



## “V-Mart Retail Limited Q2 FY 2017 Result Conference Call”

**November 15, 2016**



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**MODERATOR:**    **MS. SANGEETA TRIPATHI - RESEARCH ANALYST,  
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**Moderator:** Ladies and gentlemen, good day and welcome to the V-Mart Retail Limited Q2 FY 2017 Conference Call hosted by Edelweiss. As a remainder, 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.

I now hand the conference over to Ms. Sangeeta Tripathi. Thank you and over to you, ma’am!

**Sangeeta Tripathi:** Good afternoon, everybody. On behalf of Edelweiss – Global Wealth, I welcome you to the Q2 FY 2017 Conference Call of V-Mart Limited. From the Company, we have with us the key senior management team which includes Mr. Lalit Agarwal -- who is the Chairman and the Managing Director along with and Mr. Deepak Sharma -- who is the CFO.

I would now like to hand over the call to the management for their initial comments post that we can have a Q & A session. Over to you, sir!

**Lalit Agarwal:** Thank you, Sangeeta. Good afternoon, everyone. Thank you once again for coming on the call. This is Lalit Agarwal. The results are out not very happy to see de-growth in the EBITDA and the PAT but overall we see the environment is not too good, so, earlier we were expecting a better environment after the good monsoon, but yes, it will take time for the good monsoon to convert into money. So, I think good monsoon also leads to heavy rainfalls and then also disturbance at your store level when there are heavy rainfalls. But otherwise we have seen the demand seems to be picking up, it should get picked-up in the latter half of the Q3 is what we expect. On other front, I think on the industry scenario, other retailers are also doing similar numbers and we are also having similar pressure of sales. We have seen a lot of regional players walking up into our territory. Even in this quarter we have seen a lot of competitor’s store opening up in the vicinity of our stores wherever we are present and apart from that I think on the business side, the growth we have seen some in apparel which is good, we did open some stores in eastern part of India during the September quarter and we got some response during the Pooja month. And we are seeing a uptick in the apparel growth from those territories also .

In spite of Shraddh being in this particular quarter, we have been able to manage the revenue well but we had some pressure on the gross margin and also on the EBITDA which is coming up from the promotions and the discounts and the write-off that we have taken up during the quarter and there are some higher cost that we have got in, mainly coming from man power so, there are few things that the Company is watching and we feel that we have to be aggressively targeting those areas. Otherwise I think recently we are seeing this demonetization rise we have seen people getting affected primarily in smaller towns a lot of people are getting affected because we do not see people having other than cash money so, they do not have plastic money, so we are facing some challenges, the first day we saw a drop of almost 70% of the



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sales but now we have been able to reach to up to 85% till yesterday. So, things are picking up, we have seen a great shift in the cash sale versus the credit sale or a debit card sale. So, our card sales use to contribute to almost 10% during the before demonetization is now contributing almost 60% and above. So, the contribution of card sale is primarily very-very high in these stores in spite of the fact that not every people is aware about the plastic money as a plastic card with him, it does not have the pin number to operate those. So, there are few challenges but I think going forward we may have an edge over other unorganized player for making us acceptance as we are accepting those credit cards and debit cards. So, that can create differences and company is taking multiple other initiatives like wallet acceptance and other modes of payments also. So, we are trying to look into all the opportunities, we completely support the government's move and we see that this move will bring in more good things in the economy but it may take some time because in the immediate future we understand that the feel good factor of every individual is going to low and that would convert into a lower buying for some segment of customer apart from those who buy because of their daily needs because of their share necessity so, wherever there is some discretionary part which will affect the consumption. We are taking substantial measures so, that if the effect continues to be low we will try and cut our cost and try and have our inventory plan accordingly.

Let me hand it over to Deepak for further number crunching and he will give you the insight over the financials. Thank you.

**Deepak Sharma:**

Thank you, Lalit Ji and welcome everybody to the call. Though Lalit Ji has given a broad overview I as usual will run you through some of the key highlights in terms of specific areas as always, I will start off around fundamentals the aspects that we focus on. Footfalls have been pretty healthy this time where we have had a 18% growth quarter-on-quarter and 15% YTD for this weak season has been fairly good. However, conversions took a bit of a hit primarily around the fact the customers were a little undecided as to the quantum of spend as well as the merchandize to procure. The transaction size has shown healthy trend of increase of about 9% which is in sync with our normal years, last year we had a much lower number in terms of transaction size increase, this time it is back to the same healthy range of transaction size. So, far as average selling prices are concerned, it has shown an increase of 6.1% and all these have contributed towards 15% growth in our top-line. Had it not been for the aggressive promotions that we follow, which we have been highlighting over the last two quarters, that element would have been slightly moderate of course, this sales increment as well as the margins downstream would have been much better.

The other important highlight that in terms of inventory days, this reporting period, the inventory days there has been a slight uptick of about four days, two major factors contributing here our merchandizing team has taken a slightly aggressive view of ensuring that the material is present in the stores to take care of the festive season and they wanted to ensure that even



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the winter apparels is there as an option for the festive purchasing and that element together with the carry over that we are having from last year's season has in fact extenuated this element of four days. Other element which we would like to highlight in terms of inventory days, during the first-half we have opened 13 new stores where the inventory is getting aggregated in totality but the full scope of the revenue earnings potential of that store has not got factored. So, if these three elements are combined together it is not a very substantial uptick that we are looking and probably by the end of Q3 this variation will be on the improvement part as we had envisaged earlier on.

Last but not the least, we talk about same store sales growth, last quarter when our board had got together to consider the results for Q1 they had asked us that going forward what is the management's stake on non-apparel segment primarily in due course of time the Kirana would become inconsequential being a legacy vertical so, what was the management stake. In due course of time we reverred back to the board that yes, apparel is our main stay and we should use that as a fundamental indicator of our health of the business so, from this quarter reporting onwards instead of the earlier reporting of fashion as a segment we would be reporting apparel on a standalone basis so, this is the change which is going to be there in terms of the fundamental indicators related to our business.

Other than this of course in terms of the key elements which had an impact on our bottom-line for this particular reporting period promotions to cater to our competition as well as liquidation of the inventory that we are having contributed in a big way to the margins in value terms which flowed down expenditures human resource side was slightly on the higher side in percentage terms the key contributors coming in at the front end because of the minimum wage increments that have happened, 13 stores which we have added during the current financial year, also the impact of the bonus which got revised in the December quarter last year, this year the full six months have already been factored in so, in the current year but last year the six months reporting period did not have the element of bonus side and more importantly as we have been mentioning regularly we are investing in terms of capability at the back end and that has also contributed to the uptick in the man power cost.

In the other cost element, which again has shown on increment and percentage terms, one of the main factors has been the security and housekeeping cost, whereby the effect of the minimum wages has translated into substantive increase which has cost uptick. Also, if you are comparing period to period, the depreciation cost is again contributing by about 1.8 crores towards the negative side, primarily because 13 stores have been added this year whereas 13 stores were not there, no store additions were there in the first-half last year. If these elements of normalization are incorporated as a part of the results, the figures tend to improve over what has been reported.



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From my side, that will be all on the numbers and I would like to throw the floor open for questions from the members. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from Yash Jhaveri from Alder Capital. Please go ahead.

**Yash Jhaveri:** Couple of questions, one is, I see your shrinkage is down pretty significantly in terms of 0.5% of sales so, could you just throw some light and whether this is sustainable? And the other one is going ahead do you expect more favorable lease agreements that you can enter because of people expecting real estate prices to correct? And are you re-negotiating any of your existing leases? Thanks.

**Lalit Agarwal:** Yes, on the shrinkage side, I think on this second quarter we are seeing a little lower shrinkage because we had accounted too much the aggressive stock taking done in the first quarter and also we did a lot of stores in the second quarter also. But on a YTD number I think the shrinkage is higher, higher by the last year's number so, it is 1.5% compared to 1.2%. I think we have taken a very aggressive trend on the shrinkage element or on the write-off element. So in earlier we use to do our warehouse also in the third quarter or the fourth quarter. Now, we have started doing that in a cyclical manner where every quarter we are trying to bring in the shortages or the shrinkages or the write-off that we want to do from the warehouse quarter-on-quarter. On the other side of your real estate cost, I think still needs to get unfolded the kind of demonetization effect which will come on from the real estate, we need to watch and wait because as of now there is nothing happening. So, we are sure that there would be slow down as far as real estate is concerned but the rentals we are not too sure because we are already on a very lower side, our average rental still is around Rs. 30 a square feet. So, we would still aspire and try to get some more attractive deal which will still benefit on us. On the case of re-negotiation, we are still waiting for the market unfolds if the sales continue to be lower then expectation yes, we would try and target some of the low performing stores where we see a higher rental and we want to renegotiate, we will obviously have this in our mind and this is a discussion that we had in our board also even the board wants us to go ahead and do some of them. So, we will try and see as the case can be.

**Moderator:** Thank you. The next question is from Anuj Sehgal from Manas Capital. Please go ahead.

**Anuj Sehgal:** I had a few questions you have mentioned in terms of the card sales being 10% earlier and now they have increased to 60% so, clearly 90% of your sales were on cash earlier. Do you have a sense of what your customer base is what I am trying to get back is how many of these customers are salaried people and how many are business people and therefore what performance of your customers might actually see a drop in their consumption because may be part of their wealth was unaccounted for and some part of it will be lost forever. That is my first question.



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**Lalit Agarwal:**

I think that Anuj we understand and we believe that a lot of the people to come and shop at our place are self-employed people. So normally in the smaller towns the self-employee people even do not declare their whatever revenue and whatever income that they generate so, normally it is a two number cycle. So, that is a basic trend so, obviously and there are some salaried people the state government employees, the local government employees, there are some bank employees, there are some salaried people also but I think there will be an impact on their savings or on their key left over money which they had, there would be some not a feel good factor on the existing capital that they have or the existing assets that they have so, it is somewhere or the other going to impact some part of their consumption and we are sure about it because what will happen is people who need those products that is necessity for them which is two pair of cloths a year they will not lower their spending but otherwise there are sudden percentage of 15% to 20% people who had some discretionary spend also which comes from a extra earning or extra appreciation or inflation or in their existing property prices or their businesses or from contractors which get contract or something so, there would be certain kind of people so, we are also trying to understand this, to do this we are trying to do a survey across our stores so, we are launching the survey only tomorrow wherein we will try interview a lot of people so, that we understand what kind of people they are and how is demonetization has effected them what are the key threats that they look at their savings or their spending power.

**Anuj Sehgal:**

Okay. And then when you say that sales are now back to 95% levels as compared to what? As compared to before demonetization?

**Lalit Agarwal:**

So as compared to the targets, I did not say 95%, I said 85% so, as compared to the target we are now able to achieve 85%, yesterday was a good day because of may be Gurpurab and 14th November, Sunday was a good day, we saw 85% achievement before that yes, it was lower, so, we are seeing it bouncing back the major factor what we are witnessing here is that there is a difference the unorganized market is not accepting credit cards, debit cards, they do not have a swiping machine, and we are accepting those so, we are a preferred choice of shopping at this moment, so, this is what we feel would bring an edge to our revenues for the temporary period.

**Anuj Sehgal:**

Okay. And then just one question for Deepak. Deepak, I notice that on the operating cash flows for the nine month you have minus Rs. 22 crores of operating cash flows and obviously, you have a CAPEX of Rs. 20 crores so, we are looking at a free cash flows of minus Rs. 44 crores and there is a substantial increase in the debt short-term debt as well. So, can you give us some sense of how the cash flows is looking at and what are the plans specially on the balance sheet to bridge this gap?

**Deepak Sharma:**

To your answer is that the entire deficit that we are having in this quarter in terms of the cash flows is on account of the change in working capital ,close to Rs. 42 crores and that account



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has been funded primarily through the increase in the working capital which is in accordance with our philosophy of the company which we have been reiterating over time. And going forward, since the festive season is going to add to the internal accruals and is not going to be substantive additions or CAPEX outlay in the coming quarter, we feel that the inflows will more than compensate for the debt overhang that we will have from Q2 which is a normal trend actually if you look at it. The Q2 we generally see a spike in terms of the debt levels that we have and over Q3 gets normalized.

**Anuj Sehgal:** But Deepak, that is true in a normal year but this year given this whole demonetization thing 3Q might not be a typical 3Q so, that is why I had the question.

**Deepak Sharma:** So, fair enough, I take your point, so, I was not saying the sales are not going to come down to zero. Even today like Mr. Agarwal mentioned that we hit the target of 85% achievement against the target now even if we are hitting about 80% I still would feel that we would be cash comfortable in terms of cash flows rather than probably the concern you have around that.

**Anuj Sehgal:** Right. So, just to be clear that is 85% or 80% of target quarter to date of our intended target for this quarter?

**Deepak Sharma:** That is a daily target Anuj what we had planned. See, the way we work is that we have monthly target and then we have a daily target also that we chase the sales team around the daily targets. So, on a daily target achievement like Mr. Agarwal mentioned, we started off with sub 40% achievement that happen on Wednesday last and as of yesterday we were at about 85% achievement of sales numbers which we had in the beginning of the month planned for the daily sales.

**Anuj Sehgal:** Right. So, what would be the cumulative number, like what you would be running as a cumulative number for let us say quarter to date of the December quarter?

**Deepak Sharma:** Quarter to date would be a difficult Anuj, I think October was fairly good and we will probably get back to you separately on this.

**Moderator:** The next question is from Rajeshwar Rao from Perfect Research. Please go ahead.

**Rajeshwar Rao:** So, sir, actually what are the strategies you are taking to free up inventory because we have huge inventory from the last December quarter.

**Lalit Agarwal:** Rajesh, I am not clear about your question.

**Rajeshwar Rao:** Actually we have some inventory in our books from the last December so, what are your strategies. so, what you want to take.



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**Lalit Agarwal:** You are talking about the winter inventory which was left out in the last year?

**Rajeshwar Rao:** Yes, on this time also. So, we have planned that and we are talking some corrective measures so, that the inventory can be liquidated and we are also trying to visualize our remaining order so, we always work on a basis where 80-20 we work so, 20% of the inventory we procured towards the end of the season. So, we have still that in our hand and we are talking a corrective action of now. We have right now held to the orders whatever we have issued and we are taking corrective actions, where we need inventory we are doing some just in time inventory model, wherein we can actually manage the inventory better.

**Rajeshwar Rao:** Okay, what your realization cost, SSSG?

**Lalit Agarwal:** What is your?

**Rajeshwar Rao:** SSSG, sir, current SSSG.

**Lalit Agarwal:** 8% in apparel.

**Rajeshwar Rao:** 8% in apparel.

**Lalit Agarwal:** 8% value wise 8% same store sales growth in apparel.

**Rajeshwar Rao:** Volume wise, sir?

**Lalit Agarwal:** Volume wise it is 4%, Q2 versus Q2.

**Moderator:** Thank you. The next question is from Abdul Karim from HDFC Securities. Please go ahead.

**Abdul Karim:** A couple of question I have first, during this quarter conversation rate at 60.6%, I think which is all time low. Could you tell me the exact reason?

**Lalit Agarwal:** Abdul what is happening is during the course, what we have been doing is we have not been opening stores with Kirana bazaar. So, all those stores which are opened which are only fashion store or apparel store are normally the conversion rate tend to be a little lower in these so, compared to earlier ones, you will always find a conversion rate going down and we have been trying to be very aggressive on the footfall recording mechanism so, earlier we use to get reported of some lower footfall being recorded at the gate level because it was a manual exercise now we are trying to convert that exercise into a technology driven exercise where we are trying to capture a lot of footfalls through digital mechanism. So, we are recording accurate footfall and that is what we are declaring so, I think still 60% is something which is internally indigestible for myself because normally two people walks into a store and even shops for one





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cash or more it become 50%. So, anyway I think there multiple shopping which is happening by the customers also but we are chasing that.

**Abdul Karim:**

Okay. And second thing is considering your six quarter to seven quarter margin stability challenging for you, what are the major action you are taking?

**Lalit Agarwal:**

See, margin stability we are aware, the major factor of margins are, number one the gross profit. So, gross margin we have been telling that we have seen a lot of competition across territories so, we are countering those competitors with aggressive promotions and stands so, we understand that those competitors are not some long-term competitors but still we do not want to get a impact in the immediate quarter wherever we are opening, number one. Number two, we are facing some challenge over the same store sales growth also which is leading to a higher cost as a percentage of sales on a lot of aspects primarily on the rentals and on the man power cost, so, we are facing that challenge unless and until we are able to come back to our same store sales growth of 10% and above, it will be difficult for us to retain those margins. So, we result taking the aggressive stand; apart from that the factors of depreciation and the provident fund which has also impacted some of our margins.

**Abdul Karim:**

And one question is regarding the debit card and credit card payment system 16% payment are made through the debt card and credit card and last is government has taken some measures regarding the ban of Rs. 500 and Rs. 1,000 currency, how it will impact your business and demand per say, please put some color on the same.

**Lalit Agarwal:**

I think I have already briefed on this, we have seen very great shift in the customer making payment. So, earlier we use to record almost 10% debt card and credit card payments now we are receiving almost 60% as debt card and credit card payment so, there is a major shift on the consumer as such because now we understand that really the Jan-Dhan Yojana and all other Yojanas have worked for the government and people have those bank accounts, people do possess debit cards also, now they are actually utilizing the debt because the need is also here. So, I think this is the shift is very aggressive and if we see people actually following those digitalization mode of payment I think we will immediately come back to normalcy but yes, there would be some effect on the consumption because there would be certain currency which would get wiped off and there would be certain portion of population who has the higher potentiality to spend will get depressed because of the demonetization, so, for that portion of the spend there may be certain effect to the tune of 5% to 7%. Now these are early days for us to understand, we are trying to also carry out survey as I told you so, we will come back whenever we learn anything more on this.

**Moderator:**

Thank you. The next question is from Piyush Goyal from India Capital. Please go ahead.



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**Piyush Goyal:**

My question is that, you have a lot of these vendors from whom you buy your apparel from they must be mostly SME kind of companies so, their own supply chain might be similarly impacted because of this demonetization are you hearing anything from them?

**Lalit Agarwal:**

Yes, I mean people are going into a safe mode, people are very much terrified and they are in a frightened mode, so they have apart from the V-Mart business these people also are suppliers to unorganized markets so, normally in those unorganized markets they tend to get into a cash dealing so, there are concerns over there the trust in which the businesses are being down across those whole sale and the retail model. So, they have a lot of concerns and how are they going to fair out, how are they going to pay their labors, how are they going to pay their transporters, how they are going to pay their vendors so, they are a lot of concern over these items. There is very low clarity today with them. So, we are trying to give them whatever benefit we can give and we are trying to tell them that why you have to convert completely onto cheques payment and NEFT and RTGS so, trying educating them but still I think the government has to do a lot of work so, that these people get a comfort and a trust over the system and the trust over the legal way of doing businesses. So, I think whatever is happening is happening for good and there are certain vendors who are getting into that mode, but otherwise there are also other set of vendors who are also getting aggressive it is better version of doing the business and this is the right way that we should be doing business. So, yes, I think even now the payment of taxes is a very big concern for them because they were not use to pay income tax earlier so, they use to evade a lot of income tax but yes, because of GST is coming up and I think the government is going to announce much more better schemes for the income tax payees so, I think it is a temporary phenomena one has to pass through that.

**Piyush Goyal:**

Understood. My other question in this SSSG that you now started reporting for apparel instead of fashion, I know Deepak spoke about it but could you re-explain, I did not understand it correctly as to what is the rationale for now reporting it just for apparel? And for us to compare it year-on-year or otherwise for last since, 15 quarters - 20 quarters we have been looking at it only for fashion, we are hoping for a pick-up and now suddenly we see this 8% number for apparel, it is difficult to understand there is actually a pick-up or there is more than pick-up. So, until you give the same number for fashion, it is difficult to do an apples-to-apples comparison whether the consumer sentiment or the demand is actually increasing or not or the growth is coming just for new store opening. So, it is difficult to understand.

**Lalit Agarwal:**

So, I think in the presentation which Deepak must have sent to you there has been a comparison where the earlier year comparison is also mentioned there. If you see the same store sales growth in apparel so, the earlier year is of 5.04% for the YTD and this year it is a 1.08% for the YTD, in the volume side it is 11.03% versus 0.4%.

**Piyush Goyal:**

Understood, I am sorry, I missed that slide, sorry.



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- Lalit Agarwal:** We have given a competitive figure, wherever you feel any confusion, you can get in touch with Deepak.
- Piyush Goyal:** No, understood, I missed looking at that slide.
- Moderator:** Thank you. The next question is from Rishabh Chudgar from Enam Holdings. Please go ahead.
- Nihar:** Hi, sir, this is Nihar here. I had a couple of questions, related to the Annual Report that just got published. My first question is on the Kirana side, we have seen the sales flat line or not show any growth over the last three years or four years while I understand strategy of continuing with the stores that had Kirana presence already there is obviously a cost inflation on your rental, on your people expenses and all of that which are probably not being recovered while the growth in your Kirana remain sort of flat or negative. So is there a thought process them may be you should now convert towards into fashion or sort of do away with the Kirana business over a period of time at least?
- Deepak Sharma:** Hi, Nihar this is Deepak this side I will take that question, just answering to your question on a YTD basis, Kirana is growing at 7.5%. so, that is a fairly healthy growth rate for us and in the quarter they have grown at about 11%. So from the management's perspective it is a fairly healthy growth rate which our mainstay itself is not growing at and till the time I think we have repeated mentioned that earlier calls also that so, long as a certain minimum expected rate of return on the area allocation that is going for Kirana is earned, we are pretty comfortable with that, the day it starts falling below that that would be an area of concern and we will start looking at probably reducing the space or closing it down.
- Nihar:** Okay, that is fair. The rate of return that you talk about is on the basis of both the inventory as well as the overhead cost, right?
- Deepak Sharma:** Yes.
- Nihar:** Okay, fair enough. The second question that I had again relating to some of the data points that you presented from the annual report, if I have to take a look at the sales per square feet this year versus the previous year and compare it by the Tier-I versus Tier-II, versus Tier-III it seems that it is the metro and Tier-I which have seen the steepest sort of drop in the sales per square feet, between FY 2015 and FY 2016 is this given that it is mature in Tier-I is it safe to say that this is happening because of competition from sort of the modern retail format of the Maxx and Reliance and the fashion at Big Bazaar or you think that it is still the local competition that is sort of impacting you?
- Deepak Sharma:** See, you have to understand as it is Tier-I and metro is very low percentage of store that we have today, is not a focus for the company and you have to understand that the metro and the Tier-I life style and the fashion needs of the people have changed a little bit. So, because we



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are not focusing enough so, we are not able to actually give them a right fashion requirement, provide them with a right fashion requirement so, we understand and we know that but we do not really want to focus on them so, that we lose the focus on the existing 90% of the stores that we have got. So, we know that there are certain areas of improvement in these territories that we can also do and yes, obviously there has been a lot of competition which has walked into these areas, in these particular territories and there are lot of players who are trying to burn all kind of money ventures to take a control of the market. So, there has been these instances and these particular area, the store for us also has become very old, so they need a lot renovation, rentals have gone up. So, we are also trying to look in to whether we should continue with these stores or we should try and review these stores and the primary thing is the focus.

**Nihar:** Fair. So, is there a possibility of store rationalization in some of these areas of course, with a small portion of your overall store count? But would you look at may be store rationalization in these areas as well as a sort of....

**Lalit Agarwal:** Yes, I mean we are aggressively looking at it. Till the time we are able to bring out the EBITDA profitability from the store level, we do not want to touch that store but there are one or two stores which are in the focal point where we want to take a decision on them.

**Moderator:** Thank you. The next question is from Aabhash Poddar from Anived Portfolio Management. Please go ahead.

**Aabhash Poddar:** So, just wanted one qualitative understanding on the shrinkage a bit. So, have we thought of incentivizing people at the store level or at the warehouse level saying if the shrinkage is at x percentage or x amount you will be incentivized and then by bringing out, brining down the overall shrinkage?

**Deepak Sharma:** Yes, hi, Aabhash this is Deepak I will take that question. Yes, we do have that kind of KRA as part of their evaluation framework for the front end as well as for the warehouse.

**Aabhash Poddar:** Okay. But still you expect the shrinkage to remain around 2% what is the level you are comfortable with on the shrinkage front?

**Deepak Sharma:** I think Lalit Ji mentioned on a part of a call that we are targeting about 1.5% that is the base line and we of course it is not a number you generally tend to target but we are looking improving achieving at least 1.5% on my top-line.

**Aabhash Poddar:** Okay. And the second question would be on the vendor side, so how many vendors say the top 50 or the top 100 vendors that we are dealing with how much percentage of our sourcing would be from that? If you could just give us a qualitative understanding of that?



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- Lalit Agarwal:** Top 50 vendors would be contributing not more than 20%.
- Aabhash Poddar:** Not more than 20%?
- Lalit Agarwal:** Yes. Top 100 vendors would be contributing may be around 40% - 35%.
- Aabhash Poddar:** Okay, that is great. And lastly, you always give out a number saying that in the number of stores that you have witnessed heightened competition what would be your number this time around, I think last quarter you said 45 stores have witnessed heightened competition, this quarter what would be the number....
- Lalit Agarwal:** We have got additional may be 23 more location where we add more competition this quarter.
- Moderator:** Thank you. The next question is from Aakash Manghani from BOI AXA Investment Managers. Please go ahead.
- Aakash Manghani:** The first question is really, could you help me understand how Q3 has shaped up for you guys, at the end of Q1 you are expecting a better marriage season and better winter sales, so far how has that shaped up and what is your estimate for the remainder of the year and for the remaining of the quarter and for the year of footfalls might shape up?
- Lalit Agarwal:** I think you are taking a test by asking this question, the remainder part because the demonetization is still people are guessing so, it is very difficult to really forecast what would happen but till now the third quarter has been a little better and we have seen some growth in the month of October. This last seven days - eight days have been very bad. So, I think because of the following reasons of marriage and good winter season, because of may be good wealth coming in or the money coming in from the agricultural output because of the better monsoon, we should witness a better quarter in this particular remaining part. If this monetization gets stabilized because genuinely people are short of cash, they do not have money, they do not have either money either have money in their bank account because they use to keep cash in their house. So, they are neither able to deposit not able to withdraw so, it is becoming difficult for them. A lot of the population is getting this difficulty. People who have plastic money, who has money in their bank account are able to shop right now, even they are a little confused what will happen if they shop in legal then what is the tax that they have to pay so, people are actually illiterate and people do not understand these languages. But once, it is done I think we should be able to witness better sales.
- Aakash Manghani:** So, quarter to date would you have witnessed growth across your stores?
- Lalit Agarwal:** QTD yes, we have.



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- Aakash Manghani:** Okay. The other thing is you mentioned earlier in the call that promotional spends would have increased Y-o-Y I think for the first-half because of the because of heightened competition could you help me with the percentage how much would that be right now versus last year?
- Lalit Agarwal:** I think there is a jump, we have seen some additional 2.5% to 3% promotions that we have to go away with and we have given that lever to the customer also to make the life of the competitor difficult so, we wanted that to happen so, it is a call that earnings have taken which gave a effect on 0.8% of lower GP in this particular YTD period.
- Deepak Sharma:** And I like to further add to what Mr. Agarwal just mentioned and the promotions are not only exclusively for taking on the competition it was also as a part of our strategy who help us with the liquidation of the inventory that we were carrying. So, it is combined effect on both accounts.
- Aakash Manghani:** Okay. And you said they had an impact of 0.8% on the gross margins, correct?
- Lalit Agarwal:** Yes.
- Aakash Manghani:** Okay. Also now on the balance sheet side would you say your inventory levels are much higher than what you normally keep or is that a normalized level of inventory?
- Deepak Sharma:** I think you have to understand that we were at the doors of the festival and because the festivals got prepone by 15 days this year last year the Diwali was on 12th - 13th of November and this year it was 30th of October so, it got prepone so similarly our inventory buying mechanism got shifted and we had enough inventory in our warehouse also in our stores before the September and we wanted to make ourselves ready for the festival so, that why we had good inventory stock. And we have a new merchandizing team on the place who are very aggressive on the on-time delivery factor so, we have given them as KPI so, they have been very aggressive on trying to get the product at the right time.
- Aakash Manghani:** Okay. So, do you foresee an increase in working capital levels over the next year or so because of the current situation?
- Deepak Sharma:** I mean if we are able to maintain the sales I do not foresee that, yes, if we do lose sales beyond 10% we would end up in to higher inventory but I do not think if it is under 10% of drop in sales we would be able to still manage our inventory, I think....
- Aakash Manghani:** What about the payables because you might have to support the system with sort of higher credit I am assuming.
- Deepak Sharma:** I did not get you, payables.



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- Aakash Manghani:** Yes, right.
- Deepak Sharma:** So, I think we are comfortable with the payables I do not think we have challenge there so, we are sufficiently cashed and we are there with the payables so, that is not an issue.
- Aakash Manghani:** Okay. And how many stores do you plan to add in FY 2018 and during the course of this year remainder?
- Deepak Sharma:** During the course of this year we have planned for additional seven stores or eight stores during the start of the year as of now we have not finalized too many so, we are on the process of doing it but looking at the strategy that we would mold a little because of this monetization drive we still need to wait on this but we should add anything between 4 or 5 stores.
- Aakash Manghani:** One more question, I want to ask you, your sales per store that you would have done let us say in FY 2013 - FY 2014 where things are sort of looking rosy for you vis-à-vis now and how has the economics of a store got impacted if the payback was I do not say three years or four years how much has it got elongated by, leaving aside this monetization problem but over the last year and half you had some slowdown in the growth, right so, how is the economics per store got impacted?
- Lalit Agarwal:** I do not think most of our existing the economics have changed a lot. There have been some disruptions from the new stores or the stores that we have opened in the last two years we have not seen the same kind of the revenue output that we have got from these stores so, we are working on those areas and ensure that the poor performance get arrested.
- Aakash Manghani:** I mean you said, there is a heightened competition across several of your stores probably that is sales from a new norm for that particular region. So, what you would have anticipate in FY 2013 FY 2014 vis-à-vis what it is doing now, it sort of impacts the return on capital on ongoing business for the business, right?
- Lalit Agarwal:** Yes, you are absolutely right and because we might have not have received a lot of same store sales growth we have negligible same store sales and we had an additional cost which has incurred because of the higher minimum wages or because of the other cost increments. So, we have some returns which has got lowered. So, we are trying to manage that with inventory rationalization, we are trying to do a lot of work towards inventory, to supply chain management so, the ROCE, the kind of return on investment that we want to drive so, there is an active watch of Deepak on that ROCE number at the store level so, let Deepak answer this one.
- Deepak Sharma:** Aakash, the update I wanted to give you on your concern around future return on capital employed side so, from the past month and half we have been building a framework of evaluating the return on capital employed at a store level on a regular basis as well as



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achievement of a targeted rate turn on capital employed. So, we have just started that exercise I mean like I mentioned it is just about month and half old and we will be actively using that framework to ensure that the return of capital employed in terms of the expectations from the board are complied because during an earlier call we have mentioned that there are two or three critical benchmarks which are board follows for the company's performance evaluation one of them is return on capital employed, the other is the free cash flows and the third of course the key being working capital management so, the return on capital employed was a bit of a black box for us in terms of the performance at a grass root level and over the last month and half we have developed that frame work and we will try and ensure that we achieve a minimum rate of return on the capital employed.

**Aakash Manghani:**

And what will that be for you now?

**Deepak Sharma:**

The board has not given us any indication as such for say now but we will try and ensure that we maintain a minimum spread of about 300 basis points over our WACC (weighted average cost of capital) to start with.

**Aakash Manghani:**

Are there any one-offs in the employee cost for this particular quarter or because of the bonus provision which is not going to be recurring?

**Lalit Agarwal:**

So, I think there is a contribution from the bonus but apart from that there has been a substantial increase because of the heightened minim wages and also there has been few additional that we have done with the backend so, that we derive an expertise over certain lines of businesses.

**Aakash Manghani:**

So, how much will that quantum be because of the bonus provision?

**Lalit Agarwal:**

Bonus would be something around Rs. 1.05 crores additional for the quarter?

**Aakash Manghani:**

That will not reoccur in the December quarter, right?

**Lalit Agarwal:**

I think in the December quarter I do not remember the bonus was taken?

**Deepak Sharma:**

That will get normalized if you account for it on a nine-month period. If you look at it on a quarter-on-quarter basis because last year during the December quarter the full nine month was loaded this time it will be just for the quarter but if you look at it on a YTD basis it will be a normalized comparative.

**Moderator:**

Thank you. The next question is from Jatin Arya from ICRA. Please go ahead.

**Jatin Arya:**

Small question, just now you quoted that around, you will be adding around seven - eight more stores or perhaps four stores - five stores I mean you will see what is the impact of





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demonetization and then look at the number of stores. So just one thing earlier you have been funding your stores all through internal accruals will there be a change in strategy now because what I see is that liquidity to most of the cash that you had at least as on last year around Rs. 19 crores of investments have been liquidated which has perhaps been invested in the inventory.

**Lalit Agarwal:** So, Jatin our mandate from the board is very clear that the CAPEX side of funding for the new stores will have to come from internal accruals at a minimum if not funding a part of the working capital also, the balance if any will take us from line of credit from the banks.

**Jatin Arya:** So, perhaps there will be no debt-funded CAPEX I mean there are no such plans?

**Lalit Agarwal:** The board does not mandate that to us so, we really cannot do that at any circumstances Jatin.

**Jatin Arya:** And sir, right now as on H1 FY 2017 you have quote around an inventory figure of around Rs. 281 odd crores with these number of stores at around Rs. 134 number of stores what I mean I understand that there was spike due to the ongoing festive season but what is the comfortable level of inventory that you plan to target, I mean the inventory as on day would have definitely reduced because the festival season has almost gone, so what is the comfortable level of inventory that you are targeting at these many stores?

**Lalit Agarwal:** I think we would look at anything close to 85 plus and minus couple of days towards the quarter end. A big subject to clause here is winter is being normal because last year winter played a very big role in our spike in the days of inventory. If winter stays normal and the effect of demonetization is not very huge, we would be targeting may be around 85 days of inventory towards the quarter end.

**Moderator:** Thank you. The next question is from Piyush Goyal from India Capital. Please go ahead.

**Piyush Goyal:** My question coming back to SSSG you have the slide where you have given the sales mix into apparel, non-apparel, Kirana and if I calculate the absolute crore value of sales in apparel it looks like you have done Rs. 149 crores of sales this quarter versus Rs. 124 crores last year in the same quarter which is just in apparel which is a growth of about 20%, right. And now you are saying of this 8% was actually SSSG which is stores older than one year but you also opened the number of stores has gone up in this period from 109 to 134 which is an increase of 23% in terms of number of stores. So, this 20% of revenue in apparel despite 8% SSSG seems low given the number of stores that we have opened, did I make my question clear?

**Lalit Agarwal:** So, you are looking at the store growth as a complete figure. So, store growth is not that every store we had opened on the 1st April so, most of the stores have been added in the last quarter in the last month. So, still you may see the numbers but not that every stores has been working for that number of days and then apart from that there has been some challenge I already



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mentioned in the call that there have been some challenge in my new store territories primarily in the parts of Orissa (Odisha) and Bengal.

**Piyush Goyal:** Understood, got it. And the other question is that your non-apparel sales again if you do the same math the non-apparel sales has grown at 37% Y-o-Y so, is it fair to say that if we combine fashion and non-fashion your SSSG would in fact be higher than 8%?

**Lalit Agarwal:** No, that is not the fair comparison. Number one the non-apparel sales has not grown at 37% because there is a slight change in the mix in the grouping of the non-apparel, we have taken some life style products which are purses, belts and sun glasses and ladies socks and handkerchief, which use to report earlier in apparel now we have shifted that to or which use to report in fashion, now we have shifted that to non-apparel so, that particular contribution is going there but yes, the growth as you are calculating has not gone that way.

**Piyush Goyal:** Understood. And lastly, is it fair to assume that notwithstanding this reclassification is it fair to assume that all new stores that we open have a similar mix of apparel, non-apparel shelf space?

**Lalit Agarwal:** Shelf space is always driven by the kind of sales that they are doing or the kind of budget that we have given them so, shelf space is purely an output of the return that it is able to generate out of the space provided. So yes, the mix is almost similar that we anticipate but yes, it gets molded with the time when we have an exposure to the sales, so, whenever we have an exposure we tend to understand what is the reality versus the planned, so, as per the reality we once again tweak the space.

**Piyush Goyal:** So, basically the strategy of apparel and non-apparel mix is not going to change?

**Lalit Agarwal:** No, I think non-apparel constitutes to be a supportive part and that also adds on to the requirement of the customer that is primarily from the home side so we do not think we will try to change that mix.

**Moderator:** Thank you. We have the next question is from Arun Baid from Religare Capital. Please go ahead.

**Arun Baid:** Just a few questions, one you have mentioned that GP was down this quarter because of additional promotions, is this a new norm because you use to target at least 30% as GP.

**Deepak Sharma:** Arun, I mean you need to understand that GP is not a written down figure so, it is an output that you derive out of all the effort that you do to sell the product and the kind of margins that you are able to retain because you also need to take care of the quality of the inventory which is left out post the quarter so, we are very aggressive on those lines so, I think whatever is the output yes, if this is the desired understanding that you have, you may take it as in, but the company is striving towards taking all the efforts in building up more margins and trying to



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look at various parameter also by increasing the private label sales so, we are taking a lot of measures but I think there are few temporary challenges which we are facing because of the competition which is coming into our store we do not want to really slip out and lose our customers because of the competition so, we are becoming a little aggressive I understand that.

**Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference call over to Ms. Sangeeta Tripathi for closing comments.

**Sangeeta Tripathi:** On behalf of Edelweiss – Global Wealth I would like to thank everyone for attending the call and special thanks to the management for taking time out to speak to the investors and the analyst; thank you Mr. Lalit Ji; and Mr. Deepak. Just Mr. Lalit Ji if you have any closing comments, you can talk on that.

**Lalit Agarwal:** Yes, so thank you once again. These are very high precision watch out times where we need to be very-very alert and try to take some different measures to bring back the confidence of the consumers and we are aggressively on that, we understand that there can be a two-way scenario one brining it down and two taking it up so, there is a lot of chances also of taking it up on upside because we feel that the digital money would change the way people behave and the way people spend for the durables and their requirements. So, we look forward to this quarter this is a very important quarter for us the most important quarter as terms of the profitability so, we are very hopeful and very aggressive, we are whole team the V-Mart the senior team and the store team and 5,200 people working in V-Mart is completely dominated and dedicated towards the growth of the company. So, be rest assure and thank you once again for supporting. Deepak has some few closing comments to give also. Thank you.

**Deepak Sharma:** I would like to thank all the participants and the Edelweiss team and also at the end of it big thanks to the team from GT also for the new addition to our audit team from KPMG who we had our first exposure during this quarter and it was a very good experience, a very professional approach from their side and lastly thanks to our board who is constantly pushing the management as well as ensuring that we maintain high standards of corporate governance and overall a big thank you to all of you who were there on the call. Thank you everybody.

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Edelweiss that concludes this conference call for today. Thank you for joining us. And you may now disconnect your lines.