



**“V-Mart Retail Limited Q2 FY 2016
Earnings Conference Call”**

November 2, 2015



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Moderator: Ladies and gentlemen good day and welcome to V-Mart Q2 FY 2016 results conference call hosted by India Infoline Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Avi Mehta from India Infoline Capital Limited. Thank you and over to you Sir!

Avi Mehta: Thank you Darryl. Hi, good evening everyone. On behalf of IIFL, I would like to welcome all of you to the Q2 FY 2016 conference call for V-Mart Retail. From the company, we have with us the key senior management including Mr. Lalit Agarwal, Chairman and MD and Mr. Deepak Sharma, CFO. I would now like to hand over the call to the management for their comments. Over to you Sir!

Lalit Agarwal: Good evening, hello everybody, welcome to the call once again. This is Lalit Agarwal CMD. Thank you for being there patiently covering our stock and regularly getting an update and taking an update from us. Overall the second quarter of this year has not been that great primarily looking at lower level of consumption to a lower output of the same store that we have, so we have not recorded a very good growth this year, in fact negative growth of 2% in this quarter and overall YTD growth of 4% in the same store sales growth level, so looking at the overall situation the consumption level seems to have, as told in the earlier calls also, seems to have gone a little down obviously yes the monsoon has not also been great, so there has been a large part of the area where we operate the monsoon level has been below 30% and more, the consumption might have got affected due to that, another important part was about the festivities not occurring during the quarter typically due to adhik maas the regional Hindu calendar, wedding season and Durga Puja season, the Navratri, which generally falls in Q2 has this time either shifted in to Q3 or there was actually no marriage in Q2, so looking forward to better quarter in Q3, hope that the consumption is going to go up, had a fairly okay October month, looking at the start of Diwali season, the season is kick starting had a good weekend only day before yesterday, primarily the aspiration levels remains the same. There is some small threat coming out of local competition also and the online players continue to rob the market with their offers, still our space, the effect is very poor but anyway they make their sales, we need to give them some marks on their score, so overall the raw material prices remaining stable for the quarter and consumption on the quantum basis has just increased but on value basis has gone down, average selling price overall has gone down a little bit, we have recently opened 10 new stores in this quarter, so we are operating at 119 stores as of now, we have touched 100 cities, we have operations in more than 100 cities now, primarily now focusing more on the existing set of parameters that we have for us as we have already told that the glass is half full and there are still more for us to do and internally the store people are getting motivated, trained, there are lot of processes being introduced, lot of marketing initiatives have been taken on because even the last quarter the season was not that good, the consumption level was pretty low but due to some intense



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marketing effort by our marketing department lot of footfall has been created, what we envisage going forward there may be a little lower spending by the customers but yes looking at the marketing and product profile that we are presenting to them I think the customer is going to buy that number of pieces or extra number of pieces at a little lesser value, the value of the product may still go down is what we feel but going forward we should keep our fingers crossed. We already have opened 10 stores, we will open another two, three in the quarter and we will continue to put extra effort and extra pressure on our same store sales growth which still needs more attention and I think overall the development that we have done in the warehouse, the development we have done over the technology side, lot of developments are going on and I think things will align the processes are getting aligned, people are coming in, there are new people joining in the organization, the overall base, the ground root is being set up for a good show going ahead and I think we can take your questions and answers going ahead. I pass this call to Deepak and Deepak will then take you around with the numbers which are there.

Deepak Sharma:

Thanks Lalit and good afternoon everyone and welcome to the call. As usual I would like to emphasize two or three fundamental factors which are key to our business. On the sales side we had the footfalls maintaining a slightly healthy pattern primarily as highlighted earlier on the basis of certain marketing initiatives taken at our side. The conversion has been a little off usually in accordance with the change in the product profile that we are doing. The average selling price again we have maintained same status for fashion particularly and so far as inventory goes, there has been an uptake in terms of the days of sales that we are maintaining, however this primarily on account of large number of stores that we were anticipating to open in the Q3, the inventory which we were carrying on books and the resulting sales we will realize in Q3, it is primarily on account of that and of course this quarter we have seen a slight uptake in the GP margins that has been on account of certain efficiencies we are generating at our side. We are hopeful of sustaining this on the long-term basis, so expansion has been more or less in line with our expectations primarily on account of stores which has been added over the previous year, overall slightly weak quarter. Q2 as such is a weak quarter and this quarter has been particularly weak as Lalit Ji highlighted earlier on. I would like to now throw this floor open for questions, please go ahead now.

Moderator:

We will now begin the question and answer session. First question is from the line of Viraj Mehta from Valley Quest Capital, please go ahead.

Viraj Mehta:

Hello Sir and thanks a lot for taking my question, my first question is when we look at the average revenue per billing would it be possible for you to quantify has there been an increase this quarter of that number or decrease for the first half?

Deepak Sharma:

Are you talking about the average transaction size?

Viraj Mehta:

That's correct.



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- Deepak Sharma:** That is reflected as part of our presentation and average transaction size has gone up. There has been an increase on the quarter for 5% and YTD at 7%. So it is there as part of the presentation of course, I guess you must have overlooked it.
- Viraj Mehta:** Second what I wanted to understand if you look at the total inventory size that we have is closer to 220 odd Crores, and we are operating around 115-120 odd stores so closer to 2 Crores per store kind of an inventory is what we have and that would mean more than three months of selling per store, is that a correct number?
- Deepak Sharma:** Actually you are picking at a gross value but if you offset that with a 45 days of credit that I have from the vendors that translates to a much moderate number.
- Viraj Mehta:** Do you still maintain the guidance for the full year for the number of stores you had set at the start of the year?
- Lalit Agarwal:** Yes at the start of the year or every time we try and maintain a healthy growth rate, so yes obviously we wanted to open around 20 stores, so we have already opened up 16 number of stores that we will open up in this quarter, we will touch 16 and some more 4 or 5 stores we may open in the month of March. We are almost in line with what we have committed. I think on the inventory numbers that you were asking in this particular quarter you have to understand that the inventory goes up due to the ongoing requirement which will be generated in the festival month of October and November and the winter season which is supposed to come in, so typically in the Q2 end we generally have a very higher inventory at the warehouse, inventory at the warehouse levels are very high, that is why you are seeing a higher number in absolute terms.
- Viraj Mehta:** One last question on the number of stores over next three odd years would it be possible for you to give a guidance, where do you see the total number of stores for the company at and second what will be the total capex for that because now we are almost done spending everything we raised during the IPO, so we don't have any more IPO capital, so what is the capex that we will be spending for new stores and would it mostly through internal accruals
- Lalit Agarwal:** Obviously, the internal accruals of the company if it continues to be healthy and if it continues to be as we want, we may end up investing most of the new projects with internal accruals but yes there would be some requirement for the working capital which we have to enhance the working capital limit of the banks and then as of now we have been opening around 20-25 stores every year, we hope that if we can sustain the similar kind of opening in the consecutive years coming forward and then I hope for the next one, one-and-a-half years we should be able to sustain those growth with internal accruals only.
- Moderator:** The next question is from the line of Kishan Gupta from CD Equisearch, please go ahead.
- Kishan Gupta:** Good afternoon, what is the annual target for the current fiscal?



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- Lalit Agarwal:** We will not be able to give the actual annual sales target but we have been trying and aspiring to grow somewhere around 25% but as the number has been weak in the last two quarters we hope we should be closing somewhere between 20-25%, till now we have been able to achieve 18% year-on-year growth, so somewhere around 25% is what we aspire. It depends greatly on the Q3 numbers, how it is going to pan out.
- Kishan Gupta:** How much was the sales growth in October year-on-year?
- Lalit Agarwal:** Sales growth in October primarily in October what happens generally in India the calendar to calendar month comparison becomes very difficult, last year in the month of October there was Diwali and this year in the month of November there is Diwali, so very difficult to map the exact growth.
- Kishan Gupta:** But you had puja this year in October?
- Lalit Agarwal:** Yes, we just had puja in some of the stores, you really can't get that impact immediately, but obviously we are almost receiving greater than 20% growth is what we expect.
- Kishan Gupta:** For October how much was the sales growth?
- Lalit Agarwal:** I may not be able to immediately give the answer because today is second only.
- Kishan Gupta:** How do you decide the location of a store?
- Lalit Agarwal:** I think we have already communicated repeatedly to everybody so that every time what we do is we operate in a cluster and the cluster means 100-150 km radii from our existing stores wherever we are operating, so within that territory we try and search for next best district depending on the consumption level which will come from the population size living in the district, the kind of facilities available in the district, the kind of factory, industry, occupations of the people, the kind of colleges, the kind of schools, banks or the automobile showroom or two-wheeler showroom, so we try and identify the various parameter because you don't have too much of data, so you have to try and get lot of details and then based on those we try and analyze the location that we are getting there and project our business plan, so the better the business plan we look forward to the more the return on capital employed that we get or the requirement we always try and get judgment from those and try to finalize something which is near the market at the main market location or in the main road where all the customers even from the rural or the urban centers can come in and shop, so that is the kind of location and then maybe if you want some further details you can connect offline.
- Kishan Gupta:** What are the risks going ahead?



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- Lalit Agarwal:** I think in our case the risk is very much distributed and divided, so there is no particular such a large risk which you can concentrate or accumulate things on because the inventories present in 100 cities across location, the sales are derived from different location, different state, the risk is not particularly in one particular area or one particular capex is not installed at one place, so there is no as such very great risk unless and until the management and then the capability of the company at a whole the managerial capabilities gets low and they are not able to really feel the pulse of the market and then behave something very differently, so I don't think there should not be any bigger risk unless and until the management is defocused.
- Kishan Gupta:** What was the same store sales growth in the first half?
- Lalit Agarwal:** 4%.
- Moderator:** The next question is from the line of Rohit Gajare from UTI Asset Management, please go ahead.
- Rohit Gajare:** Hi, good afternoon sir, you mentioned in your remarks about some competitive pressure from local competition and also from some online competition, can you elaborate on that, what exactly are you saying, is this some new chain or is it just localized regional players who are competing?
- Lalit Agarwal:** Because the concept is primarily operating more in smaller towns tier 2, tier 3 cities, there are some existing retailers who are operating in those areas, there are bunch of retailers who were minting lot of money and had grown very big in size, so there are lot of such chains which have got erupted in small, small areas who have started opening up two three stores, four stores chains, two stores, we have seen lot of upsurge of such kind of numbers in the recent past where obviously still they are far away from real competition threat that we can envisage but still they crop up and create disturbance in the market, so you have to try and see something which will try and give us an edge over their space, so there are a lot of factors which we are taking in to consideration and obviously you see the market is going to always mature and you people are going to come in, even the online players are creating their own space in every territory, so people are now, the utilization of mobile phone, the smart mobile phone is increasing and even the internet bandwidth and connectivity is slowly gradually improving in the smaller towns, so people are getting infected and hooked on to this mobile commerce space also, so there might be some shift of some customers obviously because these people claim that they always sell and they are selling higher in smaller towns, the fact is a fact.
- Rohit Gajare:** Sir another question I have is in your presentation it was mentioned that the shrinkage in the quarter was 1.28% versus 0.88% in the Q2 of FY 2015, so there has been some improvement or anything to highlight over here or is this again normal?
- Deepak Sharma:** The shrinkage yes, during this particular quarter there has been a slight uptake primarily on account of couple of problem stores that we have covered during the quarter, however we do not



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expect the same trend to continue because this is the shrinkage that we have observed, we have already taken very strong initiatives to ensure that it does not get repeated in the future.

Rohit Gajare: Sir, maybe this question is related to previous one but you had three new stores openings, however there is only net one new opening which means at least there were two closures, so is this related to the shrinkage?

Deepak Sharma: No, the one store which we closed at Gaya was primarily on account of performance issue where it has been consistently underperforming for over a year now. We have tried a number of initiatives to revive that store; however since we did not get the desired result we closed that down.

Rohit Gajare: Sir you can correct me if I am wrong but has the intensity of stores closures has been higher in the last couple of quarters and if yes has that lead to some sort of weaker operating performance, if I may?

Deepak Sharma: No I would not say that can be set as a rule of thumb. This has been one particular issue where the store closure has been related to the performance.

Moderator: The next question is from the line of Mayur Gathani from OHM Group, please go ahead.

Mayur Gathani: Sir I wanted to check the short-term debt has moved up from 28 to 41, so is this because of the expansion plan or anything specific and your IPO funds are now more or less done with, and is that the reason you mentioned before?

Deepak Sharma: Well Mayur this is a normal phenomenon if you observe in the past Q2 numbers you will always see an uptick in the borrowings because you see we are building up inventory for the ensuing festive season, so as a consequence there is a certain uptick in the borrowings that comes in the balance sheet by way of short term borrowing.

Mayur Gathani: So this neutralizes by the year end if my understanding is correct?

Deepak Sharma: Yes that is correct.

Mayur Gathani: How much is your working capital days, it would deteriorate in this quarter if the understanding is correct?

Deepak Sharma: Yes, there would be an uptick here.

Mayur Gathani: What are the general working capital days that you follow?

Deepak Sharma: Inventory days are at about 85 nearabout and the payable side is about 45.



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- Mayur Gathani:** How many stores have you opened in first half of HY 2016, is there only one store that you opened?
- Deepak Sharma:** We opened four stores.
- Mayur Gathani:** No sir I am leaving October aside, October you opened three stores?
- Deepak Sharma:** I am talking about H1.
- Mayur Gathani:** H1 you have opened four stores and you opened three stores in October also?
- Deepak Sharma:** We opened same stores in October.
- Moderator:** The next question is from the line of Jignesh Kamani from GMO, please go ahead.
- Jignesh Kamani:** Lalit ji, just wanted to check this quarter we opened close to 10 stores in the month of October mainly in Orissa and West Bengal compared to earlier trend of UP, Bihar, how is your understanding about Orissa and West Bengal market, I know it is very early about 15 days, 20 days but in terms of understanding the pulse of the consumer and meetings the inventory the merchandize requirement?
- Lalit Agarwal:** The market for Orissa and West Bengal primarily Orissa being a backward economical state once again the exposure of people there is limited but the aspiration the gap between the actual aspiration and the availability is very high, so there is big opportunity for V-Mart to get in to those locations and try and exhibit its strength, we have done that and we have got a very good response from that place. I and my family had a prior experience in these kind of states where we have operated from, so it has given an edge for us but it is very early days right now and Bengal the economy is very good and once again there is lot of strength but typically bengal operates very primarily in two seasons like Durga Puja and Pehla Baisakh during April but I think the quantum of population in these districts in Bengal is very high and then we should be able to tap very good districts and very good location, I think the market is very promising.
- Jignesh Kamani:** So can we say the initial response was very good both in Orissa and West Bengal?
- Lalit Agarwal:** Yes, the initial response has been very, very good.
- Jignesh Kamani:** Second to Deepak ji, if you take about inventory about October and November Diwali and Durga Puja, still our inventory grew by only 11% compared to 18% revenue growth, so if you take we have improved a lot in inventory days mentioning also the inventory for festival season, so do you think current level of inventory we will be able to maintain if not improve?



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- Deepak Sharma:** Yes we always look, thank you so much Jignesh for that insight, the management is always striving for improvement of the inventory realization from the fact that it is the only heavy duty asset on the balance sheet so any nominal improvement really translates into big numbers either on the profitability statement or on the cash flow and the company has been working very hard toward improvement of that number and even in this quarter despite the inventory in terms of days showing an uptick if you look at the cash flow statement there has been improvement in terms of the overall working capital as a percentage of sales.
- Jignesh Kamani:** So do you think you will maintain the current level of inventory will be maintained?
- Deepak Sharma:** Yes we hope to improve that in times to come.
- Jignesh Kamani:** Right now since demand has been slightly weak are there chances of write off in inventory or you think it is saleable and liquidated within six months or nine months?
- Lalit Agarwal:** There is always a general perception and there is always a regular write off policy that V-Mart adopts and V-Mart is going to stick to its write off policy, but if you are trying to ask me a question that if your same store sales growth has not grown as per your target will there be an additional write off no I don't think that because we have taken sufficient measures in the right time to arrest that kind of upsurge in the inventory.
- Moderator:** The next question is from the line of Prakash Kapadia from Anived PMS, please go ahead.
- Prakash Kapadia:** Sir what is happening on the consumer level, if you could give us some insight because if you look at it on the positive side there are government initiatives like the direct benefit transfer, and inflation is coming down, petrol prices are coming down, why is that not translating in to higher consumer demand and if weaker monsoon is the only reason for lower consumption when do we see that changing?
- Lalit Agarwal:** You are absolutely true when you are saying that inflation is lower, not that great and crude prices have gone down, fuel prices have gone down but if you look at the vegetable prices, pulses prices there is some challenge, in today's world the consumption for some different items are also initiated like a mobile bill is a very big expense to the consumer right now, every household has a teenagers, every household has youngsters, their mobile cellular bill has also gone up, so that also takes chunk of the consumption power and then obviously I still don't believe that the consumption has gone down, the consumption has not gone down, people play a little safe game whenever they want to and whenever they see an anticipatory riskier weather or riskier times where the probability to earn, a probability to earn is at risk, at that time they play a little safe and just try to spend at the right time, so even there was no marriage in the last quarter, so I think, people spend greatly in the marriage time and I think the current consumption is once again going to come, monsoon is an important element of the earning of the rural people and then urban people in district level but I think still monsoon has not been a very active decision maker



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for the consumption in these kind of territory for our segment, so I don't think monsoon is that important but yes it all plays a mood and environment to consumer.

Prakash Kapadia: So essentially what you are saying there is maybe some deferment but on the ground nothing so negative has happened that consumption has gone out.

Lalit Agarwal: Correct and if you speak about the government policy I don't think any government policies on the floor till now and people have not got benefited from the government policy, direct transfer and all those things is something which is working on paper, people have not started receiving those direct transfers in their account.

Prakash Kapadia: So the real on the ground impact is yet to be seen.

Lalit Agarwal: Yes it is yet to come.

Prakash Kapadia: Typically Sir Bihar has gone under elections, so after elections do we see some positive impact or it doesn't matter?

Lalit Agarwal: We always keep our fingers crossed to expect some positive return even from the black money which gets circulated in the overall system; the election process creates lot of economical rise also, so I think there should be a better impact in the economy of Bihar at least.

Prakash Kapadia: Sir, over the long run do we see a possibility of lower gross margin because of aggression by some of these online players, in your opening remarks you mentioned about some regional competition and the aggression of the online players, is that a threat over the long run where our gross margin could trend lower or is there some potential impact on that?

Lalit Agarwal: If you look at the competition the competition is always on, there is always somebody or the other who is going to be there and still V-Mart operates on a policy where we want to create value for the whole ecosystem and for the consumer so the creation of value is always there, whether there is a competitor or not we would always like to give the best of the value to the consumer and to do that it is not only the product at the price but also a good product at a price, so if we can improve our quality, if we can improve our taste if we can give them the right mix, if we can give them the right size and the taste and color that they want, the fashion that they want I think these small price up and down we can easily take care because the kind of advantages we have over the others even the small regional competitors or the online players those are many numbers and we can always take those on our hand and I don't think we should look forward to a threat in the overall gross margin.

Prakash Kapadia: For continuous value addition in some of those things we will be able to manage it.



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- Lalit Agarwal:** Yes and for us the merchandizing team is building up and there are very good people who have joined in our group and we are trying to better our quality of products that we are offering the fashionism is what we are trying to drive more because aspiration levels are going up for the customers.
- Prakash Kapadia:** So that little bit of incremental design or embellishment that is where the value addition will be.
- Lalit Agarwal:** You are bang on.
- Moderator:** The next question is from the line of Rajat Budhiraja from Banyan Capital Advisors, please go ahead.
- Rajat Budhiraja:** Thanks for taking my question. I have a followup question on the closure of stores, what are the benchmark parameters that you see before deciding a particular stores and how many stores have we closed in the current financial year?
- Deepak Sharma:** Rajat actually the main metrics for us in terms of evaluating a performance of a store is store level EBITDA, if a store starts showing store level EBITDA negative for us that is the most important aspect for us to consider that as an immediate store for high level of attention from our side and we start doing a lot of initiatives to ensure that revenue starts becoming positive at a store EBITDA level, things like maybe reduction of the area or negotiation of rental with the landlord or change in the product mix or a little more aggressive ad spend for that store and all these initiatives we usually pan it out over a period of eight to twelve months and if after all these initiatives the store still does not revive then we close down that store.
- Rajat Budhiraja:** How many stores have we closed?
- Deepak Sharma:** This current year we have closed only one store on a performance level ratio.
- Rajat Budhiraja:** How old was this store which you had closed recently?
- Deepak Sharma:** About four to five years.
- Rajat Budhiraja:** We talk about break even at store level, normally what is the average break even in terms of quarters historically and how have you seen this break even in terms of quarters very recently say last one or two years?
- Deepak Sharma:** The store breakeven for us of a new store that we open really starts happening in 45 to 60 days and most of the stores that we have happened have been achieving this breakeven, I will give you a little perspective on the reason why I mentioned a shorter timeframe of 45 to 60 days is as we have repeatedly mentioned in the call the focus of the company is opening stores in tier 2 and tier 3 towns primarily those areas where there is no form of organized retail and when we open a



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store which is about 8000 square feet in size fully air conditioned giving them the complete experience or organized retail that they really aspire for then what happens is huge number of footfall come in to our store in the initial period and once they start comparing the quality of the products that we have in the store vis-a-vis that which is available with the competition or the unorganized sector in the city and the competitive prices at which we offer the convergence starts climbing up very rapidly, that leads to this shortened timeframe of about 45-60 days for us to start achieving breakeven at the stores EBITDA level.

Rajat Budhiraja:

Let me have the question in a different way so that I understand the overall perspective, because we are growing big and going to different new territory what are the challenges that we face and how are we tackling that challenges especially focusing on the breakeven level?

Lalit Agarwal:

Obviously when you grow in size there are multiple challenges of controls and multiple challenges of administration that you would envisage but the corporate has to plan well and has to implement certain processes and improve on the hierarchy and improve on the control mechanism so that it can reach those and whenever you enter into a new state or a new geography you get some challenges because there would be certain level of communication problem because maybe in Orissa there would be separate language, in Bengal there would be a separate language, there would be some kind of localized problem because in these underdeveloped state there are lot of local problems also, licensing issues, challenges would be multiple but the company is equipped, we have been handling these type of challenges from first, so I think we have done that and your question on the breakeven period on the new store is it going down, it primarily depends on location to location, there would be certain store even now that we have opened up, there would be certain store which may go up were breakeven period may extent up to 90 days or 120 days or even greater but generally we receive a breakeven at 45 days. Our general parameters and rule of thumb clearly gives us that kind of time because we also target the opening of the store, the date of the opening of the store primarily in the better period, so this is why you are seeing a lot of stores being opened up in these festival times, lot of store we target to open in this festival time so that while the market is very much booming and people have their own demand and that time if they look up the new store immediately the store gets running and once the store is full of people then it spreads like wild fire and then you get to know the store is immediately famous in the whole territory, so that is what we try and strategically do so that we do not have to spend too much of money on our marketing also.

Rajat Budhiraja:

My last question is related to monsoon especially in UP and Bihar and this is the second season which is very deficient and I was attending a conference of one of the credit rating agency where it was said that if there are two monsoons in a row which are deficit then there is a threat to the economy of that state, so I want to have your view like what have you seen in the past especially in these territories?

Lalit Agarwal:

You are very correct and whoever the analyst was he has given a good picture that yes people in smaller town and rural belt and even district is mostly dependent on the agricultural economy,



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yes their position is not very good, they don't have too much of saving and they don't have too much of income which is more than what they can earn, so I do believe that if two consecutive drought like situation the economy would get deeply affected but yes the government this year we have been able to see a lot of good initiatives from the government side, even in Bihar and UP so we have seen little more stabilization of power issue, people are able to operate their farms, they are able to operate their generator sets, so the water facilities has improved, so I think if these things continue to improve it should not affect lot even with drought coming in.

Rajat Budhiraja:

But in the near term when you are saying on the one hand the policies are not still on the ground and monsoon is hitting the two states where we have good concentration, so how we place in this kind of situation and if it is actually hitting us then how do we plan to tackle it?

Lalit Agarwal:

I don't think it is actually hitting us because right now we are not in a saturation mode, so if there is a market share if I talk about we are still not able to capture greater than 3 to 4% market share in any of the territory that we are operating so there is a huge element of improvement for us within the existing economy so I don't think for V-Mart it should be a challenge, we look at every opportunity as an opportunity and then there is still some more ways to cover and more journey to do, but yes if you speak about the policies on the ground I think overall the state government, the central government everybody is little more alert, is little more vigil looking at the performance of the central government even the state government have been vigil, so they also are little more on their toes and trying to work on lot of things, we are seeing lot of infrastructural development and I think it should improve going forward.

Moderator:

The next question is from the line of Arun Baid from Religare Capital, please go ahead.

Arun Baid:

What do you think is the kind of SSG we can do for this whole year based on what we have done in the first half year?

Lalit Agarwal:

It is not very easy for me answer, you should always anticipate a better SSG but the way it is going on I think if we are able to maintain at 4 to 6% it should be good enough because till now YTD we have been able to do 4%. I don't see very good rise coming up because looking at the situation on the ground level we should expect fairly the similar numbers.

Arun Baid:

With respect to operating margins what is the kind of guidance you would like to have there because I understand that shrinkage last year was 1.8% and this year we are in the first half at 1.28%, so roughly at around 50-60 basis points improvement should we factor that in our numbers from last year?

Lalit Agarwal:

I don't want you to jump the gun and travel little faster, so let us wait for that. I think on the ground situation is improving but yet the write off which are supposed to happen generally happens in the fourth quarter, so let us wait for that and I think the operating margin is not low, should remain constant.



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- Arun Baid:** But shrinkage what do you think, is it going to be in similar range of how is it going to pan out?
- Lalit Agarwal:** Don't try to get numbers from me because let me get the exact number because shrinkage is something which is beyond control, suddenly you get a store and suddenly you get two stores where you get high shrinkage it is very difficult for you to understand and Q3 being a very high footfall season in this particular quarter you get the highest number of shrinkage.
- Moderator:** The next question is from the line of Aabhash Poddar from Anived PMS, please go ahead.
- Aabhash Poddar:** Sir we continuously talk about the investment in the back end the inventory, the merchandize and to tackle the growth and build up the infrastructure basically for future growth, so is there any target in our mind in terms of your margins or where do you aspire to get to apart from the sales we are trying to get to in terms of margins.
- Lalit Agarwal:** The continuous improvement on the infrastructure side or on the technology or on the warehouse development does not necessarily mean that you need to target a higher margin or a higher profitability even for the continuous update on your natural growth that you are doing and the growth that you are doing with new additional stores the kind of size that the organization is growing and the kind of size that it is attaining and the futuristic aspiration of the growth that we have, we need to have our house cleaned and house in order so that we effectively better our potentiality to execute and operate, so it is primarily first is the operational efficiencies improvement and then obviously when operational efficiency comes in you will always see a result in getting better on the bottom line.
- Moderator:** We have a question from the line of Prasad Padala from Investec, please go ahead.
- Prasad Padala:** Hello Sir, thank you very much for the opportunity. Just checking the employee expenses I think year-on-year there is a sharp jump, can you please elaborate on that.
- Lalit Agarwal:** Prasad ji, the point here is the jump is something which is planned because as organization is growing big, number of stores which is supposed to open and we are going to open and the information that we are trying to build up, we are bringing in lot of capabilities from the market and we are improving that and number two the minimum wages in lot of states has gone up considerably very high particularly in Uttar Pradesh where we have got the highest number of stores so minimum wages has gone up, that is resulting in to a higher cost of manpower and then yes employee cost being a fixed cost, the sales is not coming up as per the expectation you would always see a percentage high in the employee cost.
- Deepak Sharma:** I would like to add to just what Mr. Agarwal mentioned the primarily cause for the uptick during this first half is a lot of new appointments have been done at the corporate level which primarily will help us in sustaining the growth over the long-term period and this percentage would obviously pan out in times to come and stabilize, of course Mr. Agarwal mentioned about the



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increase in terms of the human resource cost at the front end, the main cost for the increase during the first half has been on account of the investment which are going on at the corporate side for building the capabilities which would help us in the long run.

Prasad Padala: Sir in second half of FY 2015 why was the depreciation negative can you please remind me on that?

Deepak Sharma: That was primarily on account last year we had changed our method of accounting for depreciation; we had switched from a WDV to a SLM method so that is what has caused a negative depreciation last year.

Moderator: The next question is from the line of Chandrashekhar Sridhar from Fidelity Investments, please go ahead.

Chandrashekhar S.: Hi, first could you please give us an update the vendor portal on the back end, what is the status, how should we look out the payable days progressing over the next few years, what is your own thoughts on that, secondly there has been ratings upgrade, could you just tell me what is the delta when it gives you on savings in terms of interest cost and lastly when you spoke about your gross margin improvement from efficiencies I thought you said that you would typically pass this on to customers so what is driving gross margin improvement and is there some change in the gross margin philosophy of retailing portion?

Deepak Sharma: Taking your points one by one you spoke about the vendor portal site, yes we have been trying to push a wider acceptance of the vendor portal across the vendors that we are managing, this slowly and steadily is translating in to better efficiencies but I hope you realize that we work on the constraints and the fact that most of the vendors that we work with are from the unorganized sector. It takes a certain gestation time to ensure that they start realizing the benefit of the vendor portal and we are fairly sure that in times to come this will help us in further streamlining our back end capabilities, planning our warehouse management, planning our vendor performance and that will translate in to better efficiencies at the back end that is number one, number two in terms of the enhanced rating we do not visualize any immediate benefit coming across to us because primarily the effect of the rating is on the cost of borrowing and the band at which we are present in terms of the rating for our bankers both the ratings are in the same risk profile, so probably the next time when we have an upgrade it will translate in to better borrowings cost for us, however notwithstanding the fact that while I give you an update in terms of now substantive betterment in terms of our borrowings cost for the long-term purposes we are looking at other opportunities which may be this enhanced rating will translate in to better savings for us, however it is a little too premature to make any confirmative statement on that account and of course the last point you talked about was on the gross margin side, this time particularly the impact on the gross margin has been on account of new philosophy that the company has initiated or charging the customers for the poly bags that we are giving so little impact of that is on account of that change in the philosophy that we have started following, primarily the



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inducement of this philosophy is not on account of to realize revenues on this initiative, however more from an environmental perspective where we would like to deter our customers from promoting taking poly bags.

Chandrashekhar S.: Lastly in terms of number of stores that has been somewhere in a ballpark of about 20 now for possibly 2014-2015 and 2016, is there thoughts on increasing long-term borrowings to increase this better growth stores?

Deepak Sharma: The company has a philosophy of relying on internal accruals for funding its long-term expansion primarily the investment it does on account of capex the company still continues to maintain that stance and even in times to come the funding for the capex part for the expansion would be through internal accruals and we do not have any intention on relying on long-term debt to fund that.

Moderator: The next question is from the line of Rajat Budhiraja from Banyan Capital Advisors, please go ahead.

Rajat Budhiraja: Thanks for taking my question again, you talk about the competition with e-commerce guys, I want to understand how serious this competition could be in future, if you can give us an idea that in terms of April what has been the average selling price of yours as compared to the e-commerce guys that you see?

Lalit Agarwal: If you speak about the average product price, the average product price is a factor of not only the product, it is a factor of what product, if I define a T-shirt can be of multiple qualities, round neck chest spring. T-shirt can be of different quality which I provide and the online guys provide, so it is primarily more based on the quality even though the pricing at which they are selling is on an average almost 40% higher than what we are selling as of now and then the product that the customer receives is not what he looks at, so there is lot of confusion right now on what he looks and who wears that and then when he receives and what he gets is very difficult because even the online players are operating on the market place model where they don't have a control over the quality of the product, the vendors who supply the product to the customer directly is the vendor supplying from its own end and, online player does not have control over quality and the aspiration of the product, so yes, the online players because they get very high funding and they have good money to invest on the platform they would get very good shoot done, they would put it on the very good model, they would get the best of the photography done, they would place it in a nice manner in a well designed website, so aspirationally it creates an impulse for the customer to buy from online space but primarily once the product is received by the customer his mood is generally off and he gives lot of bad words for himself that why did I take a decision to buy online but I think still on the quality to quality, apple to apple if you compare there is a lot of difference on what they are supplying and what we are supplying at a price.



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- Rajat Budhiraja:** Especially your market is very rate sensitive, price sensitive, so have you done any kind of study or any pattern that you see on the basis of which you can say that yes competition may be high in future or may not be high or I just want to get a sense that how do you think about it and in case if the competition is high so do we plan to have some kind of app based mobile based app which we can launch, I was thinking on those lines.
- Lalit Agarwal:** Even if the competition is higher and even if we launch an app we are in the process of understanding how to get on to the online space but even if we launch that we will not be able to burn the kind of money that they are burning, we will still be on lower side to burn the money, so I don't think that I am going to fight out that competition but even now the competition is not really very much visible it is primarily more in the air and yes obviously people always want to have an experiential thought where they want to experience certain shop which has opened up whether it is a digital shop or online offline shop so they would like to experience that shop that shopping mechanism so in the youth of the smaller towns also that particular experience is getting on fashion and they want to get hook on that particular shop but once people have done that they get demotivated and it is still not very much visible we keep eye on the kind of customers that we have, there would be temporary shift because my customers wallet is limited, if he is spending some part of his wallet either in any of the competitor place his pocket size gets smaller and he will not be able to spend as much as he can at my store.
- Moderator:** The next question is from the line of Rohan Adhiya from Indsec Securities & Finance, please go ahead.
- Rohan Adhiya:** Hi, we were planning to launch a new e-commerce portal; can you give an update about that?
- Lalit Agarwal:** We are still undergoing the thought on what to launch, how to launch, how to do it, we are still building the planning process, we are in the planning process we are not in a hurry to launch that portal, so we have tried to understand the market very nicely, trying to see what kind of technology so that the investment that we are doing is not very high and then we do not burn too much of money, so we are still in the making process and I think still it should take another at least a year to be live on the platform.
- Moderator:** As there are no further questions I would now like to hand the floor over to the management for closing comments. Over to you Sir.
- Lalit Agarwal:** I should say thank you so much for participating in the call and be rest assured and wish us all the luck for the festive season we hope we do well and wish you all and your family a very, very happy Diwali in the coming days. Wish you all the best, thank you so much.
- Moderator:** Thank you very much members of the management. On behalf of IIFL Capital Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.