



Transcript

Conference Call of V-Mart Retail Limited

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Presentation Session

Moderator: Good evening ladies and gentlemen. I am Moumita, moderator for this conference. Welcome to the conference call V-Mart Retail Limited to discuss the Q4FY13 results. We have with us today, Mr. Lalit Agarwal, Chairman and Managing Director of V-Mart Retail and Mr. Deepak Sharma, CFO of V-Mart Retail. At this moment, all participants are in a listen only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the conference floor to Mr. Aniruddha Joshi from Anand Rathi. Please go ahead sir.

Aniruddha Joshi: Thanks Moumita, Good evening everyone. Firstly, on behalf of Anand Rathi Research, We would like to invite you all for the Q4FY13 results conference call of V-Mart Retail Limited. We have with us Mr. Lalit Agarwal, Chairman and Managing Director as well as Mr. Deepak Sharma, CFO of V-Mart Retail Limited. Also, I welcome all the analysts present here. And now, I would hand over the call to Mr. Lalit and Mr. Sharma to take the call ahead. Sir, you may start now.

Lalit Agarwal: Good Evening Ladies and Gentlemen. Welcome all. This is Lalit Agarwal, CMD of V-Mart Retail Limited. I want to Thank everybody to participate in the call.

This year it has been an eventful year for V-Mart Retail Ltd, where we have opened 14 new stores and also had an effective IPO subscription, so we have had lots of events during the year. 7 stores we have opened in the month of March effectively translating to an average sales of 10 days only. Revenue growth for the year is almost 36 % YOY. With the same stores sales growth of 15.8 % and 20% in fashion, and the same store volume growth for fashion was 14 %.

The sales per sq.ft is also improved during the year, it is improved from 565 last year to 685 this year with a YOY growth of 21 % and the contribution of fashion segment to the total revenue expended from 76 to 81% and Kirana has already reduced from 29 to 19%. Our EBITA has already improved from 9.98 last year to 10.2. The net profit in total the PAT has grown by 72 % YOY and we had these 14 stores which we opened up, which added almost 1.02 lac sq.ft in net over last year. Now we are at 5.58 million sq.ft

which was originally 4.56 lac sq. ft and this is 1.02 sq. ft increase over the last year and on an average CAPEX investment around 1340 Rs. Sq ft.. And we have seen overall growth in footfall and also the conversion rate. Our footfall has increase from 91.64 million to 115 million and sales conversion rate last year was 66.58 % now it is 68.56 % and the transactions size has gone up from 462 to 485 and average selling price for fashion from 192 to 202 and for the company as a whole from 99 to 119. What we have seen is the growth is coming from same store sales growth which is been very good and the same store sales growth has not only been from the value part of it but also volume part has increased and the expenses as a percentages of sale which we look at the graph, the sheet circulated to you, the all other expenses have reduced except the manpower cost. The manpower cost has gone up from 6.1 % of sale to 6.5 % and power & fuel cost has gone up in terms of percent from 2.5 to 2.8 percent so this is similarly with advertisement we have done little aggressive marketing as part of our strategy .1.8 percent were spent last year this year we spent 2.1 percent which has resulted a growth in the same store and our store count which we have increased over the period has been once again similar. We have aggressively targeted the tier III cities.

We are at 36 stores right now in tier III and 20 in tier II and 13 in tier I and retail space as I have been already mentioned. The best part of whole year was that we have reduced our inventory in respect to the days to sales so originally it was 102 days of inventory now we are at 94 days of inventory which has been due to some aggressive initiatives on the reduction on the aging of stock, and try to have concentrated stocktake plan also where shrinkage has gone up.

Our shrinkage over the year has been reduced in terms of percentage and it has gone down by some few points which last year was at 1.63 over the sales and now it is 1.36 percentage so if we you look at the quarter to quarter number this quarter seems to be little on the lower side for the EBITA. But if we look at the over-all complexity of the business this quarter. We have really gone up because the season has behave a little differently this year we have seen Holi getting extended in this part of the year so generally Holi we see in the first week of March generally Hindu calendar moves with festivals and so is the multi event which moves with the festival. So in our kind of scenario where we operate more in Tier II and Tier III cities. In those cities we see a lot of change in the buying pattern. When there is a festival and post the festival when the wedding season starts so generally Hindu calendar follows that festival calendar where after 15 days of Holi, wedding season starts, that is how you start with the buying plan for the wedding. So there is a extensive discounting period with more numbers of days with the more amount of discount. With the purpose to reduce seasonal inventory plus is to improve the inventory number of days and also to improve sales in stores which have a lower sales per sq.ft we use aggressive promotional plans to generate higher sales per sq. ft. so that results in higher sales per sq. ft in this part of the year.

There has been a rise in the sales even in this quarter, so the revenue has grown 30 % YOY and the same stores sales growth once again of fashion has been 23% but in general it has been 19.5 %. And the contribution once again is almost similar 80% is coming from the fashion, which was 75% last year and EBITA margin has taken a hit as I explained you. So there has been almost 3.36% hit in EBITA margin, which been really due to the extended winter period, second one is the late arrival of Holi and wedding season so that the full MRP chain which generate better margin has shifted from the last quarter to this quarter. So we have seen a better quarter in 13-14 since April and May we have recorded a good sale. Till now 40% is better than the last year on the top line

and we expect to continue this trend this quarter. So we will also see improvement in the gross margin ratio for this quarter. The almost 100 basis point if not more than from the last year number. We have also opened up 7 new stores in the month of March, so that the new stores always start with a big amount of promotions and then discounting and these stores effectively did not give us very high number of day of sales. Because average sales which were generated, only 10 days sales generated by these 7 stores. So these stores actually opened at end of March. So the expenses also incurred the fixed expenses which incurred on these stores were almost of the full month and the return which we got which was only for 10 days, with also a promotional sale and then the overall corporate overhead increased due to the major events that has taken place in this quarter that is the IPO, expansion of stores and up gradating of organization. The Organization has to upgrade itself to meet the new requirements of V-Mart post expansion. So we need to increase our overhead, our bandwidth, our employees, our processes, some training program, some initiatives taken up.

So some small addition in these expenses has reduced the EBITA, which has resulted into net profit of 1.14 cr. But the fundamental have been very good and have seen a rise in the footfall. That has grown up from 23.5 to 32 million and the conversion rate has also gone up from 64 % to 70.9 %

And the transactions size has reduced lately due to less sales of full MRP items or the wedding items but more sale of discounted product. And the average selling price has gone up. And I think the fundamentals in which the company is operating as if now has been now very good. The basic where we count our growth is from the footfall and conversion, which we are saying is getting better. There are some marketing strategies which have to take place at time in respect to the promotions and in respect to the deliverable to the customers, that leads to some different number at time.

As per the IPO proceeds are involved, we have given you the breakup of the proceed out of which 56 cr. is still unutilized, which has been kept in a bank account and mutual funds.

And the utilization has been somewhere around 21 cr., out of which 12 cr has been allotted to CAPEX investment for 7 new stores and 9 cr. for working capital investment.

So, I am free to take up any question now

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

The first question comes from Ms. Hiral Sanghvi, from Dayal and Groups. Please go ahead.

Hiral Sanghvi: I just want to know what is the break-up of stores in terms of mini hyper stores and family fashion stores currently?

Lalit Agarwal: All those stores that we have added up have been the fashion stores and we are at 39 stores with mini hyper format. We are still at 39. So 30 stores which have new is all fashion store.

Hiral Sanghvi: Can you also give me break up of your gross Margins in terms of kirana business and non- kirana business?

Lalit Agarwal: Kirana is 14% and non-kirana is 34% for the whole year.

Hiral Sanghvi: so kirana business margin has improved?

Lalit Agarwal: Yes, Marginally may be.

Hiral Sanghvi: Also can you give me a rough break up of revenues in between Tier I, Tier II and Tier III cities.

Lalit Agarwal: Difficult to give you right now. We will have to come back to you on this .

Hiral Sanghvi: No problem. Thank you

Moderator: Thank you. Ladies and gentlemen, if you have any questions please press * and 1 on your telephone keypad.

The Next question comes from Mr. Sameer Bhise, from Torero Capital. Please go ahead.

Sameer Bhise: Hello, Good Afternoon sir, I just want to have some color on the shrinkage and stock take that have been mentioned in the presentation which have impacted data margin during the quarter?

Lalit Agarwal: Basically stocktake is a perpetually activity which takes place throughout the year. Generally in the third quarter we try to escape from such activities because of high festival sales period. Particularly, this year due to this IPO drive and prospectus filing preparation for the prospectus and all, so there was very effectively less stock taking done in the month of December

We try to cover every store atleast once a year. So there were some stores which were left out for a quarter, so those are done this quarter. So this quarter we have seen a shrinkage of almost 2.07 percent on the sale.

Sameer Bhise: So is it for this quarter?

Lalit Agarwal: Yes

Sameer Bhise: What would be the absolute impact if you can just mention the stock taking activity as well as shrinkage?

Deepak Sharma : I will take that question. The total value of the shrinkage that you have for the quarter is 1.9 cr. and for the full year it will be 5.5 cr.

Sameer Bhise: ok. So it has been written off totally?

Deepak Sharma : Yes, of course..

Moderator: The Next question comes from Ms. Poonam Sharma, from IDFC. Please go ahead.

Poonam Sharma : yes, couple of questions from my side, could you give us what would be the number of stores that will add this year and will it be as back ended as it was this year or will it be more uniform in terms of opening up of store for next financial year.

Lalit Agarwal: Yeah. We would open around 25 new stores this year. What was the later part of question? Could you please repeat?

Poonam Sharma : I wanted to know whether the opening of store will be in uniform fashion or there was bunching up of store opening for last financial year in the march quarter.

Lalit Agarwal: So basically what we typically do is we open up little more stores at the start of the season. We plan to open around 7 stores for this particular quarter and then around 6 stores in the next quarter. We will see more stores opening up in the 3rd quarter and we will not go for an extensive store opening in the last quarter.

Poonam Sharma : And in terms of sq.ft addition of 25 stores will be how much?

Lalit Agarwal: That should add up around 1.9 lac sq ft in total.

Poonam Sharma : What are the main levers that u see going forward and what should be the strategy towards achieving this number going forward?

Lalit Agarwal: We have been working very aggressively on increasing our sale per sq. ft from the existing stores and from the new stores so this is what our ultimate target, so we have seen healthy growth over a sales per sq ft and we are really concentrating on the a particular area where we are losing our sales and particular area where we can improve upon the understanding of customer, upon the supply chain management, upon the product profile, upon the promotion plan, upon the retaining the customer loyalty program.

So we are taking extensive initiatives in all those areas and Trying to see that the customer is happy when he is at the store.

Internally, We have started a customer satisfaction index. What we want to monitor the customer satisfaction index is what will make our customer happy i.e. it may be price, it may be product, it may be ambience, it may be services operated at stores, it may be the look and feel of the store, it may be location of the store. If we improve the customer satisfaction we expect to bring more sales per sq. ft during the current coming year.

Poonam Sharma : The new stores you opened in month of March how soon do you anticipate, to reach your average level of the sales per sq feet. If you could give some indication?

Lalit Agarwal: The new store that we have opened in the month of March has already reached the expected sales per sq feet in the month of April and May .They usually take 40-45 days to reach the expected levels. The new stores are almost giving the same sales per sq. ft which were anticipated of around 800 Rs. Sq ft.

Moderator: The Next question comes from Mr. Anuj Sehgal, from Mannas capital. Please go ahead.

Anuj Sehgal : Hello, Can you give us any sense whether you have opened any store so far in the quarter or all the 7 store will be backend towards the end of the quarter and secondly you have mentioned that the new store you have opened in the month of March has already reached at the steady state revenues. So is that to say that in a subsequently most these stores that you will open will reach the study state revenue within a period of 30 to 40 days?

Is that a justified assumption?

Lalit Agarwal: We have not opened any store till now in this quarter but we intend to open up first store within next 7 days. In month of May we expect to open 2 stores and the balance 5 stores will open up in month of June and the second part is the stores which are newly opened, we reach to the stable level within the first month in around 30-40 days and usually achieve the targeted sales per sq ft of 800 Rs..

Anuj Sehgal: And the effect of the wedding season and the Holi that you were talking about, so you mentioned that first quarter you were already attacking towards 40% year to year growth in terms of sales. How much that would be attributing to the shifting of the wedding season and Holi. I just want to get a sense of it, if you can quantify that?

Lalit Agarwal: On an average we see a jump of may be 5 to 6 percent over the last year. We anticipate a general hike in the same store sales growth of 10% which we are witnessing right now is around 16 to 17 percent.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions please press * and 1 on your telephone keypad.

The Next question comes from Mr. Sameer Bhise, from Torero Capital. Please.

Sameer Bhise : Just coming back to the point of shrinkages. What would be the approximate shrinkage rate as a percent sales for the coming year in regards to shrinkage and stocktake?

Lalit Agarwal: Sameer, we have a policy where we try to ensure that our stocktaking process is completed at least once a year and twice in 18 months.

So we try to take up stocktake process, twice in 18 months, where each and every product are being scanned and only those inventory which is found and is good are trapped in a system. We have the loss of 1.36 percent. We are aggressively working towards improving those shrinkages and we have taken lot of measures in trying to reduce that shrinkages to around 1%. I don't know where we land up but we are always trying to work towards it.

Sameer Bhise : You would say that half of the shrinkage that has been called in this quarter was kind of a onetime thing. Because percentage of sale figure is 2% percent in this quarter and our annual number we have closed around 1.3?

Lalit Agarwal: Yeah, so the annual numbers are the actual pictures of the total shrinkage because the shrinkage and the stocktake process has taken place in a particular month or in a particular quarter but the result for the whole year, is a better indication of the shrinkage. You give an impact of the whole year shrinkages.

Typically, in off time and in off season we taken up these drive so that store operation is also not disturbed as the stock take process takes at least 2-3 nights involving whole bunch of manpower, so that is why we don't take aggressive plan in festival time i.e. q1, q3 but in q2 q4 we try to do it aggressively.

Moderator: We will take the next question from Mr. Anuj Sehgal, from Mannas Capital. Please go ahead.

Anuj Sehgal: Deepak can u give us the sense of what was the operating cash flow for the full year is and how much for the CAPEX and what is the CAPEX plan for the year 14.

Deepak sharma: We had incurred CAPEX about 12 cr. on new stores this year. Basically we have incurred cash outflow on account of fixed asset to the tune of 22 cr. Which is for an addition of 14 stores during the whole year and next year we intend to add about 25 stores as Mr. Agarwal explained and we expect cash outflow on account of those additions to tune of about 27-28 cr.

Anuj Sehgal What was the operating cash flow for last year Fiscal'13.

Deepak sharma: Fiscal'13 the operating cash flow before working capital change was 38 cr and post working capital adjustments is 9.78 cr including taxes (outflow on account of taxes)

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions please press * and 1 on your telephone keypad.

Moderator: The Next question comes from Mr. Aniruddha Joshi, from Anand Rathi. Please go ahead

Aniruddha Joshi: Yeah Sir, Just couple of question from my side as well, Basically whatever stores we are getting open are in the existing states only. So what

are the plans for entering into new states and when do see that? And also is the strategy we are still maintaining that we will open a next store in less than 80 kilometer from the existing store and regarding the advertisements also we had already decided to focus on print media so is there any change in plan or in strategy?

Lalit Agarwal: Basically on the opening of the store in new states we have done extensive study in two new states that is Jharkhand and Uttarakhand. So we are entering in Uttarakhand in this quarter itself and so we would open a store in Dehradun that in this quarter itself. We would penetrate into Jharkhand in next quarter. So in second quarter we will see some more stores opening in Jharkhand. We are trying to have two new states in half a year.

And then as far as advertisement are concerns. We are still concentrating more on print media effectively, because print media is the best medium to reach all areas.

And your question on, whether we are maintaining that 80 to 100 kilo meter, thought process, yes it is 100 to 150 km thought process, where our cluster based model is promoted,

So we are trying to ensure that same model is done when we reach to a new state, so maybe we just shift that to 200 kilometer but not more than that's what our thought process is.

Aniruddha Joshi: In terms of most of raw materials we are saying, there is good amount fall over there. Do we see that getting passed on to you and do we see gross margin expansion itself?

Do you feel overall the revenue mix changing more towards apparels in FY 14, so that overall gross margin and EBITA margin can move upwards?

Lalit Agarwal: We have seen the fashion segment rising from 76% to 81% percent and I think this will go further because the new stores we are opening are pure fashion stores, so they will giving 100% contribution from non kirana products and obviously the margin are better from that segment. We would like to enhance the margin but we would not like to immediately focus very much on margin part but for us increasing the sales per sq ft is our primarily objective, so we would like to concentrate more on increasing the sale per sq. ft from the marketing promotion scheme. Ultimately when you increase the stores with fashion only, you will have good margin in place, so we should anticipate some better margin in the coming years.

Aniruddha Joshi: ok, in terms of Holi has there been any postponement of any sales in month of April

Lalit Agarwal: Yes, because Holi was late so even the wedding season started very late in the end of April, so we have seen a better May than as expected April. Even April was better than the last year but it was not too expectation but May is primarily much better than what April was.

Aniruddha Joshi: We are continued to see healthy growth rate in same store sales growth.

Lalit Agarwal: Yeah, that we are monitoring and we feel that is very healthy precedence .we have seen the same store sales growth coming from the value and also from the volume. The volume growth has been primarily very effective and we have seen a per piece additional pricing also. So the sales value per piece is also grown. People are moving to more little costlier product and little better product.

Aniruddha Joshi In terms of cost is there any major differentiating factor, we have seen also labor cost has been going up also very significantly so is that impacting us and now we have seen that various state government raise their electricity rate, so are we seeing any increase in that front also or even the diesel prices for the matter?

Deepak Sharma: Anniruddha, I'll take that question just to give you perspective that expense as a percentage of sales has grown very marginally from 19.1 % to 19.5 % despite all the increases that you have been seeing by each expense head . Like if you are seeing the manpower cost going up from 6.1 % to 6.5 % and power and electricity going up from 2.5 to 2.8 percent the overall impact on a consolidated basis is just of 40 basis point.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions please press * and 1 on your telephone keypad.

The Next question comes from Mr. Jayesh Gandhi, from Morgan Stanley. Please go ahead

Jayesh: Good evening

Lalit Agarwal: Good evening Jayesh Ji.

Jayesh Gandhi : So good set up numbers in line with the expectation. My question was how will we seen this year, I joined in a bit late in case u already articulate with that and appreciate if you could throw more light on it, we have seen decent growth last year. Do we see things to improve in terms of growth rate better what we saw last year?

Second is a question on your overall working capital do you see that being controlled or maintained at what we have seen in current year. Or what we have seen last year?

Lalit Agarwal: We have seen good growth in the sales till now also in this particular year so in the last 49 days that we experience till now we have seen the sales growth of almost 40% over the last year.

And we would expect this trend to go further because we haven't added any stores in this year till now we opened 7 new store in last year the last 10 days of the last year so that also added up to the sales part and we have seen a healthy growth in the same store sales growth has improved also and that is becoming a major area for our scope of

improvement because we have seen the same store sale growth of 15.8 % overall the last year same store growth in fashion in particularly 20%. And then there is a volume growth of 14% in fashion.

As per working capital is involved we have been very aggressively targeting to reduce our inventory, try to be more crispy and try to be more fresh at the store level .So we are driving a lot of activities around supply chain management, procurement processes, around discount and promotion schemes at store level and call on marketing schemes and advertisement spent that we are trying to do so we are trying to become a little bit more bigger and try to organized in more better way.

I think that those should give us good result.

Jayesh: Overall margins if I look at EBITA margin or gross margin have also shown improvement do we see improvement continuing?

Lalit Agarwal: Yeah, yes we improved our gross margin I expect because last year, as I explained that due to Holi and wedding time so we did not get good gross margin in month of March.

So we expect this margin to get shifted in the month of April, May and June so this quarter, we have seen some good margin coming up we would expect some 100 base point improvement in the margin from the last year which was 12.7 percent in the 1st quarter of the last year.

Jayesh But year as whole do we expect 100 bips improvement I think last quarter you were suggested 50 bips but do we see 100 bips improvement for the year as a whole.

Lalit Agarwal: Year as whole is too preliminary for me to comment right now.

We would always work towards improvement because we are opening up new stores only with fashion we are not putting kirana there. We would expect that to happen. But we always try to improve on our sales per sq. ft in our productive manner that is our key concern that we want to have.

Moderator: Thank you sir. Ladies and gentlemen if you have any questions please press * and 1 on your telephone keypad. There are no further questions; I will now hand over the floor to Mr. Jatin Kharatmal for closing comments. Please go ahead.

Aniruddha Joshi: ok on behalf of Anand Rathi research we thank the Senior Management of V-Mart Retail Ltd. Mr. Lalit Agarwal and Mr. Deepak Sharma for being on the call. Now I handover to Mr. Lalit for closing comments on the results and future outlook.

Lalit Agarwal: I sincerely thank our investors to have this patience to be with us. Monitor our growth and guide us for further future growth. So we look forward to all those guidance from the investors side and we expect that we would motivate our self

and all the expected guidance, not let any investor down in terms of their perception towards our performance. We try to ensure that whatever performance we do and whatever growth we give out is a stable growth and is not a temporary growth. It should be a very stable growth which should be workable for the long term

We look forward for a long term horizon and we look forward for long term stability that's what I can concern. Thank you very much. Thank you everybody.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a good evening everyone.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.