



**“V-Mart Retail Limited Q1 FY20 Conference Call”**

**August 05, 2019**



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**MODERATOR:** **MR. ANKIT KEDIA – PHILLIPCAPITAL (INDIA)  
PRIVATE LIMITED**



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**Moderator:** Ladies and gentlemen, good day and welcome to V-Mart Retail Q1 FY20 Conference Call, hosted by PhillipCapital (India) Private Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note, this conference is being recorded.

I now hand the conference over to Mr. Ankit Kedia from PhillipCapital (India) Private Limited. Thank you and over to you, sir.

**Ankit Kedia:** Thank you, Vikram. Good morning, everyone. On behalf of PhillipCapital, it gives us immense pleasure to host V-Mart Retail for discussion on its Q1 FY20 earnings conference call. From the management, we have Mr. Lalit Agarwal – Chairman and Managing Director, Mr. Samir Misra – COO, and Mr. Anand Agarwal – Chief Financial Officer. We will start with a small overview by Mr. Lalitji on the business and its outlook, then to Mr. Samir Misra on the sales and marketing, followed by Mr. Anand on the results. Over to you, sir.

**Lalit Agarwal:** Good morning. Thank you, Ankit. Good morning, everyone. I know it's raining hard in Mumbai, and thank you for everyone being in the call in spite of that. Good. So, exciting quarter once again. We have seen all sorts of stuff happening. The noise that we have been hearing from the market was little dull, and this is what, given what is reported in the industry. So, yes, it is a little dull in the ground level, people are not going out, all out in the open to spend. And we have seen some amount of low spending by consumers, but what's the strategy V-Mart used was to drive extra customers and drive extra customers from the market to build this growth. But overall, I think largely, we can't find any particular reason for that kind of downfall or grim or dullness. We are just seeing consumers' confidence are little low, and we are seeing that coming pretty largely from the unorganized traders and then the small business houses and business communities, who are central government people, farmers, and stuff. We are seeing their consumption levels maybe going down, maybe their spending level going down, we can't find any stress on their income level. So, their income level continues to be where it was. Maybe some of the trading income of the people who have small businesses, their income either gone down because of some liquidity crunch is what we are able to understand. So, overall, but yes, there is a lot of aspiration, people want to consume, people want to buy and people still want to come out in the market, try out the things and try out the kind of promotions which are there. And people don't lose out or leave any kind of such benefit and such awards is what we are seeing.

So, overall, I think it has been a good quarter for the industry also. People have been able to pull up their sales. We are seeing from end of season sale coming up little early in the market in the fashion industry. So, that has impacted a little bit of June number for us also a little bit. But



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otherwise, I think it has been a great quarter. We have done our piece, we have actually been concentrating more largely on the macro pieces, largely on our strategic organizational structure pieces, our infrastructure support pieces. So, we have been focusing more on those large pieces where we can actually push our pedal of growth a little higher and then we are able to manage this growth. And we have been largely able to succeed on a lot of those initiatives that we have been doing for the last two, three years. We are able to see them, and we have also opened up a good amount of stores in the last quarter, we had plans to open other stores in this quarter. So, we will see a lot of activities coming up here. We know it's cautious time, the voice that I am hearing. So, we are cautious, but we don't want to be down because there is growth plan, so we will try to grow in the future.

I would like to introduce Samir here, and bring up and ask Samir to give a little more insight about what the business was and what the business is. But Samir is our Chief Operating Officer who has been with us for almost 1.5 years. So, over to you, Samir. Try to take them through what we have seen in our business and what we see first of all. Please go ahead.

**Samir Misra:**

Thank you, Lalit. And hi, everyone. So, as Lalit mentioned that our market has been generally muted in Q1, and it's not been easy as we would have expected. And our effort has been to ensure that the brand is more visible and we are accessible to our customers. And that's been our priority #1, and most of the campaigns which you have done in Q1, whether it's in the marketing, visual merchandising and some of the other store excellence initiatives, has been to support, to pass that in Q1 how do we increase consumption, and largely also to second a position for us to accelerate growth.

And in view of that, we have had more than generous lead campaigns, and we do really well. And basis that our total growth for the quarter one is at 25% overall sales, with 5.2% SSG and 6% volume growth, which also is the new store opening has added to it. So, total our growth in terms of number of stores has been 27%, and quarter one ended at 227 stores.

In Q1 we have attempted to put in best practices in terms of customer centricity processes in stores and in head office, and a very large initiative of zonal structure which we have put in the entire chain. This is to ensure that our agility towards what consumer demands are, what kind of fashion do they want, decision making back to the zonal business heads, so that our agility towards our consumer which has been our #1 promise in last 15 years, and we have been able to also put that back in place. We have also added factors of digital excellence right till the store manager, to regional manager, to business head and driving it back to head office in various functions so that we are adopting digital excellence practices right in our store level.

So, Q1, a large proposition was to drive new customers, and we have been largely successful in driving new customers in Eid campaign. This is the largest customer acquisition which took place in 30 days of Ramadan period, which also we would like to add that we worked with a sort



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of lean inventory during that period, so most of our efforts have been to ensure that fashion at store level to grade FCM, merchandising planning is on track, and consumers get what they would like to buy, but not increasing our stock level but in ensuring that our inventory is lean and more fashionable. And this has overall driven our SSG growth and total growth.

And now I would like to introduce Anand Agarwal, who is our CFO. And handing over to you, Anand.

**Anand Agarwal:**

Hi. Thank you, Samir and Lalit, for a good nice round-up. So, let me just start quickly with sales and how the company has performed on the P&L front. And then I will also like to take you through the big change of IndAS, which is driving numbers very differently this quarter, not only for us but for all the corporates.

So, starting with sales, we have had a good quarter with 25.4% growth and an SSG of 5.2%. We have seen growth all around in all geographies and especially in the UP market, which is our core market, which has led the growth with the highest SSG rate. In addition, we also opened 13 new stores, again, distributed all across India. Major contributors being three in UP, two in Bihar, two in Madhya Pradesh and two in Assam, and the rest all distributed through the existing territories, not really added new stake this quarter, but we hope to look at new geographies or neighboring geographies in the balance part of the year.

Tier-4, as we have been continuously talking about in at least last four or five investor calls, it's still a big opportunity for us. And we continue to keep evolving in Tier-4, and we continue to place our bets on Tier-4, and we will look at that area in a growing manner going forward. Customer demand, as both Lalit and Samir talked about, has slightly been cautious, but still we believe that there is a strong customer pull which is waiting to happen. And we still want to leverage our product strength and our marketing strength with the right quality at the right prices to capture all of that.

Footfalls and demos both grew at 26%, which is again a very good, healthy sign of supporting the sales of 25% growth. And the big factor that I also saw this quarter was the increase in ASP by 1.6% of apparel. So, it's been a challenging move, and while for the last almost 1.5 years we have strategically been trying to position the pricing mix of the merchandise at the lower end to cater to especially Tier-3 and Tier-4 territories, but we saw a good fill-up in this quarter with better merchandise and increased better price points to give our ASP growth of 1.6%.

Men's, as a category also grew the highest for us, followed by Women's. So, we saw a very good appreciation of the products that we were able to give as the counters. And actually, the growth that we saw, while it was aided partly by the strong customers and promotions that we were able to put in, but also the very strong merchandise that was there on display, really helped us increase the throughput from these stores and also improve the inventory.



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Now if I look at the inventory, we have seen inventory improve by 10 days, which is a significant achievement given the fact that we were able to increase the sales also by 25%, and despite the fact that we opened 13 new stores during the quarter as compared to only 8 last year. So, there was a significant rationalization of inventory, at the same time, increasing the sales which only meant that we had to better the quality of the inventory. And we look forward to keep improving on the inventory front even more, with all the results of technology and the improvements in efficiency that we have been building in manpower for the last 1.5, 2 years.

Q2, on the other hand should see a slight build up in the inventory, because there is an early Puja, and all the rest of the festivals are at least 15 days preponed, so we would like to stock-up for the busy Puja season and the festive season. But irrespective of that, we should see improvement in days of inventory across all parts of all categories of the business.

If I look at the margin, we have been acquiring more customers, we have been disruptive, we are known to be disruptive and we were not different this quarter. We have acquired more number of customers than ever, as Lalit also talked about and Samir also mentioned. We have given more attractive offers and we will continue to keep being disruptive in the market and keep gaining market share.

There has been a slight improvement in the shrinkage percentage compared to last quarter. Last quarter, quarter one of FY19 we had a shrinkage of 1.3%, which was better to 1% this year. There is a slight decline in the gross margin percentage because of the higher consumer offers that we ran, although it was partly compensated by the reduced spend in marketing and advertising. If you recall, last year same quarter we ran our television commercial using celebrities, which was not done this year. So, as a result, at an overall level advertising and marketing spend almost remained slightly higher than last year, but largely driven by consumer offers.

If I look at the expenses, the rest of the expenses, barring manpower, are in line with the growth in sales. Manpower expenses grown by around 22%, which is largely driven by our continuous build up on the quality, capability and efficiency of the middle and the senior layers of management. As Samir also mentioned, we are building up the zonal structure to be more agile, to be more near to the market in terms of decision-making. We are strengthening the mid-layers, we are significantly adding in marketing, operations, business development, projects, all parts of the organization, especially the supply chain, with adding, we are looking to improve efficiencies all throughout. So, we are betting big on the future. We are trying to build up the V-Mart for taking the same level of state of growth that we have been known for in the past. And for doing that we are building up all parts of the organization in a safe manner. This buildup has been happening not only in the last quarter but has been happening for the last 1.5, 2 years, and we will continue to invest in manpower and technology and process as we move forward.



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Coming to the most important part of the financials, the big change has happened in the IndAS. We have adopted IndAS 116 as is mandated for all corporates. The concept is to equate borrowed capital with bought out assets, and to ensure that there is parity in terms of how we look at numbers. So, the basic principle or tenets has been that all leases which are more than one year and having value of more than Rs. 3.5 lakhs need to be capitalized to create a right-of-use of assets, which has basically led to two things, one on the P&L side which basically has resulted in ensuring that our rentals, which were earlier included in the EBITDA line are now taken out of the EBITDA line. So, there is a rental impact of around Rs. 18.6 crores, which is 4% of revenue, which moves out of EBITDA, and therefore your EBITDA is now looking larger by 4%.

The corresponding impact on the P&L goes into two parts, is bifurcated in two parts, one is on the depreciation which goes up by about Rs. 14 crores or roughly 3.1% of revenue. And the other part is around Rs. 11.8 crores, which is the notional interest cost which gets included under the financial expense. Now that goes up by 2.6%. Now therefore if you net out the rental benefit and the increased cost of interest, there is a net impact of Rs. 7.4 crores, which is roughly 1.6% on the PBT side.

Now this 1.6% or Rs. 7.4 crores are a notional expenditure because of the IndAS 116 adjustment. And while notionally it will get evened out in the long-run because of the straight-lining impact, but if I look at the growth trajectory of the company and the way that we want to consolidate and grow further in the business, I have a sense that we will continue to see a slight impact on PBT going forward on a medium- to long-term basis, because we will keep adding at least 25% to our store base, and which will mean that we will keep having more and more number of new stores which will further increase the impact of interest costs in the overall lease calendar.

If I look at how this will also impact the ratios, while ROCE will come down by around 1.8%, return on earnings might come down to around 1.5%, and the debt-to-equity ratio will go up to 1x. While actually we may not really have any debt, but because of the reclassification of leases, notionally, the books will look like having a debt of around a debt-to-equity ratio of 1x.

If I look at, therefore, the outlook to conclude, I think we are in a build-up phase. We are building up on people. We are building up on process technologies. There is a lot of focus on analytics and automation, there is a lot of focus on de-centralizing operations and being more agile, and we continue to have faith in the capability of the overall economy to absorb even higher level of consumptions. And being the disruptor that we are, we will continue to bet big on how we are able to grow the business at the same rate that we have been known to grow this business so far.

So, with that, I think I will leave the floor open for questions. Thank you so much.



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**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the questions-and-answer session. We have a first question from the line of Avnish Roy from Edelweiss. Please go ahead.

**Avnish Roy:** Sir, my first question is on the gross margin and the pricing. We have seen last two, three years' focus on improving the pricing to the customer in light of the competition. So, are we getting close to the bottom there, because clearly now competition also must be feeling a lot of pinch because of your aggression in terms of pricing? And how are you determining how much to cut in terms of pricing, is it largely discount and promotion-led or are you also cutting in terms of the rent prices?

**Anand Agarwal:** Hi, Avnish. While you are partially right, we have not really been cutting pricing, we have been slightly been more aggressive. And we have been aggressive on two counts, one is that we have not increased pricing. So, we have remained at the same price points that we were there for the last 7, 8, 10 years, 15 years, and we have continued to provide the same quality of the merchandise at the same level of pricing. While I may not be so sure about the competition, that is something that we have been able to do because we have been growing on quality terms, and we are also investing a lot behind technology and also behind our manufacturer and suppliers. So, there's a consolidation that we have been doing in terms of controlling or improving our sourcing cost, and that is one reason why we are able to improve on the pricing bit. Having said that, the other part is that, yes, we have been slightly been aggressive on the consumer promotions and which has, therefore, led to a slight depression in the gross margin, at least for this quarter. Now given the fact that the customers and the markets are in a slightly subdued stage, I have a sense that there will be some amount of depression or there will be some amount of stress on the margins, at least for some part of this year.

**Avnish Roy:** And in terms of your ad spend to sales ratio, you have saved around 110 bps. So, that was surprising because you are doing so much new stores and also driving your promotions. So, what was the reason for that?

**Lalit Agarwal:** Thank you, Avnish, for the question. So, the three months in the quarter we increased our marketing spends during the campaign months or Eid and Ramadan and put in our energies behind it. But when the consumption was low, we kind of detracted from the marketing spend. So, we were able to optimize marketing between the months. And also, as Anand mentioned that last year, we had the celebrity campaign and television campaign, which we did not do, which also resulted in certain optimization of our marketing spend. But I idea is very clear that we will go all out and be aggressive, and there is a certain need in the economy. And when consumers would come and buy into our stores, and our consumers are largely driven by need in terms of festivals and seasonal changes, and our big campaigns will lie largely around that.

**Avnish Roy:** And in terms of sentiment in Tier-3, Tier-4, are you seeing last one month any improvement because rainfalls have improved significantly? And liquidity also versus what it was in Q1, there



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is some improvement. Are you seeing any signs of improvement? I am not asking on a same-store sales growth number in, say, the first month of Q2, more in terms of on-the-ground sentiments?

**Lalit Agarwal:**

So, I mean, there is certain sensitivity around these markets is muted in Q1. But we always think that there is a huge consumer base which we target. And thereby we think that the campaign coming, which will come in Q2, which is the Puja, Diwali and Chatth, which in Q2 and Q3 which will be very promising for us. And we will put our best foot forward rather than looking at how sentiments are, which is, as you rightly said, probably muted at this point of time.

**Samir Misra:**

Avnish, to answer your question straightforward, we don't see any consumption spurt happening. There is a hope from the consumer side that we are receiving, but actually we are seeing a negative trend right now.

**Avnish Roy:**

Even in the last 1 month?

**Samir Misra:**

Yes. Consumers are not feeling too happy and the feel-good factors are also not too been great. So, whatever we are listening for the last 1 to 1.5, 2 months also has not been very, very great, but I think it will improve around festival times. That is when you would really want to understand and know how the customer is behaving, and once the rainfall is over. So, as of now, we just hope.

**Avnish Roy:**

And sir, because sentiments are down, in terms of rentals are you getting any benefit of that because you are able to negotiate harder?

**Lalit Agarwal:**

No, I mean, sentiments are not down as much as owners start giving us lower lease rentals. And that's why we said it's a sentiment at this point of time. There is no large data to say that owners should give us property at lower rates. But yes, we have been looking at same rentals what we have been looking at last quarter and last year Q1 and Q2.

**Moderator:**

Thank you. We have next question from the line of Himanshu Nayyar from Systematix Shares. Please go ahead.

**Himanshu Nayyar:**

Sir, firstly, generally we try and maintain a balance between growth and margins, but this quarter we have seen a big divergence, a 25% growth and a 300 basis points decline in gross margins. So, I understand that we are trying to push sales, so at least for this year do you think this trend should continue of growth rates being really strong and our gross margins much lower than historical levels?

**Anand Agarwal:**

Hi, Himanshu. Yes, there is added stress on the margins. One, because Q1 also sees some amount of liquidation happening. There was an early USF as well, and we streamlined inventory





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significantly. Also, because we reduced the advertising spend, we increased the spend on the consumer offer, which is partially visible in the decrease in the gross margins. But yes, given the sense of the market and the difficulties in which footfalls are coming into the stores all across, there will be higher consumer spends and there will be higher promotions which we think we will need to run. And therefore, there will be some pressure on the margins as we move forward.

**Himanshu Nayyar:** Okay. Second question is, given the cautious or the weak demand sentiment that we are seeing, so for this year specifically is there an intentional scale down in the growth in our retail footprint? Or we are going to continue expanding our stores at our historical run rate?

**Anand Agarwal:** So, we will continue to expand at around 25% to our operating area. And because we understand that stores we do not open only for six months or one year, these are long-term assets and we firmly believe that the customer and the market is too huge for us even to contain a 25% growth rate. So, we will continue to believe in that philosophy and continue to expand.

**Himanshu Nayyar:** Any specific geographies you can talk about which you might be looking to enter this year then?

**Anand Agarwal:** No specific geography. We continue to work on a structure-based model as we have been working for the last 15, 16 years. And we will continue to evaluate all territories which are in our existing territories or joining our existing territories.

**Himanshu Nayyar:** Okay. And final question, just on this IndAS, you explained the P&L impact. If you can just also explain the balance sheet impact a bit in terms of the change in numbers on the asset and liability side? Because I believe you will have to adjust something from the retained earnings as well, right?

**Anand Agarwal:** Adjustment of the retained earnings, because like every other retailer and almost all of the corporates we have followed the IndAS modified retrospective method two, which does not require any adjustments to be made to the retained earnings. So, there is impact that you will see in the balance sheet of around Rs. 400 crores. There is a right-of-use of asset created on the asset side and a corresponding liability under other non-current liabilities of equivalent amount.

**Himanshu Nayyar:** Okay. So, just the Rs. 400 crores get added on both sides?

**Anand Agarwal:** Yes.

**Moderator:** Thank you, sir. We have next question from the line of Aayushi Mohta from CD Equisearch Pvt Ltd. Please go ahead.

**Aayushi Mohta:** Sir, what is the rationale of aggressively expanding your footprint when online stores look certain to disrupt brick-and-mortar stores?



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- Lalit Agarwal:** Sorry, can you repeat that question, please?
- Aayushi Mohta:** So, what is your rationale for aggressively expanding your footprint when online stores look certain to disrupt brick-and-mortar stores?
- Lalit Agarwal:** So, Indian apparel penetration is still at 19% to 21%, and online is 1% to 2%. And as Anand explained, there is a large base of consumers whom we are targeting. So, I think we don't see any, so to say, disruptions from online players. And we don't open stores just for three months and six months, but for overall medium- to long-term strategy. So, we don't see any large impact of online players responding to kind of negate our acceleration in terms of growth.
- Aayushi Mohta:** But sir the online presence is also increasing, these people are offering like so many discounts, for instance, when it comes to Amazon and Flipkart. So, is there any competitive strength over there?
- Anand Agarwal:** I think, see, these kind of geographies that we target and we are strong in, there is very limited impact of online that we have seen, very, very limited impact of online that customer is slightly different. Whatever little online shopping is happening in these territories is mostly of goods which are electronics, mobile or white goods. We have not really seen a lot of traction happening on the apparel side. Having said that, we ourselves see online as an opportunity for us, it's not that online as a threat. We ourselves hold ambitions to be an omni-player, a significant omni-player. We will be launching our own online platform in the coming months, and we would want to see and capitalize on that opportunity. But as of the moment, we are firmly sure that the segmentation that we have with the customers in terms of our product quality, product variety and the price points that we offer, we are not really competing with the online players, and it's a separate space.
- Aayushi Mohta:** Okay. And sir, what is a sustainable volume growth?
- Anand Agarwal:** Volume growth?
- Aayushi Mohta:** Yes, sir.
- Anand Agarwal:** Its been tapering at around 21% for the last seven, eight years, and we would want to keep maintaining that CAGR at least for some times to come.
- Aayushi Mohta:** So, 22%. So, like in FY19...
- Anand Agarwal:** At the top line growth CAGR for the last seven, eight years.



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- Aayushi Mohta:** No, sir, I am talking about the volume growth, like same-store sales growth, so in that I am talking about the volume growth, not the top line growth.
- Anand Agarwal:** Same-store sales growth as well as volume growth should be between 5% to 8%, if you want to ask for a long-term projection.
- Aayushi Mohta:** But sir, in the past, like you have grown at 13% also, like in FY18.
- Anand Agarwal:** There are times which are very opportunistic, and there are times which are disruptive, so we will leverage all of those times. So, current year may not be so conducive, very strong in terms of same-store sales growth, but I can't really predict the future. I can only look at the past and say that our CAGR, if I look back for the past seven, eight years has been around 8% for volume growth and same-store sales growth, and that is something that we would still want to target.
- Aayushi Mohta:** Okay, sir. And you will still continue with your aggressive store expansion as that, even if you are not very sure about the growth that you have witnessing of late?
- Anand Agarwal:** So, I will not call it aggressive. We will call it contained and conservative. We have been growing at a pace which we can profitably manage. Our focus is not only to grow, but our focus is to grow profitably and through our own cash accruals.
- Moderator:** Thank you. We have next question from the line of Ekta Mehta from Vallum Capital. Please go ahead.
- Ekta Mehta:** Sir, I have two questions. Sir, why have the stores been reduced in Tier-2 cities? And like from 44 to 26, how can this happen and no stores have been closed in FY20?
- Anand Agarwal:** That's a very good observation. There is some reclassification that we have done basis how we are looking at the market. And the revised nomenclature we will put out on our website shortly. So, there is actually no closure which has happened, it's just the remix and the rejig of how we look at the territory slightly differently.
- Ekta Mehta:** Okay. So, the expansion that you would have in those Tier-2 and Tier-3 cities is still the same?
- Anand Agarwal:** Absolutely.
- Ekta Mehta:** Okay. And sir, could you give a number on how many stores have we opened this year?
- Anand Agarwal:** We will add around 25% to our base, so that should be around 55-odd stores.



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- Ekta Mehta:** Okay. And sir, one more thing, what has led to this improvement in SSG in terms of sales and volume, both when you, yourself, mentioned that there has been a subdued demand? And also, like whether this 20% sales growth has come from the new stores only?
- Anand Agarwal:** So, the SSG or the overall growth has been a mix of how we have been able to attract the customer to our stores through the various communication mechanisms and also the attractive consumer offers and promotions. So, while April was not a very good month, but for the balance part of the quarter I think we were able to pull up how we were performing. It is a very aptly aided by also the very good quality of inventory and fashion that we were able to provide to the customers. So, yes, 25% overall growth, and therefore, 5% same-store sales growth means 20% is coming in from new stores and less than one-year stores. So, there are 40-odd stores, which are less than one year and not included in the like-to-like calculation, but its also getting counted in the 20% growth versus last year.
- Moderator:** Thank you. We have next question from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** First, just one clarification, our ASP in apparel has increased YoY and even overall realization has improved. So, what led to such a sharp gross margin contraction considering that ASP shows a very healthy trend?
- Anand Agarwal:** So, Tejas, that's exactly what I was just mentioning, that's largely to do with the higher amount of consumer promotions and various offers that we have been running. We have been also liquidating stocks, we have also been rationalizing the inventory, which is also reflected in the significant improvement in the days of inventory. So, overall, we want to keep the balance sheet very, very healthy, very lean and especially the inventory position extremely healthy, so that we are able to provide much fresher and better choice to the customers in the upcoming festive season.
- Tejas Shah:** But sir, in spite of a higher share of liquidation, our ASP has improved. So, is it that procurement cost has gone up or there was an adverse mix playing in the overall revenue?
- Anand Agarwal:** It's not really that the procurement cost has gone up, we are pretty much very static there in terms of how our pricing with our suppliers has worked. I think one is that the mix has slightly changed for the better. And also, the second is that we have ran slightly more aggressive customer offers and promotions, which has led to this slight de-growth in this quarter.
- Tejas Shah:** Sir, second, as we understand there is a severe pressure on value retailing as well because of the slowdown. So, in light of that is the current slowdown blessing in disguise from the perspective of competitive intensity, which was increasing for last two, three years, are you seeing any correction there?



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- Samir Misra:** So, Tejash, we have not really seen any correction happening so far, but signs of stress are definitely very, very visible across the market. While we have grown in the value retail segment at a slightly healthy rate, but I can't say the same for most of the other players. And there are definitely significant signs visible. And I have a sense, in fact we talked about this in our Q4 earnings call as well, there is some amount of consolidation, which might happen in this sector.
- Tejas Shah:** So, tactically would you like the slowdown continue for a while?
- Anand Agarwal:** No, definitely not. I think the market is too big and opportunity is very large for everybody. We would not really want a slowdown like a situation to happen or even sustain.
- Tejas Shah:** Sir, second, there was also a talk of national retailers trying to match your footprint or looking to enter your geographic areas. Is there any update on that? And how is the competitive scenario from national players into our region?
- Anand Agarwal:** So, yes, national players are entering our market, and that's been on for past two, three quarters. And I think it's a welcome move because the market is too big for any one player, two players or three players to do well. And when they come into the market, I think the market grows in terms of consumption and thereby we take it as a positive sign for even our business. And obviously, it will all depend on who can provide merchandise keeping in mind the consumer need in our geographies. And we are very excited to ensure that fashion in terms of what we offer, how does the consumer react and how well they kind of patronize us.
- Tejas Shah:** Are they playing in the same price point as ours or is they slightly premium?
- Anand Agarwal:** So, they are slightly premium to us, depending on which retailer, but probably 20% to 30% higher pricing than us. But I think I'd like to make a point that fashion doesn't mean just on pricing, on what price point, but how does a consumer perceive that merchandise to be. And for last so many years V-Mart has brought in understanding of consumer need, and that consumers' understanding of fashion, which, I think, depends on currently what value does he perceives. But yes, to answer your question directly, they are higher pricing.
- Tejas Shah:** And lastly, we spoke about disruption in our opening remarks. If you can speak about, if you can explain what all disruptions we have brought in, in the last 12 months? Is it on pricing or product or largely under retail experience?
- Anand Agarwal:** I think, Tejash, it's been an all-around foray. It's not one single thing that we have done. As I said, we have been building the organization for the last two, three years. So, there is disruption happening inside as well, and there's disruption, therefore, happening on the shop floor and also in the communication. So, how we communicate to the customers, we have been changing that for the last one year. How we visually merchandise at these stores? That has been undergoing



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significant changes. If you go and visit our stores now, you will come and you will witness the kind of changes that have happened. And definitely, it's a disruptive change, because in our segment the kind of displays that we are now putting forward and the kind of merchandising that we are now doing is very different from what we used to do one year back or two years back. If I look at the product, fashion quotient and the freshness of the product, we are changing the entire supply chain mechanism and the efficiency, which is definitely getting reflected in the days of inventory improvement and also the sell-throughs of a lot of merchandise. So, there's a lot of disruption which is happening, which is internal. And therefore, it is also leading to a change in how the customer perceives and comes to our store, not only driven by offers, but also looking at what is the new positioning and offering.

**Moderator:** Thank you. We have a next question from the line of Abdul Karim from HDFC Securities. Please go ahead

**Abdul Karim:** We are witnessing flood-like situation and over-raining situation in Bihar and some part of the UP. It will impact the demand. And at the same time, you are expecting the good demand in festive season. So, could you throw there some light?

**Anand Agarwal:** So, Abdul, while it's very unfortunate that there are some parts of the country where you have flood-like situations. But equally, at the same time, there are some parts which are also going through drought. And actually, if you look back at the last many years, the situation has not really changed. So, last year as well and last to last year as well there were areas which were under flood and there were areas which were also under drought. And it's a mix of how we maintain the sales share between the geographies that we operate. So, obviously, there will be some pressure in some months, and therefore, typically, July and August are very lean months. And once the situation gets better starting from September, we see consumption and the customers back into the stores during festive times. And actually, the festive times are very conveniently organized around the harvest calendars and the agricultural produce months. And therefore, you see a lot of consumption picking up around those times for almost all sectors.

**Abdul Karim:** Okay. And Mr. Lalit, could you give the aspirational target of the store opening in the next one to two years?

**Lalit Agarwal:** Abdul, I think Anand and Samir have been speaking about it, we continue to feel that there is enough opportunity in the market. And there are enough towns and locations where actually a store like V-Mart can do very good. And as I have been speaking about our overall organization structure and the infrastructure growth that we have been targeting, is in line with what we are expecting. And we are now ready to accelerate our rate of expansion also. So, we continue to be bullish, and we will slightly target at least more than 50 or 55 stores per year. We opened 44 last year, so I think we will hope to do a good count. So, we are positive, let's hope, let's understand. But yes, we will always do store additions on our own terms and the process that we want to.



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We will not just go blindly all out in the market to acquire properties with any kind of prices and without looking at our EBITDA levels. So, ROI and cash back payback is a very broader criterion. And also, the cost of expansion within our controlled geographies that will be driving our expansion.

**Moderator:**

Thank you. We have next question from the line of Sabyasachi Mukerji from Centrum Broking. Please go ahead

**Sabyasachi Mukerji:**

On the reason behind the gross margin fall of 300 bps, I could understand that Q1 has been a tough quarter on the weak consumer sentiments, and probably you are going aggressive on discounts, consumer promotion. One more thing on the operating margin front, I also see a decline in line with the gross margin, but also that your employee expenses have gone up almost 32% YoY and sequentially it is around 14% higher. I just wanted to understand, has there been new hirings or is it anything to do with the new store openings only?

**Anand Agarwal:**

Sabyasachi, this is a mix of both. So, yes, there have been new store openings. As I mentioned, there are 13 new stores that we opened during the quarter, so yes, there is an addition because of that. And also, we are strengthening the organization, we are strengthening the top and the middle layers, and we have added a new zonal structure in the last quarter, which is now in a build-up phase. And we have been growing our employee strength at least from the last three, four quarters. If you look back not only in this quarter or also in the last quarter, but throughout the last year I think we have been investing in people, in process and also in technology, and all these three costs. Therefore, our investment that we are doing are for the long-term.

**Sabyasachi Mukerji:**

Could you just speak more on the zonal structure, the zonal heads? Have you hired them externally? What are their performance KRAs? Is it on sales or on margins as well? Could you just speak more on that?

**Anand Agarwal:**

So, the zonal structure and the zonal business heads have recently been put into place in Q1. And they are, overall, in charge of processes and penal for their zone. Having said that, it's recently been done, and thereby their performance efficiency will come through in the coming quarters. But yes, overall, market understanding, consumer understanding, being agile, far more leaner processes because we are closer to the market, and sales and profitability would be just KRAs.

**Sabyasachi Mukerji:**

Okay, both sales and profitability. Okay. Just one thing on the IndAS, what is the impact on other operating income? I see your entry there on the comparables.

**Anand Agarwal:**

Other operating income is a slight impact of some commission income that we received. It's not a very significant amount, but that's some commission or rental that we received for shop-in-shop in some of our stores.



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- Sabyasachi Mukerji:** Okay. On the new stores that have been opened in the last quarter, probably in Q4, I am talking about in Assam, Meghalaya and Himachal, I just wanted to understand how those stores are doing.
- Anand Agarwal:** So, Assam, Meghalaya, all of these are new territories. So, while they are not included in the same-to-same stores count, but they are doing reasonably well. It's a mix of Tier-3 as well as Tier-4 and also Tier-1 stores. And I think most of them are doing well, almost 60%, 70% of them are doing as per our expectations. There are some challenges that we see in some of these territories which are new and nascent for us, and we are trying to crack that market because that market still holds a large customer base, and we are still wanting to expand more in those territories.
- Sabyasachi Mukerji:** Okay. I see you have closed down two stores in Delhi and Jharkhand recently, I think on 2nd of August you had one notification in the BSE. Could you just mention the locations and the reason behind the closure?
- Anand Agarwal:** We mentioned the location, one is in Delhi, one is in Jharkhand. And I think the closure is because not so much as the stores were not performing, one was a lease expiry and we were not able to renew the lease. And the second was because we had relocated that store to a bigger and a better store in the same market, and therefore, we had to close the existing store.
- Moderator:** Thank you. We have a next question from the line of Shirish Pardeshi from Centrum Broking. Please go ahead
- Shirish Pardeshi:** Just a few questions. One is that we have seen the improvement into the shrinkages, what exactly we are trying to do here?
- Anand Agarwal:** There is an improvement in shrinkage which is largely driven by improvement in the process and use of technology at the warehouse and the supply chain. If you look back at the quarter and also the last two quarters, you would see that there has been a continuous improvement in the shrinkage. Having said that, we provide for obsolescence, and shrinkage actually includes the actual shrinkage at the stores plus the provision that we keep for any unforeseen shrinkages in the future. We would still want to maintain that as a conservative measure we would still want to ensure that the shrinkage while we will control the actual shrinkage on the ground, but we will still want to provide for shrinkages at an overall level of around 1.2%, 1.1% for the full year.
- Shirish Pardeshi:** I do understand, Anand, what you are saying. My only point is, is there any some more juice which is left? Because you have spoken a lot about technology, is that all these stores are covered under this new program?





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- Anand Agarwal:** Yes. All these stores are covered. It's not just a program, it's implementation of better process and technology in terms of what we supply, where we supply. So, all stores are covered. All parts of the organizations are covered, which concerns supply chain, the warehouse and also the upcoming new warehouse that we will build somewhere in East India, that will also get covered. So, I don't see there's a lot of juice left in shrinkage. As I said, we will still want to conservatively maintain shrinkages around 1.2% for the full year.
- Shirish Pardeshi:** Okay. My next question is on J&K. What is our sales exposure in J&K?
- Anand Agarwal:** It's only 3% to our sales. We have three stores in J&K. So, 2.9% of sales share come from J&K.
- Shirish Pardeshi:** Okay. Just one last quick question. We have opened one store in Kashmir, now that is 9,800 square feet I could make it out from your presentation. What is the footfall we are getting there, and if you can share the sales per square feet there?
- Anand Agarwal:** I don't remember the exact footfall and the sales per square feet, but that store does quite well for us and has been there for some time. So, it's a good place for us.
- Lalit Agarwal:** Shirish, we may not be answering individual question, dear. Don't ask exact details about stores, it will be difficult for us to tell you in front of the competitors also.
- Moderator:** Thank you. We have next question from the line of Vishal Biraia from Aviva Life Insurance. Please go ahead.
- Vishal Biraia:** Sir, what is the contribution of private label and how has it moved?
- Anand Agarwal:** Can you please repeat the question?
- Vishal Biraia:** Sir, what is the contribution of private label for you?
- Anand Agarwal:** Private label is around two-thirds for the business, roughly around 66%, 67%, and we continue to remain optimistic on increasing the private label share.
- Vishal Biraia:** To what level would be comfortable for you?
- Anand Agarwal:** We will not increase it beyond 75%.
- Vishal Biraia:** Okay. So, you mentioned that there could be a potential consolidation in the value retail segment. Would you be interested in acquiring any of the stressed players?



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- Anand Agarwal:** Not really. We have answered this in the past as well. There are not a lot of quality assets which are there. And we remain conservative, we remain very simple in our approach. We still feel there's a lot of opportunity in the market for ourselves to grow on our own.
- Vishal Biraia:** Okay. And what has led to the decline in inventory by 10 days?
- Anand Agarwal:** It's a mix of factors. One is definitely process improvement on the supply chain side and also usage of technology, and also some amount of liquidation that we have driven across our territories in the EOSS period.
- Moderator:** Thank you. We have next question from the line of Harish Biyani from ICICI Prudential AMC. Please go ahead.
- Harish Biyani:** Sir, I have a simple question. You had a certain margin target in mind at the end of last year and in the recent weeks, too. And this is pre-IndAS all the adjustments which are there. So, what's the number that you are looking at post the current view that we are in, and all the changes that's happening? So, what's the EBITDA margin number that we are looking at for the year?
- Anand Agarwal:** So, Harish, we had mentioned that in the call last quarter, 9% is something that we are targeting. We should look at in that range. I see that this year is going to be slightly difficult if you look at how the consumer sentiment and the markets have behaved so far. So, there may be some pressure, but still internally we would want to target that same level of number.
- Moderator:** Thank you. We have next question from the line of Hardick Bora from Union Mutual Fund. Please go ahead.
- Hardick Bora:** Just one question, Anand, on the IndAS impact. Of the Rs. 7 crore-odd negative impact we have seen on PBT this quarter, what you said is that if the current lease base of asset base is maintained then this will reverse over a period of time. But because we are going to grow our asset base, the impact might remain. Is that what was indicated?
- Anand Agarwal:** Yes, that's correct.
- Moderator:** Thank you. We have next question from the line of Abhijit Kundu from Antique Stockbroking. Please go ahead.
- Abhijit Kundu:** My question was on, one, in terms of vendors have you reduced the number of vendors? I mean, with all the technology that you are using now, have you done that? And what has been the reduction in, I mean, what has been the reduction in vendors year-on-year basis? That is one question. And secondly, on the product pricing part, are we doing anything on narrowing the



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pricing range, because in value retail that really makes a difference in many cases? So, these two questions.

**Anand Agarwal:**

So, on the vendor side, yes, it's been an exercise that we have been doing for the last one year almost. There is some consolidation that we are doing with the vendors. So, we are trying to encourage and promote vendors who have the ability and the capacity to grow with us and also have the required infrastructure or the investment capability to invest in new infrastructure, which can keep pace with our requirements. So, yes, there is reliance on bigger and better vendors. That however does not mean that we are only removing vendors, we are also adding vendors wherever the need is, if we can get access to better quality and better-quality standardizations. So, I don't really have an exact number of how many vendors we would have streamlined out of the system, but suffice to say that there is some improvement program which has been happening for the last one year, and there is a thought-out strategy on how we will manage the vendor base as we grow bigger.

The second part of your question is on the product pricing. So, I don't see that we are really narrowing down on product pricing because we cater to a large genre of customers and with very disparity in income levels, and also Tier-4 cannot really be compared to a Tier-1 kind of an income level, and therefore, the consumption pattern. So, we are present at multiple price points. And in fact, we have increased price points at the higher level, while we were really very strong in the lower price points, we have increased presence in some areas in only high price point as well.

**Abhijit Kundu:**

Okay. And due to this liquidity crisis, any of your vendors are facing any problem? I mean in terms of operations. Is that a threat in the first place?

**Anand Agarwal:**

No, absolutely not, not to the best of my knowledge, because we being a cash-rich company we, in fact, actually encourage our vendors to get back to us and take help wherever the need is. And we have been running our early payment program for at least two, three years now. And our vendor base has actually benefited and we have tried to ensure that we decrease our payment cycles in this tough period for them.

**Abhijit Kundu:**

Okay. Last question is, so essentially, you have been making investments in manpower across operations, so have you made investments in manpower in the product development side? And have you tried to reduce the lead time of introducing new fashion, because you were saying that you want more fresh fashion across your stores, and that will really -- that has been driving your footfalls as well?

**Anand Agarwal:**

Yes, absolutely, yes to both the questions. So, we have improved and we have inducted team members in the product development side, which definitely does not only mean product designing, we have invested very heavily into quality. Our products are more standardized across



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vendor bases, across manufacturers. We have put in more robust teams to ensure that we have a better quality of product going out in the market. And also, in terms of the freshness of the product, we have pinned down on the product's life cycle by ensuring that we are able to provide faster access to the customer of fresh fashion.

**Moderator:** Thank you. We have next question from the line of Akhil Parekh from Elara Capital. Please go ahead

**Akhil Parekh:** Sir, my question is on UP and Bihar market given that we have almost 55% of our stores in these two states. Would we be able to quantify how much we have penetrated in these two districts in terms of percentage of districts and percentage of talukas?

**Anand Agarwal:** So, our guess is that both these markets are fairly large. If I look at the Tier-4 opportunity available in these markets, I think, we would not have penetrated even probably half of the market, which is available in these two states, if I were to look at only these two states.

**Akhil Parekh:** Okay. And how about Tier-2 and Tier-3? Because if I remember correctly, Lucknow, for example has almost 58 organized stores, we also have substantial presence. So, how would that penetration level be in Tier-2, Tier-3 markets in these two?

**Anand Agarwal:** Actually, Akhil, the way that we are seeing the market develop is that the market itself is evolving as we are evolving. So, four years back we used to have four stores in Lucknow and today we have I think 14 or 15 stores. And we continue to look at even newer properties and new locations in Lucknow. So, if I were to answer this question, probably three years back, we would have saturated Lucknow, but today we are looking at Lucknow in a new light, and we probably can open 10 more stores in Lucknow. So, I don't really know what is the real size of the market or even one particular city. Talking about a full state is very, very difficult to answer.

**Akhil Parekh:** Got it, sir. Sir, one last question on private labels. We have maintained our stance that like we will keep our gross margins at similar level to our other inventory. So, is it safe with gross margins for private label as of now or we have started pushing the price?

**Anand Agarwal:** No. As of now, we are still keeping the margin on the private label very same, very similar. And we would definitely want to have or charge differential pricing or differential margins only if we are able to provide a differential quality or a better quality or a product differentiation on the product label apart from only design.

**Akhil Parekh:** Got it. And in terms of visual preference, like last time you had mentioned that there are separate groups within the store, which highlights private label. Have we done this rollout across the stores or in some of the stores?



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**Anand Agarwal:**

So, it's a gradual process. So, if you look at the new stores that we opened, I think there is some amount of in-store branding that we have started to do. But for the older stores, as they get into refurb more, they will also get the same experience.

**Moderator:**

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

**Lalit Agarwal:**

Thank you once again. Thank you very much. And we continue to be aspirational and bullish and also aware of the market situation, of the kind of activities which are rolling around, the kind of developments which have been witnessed in the economy as well. But we are a long-term player, we would continue to do some activities looking at a three to five-year horizon at least. And we believe that the economy is bound to grow. We believe that the Indian consumers, the middle and the lower middle class of consumers are going to grow. So, we will continue our focus on those expansions. We will continue our focus on bettering our customer experience and bettering our ability to serve them. So, we continue to remain there and see you and then talk to you once again next time. Thank you for being there.

**Moderator:**

Thank you very much, sir. Ladies and gentlemen, on behalf of PhillipCapital (India) Pvt. Ltd., that concludes this conference call. Thank you for joining with us. And you may now disconnect your lines.