



**“V-Mart Retail Limited
Q1FY2022 Results Conference Call”**

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- Moderator:** Ladies and gentlemen, good day and welcome to the V-Mart Retail Limited Q1 FY2022 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Krupal Maniar from ICICI Securities. Thank you and over to you Sir!
- Krupal Maniar:** Thanks Mallika. Good afternoon everyone on behalf of ICICI Securities, we welcome you to Q1 FY2022 earnings call of V-Mart Retail Limited. On the call, we have with us Mr. Lalit Agarwal, Chairman and Managing Director of the company; and Mr. Anand Agarwal, CFO of the company. At this point of time, I will hand over the floor to Mr. Lalit Ji for his opening remarks, which will be followed by interactive Q&A. Thank you and over to you, Sir.
- Lalit Agarwal:** Good evening everyone. Thank you, Krupal and welcome to this call once again. There are healthy signs and we are on the back of very bad quarter as far as people’s psychological thought process and their psyche regarding the whole pandemic and regarding this whole what has happened to the society and loss of lives and loss of mental peace that has been a big price in the particular quarter and that has overpowered everything else especially in this quarter that we have seen.
- So this particular year we have seen this pandemic or this lockdown definitely we have seen the intensity being high by the cases as well as awareness and impact of the COVID was visible very, very high in this small town, in the states where we operate so largely we have seen the denser states have received more impact of this particular stage of the pandemic and it has been really very- very de-motivating and really very- very concerning for people there because of low medical infrastructure and then overall people had a very miserable period, which they went through so we witnessed everything especially the team had a lot of focus on serving the community, serving the society, taking care of the employees are being very close to the each and every employee, we being very close to each and every family member of the employee, trying to help everyone who were impacted because of the COVID and even in the immediate circle of influence whether it is landlord or vendors or my customers or even other stakeholders we all got together to try and help wherever we did.
- We have done lot of work on vaccinating most of our employee Almost 95% of our employees are already vaccinated, not with both the doses but with the single doses but both the doses will be completed in the further months so there has been a lot of growth that were happened, as an association also we did a lot towards helping the community wherever we could but the impact was high so as the lockdown and opening impacts were there in the smaller town. We could see consumption also hit and we could see stress coming in both from the customers point of view of income as well as the mobility of the customer or traffic at the store, whether the traffic at the market and overall movement of people were very low.



So this has impacted compared to last year pandemic, this year we did not see lot of migration of labor. This year we did not see people going back to their villages or city crowds going back to the villages so this time the small towns comparatively let us say number of visitors or those people who used to come there but this time we saw even lesser movement from villages to cities because the transportation and everything was also impacted a lot and people had real fear so that was there but largely post that from June onwards we started seeing come back and there is a good come back that is whatever we saw versus May, we saw good come back in June and July and come back in terms of customer or the normalization in the society happen and we could see people also getting tired and people also wanted some release of that particular environment which got created in April and May, so people wanted to come out and we saw good response coming out and pent-up demand also visible in the month of July, little bit but not too much.

There are still areas and this particular period actually experienced very regulatory, very harsh stand from certain state government especially from state government of Uttar Pradesh and Bihar where we saw them still imposing the lockdown even as I am speaking today, we have two days close down i.e. weekend closedown in Uttar Pradesh which are the best days for our sales i.e. Saturday and Sunday, we have still alternate day operations in Bihar, which is also a very big impact, getting created in the markets of Bihar and Northeast and Eastern states still continue to have COVID rise and COVID cases but there also we are seeing some impact coming in.

So the normalization has not been as good as last year. We are seeing some store days and operational days as lower operational days even timing restrictions are there, so overall environment at those markets have not become normalized in that respect. The movement of people are restricted in the respect and the industry has taken it positively and most of the fashion industry is seeing that the growth is coming in. The customers are coming back comparatively because last year it was peak of the COVID happened during August and September compared to this year we are seeing falling trend and very large falling trend and a high vaccination drive which is helping the confidence of the customers and the confidence of the customers and employees are the market is still much, much better and we could expect a better recovery in this particular year compared to last year.

That what we expect and that is what we are seeing also if you could see the growth which is coming V-Mart's number compared to last year compared to FY2021 is relatively higher and that is what has been witnessed in the market and overall the market is behaving in all the areas I think it is happening good. There are other good news is on the market MSP prices have gone up, monsoon seems to be good, agriculture income this time also relatively looks better but this time there is definitely inflation in hand, people have pressure on their monthly spends, they have their pressure on the monthly budget, rise in the salary and rise in the income has not happened, people still are struggling with their budget so we are finding that very-very evident because large part of the commodity as well as the fuel and energy all have gone up so all that is impacting the customer and that is also impacted the price of the products that we are offering so we are also seeing growth in the prices because most of the commodity products that we have and especially cotton and synthetic yarn everything has seen a very -very high growth as far as the cost is concerned.

So that has been passed onto the customer and we have even seen average selling price growing because of that. so what I expect it should normalize very fast and we should expect the regulatory authority also to behave little more normally. I hope they open up the stores for all the seven days and all 30 days of the month and then we see normalization coming in especially I think post the Independence Day we should see the normalization coming in and we should see better days coming out of this. We do still track the city wise COVID cases. We have not seen any abrupt change in the COVID case across India. We are tracking that every day and we have eye on that and we believe given the vaccination drive at such as a good speed and acceptability of the vaccination is so large in the small town also that it should really help the prevention of the third wave and we are watching on the third wave but even if it is going to be, is going to be the cases but not with acute intensity or acute intensity of that rate.

That is what we are seeing globally also and we believe that should continue so overall at the organization level, we are bullish, we are on the attacking mode, we have done this new acquisition so-called acquisition of 74 stores of Unlimited which has also helped the motivation of internal employees, internal team, the external stakeholders, the confidence level here is very high, people are much more geared up and they are much more confident on meeting those processes, people are much more agile in their processes, we have adopted lot of digitalization in the process and the team is really working very hard to try and bring back the business to the normal situation and even the integration pieces are getting in place on the Unlimited team and there has a lot of work which is happening, we are targeting closing date of August 30, 2021 so that after that we could take the handover of those stores after September 1, 2021 so that is what right now the target is.

Most of the things are aligned towards that and we believe this, should be able to do that and we believe that should get good synergies which could come in both from what we could learn from Unlimited as well as what V-Mart's learning has been till now which could be imparted to those stores which are operational there so there will be lot that will come up we do not have too many update right now on that piece. We will not be able to share too many updates but as things go we will definitely want to keep you posted on those updates but till that time I want Anand to give you brief about that numbers and then further we can take the questions that you have.

Anand Agarwal:

Thank you Lalit and good evening everybody. It has been a COVID impacted quarter but also with gradual opening up of the lockdowns, new store expansions and return of footfalls and sales as we have seen but let me quickly take you through some of the key financial highlights and then probably we can open the session for questions.

Q1 usually is a very strong quarter for us normally accounting for almost 25% of the full year sales and almost one-third of the full year profit as this is full sales and this is marked by full price sales and fresh collections coinciding with harvest season and marriage season and expedited spending patterns. With a strong recovery in Q4 of last year, just around Holi time but the resurgence of COVID in April actually led to a nationwide lockdown which significantly impacted our operations and as a result, we could get only about 49% of the operating days in the quarter, which were further impacted due to lower working hours, weekend lockdowns and other



local restrictions. While April saw a good number till about the mid of the month, May was almost completely under lockdown and stores started to open only from June onwards and that too sporadically differently across the different states.

As a result while the sales grew by 127% over the small and COVID impacted base of last year but the doubling of customer footfalls and the combined increase in average selling price by 19% and 3% in average bill size signified a stronger feel of consumer recovery. Our online operations also continued to do better during this time. We continue to built stronger platform, streamlined operational issues and rolled out measures to improve operational efficiencies. Key ingredient for the success of our online initiatives is going to be around hyper-local delivery and using store reach to reduce the time taken and also the cost of last mile deliveries. This is an important initiative and will pave the way for operational economies in the long run. While our share of revenues from online is still around 1% and growing but we continue to work towards to increase it to around 5% in the next two to three years.

On the margin side, there has definitely been an immense pressure on raw material cost especially cotton yarn prices and logistics cost driven by oil prices, in the last six to seven months. Keeping in mind that these are cyclical changes and not really short-term adjustments, we have strategically increased our selling prices to tackle this. This was done in a gradual manner since March onwards and as a result our gross margins for the quarter remain in the range of 31% which is very similar to previous years.

Inventory remains under control at Rs.365 Crores which is 15% down year-on-year as well as 15% down from the last quarter. This has happened by way of more dynamic supply chain planning and actively working with the vendor partners to optimize the order placement and delivery cycles. At the same time, we have ensured regular payment to all our vendor ecosystem to ensure that there are no future disruptions in supplies due to COVID and also to mitigate any possible commodity price shocks to the extent possible.

Fresh ordering for the new autumn- winter season is in full swing and we remain optimistic on a stronger recovery as we move along. Shrinkage numbers which includes write offs and provisioning climbed up to 4.9% of sales on a very low sales base while as a percentage of inventory this remains at around 2% to 2.5% which is in comfortable range on an absolute rupee basis while in percentage terms this may still look a bit on a higher side. On a conservative side, we continue to carry additional provisioning that we had created a year back against COVID related contingencies.

Coming to the cash side, we remain pretty comfortable on the overall liquidity situation absolutely aided by the fund infusion in forms of QIP that we did in February. We did around 36 Crores of capex and opened three new stores and also invested in land for a new warehouse which is being set up near around Gurugram. We closed the quarter with a total of 282 stores and we continue to remain optimistic on the overall growth opportunity and we will keep investing in new stores at a regular normalized pace in the coming years although with the caveat, of pandemic disruptions not being ruled out.

Coming to the expenses side, as you all know largely our costs are fixed especially manpower and rentals are the big two component of the P&L and there were no major cost reductions this time unlike last year. On manpower, there has been no reduction whereas on the rental side I think we are looking at very small but marginal relief from the landlords. For two reasons one because the lockdown this year have not been as long as last year and also there is much greater reluctance in terms of passing on concessions this year as compared to last year.

In terms of electricity expenses and marketing expenses, I think these have largely been in line with the sales. The marketing has been more focused on digital which is also in line with our focus on spreading the online part of the business disproportionately. As a result, the overall expenses for the quarter were broadly in line with sales but higher than last year owing to lower reductions which is also important to keep the growth momentum strong in view of the upcoming festive period wherein we continue to remain buoyant.

As a net summary, the quarter ended with Rs.2 Crores EBITDA loss which was almost Rs.4 Crores lower than last year but on the future outlook we still remain cautiously optimistic as we continue to look forward to a stronger customer come back. As Lalit just mentioned July has started well and in fact even August is looking good with the only subject of local restrictions by state governments being more relaxed now that we are hoping for which will pave the way for even more normalized working.

So even now as we are seeing complete lockdown in Uttar Pradesh for weekends which has now continued for more than two months and not just Bihar but also Jharkhand has local district level differentiated notification on lockdown which is impacting operations significantly. Therefore, we will continue to be careful while also being cognizant on the strong tailwinds in terms of near normal monsoon, increase in the product ASPs reflecting the customers changing preferences wherein there were down-trading in last year and this year, there is a clear message where more normalization in terms of customer preference is being evident. We are planning for near normal festive ahead and will keep a very close eye on day to day developments on the pandemic front to avoid any surprises. So that is all from my side. I now request the moderator to open the house for questions. Thank you.

Moderator: Thank you Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Sir my question is again on normalization and I am just trying to figure out what is necessary for normalization to happen so you had 49% lower operational days versus normal sort of quarter but your sales was I think on two-year basis down 61% so is it just that if 100% days are operational, you will get back to that Rs.8000- 9000 per square feet kind of runrate or in addition to just the restrictions not being there, is there anything else also that is required so let us hypothetically Q2, there are no government restrictions or local body restrictions and you have 100% of operating days and in fact even 100% of operating hours, do you think the sales per square feet will return to normal immediately or do you think it will take some more time for that?



- Lalit Agarwal:** Percy good question. So let me just remind everyone so this definitely what you are seeing is 49% of operational days, any store which is even being opened for one or two days, we have considered it as opened so there are lot of stores timing of the days largely in the eastern part, northeastern part timing of the store was also constrained and they are operational only for four hours and somewhere it was operational for six hours, somewhere operational for morning hours so all those things was part of the piece but right now whatever if we look at the store days and then store hours, the sales square feet from store hours are much higher so we should get that immediately back, it is not only operational of the store hours but it is also big signal to the customer base for their movement and for their business normalization so it is just not a big indicator or just big points where customer can come in but it is also mentally big comfort for the customer base that things are normalized and we can now go out.
- Percy Panthaki:** Basically if there is no further worsening of the COVID situation in Q3 we should have sales per square feet at pre-COVID level?
- Lalit Agarwal:** Yes we also expect that to happen and it should happen because see what happen is even the operational days like weekend is closed so Saturday and Sunday which is primarily all know that contributes much higher percentage of sales at a per day level and so with the important days which are holidays for customers, if those are closed so what you will normally get is a lower outcome, that is why all impulse shopping happen only on those days.
- Percy Panthaki:** Also would I right be in assuming that if your sales per square feet comes back to pre-COVID levels then the margins that we used to do pre-COVID at EBITDA level in that adjusted used to be like 8%, 8.5% kind of EBITDA margins so do we see those margins also coming back simultaneously whenever the sales per square feet comes back?
- Lalit Agarwal:** I do not think there is any change in expense level or anything what we have seen the gross margins are also come back so there should not be any struggle if the sales come back.
- Percy Panthaki:** Understood. Secondly Sir since now this COVID is now almost behind us hopefully what would be your plans for store expansion and see FY2021 was a little subdued, FY2020 do also I do not know maybe slightly subdued so would it be that to catch up with these two sort of years, which are slightly on the lower side so would we see FY2023 store opening higher than normal so that over the three-year period whatever you had plan to earlier achieve you will reach that kind of number or I mean you would not do that?
- Anand Agarwal:** Yes Percy. We are not tweaking our expansion plans neither on offensive nor on the defensive so we will continue to run at the same pace. There may be some small adjustments here or there but whatever we increase I think the overall trajectory will be that we will want to increase our retail space by 20% to 25% year-on-year. There may be small plus or minuses but otherwise I think we will like to maintain the same trajectory even for FY2023 even with the COVID situation being where it is today.



- Percy Panthaki:** Basically because let's say we will lost out on growth in FY2021 it is not that we will compensate for that by having higher than that 20%-25% number in one of the year?
- Anand Agarwal:** Percy South India expansion is expected to compensate for that loss of sales.
- Percy Panthaki:** Understood Sir. That is all from me. Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Nihal Jham from Edelweiss. Please go ahead.
- Nihal Jham:** Thank you so much and good evening to the management. Sir three question basically from my side, first is on the ASP you mentioned both aspects we have taken price hike and ideally this time around we are seeing lower sale of future or some of the other value focus segment so what will be possible just to give bifurcation of about what proportion of price hikes have we taken and what is the driven by more normalized because even in our pre-COVID times Q1 generally used to have realization of around Rs.265 to Rs.270 and this time we have seen that is close to Rs.300 so that would be first question?
- Anand Agarwal:** Nihal, the price rise that we have taken was roughly 5% to 6% but it was not uniform across all product categories and all departments so it was very carefully studied and carefully implemented price rise but yes I may not be able to exactly quantify the impact of the sales mix in terms of the change in the different product categories but in terms of price size it would be good to assume around 5% to 6%.
- Nihal Jham:** That is helpful. Sir second question was on the inventory side now this quarter may not be comparable in terms of number of days because of the lower, but I just wanted to get a sense that on normalized basis how many days of reduction are we targeting and would that mainly be in terms of the inventory lying in store or is it more the backend warehouse related by inventory that we are targeting get more efficient?
- Anand Agarwal:** Nihal, we are actually not targeting any reduction in inventory. I think the way we are looking at it is because it is very dynamic situation we would want to be little tight in terms of planning for extra inventory. So we are ordering closer to what we feel is the festive season and thereby we will want to keep a very tight leash on what is out for ordering. In terms of the overall inventory days if you remember traditionally we have averaged at around 80 days or so and that is the range that we will first want to come back to in the normal times but if you look at the numbers in terms of how the inventory has moved in the last 1-1/2 years, we have always tried to keep it very consistent with the kind of sales that we expect in the following two or three months.
- Nihal Jham:** That is helpful. Sir just one last question from my side, I see that there is obviously lot of focus that we are putting in terms of putting the point across us driving our omni initiatives and if I just propose that with the fact that we are still looking at say 4% to 5% contribution from omni over the next two to three years, which is reasonably decent increase but not significant ramp up that we are saying. I just wanted to get sense on this is that in the target market that we generally working in UP, Bihar primarily, is it we are seeing very first adaption of omni initiative that is

may be wanting us also to ramp up on these aspects so just your thoughts on that, is it on ground post COVID these markets are seeing much faster ramp up on the omni side and that is we are also wanting to move ahead what is the pace we were initially planning for?

Lalit Agarwal:

Nihal as such definitely the customers adoption rate of technology and acceleration over the online shopping definitely has been helped by the pandemic and the lockdowns and that has led little change in the customer habit and consumer habit and we could witness that change during those lockdown and during those times and people could not travel and come out but now as soon as we see the stores opening back, there is massive drop in the customer's footfall, the kind of people who comes on the platforms so it is purely need based which is getting driven and as soon as the people are finding it normalized and they want to come back, they want to come back to the store offline enjoy and then adopt. As far as omni approach is concerned we are not only serving to those markets where we are present. We are serving to the entire India and everyone from the entire India is ordering so to your best of knowledge for us, the third and fourth best city where we are getting highest order from is Mumbai or Hyderabad so that is the kind of cities which are adopting our product more and they want those kind of products so omni drive is definitely one we want to drive it for our customers but we are opened up our portal for everyone. There are customers also coming in it omni drive is largely to get ourselves prepared be there in terms of the technology, in terms of the process, in terms of peak reduction, in terms of store understanding, in terms of inventory management, the product definition, the product cataloging those are some of the learning's that we are building that up. We are not very aggressive on this. We do not want to lose money. You all understand that still online business is the great money loss business and we have not taken that clear cut path on losing those money, we have been very stable in our approach, we are driving organic traffic, we want those customers who have experienced our portal to come back and see, so there is no huge change that we could see post pandemic in the markets of UP and Bihar as you were asking.

Nihal Jham:

Thank you so much Sir. That will be it. I will come back in the queue.

Moderator:

Thank you. The next question is from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.

Shirish Pardeshi:

Good evening. I have three questions. When I look at the footfall last year say FY2020, you have reported 393 million footfalls if I average that the average footfall could be in the range of about 30%-31% and now you are saying that your quarter footfall is below 31% so if it largely dependent on because around 65% or 184 stores, we have in UP, Bihar and Jharkhand and this area was largely disturbed so is that the way one should read with the opening up economy and there is a heightened or there is strong revenue momentum which will happen around festive season?

Anand Agrawal:

Shirish, it is not just a numeric number of footfalls which just translate into sales. I think the message here that we are carrying from the ground is that there is much more increased customer activity in the markets and that is getting reflected in the footfall numbers On a per store basis the numbers may remain again very different again Lalit just mentioned that there are local



restrictions in terms of timings in different geographies some stores are opened from let us say 8 in the morning to only 12 in the afternoon and sometimes they are open throughout the day etc., but I think the bigger message and I think answer that you are trying to seek is yes we are seeing much more positivity in terms of consumer behavior, it is not only reflected in the number of footfalls, it is also reflected in the bill sizes, it is also reflected in the kind of product that he is buying and also with the kind of confidence that he is coming out and wanting to visit stores even during June and July.

Shirish Pardeshi: What I understand is the positivity rate what you are mentioning or referring on ground has gone up substantially in the month of July that is the way to read?

Anand Agarwal: I would say yes.

Shirish Pardeshi: My second question is just an observation as we have seen sharp increasing in the employee cost, could you spend a minute to explain why it has gone up so much?

Anand Agarwal: The employee cost has gone up because of two reasons, last year we were definitely caught up by surprise and it was very extended lockdown and thereby we had taken measures to look at how we can curtail and reduce our cost and which included removing the variable part the incentives and which also there was pay cut that we have done last year which is not introduced this year because the stores were shut only for a limited period of time and in most of the cases it was also sporadic, it was not regular lockdown for three months or two months and thereby the kind of flexibility that we had to reduce the employee cost was also very limited and we also did not want to do a lot of cuts this year keeping in mind the customer response that we are getting and are aspiring for and because we are in a growth phase so it is definitely far more important to keep the employee motivation at a much higher level and not just work on cost restructuring.

Shirish Pardeshi: I do understand but I was trying to understand if there is variable part and if the normalcy has not happened and if the runrate is per quarter is about 34-35 Crores, will that runrate once the normalcy comes back will go up or will be remaining in the same level?

Lalit Agarwal: Shirish, there is some cost which we have retained, which is permanent in nature, which is more efficiency building and recycling and recalibrating or relearning being the efficient ways of operation so those will be something which will bring in there even after the normalization happen but otherwise definitely we did not do lot of recruitments and that will only begin when the festivals are on so we will see some growth coming in at the cost levels but at the percentage level we should see a downward trend coming forward but still inspite of all these lockdowns and pandemic, the minimum wages rise also has been there so we have been seen great rise in the minimum wages also in this particular year and also last year so that impact is also coming on to this.

Shirish Pardeshi: I got that Lalit Ji but I am saying that will this substantially go up because if I look at percentage to net?



- Lalit Agarwal:** It will not substantially go up.
- Shirish Pardeshi:** It is about 18% now which is very high?
- Lalit Agarwal:** No. That is percentage because of the low sales.
- Shirish Pardeshi:** I got it. My last question is on the warehouse part, you did mention last time that we are looking for a land and now Lalit in your understanding or with your confidence how much time you think, your new warehouse will be up and running?
- Lalit Agarwal:** We should take at least 9 months or 12 months.
- Shirish Pardeshi:** So it will come in the next year that is what you are trying to say?
- Lalit Agarwal:** Yes before next year.
- Shirish Pardeshi:** If I may extend with the new warehouse coming up what kind of synergies you would see in terms of transportation, segregation, staff and may be replenishment of all this?
- Lalit Agarwal:** See I think most of them has already been implemented even in the existing warehouse but what we would expect is we would build a larger infrastructure to handle the better or the bigger volumes and handle it faster because what is going to happen the mind to market game is becoming very, very active so here the point is how fast are you able to react with the customer needs, to the variable environment that is coming up so everything it has to be just in time of kind of model so that we can operate our stores at a lower base of inventory and we could operate at the backend much more efficiently and effectively so as to create speeded fashion and more fresher fashion to the customer so our larger target are those and targets are also to reduce the cost at the warehouse, which is in terms of manpower and all so that we could bring in automation and also we have to see that infrastructure scalability piece which is how do we scale up and we do not need to clearly regularly do that so once we have done it takes care of at least nine years of our business operation.
- Shirish Pardeshi:** Thank you Lalit Ji and Anand Ji. Thanks for the opportunity and all the best to you.
- Moderator:** Thank you. The next question is from the line of Aliasgar Shakir from Motilal Oswal Financial Services. Please go ahead.
- Aliasgar Shakir:** Sir thanks for the opportunity. A quick question on the recovery side so last year in the first wave, impact was more in the metros versus the tier 2, tier 3 towns versus this year the expectation that impact has been more on tier 2, tier 3 towns, so if you could just share some color in terms of how are we seeing recovery in metros basically metro stores versus lower towns. Also a related question is when I see you are operating matrix, I see footfalls have gone up and with that also conversion and conversion size have gone up and now last year narrative was that may be people are bunching of their shopping and therefore you know, the transaction size and higher conversion base are higher but footfalls are lower now footfalls, I think now has

recovered but still we are seeing the transaction size conversion holding up so if you can share some color on that as well?

Lalit Agarwal:

Ali, if you could just see definitely as we have been speaking in the commentary footfalls are better so as the sales because we are seeing overall year-on-year if we see, we have seen 127% growth in our sales and there is a growth in the footfall but still the footfall versus the sales is lower, still the sales are higher because the conversion rate is higher, transaction size is more and even the average selling price has been up, is so what is coming up here is that the customer who is coming is doing their better buying, he is converting more and he is buying more but compared to last year we are also seeing good amount of customers coming in. If we look at FY2021, if we look at FY2020 still we have a lot many customers who have not turned up so would not come back so those are the customers that we have to be very much waiting for and that those customers that we are trying to drive them in because those customers, there are lot of customers who are not comfortable still coming out and who are not getting transportation so that is what we are expecting which should certainly bring back the existing sales.

Aliasgar Shakir:

Understood and if you can just comment on how the recoveries is in metros versus towns?

Lalit Agarwal:

Definitely, bigger cities have performed better especially tier-1 and tier-2 but tier-3 and tier-4 this time has got little more impact especially in certain geography as I said about UP and Bihar where the lockdowns and the restrictions are very-very severe and all stopped listening and they all stopped reacting. So there are those kind of reactions which is getting very-very disturbing in nature because there are impacting all the organized retail stores as well as the retail markets overall. So largely the impact is largely being seen in tier-3, tier-4 but in certain states all the tiers are effected even in those states Lucknow's Mall and Patna's Mall are also not allowed to operate that is the problem so it is more of state wide call and also tier wide call combined which is coming in but recovery in the bigger cities has been a little better.

Aliasgar Shakir:

Second question is on this ASP increase, Anand you said we have taken some 6% increase but does that now, margins have fully passed on the cost increase and I mean related to that is are we seeing any impact of this increase, despite wanting to know that such kind of market we have the confidence to take price increase just thoughts on that?

Lalit Agarwal:

I mean this is definitely one thing which we were also very scary of and the price hike so much that we could not handle and could not absorb it so this time for the first time V-Mart have passed on the price hike and we have done this price rise and we have seen positive response because what we have seen because as Anand mentioned that there has not on all the items we have done equally so we have also segregated based on our sell through rates and our customer demand rates and which will hurt the customer more and which will not hurt so we have seen especially products where we have taken up the price hike so we are also bettered quality and bettered product from that perspective, but sell through rate of those products have been very, very good especially the product we just been procured in this particular season which are higher priced, we have seen a very good response so that also gives us confidence the customer also



does not worry about this small rise and they all understand and they all know that is the entire market this price has gone up so that is how they are taking it.

- Aliasgar Shakir:** Okay so the entire market has taken price increase?
- Anand Agarwal:** Yes because no one could absorb it. It is very, very natural that no one could absorb it because the price rise is so high.
- Aliasgar Shakir:** Thank you very much Sir.
- Moderator:** Thank you. The next question is from the line of Girish Pai from Nirmal Bang Equities. Please go ahead.
- Girish Pai:** Thank you for the opportunity. I just want to know how June and July have been in terms of revenue, have they been equal to June and July of 2019?
- Anand Agarwal:** That is still not a full recovery because this year still seeing two days lockdown in a week in UP and alternate days lockdown in Bihar, it cannot be full recovery but definitely for the number of days that we are opened, we are seeing almost near to even probably more than the amount of sales for the equal number of days that where there in let us say 2019. Having said that one must also not forget to discount the factor of pent-up demand just after lockdown opens, there is this phenomena and which we have seen last year also and which we also saw this year so there is some amount of pent-up demand which will lead to some unfounded euphoria but so far at least in the last 1-1/2 months we are seeing much more positive traction than the last year.
- Girish Pai:** Do you see any structural savings from the margin standpoint with two waves of pandemic hitting you and you handling it, once sales comes back to normal, do you think that margins will go up structurally by say 100 to 200 basis points because of the initiatives on the cost side that you have taken?
- Anand Agarwal:** Girish you are right this pandemic has taught all of us some lessons and there will be some improvements in terms of our operational efficiency, there may be some tools in terms of operating leverage etc., but at the same time, there have been significant cost pressures because of inflation, commodity cycle, price increases and therefore my sense is that I would not want to guide towards increased margin structure post pandemic.
- Girish Pai:** Lastly, Uttar Pradesh election is coming up in few months what has been your experience in the runner to be elections, do you see more money going to the hands of the consumer resulting in direct spending power? That is my last question.
- Lalit Agarwal:** I think normally this is what we have witnessed and this is becoming bigger and bigger. Elections are becoming an economic driver also. So we believe if elections comes in lot of money in the markets and brings in lot of money in the markets so there are always activity which are there and normally the beneficiary are recipient or the vote bank of that market so there are lot of disturbance which comes up when there are elections or before the elections which is in terms of



whatever political activities happen or rallies or some kind of riots and some kind of lockdowns and some kind of problems and protest which also part of this so there is some loss that you have before the elections and there is some game that you have post the election.

Girish Pai: Thank you very much.

Moderator: Thank you. The next question is from the line of Ankit Kedia from PhillipCapital. Please go ahead.

Ankit Kedia: Sir my first question is on the loyalty customers 60%-65% of revenues comes from loyalty customers in the current scenario how is the movement of loyal customers and what marketing initiatives has been taken to drive them to the store?

Lalit Agarwal: Good question Ankit and loyalty I think has been big savior for all of us and there has been a very good loyalty demonstration that we have also got. So we got more than 65% of the customers of the sales coming in from the loyal customers and customers who did shopping from us and that has been good and we have also seen there are lot of analytics which is now getting into loyalty piece into the customer cohorts and in their lifetime value or annual lifetime value so what we are now starting tracking is how is annual lifetime value of the customer and how should we try and grow the lifetime value and that is what whole analytics and the campaign in the marketing is guided towards so we have lot more than 30 lakhs of customers whom we are targeting so that we could increase their frequency and this will bring them back who are VIP kind of customers and there are more than two million database where we have got those customers who are regularly shopping from us and regularly coming in so we are chasing them motivating them giving them a lot of insights and coupons, so that there are back to the business and that is what has driven because in these days when the marketing team did not have too much of budget for those ATL and print ads, and CV ads so it is largely driven by either calls or one on one SMSs which has been delivered to the customers.

Ankit Kedia: Sir my second question is on the EOSS sales, our midyear sales would have started now given the inventories low in the system for us now do you see more full size sales coming in and gross margin expansion could continue in Q2 and Q3 because of that?

Lalit Agarwal: Ankit, you have to understand that we are post two lockdown so there were two lockdown that we had in the last 12-14 months and all the inventory which were bought even before the first lockdown it is still there some of the inventories still there so we do not want to carry all those inventory. We have to definitely get rid of those inventory also so we should not expect a lot of full price sale through coming in, even if there is as a percentage of full price sell through is higher but impact and margin loss which happened from the old inventory which has to be discarded from the system is also relatively high and that is how you are able to see that also in the shrink, if you see the shrink has gone up as a percentage of sales because provisional policy always allow the inventory to be discarded from the system as soon as it is aged, so that is how we are taking it so we are focusing on both the sides one definitely dragging more percentage of

full price sell through from the fashion inventory and two also discarding the older inventory so that we do not have carry over in the next year.

Ankit Kedia: Sir last question is on Unlimited if I can ask on Unlimited FY2020 Unlimited had around 90-odd stores with revenue of Rs.530 Crores now given that the numbers of stores have become 74 would this 530 Crores revenue be the right revenue assumption for us or of these 74 stores what will be the like-to-like revenue in FY2020 if you could just help us with that number?

Lalit Agarwal: It will be difficult as of now Ankit, I would want you to restrict this right now and maybe we can take in one on one call with Girish or Anand, if it is okay with you.

Ankit Kedia: That would be helpful Sir. Thank you so much and all the best.

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

Abhijeet Kundu: My question was on the revenue drivers during the end, essentially we have seen that there has been improvement higher price fresher products have seen increased demand, footfalls have gone all the metrics have improved what we understand some of the channel checks is that wedding season played a very good part during the end of the quarter and there were a lot of wedding dates in July and all the vaccinations have also happened and that gave confidence to the people so one is wedding season and then forthcoming festive season will also help going ahead, is my understanding right on that so we should ideally continued momentum in that case and in one of your key markets again east I mean West Bengal part, there are still higher restrictions are there, many places have not opened up so I mean restricted hours of functioning is there so that will also leave I mean there will more number of functioning hours as we get another time so east can also see a good amount of benefit in demand so is that understanding right?

Lalit Agarwal: Absolutely right as you understand that India celebrates wedding very highly, spending in the weddings are very high and people definitely want to wear and want to look good when they are collections of people but incidentally still weddings which happened in this last two to three months whether in June or July lot of weddings are canceled and some weddings which happened was very restricted in the month of June especially wedding were under 50 people or under 20 people also that is kind of wedding which happened which is only largely with the wedding with the bridegroom or bride's family. In July definitely there was some relief and restrictions opened and there was some driver which happened also because of the wedding and we should expect that very huge number of weddings to come in, in the third quarter especially in the December or late November and December months where we should expect good 25 day of wedding period and lot of weddings could happen if situation is normal because lot of people are yet to get wedded and they are expecting to get them wedded during those times, we should see a good growth coming in from that time, you are absolutely right. Festival is another very big opportunity and that always is an opportunity this time because in the last two years people have not celebrated festivals, I hope people are allowed to celebrate festival as they were celebrating in earlier times and we get good pooja days, and we get Diwali days and then once again could be

good driver for the apparel business. I mean eastern and north eastern state as I mentioned there are still restrictions in place for V-Mart it is not so much of contribution coming from those particular states, but yes I should expect relaxation coming in the times ahead, people will want to celebrate but yes we have also risk which is associated with the government policy where may be government policies as last time they did not allow pooja Pandals to get celebrated or poojas Pandals to get opened, if they allow same thing or same thing happened it may be big deterrent in the overall consumption.

Abhijeet Kundu: What has been reduction in lead time now and I mean as you said and which is right decision to make this having more of fresh products, cutting down the lead time between the ordering of products and getting it, making the orders closer to the season all of that, so it will remain still dynamic right? It is for this year and then once things improve we would go back to previous way of ordering or you have seen some structural process change, you are seeing some potential...?

Lalit Agarwal: Sure Abhijeet, there is some structural change that we have also adopted and the agility piece also which has kicked in, and there is definitely a need of this particular kind of this is not so peaceful, it is always dynamic always involves lot of complications and lot of skepticism so we are also developing and technology tool and we have developed some so as to give the vendor little more easiness to track those orders and get those pieces in place but I equally have empathy with the vendors because he is also in a big difficulty and for him also it becomes very difficult if we are able to do give them a sufficient time horizon for the plan but somewhere we are able to manage it especially during these times when the festivals are there and winter seasons is there, the lead time goes up but otherwise overall we had really brought down the lead time by at least 20% of the days.

Abhijeet Kundu: Thanks. That is it from my side. All the best.

Moderator: Thank you. The next question is from the line of Himanshu Nayyar from Yes Securities. Please go ahead.

Himanshu Nayyar: Good afternoon Sir. Most of the questions are answered just a couple of bookkeeping points firstly on the capex front other than the normal capex for store opening how much would be spending this year mainly on this new warehouse and any other initiatives that we might have, which you can give number there?

Anand Agarwal: Himanshu new warehouse will entail a total investment of roughly around Rs.120 Crores in phase 1 out of which we have already done roughly around 40 Crores and now all of this may not happen within this financial year I think this financial year probably it would be around 40 more Crores of capex on account of warehouse plus we are targeting to open 40 to 50 new stores total within this year out of which we have already opened three in the first quarter and there are I think 5 or 6 more stores which are opened subsequent to that so total capex on new stores would be around 50 Crores plus warehouse of around 40 Crores to 50 Crores plus there is a big cash



outlay that will happen on the acquisition of the 74 stores in South India that should be around 150 Crores.

Himanshu Nayyar: Got it and second point was on the income data I believe there is about 2 Crores of rental waiver that we added on there so if I adjust for that then the other income looks slightly lower so are there any one-off there given the significant cash that we would be having at least at end of June?

Anand Agarwal: No. I think other income right now only takes into account income that we have got on investment piece. The rental waiver have not really kicked in this quarter very significantly, they will come in whatever numbers will be in the next quarter.

Himanshu Nayyar: Can you tell about the current cash balance that we have on the book as at the end of June?

Anand Agarwal: I think that is already there in the investor presentation you can have a look.

Himanshu Nayyar: Alright Sir that is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Akhil Parekh from Elara Capital. Please go ahead.

Akhil Parekh: I have two questions, one is are we seeing any specific trend in terms of merchandise which is getting sold especially when we saw the demand going up in month of July and mid of August 15, 2021 so anything specific like marriage wears or Denim wear which is doing better as compared to other categories like formal wear?

Lalit Agarwal: Akhil, especially we have seen very good demand right coming in especially kidswear, kidswear really rocked very well and it has done very well and other than kidswear we have also seen demand rise coming in from casual wear which is both casual shirts, T-shirts and Denims which have given a good rise so we expect that to continue but wedding wear also has seen a good growth but not too much.

Akhil Parekh: My second question is on the e-commerce part like previous question you mentioned that Mumbai and Hyderabad is are both largest cities for us in e-commerce how is the purchasing happening for these orders, because we do not have I believe fulfillment centres spread across India so any plans around putting up fulfillment centres given we are targeting to reach at least a size of e-commerce players in one or two years?

Lalit Agarwal: As you all know that Unlimited piece which is what we have acquired now so those ultimately will also be omni centers and they will also be our fulfillment centers going ahead so we are now, will be becoming PAN India players we will have those centers which is near to the customers today it is getting serviced by the nearest store from that city or by the warehouse itself.

Akhil Parekh: Got it just one bookkeeping question if you can highlight average basket size for e-commerce if possible?



Lalit Agarwal: Rs.550.

Akhil Parekh: Alright thanks a lot.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question. I would now like to hand the conference over to the management for their closing comments.

Lalit Agarwal: Thank you everyone for being on the call. I know this is second call in this quarter and we will definitely keep talking more and keep meeting more. We have very -very exciting times coming ahead. Wish us all the best in the integration plan. There are a lot of experiment that we have done is really want to work hard and strategize well so that we are able to come out successful and meet you once again post this quarter. Thank you so much for being there once again wishing you all the best and have a safe day. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of ICICI Securities that concludes this conference call. Thank you joining us. You may now disconnect your lines.
