



**“V-Mart Retail
Q4 FY2018 Earnings Conference Call”**

May 25, 2018



**ANALYST: MR. MADHAV PVR – RESEARCH ANALYST – SPARK
CAPITAL ADVISORS INDIA PRIVATE LIMITED**

**MANAGEMENT: MR. LALIT AGARWAL – CHAIRMAN AND MANAGING
DIRECTOR - V-MART RETAIL LIMITED
MR. ANAND AGARWAL – CHIEF FINANCIAL OFFICER -
V-MART RETAIL LIMITED**



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Moderator: Ladies and gentlemen, good day, and welcome to V-Mart Retail 4Q FY2018 Earnings Conference Call hosted by Spark Capital Advisors (India) Private 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Madhav PVR from Spark Capital. Thank you, and over to you, Sir!

Madhav PVR: Good evening, everyone. On behalf of Spark Capital, I invite you all to the 4Q FY2018 Conference Call of V-Mart Retail Limited. On the call today from the management, we have Mr. Lalit Agarwal, the Chairman and Managing Director of the company; and Mr. Anand Agarwal, the Chief Financial Officer of the company as well. Without further ado, I hand over the call to Mr. Lalit Ji for his opening remarks. Over to you, Sir!

Lalit Agarwal: Good evening, everyone. Welcome to the call. Thank you for being there with us and then thank you for attending all our calls. The situation is good. The results this time has been excellently well, and I am glad, and I am delighted to present you the results. And the market has been good to us. We have performed well. So far on the economical front, we have seen quite a reasonably good economy. We have not seen too high as consumption. We have seen that almost good consumption led by more aspiration, led by more demand, which is fashion-led and which is youth-led and which is where the impulse cycles have been sold, and we have seen the industry also rising in this particular year. We have seen the industry growing most of the industry players have grown, and most of the industry players have been doing well. So that is good news for retail industry. And at least, the apparel side, and even the non-apparel, everyone is doing well. Lot of ups and downs in this whole year, and we have seen lot of work happening, lot of acquisitions, lot of news. The retail has been in the news. So very glad to be a part of the retail forum, and there has been an exciting journey.

As far as the company's retail situation is concerned, we have been focusing similarly on those towns, similarly on that customer base. We have a little bit experimenting on the Tier four towns, some 7 to 8 stores at primarily Tier 4 towns, which are below the district level, have been opened in this particular year, experimenting certain models, trying to understand how does these talukas where there seems to work, which attracts a lot of rural as well as urban crowd.



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The urban crowd is very limited, but the rural crowd is where the large portion of the consumer which comes in. So that is where we are trying to also bring our focus to. We have been expanding geographically most of the states where we are present. We have aggressively done that in UP, Bihar, Jharkhand. Even states of Madhya Pradesh, we have opened a couple of stores. We have seen some stores getting opened up in Odisha and West Bengal. We have also closed on 1 store in Odisha. So this year, we opened almost 31 stores and closed on one store.

So overall, there is one good news that we have received that we have been rated as the World's Best-performing Departmental Store by Bloomberg, and they have done some analysis, and which has been hired by some other analyst, which has done some report. And there is news, which we have been included in the Morgan Stanley Index, which is MSCI Index. So these are two good news, which we feel appreciated, we feel honored, and we really thank our entire investor base and all the analysts who have been following us and have been writing good stories and good research note for the team. So that has led to this. And then we are very confident when we get these awards, we will become much more confident as a team and as an organization to try and better our corporate governance, to try and better our performance and try and give a higher return to our investors.

We have also signed in a celebrity this year. We have signed in Ayushmann Khurrana and Bhumi, who are celebrities as our brand ambassador, and then they have been leveled up. In the last year, we have leveled up the creative's. And this year, we have launched them. And it is supposed to be a good move from the company, and which will take the company's brand level and aspiration level to a little higher level, and it will distinguish ourselves with a lot of regional players we got also operating in the market.

On the internal upliftment, internal work, we been working very, very heavily on the product, on the design, private label. Private level has been very good. We have increased our private label share almost greater than 50% now. A lot of work is happening around that.

The sourcing team is working a lot on trying to develop value chain and the processes of procurement, trying to plan those stuffs and working nicely to increase the margin, planning well so that the margins are better. We are also trying to get into little more, little bit of designing and little bit of the product creation also, maybe coming forward. Heavy focus on quality, but there is a quality team, which is installed in this year, and we have been trying to focus more on quality, trying to better the product quality, which is coming in. So a lot of work is happening on that level.



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Product mix has been very, very aggressive look that. We are doing some work. We planned to do some more work there. Because we have got Tier 1, we have got Tier 2, and we now also have Tier 4. So there are different products. They do have requirement right from Northern India to Eastern India, and there would be a lot of mix that we would have to consider, whether it is the neat or fashion or formal or casual and stuff. So that has to go on, that really revolves on rights on product assortment, seasonal. And lot of work is happening around our stock, stock liquidation, trying to have this freshness over the inventory.

So all these are being done using technology, demand forecasting, trying to create the accuracy at demand forecasting level, do some kind of interest to try to develop some algorithm on how do we create interest forecasting model and how do we try to do something into liquidation model. So a lot of work is happening on these areas. We implemented software on the demand, and what we say the buying plan, the merchandising plan, the software, which is Dutch-based software Dutch-country software. It is the first time that implemented in India. It is called Darwin. So we have implemented that also right now.

So work is happening on logistic network, warehousing network. We recruited a consultant to on the team to try and understand what kind of logistic and the warehousing network we will have kind of in the coming days for the next five years. So we are trying to work on those areas. So the good work is happening on capability building, organization structure the team has been strengthening, we have got a Chief Operating Officer. Sameer is on the Board. Sameer comes from Pantaloons, a very great resource. And we feel there are a lot of good things, which we can bring in. And then there is a lot of strength, which will be added on the team, which already exists and a lot of good work happening through the domain hires, which are represented in the domain. And I am really proud to say that the team is really working hard. Very passionate, very, very emotionally attached to the organization and very, very ownership-driven company. So that is what we are trying to bring, the value culture and trying to bring in values. And a lot of work is happening on retention, the attrition rate. Working on lot of rewards and recognitions on for the employees, the front-end.

So stuff is happening. Technology getting implemented even the on the HR side. Some good work is happening on all those areas. Work has to be done on visual merchandising, some work is happening, but we really need to create better experience. Some work has happened on the storefront, a lot of good, new, new aesthetics and new look has been



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created by the product team and by the interior team, and that is giving us good result also. A lot of refurbishment happening in the old stores that is also going on.

So on the marketing side also, a lot of promotions, brand awareness. Digital advertisement is also happening. We are trying to gear up at all the areas. The team is working all the round the clock right from even the loyalty base has increased, lot of loyal customers now on the board. The loyalty program is also being accepted by the people, the customers and then we are trying to know that customer base, which we had gained during demonetisation period. We want to retain them. We want to work with them. We have actually lessened our advertisement cost during the last year and worked heavily on those customer base.

So those have been good, and this is what we really still feel, lot of work is to be done. A lot of whatever we are getting into, we have taken the organization to a little different level. But however, wherever we come in, we see a lot of scope; we see a lot of ability for us to increase and better our understanding and better our expertise to feed the customer well. And that is what we believe is what we need to, is replicate and do it better.

So we will answer your questions, I hand over to Anand, who will take you through the numbers and then give you some inputs. Over to Anand!

Anand Agarwal:

Thank you so much, Lalit for a great wrap-up. I think there is a lot of work, which has happened, and the way you described it actually makes it even better. So there is a lot of news to share, lot of numbers to share, but what I will do is I will just focus more on the full year numbers, as it is the end of the year.

So as we all know that the sales has grown at 22% for the full year on a strong base of 23% of last year, which has been aided largely by a 9% like-to-like sales growth, which is again on a high base of 13% of last year is a fairly good achievement. The new stores that we opened this year, we have around 31 new stores opened across the same territories of 14 states where we operate, largely being in UP, Bihar, Jharkhand, West Bengal and Odisha. There has been one store that we closed during the year, and as we continue to monitor all our store operations, we will take a call on any other nonperforming stores. We will keep a very, very close watch on what kind of stores' throughput is coming on. So it is required we will take a very hard call on any store, which has not performed.

On the sales mix side, I think we have done as expected. There has been a marginal drop in the share of FMCG business. As you would all recall, we stopped opening FMCG stores since the last 4, 5 years. So there are 37 stores which continue to run as composite stores, so



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the share of business from those stores continue to keep coming down as the new stores we keep opening do not offer FMCG. So as a percentage of our sale, FMCG is now down to 6% as compared to 7% from last year.

There has been some good improvement on the margins side, both EBITDA as well as PAT. We have seen good movement during the year. So while these are really very, very welcome numbers, but internally, we feel as far as EBITDA is concerned, 10% is what we would want to maintain in the future while we are reporting a 10.9%. But I think in the long run, we would want to make sure that we turn part (audio cut) 12.43 benefits that we have been able to take. So that we are able to focus more on volume led growth value that growth and profit led growth.

So the main reasons for improvement in our margins as far as EBITDA is concerned, we were able to get better full price sell through across the year, and that has also, therefore, resulted in lower promotions. We were not really required to do a lot of promotions during the year. Our discounting rates were slightly lower. Our sales, during the end of sales, were significantly lower, and therefore, we had a much better margin coming in on the product side.

Apart from that, in fact, we also had a slight improvement in our shrinkage percentage. So the last year's shrinkage percentage was around 1.45%. And this year, it is reduced to 1.3%. So there has been a lot of work that the company did around control of shrinkage at all levels. So while the technology intervention at the warehouse, the supply chain improvements, the focus of the entire team in ensuring that there is a better control at the store level resulted in some better numbers on the shrinkage, and therefore, the profitability as well. Write-offs, stock as part of the shrinkage; shrinkage actually includes the loss of stock at the warehouse or in transit and also write-offs for leftover inventory. So including all of that, the shrinkage has actually come down, which is a very significant feat, and we all feel very happy as far as that number is concerned.

On the PAT side, we have seen significant improvement in our working capital. We have also seen a reduction in our interest cost as we have surplus cash on the balance sheet. We are able to deploy that cash to improve our earnings, improve our earnings from the interest side as well and also utilize part of that cash in getting better deals from the purchases. So there is apart from the improvement in the EBITDA, there is also interest line, which is coming into the PAT, which is helping the PAT grow slightly higher than the EBITDA percentage.



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So while the EBITDA increases by around 57%, PAT increases by 77%. We have also been able to work on improving our tax management, and therefore, there is some improvement coming in from tax efficiency that we have recognized and built into the financials this year.

So overall, as far as the broad P&L is concerned, definitely a very good year, some of the best results that we have been able to come out with ever so I hope that we are able to continue this good result on the financial side, definitely, going forward.

On the operational side, there has been a consistent increase in our footfall numbers. So while the sales grew at 22% the footfalls grew at 23%. And if one would notice, that is despite a slightly lower spends on marketing, so which actually means that we have been able to retain the customers, which came to us during the demonetization period last year. And that customer has actually led to the increase not only in the footfalls but also helped us grow the sale numbers. Customer loyalty program again has increase the footfalls and increase stores. While customer loyalty program is a program that we started February last year only, so it is just been a year. We hope we utilize that even better going forward with more analytics and more promotion store end. The consumption while it has come down by around 3%, 2.5% since last year, and so 59.6% of last year compares to 57% of this year, and that largely is coming in because of the impact of demonetization last year. We saw a huge increase in our footfalls during the demonetization period last year because of the smart ATM machines and a lot of other offers that we were running during that time. A lot of customers were coming to our stores because we were the only ones in the town or in the vicinity, which were accepting plastic or debit or credit cards. So that impact is definitely has resulted in small correction in the conversion rate this year. Apart from that, we have also as the share of the Kirana business reduces, and the new stores do not offer Kirana, there will be some impact on the conversion rates because, traditionally, there is more footfall and more bills which are cut for Kirana. So as the percentage of business reduces from Kirana, there will be some impact on the conversion rates going forward as well.

The average bill size has grown at a healthy rate of 5%. So from Rs.713 to Rs.750 so this meets our objective of volume led growth which has been also reflected in (audio cut) 18.13 levels has remained almost static, but on the apparel side has come down by almost 3%. So this is part of a thought-out strategy. So in fact, for the full year and the quarter, we have been saying that we are working on our strategy where we will want to reduce our ASPs marginally so that we are able to provide more quantity for customers to get to the basket. Also, as we get into Tier 4, the assumption is that the Tier 4 customers tries to



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pickup slightly lower value and agnostic range stuff, which also results in a slight decrease in ASP. We have also not really increased prices. If you were to look at, at like-to-like basis, and in fact, we are now looking at even further sharpening our prices in the coming year so that we are able to take even better benefit of the volume growth that we have had.

The sales per square feet gain has been in line with the increase in the total square feet area. So with an addition of 2.4 lakhs square feet of retail area that we have added, a 3% overall increment on per square feet sale is (audio cut) 19.32.

The store count, as Lalit also mentioned, is growing very healthy in the Tier 4 towns. So a total of 19 stores actually now we have in Tier 4 towns. So of the total 31 stores that we opened, almost 50%, 60% of these stores we opened in Tier 4 towns. And while it has been our first year for Tier 4, but so far the results look encouraging. It will be some more time before we are able to firmly establish that Tier 4 is strong in the coming years. We will continue to open and operate at all the tiers of the geography. We will update things. We are not focusing only on Tier 4. Tier 1, Tier 2 and Tier 3 remain equally strong markets for us, and we will continue to open stores in all tiers going forward.

The same-store sales growth has shown a healthy trend throughout the year. So right from Q1 to Q3 to Q4; Q1, we had a very strong SSG growth of 23%, Q2, 8%. Q3 was flat on the base of a strong demonetisation period last year. And Q4, again, 7% is a very good SSG number coming on the base of 34% SSG last year. So overall, ended the year at 9% compared to a strong base of 13% last year. We are (audio cut) 21.09 10% that we are targeting, but definitely a very good number to compare with last year.

On the volume side, growth at 13%, which reflects our philosophy of volume-led growth, ASP and the average bill size, the numbers I just shared.

On the expense side, there has been a marginal increase in the manpower cost, which is largely led by the opening of new stores throughout the year for which the full year sale benefit is not really factored in. Direct has come down because of margin efficiency at scale. The rest of the expenses are almost in line with last year. So not a very significant change in the expense as a percentage of sales while the total retail area goes up by 20%. So the efficiency of sale and the leverage of fixed cost is something that we look forward to affect to the results of coming years. Inventory number of days has remained static at 86, despite the 31 new stores that we opened. In fact, for these 31 new stores, the full year sales benefit has not really come in. So the actual days of inventory (audio cut) 22.34 that we will get actual benefit of next year (audio cut) 22.41.



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So if I were to wrap up, I think it has been a wonderful set of numbers. We are quite happy with our performance. I would not say this is the best that we could do, but definitely one of the better performance that we have come out with. And as a result, at the overall level, we have seen our ROCE or return on capital employed climbed up from 23% to 34%, and we hope to continue to grow that number even further.

Apart from that, I think the Board has also recommended a dividend of 20%, which is also the first for the company and (audio cut) 23.24 more to all the stakeholders of company, which includes the customers, the shareholders, the employees and also the vendors. So I think going forward, we will see even better performance if the improvement psychology keeps on happening.

So thank you so much for your time, and now I hand over the mike back to Madhav for the questions and leave the floor open to you. Thank you so much.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Abhishek Roy from Stewart & Mackertich. Please go ahead.

Abhishek Roy: Good evening Sir. Congratulations on good set of numbers. Sir, I just have a couple of questions regarding the cost involved that you have or that you do on opening of stores new stores? And what is the breakeven period for that particular store?

Anand Agarwal: Abhishek, so on an average, we have a capex of around Rs.1400 per square feet on every store. On an average, our store size is 8000 square feet, which results in a total overall investment of around Rs.1.2 Crores per store on the capex. Apart from that, on an average (audio cut) 25.29 at every store, which therefore means a total deployment of Rs.2.3 Crores at a store level. Normally, our stores would breakeven while it is a cycle. But normally our stores would breakeven in the first month itself, and that is the model that we have been trying to always lift up.

Abhishek Roy: Okay. So you are saying by first month only, you have that breakeven number, right?

Anand Agarwal: Yes, actually.

Abhishek Roy: Okay. And Sir, my next question how many stores that you own? And how many are on lease?



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- Anand Agarwal:** All our stores are leased. We do not own any stores. So it is a slightly asset-light model while all the stores are company-operated, but they are not company-owned. They are all leased.
- Abhishek Roy:** Okay. And Sir, how you decide on the rent expense like whether do you take it as a percentage of sales or you pay it on per square foot basis?
- Anand Agarwal:** So all our rentals are on per square feet basis, and so we do not have a revenue share model. But maybe on an exceptional basis, maybe out of the 171, probably 1 or 2 might be there. But otherwise as a principal, we always state outside.
- Abhishek Roy:** So because the trend that I am seeing on rent as a percentage of sales, Sir, it has been quite significant for the last couple of years, so like it has been around 4.3% to 4.5%. So that was my concern because as a percentage of sales, it is almost similar. So I thought that that might be the reason that you are taking that rent expense on that particular point.
- Anand Agarwal:** I am sure you must be happy about it like the others, as we are.
- Abhishek Roy:** Okay. No worries, Sir. That is great. And Sir and the last question is regarding, so how many of these stores are what is the revenue contribution from these stores, which are below 1 year, 1 to 3 years, 3 to 5 years and above 5 years?
- Anand Agarwal:** I think that is our statistics. I will separately on a one-to-one, I can send it out to you because this is a forum, where I do not have access to exact statistics right now.
- Abhishek Roy:** Thank you Sir. That is all from my end and all the very best.
- Moderator:** Thank you. The next question is from the line of Himanshu Nayyar from Systematix Shares & Stock. Please go ahead.
- Himanshu Nayyar:** Congratulations on a great set of numbers. My first question would be on the market potential, Sir. A few quarters back, we were talking about around 1000 potential talukas or places, where these value retail formats can really be present. So just I wanted to understand how much have we leased in terms of penetration in these areas, I mean, be it us or some other competitors, and whether are we anywhere near saturation in any of our key Tier 1, 2, 3 markets, and that is the reason why we are trying out Tier 4 markets.



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Anand Agarwal:

Thank you, Himanshu. Good question. So the market, as we say, is quite huge, and the way we see it is in 2 ways. One is that almost 95% of the market is still unorganized, and there is only 5%, which has been catered to by operators like us. Second is even in the geographies where we operate, the total number of geographies that we talk when you say 1000, probably we, in fact, look at it like 5000 in number. And when we were limiting ourselves to Tier 2, Tier 3 towns, the number of towns that we used to look at was around 500. Today, that number reached like 5000 for the kind of towns whereas store like V-Mart and the operational. So obviously, we are present in only around 140-odd towns. So 140 out of 5000, there is strong headroom that is still available, and we have not even scratched the surface. And many of these towns, there can be multiple V-Mart stores. So there is a huge opportunity available. In fact, out of the many states that India has, we have still operations only in 14 states. So there is a lot of area where we are still yet to venture out. Even within these states where we are present, there is a lot of area where we have not even gone out and opened a store. So we see there is a huge potential untapped where we can go out go out and open a store.

Himanshu Nayyar:

Got it, sir. So second one was on the sustainability of our performance after this very strong performance. So going forward, looking at how FY2019 has started for you, I mean, what would you be more confident about? I mean, maintaining a double-digit SSG rate on the back of two strong SSG years or maintaining your margins above 10%? Or you are confident that you will be able to do both?

Lalit Agarwal:

Himanshu, all the efforts of the organization is obviously to try and maintain both. But you need to understand, it is the market dynamics, which also drives this, and there is a lot of competition on the floor. So the efforts obviously, there are a lot of internal work, which is happening. There is a lot of work happening around. And this is an election year, primarily; we will see a lot of disturbance in the towns. There will be a lot of stuff, which is going on. So there are stuffs, which happen because you know we operate in small town, so all these pieces also do disturbs it. So we do not know what is going to happen, how is the rainfall going to come in, how is the monsoon going to impact. So we will keep our fingers crossed, but yes, I will want to say, I mean, currently, we do not see a lot of strength. I mean, we have seen because we had a very high base of sales growth last year, so we have still not seen very aspiring and motivating season until now. So we are working towards it. And as the GDP of India rises and as the consumption of people rises and if political money is going to get down and spend this they give out money to the public, it will be obviously ultimately resulting into consumption. So they will benefit for everyone. So we shall also enjoy that. So let us hope, let us hope timing on this year.



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- Moderator:** Thank you. The next question is from the line of Tanmay Sharma from Jefferies. Please go ahead.
- Tanmay Sharma:** Congratulations for good set of numbers. Sir, my question is on, first of all, demand environment as such. Sir, you say the comment there have various companies. FMCG, they are calling out the rural recovery and good growth rural recovery going back to the urban levels. Do you think you were also getting benefit from the same if you can highlight how your Tier 1 has grown in terms if I come back to Tier 3, Tier 4, are you getting that macro improvement in FMCG. My first question is that.
- Lalit Agarwal:** Yes. I mean, so I think FMCG, you will get a better picture of from our side. We are seeing similar level. We do not feel there is a lot of change that we are witnessing versus 2017. So we are seeing almost similar level coming in. Not too much of growth coming in from aspiration. Yes, we have seen, people want to some because ours is a lifestyle product, we generally have more of lifestyle products so more of youth-led consumption, more of aspiration-led consumption, which is being seen. So immediately, we will not be immediately able to comment on the same. But yes, things are good and things are better.
- Tanmay Sharma:** Okay. And Sir, my next question on GST. You said 95% of the sector is unorganized. Still, I do not think so there is much shift happening. But still, you think e-way bill will help in accelerating the growth in the organized sector for you in the Lifestyle segment?
- Anand Agarwal:** Yes. I think there are two aspects to when we say 95% is still unorganized. Unorganized does not only mean that the person is not cutting the bills or cutting the bills, it is also the way of operations, also the way of selection of merchandise and the way of presentation of merchandising way up in our general operations. So yes, I think coming to your second part of the question, e-way bills and the overall improvement because of the GST being put in place will definitely improve not only the market dynamics only for us, but overall for the consumer and also for the producers, there is already a lot of benefits, which have accrued, which are not only in terms of money, but also in terms of time, documentation, seamless flow of traffic, etc., so yes, I think any such sort of a regulation is only going to help the business in the long run.
- Lalit Agarwal:** There is one point here that sees the question was primarily to what is whether the unorganized segment is going to find it difficult to implement. So I think it is all about the regimen, the government, the bureaucracy, and the implementation are the same. How rigorously are they are going to implement. Because of election year, I do not see a lot of stress going on out in the market to try and harass the consumers segment and the trader



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segment not that we will see a lot of change here, but yes, it should be effective, whenever the government wants it.

Tanmay Sharma:

Okay. And Sir, my third question is on margins. You said organised or your own branch is now upwards of 50%. Can you highlight what is the margin differential between owned branch and non-owned branch? And secondly, I think in your speech, you highlighted that you further want to cut prices. You already are a value player, and now you want to further cut it. Do you think that can impact margins further? And what is still the room left to cut more prices in this environment?

Lalit Agarwal:

Tanmay, this is not trying to say that we will cut our prices. We always want to deliver value. We are a player where we understand the consumer base. These customers are customers who earn between Rs.2 lakhs to Rs.5 lakhs per annum. Their family income is very low, so their consumption pattern and their purchasing frequency of these apparel items are very low. So the more we create value, the more trust we build with them, the more connection we build with them that is the whole purpose why V-Mart exists, our organization exists. So that is where we are focusing on, and we will continuously keep doing. We will have our share of money, and we will have our share of margin. That is what we are targeting and not those we want to eat up of a lot of margin. All we want to give out a lot of margins. We know where we are because we want to also drive the volume growth, and that is what is important to us.

Moderator:

Thank you. The next question is from the line of Avnish Roy from Edelweiss. Please go ahead.

Avnish Roy:

Sir, minus 4% pricing in this quarter, if I take volume growth versus value growth, but still gross margin expansion of 286 BPS. So if you could explain that bit.

Lalit Agarwal:

So as Anand already mentioned in the call, so there are two, three things, which has happened. One, there was a higher full price sell-through, which we had, because ultimately margin is an outcome of how much do you sell at the full price and how much do you sell discounts and stuff. So the wintertime also, we did not give too much of discount, and we suffered also. We could not achieve a great sale during those times. But yes, we are a little adamant on that mark, giving us a lot of margins there. And with the private label coming in and the merchandising team getting in, the volume increasing, the procurement cost is also reduced. There is a lot of work, which is happening around the procurement sourcing, and a lot of work is happening towards the vendor side, trying to reduce the cost of manufacturing, trying to reduce the cost at which the vendors also procure the fabric. So we



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have are working a lot on the back-end side with the vendors so that they can benefit. And then ultimately, that benefit can come on to the books of V-Mart and also the consumer base. That is where we are more focusing highly on. And obviously, there has been a reduction in shrinkages and then a reduction in the inventory levels and logistic cost. So there has been a lot of direct cost and indirect cost, which has resulted into these margin benefits.

Abneesh Roy:

Sir, one follow-up here. So on the 34% base; you have delivered 7% growth. In the previous quarter, the growth was lower on a favorable base. So what has changed? And if you could give more color in terms of full price sale, I think some of the other players in the industry also trying that. So do you plan to cut your full price? So do you plan to increase your full price sales further in terms of weeks in next year?

Lalit Agarwal:

Abneesh, this is not something that is by chance. It is all because if we do well, if you plan well, if you buy well, if you distribute well and if you are able to really attract the customer at that price and that kind of fashion, we would be able to deliver a full-price sale. So if you do not do it, all those things are incremental. It is not if I say, tomorrow, you have to sell everything at full prices, it does not sell. So it is all about how does the performance happen and how do you really perform when you are on to that sheet. So that is what we do. We are focusing on each and every input, which results into full-price sale. Full-price sale is an output. That is what we get ultimately. So we will always want to better our full-price sale. We will always want to increase the company's working towards that. So the whole organization when it works towards that, then only we get such kind of results.

Moderator:

Thank you. The next question is from the line of Chirag Lodhia from Value Quest. Please go ahead.

Chirag Lodhia:

My first question is a follow-up question from previous participant. So I have a question on gross margin. So when I look at your gross margin, they have improved on a full year basis at 230 bps. And when I look back into your history of like 5, 7 years, your gross margins were in the range of 29% to 30%. And now this year, it is around 32%. So just wanted to get a sense, should we take it as a new normal, 32% margin? Or it could be one-off year, which we have seen in the number this year?

Lalit Agarwal:

Good question, tricky question. But yes, we would obviously want to have this kind of gross margin. But yes, I would once again want to warn everyone do not raise your expectation bar. Please do not raise your expectation bar because V-Mart is always trying to deliver value to the customer first, vendor second, employee third and then the stakeholder.



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So we would always try to target somewhere around 10% in our percent of EBITDA. We would not want to change to a 10.9% or 11% EBITDA. We would want to change 10.5%. And for that, whatever we need, ultimately we can get a better output, but that is what we are in. We do not want to really work towards that to increase the margin. But yes, things are happening on the back-end side, which ultimately can result into that.

Chirag Lodaya: Okay. Secondly, on this employee cost, when I look at your employee cost, every year, it has been growing more than your sales. So as a percentage of sales, it is growing at a faster rate. So one reason would be minimum wages. So if you can just highlight what kind of minimum wage inflation you were seeing in your key state last year?

Lalit Agarwal: So on an average; we take a 10% wage increase. And the minimum wage is, while it is fairly well known to everybody because this is government statistics, so this is implemented at differential times across differential states. But on average, we have seen a full year impact at a national level of around 10% to 12%, while our wage costs have increased by around 14%, which is also a reflection of the number of new stores that you opened for which the full year sale and the full optimal mature sales have really not come into play. And in addition to the store, when you open a store, you also have to put in some amount of manpower at the back end, at the warehouse, whether at the logistics level, and this is the manpower costs to a certain extent.

Moderator: Thank you. The next question is from the line of from Priyam from B&K Securities. Please go ahead.

Priyam Kimawat: My question was regarding the last 2 quarters, you highlighted the fact that there is been increase in competition in Jharkhand and Odisha, where you entered late when compared to UP and Bihar. So just your trend and how these 5 months have been in FY2018 regarding that?

Lalit Agarwal: Well, not very clear Priyam. Would you want to say that what has been the scenario? Is the competition open more in the 5 months? What do you want to ask?

Priyam Kimawat: Yes, yes. In Jharkhand and Odisha basically as you have highlighted in the last 2 to 3 quarters that competition has been increasing in these geographies. So what is the competition since? And how are we tackling that?

Lalit Agarwal: Yes. So the competition has been opening, and there has been always a big boom, boom whenever the competition comes in. So we try to obviously work with them, work against



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them, try to work with the customer, trying to see that the customer comes back. And mostly what we see whenever a new store opens up, there is always newness and new charm, which is there and which lasts only for 2 months or 2.5 months, and then the customer come back. So we are seeing both those things happening. There are certain stores still where we are seeing challenges, but there are stores where we have already taken over the competitor and we have started getting our essential sales growth. So yes, still the competition is on, still people are opening stores still new players are also coming in. So there is a good amount of competition. But yes, we are enjoying it.

Priyam Kimawat: So going forward, the store expansion would be majorly in UP and Bihar? Or are we targeting an equal store expansion in the eastern part of the country, too?

Lalit Agarwal: As I have already told you last year, last time also that we are looking at Northeast now, so we would want to get into Northeastern state as a new territory apart from where we are. And we would also expand in migration territories.

Priyam Kimawat: Okay. And store expansion, we should take it 30 to 35 stores per annum or will be much more aggressive than that?

Lalit Agarwal: The number, I would say yes this is right. I think this is what we are looking at.

Priyam Kimawat: Okay Sir all the best.

Moderator: Thank you. The next question is from the line of Ronak Morjaria from Edelweiss Asset Management. Please go ahead.

Ronak Morjaria: Sir just again, I just wanted to touch upon the margin front. You mentioned that you would like to maintain like 10%, 10.5% kind of margin. So in case whatever benefits you are getting out of margins, will you be trying to pass it on to the customers, and that is how you earn and try to gain more of revenue and revenue growth? Is it a fair understanding?

Anand Agarwal: Yes. Ronak, I think that is absolutely fair. And in fact, one of the earlier participants also talked about our regular GP range of around 30% and 9%, 10% of EBITDA. So I think I also made it clear during my talk that we would want to give back part of the extra back to the consumer, back to the vendor, back to the employee, back to the stakeholders and the society so that we are able to create not just a valuable ecosystem for everybody to survive and thrive, but also create something which we can all look forward to grow on a sustainable basis.



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- Ronak Morjaria:** Thank you that is it from my side.
- Moderator:** Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.
- Ravi Naredi:** All questions have been answered. Thank you.
- Moderator:** Thank you. The next question is from the line of Ajay Thakur from Alder Capital. Please go ahead.
- Ajay Thakur:** Just wanted to check on your footprint, the store footprints. You have separately called out Tier 4. Just trying to understand any particular reason for calling it out in this manner and that you would like us to actually understand.
- Lalit Agarwal:** No. So Ajay, the Tier 4 towns are towns which are below 2 lakh population, and these are towns, which are typically, what I am saying right now, which I have been highlighting, is Tier 4 which are below the district level and which are not the district headquarter. So these are the towns, which are experimental because these towns exist in huge numbers in India. So that is why we are separately calling out because we want to experiment a model, we want to understand whether the towns, are we able to get our numbers, are we able to sustain with a similar kind of size of store, similar kind of product mix and similar kind of stuff. So we are experimenting, trying to understand whether this will work for us, whether we have there really whether the customer in those areas and even the rural customers can approach come faster. So are we able to feed them and are we able to generate good amount of volume and value and also create good profitability? So we have been trying to experiment until now. Our experiment has been good, and we have been almost able to reach similar numbers, what we have been able to do in Tier 3. So that is why we are trying to just target this. So that if this happens, good, the potentiality really expands, and that is where we want to go.
- Ajay Thakur:** Okay. And a question on Odisha. I recall a few calls back you were mentioning, we want to actually extend ourselves more so in this market. But particularly this entire last year, I think these store footprints, the amount that you added in the 3 other states, which is Bihar, Jharkhand and UP, have been far more aggressive. Just trying to understand, is there a change in mindset for Odisha in particular?
- Lalit Agarwal:** Yes. Odisha, we have seen a little stress in the economy because of all this power, iron and stuffs of mining. So we have seen a little stress there, so we have really not been little



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aggressive enough. And there is opportunity. While we are allocating the regions, we look at the ROI, which we can derive out of the ROC that we can derive out of the investment that we want to do. And we will always want to prioritize where we get a higher ROC. So that is the way we select the property. So we really want to intend something we are targeting anything, which is around the plus 10 where we operate, wherever within 150 kilometers of our radii. Wherever there is a good town and wherever there is a good property, we want to understand that and we build that business model. Wherever we get higher returns, we will first target those.

Moderator: Thank you. The next question is from the line of Swati Todi from Karvy Stock Broking. Please go ahead.

Swati Todi: Sir, could you throw some light on the average rent per square feet?

Anand Agarwal: So the average rent per square feet has been around Rs.32 per square feet...

Swati Todi: Rs.2?

Anand Agarwal: Rs.32 per month. Yes.

Swati Todi: And like for FY2015 and 2016, our billable days were around 50, 55. But since the last 2 years, it has been around 65, 66. So are we maintaining around 65, 66 or will reduce it further?

Anand Agarwal: We are reducing it further because now that our cash on the balance sheet, we have surplus cash, which we are now using to prepay or not prepay but to get better deals from our vendors by paying them early.

Swati Todi: So what can be our target billable days?

Anand Agarwal: So there is no fixed target that we are certain. But we look at deals where we can get better value from our on the vendor base. But roughly on an average, we should look at around probably a reduction in billable days by at least 10 days in this fiscal.

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



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Jignesh Kamani

Sir, just wanted to know about out of 31 almost three, four stores we open in Tier 4 market, I know it is a little early, but in terms of the revenue per square feet, gross profit or EBITDA per square feet, how it is faring compared to other Tier 1 or Tier 2 stores?

Lalit Agarwal:

Jignesh, as I told, number is almost similar. There are few stores where we are seeing some challenges. There are 3, 4 stores where we are seeing some challenges in the revenue, which is lesser than the average that we get in Tier 3 and Tier 2. But profitability-wise, as you understand, the rental in Tier 4, which is lesser, the marketing costs can also be a little lesser. So profitability-wise, it will go up, but not yet. There are challenges on the merchandising mix because in these towns people generally opt for a little lower-priced merchandise, which may have a little lesser margin. So at the net-net level, I think this seems to be good. But we will still wait for 1 year to get completed and then we will try to give you a complete picture.

Jignesh Kamani

And if you think about how is the demand environment looks like in the key market, UP, Bihar, Jharkhand and Odisha?

Lalit Agarwal:

I think our results, our outcome on the market. But as of now, currently, we see a little low demand. We have not yet been seeing a very, very huge uplift. But the demand is almost similar is what I will say because we had a very, very healthy sale last year in this period of time also. So demand is almost neutral. There is no big reason for the demand to actually go up because nothing great has happened in neither UP nor Bihar, except the road and the infra spent by the government side. So not too many employment getting generated through factories or industries. So that area seems to be a little concerning. But overall, I think it is neutral.

Moderator:

Thank you. The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

Kunal Bhatia:

Sir, just in terms of you alluded a lot in terms of your EBITDA margins in the range of 10% to 10.5%. So it seems you are concentrating a lot on volume and on top line growth. So how confident are you to maintain the 10% same-store sales growth? Because I just heard in your initial comments that this year we have already done 9, so we would see 4 achieving those double-digit kind of same-store sales growth, one. And secondly, also just if you could give a brief on the Darwin thing that you mentioned in regards to your logistics consultancy shift going on.



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Lalit Agarwal: Yes, thank you. So as far as the same-store sales growth numbers go, while we really do not give out guidance, but the range that we work out or work on is between 8% and 10%. And actually, it is not just our wish that it is going to happen. There are a lot of efforts which were behind every part of the business. So all parts of the business need to work very, very in a synchronous manner to make things happen. And apart from that, there are many, many external reasons why things would happen or would not happen. So there is a wish and desire from our side that we would want to exceed even the numbers that we work on internally. But there are a lot of factors, which are even beyond our control, which will allow us or not allow us to declare that number. So that is what we wish that whatever we have talked about does get realized, and we will take these things as we move along. On the Darwin piece, it is an arrange management software. It is state-of-the-art, one of the world's best pieces on how retailers manage their inventory at the store level and also at the enterprise level. So we have been working on it for the last 4, 5 months. Recently in March, we finally went live with it and probably we should start seeing some good results as far as managing the store inventory is concerned, managing the replenishment is concerned in the coming months.

Kunal Bhatia: Fine Sir thank you so much.

Moderator: Thank you. The next question is from the line of Abdul Kareem from HDFC Securities. Please go ahead.

Abdul Kareem: CEO, over 1 decade of your journey has been wonderful. You have added from 37 stores to 171 stores. So may I know how many stores you are looking to add in the next 2, 3 years?

Lalit Agarwal: It is a journey, not a destination, so we really do not have a fix on what is the number of stores that we would want to add. But yes, as I previously said, we would want to keep adding between 15% and 17% to a retail operating area year-on-year. And while because we will definitely stick to the format that we are currently doing and we have always improved that format for the last 15 years of our existence, so keeping that number on the size of around 8,000 square feet, so we should be adding 35-odd stores this year and then adding 15% more next year and then 15% more the year after that. So I think one can do the math to look at where one can reach, but this is the current outlook.

Abdul Kareem: Okay. And could you split the sales as for the Tier 1, Tier 2 and Tier 3 and Tier 4 cities?

Lalit Agarwal: You can take roughly the store count split that is given in the presentation. So roughly, currently at total level, 52% of our stores are in Tier 3 towns, 11% stores are in Tier 4



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towns. So give or take a few percentages here or there, roughly the 50% sale is coming from Tier 3 towns and roughly around 9%, 10% sale would come from Tier 4 towns because they are fairly new entrants in this in this store base.

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

Akhil Parekh: 10%-plus EBITDA margin is something kind of unheard of in a brick-and-mortar business. I think it is better than even some of the global players like Wal-Mart, Tesco and Macy's, many congratulations on that. My first question is you mentioned that you are trying to expand in Northeast of India. And we have learned over news at VCCircle that you are trying to acquire one of the Kolkata-based company. Would you be able to share some color on it?

Lalit Agarwal: So Akhil, congratulations to you guys also for getting a wonderful acquisition then. And so I think there is a good market that there are players who have been working there and there are good players who are working there, and then there are always discussions, which are on and we keep on looking things. But as of now, I would sincerely request everyone not to pay attention to any news, which is there. The company will be coming up if there is at all any news. As of now, the company has not been in discussions with anyone who we want to acquire one month. So as of now, there is nothing. These are all organic. We are looking at an organic expansion in the Northeast area.

Akhil Parekh: Okay. So let me just put it this way, but are you open for any acquisition if in case if there are any?

Lalit Agarwal: We are open to talk anywhere. We are open to talk anything. We are open to talk anywhere. We look at anything. We are most open company. We are a transparent company. We want to debate, we want to understand. We will always want to understand whatever can add value to our organization, whatever can add value to our stakeholders and our system, and we will always want to understand that.

Akhil Parekh: Okay, okay. Sir, and then in terms of competitive landscape, there are quite some players in UP and Bihar, and that is like our key geography. Do we see a challenge going forward as we keep expanding our store base in UP and Bihar? Because there is 1-India Family Mart is there, there is V2 is there, V-Bazaar is there. Do you foresee any such a challenge? As of now I mean, I understand we have been doing phenomenally well. But as we keep expanding further, do you see the challenge from it, especially in these 2 states?



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- Lalit Agarwal:** Akhil, the population of these states, UP is considered as if it is a country it would have been the fifth largest country of the world. It is big, it is huge population, and huge people live there. And the aspiration levels are going up. GDP income is going up. Per capita GDP income is going up. You need to understand, and you all know the kind of consumption, which comes in. Even cumulatively all the players that you name would not be even the 12% or 13% of the total market of that particular town or city or area, which you are saying to get into. So I think there is a huge potential in UP. You just need to understand what your customers are, where your customers are, are you aligned with your customer, do you have those kind of product lines, are you able to feed them, are you able to satisfy them. It is all that game and what kind of experience at the end of the day are you able to provide to the customers, that is important.
- Moderator:** Thank you. The next question is from the line of Manish Poddar from Renaissance Investments. Please go ahead.
- Manish Poddar:** Congrats on the results. Just want to understand this sales performance. So you are saying that the demand environment is largely neutral and there is no material GST shift from unorganized trade and there is increased competitive intensity. So what explains the stellar sales performance?
- Anand Agarwal:** Manish, it is a mix of many factors, which not just only the external factors, which influence the sale. So there is a lot of work that the team has done in making sure that we get our process right, we get our product right, we get our operations right, we get our marketing right. And obviously, yes, there is a lot of competition intensity. There is a lot of in fact, in Q2, there was a slight lull in the market and there was impact a bit of impact of withdrawal of consumer demand. But at an overall level, Q1, as I mentioned, has been fairly good. Q1, we grew sales at 23%, Q2 we grew at 8%, Q3 was flat. And Q4 again has been fairly good. So at an overall level, if you look at 365 days, it's not the same story every day and you have your pockets of excellence and you have pockets of opportunities, which cumulatively get to a good number.
- Manish Poddar:** Okay. And why are we not expanding, let's say, in this part of India, let us say, the Rajasthan part? And why are we putting more towards the East India part as such?
- Lalit Agarwal:** So it is not like we are not expanding into Rajasthan. It is always like we keep on evaluating opportunities in every state, every town, and every geography where we operate. And it is a very scientific way of calculating which is the best locality, where we can get the best return on investments. So if it happens in Rajasthan, we will open in Rajasthan. But our strategy,



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we have decided that some of the stores that we open next year are also going to be northeast. It's not that all these stores that we open are going to be northeast. So it just might be that we open also in Rajasthan, but it will depend on what will be the return that we expect on a particular location that we choose.

Moderator: Thank you. We take the next question from the line of Jasdeep Walia from Infina Finance. Please go ahead.

Jasdeep Walia: Good evening Sir. Sir, economy of catchment areas for a lot of stores of yours in UP is dependent on sugarcane, which has taken a big hit this year, and possibly next year also looks pretty bad for sugarcane as a crop. So are you seeing its impact on demand on your stores in UP? And can it upset your growth calculation next year?

Lalit Agarwal: Yes. So yes, you are right. And there is this phenomenon of support price going down last year. But as you would also recall that there is a renewed effort from the government to increase the minimum support price as declared in the budget of this year. And while the quantum has not really been defined, but we should, this being an election year, we should see some uplift and not a downtrend, while I understand that the international pricing has gone down and there is some pressure. But I think this being an election year we should not see a lot of impact coming from that front. Having said that, the geographies for sugarcane are not only entirely dependent on sugarcane. And we have also seen some good demand coming in even in the last year in some of these geographies. So it is a balanced approach. And the country remains and part of these regions remain very, very focused on marriage spends and occasion spends. So I think while there may be some problem, but there is a lot of mitigation, which is happening.

Jasdeep Walia: Got it Sir thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of Arun Baid from BOB Capital. Please go ahead.

Arun Baid: Anand, can you just highlight what was the benefit because of GST we had in this quarter? Because last quarter you mentioned you had about 0.6%, 0.7% gains because of GST.

Anand Agarwal: Yes. So while technically GST, whatever benefits we have seen coming out our philosophy of the company is to pass it back to the consumer, and that is what we have done. So there have been perceived benefits in terms of our more unperceived benefits in terms of better operations, better transit times for our logistics, better management, better documentation or



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better seamless flow of goods. But in terms of monetary benefit, I think whatever benefits we have so far seen, we have made an endeavor to definitely and definitely pass it back onto the consumer in terms of lower pricing or better promotions.

Arun Baid:

Okay. And just one more thing, an observation. Correct me if I am wrong. If you look the last many years, which I have known the company, the philosophy was we should have a 10% as a target OPM and 5% as our NPM. Suddenly, this is the first time and 30% used to be our gross margin target. Suddenly for the first time, at least I'm getting that you're open to look at gross margins beyond 30% and now very comfortable at 10% OPM. Is it because of the back end or you seeing the market has shifted that way?

Anand Agarwal:

Well, I cannot say about the market, but definitely in fact, if you look back at some of our calls in the last couple of quarters, we have reiterated that we have been working very strongly on making the back end very strong in terms of technology orientation, in terms of deployment of more automated processes. And some of these processes have now started to pay off. So be it automation at the warehouse, putting in place warehouse management system, be it having sorting machines at the warehouse, having some of our own logistics systems take over the transit routes, having analytical software in place, having arrange management software in place, having artificial intelligence in place, replenishment forecasting system in place, so all of these inputs that we have put in over the last 1, 1.5 years have started to pay off to an extent. And also adding to that is the private label play that we just really started very aggressively in this year. So while we have not really worked on the margin trend but consciously, but yes, we remain true to our philosophy of maintaining the 10% NPM that we talk about. And that is what that is also mentioned during an answer earlier on that we would want to make sure that we give back to the consumer in terms of better pricing, and we are able to lead through a volume-led initiative rather than just a profit-led initiative.

Moderator:

Thank you. The next question is from the line of Zahid Bagwan from CWC Advisors. Please go ahead.

Zahid Bagwan:

Thank you Sir for the opportunity. I would like to know with the increased penetration of Internet, what is our online strategy going forward? Are we focusing on omnichannel front?

Anand Agarwal:

Yes. So they have been mentioned also in the last quarter's call, online is something that we see as an opportunity and not as a threat. We remain quite optimistic of getting into that space at some stage. But currently, the way we see it, the cost economics of getting into that model just does not work out, especially at the price points at which we operate and also in



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the geographies where we operate. The customers, while we have observed that a lot of players are getting some traction from Tier 3, Tier 2 markets, but our experience with our customers has been that a lot of their demand has to be met by not just look and see, but touch and feel. So keeping in mind all the factors on a balanced view, I think we will start to pilot at some stage. We remain we keep working on this model, but we have not really finalized on a date or a month or a quarter when we will actually launch this.

Zahid Bagwan:

Thank you Sir.

Moderator:

Thank you. The next question is from the line of Arun Baid from BOB Capital. Please go ahead.

Arun Baid:

Yes. Just one more thing was our tax shield in this year has been pretty low. Is this the norm because you have had some benefits you mentioned in the call?

Anand Agarwal:

Yes. So there have been some management-led initiatives that has resulted in better tax planning and that has resulted into a net effective tax rate coming down. But otherwise, it is absolutely as per the way the tax structure is designed that we are able to take that benefit.

Arun Baid:

Should we assume this 31% tax rate going ahead? Should we assume that?

Anand Agarwal:

Probably at least for one year more or two years more because that is as per the prevailing benefits, which are available for the industry?

Arun Baid:

And just one thing, Anand, I do not know if you answered in the call, but on the shrinkage front, I know we have improved to some extent, but that has been a constant endeavor. When do you think logically it will come down because I know 1.4 to 1.3 is there, but it is not what you would like to see, right? So when do you think materially you can see the difference because that can help your gain your margins in some other way?

Lalit Agarwal:

Arun, let me step in. So do we want a special inventory, a better inventory, an inventory, which is on record, or we want an inventory, which is led with damages and non-selling, and stuff? So we do not want to have those inventories in place. Out of the total shrinkage that we reported, almost 60% is something, which we have written off. So where we do not want to sell those inventories at our store, we do not want to keep those inventories. So that is what the approach of the company is, and we do not want to really go down below level.



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- Moderator:** Thank you. The next question is from the line of Girish Pai from Nirmal Bang. Please go ahead.
- Girish Pai:** Thanks for the opportunity. Anand, in a media interview you did in the morning, you mentioned that April and May have been soft. Can you just elaborate on that?
- Anand Agarwal:** Yes. Absolutely right. So in fact, Lalit also mentioned during the earlier part of this call that we have seen a slight slackness in demand in April and May, partially because of these lesser number of marriage days in these two months, April and May. But also if one were to look at a very strong base of 23% growth in Q1 last year, that also puts things in perspective. But yes, we remain slightly conservative as far as Q1 is concerned. And while we are not really worried, but we are definitely watching this situation and we like to just caution out that quarter 1 may not be very, very strong.
- Girish Pai:** Okay. Secondly, can you just throw some light on competitive intensity across 3 years that you have in terms of towns Tier 2, Tier 3, Tier 4. Would Tier 4 competitive intensity be extremely low?
- Anand Agarwal:** So as of now, yes, Tier 4 competitive intensity is slightly lower, but the trend of the market is that we compete with everybody. We compete with the unorganized sector, we compete with new entrants, and we compete with entrenched competitors. So for us, competition is anybody who is selling apparel to our customer. So yes, the competition from organized players is currently slightly lower in Tier 4. And because that is probably we also understand that we are also experimenting in those markets. We are not very confident of those markets. And maybe the other players will also take some more time before they decide to get into those markets. But it is just a matter of time. It is not something that is going to remain there forever.
- Moderator:** Thank you. We will take the last and the followup question from the line of Chirag Lodhia from Value Quest. Please go ahead.
- Chirag Lodhia:** First question what is the total work force as on date March 31, 2018?
- Anand Agarwal:** Around 6400 people we have working with us.
- Chirag Lodhia:** 6400 versus 4967 is that number correct?
- Anand Agarwal:** If you are saying such to an exact extent, I am sure you would be correct.



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- Chirag Lodhia:** So the reason I am asking is so we added 30 stores. And so per store employee addition is around 48, so is this number correct?
- Lalit Agarwal:** No. Per store addition should be around 35 to 40 people depending on the geography and the size of the store.
- Chirag Lodhia:** Okay. Are there any other additions you did apart from stores that are major?
- Lalit Agarwal:** No, nothing major. But for every store or every X number of stores, you also need to add some back-end people to handle the logistics and operations. And that would be commensurate with the growth of the business. Also, we invest in the future in terms of at HO level, if suppose we are to appoint technology and we are doing some of the analytical work, we will employ some people, but that is not so much of a headcount issue, as more of a capacity build issue.
- Chirag Lodhia:** Got it. And what would the absolute rent per square feet in, say, Tier 4 towns vis-à-vis Tier 2 and Tier 3?
- Lalit Agarwal:** It would be slightly lower, but not significantly lower.
- Chirag Lodhia:** Okay. And just last question on this higher shrinkage. So Q4, we have seen 2.6% versus 1.7%. That implies in first 9 months your shrinkages were much lower compared to last year first 9 months and all increase has happened in Q4. But is there any change in strategy or what?
- Lalit Agarwal:** No, there is no change in strategy. If you compare this with the last many years of data, typically, you will find that Q4 shrinkage is slightly higher. That happens because of a couple of reasons. One is that you tend to write off or tend to stock take a lot of the inventory closer towards the year-end. That is what a typical retail would also like to do. Second is that the winter inventory, once it gets back into the warehouse that is only towards the end of Q4, and that is slightly more valuable than the rest of the inventory. And otherwise also at the year-end, you would want to take stock of the full year situation and the full inventory at enterprise level and then take a judicious call.
- Chirag Lodhia:** I completely understand your point. But again, when I am comparing 2.6% for Q4, I am comparing with the base quarter number, which is 1.7%, the same thing would have happened in last year same quarter.



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Lalit Agarwal: It is just that we would want to because there was more inventory this year, depending on what the ground reality was and what we saw last year. So it is more of what we want to get rid of rather than doing a financial management.

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

Lalit Agarwal: Yes. Thank you, once again. Thank you so much for being patient, for asking good questions, challenging us, making us even think more, making us even do better. So once again, keeping you assure, we will keep doing what we are doing. We will keep bettering our thoughts and we will keep trying to create a better organization. Thank you. Thank you for being with us. Thank you.

Moderator: Thank you so much. Ladies and gentlemen, on behalf of Spark Capital Advisors that concludes this conference. Thank you for joining us. You may now disconnect your lines.