



“V-Mart Q4FY 2017 Results Conference Call”

May 05, 2017



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Moderator: Ladies and gentlemen, good day and welcome to V-Mart Q4 FY2017 earnings 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 the questions after the presentation concludes. Should you need assistance, during the conference call, please signal an operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Avi Mehta from IIFL Capital. Thank you and over to you Mr. Mehta!

Avi Mehta: Thank you Karuna. Hi, good evening everyone. On behalf of IIFL, I would like to welcome all of you to the 4Q FY2017 conference call of 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 handover the call to the management for their comments. Over to you Sir!

Lalit Agarwal: Good evening. Welcome to the call once again. Very, very good year for us. It seems to be a wonderful quarter this particular fourth quarter. Overall, we are seeing good aspirations and good growth in the aspirations from the consumers in the smaller towns. Overall we see pocket size of the customers going up and even the consumption led by the events in the society are bringing in lot of growth. So we have a good macroeconomic situation is what I would say post that the monsoon, post the demonetization, in fact our area has got better effect of the consumption.

The economy seems to be good, people are out their spending particularly in certain states like Uttar Pradesh and also states of Punjab and Gujarat which were not doing too good to us there also we are seeing lot of growth. So lot of betterment is what are visualizing in these states, Uttar Pradesh in fact may be due to the new government, may be due to the farm loan waiver and stuff, which happens had led to lot of consumption upswing within the customer and the consumer base like.

Youth and youngsters typically are focusing more on their employment opportunities, their education, culture is getting changed, people are getting more secured so on the ground situation is better, which will ultimately get converted into consumption, because people do not have a fear they tend to consume and spend more and save less. That is the overall feeling that we are getting.

On the other side, I think a lot of rural concentration is being shown this budget so I think that focus will also bring in a lot of opportunity of employment, lot of money is going to flow into rural markets and small areas whether it is from infrastructure or it will be from



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other initiatives which the government is taking within the irrigation and other stuffs. So I think those are very good news.

Otherwise on the industrial front, I think, the retail industry has been doing good we are seeing lot of players working in at different areas even in Tier II, Tier III cities lot of value players are coming up even in the organized segment. We have seen handlooms also coming within the smaller towns and then coming up and have open stores. So I think a very successful story from DMart is boosted the confidence of all the retailers and the investor community in large and even the vendor community.

Overall retail has been looked into a from a different glass so thanks to the team DMart and otherwise I think on the Company's side we have been making our similar concentration primarily on the products and the customer so trying to understand more about customer preferences, more about customers liking, disliking, more about the regional liking, disliking, trying to work more aggressively towards the initial price points and entry price points and products which are very highly churned so trying to generate higher volumes to that, so we are focusing very, very highly on customer experience, customer as I told in the last year also, in the last quarter also that we are trying to ensure that we give better experience to the customer this year like greeting them, by talking with them, by giving them certain inputs about or insights about the product, the insights like we have a Denim test which we are organizing where we are trying to given a Denim expert who is trying to give guidance to the customer on Denim and stuff. We are trying to do a lot of those works and then trying to concentrate more on the upselling, cross selling part of stuff and apart from this and working lot more on the customer analytics we launched our value customer loyalty program last February.

We are seeing good attraction. A lot of customers are getting registered on the program so we have a lot of database and we are getting more lot of registration on the customer loyalty program. I think we are yet to get the benefit out of those, but we will work on those and on the other side, we are working largely on the store, look the new store that we are opening up, we have innovated and we have changed the store look and view and profile so trying to better the store internal experience.

Working very aggressively on the supply chain piece as you know we have been doing lot with technology on supply chain piece, a lot of work has been done on the warehousing piece, a lot of programs we have to improve the warehousing structures and infrastructure also to bring in automization there also so what is happening trying to generate a better turnaround time, trying to minimize the replenishment period trying to better the



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availability at the store and the fill rate at the store. I think overall internally we have lot of areas of work, which we have launched and we are doing right from planning on to the buying and then analyzing and then dispatching allocation stock and even marketing. So on the other side, I think results is there in front and we have had a good growth in this particular quarter where the same store sale growth and the overall growth was good.

These are stores were basically opened in the last quarter are also doing excellently well. So I think these areas are good. Going forward, I think we have some concerns, some area of question mark on GST implementation so GST is a big piece in the coming quarter which we would had so we are getting prepared on the GST front because a lot of initiatives are being rolled out right from the technology implementation to vendor workshop to trying to understand whether the GST rates are going to change, the rates of the GST, the VAT today which is implemented within apparel is 5%, GST maybe around 12% so if that is the kind of shift which happens in GST it may be inflationary for my customer.

We have to incorporate that in our MRP anyway so a lot of changes are being done in the product pricing piece so we are planning and a lot of plans are going on lot of activities are going on lot of workshops will be conducted during the next one, one and a half months with the vendor fraternity trying to ensure all the compliances are being taken whereof before the June end. So lot of technology changes are also happening, integration are happening so trying to ensure and then we do not know how the consumer is going to behave if it becomes inflationary, it may temporarily dampen the sales for maybe July and August one or two months but gradually it should be rewarding for everyone. So that is the situation I think let me pass this on to Deepak to give you a further insight about the numbers of this year's results.

Deepak Sharma:

Thank you Lalit Ji and good afternoon everyone. Welcome to the call hosted by V-Mart. After that overview from Lalit Ji, I will sum it that what we mentioned as a part of the last call that the most fundamental aspect of retailers right product, right place, right time and V-Mart is trying to ensure that the various domains aligned to this basic connect on which retail works on, merchandising, marketing, retail, supply chain, HR, IT, the support functionalities, project management, all of them have been going there fair bit and we spoke about this in the last conference call and the trend seems to be continuing so maybe we can take inference that these are systemic changes, which have got incorporated in the work culture of V-Mart and things will continue to move along these lines.

Aside of that, on the fundamental aspects of business, I will touch up on them very briefly. On the sales side, SSS growth has been really healthy, for the apparel line of business it has



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grown on a YTD basis that 13.3% and for the quarter at 34% out of which volume growth is about 10.7% for our apparel segment on a YTD basis and for the quarter it is 36% and ASC YTD has gone up by about 2.3%.

On the SPSF side which again gives you a little bit of insight from a different perspective we have had a 6.7% growth moving up from Rs.756 last year to Rs.800 per square feet this year and this has primarily got facilitated by ensuring that the phase planning is optimized and it is not just about planning but also implementation, replenishment and ensuring that the inventory available is align to the safe planning bit which was done by the supply chain team and the third way in which we look at sales is in terms of the retail KPIs whereby the memo growth has been 16% year-on-year and on a quarter basis it was about 30%. The memo of growth primarily being driven by footfalls at 24%, conversions of course as we have been noticing for the past couple of quarters is on the downward trend the reasons we have discussed over the past calls and average bill size has gone up by about 7% primarily driven by increase in ASP on a YTD basis. Out of the total sales increase of 24% memo is contributing 15% and average bill size contributing 7%.

Now we move on to GP whereby we have not had a very radical improvement in GP on a YTD basis some of the reason I would just like to recap quickly is the first half we have been fairly aggressive on promotions to maintain our customer loyalty program also in Q4 a large part of GP was compromised on account of liquidation of the excess winter inventory we were carrying over from previous year which affected the GP for Q4.

Last but not the least, I would like to highlight the really good efforts being put in by the loss prevention team to ensure that shrinkage during the current year gets to a slightly better position than we have been in the last two years. Over last year, we had an improvement in shrinkage have a percentage of sales of about 50 BPS and due credits with the entire loss prevention team for the fantastic job they have done, by ensuring that not only just using guidance and orientation for the staff they have also used technology very optimally and also actions have been very prompt and strong so the element of deterrent also comes in.

Supply chain has also contributed towards the enhancement of GP by controlling some of the direct cost by ensuring that the professional cost and the distribution cost gets controlled by efficient transportation planning and cost optimization. Most important on the GP front has been that we have been optimistic in terms of making quick compromises in terms of percentage margins versus value whereby our focus during the year has been to ensure that we optimize the value bit and even if we have to compromise some part of the percentage, which reflects in the result of the current year whereby though on a percentage



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basis we have not done pretty well but at an operating level, the overall increase reflects that our philosophy has been successful around there.

Around the expense side nothing very specific per se more or less have seen in line with expectations. Working capital we have had improvement as a percentage to sales, which is primarily driven by payables whereby we have altered some of the payment terms with the vendors whereby the payables have contributed to the improvement in working capital. Inventory has not really reflected the improvement in terms of base as well as on a per square foot basis. We will delve on the factors as a part of our Q&A sessions.

ROCE has gone up this current year improving by about 3% to 4% over last year. Last year we were at 18% this year we are close at about 22% plus and the main contributor for the improvement in ROCE is that the EBIT has grown at a much higher rate than the capital employed bit, so the capital has been efficiently deployed maintaining the status as we were last year and the enhancement in EBIT has resulted in the ROCE going up.

Last subject, I will be touching on is on the free cash flows on a closing basis we have improved our free cash flows from 21 Crores last year to 29 Crores this year; however, this again does not reflect the full potential of what we have done at an operational level, because this year the company has taken strategic call of refurbishing a large number of our stores by investing in stores for long-term benefit and that was to the tune of closely about 14 Crores so you see a normalize the results free cash flow of 29 to 14. I think that reflects somewhat the potential, which V-Mart has realized. That is the all from my side in terms of overview I think I would request Avi to throw the floor open for questions.

Avi Mehta:

Karuna can you just have take the question queue please?

Moderator:

Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. First question is from the line of Rajiv Berlia from Edelweiss. Please go ahead.

Abneesh Roy:

Thank you Sir. This is Abneesh from this side. Sir my question is on the macro. We saw in the quarter demonetization so in March quarter what is the impact of demonetization in terms of market share gains, consumer behavior in terms of using more credit card etc., so could you tell if you have gained structurally because of demonetization or now that the consumer behavior is back to pre demon trend?



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Lalit Agarwal:

Abneesh, I think we have witnessed the demonetization trend coming back even in the last quarter. So we generated footfalls. We actually invited lot of customers who wanted to make payments and do shopping and they wanted to come up digitally. So discovered lot of customers in that period of times and those customers have also discovered us. They now know us. They now trust us. They now are our regular shoppers at V-Mart so we have also initiated lot of promotions, but yes and apart from that, I do not think there is any issue on the customer going away on the demonetization front and those are things has passed. Now I think people have cash, people have digital payments also to make so overall the digital payment has also gone up even now we have almost a card payment of like greater than 27% so which had gone up to 65% if you remember post demonetization and earlier it was 10% before demonetization. So 10% to 27% is a shift that we are seeing in the digital card payment, which means that there are new customers which are coming also and the way people shop has also changed.

Abneesh Roy:

Sir my second question is in your two key markets Bihar and UP there have been some changes on an overall basis in the economy, so in Bihar we saw the liquor ban so is that helping in terms of more consumption because obviously the wallet share can increase for other forms of consumption and UP two developments have been essentially your farm loan waiver which will start gradually and then the closure of the illegal arbitrage which has already happened, so if you could take us through in both these two states how things are in terms of these two developments?

Lalit Agarwal:

I think you are very true. Obviously when people do not spend on other modes, they do have extra money and with liquor ban I think overall the culture in UP in Bihar had changed. Overall, people are becoming more workaholic, more sincere, more disciplined and that leads to a better earning capability of the individuals that leads to even lower spending on other items. I think those have helped, but yes obviously we have witnessed those growth in sales and in consumption and UP I think yes once again due to the farm loan waiver and then also the extra employment opportunities, which have been created through this government and even if today as of now it has not been created till now but yes there seems to be a potentiality there where the opportunity is getting created. So on those trust people come out and start spending because they have a trust that is going in future they have a ability to earn more that is why a huge kick off just for the consumption.

Abneesh Roy:

Does the highway ban liquor the impact is in anyway because there will be some employment impact also restaurants and pubs getting impacted on highways does it impact your consumption, your sales?



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Lalit Agarwal: Not at all.

Abneesh Roy: Sir my next question is on the company we have seen in Q4 your ASP come down and for the full year it has increased by 2%, 3% but for this quarter it is down Y-o-Y what is the reason for that and even conversion rate is down for this quarter and for this entire year so what is the reason for that?

Lalit Agarwal: I think two things conversion rate as you have already mentioned that we had found there were some issues regarding the capturing of footfall because conversion is a calculation between footfall and the cash now which has made and the footfall we were capturing manually mostly, we have installed some machines on some of the stores and we have also bettered our footfall capturing arrangements and then obviously with every increasing store we have stores, which are primarily non-Kirana also basically. All our stores are fashion stores. So typically in fashion stores the conversions seem to be lower so I think that is not a great concern. I think that is a healthy conversion that we are getting. As part of the ASP is concerned the average selling price, I think we have been very, very intentional in this. We have tried to focus more on, because now moving forward we are concentrating more and more on Tier III and now also moving to Tier IV so we are trying to understand the requirement very closely and we have seen that the lower value products are getting sold more and the quantity consumption in the lower value products are very high so we have initiated lot of new ranges in the lower MRPs at lower price points and also we have cut down on some prices on the entry price point to track more customers. We have changed the philosophy a little bit on the customer attraction so that is temporarily giving me a lower ASP but an increase sales in volume so that is a dual effect that we are getting.

Abneesh Roy: That because of the state of the demand currently? The demand is a bit more challenging that is why you want to cut on the entry-level temporary?

Lalit Agarwal: I would not say that we anticipated this and we understand that the market we are catering to in this market there are both the segment of people, but yes people who are daily user are more wherein the cost of the product is very, very important to them so they always tend to have a higher consumption and higher sale through on initial price points or lower price points, so we have this time concentrated to change the policy a little bit and we have given higher huge amount of inventory on the lower price point, which is leading to the growth in the volume and leading to the degrowth in the ASP.

Abneesh Roy: Thank you Sir. That is all from my side.



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- Moderator:** Thank you. Next question is from the line of Chandrasekhar Sridhar from Fidelity Investments. Please go ahead.
- Chandrasekhar S:** Thanks for giving the opportunity and congrats on good set of numbers. I had a few questions; first is on GST could you just quantify the amount of input tax, which you are paying right now, for which you do not get credits?
- Lalit Agarwal:** Chandra, I think what we do not get credit is all on the services and all that expenses that we incur and so basically rental is primarily one of them and there would be some more which would be like almost to a tune of 7% to 8% of the total sales, which are expenses where we do not get the credit of GST so there are some and then some of the vendors who are not a part, and they are exempted out of the GST or the services regime today, but going forward maybe all those people will come under GST because even the reverse charge is getting implemented so everyone is going to come in so there would be some advantage which we will get from the expense side which today we are not getting.
- Chandrasekhar S:** The idea is to obviously pass it on?
- Lalit Agarwal:** I mean the idea right now we do not know because today we have a concern over the rate of the GST in apparel where which is right now confusing because we are getting a confusing signals. We are hearing that the ministry is trying to put in 12% GST whereas today we pay 5% only as VAT, so if it is so, it will be real calculation which we need to do and how much we should pass on and how much we should keep.
- Chandrasekhar S:** Can you just tell us how ready are your suppliers and how compliant do you think they are, I am also asking the context of obviously there is a 1.5 Crores turnover threshold which has now been reduced to 20 lakhs on GST for companies so I am just trying to understand that how ready and or how compliant do you think your suppliers are because you would not be able to get the offset otherwise?
- Lalit Agarwal:** No it is going to be a challenge but yes we are actively working on the vendor front. We are trying to put in workshops. We are trying, once the complete bill is out and the complete law is out and open and the rates are decided so we will aggressively do that. We have talked. We have already developed some association with our software vendor. We have developed some tool, which we can try and will try and implement with them. We are trying to work with vendors so that they can actually upload them immediately so that we can get credits and it will be a challenge. There is no doubt. There are going to be lot of good vendors it is okay, but there are other vendors apart from good which are challenging



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because there may be certain vendors which has not seen GST or any kind of form of indirect tax like fabric vendor or even saree vendors so hopefully even those items may come into GST regime so there will be lot of discovery, lot of understanding so we need to wait and watch but yes we understand it is going to be chaos during the first few days the GST implementation.

Chandrasekhar S: Can you just tell me how many suppliers you are right now working with?

Lalit Agarwal: We have almost 700 vendors as far as goods is concerned.

Chandrasekhar S: So this is 1000 I can touch here right?

Lalit Agarwal: Yes this is 1000.

Chandrasekhar S: So basically you are encouraging your payable by reducing the number of vendors is giving them more commitments?

Lalit Agarwal: We are consolidating down the vendor front. We are trying to give them higher volume and trying to better the quantum, which we are trying to derive from them and trying to also bring in the variety element in a little structured manner.

Chandrasekhar S: The other thing was on store opening if I look over the last couple of years while your store opening bulk of them are happening in what you classify as Tier III towns, Tier I is basically added one store over two years, Tier II has added about five stores but bulk of the you added about 25 stores in Tier III, is this because are you not adding stores because you are worried about competition in these places but when you see there is a competition in Tier III so that is why you feel that that is your territory can you just give an idea of the competitors what is the reason on not added stores in Tier II as many?

Lalit Agarwal: Chandra see our philosophy has been very, very clear that we have gone into the districts and we have gone into those small towns which are primarily Tier III towns and which are huge in quantity, huge in number and our focus is primarily on those towns and we are operating on the cluster mode you understand. Now within the clusters wherever we are going because Tier II are limited towns in a state or limited cities in a state so there are huge number of Tier III cities and towns which are attached to Tier II and this is what our focus is and there is a huge amount of population which lives there with a very small or very low penetration of organized retail and any form of retail in these kind of towns and there is a huge opportunity because aspirations are growing, people want to consume, look good, lead



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a better lifestyle and then they are watching similar media so I think and then for us the cost is low, the breakthroughs are very, very fast, the return on capital employed is very, very good, so I think it makes much more better sales for us to concentrate highly on Tier III because Tier II normally are bigger cities where the rentals are higher even there are huge the market is little saturated, there are players in Tier II and then you do not find prime properties in those towns but it is not about not doing in Tier II it is more about doing in places where we think we will get a higher return.

Deepak Sharma:

I will supplement a small bit to what Mr. Agarwal just mentioned is the fact that in Tier III cities it is all about latent demand or servicing a latent demand of the customers in the smaller towns giving them an experience about organized retail that is a very key imperative for us in choosing Tier III cities because Tier II cities people still have those options of organized retail available to them but in the Tier III cities or Tier IV cities they really have had very little experience so that is one very key aspect for us to choose the Tier III cities over Tier II aside of the financial implications which Mr. Agarwal just mentioned.

Chandrasekhar S:

So even in Tier II towns you are saying the rentals and all are getting expensive for you to operate I mean as per your sort of unit economic model?

Lalit Agarwal:

Yes obviously because see there are few Tier II towns even the rentals in Tier III are higher but you typically try to get those properties and obviously we do not we are not trying to calculate only on one front only rental is not going to be the only criteria there are other criteria's we draw business plan and wherever we feel that the location is giving us a better return on capital employed we would obviously choose those kind of towns.

Chandrasekhar S:

The other thing was obviously on demand there has obviously been a there is a wedding season which started sometime in October, November and lasts still I think June this year very strong wedding season how much of the demand you think is just largely linked to the wedding season and once this season sort of disappears at a certain X portion of the demand which will go out?

Lalit Agarwal:

No, India really shops when there are weddings in the town and there are people who have wedding in their family and there are people who want to attend to the wedding so there are attendees in the wedding who also wants to look good, wear good and changes clothes and changes their wardrobe only when they want to attend such kind of functions so this is a very big driver for consumption and this driver is very, very highly instrumental in driving this growth. So I think we give due credit to the wedding season demand because almost there is a difference like last year in the month of May, we did not have too many wedding



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days so last year in May 2016. We actually suffered. We had a same store degrowth in that month for almost 10% to 12%, 13% so I think wedding is a driver and this year we are seeing wedding so we are anticipating a better sales so obviously when this is what we are have seen over the past three four months February, March and then April we have seen that good growth because of the wedding date.

Chandrasekhar S: Just last couple of questions so if you could just spend a little more time on the inventory why the days sort of improved. I would presume that this should have improve overtime but just some thoughts on that and capex which you have spent this year on stores, I think 41 Crores and how much are you looking at next year?

Deepak Sharma: Chandra, I will take that question. First of all on the inventory days, you are absolutely correct. The management is cognizant of the fact that two days improvement over last year is really not reflective appropriately of the efforts the management is seeing at the backend. We have identified some factors, which I would like to elaborate. First this year, if you are comparing two years one thing we would like to highlight is that last year there were certain delays in terms of the merchandise coming in and also in terms of processing the merchandise is when they had come into the warehouse family because we had implemented in for in February I think we spoke about this on earlier calls as the part of the warehouse management system and this year, we have gone ahead and preponed some of the purchases that is where catering to the summer season that inventory which we are preponed is roughly above 20 Crores and I am sure that if you convert that in days will translate to about five days of inventory that we are carrying there or probably a little more. The other important element that you must normalize last year versus this year is last year in March we had opened just one store and this year we have opened five stores and the impact we have again delved on earlier calls is that though the inventory is loaded onto your balance sheet from day one, the full impact of the realizations or the sales numbers or the average sales per day takes some little time to stabilize so the days of inventory really does not reflect the full efficiency that you expect to generate from that new stores that you have realized and you had a second part to your question I miss that Chandra.

Chandrasekhar S: Yes sir I think you have highlighted 41 Crores is what your spent on Capex during this year?

Deepak Sharma: Yes 40 Crores is what we have spent on capex out of which 20, 21 Crores should be our new stores, about 14 Crores should be on refurbishment on existing stores, which I touched upon briefly as a part of my introductory overview and the rest are the investments we have done at the backend.



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- Chandrasekhar S:** If I may just a last question, is your I think, how much of your selling of your brother's left, is he going to go down to zero?
- Deepak Sharma:** Can you repeat this?
- Chandrasekhar S:** Just on the shareholding I think a relative of yours is basically planning to exit the company and has been selling shares, so I am just trying to understand is the idea basically that is going to go down to zero at some point?
- Deepak Sharma:** No I do not think so. He needs some capital for the own business. I think he would be doing it partially obviously not going down to zero.
- Chandrasekhar S:** Thank you.
- Moderator:** Thank you. Next question is from the line of Yash Jhaveri from Alder Capital. Please go ahead.
- Yash Jhaveri:** I just had a follow up on the refurbishment on capex. Can you tell me for how many stores were refurbished for this 14 Crores?
- Lalit Agarwal:** The refurbishment, we have done refurbishment for around 30 stores and there were some more additional refurbishment so one is the complete refurbishment but we also did some changes in our capex investment in some lighting and energy saving stuffs like changing in all the light to LEDs and stuffs so we have done lot of other initiatives in balanced stores also.
- Yash Jhaveri:** Can you give me a comparable for last year if possible?
- Deepak Sharma:** Last year, we were doing about over the last couple of years we were doing about 5 Crores to 7 Crores kind of refurbishment and just to carry over from where Lalit Ji left of is that just to give you a perspective that when we have changed our electrical fitting to the LED type of electrical fittings, the total expense out of that 14 Crores is about 3.5 to 4 Crores on the light fittings itself.
- Yash Jhaveri:** Any guidance on capex in the coming year?
- Lalit Agarwal:** No. I think we will continue spending almost Rs.1400 per square feet on the new stores and there are another 25 or 30, 28 stores once again that will go for the renovation in this



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particular year and so we want to open somewhere around 25 stores this year is what we plan to open. So it depends upon how much we are able to open and how much we are able to do the refurbishment. So typically primarily we plan almost 50 Crores of investment in capex.

Yash Jhaveri:

Just one more question on shrinkage where are you on this journey and do you think it would come to somewhere like 0.5% over a period of time?

Lalit Agarwal:

I will split your question into two parts. The shrinkage that we report constitutes two parts, the pilferage and the write-offs that we do in terms of non-salable inventory so far as the pilferage part of concerned, I think in your term, we are already at the end of the journey. We are already at about 0.5% so far as the write-off that happened we have managed to curtail that to a very large extent by some very active participation by the loss prevention team, the supply chain team and the front end team to curtail that element and this year we are managed to shave off about 50 BPS of the shrinkage as a percentage to sales and we still are seeing that there is potential down the road and next year the LP have been given aggressive targets around that also.

Yash Jhaveri:

Thank you very much.

Moderator:

Thank you. Next question is from the line of Abhishek Roy from Stewart & Mackertich. Please go ahead.

Abhishek Roy:

Good afternoon everyone. Actually my question is regarding the performance over sequential quarter when I feel that the performance in both topline and bottomline which has been significantly down so can you just let me know like why there has been so much changes over sequential quarter?

Deepak Sharma:

Abhishek, I think probably you are rather new to following the V-Mart business cycle. Let me give you an introduction around that that normally our fourth quarter is a weak quarter which is normally the trend across the retail industry and part of our annual cycle Q3 is the best quarter for us both in terms of topline and in terms of margin realization then we have Q1, which is also good in terms of sales and margin realization and usually there is a tie between Q2 and Q4 in terms of bottom quarter primarily around the fact that these are the two quarters where there are change in season elements whereby in Q2, we have the summer going away and preparing for the winter and special season and Q4 you have the winter going away and preparing for the summer season. I hope that addresses your question.



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- Abhishek Roy:** Yes Sir definitely and Sir one more thing can you give me a projection like how much you are going to expect over next fiscal because I can see that over the last couple of years you have been growing significantly with 20% in the topline so what is your projection for the next one year or two years?
- Lalit Agarwal:** Abhishek, you have to calculate yourself. See we have been growing at a healthy rate so we have been growing at a 30% and above CAGR for the last ten years but the point is we would; however, estimate a healthy growth from the same store sales growth. We always try to target around 8% to 10% of same store sales growth from the existing store and we do plan to because we had opened up 21 stores in last year. We want to better that performance of store opening this year. We may end up opening around 25 stores this year so once again the revenue will be also derived from the new stores. I think we should try to better this year's performance.
- Abhishek Roy:** Sir can you just tell me how much was this free cash flow as I missed on that what was the free cash flow over this year?
- Deepak Sharma:** This year we close the book for the free cash flow of about 29 Crores plus.
- Abhishek Roy:** What was the last year?
- Deepak Sharma:** 21 Crores but I also elaborated that since the company have taken slightly liberal approach towards investing in fixed assets, the overall free cash flow really does not reflect the true potential of the business per se.
- Abhishek Roy:** Thank you Sir. That is all from my side.
- Moderator:** Thank you. Next question is from the line of Samip Kasbekar from Emkay Global. Please go ahead.
- Samip Kasbekar:** Good evening Sir. Thank you for taking my question. Just wanted to understand a few quarters back we had mentioned that there were smaller regional players that was increasing the competition in the cities that we are present in, perhaps in the last two quarters because of demonetization the impact has been lower, the competitive impact has been lower how do we see this going forward any guidance in that regard?
- Deepak Sharma:** Samip, I will take that question. Going forward of course there is not going to be any let up in terms of new openings coming in from the competition per se and I think we briefly



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touch up on it in our last call that the company has taken a slightly proactive approach whereby we are building capabilities internally to counter the competition and their own gain and we are doing a lot of initiatives in terms of the merchandise, in terms of the marketing, in terms of the retail side and supply chain also so that we mitigate the effects of competition opening up in the geographies where we are which used to affect our business and the recovery phase used to be longer so what we are doing is by taking a concerted approach towards competition we are trying to bring down the impact period from maybe about two quarters to anything around a quarter or so and taking the competition back to their doorsteps.

Samip Kasbekar: Lastly, is this competition from the organized players or are there small local unorganized players?

Deepak Sharma: Yes from both again going back to some of our earlier calls, organized players if you were implying to entities like SEB or Shoppers Stop or Reliance Retail, we really do not consider them as competition because we have a very little overlap in terms of the commonality in terms of the business model.

Samip Kasbekar: Thank you.

Moderator: Thank you. Next question is from the line of Chandrasekhar Sridhar from Fidelity Investments. Please go ahead.

Chandrasekhar S: Just as a follow up. Has there been any significant impact of any minimum wage increases, which you have seen this year and anything, which we could expect into the coming year? That is question number one. Just broadly things since you have been speaking you always said that you want to get back to your 10% margin. I am just trying to understand that is there a timeframe you believe with these numbers and with whatever you can see that is there may be a couple of year or sort of window where you believe we can get back to the 10% sort of EBITDA margins? Thanks.

Lalit Agarwal: I think on the minimum wages, there has been increment in the month of January so lot of states have gone for increment there have been some harsh.

Chandrasekhar S: How much would that be?

Lalit Agarwal: There are different states who have incremented different minimum wages, mostly where we have seen around 18% of increment in Bihar and we have seen a very high increment in



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the state of Delhi so Delhi has increased but still the notification is yet to come where there is a huge 35% or 40% jump in the minimum wages and then yes there are other states like Rajasthan and even Haryana and even Uttar Pradesh where we have seen increments but anyway we have taken that into account and we think this is bound to come in because gradually the government wants to bring up the lower set of the people and their income capability and which in turn will add on to the consumption is what I believe. So I think yes that is one area, which has to be watched in for and on the other question of your EBITDA, I think we are obviously we are trying to work on the same piece. We are on the investment journey also because we are trying to bring in a lot of culture, lot of processes, lot of organizational changes are happening, lot of team is getting added up and we are working very strongly on bringing in technology, bringing in better management over the controls and over the risk management. So, I think we are investing on lot of these areas also and yes if we continue to have a healthy same store sales growth we should aspire for those numbers.

Chandrasekhar S:

Is there are timeframe?

Lalit Agarwal:

I do not I would like to get it done this year only and why should we get delayed because obviously my aspirations and my business model rotates around that number only, but it is all about how much are able to covert.

Chandrasekhar S:

Just a book keeping question what is our rental expense for the year?

Lalit Agarwal:

I think it is 4.6%.

Chandrasekhar S:

Thank you.

Moderator:

Thank you. As there are no further questions from the participants, I would now like to hand over the floor to the management for their closing comments. Over to you Sir!

Lalit Agarwal:

Thank you so much. We will continue to strive for better performance, concentrate very highly on the same store sales growth. We understand that we have a lot of opportunity, which is vacant wherein we want to conquer the Tier II, Tier III cities, which are there and even the existing towns and existing cities where we are already populated. So we would like to enhance our growth rate. We are working very strongly on managing the backend piece and we think with your continued support, we will be able to achieve all those and maybe we will like some last few comments from Deepak.



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Deepak Sharma:

Thank you Lalit Ji. I would like to thank the entire team at V-Mart for the wonderful time, I had I am sure members of the call would be aware that I have decided to move on and I feel really happy that V-Mart is on a very strong wicket right now and would like to wish all the best to the people here and the Company at large. I would also like to thank our auditors, statutory auditors Grant Thornton for having cooperated with us in complying with the timelines and great job they do in helping us in bringing the standard of corporate governance and reporting also our internal orders KPMG for their fantastic job they have done in terms of their domains which they have covered in the last quarter. I would also like to thank members of our board who have been very constructive in their feedback and pushing us to the limits of our performance. Lastly, I would like to thank my mentors and guides for the last five years who taught me the nuances of retail, Mr. Lalit Agarwal for all his guidance and of course a last round of thanks to the analysts and investors who have been with me in this journey and wishing you all the very best. Thank you so much.

Moderator:

Thank you very much Sir. Ladies and gentlemen, on behalf of IIFL Capital Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.