



**“V-Mart Retail
Q1 FY2019 Post Results Conference Call”**

July 25, 2018



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Moderator: Ladies and gentlemen, good day, and welcome to the V-Mart Retail Q1 FY2019 Post Results Conference Call hosted by Edelweiss. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Sangeeta Tripathi from Edelweiss. Thank you and over to you Madam!

Sangeeta Tripathi: Thank you moderator. A very good morning to all. On behalf of Edelweiss I invite you all for the Q1 FY2019 conference call of V-Mart Retail. On the call today we have the leadership team of V-Mart, Mr. Lalit Agarwal, the Chairman and Managing Director, Mr. Anand Agarwal, the Chief Financial Officer of the Company. We will start with a brief business overview for Mr. Lalit Ji and the financial overview for Mr. Anand post which we will open the floor for Q&A session. So now without much ado, I would be handing the call to Mr. Lalit Ji for his initial comments. Over to you Sir!

Lalit Agarwal: Good morning. Welcome back everyone. Thank you for being there. Very nice to know that the Company has been performing consistently and we have been seeing sustainable growth in our business. Overall the market scenario in the markets where we operate looks almost similar, there is nothing that is very different, we have seen some lower demand in the states of Odisha, Jharkhand and Bihar, but overall I think even in UP it is almost okay and we have not seen a great demand because of the one month of marriage season, which was not there in this particular year, in this particular quarter, so because of that some demand was subdued, but otherwise I think in the markets the rainfall seems to be okay, but in the UP and Bihar there is a concern, there is some deficiency of rainfall approximately 30% to 40% deficiency, but it is coming up I think last three, four days we have seen some rainfall coming in. So I think rainfall, MSP these will be driving force for the coming quarter or the festival quarter, which is going to come in because this year the festival is also getting shifted, all the festivals getting shifted in Q3, so we would expect the festival quarter to be good and that largely depends as you know on the agriculture income and the monsoons also, so we expect the monsoon also to buck up and make up for the balanced month. So overall I think MSP is a great booster apart from that I think because of elections also lot of work is happening in the rural side, lot of work is happening on the actual distribution of money and different benefits to the people in the smaller town and in the rural areas. So those are being talked, I think the GST effect we have seen now coming in a little bit, the e-way bill has started, but still the compliance levels are a little lower, unorganized players still are hesitating getting into the GST framework, so that is still there. I think on the industry side most of the retailers has



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been doing good, there have been lot of openings of these retailers in our territories also and we have seen a lot of retailers coming up and also we have seen some betterment even in ceratin nationalized retailers, which we are witnessing and I think it is a very good news that most of the retailers are doing good and internally also they are growing themselves up. Not able to witness any kind of demand or surge from the online players, so it is as usual and as the demand was it is almost there, but you have higher discounting is what we have seen in this particular sale period. We are seeing higher amount of discounts and we are getting reports of very lower sales outcome of their discounts, of the brands and national chains, so that is a concern for bigger retailers, but overall I think it has been fairly okay on the ground of 23% same store sales growth last year, V-Mart has not been able to grow very large, but yes we have been able to do around 1% of same store sales growth on value basically, but still we continue to grow in the volume, we have been growing at 4% in volume. We still focusing on reducing the price a little more because our mix has changed a little bit because of the Tier 4 town that we have entered and higher penetration in Tier 3, so that is still there and apart from that I think the sales mix continues to be similar, the overall target of number of store increase, which we had, so we have opened up around 8 this year, in this quarter and we do target to open at least the same number or a little greater number than what we had opened last year, so that continues, there is a challenge in finding the right property, there is a challenge in prices at which we normally get because of the higher competition people have distorted the market a little bit, but yes we are not trying to bend upon and we are trying to only take properties at our prices in which we feel it will be beneficial and will be able to generate the kind of force, which we expect, so that is what we are, I think we will further get into the questions and answers, but let me hand it over to Anand for the financial review, which he can take you around. Thank you. Anand!

Anand Agarwal:

Thank you so much Lalit for a very rounded story wrap up of what we have done and what the economy and the business looks like, so I just like to take you through some of the financial numbers and what our growth trajectory looks like and then we can just follow that up with some questions. So overall on a quarter basis we increased revenues by 15% with same store sales growth coming at around 1% on a very strong base of 23%, so last year Q1 was a very, very good quarter for us, a lot of marriage dates, but this year we saw a little bit slackness in terms of the number of marriage dates and therefore also the consumption stories. The concept of adhik mass, which basically means a little less number of auspicious days for festivities and marriage also led to the slight contraction, but on a volume basis we continue to grow at 4% on a like-to-like basis and which is a good sign reconfirming our rate on leading a volume based growth. On a segment mix we remain fashion centric, 94% of the business



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coming in from fashion and 6% continued by the kirana stores and in line with the overall sales growth of 15% the EBITDA grew at 16%, so overall a good quarter.

In terms of sales we have opened 8 new stores during the quarter, 2 in Bihar, 2 in UP, Uttaranchal, Jammu and West Bengal and all these 8 stores continue to do very well for us. In fact if I look at the same store sales growth of 1% we have seen some good growth coming in from the states of UP, West Bengal, Rajasthan, Uttarakhand while we saw a slight weakness in Bihar, Jharkhand, Odisha, which had a slight degrowth, but otherwise the major markets for us remain very strong with a good mid single digit same store sales growth. In fact, a very good sign that we also witnessed during the quarter was that the older stores continue to outperform even the younger stores and that was a very, very heartening sign and we continue with that journey of refurbishing and reformatting some of the older stores to keep bringing back the same store sales growth.

On the sales mix side, apparel has grown well, in fact there was a bit of a degrowth in the non-apparel segment largely led by lifestyle and footwear, but otherwise the business remains very healthy and the continued focus on better range assortment and product mix and better product led to the increase in the sales in the apparel segment. The profitability remains quite healthy by the product margins, good throughput, we had a good brand campaign, which allowed us to reduce our in-store promotions and which led to a higher gross margins and therefore ultimately also inline EBITDA numbers. While there have been some investments that we have done on the employee cost and also in marketing, but overall EBITDA number at 16% quarter on quarter, year-on-year growth looks healthy.

On the PAT side we have seen some higher depreciation kicking in primarily because of the new store additions from last year and also during the quarter, so the depreciation increased by 22% and there was also a marginal impact of deferred tax, which led to the overall increase in the effective tax rate leading to a PAT of around 11%, but for the full year we remain optimistic on achieving whatever numbers in line with our projections. We have seen good growth in the footfalls healthy despite the low marriage season and also the slight slackness in some of the regions in the eastern side, but otherwise footfalls increased by 12% is again a very healthy sign. Conversions have remained quite strong at 60% and while the conversions have remained at 60% the number of bills that we cut increased by 18% that is a very good sign and it reflects the strength of the faith that the consumer has in the product and the business that we have. The transaction size has increased by 3% while the average selling price has marginally declined on the total product side by Rs.1 and on the fashion apparel side by Rs.5, but this is as Lalit also mentioned this is part of the result as we continue



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to expand into Tier 4 and we focus on volume net growth and we introduce products also at lower price points, so ASP is one area where we would continue to be focus on and we would want to make sure that this number remains at a healthy growth count. The sales per square feet has marginally declined by around 3%, 4%, which is effect of the addition of larger number of stores from last year in the base, so it is a base impact, nothing substantial. The stores that we have added during the quarter largely in Tier 3 and Tier 4 categories. Tier 4 as we have been talking about in the past has been an experiment, the journey started around last year. We had some good learnings almost 60%, 70% of these stores have very similar financial performance if I compare them to versus Tier 2 or Tier 3, but we have also had some learning and we are continuously evolving to make this format a better growth vehicle for us. Because we clearly understand that there are more than 4000 towns where a store like V-Mart can be opened and therefore Tier 4 becomes a very, very attractive and a very important strategy for our future growth. The continuous focus on volume-led growth is going to continue and we are very confident that the strategy of opening up in Tier 3 and Tier 4 towns led with the improvement in product and introduction of varied price points for different products is going to yield dividends in the medium to long term. If I look at the P&L, we have seen a very robust increase, not a very problematic issue in any of the expense items. We have made some investments in advertising, so therefore our advertising spends have gone up from 2% to 2.9%. We have also made investments in manpower increasing in line with increase in business targeted for the year. The rentals have marginally increased again on the base of higher stores that we have opened in the last year expecting now in this quarter and a slightly higher expenditure on diesel is impacting the power and fuel expenditure, but overall expenses as a percentage remain in line with our expectations and our plans. The retail space has increased by 20%, which is 19% to 20%, which is again a good increase and we remain optimistic on increasing this number throughout the year in a planned manner. The inventory has slightly increased from 73 days on a total basis to 76 days led by slight stocking for the new stores that we have to open and also some of the stores that we have opened during the quarter not giving in their full year throughput, but overall inventory numbers we remain optimistic that we should try and reduce them by the end of the year.

Shrinkages, there have been a lot of improvement on shrinkage while the number that we report is around 1.3%. This 1.3% is huge, a bit of provisioning that we always do to keep in check the old inventory and the obsolete inventory and there has been a lot of focus that we always put and we will continue to put on liquidating any old inventory that we have. The health of the business is largely dependent on how good the throughput of the inventory is and therefore shrinkage which includes pilferage and also the liquidation of old inventory remains a very, very key focus area.



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In terms of cash flow while on operating basis, we generated around 14 Crores of cash. Post tax, this is around Rs.10 Crores and net of capex it is a negative Rs.2 Crores but again in line with last year Q1, which is a much better number and we hope to continue to deliver even better numbers in the coming quarters. So that is all from my side. Now I leave the floor open for your questions. Please let us know any concerns, any questions that you have. 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 the line of Abhishek Roy from Stewart & Mackertich. Please go ahead.

Abhishek Roy: Congratulations on a good set of numbers. Sir in your opening remark you have mentioned that because of focus on reducing the prices, it has led to volume growth and do you think that going forward if you continue doing this, will there be any impact on the sale figure?

Anand Agarwal: I think just to clarify, we did not mention that there is reduced prices what we did mention is that we are introducing products at different price points, which include lower price points as we get into Tier 4 towns and cater to a population, which has slightly lower per capita income. We need to introduce products at different price points but having said that let us also understand that we have increased our product margins and we will continue to make sure that we are able to offer good value to the consumer at every price points, but without compromising on the profitability but also not focusing only on profitability.

Abhishek Roy: The numbers, actually the volume growth it was 4% during this quarter and I believe that because of a stronger base last year. So do you think that we can continue seeing that similar type of volume growth for the upcoming quarters?

Anand Agarwal: Yes, absolutely. We will definitely want to look at not only volume-led growth, but also now value-led growth. This may not include price-led pricing growth, but definitely value and volume will go now hand in hand.

Abhishek Roy: Sir, what was the contribution from private level during this quarter?

Anand Agarwal: Private level contributed to almost 52% of the sales and we continue to remain bullish on increasing the private level contribution.

Abhishek Roy: And Sir this is my last question is on the sales per square feet. Sir can you just tell me figures that was contributed from each of the cities like from Metro and Tier 1, Tier 2 in FY2018 and Q1 FY2019?



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- Anand Agarwal:** We will share that with you separately. It is not available right now at hand. So you can touch base with me separately one on one on that.
- Abhishek Roy:** Okay so Sir, just an idea means, which Tier has contributed more in FY2018 or...?
- Anand Agarwal:** Tier 2 and Tier 3 contribute the higher per square feet sales. Some of that data might also be available in the last full year presentation you can also check that.
- Abhishek Roy:** Okay Sir. Thank you Sir and all the best.
- Moderator:** Thank you. We take the next question from the line of Himanshu Nayyar from Systematix Shares. Please go ahead.
- Himanshu Nayyar:** Congrats on a good set of numbers despite the really high base. Coming first to the P&L, I mean we saw a very sharp increase in gross margins, but at the same time a higher marketing spend, I believe that would be on account of much higher competition. So would we see this trend continuing and what you think is a sustainable level of gross margins that we can deliver in this business?
- Anand Agarwal:** I think the marketing spends which we have done is as we have done in the past as well. There was a brand campaign that we did not only in retaliation to the competitive pressures, but this is basically more of investment in terms of creating a brand that is more widely recognized and therefore makes the business part more growth oriented and sustainable. As far as the margins are concerned, there has been expansion in the margins by almost 200 bps and we will want to not really focus on expanding the margins in the future, but we would definitely want to make sure that the value proposition to the customer is absolutely correct. Some part of the margin expansion has been happening we have also noticed in the last couple of quarters is mainly because of the fact that as we grow larger in size, we are able to extract better value and as we improve our systems and prospects we are able to derive better value and pricing power for the products that we sell. We also have surplus cash on the balance sheet, which we have been moving to get better commercial terms from our vendors by way of early payments and negotiating better commercial terms with them, but otherwise some part of this margin increase will be sustainable, I would not say that entire 200 bps is something that is cast in stone.
- Himanshu Nayyar:** Got it Sir. Secondly on our capex plan so in addition to the new store or the retail area that we were looking to add, when do you think we need to set up a new warehouse and obviously that will involve maybe a slightly larger capex?



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- Anand Agarwal:** We are already working on that strategy since the last three or four months almost six months now, we have empanelled one of the world's largest logistics consultant for this and we are currently doing that exercise and evaluating options I think by the end of this year or probably the next year we should come out with a concrete plans on that.
- Himanshu Nayyar:** But do you have a number in my mind as for this year at least? Have you budgeted for... what sort of capex would you have budgeted for this year?
- Anand Agarwal:** We budgeted some number I cannot really disclose the exact number to you, but we have something in the plan.
- Himanshu Nayyar:** Got it Sir final question would be Lalit ji said that as of now e-commerce guys are not posing any challenges. So in your view I mean how far are we, I mean how much time do you think it will take for the e-commerce guys to start posing significant threat to our business and what are our views on setting up our own online platform on a broader basis.
- Anand Agarwal:** Himanshu we said this in the past as well. See e-commerce is something that we do not see as a thread, we see it as an opportunity and we have been working around setting up our own e-commerce operations for some time now, while I will not like to give out exact date by when we will be ready and when we will launch, but like any other store operation that we do, we again look at the e-commerce store as extension of our business and whenever we launch it, we would want to make it profitable and sustainable. Now the market is very, very huge even in the markets where we operate, we currently see competition from unorganized segment, which is almost 90% to 95% of the market's share, but still the market is big enough for everybody while e-commerce companies have already started getting inroads into even these markets, but the share of the spend that they get from these markets is extremely miniscule. So again just to reiterate we see there is an opportunity and we will come out with concrete plans and activations of e-commerce only led platform in the coming quarters or maybe early next year.
- Himanshu Nayyar:** Got that Sir. That is all from my side. Thanks and all the best.
- Moderator:** Thank you. We take the next question from the line of Abneesh Roy from Edelweiss. Please go ahead.



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Abneesh Roy: Sir in the opening remarks you had mentioned because of competition in the rentals there has been some kind of increase could you talk about that and in terms of pricing any change versus last quarter from the competition perspective?

Lalit Agarwal: Yes Abneesh. The fact is that because too many players now in the market so they are trying to even distort the market, the real estate market particularly so that was my perspective and not that it is actually impacting our acquisition price but it is becoming little more difficult the purpose, it is becoming little more difficult and because of the competition people are trying to put up any kind of prices to save some kind of real estate hangouts so I think that is the overall thought process and the second question was that price of the product?

Abneesh Roy: Yes.

Lalit Agarwal: I think the price of the product we continue to have the similar prices. This particular coming season can have a little more pressure because the raw material prices have gone up the commodity prices have also gone up little bit but still we are working with the vendors to try and had the similar prices because the increase in the volume and increase in the quantum of the quantity that we buy we are trying to adjust that with the raw material prices in terms of the manufacturing capability and betterment. So I do not think we will get into any kind of price war with any kind of competitor also or neither do we want to really work on those lines because we want to work on right price and the right quality along with the right fashions so that is more important.

Abneesh Roy: Sir monsoon in some of your key has been weak, UP, Bihar it has been weak these are very core markets for you what is the sense you are getting could this impact, I know you have said Q2 festival season is getting delayed but could this have a big impact for the full year also if the monsoon is weak in these two key states?

Lalit Agarwal: Yes, Abneesh normally we have seen monsoon is very much important for the agri income group and agriculture income is a big driver of consumption in the towns where we operate because they are either directly agri dependent or indirectly agri dependent so whole mood of that particular town or the urban area also revolves



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around the way the crop has come up. So I think there is a small challenge that we are able to right now notice because the sowing and all those things had reduced a little bit and people are seeing a little challenge but good news is that for the last three days we are getting some rainfall so if that gets made up and is once again that if that does not kick in and I think if monsoon is okay it should be but otherwise there may be slight impact if the monsoon is not good. Normally we see the impact not in the one-year but normally what we have seen two years continuously we see a bad monsoon then only the impact kicks in.

Abneesh Roy:

Sir recent GST changes I understand your pricing is on the lower side but for example footwear from Rs.500 to Rs.1000 now the needle has moved your pricing might be much lower impact from this or any other GST cut any other impact?

Lalit Agarwal:

There is once again one good news on GST front. I think the reduction in footwear and some leather goods and some other products also like sanitary napkins and all so all those will once again reduce the price of the product and will create a lesser impact on customers pocket so I think these are all welcoming news for the customer in the smaller towns because now a days footwear above Rs.500 is very much liked by people want to wear those kind of footwear so our customer was largely on a good footwear between Rs.500 and Rs.1000 they used to pay a higher GST so I think now this will be a good news for them.

Abneesh Roy:

And last question you said there is some bit of weakness in Odisha, Jharkhand, Bihar was that essentially because of the adhik mass or because in general issues are there in those markets either GST has led to unorganized players loosing market share and these are markets there are lot of unorganized players so is that specific issue of adhik mass or there is more to it?

Lalit Agarwal:

I think those market, Bihar must be little more impacted about the adhik mass but I think largely the economy of these states also seem to be little low and then I think overall we have seen a higher competition also in these areas. So overall we have not got that impact and we believe that especially Odisha the economy is little lower but otherwise I think it is more about the market dynamics.



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- Abneesh Roy:** Okay Sir that is all from my side. Thank you.
- Moderator:** Thank you. We take the next question from the line of Swanand Kelkar from Morgan Stanley. Please go ahead.
- Swanand Kelkar:** Couple of questions from my side; one you have predominantly been fashion retailer thus far but when you think about this from the next three to five year standpoint will you evaluate other categories like electronics, home improvement and things like that. I would love to hear your thoughts on those categories why or why not expanding there, I understand you are expanding geographically but will you also expand these product categories or the product offerings that you have that is one question. The second question was can you give some sense on what kind of payment modes have customers been using and how that has changed over the last 12 months or how much cash gone up, gone down, use of debit card, credit card, mobile payments and also use of credit, I understand it will not be big for you, but the use of credit in the customers that you see?
- Lalit Agarwal:** To answer your first question, I think in terms of category expansion, we will reiterate that we are a fashion centric value retailer and we will continue to remain that. Our core strength is fashion which includes apparel and accessories and that is what we will continue to do. In fact even if I look at our history we stopped opening FMCG or composite FMCG since the last five years, so we have not opened any FMCG store or composite FMCG store in last five years and therefore that just reflects our intention of remaining apparel centric fashion value retailer. On the second question, the payment modes almost 75% of our business still comes in from cash, 25% is plastic of which almost 70%-80% is debit cards so there is very less penetration of credit cards that we have seen in the geographies where we operate. In fact in the last six-odd months we have seen electronic wallets or PayTM and the likes gaining around 0.8% to 1% share in the modes of payment but that we have witnessed only during the times when there is a cash back scheme. So unless there is a motivation for the customer to go for e-wallet we have not seen any usage of wallets significantly in our stores. Now if I look back at the demonetization time, pre-demonetization the share of cash used to be almost 90%, during demonetization



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it increased the plastic contribution increased to almost like 50% but post demonetization it has come back to around 25%.

Swanand Kelkar: Excellent that is useful. All the best.

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

Tejas Shah: Thanks for the opportunity. Sir we called out that MAD season was muted this quarter because of adhik mass but I thought the same would have been negated by EID's falling in this quarter so just wanted to know how is the response of the same?

Anand Agarwal: The EID impact last year was also in Q1 so not a significant change from last year so there is but definitely in terms of marriage number of marriage dates we saw a slight reduction in the number of marriage dates, which was once again because of adhik mass so overall lesser number of marriage date remaining the same quarter led to this not as expected or very high growth.

Tejas Shah: Sir second point what Lalit Ji mentioned that lot of competition are actually driving us rental cost so as we understand value retailing itself is a very low margin and a difficult business to do and with our kind of scale and efficiency we are at 10% plus kind of margin so this regional competition that has actually driving up this cost as of now are they profitable in the long run and do they generate enough cash to be let us say nagging very for us in different location at the same time or they are very local in nature?

Anand Agarwal: So Tejas you are asking about the competition?

Tejas Shah: Yes, so I am just saying that if with our cost and our efficiency and our scale, we are at 10% margins versus the competition is paying higher cost for all this resources are they profitable enough to be a threat for us at the larger scale or they are very local in nature?

Anand Agarwal: Yes Tejas, let me take this. I think please make sure that we do our business, like you asked just understand what can we do now try to poke into what can they do or



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not do. I do believe that obviously there are different theories and different theories or thesis of doing this businesses and people have adopted and they are chasing the success that we might had and they want to come up faster and there has been lot of fund, which has been or fund managers or fund private equity people who have been trying to chase this guys also. I do not know I mean yes obviously this business has to be very well fine crafted and has to be very nicely been seen because these initial days are different and what long-term sustainability is all about. I feel lot of these competitors is strong enough and they have their full senses and they are working to the best of their knowledge and best of their capacity. I think I wish them all the best I think let us keep it there.

Tejas Shah:

So just one follow up on this. So with the current stencil I understand you do not want to comment on the merit of this stencil but with the current stencil that the competition has typically at what store count they use all the funds and they again have to top it up through private equity or through external resources?

Lalit Agarwal:

Very difficult for me to really comment because it all depends on their inventory management, it all depends upon their ability to sustain growth they are depends upon on their margin management, their expense management, it is not about everything about just opening the store, it is not only about capex it is also about the working capital that you declare into the business so I think because the vendor base are also huge and what we have been listening and what we have been hearing, all this competitors they are vendors creditor days are increasing everyday so normally the payment days have gone up so I think there are multi-cozy investors who are there in the businesses, so people are using all those investors to try and grow so let us and it is more for private equity people to understand when do they want to invest and when should they need the inventory capex. So I think there is a game and there is obviously an upside which they can draw but because of the too many competition even we are facing lot of challenges and initially people who used to open up used to get a early benefits and now the early benefits are also not available to them so let us see. I do believe that still there is a huge market around in the territory where we are operating, if there are retailers who really work well and who can really sustain their growth by actually giving good value to the customer and by actually



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bettering their business matrix, I think they can sustainably grow and keep growing from the internal cash also.

Tejas Shah: Okay. And lastly on our UP plan we are now at 70-75 stores and UP in total has 75 districts so just wanted to understand the expansion landscape in UP alone how many stores a state like UP can accommodate?

Lalit Agarwal: Tejas, there is a huge opportunity. UP if country would have been a sixth largest country of the world so I think if you see it as a great potential it all depends upon the consumption pattern is all because of the per capita income, it also depends upon the penetration that we do so the more we are getting into UP we are seeing more markets in UP. So I think still we are just scratching the surface.

Tejas Shah: Sir last let us say ten fifteen stores in UP would have same return metric as let us say your first ten fifteen stores in UP?

Lalit Agarwal: No matrix has moved a little low but still good.

Tejas Shah: Thanks and all the best.

Moderator: Thank you. We take the next question from the line of Sagar Karkhanis from Motilal Oswal. Please go ahead.

Sagar Karkhanis: Thank you for this opportunity. Good morning to everyone. I just wanted to know that in the last year the September quarter we had a very high same store sales growth of almost 17%-20% and there in December quarter it was I think at around 0% so this year given those basis what kind of SSG are we working internally for the September quarter and the December quarter?

Lalit Agarwal: We will not want to give out the guidance but suffice to say we have been growing at around 8% to 9% SSG for the last five years at a CAGR of 8%-8.5% and that is what the internal target that we work for the full year. Last year Q1 was extremely good so 23% very high days Q2 was not as good we were in high single digits and we hope to maintain the overall growth at 7%-8% for the full year.



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- Sagar Karkhanis:** Thank you. That is it from my side.
- Moderator:** Thank you. We take the next question from the line of Ronak Morjaria for Edelweiss Asset Management. Please go ahead.
- Ronak Morjaria:** Good morning. Congratulations on decent set of numbers. Sir if you could just help me understand, do we have any competitors in terms of like regional or national players in the Tier IV market share we operate?
- Anand Agarwal:** Ronak we are seeing some competition it is not that Tier IV is absolutely virgin, but we have seen lesser competition. In fact most of the Tier towns that we have gone to we were probably the first one, but we have also seen a heightened activity now in terms of a lot of regional and also national chains wanting to set up shop in the similar geographies. So far we have not seen a lot of competition but it is just sometime before which they would also come in and catch up.
- Ronak Morjaria:** Okay and in terms of SSG as we seeing good SSG because I think we have already have five stores which are there last year so how is the SSG in these markets, if you can throw some light.
- Anand Agarwal:** SSG in tier IV has not been very heartening this quarter probably also because that some of these stores happen to be in Bihar and Jharkhand, which as a state have not done so well for us, but as we continue to watch, I think it is going to take a bit of a time for us to understand how these markets are going to pan out in future.
- Ronak Morjaria:** Okay and also I just wanted to understand on the refurbishment part how often do we refurbish store and what kind of distance do we see in terms of SSG post refurbishment?
- Anand Agarwal:** So we refurbish our store every four to five years at least if not sooner, and also depends on the competition intensity and you know the kind of store that is and we have seen a good growth coming back into the same store once we refurbish and therefore as a regular practice, we do it as a part of plan and do it for a number of stores throughout the year.



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- Ronak Morjaria:** Okay and what would be a approximate cost purse refurbishment?
- Anand Agarwal:** It is roughly around Rs.500 square feet for refurbishment.
- Ronak Morjaria:** Okay and also if you could just give the exact square footage area because I think 13-lakhs was last year and 15-lakhs this year so which comes to roughly 15-odd% but you had mentioned it is up by roughly 19-odd% so if you could just help me with exact square footage number last year same quarter?
- Anand Agarwal:** I do not have the exact square feet right now but it is 154000 something I will send you the number separately.
- Ronak Morjaria:** Thank you and all the best.
- Moderator:** Thank you. We take the next question from the line of Ayushi Mata from CD Equisearch. Please go ahead.
- Ayushi Mata:** Sir what are the kinds of margins that we see in our private labels and our market labels?
- Anand Agarwal:** We have very similar margins on private label as well as market labels. We do not differentiate currently either in terms of pricing or in terms of margins when it comes to private label and that is with the view to ensure that the customer gets the best value for money once he comes to a V-Mart store.
- Ayushi Mata:** There is some sort of advantages in selling private label brands?
- Anand Agarwal:** Sorry your voice is not very clear.
- Moderator:** Thank you very much. We will take the next question from the line of Pulkit Singhal from Motilal Oswal Asset Management. Please go ahead.
- Pulkit Singhal:** Thanks for taking my question. For the same store sales growth of 1% how many of this 179 stores are you taking into account?
- Anand Agarwal:** That would be 142 stores.



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- Pulkit Singhal:** If I ask you the larger increase for the 142 stores so those 142 stores have grown sales by 1% has the margins increased for those stores as well, EBITDA margins?
- Anand Agarwal:** The EBITDA margins would get definitely for the 142 stores would be positive and would be higher.
- Pulkit Singhal:** And what has driven that margin increase for the existing stores given that the sales growth has been 1% only?
- Lalit Agarwal:** See the gross margin has gone up, Pulkit so that 200-basis points, which we have got from the gross margin I think that has helped that and obviously there is some pressure on the expenses because the same stores growth has not increase actually it is only 1%, there it is some 2% to 3% increase in the expenses at those stores also. So I think it is primarily the gross margin which has kept the EBITDA almost similar.
- Pulkit Singhal:** And the gross margins you mentioned were due to some efficiency gain but is there some product mix element in that or it is primarily?
- Lalit Agarwal:** No the product mix is almost similar, it is primarily from there and also the fact that this time we did this branding exercise so we wanted to really promote the brand and not promote too much of schemes and promotion. This time we only promoted the advertisement on the branding. So that led to a bit higher margins.
- Pulkit Singhal:** So you mean lesser discounting than last year?
- Lalit Agarwal:** Yes.
- Pulkit Singhal:** Okay and for the newer stores that are excluding the 142, the margin levels would be lower than your system average as of now or when do they stand?
- Lalit Agarwal:** Newer store, I think there is a little bit of challenge there is a little lower margin in terms of the newer stores because the sales that we should have got we have not got those the sales that we have targeted and also the newer store has a little higher



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rental and then little higher advertisement cost also, so that leads to almost a little lesser margin than the older ones.

Pulkit Singhal:

Got it Sir. Thank you.

Moderator:

Thank you. We will take the next question from the line of Varun Singh from Antique Stock. Please go ahead.

Varun Singh:

Thanks for the opportunity. Sir just two questions one is, Sir we have not expanded in northeast region after FY2017 so we have opened two stores and then so Sir what is the feedback on northeast region?

Anand Agarwal:

We are expanding now in the northeast. We do not have stores so far in northeast so the farthest we have gone has been till the tip of West Bengal, Siliguri and Jalpaiguri we are working on our projects in northeast and hopefully in the second quarter, we will announce some stores openings in northeast.

Varun Singh:

Sir second question is how many days does it roughly take like the moment we place an order and we get it would have to our warehouse so what is the lead time and secondly how many days does it take to place the product to our stores assuming like most store, which is located at the maximum possible distance?

Anand Agarwal:

We work on a lead cycle of between 180 and 90 days depending on different category of goods but bulk of our product is based from the market to our warehouse within 90 days, from our warehouse to the stores, we replenish everyone of our stores twice every week so while the average distance may be different for the farthest stores and for the nearer stores but on an average we would replenish everyone of our store in three to four days.

Varun Singh:

Thank you very much.

Moderator:

Thank you. We will take the next question from the line of Kunal Bhatia from Dalal and Broacha. Please go ahead.



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- Kunal Bhatia:** Thanks for the opportunity and congratulations on a great set of numbers. Sir my first question was in regards to your sale period. This time have we taken a reduction in terms of days and also Lalit Ji did mention in regards to the higher discounting by the competition so how is it in our case?
- Lalit Agarwal:** You are trying to understand about the discounts?
- Kunal Bhatia:** Yes.
- Lalit Agarwal:** I told that because of the branding exercise, we have actually reduced our discounting this particular quarter.
- Kunal Bhatia:** And Sir how much will that be?
- Lalit Agarwal:** What?
- Kunal Bhatia:** How much have we reduced discounting by?
- Lalit Agarwal:** I think we cannot disclose that we do not track that.
- Kunal Bhatia:** Okay. Sir and secondly also whether you could give any timeframe for how long have we kept the sale period have we taken any reduction in the same?
- Lalit Agarwal:** I think in the first quarter there were no sale period but during the first quarter also there are normally certain kind of schemes and promotions which we normally do to drive business or to drive footfall or to increase the bill size of the customer so this time we also tried and avoided doing those very heavily.
- Kunal Bhatia:** Second question was in regards to your margins in the newer store, you did mention that those stores have a higher rental so is that a trend going forward or we will be trying to have the similar kind of approach wherein we have a lower rental vis-à-vis the older stores?
- Lalit Agarwal:** The target and the purpose of the business is to drive similar rentals and similar sales out of those rentals so the percentage of those rental should be almost equivalent but



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till now whatever new stores that we have opened they have not been able to really get to those levels of the sales, which we anticipate, which I think in the due course can be taken care off.

Kunal Bhatia: Okay. And Sir finally just a small clarification if you can give. Sir any timeframe of by the exchange of getting out of the ASM?

Lalit Agarwal: You should be telling me. What I can tell you?

Kunal Bhatia: Okay. Thank you Sir.

Moderator: Thank you. We take the next question from the line of Baidik Sarkar from Unify Capital. Please go ahead.

Baidik Sarkar: Good morning gentlemen. Congrats on a very decent operational quarter. So obviously our number of 1% in SSG is a blended number for 142 stores could you help breakup that number into mature stores sales that you know over five years and stores of a slightly earlier vintage and help us understand what the growth trends in SSG for those stores are?

Anand Agarwal: Baidik, the stores, which are more than three years old have actually performed better than the stores, which are less than three years or two years old so on an average the more than three year stores have given a same store sales growth of almost 35 to 4%. In fact stores more than five years are at 3% SSG, there has some challenge that we have seen in stores which are two years vintage and that was the time when we started our expansion to deeper territories of Tier IV and these are the areas where we are now working on more vigorously to correct and take into account all the learning's and implement that.

Baidik Sarkar: So this divergence is that a function of a higher competitive intensity or is it just the function of better locations that you have already taken and you had to make do with.

Anand Agarwal: No, it is not just competition intensity in fact the competition intensity is more at the older stores so in the Tier II, Tier III towns and even in Tier I towns we are much,



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much higher level of competition. I think it is more to do with our internal issues how we choose, what we choose and where we choose to put up stores and where we choose to put up stores and how we manage these stores specifically in slightly remote locations so it is just a matter of how we are able to deal with and effectively control the operations in a better format.

Baidik Sarkar:

That is helpful. Secondly if you could help us understand the rationale behind your private label, you mentioned to an earlier participant but your margins on private labels as well as outsource similar help us understand that why to deliver at all?

Lalit Agarwal:

Baidik, basically these private labels are those product, which are uniquely designed for V-Mart and are only available at V-Mart so the uniqueness of that product is also important and the kind of quality or the kind of designing that we provide in our private label would be little different from what the customer can get and whenever the customer uses the product at that moment of time, they only possess that label which is fixed on the cloth so I think that becomes important and once he feels that the product is good, he would come back once again to the store and ask for the same label so try to create a brand loyalty and to try to give them a unique product that which will be available at V-Mart.

Baidik Sarkar:

Sure that is helpful. Last two questions, you know given that we going to be continue store ramp up over the next 18 to 24 months is it fair to assume that the bump up that we see in your opex, which is you know higher salary costs and other operating cost will remain elevated and hence the marginal contraction in EBITDA margins going forward will be sustained?

Lalit Agarwal:

While the opex will increase at a certain percentage but the underlying logic of the business is that if the same store sales growth grows higher than 4% it is going to more than mitigate and offset any increase on the opex side. So the higher focus is not on reducing opex but on increasing same store sales growth.

Baidik Sarkar:

Sure. And last one gentlemen, these numbers which were kind of counterintuitive your volume growth were 4% but volume growth is just 1% and on top of that your gross margin expansion was about roughly 2% so you know one would assume that



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getting the gross margin expansion because of better premiumization and better cost control on merchandizing but your volume is far exceeding your value growth, slightly counterintuitive you could help us break up the puzzle?

Lalit Agarwal: It is not counterintuitive. I think the volume growth is outcome of volume and the value growth is not because of the price reduction. It is more because of the mix in the sales, sales mix change because we have various pricing and in the smaller towns typically or the customer whom we cater to they would afford to buy a little lower priced product so it is a little sales mix issue, not a price margin issue so I think you are trying to compare it with the gross margin that is why you are seeing this counterintuitive.

Baidik Sarkar: Okay so in such case how much of a 200-BPS gross margin improvement was from better merchandizing and how much was from better premiumization?

Lalit Agarwal: Very difficult to segregate, please do not test us.

Baidik Sarkar: Thanks a lot gentlemen and all the best.

Moderator: Thank you. We take the next question from the line of Chirag Lodhia from Value Quest. Please go ahead.

Chirag Lodhia: Sir just wanted to check full year tax rate would be?

Lalit Agarwal: Full year tax rate should be in the region of 32% to 33%. There is some impact on quarter-on-quarter because of the deferred tax movements but otherwise full year we should be in the range of 32% to 33%.

Chirag Lodhia: Just wanted to clarify the previous participant answer you mentioned two-year-old stores are growing at negative SSG? Is it a correct understanding?

Anand Agarwal: Full 100% stores are negative but collective basis yes.

Chirag Lodhia: Okay. Got it. Thanks a lot and all the best.



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- Moderator:** Thank you. We take the next question from the line of Binoy Jariwala from Sunidhi Securities. Please go ahead.
- Binoy Jariwala:** Thank you for the opportunity. I would like to understand the store level economics, how much what is the capex and inventory that goes into per store, the ramp up period up to the optimal level, how much time does it take, what is the store breakeven period and store level inflation I believe you alluded is about 4% is my understanding is correct? Please share your thoughts.
- Anand Agarwal:** The capex per store at per square feet level is around Rs.1400 per square feet. The average store size is Rs.8000 square feet therefore this translates it into a total capex of around 1.2 Crores per store. We typically keep 60-days of inventory at these store, which again translates into around Rs.1500 per square feet around one Crores of inventory on an average basis at these stores, making the total cash outlay for a new store at around 2.2 Crores. Typically the kind of stores you open and the areas where we open and because of the brand areas that we enjoy we see a very high footfalls in the early days when we open a store. Most of the times we are the largest store organized retail in that geography and we see very huge number of footfalls in the first couple of months. Typically in the first couple of month itself we are able to achieve our targeted sales in EBITDA numbers and usually we are able to breakeven at the store EBITDA level within the first couple of months itself. If I talk about the payback period on a cash basis we typically are able to receive a payback on the investment within two to two and half years.
- Binoy Jariwala:** And your ROIC at the peak throughput would be how much for a store?
- Anand Agarwal:** ROIC levels at a store would be at around 25%.
- Binoy Jariwala:** On peak throughput?
- Anand Agarwal:** Throughput is within the first year itself and within the first year and second year 25% to 30% is something that we have been coming in.
- Binoy Jariwala:** Okay. And when you said so by the end of the first year what kind of EBITDA margin does the store start generating?



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- Anand Agarwal:** First year itself, the store is able to generate EBITDA levels of around 12% to 15% depending on specific locations but on an average this is what we target and usually this is what we are able to achieve.
- Binoy Jariwala:** Okay. And your thoughts on the store level inflation that I asked about?
- Anand Agarwal:** Store level inflation in terms of pricing or what kind of inflation?
- Binoy Jariwala:** Cost inflation?
- Anand Agarwal:** On the cost side, there are two three major expenditures one is on the rental side, which is protected for the leaves period typically our leaves periods are between 12 to 15 years with three year cost escalation clauses so typically the average increase in rent even if you were to look at a per year basis would not be more than three to four percent. The manpower cost increases by the minimum wage as set by the different states usually ranges between 10% and 20% depending on state to state but if I look at on an overall basis I think store level expenditure can increase by 7% to 10% on a year-on-year basis.
- Binoy Jariwala:** So does not this mean that store level, like-to-like sales growth to keep up with the store level inflation should be in the region of about 7% to 10% plus or minus or percent or 2?
- Anand Agarwal:** Not really. There are operating leverages also and this has been typically at an entity level if our same store sales growth of around 4% is enough to offset any increase on the inflationary side on the opex.
- Binoy Jariwala:** Okay. I also see that your store opening is split between two states, so two states UP Bihar contribute about 55% of the stores going forward what is the store opening philosophy. Do you open a similar percentage store in the existing markets and then the remaining in the new markets?
- Anand Agarwal:** No. It does not work like that so we have a dedicated projects and a business development team which continuously evaluate nearby territories of the existing stores existing towns and cities, where we are present and we work on a cluster



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based expansion model, which means that we will open up our store in the nearby vicinity of 50 to 100 kilometers of an existing store or town now whichever store or whichever town or location passes the muster, we have a checklist of items that we would want to satisfy our space, whichever location passes the muster first or gets the best ROI we will open the store there irrespective of whether it is in UP or Bihar or in Odisha.

Binoy Jariwala: So you said cluster-based expansion how much how many stores do you open in the existing clusters?

Anand Agarwal: We do not work only on UP and Bihar. We work on all the clusters so all 14 states have clusters where we are present and we continue to evaluate opportunities in all these states.

Binoy Jariwala: Last couple of questions; what is the inventory write off policies and what are the options do you have to liquidate inventory so apart from the sales season, are there any other options available to liquidate their inventory?

Anand Agarwal: While this is a very detailed question but I will just want to answer it very briefly so we have a very conservative inventory management policy and while we do not buy a lot of product in depth we buy a lot of width, which means we have a lot of options so we do not buy any one single product lot of volume so we do not really need to write off a lot of inventory and we remain very conservative on that.

Binoy Jariwala: What percentage of sales would be taken as an inventory provision or would you provision?

Anand Agarwal: Simple, we take is 1.3% which includes inventory provision and that has remained very static or very similar over the course of last five years.

Lalit Agarwal: I think these questions you can come up meet one on one this cannot be answered on an investor call please.

Binoy Jariwala: Sure. That is about it from my side. Thanks.



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Moderator: Thank you. We take the next question from the line of Anuj Sehgal from Manas Capital. Please go ahead.

Anuj Sehgal: I just had one question repeatedly you mentioned that stores, which are two year, old vintage are seeing a negative SSG and these stores are largely in Tier IV areas you also mentioned that you have seen some learning in these areas and therefore you will be working to fix them. Is it possible to share what had been your key learning in these Tier IV areas and what do you plan to do to fix these issues?

Lalit Agarwal: I think, there are lot of learning and these Tier IV towns we have behave little differently so we understand because the ethnic collection was little more, the price ranges are little different, the requirement of sizes are little different, colors are little different so we are trying to learn all those and then understand what works well in these towns also trying to understand what kind of sizes may work well in these Tier towns so I think gradually we are seeing a little more betterment because in rural towns normally there are lot of rural areas, which comes to these particular towns so these customers take a little time to develop confidence so once they get the confidence and once they start getting the knowledge about the product that we sell because normally in these towns small areas where customer confidence comes a little late and they will only have the full confidence once they use the product completely so I think we are also learning and they are also exploring and discovering us.

Anuj Sehgal: Thank you.

Moderator: Sir this was the last question for today I would now like to hand the conference over to Ms. Sangeeta Tripathi for closing comments.

Sangeeta Tripathi: I would just like to say thanks to the management of V-Mart for taking time for this conference call and I would like to handover the call to Mr. Lalit Ji for his final remarks and final comment. Over to you Sir!

Lalit Agarwal: Thank you Sangeeta and thank you everyone for being in the call, patiently asking questions and listening to our answers and I think we have been trying to do consistently key things on the internal capability right from technology, process,



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people so I think those are the areas we will keep improving keep focusing on, not looking at a very shorter term goal but also trying to look at a larger term goal which is more important to the company and to the investing community in general, so I think that is where we are trying to focus and I think it should be a long term sustainable business that we want to develop. Thank you for being with us. Have a great day.

Moderator:

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