



**“V-Mart Retail Limited
Q4 FY2020 & FY2020 Results Conference Call”**

June 01, 2020



ANALYST: MR. DHARMESH SHAH – ICICI SECURITIES LIMITED

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



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Moderator: Ladies and gentlemen, good day and welcome to the V-Mart Retail Limited Q4 FY2020 and FY2020 Results Conference Call hosted by ICICI Securities. 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. Dharmesh Shah. Thank you and over to you Sir!

Dharmesh Shah: Thank you Lizaan. Hello, everyone, and thank you for joining to the Q4 FY2020 Earnings Call of V-Mart Retail Limited. On behalf of ICICI Securities, I would like to welcome the management team of V-Mart Retail Limited to discuss the results and the outlook. We have with us Mr. Lalit Agarwal, Chairman and Managing Director of the company; and Mr. Anand Agarwal, CFO of the company. I would now request Lalit Ji for his opening remarks, post which, we can open the floor for Q&A. Over to you, Sir!

Lalit Agarwal: Good afternoon, everyone. Thank you, Dharmesh and thank you everyone, for being here. Once again, we have ended this year quite on a challenging note, doing a lot of work during the year and post that the year has been more challenging now. So, we are all aware about the COVID situation. We are all aware about what has gone into business, during these times. So overall, the industry and the overall environment right now is under lot of fear, is under a lot of stress, is under a lot of conservativeness and is under a lot of kind of what I would say quarantine, which is every individual, is right now trying to be in that mode, mentally also, and not physically but also mentally. So, people this is what we are seeing in the market. The consumption story, obviously, once it opens up, we will be able to know but right now, the farmer income has been stable is what we hear.

Farmer has been on the track, on the field, growing his crops, the way he used to and he has somewhere not been able to or not had any dent in his income levels. So somewhere, the farmer is going to be a little more beneficiary in the overall scheme, because the government has been favoring him. The employee or the labor cost can go down because we will have more people available for work in those villages and in those areas. Some of the costs can also go down because there is a lot of reduction or deflation in the commodity prices. So overall, as far his outcome or his crop, he is not selling at a lower price, he is able to sell them at a higher price and the government is helping and really building a very good supply chain system so that there is some benefit there. So that part what we see is very, very positive and as you know, India is largely agri-dependent economy and our territory where we operate, largely these district level or the semi-rural population, I mean, these areas are also highly dependent on agricultural income and most of the people who are dependent on agri are not directly doing agri but dependent on agri or as I say, greater dependent on the agri, can come back little faster and otherwise, I think on the other front of that particular size of the geography where we work, the other front is self employed people who generally are either businessman or shopkeepers or contractors or small



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factories or small establishments with some smaller entrepreneurs. They are, right now under tremendous stress, and we have seen all sorts of activities in those areas. People are driving out some of their resources; people are either not paying them or paying very, very less in terms of their regular monthly outgo. So overall, economy for them is going to get impacted and that the income for those people is going to get impacted for some period of time.

There was a third angle, which is the migrant labor. So the migrant labor moving down to those areas, where we have more stores Bihar, Uttar Pradesh, Jharkhand, Orissa, Bengal, these are the states where migrant labor is highly from and these are the places where migrant laborers have returned back or are returning back so lot of income for those kind of migrant labor who used to send money to their families for their consumption and their regular needs and aspirational needs can go down. But we also have another side, because they are in those geographies, they will work and they will create something better so their ability to consume in those territories will go up, but overall the economic position is going to be certainly let down for some period of time, till the time they go back to their original location and apart from that, I think industry wide, we have seen the same phenomena most of the essential retailers have been able to manage somewhere in opening up, during certain days in April and month of May. There is lot of them who started the home delivery, tying up with online players like Zomato, Swiggy, Flipkart, and playing their online deliveries also for essentials and lot of activities happened and most of the retailers were there on their feet, regularly going between themselves and businesses helping the community.

Apart from that, I think a lot of retailers are definitely facing lot of difficulty, challenges and have really suffered the lockdown situation and have gone out of cash or have gone out of potentiality to pay their people or pay their employees so I think there will be some stress which will come in and which can be impacting and which can be seen in the industry but yes, they also have an opportunity to defer the payment because they do not have any money. So I think we are listening to all kind of things, as V-Mart be it tied up or integrated with all the retailers, work with all the retailer bodies, worked definitely with the government and establishment to try and see that we have the minimum impact coming out from the lockdown and we have the minimum impact for the employees also, because what we understood that the employee are going to be the key people who are going to suffer here and how do we protect them? How do we protect and take care of them, That definitely was what we wanted to do and we wanted to also ensure that the industry takes the same approach and same view so we at V-Mart, we were definitely very, very conscious on employees. We said that we will not drive out employees because we felt that they are our core assets, and they are people who have built the industry and build the company. So, they are the ones who will remain and maybe something is required when will ask them to share as a family. But we have definitely paid them for March, we paid them for April and this month also we will definitely pay them, but maybe there will be some deferment or some reduction, which is still happening during this time.



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So, I think on the other side, we have definitely tried to ensure that our books are in control. Our risks are managed well. Our ability to understand the risk, through the scenario building, do the planning and understand what kind of risks do we hold and the risks are the inability to liquidify the inventory and how do we ensure that we are liquid? How do we ensure that the flow of funds whenever, whatever we require and how do we ensure that the inventory is in control and how do we ensure that the commitments are in control and the vendors are also safeguarded so we did a lot of exercise, lot of work, lot of planning, and lot of communication with all our stakeholders, right from our employees, customers, stakeholders, vendors, government, with the landlords, investors so everyone we tried to communicate multiple number of times, so that where everyone is appraised about the situation and everyone is in the partnership, and they are all handling each other so that we sail through these crisis and that is what the call that we took.

We managed our liquidity. We have kept a very, very conservative approach on our inventory. We have really worked with our vendor base so that we do not have any commitments going forward. We have minimal commitments going forward and how we have taken sufficient provision also in our books, so that we are well covered, because right now, the Corona situation does not seem to be improving, it is actually going little worse but yes, the economy is opening up, businesses opening up. We do not know what is going to happen so we have taken all those consideration into our business plan and have planned accordingly.

So, we will continue to look positive. We will try to at this time clean up the inefficient, either stores or categories or products or people so we will try to do all those work. We will try to make our processes little more stronger during the lockdown period, during the work-from-home concept, work hard we did, we really focused highly on building the company, building the processes, better processes, aligning the technologies, creating capability and in creating more communication and more collaboration digitally.. So, we have done lot of those works, which have definitely made our brand a much stronger brand and much more sustainable brand. So that is where we were focusing on, and that is what we feel we will take the organization to the next level. We are really positive, we will try to act very, very positive because we understand that the area where we are, where some of the consumers who had moved away from us to a brand or into a higher product, higher prices procurement. They will come back to us. We are the ones who can cater to the existing market. We believe that even the market which is to come to us, will buy at a price as we buy products, but will buy at a little lesser price. But today is a concept of live with less and people will live with less and also, we will have to live with less. So that is the whole concept that we are working on, where we believe that the customers are going to spend a little lesser, customers are only going to spend on the key product, different products that they want to spend on, like the kid wear, or infant wear initially, and then the women's wear and the men's wear afterwards.

So, there are going to be lesser events, lesser marriage festivals, lesser celebrations which are going to happen so maybe possible that a premium product, products which are higher priced products will not sell. So, we will definitely try to bring down our average selling price and this



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is what we are seeing from whatever stores that we have opened up, we are seeing a little lower price point and the customers want to buy more, customers are trying to buy the required products because we all know, the customer who buys from V-Mart are customers who only are buying their basic requirement. So, they are all lead base buying, nothing is aspirational, nothing is discretionary. So, buying will continue, should continue. We will see some fall in the average selling price of products.

So, we will take your questions in the call, and let me pass this on to Anand who can continue and give more detail about the presentation and little more detail about what we are doing. Thank you. Over to you, Anand!

Anand Agarwal:

Thank you, Lalit. It has been a tough time, and the thing is, it is also been a very exciting last three months, and we all have learned to live with less. In our ecosystem, less has always been more, and we are happy yet again to share the growth story with all. So, I will keep my thoughts very limited, very short, so that we can have more time for questions, but I just want to cover two important aspects. One is some highlights from the quarter, and second is, how our preparedness on the COVID front is. So as far as the quarter is concerned, and the results are concerned, we had a strong quarter performance till almost mid of March. The sales were growing at 29% year-on-year with an 8% like-to-like growth for the quarter, when the stores started to get shutdown, with almost Rs.75 Crores of sales loss in March, the quarter actually ended with a minus 3% degrowth and a minus 18% same-store sales growth. This further impacted the full-year tally with sales growth, which was running at 21%, faltered to 16% and the SSSG, which was earlier running at 3.2% till March, 15, 2020 finally settled to degrow at minus 2% on a full-year basis. Despite this, the core market of UP continued its strong performance and despite the pandemic delivered a plus 1% SSG.

During the quarter, we added nine new stores, while five locations, which were to be opened during the quarter, had to be put on hold in lieu of the pandemic. UP crossed its milestone of opening the 100 stores, and while the total retail area grew by 23%, the additions in quarter four could not really contribute significantly to the top line, increasing the rental costs as a percentage of total sales, and otherwise, just remaining soft to flat. The ASP has been growing healthily, 7% for the quarter, 5% for the full year, in line with our strategy to push higher price product mix during festivals and also reducing discounting throughout the year.

As far as margins were concerned, gross margins for the quarter reduced by 50 basis points, largely due to an ad hoc provision, as Lalit also just mentioned, which we took against inventory to protect ourselves against the expected margin loss in future months. While we are really not expecting any inventory losses, but it is better to err on the side of caution, and therefore, we provided for the significant amount in this quarter, so that we are able to take care of eventualities in case any arise.



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On a normalized basis, in quarter four, gross margins would have been higher by 30 basis points. The full year gross margins remain flat at 32.2% despite the conservative higher provisioning against the inventory. Without the ad hoc inventory provisioning, the normalized full year margins would have been higher by 50 basis points to 32.7%.

If I look at the expenses, they have remained fairly in range. There is some hard increase in manpower costs and rentals as a percentage due to the base sales not being there in quarter four, while the full salary cost and the full rental cost has been accounted for and actually paid also. We have paid full salaries to all our employees till April and some cuts or deferments are planned from May. We have also paid the full rentals up to March as they are paid in advance, and we are negotiating with all our partners, all our landlords to waive off rentals for the full lockdown period and reduce rentals further for at least the next three to six months. We have already been successful in getting this endorsed by almost 1/3 of our landlords, while we still talk to the rest.

On a normalized level, as far as EBITDA is concerned, we were expecting an EBITDA of around 9.3%. We have also taken a liberty of adding one more slide in this quarter's presentation for a normalized scale of operations in light of the COVID situation, and one would see that, we were expecting a normalized EBITDA of around 9.3%, which got severely impacted in the last 15, 20 days of March, due to COVID eroding the margins, while the fixed cost remained in play.

Coming to inventory. While we have a slightly larger-than-expected inventory due to the loss of sales of roughly around Rs.75 Crores in March, we had received majority of our summer purchases till March 15, 2020. But the liquidation thereof could not happen therefore leading to the slight high inventory as of year-end. The bulk of the inventory that we hold is of the core category and not seasonal, and therefore, we do not really foresee any major problem in its liquidation. In spite of this, on a conservative side, we have taken an ad hoc provision of almost 0.5% of sales to take care of any unforeseen issues going forward. This is not only towards risk mitigation but also being slightly conservative in how we look at accounting and how we look at preserving the long-term stakeholder value. Without this ad hoc provision, our EBITDA would have been higher by 0.5%.

On the Capex side, we opened a total 55 stores in the year, nine in quarter four. While 55 is the highest in any year so far, but we could not open five almost ready stores in Q4 due to the COVID situation.

The total Capex stood at Rs.55 Crores. That was the cash outflow. In addition, we also got some assets on lease for warehouse capacity buildup and some stores fix-ups saving on cash, which was in the tune of approximately Rs.7 Crores. So, at a gross level, the total Capex would have been Rs.62 Crores out of which Rs.55 Crores was paid from the company and Rs.7 Crores through lease expansion.



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We had earlier announced our plans to open a new warehouse in the eastern part of India, and site for the same was also shortlisted. However, as of now, the project is deferred and a fresh decision will be made in a few months' time. There is no agreement signed or any financial commitment for the same so far.

On the cash front, we generated free cash flows of roughly Rs.32 Crores in a very tough operating environment. Even now the biggest priority for us is to sustain cash. The company was debt free as of March 31, 2020 and had the pandemic not broken out, we would have had comfortable cash as in the prior many years. There is a big impact of Ind AS 116, like in the last three quarters, which the company had to adopt since this fiscal, which has resulted in a net PBT impact of Rs. 31 Crores for the year. As you would know, the Ind AS has required us to break and reclassify rentals into interest cost and depreciation, while the full value of the rental contracts are capitalized and then depreciated on straight line method. A corresponding interest charge is accrued on the outstanding net liability for the right of use asset, resulting in a notional interest cost, which is only a book entry, while there is no change in the rental payout or any part of operations. So, there is a net Rs. 31 Crores impact, which otherwise, on a comparable basis would not have happened.

Coming to the second part of my thoughts around the updates around COVID. The impact of COVID has been quite severe. So far as almost all stores were shut down for a continuous period of almost 50 to 60 days. We have seen these stores started opening slowly now in the last 10, 15 days, but with limited footfalls. While almost 70% stores have got permission to open from the local administrations, but on an average, roughly 50% are open on any given day due to the limitations on number of days of operations and the hours, etc.. The last two weeks of limited operations have shown that the customers still are there in the market. We have seen almost 40%, 50% of sales for the equivalent amount of time that the stores have remained open versus the normal period. But at an overall level, the sales and footfall remain low.

On the cost control side and the expenses, we have taken immense measures to keep fixed costs under check. The biggest component of costs are salaries and rentals, while we have been paying 100% so far, but for May, we have introduced various pay cuts or deferments, which will continue for some time or till the time situation normalizes. As discussed earlier, we have seen active negotiations with all our landlords, and a lot of them have already agreed for waivers and rent reductions going forward. We expect rental cost for the lockdown period to still be at around 30% of the normal payouts..

The electricity expenses have been negligible as few states announced no fixed charges for the lockdown period. There is definitely a complete embargo on all discretionary spends, and the end focus is to reduce our fixed cost base by 50% to 60%, and we are very much near where we wanted to reach.



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In addition, we are also reassessing the continuity of some of our historically bottom performing stores, and we will swap them with more attractive locations, should any location become available in nearby towns. Liquidity is of prime importance and main concern. So, while the company was marginally cash positive as of March 31, 2020, but we also had roughly Rs. 150 Crores of working capital limits, which were completely undrawn. As an annual cycle, we had recently got our credit ratings reaffirmed to AA minus for long-term A1 plus for short-term and had also got our sanctioned limit increased by almost 50%, thus roughly Rs. 230 Crores is available to us as banking lines, out of which, so far, we have utilized only 15%. As per the RBI recommendations to banks, we also have access to additional 10% COVID lines over and above this, should the need arise.

We have been making small but regular payments to all our vendors, and we continue to support them in this hour of need. The principal being to pay some to all, but not all to some.

As far as the new store expansion is concerned, right now, the focus is to conserve cash and all fresh Capex is on hold for a period of at least three months or time till the time we see some signs of improvement in the operating environment.

Another initiative being worked upon is to increase the FMCG offerings in some additional stores. This is not a strategy shift. Roughly 45 stores already offered FMCG, and we would just want to add a few more stores so that we can cater to larger audiences. The pilot on omni and online offerings has been in place since Diwali. We will want to start scaling this gradually, now that more than 10,000 products have been photographed and cataloged, the app is already live on App store as well as in the Google Play Store, and we have been receiving continuous flow of orders for the last many, many months. While for the lockdown period, we have not really pushed this because the logistics were closed, but we have restarted this and now planning to make this slightly bigger. There is no Big Bang marketing spend planned around this, but the approach will be to offer the same merchandise at same price points on the omni-channel also. We also have plans to extend this in a limited manner to other market places like Amazon or Flipkart et cetera in phases for which some work is already on.

Digital and tech adoption will be a big initiative going forward as corona has also taught us, and we will like to keep in place a lot of valuable learning's like, more efficient operations and lesser fixed costs imbibed in our strategy going forward also.

So that is all that I wanted to say. I will now request the moderator to open the house for questions. I also have here with me Samir Misra, who is our Chief Operating Officer, and he will also be happy to take your questions around the business. Thank you.

Moderator:

Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Manasvi Shah from ICICI Prudential. Please go ahead.



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- Manasvi Shah:** Thanks for taking my questions and I hope the team and everybody around are safe and sound. Sir, my first question is, I noticed this big swing in the quarter, in sales a bit, 8% SSG till March 15, 2020 and then negative 18% SSG for the quarter, Anand, you partly explained it but there is some Rs. 75 Crores gain/loss but then that is just now but March was affected, if I think the result only 15 days of March are almost around 35, 30%, 25% of the business for the quarter?
- Anand Agarwal:** Yes, you are absolutely right. So, on a full-month basis, March would have accounted for roughly around Rs. 150 Crores of sales and that was the planned number, and that is also the historical number that sales - usually which we have been able to achieve, while the actual throughput came to roughly around Rs. 90 Crores or so. So, we were definitely expecting Rs. 75 Crores in the period which was lost due to COVID.
- Manasvi Shah:** Okay, and with the inventory provision that has been taken of Rs. 9 Crores, you mentioned that you ideally, do not need further inventory write-downs, but do you think that this is adequate? I mean I am just trying to understand from a season perspective if more of your collection is spring summer and by the time the store is actually fully opened and if we are close to hitting the festive season, I mean, is the inventory actually on sufficient?
- Anand Agarwal:** So, it is very different at this stage, for anybody to quantify any kind of provisioning norms and whatever number that we have taken is purely basis our estimates and this entire amount is not only towards COVID. I think we have taken a far more conservative approach. In fact, we could have chosen to take the provisioning in the next year like a lot of other retail companies. We have been more conservative on this, and we have sort of broken this around, two or three different areas. One around retail stores. Second around our FMCG offerings, and third around losses due to COVID. One must appreciate that bulk of our inventory, are almost 95% of our inventory is apparel and non-apparel stock, and out of which almost 45% is core inventory, which is non-seasonal and thereby, very, very not susceptible to any kind of erosion or direction in value. But in spite of that, we have taken this extreme step of adding ad hoc provision just to keep books much more cleaner going forward.
- Manasvi Shah:** Okay, and the strong sale in January and February, is that a reason of good winter sales, because winter has postponed this year, and is that where the entire growth has come from?
- Anand Agarwal:** Yes. You are also right on this. So, we did see a late onset of winter. So, January and February, January, definitely, was quite good. February usually is a smaller month, but there were some marriage also and then early Holi, which helped impact the sales. Yes, we had, had a very good quarter, at least till the time the stores started to close.
- Manasvi Shah:** Okay, and Anand in the previous quarter call, you mentioned that the shrinkage percentage you expected to go down, but it is actually gone up at 1.6% for the year.



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- Anand Agarwal:** Yes. So, this shrinkage actually includes the amount of provisioning. So, that's the way we calculate and the provisioning is significantly higher. There is a 0.6% of provisioning, which is there, which is an ad hoc or extra provisioning in this year which I mentioned, which is a mix of COVID, retail stores and FMCG, etc. So, if you remove that, the actual comparable provisioning would be 0.9% or your shrinkage would be 0.9%.
- Manasvi Shah:** Okay, and just 1 last question. Your rent expense is somewhere around Rs. 90 Crores to Rs. 95 for the year and as per the cash flow payment of lease liability amount is somewhere around Rs. 32 Crores to Rs. 33 Crores. Why the difference?
- Anand Agarwal:** It should not be that. These liability payments and cash flow would be netted off on account of some other lease obligations. But otherwise, our rental expenditure is roughly around Rs. 90 Crores, you are right for the full year.
- Manasvi Shah:** Yes. I mean, the difference is huge, right? I mean Rs. 50 Crores of difference, in expense with bit of cash also.
- Anand Agarwal:** Let me check that and get back to you on this.
- Manasvi Shah:** Right. Thanks. That is it from my side and all the best.
- Moderator:** Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Hi. Thanks for the opportunity and I hope the whole V-Mart team is keeping safe and healthy. Couple of questions, first, Anand you made detailed presentation on the cost measures that we are taking cost, same way but what we have taken from other retailers is that rental negotiations are not going as people had planned 60 or 90 days back, and there is a lot of pushback from landlords also on not allowing the relaxed measures as the retailers want. So where are we on that? That is first question.
- Anand Agarwal:** Yes. Thank you, Tejas. As I mentioned during the call, we have been in a very strong active dialogue with all of our landlords, and if I were to just give a number, I think we would have already closed our discussions with at least 1/3 of our landlords in the way want it, and while we are not closed with the others, but we are still very strongly working into get some headwind with the rest of the landlords, and what I expect, if I look at quarter one of this year is that we would still end up having a rental cost of roughly around 30% on the P&L.
- Tejas Shah:** And on the guidance that you spoke about 50% target cost reduction is taking those balanced negotiations going in our favor? Or how is things stand today?
- Anand Agarwal:** No, that is shaping in that direction, some amount of discussions going in our favor, while some may not come in our favor. But I am quite sure that we will be able to be at least 50%, if not more.



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- Tejas Shah:** Second, just wanted to understand that in fashion business like ours and looking at situation which COVID has created. What do you think about the future of trial room from here? Because a lot of your products people would prefer to try before buying it out, and with COVID, either you, if you go on sanitizing measures, then perhaps, the inventory efficiency will come down materially because of the whole quarantine for one day. So just wanted to understand, first, what is our plan on that? And second, how will it impact our inventory efficiency?
- Samir Misra:** Tejas, thanks for the question. Samir here. Right now, I think both customers and people are able to understand that the situation, it is important to be safe and to be cautious. So right now, we are not allowing trial for the product, and customers who are coming to our stores are not really objecting to it. I think, thanks to the so many initiatives taken by the government, customers are able to understand why it is so, and the fact that they are loyal to us and they trust us, and they have seen the product earlier, they have tried it. There is not too much worry about sizes and other things. So, it looks we are fine at the moment, and that I do not think that will have any mix impact on the overall inventory.
- Tejas Shah:** Sure, and if I may squeeze in one more, you mentioned about swapping historical bottom performing locations with better proposition. So, does it mean that this year focus will be on consolidation of store counts?
- Samir Misra:** Yes. There will be some form of consolidation. We will look at some of the stores which are not doing well, either we will try and make it work by talking to a landlord and improving efficiency, rental, et cetera. Or we will also attempt to close the stores and open more profitable store, and we will be looking at efficiency overall in every line item of P&L.
- Tejas Shah:** Opening will be part of this fiscal year or second half of as the situation reduce?
- Samir Misra:** The second half. First half, you know, we will be little cautious on openings.
- Tejas Shah:** Thanks. That it all from my side and all the best.
- Moderator:** Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.
- Abneesh Roy:** Sir, lot of the FMCG companies and the consumer companies are saying, they are seeing an opportunity in these crises. Now when I see your FMCG, you have taken into more stores. So, one is, which are the stores where you are taking it? Is it largely in the bigger cities where COVID crisis is bigger, so it makes sense there? Second, you mentioned this is not a change in strategy. So, my question is, why do not you want to take it to more stores so that there is a better make, better assortment for the customer? And in case of any kind of this, kind of risk that does not come every year, but why not do it in more stores, at least some square feet dedicated to FMCG?



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Samir Misra:

Yes. Abneesh. So, we know that we have been always genuinely focused on our strategy, and we still believe that, we will do, and we will want to do better, more of what we know the best. So FMCG is definitely not one area which we know best. So, what we are trying to do is, just we have caught up re-devising or rethink on FMCG. I am thinking from there because the customer demand is important. And what does he demand? And what is the market availability? So, what is it that we will be trying to provide. Where are the areas where we actually got more success looking at our past and looking also at the competitive intensity there. So, we are trying to make a very good profile around it and that is why we are not using all the stores. Because we do not want to use it if we are more a fashion stores and the fashion aspiration is something that we need create and we are actually looking at bettering our store in, bettering our store outcome, inviting more young families so that they can really take it as a fashion destination, but not if they are Kirana destination. So, we definitely do not want to shift our focus from fashion to Kirana. But yes, we definitely want to leap on to the opportunity which COVID is throwing right now. So, trying to also help the community and help restore wherever we want the store to perform better. There is efficiency for a store to do it more. We are doing lot of analysis on understanding which kind of the customers are coming in, whether the ability for those kind of customers for shifting to FMCG is higher, and is there is demand. So, we are carrying out interviews, we are carrying out some surveys, trying to understand that we are really going to grow with our customers.

Abneesh Roy:

My second question is essentially on your expansion strategy. So, warehouse, which you mentioned that the input for three months in terms of hold because you mentioned that new stores will not be expanded for the next three months. So, warehouse also, the time line is three months in terms of delays?

Samir Misra:

We have decided not to add any warehouse in the current year, at least, and for the next one-year. So, we are generating more efficiency in the same warehouse, and we have postponed the plan for at least one-year right now.

Abneesh Roy:

And one follow-up to what Tejas asked in terms of the shift from the bottom performing stores. So, if you could put a number in terms of bottom performing stores, what is the number of stores you have in mind? And second, you said, you will shift that to alternate. So, in the competition from local players, is there much more pain, and that is why you expect some stores availability from there? I am not asking on the Reliance's of the world, I am asking on the local competitors, is the pain really much bigger there, and that is why you see alternate location being available?

Samir Misra:

No, I think Abneesh, we need to understand, and this is the time when we have to be also smarter. We need to also look at the future potentiality of a particular store, and every decision that we make, there will be 10% to 15% error, there will be 10% error whichever way we go. But there are larger reasons, which are locations, which are getting the kind of footfalls that we get, the kind of management that we did in the past, whatever we have done. But the store today is not performing to its best and there are stores which are not performing or giving us the desired EBITDA or giving us a desired ROCE. So why not I invest my assets in the capital employed to



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any other location and try to get more revenue out of it, and if I am getting an attractive deal in some other location, and if this store is unable to give you those ROCE, why should not I do it? So, I am just trying to be very opportunistic and trying to understand whether the landlord negotiates or we might be able to generate higher ROCE if we do a swap. So, it is nothing like we are running because we are afraid but that is what we want.

So, there is no shame in saying that and we have always done that. We have done this in the 2010 Lehman Brother crisis, and we will do it now also. If there are locations which are still not able to perform to our desired standards, we will always want to better that because every store of ours should be able to give us a desired revenue and EBITDA.

Abneesh Roy: Comment on local competitors?

Samir Misra: No, I do not think they were competing right now, because anyway they were shaken up and shackled, and we do not want to really look into those areas because they have their own strengths, and they have their weaknesses. There may be some local competitors, which can grow and a get little more larger and the one which can get wiped out. So, we do not want to comment on those. But just we really want to understand where can we survive, where can we do better, what can lead us to a better role, we are not trying to really look at the competition.

Abneesh Roy: Sir, one, very last small question. So migrants, the FMCG companies are very excited. Sir, millions of migrants coming back, I agree with your remittance point, but such a large shift will happen, instead of buying in the urban where your store is not present. These migrants will be present in your area. So, will there not be overall benefit to you? Why are you a bit cautious on this?

Lalit Agarwal: Yes. Ultimately, Abneesh people have to have money in their pockets. What we believe, there are not too many employment opportunities in the towns where we operate. So, these people who are skilled enough, who were working in factories, who were working in some industries will not be able to only work in the field and there is not so much of opportunity for and they cannot become laborers. So, I think there will be a challenge, there will be some time where they will do certain income, and then that loss in income, will obviously, ultimately lead into their lesser consumption. So that is my macro view, but at a smaller micro level, yes, there will be more population, they will consume more, and they are the people who are living there, they will consume more I understand. But they should have money to consume. So that is my larger piece which I am asking you,? What is that you are seeing?

Abneesh Roy: Sir, we depend on you for the views. Thanks a lot. It is very helpful.

Moderator: Thank you. The next question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.



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- Nitin Gosar:** Yes. Nitin Gosar here. Sir, two questions. I just wanted to understand, if you called out a number of stores that form part of the bottom performance category, which you called out? And what could be the number around those stores? Second question is pertaining to employee cost, where we called out from May onwards, there will be particularly who have worked on variable and deferrals, could you elaborate more just to get a handle on how the cash flow may look like?
- Anand Agarwal:** Anand, this side. So, on the first question around the number of stores that we may shut or swap; I would not really want to give out guidance. This is work in progress, and we will continue to monitor and assess opportunities not only from a point of view of closure, but also from a point of view of replacing that business with or that capital with something else which is available. So, the question is not only to shut, but also to recreate. So, we will take the right decisions, basis what is available. On the employee cost, we are looking at our overall cost reduction of roughly around 25%, and as I said, it will be graded at various levels, including some deferrals or cuts. But the overall impact that I can foresee for quarter one, , will maybe in the range of around 20%, 25%.
- Nitin Gosar:** This is overall cost you are saying or only employee cost?
- Anand Agarwal:** Overall employee cost, yes.
- Nitin Gosar:** Okay, and rentals, you called out around 30%.
- Anand Agarwal:** Yes.
- Nitin Gosar:** Okay. Just reiterating the first question. What share of capital do you think is not giving you the right return?
- Anand Agarwal:** There will always be multiple level performers. You cannot have all the capital employed, performing or giving the similar returns. So, there will be always lesser ones, higher ones and topper ones. So, there will also be 15%, 10%, 20%, 30%. Normally, 1/3 will give you high returns, some 1/3 which will give you an average return, and other 1/3 giving you a lower return. So, within those 1/3 what is ideally that we are trying to do and that is how the whole analysis is done and we will try to always better that.
- Nitin Gosar:** Right Sir. Thank you and all the best Sir.
- Moderator:** Thank you. We will move on to the next question. That is from the line of Mike S from Alquities. Please go ahead.
- Mike S:** Thanks for the opportunity. I will ask just two questions. Firstly, if you look forward two years, how much do you think omnichannel e-commerce will represent of your total sales? And is the margin higher or lower than on average? Secondly, in your stores, how will you manage to safely



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social distance? The stores are quite small, they are quite crowded. How will you ensure your staffs stay far enough away from each other?

Samir Misra:

Yes, this is Samir here. We look forward to around 4% to 5% of omni business in next two years, and I think the pilots, which we have done have given us very good results, and we are quite confident that we should be able to look at this kind of a business. On margin front, it will be slightly lower than the current margin. Yes, we are not really adequately sure at this point of time what kind of margin we would see because we have done few pilots. But yes, online business will run at a slightly lower margin. On the second question, our store teams have been trained for last four to five weeks, each and every employee. We have put around 14,500 hours on training employees on the SOP on social distancing, on sanitization, on cleaning, on hygiene and how many people at the cash counter, should a trial room be used or not, and I think the current stores, which we are operating and the images and audits, which we have done, both the government officials, and our customers have given us thumbs up on the way we are maintaining our stores and we are maintaining social distance at this point of time.

Mike S:

Thank you.

Moderator:

Thank you. The next question is from the line of Aliasgar Shakir from Motilal Oswal. Please go ahead.

Aliasgar Shakir:

Thank you Sir for this opportunity. I have just two questions. So, one is on the growth opportunity, I mean, around these new stores that you said you would open around it, and close some of the bottom stores. I want to actually flip it the other way around. I think in the last two, three years, there have been a lot of smaller players who must have been around your stores. So, there would be either inorganic growth opportunity available, maybe some of these guys would be in big stress, either acquiring them in total or maybe a large chunk of stored in a portfolio? Or secondly, if you would be seeing or rather, are you seeing - this is many of them closing a lot of their stores and therefore, a good attractive chunk of real estate available, which probably could give you an opportunity to probably accelerate your growth, maybe not right away, but probably about a quarter or two. So just want your thoughts on, I mean, given our liquidity situation, do you think we are better placed than many of these smaller retail players and therefore, probably we could take advantage of the current situation and peddling in terms of acceleration of growth?

Lalit Agarwal:

Yes. Ali, I think we at V-Mart, believe that everyone around our ecosystem should create value, including our competitors and we believe the best for all and everyone should survive, should be able to survive. I have been regularly interacting with an association, about those areas. Trying to bring all these players, on system guidance than you have been guiding. Also, always believe that peer group should survive so that we all can grow. The industry is taking it very positively and we will always wish a good luck for them. There are guys those who are not doing very good, who will have a high liquidity challenge and who are not able to manage the kind of change that they are filtering, network that they do not have the processes or technology to manage. So, there



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may be few of those who will either close down or close some of the large part of their non-performing stores, and manage their existing portfolios. Or there may be some who may try to sell it off. But we at V-Mart right now are not seeing any good players out there in the open who are ethically or on the governance who are very strong, or who can be really acquired. They do not have any uniqueness other than the properties and stores which I think, V-Mart has the capability to buy and take whatever is required. So, we would definitely, latch on to the opportunities if anything is created in the market in terms of the property getting vacated or property getting free or the market opportunity which arises because of their closure or their non-performance and definitely want to better those opportunity and we have lot of such opportunities for that we will grow our market share in the existing markets. So, we will do that. But Ali, coming to your question, we are not really looking at trying to get someone on the board.

Aliasgar Shakir: Then just one follow-up there, Sir, do you think that, that should give you a positive accelerating up to addition pace, maybe if not right away than in a quarter time? And if at all, not that, then either, I mean market share probably would go up given that a lot of these close by stores probably?

Lalit Agarwal: Yes, I mean, let us wait for this COVID pandemic to subside and then things getting back to normal, then we have all the time in the world to do all those things. Right now, it is more important to sail the ship that we have right now we are all in critical times and tough times. So, it's not going to be easy for ourselves also.

Aliasgar Shakir: Correct, Sir. I agree. Just 1 more question on the supply chain. So, I mean, given the last two, three months, most of your vendors would have also been shut down. Now at one end, we are talking about lot of our inventory maybe, if we may have to take write-down or if we will have to discount aggressively, but on the other hand, I mean, do you see a situation where a lot of your supply chain would have got disrupted and any new orders that you gave may take a little longer to sort of come to you and therefore, probably?

Lalit Agarwal: Sorry. Cutting you short, we are in constant communication with our vendor base. We have done webinar with them, we have been one-to-one having a relationship with them, understanding on what do they need, how do they come back to the normalcy claim? Then how do they prepare because we are not going to give them lot of plans. We are not going to give them a planning in advance. But we need to ensure that they are prepared for very faster mine-to-market opportunities, and we will try to work, our good for vendor based on all those areas. So, that is our strength, and that will be our strength. So that we are able to come back as soon as the market demands pops up.

Aliasgar Shakir: Thanks Sir this was very useful.

Moderator: Thank you. The next question is from the line of Ankit Kedia from Phillip Capital. Please go ahead.



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- Ankit Kedia:** Sir I just wanted to know in our geography, winters is very severe. So, from the winter buying perspective, you said the core inventory can be carry forwarded. Do you think we will need to deep discount the existing spring summer inventory a lot for the buying of winter inventory? Or we can carry forward to next spring summer?
- Samir Misra:** Thank you for the question. It is a good question. What is important to understand is that our buys are very closer to the market, unlike a lot of national retailers. They probably buy 6 to 8 months in advance. We buy 90 to 120 days. That has helped us in these extraordinary times. Secondly, some of our summer inventory will also be helpful in coming months because we haven't had a full sale and liquidation, I think what consumer right now requires is and, what they will value more is, great value proposition and the fact that our inventory is fresh, we will continue to sell it right through September. Because where we work, in our geography catchments we continue to sell half sleeves t-shirts and shorts.
- Ankit Kedia:** So, we will not see an early EOSS this time it could be a delayed EOSS in our geographies?
- Samir Misra:** No, we will not have any EOSS. I think we have never believed in, we have honest pricing organization. We have not believed in big discounts and end of season sale is not a biggest trend and we thank ourselves for that, so we will not have an earlier EOSS or start liquiditating merchandise like other retailers.
- Ankit Kedia:** Second question is on the Rents. Now the negotiations which you have had with some of the landlords are it only for the quarter or two or will it be from a longer timeframe for couple of years?
- Samir Misra:** So first of all, what we believe is in partnerships. We are not like, my my way or the highway. What we are trying to understand through each landlord is that, we need help and we also have to help them. So, we are looking at both short-term and long term, depending on the property, how much business what it does? Who, what helped? So, at this point of time, we are definitely talking about 3 to 6 months. But yes, some landlords who understand that when our business also improves and they may want to get a better share, we're working with them on long-term as well.
- Ankit Kedia:** In the swapping stores, do you think. It is followup question, Madam, on the rentals only. Sir, do you think structurally rentals in the new stores, which we are going to open or swap, would be at least 10% to 15% lower than the existing and profitability of those stores could be much better over medium-term now?
- Anand Agarwal:** Yes. The whole proposition of shopping store is to improve profitability and through obviously, one is definitely rental. The other is, the places where we open, we'll have higher chances of more throughput in terms of sales and most of the sales with higher profitability.
- Ankit Kedia:** That is helpful Sir. Thank you so much.



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- Moderator:** Thank you very much. The next question is from the line of Jay Gandhi from HDFC Securities. Please go ahead.
- Jay Gandhi:** Thank you for the opportunity. Sir just one thing even if I look at your inventory days ex-COVID its gone up from some 83 days to 92 days. Is it that we perhaps may have actually lost the ball on inventory management in FY2020 itself slightly or is there something which will normalize?
- Anand Agarwal:** Jay, if we look at the normalized results, a slide is there in the last section of the investor presentation. It says, I think, 80 days, and last year, I think we were at 84 days. So, at a normalized scale, we would have improved inventory and if I just back calculate the Rs.75 Crores of sales lost for the March period alone, I think you would arrive at the same conclusion. So absolutely, there is no worry as far as we see on the inventory position. As I mentioned earlier, at an overall level, we are fairly comfortable with the inventory and bulk of our inventory is still on the apparel and the non-apparel side, which is non-perishable and also not going out of fashion.
- Jay Gandhi:** Just a follow-up on that was that like your inventory is relatively fresh. So, are other retailers as well, right? So, once we have passed this sales crisis, would it be that because of some of the guys, some of your immediate peers being under extreme pressure of liquidation, you might have to follow suit? Could that happen? Could that be a probability?
- Lalit Agarwal:** So, who offers a higher discount. What is the possibility of discounts available? This is a time when people want to deal and talk or only interact with the people who they trust and it is largely important for us to develop or build trust to that whole customer base so that he will be able to come to our stores without any question mark in mind. Because these are not the same time, these are times where he can get infected. So, he can get affected. So, he would want to only come to that store, which is doing its best on the process, system, taking care of the employees and taking care of the customer and then obviously, giving the value for money, that is more important. It is not important or the percentage discount he is offering what, it is more about what value of money do I offer, and what product do I offer and what fashion do I offer? That will be still more pertinent and important. So, I think that is the core thing that we are focusing on. There may be some competitors who can offer more discounts, and there are competitors who have been regularly doing this. We do not want to change them. We do not want to really go on the backfoot.
- Jay Gandhi:** The last thing was, in the press release, it is mentioned that you have reached around 40% of normal footfalls. Just correct me if I'm wrong, I am presuming that?
- Lalit Agarwal:** On the day the store is opened we are receiving almost an average of 40% of footfall on that day.
- Jay Gandhi:** Is there some increase in bill sizes also which kind of helps you mitigate this and as a percentage of revenue it might actually be better, you might be better off?



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- Lalit Agarwal:** We do not know Jay. Right now, we do not know because there is a pent-up demand, which is coming up. So, the unit per transaction or the number of pieces in the sale is going up, but the average prices of the cost of product, is going down. So, I think there will be a mixed response. But right now, it's -- I mean, it's early days for us to react.
- Jay Gandhi:** Fair enough I might just be pushing my luck on this but if store had start in 2H is there some capex guidance you might want to give or you might want to stay off?
- Lalit Agarwal:** Sorry do not push us too much.
- Jay Gandhi:** Fair enough. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Girish Pai from Nirmal Bang. Please go ahead.
- Girish Pai:** Thank you for the opportunity. Anand, on the rental side, you were mentioning that you already negotiated some 30% of the store owners and you are expressing that you will probably be able to go to 50%. So, what happens to the rest of the 50%? I mean, are you thinking of kind of dropping them and moving on to another set of landlords?
- Lalit Agarwal:** Girish, it does not mean that we have lost our battle because of the 50%. What he said is the current score where we have got a confirmation. So, we are still working on it, the team is very confident, the team is working and landlords have been a partner to V-Mart, and they have high, high consideration for us and we have high consideration for them, we will make sure that those people do not come into a pain and even we are able to manage our balance system. So, it a pure partnership and we will be definitely doing something which will be beneficial to both of us.
- Girish Pai:** Second and last question, I thought you are implying that there is going to be some kind of downtrading benefit to you that people are going to shift from the national players or ASPs higher than you? That is one part. The second part on that, what would that mean for your gross margin in FY2021?
- Anand Agarwal:** Girish, so two parts. One is, it is not a clear cut strategy or a very clear identified approach as to what properties or what opportunities we will eventually end up having. But if I look at the downtrading and the margin profile, there may be some impact if the downtrade is significant. But as Lalit mentioned, just a while back, it is slightly early days to understand and react to, if this is a permanent trend or a likely trend going forward? Because right now, what is happening is that people have not shopped for almost two months and they are coming out to buy bermudas or pajamas or T-shirts in larger quantities. But is that something that we will continue to buy even three months from now? I think the jury is still out. So, we will just have to little bit wait and see but having said that, the margin profile across our product portfolio is almost very, very similar. So, whether he is buying a shorts or a T-shirt or a formal shirt, the margin profile will very much remains the same because we work on a markup principle, not a discounting principle



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or a mark down principle. So therefore, there should not be a significant impact. But as I said, these are early days and we will have a better experience to share in the next quarter.

Girish Pai: Sorry to belabor this point. The first part was regarding the market share shift from the national players to you. Are you kind of implying that?

Anand Agarwal: So again, very difficult to say. There will be some downtrading happening, and there may be some customers coming in from the national players to us and probably also away from us to even lower price points so possibilities in both these situations. So again, very difficult to say that, this will happen or that will happen.

Girish Pai: Thank you.

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

Lalit Agarwal: Thank you, everyone. Thank you for being on the call, and thank you for the support and entire year and even now, and the trust that you have showed means a lot to us and we are here, V-Mart team is here doing its best, trying to pull up the best out of the worst times and we are definitely taking it as an opportunity in these challenging times. So, we will definitely come out much, much more stronger is our belief. Thank you, guys. Thank you so much. Have a good day.

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