



Transcript

Conference Call of V-Mart Retail Limited

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Presentation Session

Moderator: Good evening ladies and gentlemen. I am Moumita, moderator for this conference. Welcome to the Q2FY15 results conference call for V-Mart Retail Limited hosted by Anand Rathi Research. We have with us today Mr. Lalit Agarwal, CMD and Mr. Deepak Sharma, CFO from V-Mart. At this moment, all participant lines are in a listen only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Mr. Aniruddha Joshi from Anand Rathi. Please go ahead sir.

Aniruddha Joshi: Thanks Moumita. On behalf of Anand Rathi Research, we welcome you all to second quarter results of V-Mart Retail Limited. We have with us senior management team of the company, Mr. Lalit Agarwal, the Chairman and Managing Director and Mr. Deepak Sharma, CFO. Now I hand over to Lalitji for his comments on the quarterly performance. Thanks and over to you Lalitji.

Lalit Agarwal: Thank you Aniruddha. Good evening ladies and gentlemen. Welcome to the call, I would first like to thank you all for being patient and being there...we are almost five minutes late. Anyway, we had a good quarter this year this particular July to September quarter. It was basically more of a learning quarter for us and there were a lot of new activities that we were doing. We opened 5 new stores in this quarter and post Q2 also we opened another 4 more stores. As of now we have got 102 stores in operation. We have also stabilized the new warehouse that we had taken on lease and in this quarter we will be completely shifting entire warehouse operations into the new warehouse. The markets overall has been pretty decent. Nothing awkward and nothing untoward except the weak monsoon in some parts of UP and Bihar where our concentration of stores are higher and apart from that there were some extra matters related to Srinagar and one or two store closures where we shifted the store to some new site. Apart from that the season was good.

It was a quarter where we typically tried to sell out products which are of summer stock, which are lying in the stock and where we want to get rid of the old inventory and start a fresh season. In the coming festive season or the Diwali season, it was a fairly good festival season and we are receiving a good response from the customer and what we feel is that this quarter should be as good as the last year and we are expecting a good marriage season in the coming days. This year the marriage season is delayed by

around 20 days; so we will be starting from the 22nd of November. We expect a good footfall to come in at this point of time. Typically the organization is onto a major capability building mechanism where we are aggressively trying to build up a capability within the organization, have the strongest of hierarchy where the promoters are taking a backseat and trying to delegate authority to the professionals who are coming up new to the organization. So all those things are learning phases for everybody and processes are being built up concentrating a lot more on process and planning, trying to aggressively look towards the future of the business and trying to ensure that all those smaller areas where we can capitalize and where we can ensure good process is what we are focusing on, bringing in the best of the technology the audit firms or the consultants or the man power and imparting them proper training. So that has been the core focus area for the company for the last quarter and we are trying to do that once again further in this quarter also. Typically the numbers are there, I think Deepak can take you ahead with the numbers. May I pass this call to Deepak?

Deepak Sharma: Thank you Lalitji. I will start off by giving an introduction in terms of the main factors driving the numbers to put the numbers in perspective before we hand over the floor to the audience for their questions and answers. This time we are consciously making the introduction speech short so as to leave a larger scope for the audience taking into account that they will have a large number of queries this time. In terms of the sales, basically we feel this quarter has really not been up to the mark and there are two main reasons for this. Some are external and some are internal. Some of them, Lalitji made a brief introduction in his opening comments. Monsoon was one of the major factors that had a dampening effect on the sales for this quarter. We are primarily based in UP and Bihar and during this monsoon, the monsoon has been erratic and deficient close to about 40% to 50% below normal in the geographies where we exist, the normalcy of the monsoon has a very big impact in terms of the psychology of the consumers that we have and the customers that we wish to attract. That had a very big impact on that. Other than that, we had certain other aspects which affected our sales one of them being Srinagar where they had flash floods in the month of September and our store was completely flooded and because of that, not only was the sales impacted, but we also had to take an extraordinary write off in terms of our financials, for the inventory as well as the fixed assets. The complete store was submerged under water for a substantial period of time and even now we are working towards rehabilitating that store. It will be another couple of months before we can really get that store on line.

The second store which was affected during Q2 was a store in Bhopal where we had to relocate due to some unforeseen circumstances which affected our sales coming from those store. And other than this, we also had certain factors which were mostly internal to the company which affected the sales. Lalitji touched on them briefly in his opening comments. The thing was that Q2 being slightly a slow quarter for us, we had consciously taken this quarter to implement certain new aspects of running the business where he mentioned about the promoters taking a back seat and the authority and the responsibility being passed on to the next in line professional management and in addition to that we also had a little bit of backend switch over that was happening at the warehouse that we had opened up recently at Bilaspur and as a cumulative impact this transition phase where there were at the warehouse level as well as for the management take over, there was some impact on the sales. The main reason for focusing on these issues is that we were laying the foundation for the future so that when we look at scaling up, the processes and the infrastructure is in place which will support the

aggressive growth plans which the company has in the times to come. Other than that, if you look at the EBITDA level where the impact is pretty visible, the key factors that have contributed to it is, was that, we again as we have always mentioned in the past, our focus is on inventory. We try to re-balance our inventory by ensuring that old and non-saleable inventory are taken off the books. As a consequence, during the second quarter we tried to clear off items which were lying in the stores through discount sales. The basic objective being to clear up space on the shelf so that the fresh inventory for the festive season takes its place and to give us a good chance for sale as well as non-saleable items which were lying at the stores, to clear them up and ensure that the space is freed up. In terms of the expenses, the major impact that has been there is on account of rent. The new accounting policy that we implemented in Q4 last year to accommodate the accounting standard 19 for rent straight lining, the impact of that was in the current quarter because the same policy was not being followed in the same quarter last year and the impact is there in the current quarter. The impact is close to the tune of about Rs.70 lakhs. During this quarter because of the preponement or the early onset of the festive season, the packing expenses have been booked in the current quarter whereas the benefits of those expenses will be realized in the coming third quarter. The impact is such expense on account of packing is to the tune again of about Rs.70 lakhs and there are two other expenses, security and repair and maintenance where on account of better coverage or the better number of stores that we are covering as well as an increase in the base numbers in terms of rates for security for example, because of the minimum wages has been increased in the stores, our base number in terms of the rate which is payable to the security services that we are hiring has gone up. From my side, primarily those are some of the key operational aspect which are affecting our operational results and I would like to now request Aniruddha to open the floor to question and answers from the audience. Thank you.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

The first question is from Mr. Chetan Vora from Value Quest Capital. Please go ahead.

Chetan Vora: Good afternoon sir, two questions. Why the employee cost during the quarter has gone up from 5 crores to 11 crores and our conversion ratio had started tapering off gradually over say 70% and this quarter it stood at 65%? Can you elaborate on this? This is my question sir.

Deepak Sharma: Mr. Chetan, the two major impacts if we are comparing previous quarter versus this quarter on account of the personal cost is primarily because first of all the number of stores that we have, we are catering to has gone up by about 20 odd stores, their man power cost has got added as well as the minimum wages in all the states where we were based out of, they have also gone on increment, so the numbers have gone up in accordance with that. Just to correct the numbers which probably you can mention are 11/12 crores is for the current quarter and 9.08 crores for the previous quarter.

Chetan Vora: Sir I was comparing it with September '13 quarter.

Deepak Sharma: We really don't have the comparative on that right now. We are comparing Q2'14 vs Q2'14 ..fair enough, I guess we are talking along the same numbers and the reasons which I mentioned earlier, the number of stores has gone up and the base number in terms of minimum wages for all the states have also gone up.

Chetan Vora: Right. Sir can anyone quantify what would be the average cost per employee on an average basis?

Deepak Sharma: The minimum wages across states are very different. There are certain states where the minimum wages are about 4500 and there are certain states where the minimum wages are 8100 also. So it will be rather difficult to come up with an average number...

Chetan Vora: Sir just to have a ballpark number, how many employees would be...percentage of employees would be getting the fair minimum wages according to the Act?

Deepak Sharma: About 85% because most of the manpower are frontend which is close to 85% to 90% of the total manpower. They are at the frontend only and most of them get paid the minimum wages.

Chetan Vora: Okay 80%, 85% of the staff get minimum wages right?

Deepak Sharma: Yes, that's correct.

Chetan Vora: What about the conversion ratio?

Lalit Agarwal: Conversion ratio, you see them going down. That is basically very strategical and because we have not had many FMCG stores or Kirana stores in the past, in all the new stores that we have opened up; so all the stores which are coming up are the fashion stores. So typically in a fashion store the number of bills would reduce drastically. So typically this would tend to go down but still it is at a very good number of 65% which is still very high compared to other industry standard.

Chetan Vora: Right. Sir going forward all the new stores will be fashion only so what will be steady state conversion ratio if we want to understand?

Lalit Agarwal: See typically at times we also try and re-look and re-check the numbers of conversion because typically a single man does not come in and shop from the store. Typically they come in as couples or two or three and still they make multiple bills. So anything above 50% should be good enough. I am still trying to find out why it is coming to 65% because it still looks very good. So typically anything above 50% is a very good number. So I think around 60%, 65% still is a very good number for us, looking at the bill size because our bill size is very small. So there is a growth in the bill size also here.

Chetan Vora: Right. Your margins will be in this range only or how is that to be?

Lalit Agarwal: I think it is a very stable range of margin. Q2 typically we have a lower margin because this is a sale period but overall for the whole year if you look at, the margins is what we have had in the past and this is what we are targeting. So there may be a marginal growth which we are always working on to try and reduce the cost of goods sold and try and reduce the cost to see that purchasing is happening and also try and reduce the discount sale so that will always increase the margin in that respect. It is a phenomenon between the cost price and the discounts and the shrinkage. So all the three affects the margins.

Chetan Vora: And sir finally, the inventory has gone up from 167 crores to 200 crores from March '14 to this September '14. That will be because of....?

Lalit Agarwal: That is on account of the new festival period that we are encountering. The winter season, the festival season and marriage season and the new stores that are to be opened in Q3 all was buildup in Sep'14. But if you look at the number of days, from the last year, we are till YTD we are at 92 days of inventory which is pretty much in line with what we had.

Chetan Vora: Right. So UP and Bihar will be what percentage of the total number of stores?

Lalit Agarwal: It is more than 60% of the stores.

Chetan Vora: Thanks a lot sir.

Lalit Agarwal: Thank you sir.

Moderator: Thank you. Ladies and gentlemen if you have any questions please press * and 1 on your telephone keypad. Sir we have our next question from Aksh Vora from Praj Investments. Please go ahead.

Aksh Vora: Sir wanted to know our same store sales growth has been declining over the quarters and in fashion sales and volume growth also in same store sales growth is not there so any particular reason? Is it because you are expanding the number of stores or we are seeing dampening of demand?

Lalit Agarwal: I think probably we initiated the call by reading out the mood of the market. Yes, there are multiple factors, one is the external factor that we mentioned, maybe monsoon, maybe also consumption. If you look at the consumption, the aspirations of the new government is there. People are more confident. They want to have more but the money in the pocket is still the same. The money in the pocket has not increased. The income at the ground level has not increased. So that is why we are not seeing any more reason why the consumption will increase. And yes, obviously due to the weak monsoon, there has been a weak sentiment. I think over a period of time, this is going to increase...

Aksh Vora: Okay we will see an increase in demand right?

Lalit Agarwal: Yeah.

Aksh Vora: In any case a hypothetical question. If we see similar kind of volume growth, will we be stopping our expansion plans or will we be continuing with it?

Lalit Agarwal: Obviously we always keep a very high check on how much should we grow, what is our existing profile, what is our existing capability, how are we performing with the existing resources. So we have always had that mentality wherein we would first and foremost try and concentrate, focus more on our existing resources that we already have, the number of stores that we already have. First we would like to derive the best of the results from that and then only we would go and expand. So wherever we find ourselves getting into a soup where we are not able to perform internally, we would always like to stop that. As of now we don't see that situation, but still we keep on revising those issues.

Aksh Vora: Sir, how many stores have we closed in the first half?

Lalit Agarwal: We closed 3 stores in Q4 last year but in this year we haven't closed any store.

Aksh Vora: Okay and lastly sir, I just wanted to know how has been this Diwali festive season till now and how are the sentiments of the people? Just wanted to have a insight.

Lalit Agarwal: As I mentioned, Diwali mood is pretty good, we have received almost a similar kind of footfalls and the conversions and the sales which we had received last year and what we had anticipated. But yet, the marriage season is a little bit away this year so there is a slight dip in sales post Diwali there is a slight dip in the mood, but it will get picked by 20th of November.

Aksh Vora: Okay sir, I will come back in the queue if I have any other questions.

Lalit Agarwal: Thank you sir.

Moderator: Thank you. Sir we have the next question from Shilpi Taparia from Anand Rathi. Please go ahead.

Shilpi Taparia: Hi sir, I just wanted to know are we planning to enter into any new geography or any other major CAPEX plans.

Deepak Sharma: We are in line with our initial forecast that we had told you. We are looking at an additional....we have already opened four stores in the current quarter. We are looking at opening another four to five stores in the current quarter primarily in the geographies where we are already present. Newer geographies if at all would happen in the future.

Shilpi Taparia: Another is regarding tax rates. What would be tax rate going ahead for the next few quarters or two years by 2016?

Deepak Sharma: It is going to be marginal tax rate.

Shilpi Taparia: Okay sir, thank you.

Moderator: Thank you. Ladies and gentlemen if you have any questions, please press * and 1 on your telephone keypad.

Aniruddha Joshi: Hi Aniruddha here. I just have two questions. Lalitji do you see any impact of online retail because online retail activity was added for almost (not clear) in past quarter and heard it will keep on increasing every quarter. So do you see any impact of arising online retail to our business?

Lalit Agarwal: Aniruddha yes, online retail has acquired major aspirations of the people and more and more in the urban areas, metro and the bigger towns. But till now, if we try to connect it, we do not realize any such thing by interacting with our customers or while interacting with the crowd that we cater to, but yes, we will have to accept that if the online retail has been able to sell some sales from the tier 2, tier 3 cities, there must be some impact on our sales also. But it will be very marginal...very very small amount of impact.

Aniruddha Joshi: So do we plan to enter into online retail because some of the other brick and mortar retail companies have entered into online retail shops so does V-Mart has any plans?

Lalit Agarwal: Not immediately but yes, we must always aspire to go online, at least for the sake of the information to the customer but that will take some more time and we are looking at it for next year, not this year.

Aniruddha Joshi: Okay and just one follow up question to Deepakji. There is a policy change for depreciation; assuming there is no change in policy depreciation then what will be the profit after tax adjusting for the tax rate on the policy change?

Deepak Sharma: I think the auditors have already mentioned that as part of the disclosure. The total quantum of impact on the profit after tax would be 1.63 crores. It is mentioned as part of clause 8 of the auditor's report in the notes.

Aniruddha Joshi: Okay sir thanks. Moumita you can take the next question.

Moderator: Thank you sir. Sir we have the next question from Nikhil Upadhyay from Securities Investment Managers. Please go ahead.

Nikhil Upadhyay: Good evening sir and thanks for the opportunity. Sir, one question on the store addition; so as we add the new store what is the average number of employees that we have to add on the frontend? If you can just help me with it and secondly what would be our total employee strength as of now and what would be the strength between frontend and backend?

Deepak Sharma: I will take that question. Nikhil the total number of employees that we have on an average is close to about 35 plus or minus five depending upon the size of the store. These are for the new stores. The total strength that we have is close to about 4200 right now. About 4000 would be frontend and 200 would be backend.

Nikhil Upadhyay: Okay Deepakji when we had met last time you mentioned that we were working in order to reduce the shrinkage and to some extent be it also putting in strong backend in terms of bringing the organized logistic players and all. So how do you see the scenario playing out? How far we have reached and do you see that we are done with on the backend or is there still some time by FY15 and we would be done with the backend?

Deepak Sharma: See I will take the cue from what Mr. Lalit mentioned in his opening comments where he said that in this quarter we will be completely migrating to the new warehouse. That is as far as the first phase of our consolidation of our supply chain and logistic operations which is consolidating our entire operation on one location. The second phase of the optimization of our supply chain will start thereafter where we will try and ensure that the efficiencies of consolidation at one place and connecting that with other related areas like merchandizing and the replenishment side of activities, combined with logistics, we will start getting the benefits in due course of time.

Nikhil Upadhyay: But what's the time line we are looking at? Probably by this year or next financial year we should be done....? Any time line you can share?

Lalit Agarwal: Basically, this is an ever enhancing or bettering opportunity and process and you need to keep on watching in whatever areas you are in. There is no end to the development part of that. But yes, we have started the process which has to be fine tuned over a period of years. Yes we have started with a logic, with a thought process. It will take another six to eight months to actually stabilize that process. Hence going forward you have to keep on adding some newer process or technology or the fine tuning that. It is always that the better you do the better results you will have. We always feel that the glass is half filled, never full.

Nikhil Upadhyay: Secondly sir, recently, in our power and fuel cost if we consider, it is basically going up. I am talking on the financial year, FY basis, over the last five years if we see, we have moved from 11.8 to almost 19 rupees now on a per square feet basis. I understand that we have also increased the number of stores but what is the general inflation which we have seen in FY 15 and how do you see it panning out or do you see that this will continue at this rate or what can be...?

Lalit Agarwal: Last year there was an upsurge and even in the first half of this quarter we have seen that upsurge because of the high diesel cost and high cost of power and also the problem is 50% to 60% of our store lies in Bihar and UP where the situation is very worse and most of the times we have to rely on our generator sets. Over the years we have actually grown in these geographies more. So these geographies have had immense problem of power and fuel cost. Now, that the diesel cost is reducing, I hope that this cost also goes down. So overall the impression is purely on account of the diesel and also last year the state boards, the electricity boards had increased their tariff rates also remarkably. In spite of the per unit cost, they also increased the fixed cost which we have to anyway pay whether we receive power for two hours or 10 hours a day. So it is irrespective of that. There has been no logic to that but yes things should improve and should get better in the current days.

Nikhil Upadhyay: Thanks a lot sir.

Lalit Agarwal: Thank you.

Moderator: Thank you sir. Ladies and gentlemen if you have any questions, please press * and 1 on your telephone keypad. There are no further questions. Now, I hand over the floor to Mr. Anirrudha for closing comments. Go ahead sir.

Aniruddha Joshi: Thanks Moumita. On behalf of Anand Rathi Research we thank all the participants for being on the call and we also thank the senior management team of V-Mart Mr. Lalit Agarwal as well as Mr. Deepak Sharma. Now I hand over to Lalitji for his closing comments. Thanks and over to you sir.

Lalit Agarwal: Thank you Anirrudha, thanks for this session and thanks everybody who participated in this call and we just want to assure and make them proud that whatever we do in the coming days will be a very long-term approach and will be a very sustainable approach. This is what are targets are and this is what we would like to do. We hope that the infrastructure and the base over which we are working gets improved and we will see better days in the days to come. Thank you so much.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening everyone.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.