



**“V-Mart Retail Limited
Q3 FY 2022 Earnings Conference Call”**

February 11, 2022



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Moderator:

Ladies and gentlemen, good day and welcome to the Q3 FY22 Earnings Conference Call of V-Mart Retail hosted by Motilal Oswal Financial Services. As a reminder, all participant lines will be in 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. Aliasgar Shakir from Motilal Oswal Financial Services. Thank you, and over to you, sir.

Aliasgar Shakir:

Yes, thank you, Steven. Good morning, everyone. On behalf of Motilal Oswal we welcome you to Q3 FY22 earnings conference call of V-Mart Retail Limited. On the call we have with us Mr. Lalit Agarwal, Managing Director; and Mr. Anand Agarwal, the CFO of the company.

Let me hand over the floor to Mr. Lalit Agarwal for his opening remarks, post which we will open the floor for Q&A. Thank you and over to you, Lalitji.

Lalit Agarwal:

Good morning, everyone. Welcome to the conference call, thank you for being here. Thank you, Ali, for hosting us and very, very good times. The sun is once again shining bright, we could see a clear sky, we hope things move in the right direction, especially in the northern part of India, we are able to see a very, very beautiful little chill as well as good sunshine, which gives us a very good hope also that the good times are back and we would expect much more coming from what was so to call squeezed in this last two years, because of all the external environment.

So, we hope the economy is recovering, the consumption is coming back, we are seeing that happening, we really got little excited in the last quarter as well. We saw in the consumption space. So in both the sides we are able to see, on one side we are definitely able to see all those people who did not consume for last one and one and half years since the first COVID hit in the March. They all remained in the country, they never went out, the tourism went low, people



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who used to shop outside did not shop outside. People who used to come out for shopping in the mall and the streets they didn't come out. So most of the people remained home, most of the people who could have worked from home, worked from home, and that also impacted the consumption.

But yes, in the last quarter, I think the fear came out and people, largely learned people is what I call and people who are in this what we call the urban centers and the bigger cities, they all came out to shop, they all came out we could hear things, we could hear news on long queues in the malls and long queues outside shopping complexes, and that came in because till quarter two, we did not see that coming out very much in open. In Q3 large part of that came out.

Compared to that, in the rural or in the semi urban side, which is Tier 2, Tier 3 towns, we saw the things as similar, because even Q2 people came out, because the fear factor went down right in the month of July and August and people were already there to consume. So, people came out slowly, but still there is some kind of impact, which we could see even on their income, on their potentiality to spend. Inflation is definitely hurting their pocket.

There is a lower spending as well, we could watch in the smaller part of the economy or in the lower part of the economy, and also in the smaller towns which is visible. Especially I could see those kinds of customer segment who earn between INR 20,000 to INR 40,000 there is a small dip in the kind of consumption that they would have done and they would do. So that's what we are noticing.

We are also seeing differentiated news coming in from both the competitive world as well as our own world and we are seeing people who have large part of operations in bigger cities, in malls have been benefited in this particular quarter. There is a good benefit coming-in in this particular quarter from them, because of the similar thought process, because their consumer came back in heavy numbers, they all consumed within India, the consumption all is accumulated here. There was a long due pending consumption which came in. So very, very good and celebrating news for most of our retailer friends and things have been good on those lines. Even we experienced similarly in certain stores which are



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more in the urban centers as well as some Southern India Unlimited stores that we have in the malls as well.

So, primarily what I want to convey is, things are coming back to normal. We are looking at better side of the consumption. There is definitely some pressure and the pressure is getting escalated because of the inflation. There is an inflation in our raw material prices, our cost of product, our ASPs have gone up, some due to inflation, others due to selection. So, there is a rise in the average selling price of the product in the industry.

So, there is one good thing which happened that GST, which was supposed to get from 5% to 12%, at the last moment the government took a very good call and thanks to the establishment for that, they did not go ahead with the GST rate increase and it was curbed at 5% below INR 1,000 of ASP of product. So, that is a good boon and that's a benefit that we got. But yes, our new merchandise that we were ordered came in with those kind of extra MRP's and we still wait because there is another meeting going to come in the next quarter.

So, otherwise, cotton prices continues to rise. Overall commodity prices continues to rise. Overall, there is a rise in the fuel prices, energy prices, job market, employment market is very, very tight, we can see a very huge churn in that particular side, in particularly in V-Mart, we did not notice so much of churn, but still the pressure is there. There is a huge demand for both the corporate side of the employees as well as the front end side of employees, and that's good news for the economy. That's a very, very good news for the economy, that means that business is back to normal, that means people are investing more money into the business, and that will definitely mean a much more better year for us coming forward.

We are focusing very, very sharply on both the sides, on our existing store, on our new acquisition that we had in the South India Unlimited space. We only acquired four months back, we are slowly and gradually taking control of the operations, understanding about the customer segments, we still continue the same brand. Our fresh range of



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merchandise, which is V-Mart merchandise, has started getting launched on the shop floor on those lines.

So we should see some result coming in, in the coming quarters. And also there will be a lot of learning that we will have from there. We are also focusing similarly and heavily on the online space in the e-commerce channels, both in our own dot com, vmartretail.com as well as we have launched ourselves in Amazon and Myntra, where our products are placed and we have recently start selling there as well.

So, as of now the investment is happening in that particular space, acquiring those digital customers or sustaining that platform, building that tech, investing on the tech, investing in the people to manage those techs, there is a fixed cost which is there and we also continue to consolidate our operations in our existing territory.

There are stores which are doing great, but there were few stores which were struggling to become profitable and we have taken some calls on certain of those stores, maybe we would plan to close down some seven to eight stores in this particular quarter, so that we don't carry on stores, which are not able to come up. So that's our principle always, that every store which is EBITDA positive is something that will continue, we'll work with those stores for over a year, or six months and if those doesn't perform we'll try to not get merit with those properties.

So, that's what we are doing. We continue to open our new stores. We have our plans in place. Some plans got diluted because of the COVID situation in the year passed. Omicron, we came out of Omicron very well. Definitely there was an impact which got created towards the end of December and the full of January. There were some impact in footfalls, lot of government brought in lot of regulations where in normal operations were hindered, weekend operations were hindered, evening operations were hindered, but still this time, thankfully the government and all the administration did not take any extreme measures. We definitely expect things to normalize and it has normalized now as we are in February, things have normalized almost 95% of the locations. We are getting, the business is getting back to normal and operations



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are getting back to normal, we are able to receive footfalls now in the stores as well.

Apart from that, I think one of the biggest state where we operate, Uttar Pradesh is undergoing elections. We are very excited about it, because of the elections, there has been a lot of growth activities, which has gone in Uttar Pradesh in the last years and that should continue. Lot of spending by political parties is supposed to happen during this election period. Lot of activity will also disrupt some businesses in the current period, because we all know that whenever there is an election going on, there are rallies and there are political disturbances, which also get created and religious disturbances which gets created.

There may be some disturbance in particular territory, but otherwise, the economy is going to become better for Uttar Pradesh. People are going to spend more, they'll get more money and they'll spend more. Overall, we expect Uttar Pradesh business to go up in the coming years and that's what are expectation is.

But yes, overall the business will come back, and we should expect, we are working towards the growth in the coming quarters, and we will see that coming in. This particular quarter, I mean, we should expect a good Holi also coming in, in the month of March. This particular quarter may not be a great, but otherwise, we expect the forecast forward year should be better and the best year in the last three-four years is what we expect to happen. Anyway, we will take your questions, but I'll first of all hand over to Anand for giving you the deep insights into the numbers. Anand, please.

Anand Agarwal:

Thank you, Lalit, and good morning, everybody. It's been a very good quarter, good festive demand and I would say a very strong consumer pent up. But, first let me take you through some of the financial highlights from the quarter and then we can open the house for questions.

So quarter three, as we all know is historically the biggest quarter for us and as it is a congregation of a strong festive period, you know Durga Puja, Dusshera, Diwali and Chhat, the biggest festivals in all our markets are vibrant, marriage season and also it starts the onset of winters.



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So despite a late start and a weak pujo in October, we saw very strong November due to a very high level of pent up demand and a strong Diwali and marriage season. November in fact, became the highest sales month for us ever, with the south region also contributing very heavily in the overall growth. With almost no COVID-related restrictions and the heightened trust of customers in the safe and hygienic environment at V-Mart stores the customer footfalls also recovered almost to pre-COVID levels, while at an overall quarter basis the footfall recovery for the V-Mart business was around 85%, while it remained only 57% for the southern region.

As Lalit also mentioned in his opening remarks, the initial part of the quarter did not see a lot of footfalls in the malls, but I think in the latter part, we saw very strong footfalls coming in, in the bigger towns. So while at an overall level, the quarter sales grew by 47% year-on-year, but on a comparable basis, excluding the contribution of the 74 Unlimited stores, the sales grew by 23% year-on-year. Unlimited business contributed to 17% of the total sales mix, with quarter three also being the biggest quarter for the South and West regions.

The total sales for V-Mart excluding Unlimited also exceeded pre-COVID levels by 4%. While the L to L or the SSD still remained at minus 9% for the V-Mart business. The average selling price for the quarter grew by 12%, while the average bill size also grew by a healthy 13%, reflecting the impact of price increase, which was put in to mitigate the impact of the cotton yarn price increase, and also the higher ASP mix that we got from the Unlimited business.

On the margin side, the gross profit for the quarter improved by 30 basis points despite the significant increase in cotton yarn prices and its impact on product costings. This was made possible by passing on the full impact of the price increase on to the consumer and also lower discounting.

Coming on to expenses this has definitely been one of the most challenging quarter with a full blown impact of very high inflationary pressures, whether it was on the raw material side or manpower costs or any other costs. There were very limited savings on rentals as there were no material



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COVID concession available in the current year as compared to last year. Similarly, the people cost also went up significantly, as we filled in all vacant positions from last year to prepare for normal sales. And also at an overall level, we started preparing for a full normal future time.

Higher marketing spend coupled with a higher cost base inherited in Unlimited also impacted this, the total expense and therefore the total cost went up by 76% for the quarter. This compares also to a very low cost base of last year in the same quarter where we had significantly cut down on all costs including travel, rental, low hiring and all other discretionary costs.

On a go forward basis, the Unlimited business will still have slightly disproportionate cost structure, especially since the rental alone there are almost twice the V-Mart average. But we are aiming to normalize this in the coming quarters by increasing the productivity in terms of sales throughput and also through opening of new stores at the lower V-Mart cost structures in the coming quarters, which should help us bring the overall cost percentage down in a phased manner for the south business also.

As of now, all cost structures are fully back to pre-COVID level of operations with no COVID-related savings available. As a net result of the sales growing by 47% margins increasing by 30 basis points, and the total expenses going up by 76% the quarter ended with an increase in EBITDA by 30%.

On the cash flow side, we remain very comfortable on the overall cash position. No major CAPEX in the quarter apart from opening of nine new stores and some other store refurbishment. All the future major CAPEX items remains the same. New store expansion which are expected to be in the region of 10 to 12 stores in this quarter, and then probably 50 to 55 stores for the next year. And then again in the next year, we will start construction on the new warehouse site, which should entail some big ticket CAPEX.

On the inventory side, at INR 546 crore we remain in very, very comfortable range. This includes INR 109 crore of



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stocks in the South Unlimited business and INR 437 crore for rest of India.

Inventory days came in at 74 for the quarter, while the full year number still looks optically high at 111 days due to lower throughput in the COVID impacted first and second quarters.

The online business continues to grow, although still on a small base with a variability on vmartretail.com, iOS, Android and now also on Amazon and Myntra, the contribution mix from online has grown to roughly around 1.5%. But we continue to build this business towards a 5% revenue mix in the coming two to three years, aided by hyper local delivery and lower cost to service nearby customers.

The online business as of now still requires investments as the setup cost, cataloging cost apart from the marketing cost and the logistics, which remain traditionally high, especially given the low ASVs of our product. But we continue to remain very bullish on this channel and shall keep investing to make it a meaningful part of our overall business within the next two years. This business still entails a fixed expense of roughly around INR 1.5 crore per month.

On the new store expansion plans we remain optimistic to keep expanding. So far this year we had opened 25 new stores, acquired 74 stores and closed down four stores and thus stand at a net tally of 374 stores as of December end. For the current quarter we should be looking to open at least 10 to 12 more stores. While we may close down around six to seven more stores, one out of which is in South India. Similar new store opening activity should also start pretty soon in South India.

Coming to the last part on Unlimited, on the Unlimited integration, things have been progressing as per plan and all stores were operational under the V-Mart billing systems right from 1st September without any challenges.

The early signs in the last four months look very positive. The team in South India remains very strong and is ensuring a very speedy recovery on sales and also the transition. We continue to strengthen the product offering in the Unlimited



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ecosystem by filling in gaps of missing categories and also sharpening the product pricing by combining the product offering for both the brands and geographies.

The Unlimited business is already profitable, although at a slightly lower scale as compared to V-Mart owing to the high operating cost structures, but we are targeting to bring the profitability at 7% to 8% EBITDA level in the next two years as part of a phased progression plan.

We shall be sharing more details on the Unlimited P&L structures as the business completes at least one year of full business cycle. But till then I think we should be patient and just bear with us to make this transition much, much more successful. So, that's all from my side and I now request Ali to open the house for questions. Thank you.

Moderator:

Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press '*' and '1' on their touchstone telephone. If you wish to remove yourself from the question queue you may press '*' and '2'. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Bharat Chhoda from ICICI Securities. Please go ahead.

Bharat Chhoda:

Sir, I had a query regarding our ASPs, like ASP gone up by 10% to 12% and the recovery has also been like around 4% positive and has that impacted our volumes into the high inflation and how do we look at the scenario going forward?

Anand Agarwal:

So, the recovery definitely is in, while you're comparing two different numbers for two different financial years, so the ASPs have gone up from previous years, but yes, your points remain absolutely valid, there is a slight impact on volumes, but so far it is not very stark. For the coming seasons and the coming year our estimation is that the inflationary pressures will continue to remain and we should not rule out any further price increases and thereby our estimation is that the ASPs might go up still a bit further from here. As of now there is no very major or material impact on the volumes, but we are building in a slight decline in the volumes for the next year from our planning perspective.



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- Bharat Chhoda:** And sir, on the Unlimited brand, are we planning to open more stores for the Unlimited brand and what is the current level that we are making on the EBITDA for the Unlimited?
- Anand Agarwal:** So, yes, we are already scouting for properties in South India and there is a plan to open at least 5 to 10 stores in the next 12 months in South India. My guess is that in the first quarter itself, we should see some store openings in Southern and Western regions. What is your second point on the question?
- Bharat Chhoda:** Sir, it was regarding what is the current EBITDA margin that we are making for the Unlimited brand and our outlook on that?
- Anand Agarwal:** So as of now, actually because it's just been four months and these last three four months have been pretty good as far as the business cycle or the seasonal cycle for that business is concerned. So, we had not currently disclosed the profitability numbers. Suffice to say that this business remains profitable and we are hoping to reach EBITDA level of at least 5% to 6% in the next financial year.
- Bharat Chhoda:** Okay, sir. Thanks a lot for taking my questions.
- Moderator:** Thank you. The next question is from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.
- Shirish Pardeshi:** Hi, sir, good afternoon and strong set of numbers. Sir, I have three questions. First is that we have seen a footfall which has gone up but conversion rates has come down. So any qualitative comment how one should look at in our core markets like UP, Bihar? Lalitji, you did say that there were lot of activities around Diwali and we have seen, but doesn't come with the numbers.
- Lalit Agarwal:** Yes. Hi Shirish. Good morning. So, you are absolutely right and what you see is also right, because see now this time you will have to all see with one more lens, because we have this Unlimited business also integrated in this business. And everything that we are seeing is definitely along with Unlimited. So if we see the conversion as well as the ASP, the ASP is high because the Unlimited ASP, the Unlimited business's original ASP is right now at a high level, which is impacting the overall ASP of our business, plus the



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conversion right now there is also still low, so that is also impacting us.

Anyway, we have seen a both a drop in the footfall and little drop in the conversion, but our average bill value has gone up and our UPT, which is unit per transaction has also gone up. So people have bought a little more, they did not do multiple billing, they did not come multiple number of times. That's what I have seen now.

Shirish Pardeshi:

Okay. My second question is that traditionally we have a very high saliency coming from the quarter three and I think the numbers are very impressive. However, it is not reflected into the gross margin. And the gross margin has improved only 30 basis point, despite we have taken some price increases. So how one should look at, I mean, in a medium to long-term? I mean, if you can help me to understand what is the quantum of price increases we have taken? And also which would have gone in the month of January or February, and how we should look at the gross margin for the company in next two to three quarters?

Lalit Agarwal:

So, Shirish, you're absolutely right, and as our policies are, we've not focused very highly on the gross margin side and we never do that. But as of now, in these periods, our focus is also because you have not seen a very healthy period in the last one and a half years, and there has been a lot of closures. So there is definitely also a pressure that would have come on the inventory, and we did not wanted our inventory to get aged. So, we have taken very conscious call in also diluting and discounting and liquidating inventories which are not required.

So we have taken all those measured calls, because the freshness of the inventory has to be also maintained. So that's the important piece that we have done, because all those inventory, which was bought in 2019 Diwali, after Diwali and Dusshera, those inventories because we did not get a very ample chance to sell in the 2020 year. That is why those inventories were also something which were there in the back. And we started discounting we gave lot of discounts on those inventory as well. And we should see a healthy margin because whatever price increase that we have done we have not encashed anything extra, we've not taken anything as a



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part of our margin piece. We only increase the prices to the level so that our cost of raw material prices increase could have been met. That's the overall thing that we did.

Shirish Pardeshi:

One quick follow-up, Lalitji. What is the USS contribution in this quarter?

Lalit Agarwal:

USS contribution changes?

Shirish Pardeshi:

You said that you've done some discounting, so what is that portion which we would have achieved from that?

Lalit Agarwal:

I think slightly above normal, but primarily it is normal. See, we did not do lot of discounting, but yes, we had to liquidate, so we had to get some deep discounting on those, so that we don't end up having those inventory with us. That's the whole process.

Shirish Pardeshi:

Okay. My next question is on Unlimited. Anandji, it's too early to ask for financials, but strictly from the modeling perspective what we note from the financial result that you said that you have now taken over 64 stores agreement, does that mean that we will close 10 stores in Unlimited? And maybe if you can, if not EBITDA at least tell us what is the gross margin? This is purely from the modeling purpose, because almost 17% contribution has come in this quarter from Unlimited stores and for full year it is about 12%. So it is an important piece.

Lalit Agarwal:

Shirish, I mean, I would request everyone, please the fundamental, I will just give you a small brief. The fundamental gross margin that we have in Unlimited, is right now little higher, we are operating at almost 8% higher gross margin in Unlimited versus V-Mart, and similarly the cost is almost 11% to 12% higher, 12% or more higher than the V-Mart cost that we have. So, overall if you understand so the EBITDA would be almost I mean 4% to 5%, 4% less than our V-Mart EBITDA, 4% to 5% less than our V-Mart EBITDA. That's the model that we would make it for yourself.

Shirish Pardeshi:

That's really helpful, Lalitji. My last question is on you earlier were holding a position of Chairman and Managing Director, but what we see the latest announcement, Mr.



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Moondhra is now appointed as a Chairman and now you have become MD. What is the thought process, is that you are not comfortable, and you want to have a quick hands on for turnaround of Unlimited stores? I mean, give me some understanding what is it that you feel that you need to be incharge of the company.

Lalit Agarwal:

So, Mr. Pardeshi, at least let me relax for some moment man. Somehow if I've got a good opportunity and if I'm able to handover someone please let me relax.

No, I understand.

Lalit Agarwal:

See the point of view is very clear, that we want to create our organization as the best governance organization and that should be the best governance board. To look at those perspective, we have always relied on bringing in the best governance practices. And the best governance practices suggest that one person should not hold two chair, and because I'm in the helm of my business, I am the CEO and the Managing Director, so I have to look at the operations and the business as such.

So we definitely wanted to have a separate seat available and I thought having it with the independent director, making our Board a little more dynamic and more better, is always a good thing. And that makes me more focused on my areas of as a Managing Director on the business operation. And it also gives us a very good transparency at the Board level, and much better Board environment. So that is how we've taken the right call and we believe this is a very good thing that we have done.

Shirish Pardeshi:

Thank you, Lalitji, I really admire giving away the power. I think that's one of the thing I really like and I really appreciate your gesture.

Lalit Agarwal:

Thank you.

Shirish Pardeshi:

All the best to you.

Moderator:

Thank you. The next question is from the line of Ankit Kedia from Phillip Capital. Please go ahead.



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Ankit Kedia:

Sir, three questions. My first question is, Anandji in your opening remarks you mentioned 50 to 55 new store addition for next year. Isn't that below our guidance of 20% to 25% space addition which we normally talk of?

Anand Agarwal:

Hi, Ankit. So, that number is right now pegged at 50 to 55 and there might be some more additions that we will look at looking at the South India territory and there may be 5 or 10 stores which might also come up there. But yes, you are right, our original estimates usually work around 20% and we have not given up that, but these are numbers that we can say with more certainty and with more conviction that these are definitely that the sites on which work is happening or will happen.

Ankit Kedia:

So, this 50, 55 is purely for North and the 5% to 10% which you have guided for Unlimited in next two year will be in addition to that or this 50, 55 includes that?

Anand Agarwal:

So, as of now, it should be a total of around 60 and that is what we are looking at and if there is more we will definitely keep everybody updated.

Ankit Kedia:

Sure. My second question is regarding rebranding of Unlimited, with the new stores now in Unlimited, would the new stores be on V-Mart branding, and slowly next six months, the old stores will also be rebranded to V-Mart given that the inventory of V-Mart is now also in the system, or that is still some time away?

Lalit Agarwal:

So Ankit, let me take this question. We are still in the process of understanding the customer and understanding the brand strength of Unlimited right now in that market. We are not taking a hasty decision because anyway there is lot of disturbance because of COVID, which has happened to the market and we don't want to give another jerk to that brand. So we have appointed a marketing agency to understand and take some customer survey, do some one on one with lot of customers and to give us those feedback and then only we'll go ahead. Till that time whatever stores open in those states we will go ahead with the similar name which is Unlimited.

Ankit Kedia:

Thanks. And my last question is regarding competition, with raw material price inflation nearly 15% to 20% do you think



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organized players like us are in a stronger footing compared to unorganized players, who would face challenges in vendor payments, or buying, procuring raw material in bulk or getting it stitched. So we are better off compared to competition unorganized and market shared gains could be much higher for us in the medium term?

Lalit Agarwal:

See Ankit that is always the case. That will always happen whenever there are you know swings in the market, whenever there is not a consistent approach in the market. And whenever these things occur where the manufacturers tend to take more benefits or the manufacturer is not capable enough to deliver in the right products. So, in that case, all those unorganized mom and pop shop whose potentiality to buy or impact the vendor is very low, get squeezed and gets in the difficult position.

Today is the seller's market. Today is the manufacturer's market is what I would call out for, because there is too many things happening in this industry. There are too many players which has jumped into this industry. I also want everyone to get aware of this that both from B2B as well as B2C online as well as offline, there is lot of activity, which is happening in the market, whether they are making profits or whether they are able to create a business for themselves or not, but they are definitely disrupting the market on the supply and the manufacturing side.

So there is some amount of pressure, which is getting built on the market on the sellers, and that is definitely go into all those little less capable retailers or sellers who may not be able to negotiate well with the suppliers. So this is a very, very dynamic situation and we will give them the best of hope, we would support wherever we would, but still, I think there is definitely going to be a difficult times for the unorganized players.

Ankit Kedia:

That's very helpful, sir. Thank you so much and all the best.

Moderator:

Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki:

Hi, sir. You mentioned that the cost for Unlimited is higher by about 7% to 12%. So, just wanted to understand the



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reason for that, why is the cost higher and in which particular line item is it higher?

Anand Agarwal:

Hi, Percy. So, the costs are typically higher more on the rental side, I think the average rental that V-Mart is used to is roughly around INR 35 to INR 37 per square feet, while on an average the per square feet rental on an average in Unlimited business is roughly around INR 60 to INR 65. So, that is a straight 100% jump. And apart from that, I think the other in terms of the running and administrative costs, whether it is in terms of manpower or per unit manpower cost or even the establishment cost is also on the higher side. Given the fact that some of these stores are also in malls, there is a higher overhead in terms of cam and other stuff, which takes the overall cost structure a bit high.

But having said that, I think the bigger point that we are working on is not really to bring down the cost, but to increase the throughput, which is the sales per square feet, which currently is at even pre-COVID times it was roughly around 50% of what V-Mart used to achieve, and that is where is the big opportunity area. So our thought and plan is to increase that throughput by at least 20%, 30% and thereby mitigate the cost pressure.

Percy Panthaki:

Understood. Secondly, just a question on the price increases, out of the 47% sales growth that you've done this quarter, how much of it can be attributed to price increase?

Anand Agarwal:

So price increase Percy, would have been in the range of around 7% to 10%. So, while it is not across every line item every product, but yes, it would be safe to assume roughly around 8% to 10% impact coming in because of the MRP increases.

Percy Panthaki:

Okay. And given that the pricing might have happened during the quarter and would not have fully affected all three months. Do you think there is basically a spillover impact into Q4? I mean, you have taken the pricing let's say in November, December and it will come fully in Q4. So this 8% to 10% price increase would work out to how much in Q4 on account of that?



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- Anand Agarwal:** As of now, it should remain pretty much same. So we had roughly around 10%. So we can look at a slightly increased number of 12% or 13%, or maybe more in quarter four. But also, we must understand that the price increase should have some negative impact on the quantity or the volume.
- Percy Panthaki:** Understood. And you mentioned earlier that you're budgeting a slight decline in the margins for FY '23. Was that with reference to gross margin or EBITDA margin?
- Anand Agarwal:** I did not mention anything on the margin side that we are planning a decline, but definitely there will be pressure as far as the cost structures are concerned, because we are seeing a very high inflationary trend. And so far we have already taken 7% to 8%, 10% price increase and there is a limit to which the customer can also sustain that level of price increase if it continues to keep rising. So, there should be pressure, but as of now, we are not building in any decrease in the margin because our thought has been that whatever is the product pricing, we will pass it back to the customer.
- Percy Panthaki:** Understood. So, basically, your high single-digit margin which was a normal in the pre-COVID times, we should be targeting that kind of margin for FY '23, assuming that there is no COVID disruption.
- Anand Agarwal:** Yes, absolutely. I think we could still confer that.
- Percy Panthaki:** Okay understood. That's all from me. Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Sabyasachi Mukerji from Centrum PMS. Please go ahead.
- Sabyasachi Mukerji:** Hi. Thanks for the opportunity. So if I look at the numbers compared it with the pre-COVID what sort of December 2019, that is Q2 FY '20, so you've clocked around INR 562 crore kind of revenue number in December 2019 and now if I remove the Unlimited piece of the business, so I look at the only standalone V-Mart stores that translates to revenue of INR 574 crore, that is hardly 2% kind of a jump over two years, despite almost 16%, 17% kind of an increase in retail area or store count. So, how do you, I mean, explain this kind of weakness in store throughput.



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Anand Agarwal:

So Sabyasavchi, there is a negative SSG of minus 9%, which I mentioned in my opening remarks and definitely we are still or the business is not definitely out of the woods. There have been challenging times. So, the entire quarter or the entire period has not been absolutely on full capacity, but I think the way things are looking up now, and what we are seeing currently, I think we should see much more normalcy coming in, in the future.

Sabyasachi Mukerji:

Just a follow up to that. So Lalitji also mentioned about slight pressure in the semi urban and rural markets, because of retard inflation and also affordability issues. So if I just compare with the urban peers of us, they have actually done much, much better than what we have done. So, when do you actually see this rural or semi urban kind of demand coming back to what you used to witness a couple of years back? And second thing is, you also mentioned about the volume decline that you're planning for FY '23. So, what is the kind of quantum if you can share us that?

Lalit Agarwal:

See Sabyasachi, the situation on the ground right now looks positive. As I said, the inflationary pressure will be there. Similarly, I also said that the job market is doing well, the crops, agricultural crops looks to be better the rabi crop even further the outcome which is going to come in. So, if all those continues to be on the better side, UP election bringing in more money, I hope customer should get back their money, they should come back to their normal consumption.

We hope that to come in from the first quarter of next year and that's what we suppose it should be. And not that we are targeting any volume metric degrowth material being used, but we wanted this to understand even from people like you and we took call from various economist, what happens in a scenario where the price rise is so high, because in our history we have not seen such a high price rise in the commodity costs which is increasing almost 12% to 15% of the cost of the apparel. And if that 15% rise in the apparel costs may give rise to a little quantity degrowth in the customer at a like-to-like store level.

We are not saying at a company level will degrowth, at a like-to-like store level, we are little cautious on that approach. We are still we are very watchful, we would want



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to increase our volume. But if there is a situation where consumption gets affected because of the price rise we should not end up with a high inventory that's the whole analogy that Anand was trying to give you.

Sabyasachi Mukerji:

Okay. That's good to hear. Thank you. That's all from my side.

Moderator:

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

Tejas Shah:

Thanks for the opportunity. My question is an extension of the previous participant's questions that recovery and overall growth seems slightly sluggish or underwhelming. Considering that three drivers that you have always called out winter, wedding and festive season, all three were packed in this quarter. And considering the pent up demand was also there. This recovery looks slightly sluggish, but you called out that the recovery in rural was weak. So we have now a very decent base of 155 store coming from Tier 1, Tier 2 cities. So is it that within our bucket of urban store recovery was way, way better than what we have posted on overall numbers?

Lalit Agarwal:

So Tejas, first of all, the wedding winter, everything is in the second half of this quarter. So Q3, if you divide Q3 in the first half and the second half, and the first half was largely festival. And within the first half the festival which is especially in the eastern side of India, which is Durga Puja we didn't had a great time, because still there were restrictions and there were no Puja bhandars. And so that part of the business suffered a lot during this quarter.

But otherwise, I think, the second half of the festival or the second of the quarter was very good, except the last one or two weeks of December, where once again Omicron started hitting us. But yes, what I believe the way and you're right, the urban cities we have seen better response, but our definition of Tier 1 still is not those your metro and your bigger cities. Our definition of Tier 1 is all state capitals. So, that is how we define our Tier 1. Yes, but still, I think out of the lot Tier 1 did had a better result comparatively. This is true.



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Tejas Shah:

So Lalitji, you also made a remark in your opening statement that FY '23 should be one of the best in last three, four years. So is it we are seeing that kind of recovery already on ground or is it just we are hoping that on a base that we have created in last three year things should be better?

Lalit Agarwal:

So Tejas, I mean, recoveries happens not immediately, but, yes, as I said the sun is shining and we could see a clear sky, I mean that and when I say that there are symptoms and there are signs that we could see and there are calculations that we could make. So that is our job to be very perceptive. So we will keep doing it, but we will definitely understand, we will wait for the situation to come in. But we are confident that it has to come in. The whole calculation definitely leads us towards that.

Tejas Shah:

Sure. And lastly on urban competition, so Tier 1 in your case. So let's say a brand like Zudio is now penetrating in areas like population of 3 lakh, 5 lakh of Ujjain or Bankura. Are you seeing heightened competition from a very new set of national champions rather than regional competitions that we used to fight earlier?

Lalit Agarwal:

Yes, you are right, Tejas. Definitely all these new national so called conglomerate led competition is heightening and there's lot of penetration both from the Reliance as well as the Zudio or the Tata and also Pantaloons. So they will continue to come in and they are now available in most of the towns, especially Reliance Trends and we will see more of them. We will see definitely more of Zudio, more of them and we still believe that there is so much of room and there is so much of consumption there, which is bound to grow, we will all have a good time.

Tejas Shah:

Sure. And last one, Anand, in your opening remarks you spoke about expanding Unlimited if I heard correctly, expanding Unlimited this year in South and West. So, West, is it a new addition to our plan or was it just a broader remarks you made?

Anand Agarwal:

Tejas, Unlimited already exists in West, we have a reasonable presence in Maharashtra and also in Goa. So, we will continue to expand Unlimited stores in the existing



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territories, which includes APTS as well as Tamil Nadu, Kerala, Maharashtra, Goa, all of those territories.

Tejas Shah: Sure. But under the previous owner they were also not confident of Unlimited having very strong value proposition in West India, that's why they were focusing on South. So, are we seeing any revival there?

Anand Agarwal: So, we have not identified that exactly this is the location that we are going to open into, but you are absolutely right, we will definitely do our full feasibility and understanding, as per a normal V-Mart store and then only get into that location.

Tejas Shah: Great, that helps. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Abhijeet Kundu from Antique Stock Broking. Please go ahead.

Abhijeet Kundu: Yes, hi. Thanks for the opportunity and congratulations on a very strong growth. My first question was, there has been an increase in depreciation as well as interest during the quarter, I believe that would that be because of the rentals coming back, I mean the increase in rentals, would that be the reason? My question is that.

Anand Agarwal: So Abhijeet, the increase in depreciation is because of the inclusion of the Unlimited stores and the impact of Ind AS 116, which basically optically inflates the nomenclature of rental into depreciation and interest costs.

Abhijeet Kundu: So essentially the rental, that's what I was coming to, because of the rental increases these two components increase and that was because of the inclusion of Unlimited.

Anand Agarwal: Yes, correct.

Abhijeet Kundu: And secondly you know now that your product is also available on Amazon as well as Myntra, what has been the thought process behind it? And secondly, typically what we have seen is that on Myntra those brands those national brands sell their products where the cost margins are lucratively far higher and hence they can afford to sell it at a higher trade margin to Myntra. Also a lot of it is actually older inventory. So, in your case what I mean how would



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they, would you be selling the older inventory or would you having the old gamut of products available on both these websites?

Lalit Agarwal:

So Abhijeet, your voice was not clear, but still whatever I could understand I will give you reply. For us right now, we are a very, very novice player in the digital channel. And we are an infant, we consider ourselves infant in that. We are just trying to first of all place ourselves there. And we as you all know that we always believed in honest pricing, honesty is very important. Launching ourselves with not old inventory and liquidity inventory, launching ourselves with fresh inventory, trying to cater to the similar segment, understanding business from those digital masters.

How to treat those customers, how to deal with them, what kind of product works, what kind of product doesn't work, what kind of marketing works, how to place those products. These are all right now for us learning sessions and we will continue that journey and this is a journey that we have to go a little longer. This is not the core of what we do. We are a good brick and mortar retailer, we definitely want to be better as in the omni space and we will learn from all of them and that is how we are getting into. We have no targets right now to increase the margins, sell higher priced products only or sell old products. We are continuing with the normal operation. There are some new departments that we would want to place, but not with those intentions.

Abhijeet Kundu:

Okay, got it. Thanks. And on the Unlimited side, one, you are saying that you have hired an agency, which would work on the strength of the brand in the existing geographies. So that is one part. But any work that you require to do on the merchandising part? On the product assortment, anything did you find there? And is some work going on there, because Unlimited was there I mean, it used to be one brand, then they changed it. So, it was almost third phase where Unlimited as a brand had come. So they had started off with Megamart on the brand. Now also even after doing all these things, so it was not really working. So in terms of essential any corrective measures that you're taking in terms of merchandising?



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Lalit Agarwal:

Yes. I'll stop you here. So Abhijeet, we are definitely as you know we have integrated the buying piece, the buying and the merchandising areas have become common. And we are definitely bringing in or retaining first of all, all the good things that the brand had done, all the good products that they had created. We are also adding up the new merchandise view type that V-Mart was carrying. And we have started doing that. Those lines have now started reaching to the store. And we will definitely have a little mixed view as far as the forward coming seasons are concerned. And we definitely as you rightly say that brand and that those have gone through multiple transitions. We don't want to give them another shot. So we are very mindful of all of that.

Abhijeet Kundu:

Okay, thanks. That's it from my side.

Moderator:

Thank you. The next question is from the line of VP Rajesh from Banyan Capital. Please go ahead.

VP Rajesh:

Yes, hi. Thanks for the opportunity. My first question is regarding the competitive intensity, you mentioned Reliance and Zudio are entering into your market. So are you seeing the smaller regional players exiting the market or incrementally becoming weaker?

Lalit Agarwal:

See, we would not call for smaller players are exiting the market. As I said earlier, in these difficult times, in these challenging times, these upswings and downswings, the smaller players always suffer the most. And that is what can happen. But they are also as you have to also understand that there is an entrepreneur sitting on the smaller player and entrepreneur's ability to create a faster decision, the agility that they could demonstrate, the understanding that they could demonstrate in the business could also be a good asset that could come in.

So we still believe and we still feel that they should not go down. But there are some players who are in trouble. There may be some players who could get into further trouble and a lot of others can also come out very well. So, we would see a mixed reaction. But yes, these are difficult times for smaller players.



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VP Rajesh:

Got it. And my second question is regarding the rural markets. It seems that you saw less sales from your sort of new and skew markets. So can you comment on that? I mean we all knew why the result is not going well in spite of continuous advances?

Lalit Agarwal:

So, as I said in my opening remarks as well, the K graph that we all talk about, there has been an impact for the smaller player. The smaller shopkeeper has not paid them their salaries, the smaller contractor has not got jobs, there has been a relative slowness in that particular market, where they have created some amount of loss. If you compare it with the professional world, the corporate world, the bigger cities there where we have all got good salaries in our pocket, we have all received salaries on time, whether we have gone to the offices or not, but for smaller areas, they have to all go out to work, then only they get their money. So there was a difficult time that they all went through. And I think this is going to get repaired very fast.

VP Rajesh:

Okay, thank you so much.

Moderator:

Thank you. Ladies and gentlemen, due to time constraint, we take that as the last question. I now hand the conference over to the management for their closing comments. Over to you, sir.

Lalit Agarwal:

Thank you so much everyone for being there on the call and we continue once again doing our best, we are on the similar track. We have focused very heavily on bettering our processes, bettering our technology, bettering our teams, building better strategic objectives. We are also looking into lot of areas of development as our scale has become bigger, as our size of stores, number of stores have become bigger, as the competitors are becoming bigger. So, we are trying, definitely working very, very well towards all of that we are very conscious that life is not going to be so simple and not so easy. So, we will definitely find all those challenging times and we will all overcome jointly along with all of you.

There is a lot of work that we have to do, we will come back very fast because there is a lot of hunger that all our team members have. And we would definitely want to become the best value fashion player in the middle India. We will



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definitely want to become one of the best retailers offering our customer segments, those kind of product lines in the territories where we operate.

So, thank you so much for being there patient fully with us and we will continue to make you proud. Thank you.

Moderator:

Thank you. Ladies and gentlemen, on behalf of Motilal Oswal Financial Services, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.