



“V-Mart Q4 FY 2016 Results Conference Call”

May 30, 2016



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- Moderator:** Ladies and gentlemen good day and welcome to V-Mart Q4 FY 2016 results conference call, hosted by IIFL Capital Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Avi Mehta from IIFL Capital Limited. Please go ahead.
- Avi Mehta:** Thank you Janice. Hi, good afternoon everyone. On behalf of IIFL, I would like to welcome all of you to the 4Q FY 2016 conference call for V-Mart Retail. From the company we have with us the key senior management including Mr. Lalit Agarwal – Chairman and MD and Mr. Deepak Sharma – CFO. I would now like to hand over the call to management for their comments. Over to you Sir!
- Lalit Agarwal:** Good afternoon everyone. This is Lalit Agarwal. Thank you for being there. Once again not a very good quarter, we have not seen better results here. We have faced challenges in terms of same-store sales growth and also the new store that we had opened up didn’t really meet those desired sales results that we wanted to. Overall situation I think once again nothing different from what we spoke in the last quarter, so similar situation on the ground, people have those challenges of regular income levels or regular consumption not going up, I think this monsoon getting better this year we should try and aspire some more better results in the coming next quarter, not immediately but yes I think the similar pressures of the family is being seen, which we also discussed last time and which has not resulted in a very good output that we are able to deliver so we also had some internal challenges or some challenges across some regions where we are operating because of smaller competitive players, .Last time I remember I told around 30 stores are facing some competition. We have seen additional 12 or 15 more stores where some more competitors have come in. These are basically regional competitors who have some five stores, seven stores, ten stores who are trying to copy our kind of model, trying to procure products but not that they are effectively able to do it, but yes once whenever they are there in the town and whenever they open up such a store near our store in the first three months or six months your sales get a little hit, but otherwise the market becomes bigger and you recoup within maybe three to six months. And then similarly the winter period was not good for January, February wasn’t a great month for us, especially going winter, people didn’t buy winter heavy apparels which we also discussed was the case for November and December, but yes the major impact was seen due to those and March was better but still the overall quarter did not turn out to be good for us. We saw a decent similar number of footfall growth, but



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actually people didn't convert because they were not be able to decide what should they buy and where to buy from. The pricing of the product lines I think we have seen a lower ASP so even our volume has gone down so both volume and ASP has gone down, but yes the bill size has gone up i.e. average bill the customer is buying. We are able to covert them in a better way. We are able to convince them in a better way, whoever is coming to us. We have opened some new stores also; even in this quarter we opened some new stores. We are operating as of now 125 stores. We closed down a store in Gujarat called Bhavnagar in this particular month and on the back-end side we have implemented the warehouse management system on the top of it we have also implemented a rule based engine which is an algorithm for allocation purposes basically giving output which merchandise should go to which store and which store is behaving in what fashion on current as well as on the budgeted front, so we are trying to focus a little bit more on trying to shift from man-dependent activities to a technology-dependent activities so that we are able to scale with the expanding store count and we will get those desired results in the year to see. Otherwise I think there are lots of good initiatives in terms of process development. We have also recruited a senior digital officer who will look into some digitalization initiatives for the company to bring in some form of digitalization, maybe mobile app or some virtual store reality. We are trying to figure out on those issues. We had a healthy board meeting wherein we discussed these issues also trying to close down on certain areas where we see future sales wherein we would little bit rely on even information to the customers are very important. I think these are the major issues. On the overall side we are seeing a little bit of pressure on the cost, the manpower cost had gone up in the last year because our sales didn't reach but actually we are bound to give certain increment in the existing salary structure of the people and then overall we also increase certain manpower in the backend trying to scale up the operations, but yes because we were not able to click our sales overall cost as a percentage went up a little bit so overall situation I think there are challenges but yes we are confident that we will meet those challenges. There maybe intermediate pressures coming up from the competition on all fronts, be it manpower, be it property new property acquisition in the projects where we are doing, even on the project side we are seeing a little challenge because the competition is also trying to acquire those properties and they are bidding at a higher price we have always tried and retain our cost at a lowest. So we are still trying to close our property at those prices and trying to find out properties within our range and so yes our marketing costs also has gone up a little bit trying to focus more on the brand image focusing more on the size. So we are taking up all these activities. We are quite on the toes. We are trying to see that the results are better and but yes the results are better on a strong foot trying to see a long-term view and then trying to maintain



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a sustainable performance. I think Deepak is on the line. He should give you some more brief about the numbers.

Deepak Sharma:

Thank you Lalit Ji and good afternoon everybody who is on the call. I would like to take you through some of the fundamental aspects of our business, some of the key aspects, which we focus on internally as management. Lalit Ji has already highlighted substantially on the weakness, on the sales part where the customers are not really coming in a big way and started holding back on the number of factors which are sentiment based as well as cash based, which we have discussed adequately. I would not delve on that subject again.

On the sales side of course like Lalit Ji said same-store sales growth has not been healthy, primarily two factors working against us, ASP like we have been talking in the past, that because of the commodity prices dropping the ASP of the product has come down however the double whammy has come to us in Q3 and Q4 where the volumes have also started shrinking primarily on the back of a very weak winter, so Q3 and Q4 we have seen substantial reduction in the volume growth which has led to overall negative SSG for the year. Footfalls conversions, sales per square feet all these three factors have been somewhat thereabouts, not growing at our expected growth rate. The other aspect that I would like to touch is which Lalit Ji very briefly touched upon is the growth rate in the expense as a percentage of sales particularly in the human resource side as well as on the rental side we have seen some uptick in terms of the costs, two major elements were contributing, first of all the rate of growth of our sales has not been commensurate to the investments the company is making in the backend in terms of human resource and rentals which has caused an increase in the cost as a percentage of sales and primarily other insight I would like to give to our listeners right now is that primarily the increase which is happening is happening on the corporate and the warehouse level, at the same store levels the expenditures are fairly around same levels with a very nominal increment both on the human resource side as well as on the rental side, so it is again in line with the company's maintained stand that we are making investments on the backend which is the corporate and the warehouse functionalities and due to which you are seeing a little bit of an uptick coming on account of the sales not keeping the same level of growth rates. Other than that I would like to touch upon a few positive elements, which the company has managed to work on while the sales have been faltering. First of all for the year ended March 31, 2016, the company's cash and cash equivalent exceeding the debt component that we have on the balance sheet meaning the company is net cash in debt terms. Another positive element is that we have again despite adverse sales scenario, we have still managed to improve on our working capital as a percentage of sales, inventory aspect, again despite the adverse situation



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and the winter inventory adding to our load we have still managed to keep the days of inventory at the same level at which it was last year and lastly the element which I would like to delve upon is we have again managed to close the year on a free cash flow basis.

Other than this a couple of points which Lalit Ji briefly touched upon is, I would like to give a little perspective that the situation that the company is undergoing right now is somewhat similar to the scenario that the company underwent in 2010, we had a lot of competition at that point of time in 2010 resorting to a lot of gimmicks to ensure that customers come in and the sales stay healthy, giving a lot of discounts but our company maintained the stand at that point of time also that it did not make financial sense to delve on excessive discounts, similarly the competition right now is going all out to ensure that they get adequate foothold in the territories where we are operating, they are taking on manpower and rentals at very high cost which is primarily we are losing out on some rentals, nevertheless we have our financial metrics whereby we try and ensure that when we sign on a store the metrics that we have in terms of manpower in terms of rentals they all remain intact and we do not make any compromise on that. We are very sure that following of the financial metrics will stand us in good stead in the times to come. The other element that I would like to add is on the operations front at the frontend and at the backend the company is focusing excessively ensuring that we strengthen our marketing, visual merchandising, the retail themes at the back end ensuring that the supply chain, the merchandising team look at the finer aspects as to how we can improve hoping that we will build up for the good monsoons and capitalize on all the efficiencies that we build up right now in the times to come. I would not like to take much time more on the subject and I would like to throw the floor open to the house. Thank you.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Abdul Kareem from HDFC Securities. Please go ahead.

Abdul Kareem: This quarter's footfall has increased from 43.3 lakhs to 45.1 lakhs while conversion rate declined from 64% to 62.8%, what are the things you are going to initiate to increase the conversion rate?

Lalit Agarwal: See basically, typically what happens is when the customer is into the store he is driven by either the ambience or the facility that is provided at the store or the product mix that we have at the store or the pricing that we have at the store or the schemes and promotions that run from the store or even the customer service which is important. So this will only bring up the conversion. What we are trying to do is we are trying to work equally on all the parameters, but as I told that because of the seasonality change people were little confused



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and people when they walked into the store we have seen lot of customers even going out right at the cash counter deciding whether to buy or not to buy because there was such a shift in the season so people were trying to take a very confused call and not able to decide, so yes obviously we will have to keep on watching to give the customer a better experience to increase the conversion, not only increase the conversion but also increase the transaction size because we still believe the customer can buy more in the same bill. So we are trying to do on both the aspects by trying once again to regularly update our visual merchandising, better our store ambience, and better our service level of the store and customer interaction by the customer sales representative. We are trying to take up all those activities internally.

Abdul Kareem: Yes, during this quarter winter season was not good and same region you had mentioned that we had.

Lalit Agarwal: Correct.

Abdul Kareem: See this quarter we are witnessing high temperature type of situations where most of the stores you are operating, are you concerned regarding this?

Lalit Agarwal: Yes, but this will not immediately impact our purchasing behavior so yes the customer we may have a lesser footfall witnessing in these areas but it will not impact but yes this season maybe some other event can impact the sales, because in Hindu calendar wedding becomes a very important part of the buying time. So wedding festivals are biggest festivals in India so this year primarily we are seeing because of some astrological change we have seen a gap of two months for the wedding in the May and June so we are not witnessing any wedding, so there maybe some impact but not due to the scorching sun but yes maybe due to other events.

Moderator: Thank you. The next question is from the line of Jatin Agarwal from Perfect Research. Please go ahead.

Jatin Agarwal: I have two, three questions to ask. First is in terms of SSG rate what was your current SSG rate and during the last two quarters we have seen the negative growth rate of 2%, 4% especially December quarter when most of the retailers have experienced good festive growth and second question is in case of all retailers the biggest inventory write-off as we can see, how are you managing this risk as we can see that inventory in your books is around 200 Crores so how are you managing this risk?



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Lalit Agarwal:

I think the SSG growth; I think we have already mentioned in the presentation that the SSG growth rate was negative 1% for the year and negative 7.5% for the quarter, which we have experienced. There is a concern that we already discussed that this same store sales growth have been negative yes because seasonality factor and also overall economy, but otherwise as you are saying that the performance of some of the other retailers have been good in the last quarter or in this quarter. So I need to understand that a little more their geography and the target segment maybe little different from ours we are primarily operating more in the Tier III towns and dependency on the rural income or the agri incomes are little higher, but still let me not back that up by saying this, there are concerns and we are trying to address those concerns and trying to understand what is causing internally. We are also trying to figure out what is causing this downfall and as you are saying about the inventory see we have been trying to manage our inventory on a very realistic parameters on a very reactive parameters also, so whenever we saw decline in sales, our merchandising team also got activated, thanks to them, they got activated, they cancelled some orders, they postponed certain orders and then we try and we have developed vendor portal and a complete requisition format where the advance shipment notice are being issued by the vendors to us so we try and delay the deliveries and the dispatches, we have control over those, so we have been able to manage that in a better fashion and those inventories which we saw that the sales are down so the inventory that we had in the warehouse although we retained those inventories at the warehouse so that the freshness of the inventory is maintained so that we can dispatch these inventory in the next year. As always we tried to be little more reactive and little more upfront in our inventory procurement model and also the disposal model as we have also given some better schemes and better promotions to clear the inventory which was at the store, we have a fair bit of loss in the GP also, the gross margin itself has gone down so that is how we try and manage our inventory, the increase in the inventory that we are able to see is also because of the new store that has come up, we opened almost 15 new stores in the last year.

Deepak Sharma:

Jatin I would like to add a few more specifics to what Lalit Ji just mentioned. On an YTD basis we reported a same store sales growth of 0.05 upto Q3 and it was negative 1.1 for the full year basis. We have already delved on the subject that same store sales growth comprises of two elements, one is the ASP element and the second is the volume element. ASP element we have again emphasized as a part of Q3 as well as in my opening comments I mentioned that because of the commodity cycle coming down in comparison to last year the ASP of the products has been on the negative territory for the year and for us we have been passing on that entire benefit to the customers so the ASP and the element of the same store sales growth has been negative for us round the year by about 4%.. The real aspect



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which hurt us starting from Q3 was a depletion in the volume side because the winter is not really kicking in very well and Q4 was really bad so primarily it has been the winter element and just to give you a substantive number for Q4 last year the contribution of the winter sales was about 30%, this year it has dropped down to about 23%. So the winter is a factor which really affects us primarily because to give you a little background on the macro side we are primarily present in the Indo-Gangetic plain where you have seasonality at play, the winter and summers are fairly acute in terms of the temperature difference and if there is a little moderation on the temperatures the buying pattern of the customers becomes very sensitive.

Jatin Agarwal:

So that is majorly because of the seasonality nature.

Deepak Sharma:

Very correct.

Moderator:

Thank you. The next question is from the line of Nihar Shah from Enam Holdings. Please go ahead.

Nihar Shah:

My question is on the sourcing that your competition does, given the fact that we have such a varied sourcing sort of base especially when it comes to fashion, just want to understand how is it that the competition is able to sort of either match you on prices either through heavy discounting or on the choice that you are giving to the customers and how do you sort of deal with this competition going forward?

Lalit Agarwal:

No I think on the sourcing front, Nihar, we need to classify the competition in two different pockets, one is the competition from the organized players which may be likes of Fashion Big Bazaar, or Reliance Trends or Max Fashion Store or we can classify them from the regional or the local stores. The regional and the locals I think we have a strong foothold over them and we buy at a bulk and we procure some vendors which are manufacturers right at the hub where these products are being manufactured and also we try and because we have a team of merchandiser who keeps on tracking what are the designs and patterns and trends which are going to launch in the market and which are the fashion which is going to be hit in the market so what is that they need to procure and what is that they need to get manufactured, they keep a track on that and then they guide these trends to the manufacturer and then these manufacturers then produce at a very reasonable price because our cost sheet is very much aligned and those specializations we have got over the cost control. Cost control as well as fashion is the biggest element that we do because of our bulk volume we are able to procure at a better price and then at a better fashion from the competitor and if we speak about the organized competitors I think they have their own



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process, they have their own qualities they have their own vendor base so they try and procure at very good prices and also they have sets of designers who also keeps designing maybe at a little better level than what we do, they would have a little better designing but yes their understanding over the smaller towns and their understanding about the consumption in the smaller towns are relatively not so good, they primarily happen to be more urban centric taste and trying to have more, more which run from the tier I and metro cities, but because of their cost element they have a policy where they mark up a little higher and their selling price compared to ours they would sell almost at 1.8 to 2.2 times than what we sell our selling are generally we will try to provide value to the customer reducing and trying to reasonabelize the pricing that we want to offer to the customer base. So I think these are the differences and typically with the increase in the stores and the increase in the volumes we are trying to get better there and we are trying to source it from a much better location. We are trying to ensure that our quality is best and we are trying to ensure that the designing and the product that we are trying to launch are also well designed and well researched through the international fashion and the domestic stream which is adopting it. I hope I answered your question.

Nihar Shah:

Just a clarification, you know the competition that you are all talking about the 30 that you mentioned last quarter and the 12 to 15 new locations where you are seeing competition come up is it largely organized or is it just a small unorganized retailer trying to play the price war game which is not sustainable over a longer period of time.

Lalit Agarwal:

So it is a mix of both, 70% of the competition is unorganized players who are trying to raise up such wars which are really not sustainable and 30% is obviously yes some of these organized chains are also opening up, the likes of Reliance Trends, likes of FBB and likes of Max they are also coming up in the smaller towns maybe Tier II some also in tier III, we have seen some penetration of them there also. We are witnessing both. We are seeing both and also some grounds were covered by the e-commerce players also.

Nihar Shah:

Just one sort of follow up question on in terms of what is the plan for opening new stores for the next financial year?

Lalit Agarwal:

In this financial year I think we are already working with almost eight new sites, which we may open in the next four months, and then apart from that yes we have similar aspiration of opening up similar number of stores or more that we had opened in the last year.

Nihar Shah:

So it would be at about the steady state level.



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- Lalit Agarwal:** Yes.
- Moderator:** Thank you. The next question is from the line of Aabhash Poddar from Anived Portfolio Managers. Please go ahead.
- Aabhash Poddar:** Just wanted to understand we have 36 plus 18 stores in Tier I and Tier II and you obviously mentioned quite a bit about the competition in these areas so out of the stores where you are facing competition would the overall percentage in Tier I and Tier II be higher or it would be higher in the Tier III areas.
- Lalit Agarwal:** The new competition which is come in are primarily in Tier III cities so the new competition what we are seeing on, which we feel have given us little impact is purely on the Tier III cities, overall we have seen almost 42, 43 locations in Tier II cities where we have had some of the other new competitors coming up in the last six months.
- Abhas Poddar:** Going forward do you expect a bit of margin compression, obviously we may fix all the issues that you alluded to but do you see any pressure in terms of margin because rentals are going up, you mentioned about the manpower obviously sales have become difficult, so you may have to compromise a bit on the margin in the short-term to gain more in the longer-term, what would be your sense on that?
- Lalit Agarwal:** We are putting our efforts to retain those margins and trying to reduce our cost a little bit, work a little high on increasing the gross margin, so really speaking if we are able to maintain some growth over the same store sales growth I do not see a reason why we should face on the margin pressure but otherwise yes some competitors which are coming and we want to give them a little tough time so we are trying to launch certain schemes and promotions so that we can counter them well which will be obviously as a result of which there will be some decline in the margin but these are all temporary phenomenon I do not think it should last.
- Abhas Poddar:** Okay that is it from my side thanks a lot.
- Moderator:** Thank you. As there are no further questions, I would now like to hand over the conference to the management to their closing comments.
- Lalit Agarwal:** Thank you so much, thank you everyone for being there patiently listening to our call and maybe we look forward from you people any suggestion that you have got you may connect with Deepak or you may just drop in a mail wherein we can try and encash in on any more



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outlook or some retail insights that you are able to provide us we would be ready to understand and listen to those. So I think we will try and put our best efforts best foot down thank you so much.

Moderator:

Thank you. On behalf of IIFL Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.