



“V-Mart Retail Limited Q4 FY-15 Result Conference Call”

May 06, 2015



MANAGEMENT: **MR. MR. LALIT AGARWAL – CHAIRMAN & MD, V-MART
RETAIL LIMITED**
 MR. DEEPAK SHARMA – CFO, V-MART RETAIL LIMITED

MODERATORS: **MR. TANMAY SHARMA – EDELWEISS SECURITIES LIMITED**



*V-Mart Retail Limited
May 06, 2015*

Moderator: Ladies and gentlemen good day and welcome to the V-Mart Retail Limited Q4 FY-15 Result Conference Call hosted by Edelweiss Securities Limited. As a remainder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your Touchtone Phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Tanmay Sharma from Edelweiss Securities. Thank you and over to you, Mr. Sharma.

Tanmay Sharma: Thanks, Margret. On behalf of Edelweiss Securities, I welcome you all to the V-Mart Retail Q4 FY-15 and Year Ended March 31st, 2015 Call. Today, we have with us the senior management of V-Mart Retail, represented by Mr. Lalit Agarwal – Chairman and MD and Mr. Deepak Sharma – the CFO of the company.

I will now hand over the call to Mr. Lalit Agarwal for his opening comments post which we will take the Q & A session. Thank you and over to you, sir.

Lalit Agarwal: Thank you, Tanmay. Good evening, everybody. Welcome to the call once again. As usual we are looking at a consistent growth at V-Mart but not as consist in same store sales growth as it used to be. So we are witnessing a little under prescribed growth rate on the like-to-like basis at V-Mart. So we have noticed growth rate of 5.5% L2L in this quarter. The economy looks primarily okay, there was some sense of low mood in the rural areas which has boiled up to the urban, semi-urban areas also. But as such we are not witnessing decrease in the footfall or the buying pattern yet. As average selling price of the product have gone down a little on the quantitative term we are seeing a growth. So overall the walk-ins of the people have increased and the conversions have also increased. But if we look at the average sale price of the product which we sees going down so which is relatively showing a an effect from marginal decrease in the consumption aspiration where people are spending on little lesser value product rather than spending on the costlier product. So that is the effect that we are able to see maybe one of the reason of that is that. And otherwise we are also seeing some de-growth in the same store like-to-like because of the last year new stores that we have opened up because the new store that we open are in these kind of territory we get higher footfall in the first three months which we call the honeymoon period. But later on in the next year that does not persist. So we get a moderate or flat growth in those kind of stores immediately in the second year.



*V-Mart Retail Limited
May 06, 2015*

So typically what we are seeing over the industry and the consumption looks bullish, looks better there is no very-very immediate pressure on the economy. There is no immediate pressure which we see in the consumer's face that we are catering to. We are still hoping good quarter in this coming quarter. And then we would anticipate as a better same store sales growth and the better total overall growth also.

If we look at the industry as a whole the industry has got a little bit hit with the so call online players the ecommerce players. We are witnessing a lot of calls from other retailers and a lot of people who are complaining about online retailers. They are entering into certain areas which are low price and there are able to give higher discount. But at our side we have not witnessed a visible problem at our store. We have seen maybe because the same store sales growth is not looking as good as last year we should also contribute some part to the online players because online players also tend to challenge us as they have been getting a lot sales from the Tier-II, Tier-III cities. Anyways, I think for the online sales to enter our space it requires more time, it is more about our self, and more about management, and our processes, our system which we need to improve and keep on improving to mitigate all the requirements or all the challenges which will come from any other competitors.

So on the internal management side as we had also told on the earlier calls that we are on the process of improvement on most of the areas which link to our businesses. So the major part of which would be the human resource capability development part or the trainings and the internal hiring or even retaining people or even building internal capabilities. We have shifted to new office at Gurgaon near Delhi and now it is a better place so we can have access to better people, we can get better people on board. And so we hope we will be doing a lot of activities and then we will be having a lot of people into our system. And then simultaneously, we are working a lot on the processes trying to build new processes, trying to adhere or even validate those processes. We have hired E&Y as Internal auditors as we have already told you who are trying to comment on the existing processes they are doing do's and do not's about those processes of the violation or the adherence of those processes.

So trying to create an excellence within the system and I am trying to follow those. Apart from that we are trying to build some of our interest towards brand building and trying to create a brand V-Mart across smaller town. So working towards very specifically towards those areas by doing certain local activities, BTL activities, and certain brand building activities across those small scale cities and across the local media presence which is available there. And also ultimately what we feel is brand is something which a customer faces and it's more about the customer experience. So



*V-Mart Retail Limited
May 06, 2015*

the customer experience in the store has to be better and has **been** in improved version. So we are doing a lot of trainings and a lot of internal handholding with the staff and working a lot on the internal ambience and the availability of the basic requirement at the store. So we then persistently trying to give right product at the right time at the right place and those things what I understand will create brand for customer in our kind of store, at our kind of cities, if they want 28 waist size and length 42 black trouser and at a particular time, if he gets that black trouser of his size, in pricing that is a brand quality so that is what we consider as a brand. So we need to focus, we are focusing a lot on supply chain management to do that we are focusing lot on the merchandizing assortment planning, inventory management, so we have consolidate our warehouses at Bilaspur now we are considering to implement a warehouse management system software trying to get into that and then bring in a lot of technology which will qualitatively improve our supply chain and also decrease our days of supply. So we have done a lot of work earlier but we still feel that a lot of things can be done with the relative technology because technology is available cheap today. So we need to understand and learn more about technology try to implement technology to create businesses to make our business little more viable and better.

We are looking at taking in a lot of benefits from the new Board of Directors that we have got. So our new members in the Board of Directors there are some members who are working with us on the strategy piece, on the long-term strategy looking at a three to five year strategy plan, our vision statement, so trying to draft those internally trying to have workshops around those, working very much effectively on these areas and as I think as I have been already saying that internally it is more about us to manage ourselves. The world has a lot of potentiality, the market that we catering has a lot of potentiality. The market is supposed to respond but as soon as you come up so it is all about us to learn and learn more and more so, we keep on doing the same.

So I hand over the call to Deepak, he will take you through the numbers of the quarter and the year.

Deepak Sharma:

Thank you, Lalitji and good afternoon, everyone. I will very briefly run you through some of the permanent numbers that I usually touch upon. The key highlights that I would like to make before I get on to the specific numbers. This time during this quarter our focus has been on rationalization of inventory, the qualitative sides as well as the quantitative sides. And like we have always maintained in the past I reiterate our focus was the fact that our business fundamentals what are primary



importance to us. What do I mean business fundamentals is that my inventory and my customer base needs to be intact. If for the sake of maintaining these business fundamentals I have to give away a couple of points in terms of margins we are more than happy to do that and this quarter was a typical example of the management keeping a focus on the business fundamentals. And what we have done this time is we have tried to rationalize the inventory by ensuring that the carry over stuff from the seasonal inventory is reduced to the minimum and try to sell off as much as possible before the close of the quarter or the end of the season. Even though what that mean giving away some margin maintaining our basic impact that has been the highlight of this quarter.

Other than that, there are couple of other points that I would highlight on a qualitative common side. That this was I mean a very big highlight for the people on the call is that we have closed the financial year as a free cash flow positive entity. We have added about 19 crores of free cash flow and other than that there is small presentation matter which has changed in our accounting presentation as per clause 41. What we have done this year is that the bank charges pertaining to the transactions which are happening or pertaining to operations at the frontend we have moved them out of the grouping of “finance cost” and move them to “other charges” which is a part above EBITDA.

Now the impact has been reclassified even for the previous year and going forward this will have a nominal impact as such in terms of the EBITDA margins that we talk as a base line number for us.

And lastly, I will touch upon what Lalitji mentioned earlier in terms of processes. What we are trying to do is we are sanitize the processes so that going forward we can scale up our business in terms of the expansion plans that we have and also using technology to leverage our existing strengths that we have.

Coming down to the specific numbers the sales growth has been 23% for the quarter and on an annualized basis it is 25%. EBITDA is 20% growth for the quarter and YTD it is 23%. PAT is 47% for the quarter and 49% for the year. Same store sales growth if you look at for fashion is 5.5% for the quarter and 6.5% annualized. Volume growth is 9.7% for the quarter and 4.96% annualized.

I would like to briefly take a break here and emphasize on this a specific parameter that we track to obtain for sales growth in volume. The focus of the company this time like I mentioned was to ensure that we clear up the inventory that we have



instead of carrying it over to the next seasons. As a consequence what we have done is we have given away discounts on these products and as a consequence the average selling price also has dropped a little bit which is reflected on the average selling price the increase is not so normal as we have and even the transaction size has been a nominal increase. Though of course on the business side if you look at it, this inducement to the customers by offering them discounts resulted in a high level of footfalls increasing by about 17% for the quarter and the conversion also have been pretty good.

So overall if you look at it from the management perspective the quarter has been a fairly satisfactory one in terms of the objectives being achieve. Overall, of course being the weakest quarter in the whole quarter it has been slightly subdued and otherwise to there has been some pockets of weakness around.

I will now like to open the floor for questions.

Moderator:

Thank you very much. We will now begin with a question-and-answer session. First question is from the line of Jignesh Kamani from Nirmal Bang. Please go ahead.

Jignesh Kamani:

Congratulation sir for good improvement in the balance sheet number and turning free cash flow positive. Sir, just want to check last time we took couple of initiative like vendor development portal, consolidating warehousing to single one. So can you throw some a bit on that how is you can say vendor development program and how is headway from right now since I think a lot three or four months you have started you can say working on that. And right now, I think we have only one warehouse compare to multi warehouse earlier. So right now what kind of benefit we are witnessing. Can you just throw some light on that part?

Deepak Sharma:

As a part of vendor development program I would like to put things a little bit on perspective. Last year what we had done we have a pilot program which we call "Sahyog" and objective of this program is to ensure how we bring our valued vendors on the similar platform and give them a forum whereby it is interactive session between the company as well as the vendors in terms of the expectation. And it was a big success and received very well with the vendor eternity whom we consider as a very important partner in our business. And we ran a similar program this year a couple of weeks back and again this time it was in a more organized way we conveyed the message across to the vendors. And it has helped us in a very big way. We also have for the vendor management side we have developed a vendor portal whereby, what we do is we provide visibility to the vendors in terms of their



performance starting right from the order when the companies places with them in terms of the timely deliveries, in terms of the quality of the goods which have been accepted, how well the goods are doing at the frontend as well as, ensuring that we coordinate with the transportation and overall management for the warehouse prospective.

Jignesh Kamani: So it is led to improvement in terms of lead time from manufacturing to supply for us and vendor also?

Lalit Agarwal: Yes, it also not only that the biggest advantage we have is optimum utilization of the warehouse. So that the inflows of the goods are controlled from of prospective of warehouse management.

Jignesh Kamani: Sure. And if take you think about right now we have closed on 10 percentage volume growth in the fourth quarter and 6% at SSG so that will be close from (-4%) pricing on that. So if you take our last year we have close from (+10.5%) pricing. So close to 10% is an impact of discount or we have also reduced the price because the cotton price has come down.

Lalit Agarwal: So Jignesh this is both the sides: one, yes, obviously the raw material prices has also reduced and the uptick of the customers have been primarily towards the lower price bracket and two, yes, because we have also off loaded some product at the higher discount because the discount percentage is higher and the product sold in discounts are little higher so relatively you will get the defect there also.

Jignesh Kamani: Sure. So what will be that you can say reduction in the price in terms of garment just because of the cotton price decline?

Lalit Agarwal: See there is 3%-4% reduction in prices which is not effective only to the cotton garment but also to synthetic yarn because even the petroleum, crude prices, have gone down. Even the synthetic yarns have gone down so in the last quarter maybe we have not witnessed all the decrease but maybe in this quarter also we will witness some more decreases.

Jignesh Kamani: Sure. And sir have we closed any store in this?

Lalit Agarwal: So we have not actually closed the store. There is one store where there is problem which we have announced now and which we may close in this year.



*V-Mart Retail Limited
May 06, 2015*

- Moderator:** Thank you. The next question is from the line of Vishal Gutka from India Infoline Capital Limited. Please go ahead.
- Vishal Gutka:** Sir, how do you see demand panning out over the next three-four quarters given the unseasonal rain in the UP, Bihar that is your core area?
- Lalit Agarwal:** Can you repeat this?
- Vishal Gutka:** Yes. How do you see the demand panning because rural income area under stress in UP and Bihar, right? So that is the main area you are focusing right now.
- Lalit Agarwal:** Yes, I mean what you are saying is UP and Bihar is our biggest territory. And I told in my introduction call also that so the demand seen is there is not major difference in the demand so if I tell you about the current state of the demand, we are seeing a very good growth in the demand and we are seeing enthusiasm in the people because we have wedding days going on the market. So even if there is an enthusiasm in the wedding days, there was a little low enthusiasm during the Holy festival a little low enthusiasm. But once again we are seeing a better enthusiasm in these months. So I think the demand relatively has been little subdued and that was not that because they will consumer necessity products but yes there is certain element of aspiration where they will tend to buy a little higher value product which we are not doing currently because the assurance is on their incomes are a little lower.
- Vishal Gutka:** Okay. Sir the gross margins have been impacted in the current quarter due higher discounting. So do you have some more inventory left in your books that may require discount in coming quarters?
- Deepak Sharma:** The amount is going to be fairly nominal because you see what we have done is we have taken the effect which we were normally rolled over to the next financial year. We have ensured that we take that in the current quarter itself so that at least the carry cost of the inventory is reduced.
- Vishal Gutka:** Okay. Sir one more question on the online players, basically right now the focus towards the Tier-I cities but over a period of time you will be focusing on Tier-II, Tier-III cities as well. So have you derived some strategy to counter them?
- Lalit Agarwal:** So as I understood correctly you are saying our focus has been on Tier-II, Tier-III cities and is our focus going to change. Is my understanding correct?
- Vishal Gutka:** No, I am telling that online players. Right now they are focusing...



Deepak Sharma: Right.

Lalit Agarwal: So Yes, the market is very big I will tell you Vishal the market is too big for every player to come in. So as of now all together it will contribute not greater 5% or 6% of total sales in cumulatively all cities all the smaller cities. So I think still there is huge scope and even if the online player penetrate there is a huge density of population on average the district were we operation the district has a population 2 million, 1.5 million to 2 million. Even if they consume 2 pair of cloths a year it becomes a very big market size and then from this market size you have a lot of consumption and the expectations are rising and the demands are arising. So I think there is a big market for everybody to come into. As on I told you we do not see any threat as of now from the online player. At least it is a segment that we are catering to because our segment requires a lot of touch and feel effect and a lot of products are there which people want to try and use before they actually buy it. So we are not seeing those kind of threats and we do not need to immediately anticipate any kind of strategies to counter them.

Deepak Sharma: I would like add what Mr. Lalit just added is you must try and understand the psyche of the customer in the smaller town. He usually does not have a pocket size to buy many sets of apparels. He is primarily looking at maximum two or three sets of apparels a year and for him each set of apparel is more of investment rather than a discretionary spend. So what he does he try to find the very fine balance between fashion and quality and pricing and that is where the touch and feel as Mr. Lalit pointed is very-very important. Online segment is primary for products which are standardized and there he does not have this balancing required. So I would like to say that for the customers that we are catering to right now we feel that the online option is going to be restricted to certain standardized products only.

Vishal Gutka: Okay. What about products like footwear and apparel are seeing big pick in Tier-I and metro cities so, there also touch and feel factor is there but they are seeing a big time pick up in metro and Tier-I cities?

Lalit Agarwal: Yes, in branded segment particularly in certain brands it may be effective well if somebody buys a Nike or Adidas shoe it may be a little effective or you wanted to buy certain Van Heusen shirt or a Blackberry trousers it may be effective. But in our kind of segment where we do not sell brand also it literally gets up. But anyhow the market is still big for everybody to get there and then it takes a very small initiative to launch the Omni channel in an online space. But we are always constantly monitoring those markets we are understanding the requirement, we are



understanding the penetration of people at those levels in the online space. Whenever we feel the market is matured enough we will also try and step into the same environment.

Vishal Gutka: Okay. And sir what is your likely store additions guidance for FY-16 in terms of sq. ft. as well as similar stores?

Lalit Agarwal: We always try to open up stores somewhere around 25 in numbers but we target once again something around 2 lakh square feet is what we should be adding on this year.

Vishal Gutka: Okay. So this will be in the existing areas of UP and Bihar or will be focusing on new geographies?

Lalit Agarwal: So yes, we will consistently keep on adding on stores in the existing areas where we operate. Simultaneously, based on our cluster base philosophy we will also move into nearby states which we wanted to do last year but we went little slower and we consolidate our thought processes we moderated our growth rate. So this year we will go into Orissa and Bengal also.

Deepak Sharma: To what Mr. Lalit again said is we are geography agnostic it is not rather that we have benchmark internally that we have to keep adding geographies every year. That is only meritorious evaluation that we do when we are adding on locations. So primarily if you ask us it is more or less based on pure financial merit that we evaluate new store locations.

Vishal Gutka: Okay. And one more book keeping question with regard tax amount this is positive amount in tax with regards to in the current quarter. Just can you throw some light on it?

Deepak Sharma: Actually in the last quarter when we had finalized our auditors have the opinion that pertaining to one transaction that there would be tax implication which had factored in the last quarter, This quarter again the transaction got concluded it was observed that the tax implication is not going to be there so there was reversal on the tax amount that we have provided last quarter which is why this positive amount is coming.

Moderator: Thank you. The next question is from the line of Avi Mehta from IIFL.

Avi Mehta: Sir, actually I just wanted one small clarification and just trying to take two comments one you highlighted the demand, I am just trying to get some more light



*V-Mart Retail Limited
May 06, 2015*

on the demand front. You highlighted that demand had not moderated. But if I look at this quarter, you gave a healthy discounts but same store sales growth still kind of did not kind of pick-up was not that good. And you have also highlighted that people have moderated their spends and kind of gone to lower price segments also in addition to your discounts kind of coming in. So I am just trying to understand what is happening on the demand front. Would you say that it is more seasonal phenomena is this one-off do you think it is an income that should kind of kick-in. Can you throw some more color on this, sir?

Lalit Agarwal:

Avi I cannot create new colors, I am sorry. But Avi, the whole thing is you to understand that we understand what we are talking is because we are into a segment and the territory or the customer base who do not have those kind of income where they will come and buy fashion just because of their aspiration or only discretionary. So there is in 70% of cases where it is actually needful and people buy their needful requirement and that is what they do. So there are 30% of the cases where they do it for fashioning and for fashionism. So those 30% requirement which comes out from that sector has got a little hit and within that wherever there is a little high product item, high value item where the price would be a little higher for a better product people have opted onto a little lower price product trying to compromise with the fashion. So in those respect we had seen some kind of high value products in the seasonal time. We saw some high value products which were in the store which did not move very well that is why we have to offer a lot discount to outset that. Yes, to what you are saying there is a low mood in the demand but what I want to say is the mood does not stay back the number of pieces sold can get reduced. The number of pieces would be equal but the value of the pieces can go down so that is what I mean when I said this.

Avi Mehta:

And sir on I am sorry, just for clarification this the inventory you said that the entire impact has already been reflected. I could not quite understand that part if you just highlight or explain that, sir.

Deepak Sharma:

See what I meant was that instead of carrying over the inventory to the next year and offering discounts on them when the season starts because it is already old inventory we have ensured that we have booked the discounts in this current year itself because we have managed to dispose-off that inventory.

Avi Mehta:

Okay. So it is all reflected in the cost of inventory itself.

Deepak Sharma:

So like I mentioned we are trying to save on the cost of carry.



- Moderator:** Thank you. The next question is from the line of Apoorva Kumar from Jefferies. Please go ahead.
- Apoorva Kumar:** My first question is on GST. What kind of impact do you think GST will have on the branded apparel business? And secondly, what kind of impact do you think on your logistics will GST bring about?
- Lalit Agarwal:** So let me take the second question first. On the logistic side, we are already centralized in our distribution system so we collect all the product at the central warehouse and distribute it from the central warehouse to our stores. So we would not typically have a very high impact. Once yes the CST which is charged right now as a procurement that is around 2% of the value of the purchases which may go off but we fear that there will be a very high amount of rate of tax which will be implicated on the product because apparel business is in the lowest of the categories because apparel does not attract excise duty and attract only lowest form of VAT that is 5%. So of now the total sales tax of the VAT that we pay is 2% on the GST and then 5% on the sales side. So but the rumor that we are listening from the government side is the GST rate will be something around 20%. If it is something around or above 20% it would impact the consumption or it would impact the customer heavily because the customer will have to pay the ultimate extra percentage which is charged on him. But we will have to wait for the final word to come from the Finance Ministry.
- Apoorva Kumar:** Okay. And sir do you see any shift or any benefit coming from the shift to organize sector?
- Lalit Agarwal:** Benefit from GST?
- Apoorva Kumar:** Yes.
- Lalit Agarwal:** I would not see really the apparel business I see because temporarily there will be disturbance and temporarily the cost of the product will go up for the customers. So there are changes that it may hit the consumption also because ultimately our customers have a very limited pocket size and if their pocket size does not allow them to once again buy more products it will hit their consumption. But we do not see a lot of good things but yes on the administrative side or on the actual processing side there would be a lot of consistency and there is a lot of seamless transactional ability which can happen. But let the ball start rolling then only we can know how it is going on let us see what is coming out from the Finance Ministry firstly.



- Apoorva Kumar:** Okay. And just one more question sir, on the unseasonal rain fall that happen in March did that impact business in any way in UP and Bihar?
- Deepak Sharma:** Yes. It did of course because you see in smaller towns because of rain fall the customers usually do not tend to venture out all that much. But I guess, it would not be so substantive as to cause a dip in our sales percentages or the margin percentages. The impact has been there of course you raised a valid point I mean the impact has already been absorbed in the numbers.
- Apoorva Kumar:** Okay. And sir, there is talk that this would lead to lower crop yields and probably lower disposable income in the rural areas do you see that kind of impacting your sales?
- Deepak Sharma:** Actually the results for the month of April as we see it are really not reflective of that pattern and we do not know how it will pan out during the course of the year.
- Moderator:** Thank you. The next question is from the line of Pritesh Chedda from Emkay Global. Please go ahead.
- Pritesh Chedda:** Sir, the reading through the presentation, I could understand the difference between the SSG growth and the SSG volume referring as the price drop. But when we say the ASP has increased are we actually referring to the total volume and the total sales and by the function that the Kirana has dropped your ASP has increased?
- Deepak Sharma:** Yes, that is correct. And plus you must also factor in that the ASP is for the company as a whole whereas the SSG is for a limited number of stores which have function for 365 days in the previous financial year.
- Pritesh Chedda:** Secondly, we were on always looking at a double-digit SSG growth in the business operation. What would be your near-term outlook now on the SSG front?
- Deepak Sharma:** We are looking on a long-term average to be maintained which is about 10% SSG for the coming quarter at least.
- Pritesh Chedda:** For the coming quarters as well?
- Deepak Sharma:** Yes, at least.
- Pritesh Chedda:** At least, okay. Then on the store count there is this closure of this one store if you could highlight what is the reason?



- Deepak Sharma:** Actually this was a store where the premises were very close to an archaeological heritage site and the Archaeological Survey of India has come and sealed the entire premises. It was whole building which was there out of which our store was a very small part. So they have come and sealed that part the landlord was trying to get that rectified but we have taken a call that we will be moving onto a newer premises because we really do not know that how much time it will take.
- Pritesh Chedda:** Okay. So it is an external reason for which...
- Deepak Sharma:** Of course.
- Pritesh Chedda:** Lastly, we were looking at the supply chain changes efficiencies but I when look at the cost all the heads possibly have gone up accepting let us say an advertising head. Is there an alternation in the way the business metrics because earlier it use to be about 14%-15% store level you know EBITDA margin and then use to have corporate overhead? Is there a change in the business operating metric either on the downside or post these efforts on the upside?
- Deepak Sharma:** I do not think we have ever on any on the calls conveyed that the effects of the changes that we have done will reflect in the 31st March quarter. It would definitely carry over into the coming quarters. At least even for the next two quarters I do not think it will reflect so much. Primarily the business impact that will show but the efficiencies of the supply chain will start reflecting at least for another two quarters beyond that.
- Pritesh Chedda:** So the cost increases that we are seeing in all heads is a reason for these changes?
- Deepak Sharma:** Cost increases?? I guess most of the costs are on the way down.
- Lalit Agarwal:** I would like to say there are lot of cost which are strict in nature and it you anticipate a growth rate even within the same store sales growth and if you do not achieve those in percentage terms you tend to increase those percentage by a minimal decimal point so yes we are seeing some pressure on the cost side also the manpower cost has gone up a slightly and the rentals have gone up slightly. But I think that is a temporary phenomenon it should get moderated as the sales pickup.
- Pritesh Chedda:** So those efforts what kind of margins release it can generate?
- Lalit Agarwal:** I may not be able to comment. You have to calculate yourself that most of the cost are very much fixed in nature. There is a little variability with the increase in sales so



whatever betterment we can do with sales obviously we will have that extra leverage and extra margin that can be bleed out.

Pritesh Chedda: No, my question was not that side sir. On the supply chain efficiency or operating improvements on those side what are the cost reduction?

Lalit Agarwal: On that side the one thing is first is the sales because ultimately everything is dependent on the supply chain. The sales will get impacted. Better the supply chain is the better the sales are number one. Number two, if the supply chain is good you are able to reduce your inventory days so that will reduce the inventory days and yet your working capital and reduce your finance cost and your ability to open up more stores and investing to more areas. And then number three, you will reduce your backend processing cost which is your corporate overhead of warehouse or distribution center handling. So a lot of things can happen on those sides.

Pritesh Chedda: And on the depreciation side there is variation between last year and this year. Now, from this year which is FY-16 what is the depreciation that we should look at? Had it been a case where there was no store expansion let's put it hypothetically.

Deepak Sharma: You as a rule of thumb you can assume a 14% to 15% rate of depreciation on the gross block going forward. Since we have adopted SLM from the current financial year so, going forward the depreciation rate is going to be benchmark at about 14%-15% like I mentioned.

Pritesh Chedda: Okay. So then on a 96 crore gross block which is there at the end of the last year you should have a 14% on that.

Deepak Sharma: Yes, that is correct.

Pritesh Chedda: Okay. And last two questions, I missed out on your store expansion for FY-16?

Deepak Sharma: I think about 25 stores is what we anticipate.

Pritesh Chedda: Okay, sir. And lastly, what makes you believe that the SSG would go back to double-digit in the near-term quarters as well?

Lalit Agarwal: See the belief has to be internal dear. This is what we want to highlight and say. That belief is ultimately internal, there are lot of things that we have to internally and this is what we are up to and there is a lot of scope for the potentiality of the consumption to increase. So the glass is still half filled so let's concentrate on doing better.



Moderator: Thank you. The next question is from the line of Aabhash Poddar from iAlpha Enterprises. Please go ahead.

Aabhash Poddar: Sir, I just wanted a little bit more elaboration on those vision statements that we rightly said in the media. So you said in the five years you want to reach somewhere around 2,500 crores of revenue and open almost 200 more stores. So just wanted a little bit of more elaboration on that and also you said you would want to increase your private labels. So your top-line you are expecting it go around 2,500-odd crores and what are the margins that you would be expecting in that just your vision and just a little more elaboration on the same?

Lalit Agarwal: See we are trying to build up our vision philosophy and a long-term strategy towards what we want to achieve and what we want to do. So internally we have those workshops and we are trying to do that. See once again keeping the existing vision statement intact that we create value and make our ecosystem proud so we would still like to rotate around the similar margin and improve that marginally. So as of now we have our thought process clear on what we want to do on the top-line and on the store count this is what we have thought and this will come from our same philosophy of increasing our count or increasing our sales or the top-line by 30% at a CAGR level. So this is the same philosophy that we are using to project back and then the similar will be in case from the margins and then from profitability.

Aabhash Poddar: Okay, sir. And sir secondly, I wanted to ask regarding the shrinkages you are obviously working on our supply chain but the shrinkage is still gone up as compared to the last year. How do you expect that to pan out sir? So shrinkage this year also is around 1.8% and last year it was around 1.6% and despite all the improvement that we are focusing-on on the supply chain and all inventory management as well, any comment on that sir?

Deepak Sharma: Yes, I think we have been speaking about this exceptional nature of the high inventory shrinkage that we are seeing on the current year – just to bring things in perspective there are two sources from where the shrinkage comes from one is the frontend other and other is the backend. The backend has primarily had more write-offs and clearances that we do from the inventory that we are carrying over and this year have been slightly exceptional taking into account that we transition from a number of warehouses to one consolidated warehouse at a different location and the management has tried to take a very strict call on the inventory that we were carrying over to the new warehouse and as a consequence of that the write-offs had been pretty substantive at the backend. And we concluded the transitioning to the new



*V-Mart Retail Limited
May 06, 2015*

warehouse as on 31st of December and 31st March, 2015, would be in our opinion the last of that substantive write-offs that will happen.

Moderator: Thank you. The next question is from the line of Deepanshu Madan from Locus Investment Group. Please go ahead.

Deepanshu Madan: I am saying sir based on the numbers I have with me inventory days have come down from 107 to 93 on sales. First of all, these numbers are a bit different from the one in the presentation so am I missing something. And secondly, you mentioned that there was discounting done to sort of move out inventory and not carry that forward which I am assuming for the last quarter of the year is a regular practice so the drop or the significant drop in inventory this quarter is because you have done more than access of liquidation?

Deepak Sharma: You see I will first comment on the calculation part of the inventory days. I mean there are a number of ways in which the inventory days can be calculated. We are using a simple method of averaging out the inventory when we calculate average it is between the opening and the closing for the period and then work out the number based on their average sales per day. In case if you feel there is still a disconnect you can connect with me offline and we can share that with you.

Moderator: Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

Nikhil Upadhyay: Sir just three or four question. One was with regard to the opening of new stores so, just want to understand that when we open a new store in a new location so how is the frontend team being trained? Like is it local team or do we maintain a bench strength in order to maintain the same service level and maintain the same experience for the consumer at the store level. So if you can just highlight or just throw some light on what are the processes or how do we maintain those processes?

Lalit Agarwal: See basically whenever we open a new store we have a team of one which is project team which tries and first set-up the store and before setting up we do some surveys and we do a lot of analysis over the geography and over the area, the literacy rate, and the kind of people which are available. And then, we set-up our recruitment drive at the local level. We recruit people as early as 45 days before the opening of the store. And then we try and give certain small introductory training at that level. And then we try and send them to settle stores where they get an on-the-job training for the next 30 days and they come back to their base location. And then we support them with the older staff which are across other locations. We have a new store



opening team which goes from different department, from different levels, and at different processes, they shadow the existing people once the store is opened and they do it for the first 30 days and try to make them comfortable with the customers and then they go back to their original location. And then perpetually we have those training team which is available which goes to the store, train them we have certain technological set-up whereas online training also takes up. So these parameters are always there which we keep on doing between that there would be certain attrition also which we have to take up and so these things keep on happening. Mostly 90% of the people which we recruit are local. 10% of the people are transferred or relocated from the existing location.

Nikhil Upadhyay: Okay, that is very helpful. Secondly, sir on the rental cost if you can just highlight so what are the type of leases which we enter into? And what is the escalation clause for our rental agreements? And when do the leases actually complete and when do we like it is a 5-year-contract or a 10 year contract so, you can just give some highlights on how the rental increase over a year-on-year for the older stores?

Lalit Agarwal: It is a 9 to 12 year lease period and the rental escalation clause are generally 10% to 12% over every three years and that is all. And we can only exit the agreement the landlord cannot make us do that. And even they oppose the completion of the tenure, we have certain stores where we have renewed the agreement even at a same incremental rate and that goes on that is all. We do not have anything very specific.

Nikhil Upadhyay: And thirdly, like if we consider competition from other retail chains like the jewelry store or the food chain store which are also focusing on Tier-II, Tier-III market and also in high-streetish areas. Sir, do you see that has to some extent impacted or taken-up the rental cost higher over the year do you see that the area is so large the cost escalation is still not so high?

Lalit Agarwal: See I tell you the small town we should not presume that the rentals are lower. Generally the rentals are higher even now. We give total credit to our business development team who are able to find out locations in those territories with our basic thought process of getting on to properties which is viable and suitable to us. But yes, you are correct that due to lot of other players walking in to the city or the towns, may it be bank or institutions or jewelry player or a fast food chain or even other retailers so at times the demands goes up and there are locations where there are existing players who are sitting there and people do not want to give out at a lesser price. But it is always a challenge but our team is capable enough to understand those



*V-Mart Retail Limited
May 06, 2015*

challenges and have those tricks wherein they can bottle down the landlords and try to create an agreement which is viable for the company.

Nikhil Upadhyay: Okay. And last question sir on the inventory days if we see over the last two years and primarily I am talking about the apparel inventory. On a quarterly basis we have stayed in that range of 90 to 95 days in terms of days for the apparel inventory and since apparel contributes largest portion of revenue, do you see there is sense that this 90 days can be improved upon further or this would be the stable state for us?

Lalit Agarwal: I would not like to comment here. But I would like to say that we do not say no scope of improvement anywhere. So there are scopes of improvement everywhere and everything can be better. It is all about how better do you know and how better can you implement. So we are trying regularly to improvise on all the areas, all the standards and we will do some more betterment.

Moderator: Thank you. The next question is from the line of Jignesh Kamani from Nirmal Bang. Please go ahead.

Jignesh Kamani: Sir right now we are close to 108 stores so out of that in next two years how many store will come for a renewal of a lease rental, generally we have closed to around....

Lalit Agarwal: In two years we should have something between 12 to 15 stores and I am not exactly clear.

Deepak Sharma: About 12.

Jignesh Kamani: So do you think some of them might has to be close down because there might be significant increase in the lease rental as we have witnessed say last to last year?

Lalit Agarwal: See Jignesh we build a bank of 15 new projects every time and we continuously have those projects in our hand and for us even when we open a new store in a new site it does not take too much of time to operate and make it profitable. So we do not fear that and we can shift to a new location and where the renewals are supposed to be due our project team has already worked on those and we have identified certain locations beside those areas or within the same city where if we require we can shift if the city is doing good to us will try and plan and shift there. So that is not a big concern.



- Jignesh Kamani:** No, I agree on that but we are planning a difficult – these 10 or 12 store that some part might be unviable of the increase in lease rental or we think we have been able to can say renegotiate trend and continue the store after that also?
- Lalit Agarwal:** It depends upon the store's performance also. So one is the question mark that we want to put because post the nine years also we have to refurbish the store. We have to also plan certain CAPEX investments so it all depends on the mutual discussion and our internal belief also that how many stores do we want to continue? How many stores even the landlord is agreeing on what kind of renewals, what kind of terms of renewal? It depends on stores to stores and also on the logic of what kind of future do we see that store to perform.
- Moderator:** Thank you. The next question is follow-up from the line of Nikhil Upadhyay from Securities Investment Management.
- Nikhil Upadhyay:** Just one bookkeeping question, sir what is our employee strength? And as a part of total employee strength what part would be frontend sales team store level?
- Deepak Sharma:** Our total employee strength is about 4,300 as on 31st March and out of that about 85% to 90% would be at the frontend.
- Moderator:** Thank you. The next question is from the line of Arun Baid from Religare Capital. Please go ahead.
- Arun Baid:** My question was with regard to shrinkage, of that 1.8% shrinkage which we are seeing for this year how much will be from the frontend and how much will be backend?
- Deepak Sharma:** I think close to about 0.75% to 0.8% will be from the frontend and about 1% would be from the backend.
- Arun Baid:** So sir, if I get you right now since you have centralized a warehouse that 1% can be worked really hard upon, am I correct when I say that?
- Deepak Sharma:** It is very difficult to have a target on the shrinkage but yes the management would be fairly comfortable hit that benchmark.
- Lalit Agarwal:** You will have to try to understand the backend shrinkage is not only shrinkage which is due to pilferage so this is the more due to write-offs which are old and inventory out of fashion which is not newly and something which is dirty. So, it is more about



*V-Mart Retail Limited
May 06, 2015*

our operation, it is more about our planning, and is more about our buying. Our merchandizing, our ability to sale, our supply chain management system, our control over products, and our control over the up-keeping of the product. So these are all related thing which reflects as an indicator in the write-off. So the better we do I think that will reduce.

Moderator: Thank you. Ladies and gentlemen, that was our last question. I would now like to hand the floor to Mr. Lalit Agarwal for closing comments.

Lalit Agarwal: I like to thank all the investors and all the analyst fraternity who has come on the call. The questions were interesting and always motivating. I take back a lot of moves and lot of things to learn and we keep working on the suggestions that you give. So let's be connected. Thank you so much. Thank you.

Moderator: Thank you. On behalf of Edelweiss Securities Limited that concludes this conference. Thank you for joining us. And you may now disconnect your lines.