retail is becoming a very good area. And our customers have started trusting more the value retail piece, so we should see a very good future going forward.

Other than that, I think V-Mart has been very strategic, has been very thoughtful on and very focused on its approach. We have been very clear of our customer segment. We have been very clear of our geographical segment. Wherever our operational efficiency and our capability is, we have tried to grow on those operational efficiencies, operational capabilities with our plan. We have been investing. We have continued investing in the areas where we had to invest. Of late, just trying to be a little cautious of our approach. We have pulled up something in the last 2 months, and we have seen some results also coming out of it, but not that our focus towards the growth path and our focus towards the long-term expansion and creating this successful organization, which has all those values and all those processes and all those capabilities, which can take them up so that we are able to generate more efficiency to meet the requirements of complete India. So that is our plan to understand and know and experiment few of the concepts and keep understanding and knowing more about it. Bringing digital drive create more digitalization within the company, bringing more efficiency, putting some more automation, bringing some more analytical outcome, that has been the major approach, trying to know the customer more, trying to give the customer the best of the product and maybe bridging the gap between people and parties and vendors and suppliers and customers so that we are able to sail through the whole journey at a much efficient cost. That has been our typical approach, and that is what we will keep focusing on, so we can have a detail on the question-and-answer session.



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I'll first pass it on to Anand, so that he can give you a little feedback and view about the numbers and then how did we perform in this particular quarter and the year to go. So over to Anand.

Anand Agarwal:

Hi, good afternoon, everybody. It has been a good quarter, I would say a reasonable quarter, but still probably we could have done better, and we still are hopeful that we will still want to do even better than what we have performed.

At overall level, I think we saw a good number of footfalls at the stores and coupled with good conversion rates, which are higher by 3.5% over last year same quarter, gave us good reasons to get better profitability out of the same stores. At overall level, while the sales grew at 21%, the like-to-like stores grew at 1%, while we also saw volume de-growth of around 3%. The ASP remained almost flat at 0.1%, but which was largely led by the slower winter onset, and as we all know that winter merchandise or heavy winter merchandise is slightly higher priced, and therefore, the ASP remaining almost flat was in line with that trend. The average bill size also increased only by 0.3%, which was, again, a reflection of the slight slowness in the heavy winter merchandise.

We opened 19 new stores during the quarter, the highest number that we have opened in any quarter, taking the total store count as of the end of December to 257 across 19 states. While, as of today, we are now on 260 stores, but as of the end of the quarter, we were at 257 stores, taking the retail area up by 28% over December last year and translating to a 21.4 lakh square feet of area under operation.

This was also a very special quarter for us in terms of crossing the milestone of 250th store. This is definitely a big milestone for us and made the forward on-looking journey even more exciting.

This quarter has been a quarter of efficiency improvement, while there were some challenges in the macro environment. But I think, as a company, as Lalit also just pointed out, we've been working very strategically on improving efficiency on all counts and the efficiency improvement was across all the parts of the business, all process, all divisions. Whether it is merchandise or supply chain or finance or digital, I think the big focus of the company was improving on efficiency and ensuring that we are able to get better throughput from all the resources.

If I look at the geographical spread, I think UP continued to lead the growth. While at overall level, our L2L was around 1%, but the core markets still grew better than the national average. East markets were slightly slow post-Pujo which is expected. And there were some disturbances in Northeast due to NRC and then in some other parts of the country due to CAA protest. Also, Jammu and Kashmir still remains slightly disturbed, particularly Srinagar, which has been one of the big markets for us, still remains underutilized due to less number of operating hours.

In terms of the new stores that we opened, I think we opened 7 stores in UP, 4 in Rajasthan, 3 in Madhya Pradesh. So diversifying our presence in across different geographies. We are also



getting deeper into cities, opening more number of stores in existing cities and towns. We have also closed 1 store during the quarter in Orissa.

If I look at the margin, how the margin behaved, we were able to improve our margins in the quarter by around 70 basis points, largely led by costing efficiencies and sourcing efficiencies. Also, the fact that we played smartly around November and December in terms of reducing our promotional spends and schemes, so that we could arrest the margin leakage, also led to the improvement in the margins. There was a conscious call of improving on margins and lower discounting, while the challenge remained of higher discounting and higher competition intensity in most of the markets. But despite that, I think the strength of the merchandise, the strength of our systems, people and the overall strong brand salience helped us pull-through our difficult terrain with improved margins. So that's a good testimony of how we have been able to improve our merchandise and our process to deliver consistent and better growth.

If I look at our expenses, I think, without IndAS on a like-to-like basis versus last year, while the sales had grown by 21%, expenses grew by 19%. We were able to build efficiency also in most of the expense items, if not all, but the entire focus, as I mentioned earlier, was around the rationalization around increasing throughput, not reducing cost only for the sake of reducing cost but driving efficiencies and driving higher ROIs on every rupee spent. While the employee cost marginally went up, but that was also a result of the zonal structure that has now been built into the place since the last 1 year. There are significant improvements and savings that we had budgeted for and delivered around the power and fuel efficiency improvements. We were able to convert some of the non-electrified stores through rigorous follow-up with governmental agencies. We were able to do a lot of improvements around some repairs, some long pending items, LEDs, some equipment changes, overall objective being to reduce wastage and not only to save cost, but also to improve and reduce wastage.

Some of the other examples of how we were able to reduce and optimize our resourcing was, as an example, that we put in a program to reuse our cartons, all the cartons that we received from the vendors, all the cartons that we send out to the stores. There's a consistent policy now in place to reuse all of them. And I think, only in the December month alone, we were able to reuse 50,000 cartons. And that is something that there are many examples like this, but this is something that is now being engrained into the system, and we will continue to see how more benefit we can draw out of this.

The zonal structure that we have built, I think, largely is in place and while the efficiency of that and the efficacy will be delivered and will get leveraged in the years to come, but a large part of investment that we had earmarked or started from last year is behind us now.

There's a lot of work, which has also happened around rationalization of expenses in other areas as well. So be it marketing or be it supply chain or transport, there was a lot of work, which the teams did to ensure that we are able to get better throughput and more efficiency out of that. A



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lot of marketing was optimized because October being the festive month, in any case, had a lot of marketing spend, but November and December, we just tried to ensure that whatever brand saliency we wanted to leverage that marketing and that brand saliency that we have built over the months and years and did not spend too much around ATL or large campaigns. We also did a lot of personalization campaigns to ensure lower cost of delivery to actual customers, and that improved our throughputs, that improved our footfalls, that improved our sales at most of the stores.

One of the other areas, tricky areas, was inventory coming forward from Q2, where we saw a large amount of inventory buildup. And I remember we had spoken about in the call that we will ensure that inventory gets under control by the end of Q3. And, yes, as promised, the inventory is better over quarter 3 of last year by one day. Our days of inventory of 72 days, which was as we had planned and as budgeted. Q2 build up, as I said, was largely around festive preparation and the 19 new stores that we had to open in Q3, but I think constant monitoring and shortened supply chain cycles helped us to achieve this very difficult task in a very challenging environment.

If I look at the cash flow, YTD Q3, we've generated free cash flow, in fact, a negative cash flow of 2 crores, which is normalized in this kind of growth phase. There is some impact because of MSMED sectors, payments cycle mandated by the government to be reduced from 60 days trade cycle to 45 days. And almost 15% to 20% of our vendors belong to the MSMED category. So that has put some marginal pressure on the cash flow, but at overall level, I think the cash flows remain firmly in place.

As far as CAPEX is concerned, we've spent 41 crores YTD. In the quarter, we have spent around 15 crores, again, as per plan. Largely, for the full year, we still remain consistent on our debt-averse policy, whatever new expansion, whatever investment that we do, we will still manage that through internal accruals, and the cash flows are in place to manage that.

One important point, as I had also pointed out in the last quarter call and also the quarter before that, is the new change around IndAS 116 implementation. So while the numbers that we report and numbers that we publish are in line with the new accounting standard norms, but an important call out from there is that there is an additional impact of notional interest cost of around 8 crores for the quarter and 23 crores for full year, which is optical, which is not a cash flow adjustment. It is basically just IndAS accounting adjustment. So this is just mandated as per the law. And therefore, we need to provide for this. But on a time scale of 5 to 9 years, this will come back, and it will just remain as accounting adjustment.

So largely, that is it from my side. And now, I hand over for the Q&A.

Moderator:

Thank you. We will now begin the question and answer session. The first question is from the line of Tejas Shah from Spark Capital. Please go ahead.



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Tejas Shah: Sir, at the risk of perhaps over reading, but the opening remarks that both Lalitji and Anand used to qualify the quarter, they're actually not negative, and then this is quite contrary to what we picked up from other consumer companies and a couple of retailers so far. So is this largely a reflection of underlying demand in our catchment area? Or is it that we are gaining market share materially at the expense of others because that's what even Lalitji highlighted in his opening remarks? So that is the first question.

Samir Misra: Tejas, hi, this is Samir here, and thank you for your question. No, I think our long-term strategy has been to ensure that we continue to work on our market strategy, our strategy to ensure that we are closer to the consumer, closer to the market, build brand salience in light of fashion and freshness, less discounting, develop more accuracy and forecasting methodology and also work on softer aspects of the entire team, which is decentralization and empowerment, moving from head office to zonal structure, additional mindset. To be honest, I think some of those efficiencies are and focus areas probably are beginning to kick in, and those have resulted in some decent numbers for us.

Tejas Shah: So Samir, in recent analytics, we saw this strategy clearly reflecting in the freshness and fashion quotient of the inventory, but we also picked up that our competitors were actually shutting shops in some of the catchment areas that we visited. They were on a fire shield. And our share even today, it is that in some of those areas where we are actually trying to up the inventory quotient, the consumer is more price conscious than perhaps fashion conscious, we might be wrong. So what's your read on that strategy change? And how is it working for us?

Samir Misra: I think I'll answer the latter one first. I think that's slightly easier one to answer. I think what consumer wants is value. And value and fashion will lead to pricing. And what's critical is our set of consumers, what do we provide to them so they feel that when they buy from us, they patronize us, we are creating value for them. And fashion and freshness go hand-in-hand. And the more freshness, the more new inventory and faster we are, we catch on to trends, consumers' mindset, I think they come and patronize us more. They come and buy with us more. And there are certain players in the market who are doing really well and results also reflecting for them. And I think our benchmark is who's doing well and also how we do better. As an organization, I think our continuous strength has been to improve on what we have done in past. So just to paraphrase it, I think we have been consistently focused on our long-term strategy. I think short-term gains and losses, as an organization, we're not too worried about it. And I think when times are slightly not as good as what it would have seemed to be, some of these brand saliency points and what the work which we do in efficiency and technology, I think they'll start to kick in.

Tejas Shah: Last question, if I may squeeze in one more. In shrinkage, continues to be on a higher trajectory for last 2 quarters. And in spite of that, gross margin this quarter were actually better Y-o-Y. So what's actually happening on those 2 counts?



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Anand Agarwal:

So, hi, Tejas, Anand here. So shrinkage is largely a reflection of a provision and not really pilferage. And we've always maintained a consistent provisioning policy, and which is we need to provide for anything which is more than x number of seasons. And whatever up and down in shrinkage that we see, again, at a year-on-year or a full-year basis, I think it will still remain or fall back in line between 1.3% to 1.4%. While on a YTD basis, it is currently looking at around 1.6% because the USS is just round the corner or post this quarter, so January is the USS period, where you liquidate most of the old inventory. So that remains under control. But as far as margin expansion is concerned, I think margin expansion is largely also being driven, not only from a shrinkage perspective, but more from a merchandise perspective, where we have significantly upped the quality and the value proposition of the inventory itself, and which is selling or we are able to sell more full price merchandise or full price sell-throughs in this quarter. So as I mentioned during the opening remarks, we have given less promotions. We remained very disciplined around not doing a lot of discounts or promotions, especially in November and December. And our sourcing costs have also significantly improved. We have worked on volumes. We have worked with vendors. We have consolidated our vendors. We have improved our margins to a certain extent, and that is largely reflecting in the GP improvement.

Moderator:

Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy:

Sir, have you cut your advertising because your other expense is down around 19%? In Q2, it was flat on Y-o-Y basis. This time, it is down 19%. So ad rates, are they soft because it seems you have cut on advertising because 19% lower other expense. What is driving this?

Samir Misra:

Thanks, Abneesh, for the question. I wish ad rates would go down. We'll be very happy about it. Our go-to-market strategy had been in terms of advertisement was in October, November. We spent quite a bit on the festival period. So there were 3 go-to-market in this quarter. There was a festival, there were marriages and then there was winter. And in festival, we relied on the traditional methods of newspapers and outdoors etc. But, in November and December, our strategies were very clear, we were focused on loyalty, which is the basis for the data and analytics and social media and less on traditional networks and outdoors. And I think the deployment of this strategy, which was also heavily reliant on our product quality and product fashion in the month of November and December, which is both pre-winter and winter, had paid off. So, yes, lesser spends in these 2 months, but our focus and effort was more on loyalty and digital medium.

Abneesh Roy:

And lower traditional media, is the competition also doing that? And so can this continue in the coming quarters also?

Samir Misra:

I mean, go-to-market strategy will change depending on the seasons, festives, what do we want to leverage. I'm not too sure what competition is doing. But I think we'll continue to adopt different strategies in different months, so that we are able to build brand saliency, we are able



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to communicate to our consumers more effectively and ensure that consumers talk to us in terms of fashion and value.

Abneesh Roy: My second question is on the store closure. So you have closed 1 store in Odisha. So how old was the store? And previous quarter also 2 stores were closed, so a bit pickup in terms of closure of stores. Is there anything which is concerning in some of the markets in terms of profitability?

Samir Misra: No. The store was 4 years old and was not really paying off in terms of throughput. And we have always believed that our stores should make money. And there will be some closures which will happen every year. And we have always believed that it could close 3 to 4 stores every year, and I think it is part and parcel of working in this business. There is no worry in terms of market etc., but I think it's more to do with performance of the store. We will be also looking at more closures, which we have done every year and also replacement stores.

Abneesh Roy: And last question on ASP. In Q2, there was a good growth. This time, there's no growth on Y-o-Y basis. What is the reason for this? Is it because of maybe discounting? You mentioned discounting was lower. But in Q2, gross margin expansion was 200 bps. This time, it is only 75 bps. So if you could link both gross margin expansion being lower and no increase in the ASP?

Samir Misra: Thanks for noticing it. So this Q3 ASP is largely led by winter. And as Lalit and Anand both pointed out, winters arrive pretty late, fag end of December. So we were more reliant, and our higher sell-throughs were on the pre-winter merchandise, which is the light winter merchandise, the sweatshirt etc. which took off really well for us. And thereby, the heavy winter, which is the heavy jackets and cardigans and pullovers are slightly slower because of the winter arrival. And that's why if you see apparel ASP, it is pretty much same as last year.

Abneesh Roy: One follow-up here. So in FMCG, severe winter doesn't help if it is late. In your case, because these are your own stores, severe winter in spite of being late, does it help? So what my question is in December did you get benefit? In January, are you getting benefit of severe winter than, say, last year?

Samir Misra: January was, I think, there was severe winter. And I think it really helped our winter merchandise. But January was also end of season sales, and the consumer expectation and the conditions is to seek markdowns in India and internationally. And we also work on liquidation of merchandise. So, yes, I mean, both kind of work with each other.

Moderator: Thank you. The next question is from the line of Kishan Gupta from CD Equisearch. Please go ahead.

Krithi: Sir, Krithi here. Sir, my question is, what is your rationale for aggressively opening new stores when your SSG growth is just 2%?



- Samir Misra:** Right. I think, as we discussed earlier that we are very clear on long-term strategy. Our long-term strategy has been to grow area expansion of 20% to 25%. And whether market conditions are very good, not so good, I think, V-Mart strength is to do the right things in every quarter, every month, and that's why we continue to grow. As Anand pointed out, we are looking at deeper penetration than wider penetration and which has been a cluster strategy. We are targeting it, even extending and even more. Yes, same-store growth was muted, and it has to do with not such great festival sales though we could pull back some of it in December, thanks to our full-price strategy, and we could gain some margin out of it. Does that answer your question?
- Krithi:** So, but how much of that is justified because your ROC is falling?
- Anand Agarwal:** Hi, Anand this side. So, basically, the strategy around new store expansion is what I think Samir meant to say is that we are not opening stores basis 6-month SSG growth or 1 quarter SSG growth guidance. I think we are looking at a slightly longer term because these stores are opened for 10 to 15 years, and their ROI and ROCE has to be evaluated from a long-term perspective. And there will be blips in businesses. And there will be ups and downs, but we remain confident of the overall market opportunity, and we still feel that there is a lot of opportunities still left unexplored. And we are confident that with our model and with our strategy, we should be able to reach to that mid-high digits SSG growth in the years to come.
- Krithi:** So my next question is, what sort of demand stress is visible at your existing stores?
- Lalit Agarwal:** See, let me answer this. This is not the demand stress. Obviously, there is some problem, as I said in the opening remarks only. The consumer will only hear and have an environment wherein they really consume. So there has been a mixed response. And we have seen both the things happening. But as you understand, our business is more in the lead-based business, and which is motivated and coated with aspiration. This demand will not come down. But as you are seeing the ASP has gone down, we would have preferred to buy a little lesser price product and maybe a little less quantity of product. So there has been a mixed response. There has been some, I will not say a pure demand stress because there has been also a new store opened by competitors. So a lot of this also has been consumed by some of the competitor store. So, overall, there is a payment by economy that we all know. And this is how we have seen similar response. So not a very high growth in the demand.
- Moderator:** Thank you. The next question is from the line of Aditya Bapat from Research and Ranking. Please go ahead.
- Aditya Bapat:** Sir, what I want to know is that your current quarter margins, the EBITDA margins, which were close to say, 21% or so. I'm talking about the reported margins. Now what is that threshold beyond which you will be passing on any incremental margin benefit by way of, say, lower cost or higher A&P strength. So what is that level?



- Anand Agarwal:** Hi, this is Anand this side. See one has to look at the EBITDA in a full-year perspective and not really on a quarter-to-quarter basis because quarter 3 is usually a high growth and high earnings quarter. But if I understand your question clearly, I think what you mean to refer to is the operating leverage or the usage of the margin in terms of how more it can increase with volume growth etc. I think we feel that we are in a growing phase, and as we keep on adding 20% more stores every year. So we will need to keep creating more bandwidth, more capacity, more capability. Also, at a bare minimum, around 3% to 4% SSG is required to offset inflation. And anything beyond that is only available for margin expansion at the EBITDA level. So while we will keep trying to offset it too, but my sense is that anything SSG of less than 6% may not yield to a lot of operating leverage on a full-year basis.
- Aditya Bapat** So then what is our number that we have in mind as far as the EBITDA margin is concerned on an annual basis?
- Anand Agarwal:** I think on an annual basis, if I look back at the last 4, 5 years, we've been delivering around 9%. And in multiple calls, we have said that this year, probably the delivery might be still short. It should be between 8% to 9%.
- Moderator:** Thank you. The next question is from the line of from Binoy Jariwala from Sunidhi Securities. Please go ahead.
- Binoy Jariwala:** My question is more related to the pre-EBITDA level expenses. So what I understand is we've added about 29% number of stores Y-o-Y. In terms of retail area, we have had about 24% retail area. The total expenses that I look, they just increased by about 17%. So, I would have rather thought like this that there would have been some pressure on the margins because of pre-loading or store opening expenses, but yet not seen in the results. If you could just throw some light on this?
- Samir Misra:** So one has to understand, normally, the pre-operating expenditure of our store is capitalized and is not really reflected in the P&L. But having said that, also, we must appreciate that, usually, the kind of stores that we open and the kind of locations we open these stores at, usually get higher than normal returns in the first couple of months. And therefore, the expense percentage for a new store will probably be lower than a normal store, at least in the first 3, 4 months. So when we add more stores, it does not really lead to any margin leakage or operating expense leakage, it's more additive.
- Binoy Jariwala:** Is that because of the novelty factor, and therefore in the earlier months, the store ramps up quickly and thereafter stabilizes?
- Samir Misra:** Yes, you are correct. So it's also part of the novelty factor, but even in mature markets, it's also about some pent-up demand and also the kind of advertising and promotions that one does and



we create a buzz around the markets. We have strong activation programs on BPL etc. So we like to ensure that the store is able to reach its targeted numbers in the first month itself.

Binoy Jariwala:

Understood. The next question is on the store area. Two parts to this question. So in our home markets of UP, Bihar and Jharkhand, let's say, are we adding stores which are larger in size? Or do the store area roughly remain the same? I'm asking this question because these are our home markets where we would be more comfortable with the consumer, and therefore, might think of adding larger such stores. The second part of the question is that, in general, when we add the stores, do we set up a larger style stores, and initially, we open only a part of the area and thereafter once the store ramps up open the remaining part?

Samir Misra:

Binoy, thank you for the question. No, I mean, the strength of the model we keep it very simple. And our store operating model and store size model is similar size, which is around 8,000 square feet. Yes, it will go slightly up and down because of the property, which is available at that rental, which we desire. But new store openings are same size, it doesn't depend so much on whether it's in any state. And that's the model which we want to explore. But yes, sometimes if the throughput is high in some of the stores in our strength areas and in our strength cities and strength catchment areas, our continuous effort is to increase area if the throughputs are higher so that we gain more traction in consumers, and we can provide a better assortment to the consumers.

Binoy Jariwala:

Understood. The other question was we've added about 12 out of 43 stores that we've opened in this 9 months. They have been in Eastern Indian states, right? If you could just help me understand what is the confidence that we have that we are building such a large presence. Of our total 256 store count, about 31, 32 stores are also in these Eastern Indian states, right? So given the situation on NRC, CAA, the unrest that happens, I just want your broad thoughts on why are we looking at building such a large presence here?

Samir Misra:

Well, our thoughts on the expansion have always been to penetrate in our existing markets deeper, but also in a cluster based strategy to expand in newer market, which is closer to the strength markets. And last 1 to 3 years, we have been moving towards the Eastern market, West Bengal and Assam and other 6 sisters. And this is how we, obviously, are much slower in expansion over there. And the strength has been, we opened Srinagar store when, I think, around 7, 8 years back, and when nobody even thought of opening a store in Srinagar. We opened Azamgarh store when I think probably people were disturbed opening a store there. So if I were to give you a punch time, we will like to open in disturbed areas. And we think our brand should work and we should create value for consumers. We're not too bothered of small disturbances here and there.

Binoy Jariwala:

Is it part because the organized competition is to a much lower extent in these areas, and therefore, you can play more out there?



- Samir Misra:** Well, organized players are, I think the national players are, they are present everywhere. There are also regional players in some of these areas, which is your eastern part of the world. And the regional players will have regional strength. And, no, it's not because of lack of competition. I mean, obviously, we don't have a first-mover advantage there. But I think our strength of the brand is to ensure that we learn about consumers and become closer to the market. And also, I think the social benefits around it. The larger vision of the organization cannot be just to make money, ROCE and ROI, but we go into smaller cities, the women folk of those cities, probably first time wear clean lingerie, T-shirt and jeans. And I think we feel very valued as a brand that we could do that to the society.
- Binoy Jariwala:** The last question, if I may. What would be the steady state A&SP as a percentage of sales, if I have to take over the medium to long term?
- Anand Agarwal:** Yes. Can you please repeat the question? You're asking about the percentage of A&P spend?
- Binoy Jariwala:** Yes. Over medium-to-long term.
- Anand Agarwal:** It will remain in the range of around 2.2% to 2.4%, and that's been the traditional range for the last 10 years.
- Moderator:** Thank you. The next question is from the line of Girish Pal from Nirmal Bang. Please go ahead.
- Girish Pal:** I just want to know how much was the CAA and NRC related impact? I mean, how much is the lost sales in the quarter?
- Samir Misra:** So it's slightly difficult to quantify. There is some loss. So particularly in Northeast, we saw some disturbance and continuing disturbances in parts of UP, parts of Delhi as well and Rajasthan as well. But Jammu and Kashmir, in fact, Srinagar, as I mentioned in the opening remarks as well, still continues to operate at half its capacity because of the limited number of working hours, but we've not really quantified the loss, but there is some impact. And also, most of these areas are also impacting SSG because most of the areas have existing stores, and therefore, the SSG to an extent is also influenced by that.
- Girish Pal:** My second question is regarding at least from some company there's a discussion around green shoots in the rural economy and with agri prices going up and stuff like that. Are you feeling that on the ground, at least lately?
- Lalit Agarwal:** Green shoots in the economy, yes, greenery is being seen in the fields, but not on the economy. So I think it's just to converge into economy, and then we need some more confidence. From the overall, I think, analysts like you, media, the environment, the politicians and then agri has to roll up and then roll down. So I think some more employment generation opportunities has to come in. Not that we are actually seeing any green shoots as of now, but we are very hopeful.



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And then from this budget, we will be much more hopeful to get some more because the kind of budget that we're getting, we feel that the budget is only for us.

Girish Pal:

Just one last question, if you okay with that. This SSG growth being so low, is this because of comparative intensity related issues? Or is it because consumer sentiment issues? And, how would you kind of attribute this SSG to? I mean, how you would split the contribution of each to this?

Samir Misra:

Well, I think it's a mixed bag. And SSG normally is a combination of 2, 3 factors. We saw a slight muted behavior in festive period. There were some disturbances, as Anand pointed out. And I don't think it's about competition etc. We strongly think that the market is huge. And our journey is to ensure we take a bigger market share. We've always spoken about how can we consume from the disorganized market to organized market, and that's the role which we play. And to cut in short, it's less to do with competition intensity etc., but I think it's to do with what we could do with the market.

Moderator:

Thank you. The next question is from the line of Priyank Chheda from Reliance Securities. Please go ahead.

Priyank Chheda:

Sir, my question is again related to ASP. While our total ASP witnessed growth versus apparel ASP remaining flat, which is almost 80% of the sales. So what category of sales in non-apparel led to higher ASP sales?

Anand Agarwal:

So yes, you're right in understanding that we have higher ASP in the non-apps, and basically, as a strategy, again, during festive periods, we reduce the mix of the lower-priced non-apparel products availability at the store so that we could throughput more of the higher-priced goods, which are usually more in demand around the festival period. And other strategies that paid off for us are increasing the overall bill values also and also increasing the throughput at the stores and thereby increasing the ASP for non-apparel significantly.

Priyank Chheda:

Alright. And sir, one more question on the new store addition. In Q3, most of the new store addition has been in Tier-1 and 2 rather than Tier-3 and 4, which has been our focus. So I just wanted to know, is there any change in strategy? Or is it just a quarter phenomenon?

Samir Misra:

Thank you for the question and great observation. I mean, as we discussed earlier that we have been trying to deepen our strength in the markets where we are present. And that is to ensure that more operating efficiencies we could gain. We'll continue to expand in Tier-2 and Tier-3. But, yes, this quarter's expansion because availability and because of focus has been in some of these Tier-2 cities.



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- Priyank Chheda:** So just a last question on, if you can comment on how has been the response of the end of season sale, which almost got ended? And if you can comment on even industry, how did USS span out over there?
- Samir Misra:** End of season sale was okay. And our effort normally during this period is to ensure that we liquidate stock and as soon as end of season sale is over, provide more fresh into the consumers. So it'll be okay January for us.
- Moderator:** Thank you. The next question is from the line of Kunal Shah from Carnelian Capital. Please go ahead.
- Kunal Shah:** Two questions from my end. First question being in your opening remarks you mentioned that you've seen the rural and the agri crop has been good. So how do you look at SSG going forward? The first question.
- Samir Misra:** So, yes, I think we are very happy that there would be some good domestic demand as far as the rural economy is concerned. And our continued efforts would be to ensure that our presence in the market, our brand saliency, the freshness of the product and various efficiencies, which we are trying to drive is at optimum level abilities, good domestic income in rural economy.
- Kunal Shah:** And second question is just in the states where we are present heavily, right, in the states of UP, Bihar, how do we see as opportunity going ahead? I mean, do we see there's still a lot of penetration left itself in these states? Or we are going to stick to our strategy of opening stores in Tier-3, Tier-4 cities? I mean, one of the guys just questioned a few minutes back that we've seen few stores coming up in the states where you're present as against our strategy of Tier-2, Tier-3 cities. So if you could help understand that as well a bit?
- Samir Misra:** Sure. We think the market is really very big. And, we know organized market has very low penetration even now. And UP, Bihar, even though our presence is high, we will continue to ensure that we open stores there, and we penetrate deeper into the market. Yes, we will also explore new territories. And because we will also like to learn new markets and go closer to the consumers over there. We'll open in both Tier-2 and Tier-3 markets. And also, we'll open in Tier-4 markets in UP and Bihar.
- Lalit Agarwal:** There is also large opportunity in the Tier-4 markets, so which is yet to be explored. So we feel that is a big strength area, and we are closest to it. So we think even Tier-4 is a large opportunity.
- Kunal Shah:** Any number, sir, you would have quantified, this is the number of stores or area which we have not penetrated yet? I mean, just trying to kind of have a sense if we can quantify still the kind of opportunity in these states. The only reason for asking this is, in this kind of challenging environment also, the SSG at least in stores where we are present since we already have got an understanding of the market, right, it helps. So in terms of numbers, if you have done some



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homework, which can help quantify the opportunity size in these 3, 4 states where we are heavily present?

Samir Misra:

See the more we penetrate, we are finding it deeper and deeper. We are getting more water and we are getting more minerals, so we don't know. I mean, we are discovering the unraveling, the economy is growing, the aspirations are growing, consumption is growing, the ways of living is growing. So actually, it's difficult. The more we move ahead, the more we are getting ahead. So we think it's a large market. UP would have been a country with largest consumers of the world. So I think there's a huge opportunity.

Moderator:

Thank you. The next question is from the line of Rajiv Bharti from India Nivesh. Please go ahead.

Rajiv Bharti:

Sir, I joined a little late, so it might be repetitive. So my question is on the working capital. So if I do your inventory per square feet minus your payable per square feet. So last time around, you mentioned that it was 2,800, largely because you are having a lineup stores, which were about to be opened. This time around, your inventory per square feet is close to 2,100 and payable is close to 600. So, 1,500 is the rough working capital. Historically, this number has ranged between 1,000 and 1,100 level. So from last 2 quarters, it's 1,400, 1,500. Is this the new normal, which you are working with in terms of working capital? Because if I'm not wrong, in the TV interview, you mentioned that you'll be opening 5 stores incrementally in this year. So there is no bigger lineup in terms of store opening, which is this inventory is a little inflated usually in December quarter. You stopped at 1,850, 1,900 per square feet kind of inventory.

Anand Agarwal:

I think partially you're right. But the fact still remains that we are still in our winter market. And winter onset has been slightly delayed, and the full winter merchandise liquidation is not something that is still visible in the 31st December inventory numbers. But, at the overall level, I think we will still remain at a healthy inventory number as we move forward. Second part is that we will still be opening between 5 to 10 stores in the next quarter, which is quarter 4, and there is that inventory buildup that is still included in the December numbers. As of the inventory, if I look at for the quarter, while still remains within the range of marginal improvement over last year, but at overall year level, we're still looking at just matching or being slightly better than last year.

Rajiv Bharti:

Sir, if you can quantify of the 440 crores inventory number, how much is the winter merchandise? So I'm still sitting on the book.

Anand Agarwal:

I will not be able to quantify that over this call. If you want, I can have a one-on-one chat on that. But suffice to say, I think free cash flow is what we should be. From a working capital perspective, I think we'll be comfortable on the free cash flow.

Rajiv Bharti:

Okay. And sir, have you started doing the CAPEX on the new warehouse? Has it started?



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- Anand Agarwal:** Not as yet.
- Rajiv Bharti:** Okay. And sir, I'm sure the question must have been asked on the gross margin pickup. So if we see the competitor, the gross margins were largely flat on YTD basis. I mean, the first half was equivalent to the third quarter number. But, on a Y-o-Y basis, we have seen an improvement. So any particular reason in this? Because I thought the winter was weak and should have been weaker on the gross margin side.
- Anand Agarwal:** Typically, third quarter usually has a good margin buildup also because of the fact, I think, we explained that earlier during the call that we consciously as a strategy ensured that November and December were largely full price 2 months, and we gave very little promotions for almost next to negligible promotions or discounts during the last 2 months, helped us pull up the margins for the quarter.
- Rajiv Bharti:** Sir, if you can tell, how much is the USS base this quarter versus the base quarter in terms of number of days? Did you have 15, 20 days this year and the last...
- Anand Agarwal:** Number of days that we do USS. And in any case, even during USS, we are not really a discount retailer, and USS is largely inventory liquidation right for us. And less than half of our sales even during USS month is for discounted products. So we are an honest price retail store, and customers come to us looking for value for fresh products itself. They are not really coming to us looking for USS or discounted products. But nevertheless, we use USS opportunity to liquidate higher age products, which is in line with previous year. We've not extended sales, we've not done more USS. We've remained in discipline with what we have usually always done.
- Moderator:** Thank you. The next question is from the line of Sabhyasachi Mukherjee from Centrum Portfolio Managers. Please go ahead.
- Sabhyasachi Mukherjee:** Great set of numbers. Two questions from my side. First on store opening. So you've mentioned in your opening remarks that Jammu and Kashmir continues to operate, it is very underutilized. But you have opened 2 stores in this quarter and also a new entry to a new state Arunachal Pradesh. If you can explain the rationale behind these 2?
- Samir Misra:** Jammu and Kashmir remains to us a very exciting market, and specifically, Jammu. Last 1, 1.5 years, we have been expanding in Jammu. Now we have 5 stores. And I think that's -- that would be our trajectory to look at that market. Yes, I mean, some disturbances will not really bother us too much to stop expansion. Arunachal Pradesh, yes, as Lalit pointed out that we go deeper into a market where we are present, but there's certain amount of expansion, which we also plan in new markets and to understand some of these markets better and for future expansion.
- Sabhyasachi Mukherjee:** Going ahead, on the store opening front, you've been more focusing on Tier-1 cities? Or is it also to do with opening in new territories as well?



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- Samir Misra:** So we are mostly Tier-2, 3, 4 focused players. And our strategy has been pretty much the same. And we are opening stores in these markets in existing states and also in new states whenever we travel to those states.
- Sabhyasachi Mukherjee:** Last question on the numbers. So I missed the FCF for 9 months in the opening. If you can just let me know the FCF number for 9 months.
- Anand Agarwal:** Free cash flow, you mean?
- Sabhyasachi Mukherjee:** Yes, free cash flow. Yes.
- Anand Agarwal:** Minus 2 crores.
- Sabhyasachi Mukherjee:** And CAPEX for YTD is 41 crores?
- Anand Agarwal:** 41 crores, yes.
- Sabhyasachi Mukherjee:** That means the cash flow from operations is 39 crores approx?
- Anand Agarwal:** Yes.
- Sabhyasachi Mukherjee:** So I'm telling that the movements in working capital for the period ending 31st December, 2019, it's around 187 crores. So this number is assuming a little bit inserted because of the new IndAS lease liability, current portion is sitting here?
- Anand Agarwal:** No, nothing. IndAS has no impact whatsoever on the cash flows. On a net basis, it will remain exactly in line with liquid cash. There is no change in cash position from IndAS accounting.
- Sabhyasachi Mukherjee:** But here, the net cash flow from operations is negative 16 crores. And as per your free cash flow number, it's positive 39 crores.
- Anand Agarwal:** There is an opening cash investment of around 53 - 54 crores, that has also been netted off, and that's why that number is coming out. If you want a detailed breakup, we can have a separate discussion after the call.
- Moderator:** Thank you. The last question is from the line of Shirish Pardesi from Centrum Broking. Please go ahead.
- Shirish Pardesi:** Just 2 questions. We've seen that we have been trying to open North India. But, however, when we look at the media and liquidity issues and income generation activities, how you've been able to manage such growth? That's the question. Is that Tier-2, Tier-3 has a better income generation activity? And we're seeing the growth because, directionally, if I see that the SSG might have been a wrong number to look at it, but your per square feet sales is growing faster.



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- Samir Misra:** So just to paraphrase the question you are asking, I mean, what's working for in North India?
- Shirish Pardesi:** Yes.
- Samir Misra:** Well, whatever we discussed last 1 hour actually. But, no, I think we marked for last 17 years and our strategy has been very clear that we will deploy ourselves. We will be a value fashion retailer. We will be honest pricing. We will always want to create value for consumers. We will work in a certain disciplined way in terms of expansion and the fact that we believe in great value and great fashion. And I think North India, and I think every part of India probably would embrace this strategy of us. And I think that's what is working. We're not doing anything which is really out of the box. It's a very clear, simple strategy, which is kind of working for us in the northern part of India, now probably slowly in Eastern part of India as well.
- Shirish Pardesi:** Is it something to do with because winter your purchased ticket size is much higher. And is this because of that this quarter we have seen this kind of number? Because if I look at the base quarter also, this number was better. But then on a Y-o-Y also this number is much different.
- Samir Misra:** So as we discussed earlier, our winter onset was pretty late. In fact, our average selling price of apparel actually is pretty much the same as last year. So it is to do with more efficiency of our product and efficiency of how we run in that market. And as we discussed earlier that we relied on largely freshness and accuracy of forecasting and less discounting in the months of November and December and that kind of paid dividends to us.
- Shirish Pardesi:** Just last question on margin front. We have seen a significant improvement in the margin this quarter. Do you think that the run rate or any guidance for full year this year and next year on margin front?
- Lalit Agarwal:** Shirish you will make me write all the reports then what will you do?
- Shirish Pardesi:** I think, Lalithji, I understand your point, but then this number, you've really done well. And I think is it the new base? Or this is a new benchmark you are going to work with?
- Lalit Agarwal:** Seriously, we're always positive. We'll always look positive. We will always work towards bettering that. So you know that I will never give guidance. So don't expect any guidance from me.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today's conference. I would now like to hand the conference over to the management for closing comments.
- Lalit Agarwal:** Thank you so much. Thank you, everyone. But we will continue doing a good work. We believe in the movement from the Government side. We believe in the Ayushman Bharat policy. We believe that whatever the government is doing to strengthen the infra and strengthen the core



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consumer of this country will really help to increase the consumption more and more. We believe in the story. We just want to continuously work towards creating those infrastructure, creating those platform, creating scalability platform, sustainability and creating partnership opportunity so that we are able to partner with vendors, we are able to partner with landlords, we are able to partner with multiple other brands and product lines. So that we will generate more efficiencies in the coming days. That's our approach, and we are always open to listen, understand and learn continuously. So that's our approach, and that is what we would continuously have. Thank you so much. Thank you for being with us.

Moderator:

Thank you. On behalf of Edelweiss Broking Limited that concludes this conference. Thank you for joining us, and you may now disconnect your lines.