



“V-Mart Retail Limited Q2 FY2018 Earnings Conference Call”

November 10, 2017



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Moderator: Ladies and gentlemen good day and welcome to the V-Mart Retail Limited Q2 FY2018 Earnings Conference Call, hosted by IIFL Capital Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by entering “*” then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Avi Mehta of IIFL Capital. Thank you and over to you Sir!

Avi Mehta: Thank you Melissa. Hi, good evening everyone. On behalf of IIFL, I would like to welcome all of you to the 2Q FY2018 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. Anand Agarwal - CFO. I would now like to hand over the call to management for their comments. Over to you Sir!

Lalit Agarwal: Hi good afternoon everyone. Thank you once again for coming on the call. V-Mart continues to believe in similar story. We continued to follow the similar model that we have instituted. We continue to put our maximum focus towards the capability development towards the key indicators which can reflect the long-term sustainability of the growth. So typically this is where we are right now and overall economy if I start with that whatever we are seeing, overall we are seeing a little slow down, lot of negative talks are there in the market, people and the trader community especially are talking very, very low about their business, low about the administration and the business sentiments are not too good, but yes aspirations are still there, no one wants to leave down their aspirations.

In the transition, there are few challenges most of the trader community are facing. The biggest challenge that the trader community facing is primarily on the fact that they do not have money in the bank which they need to buy from because everything in the GST, they have to buy with an invoice and if they have an earlier bill pending and they are not able to pay back those bills to the vendor, the vendor is not supplying him another list of goods. So that is the biggest problem that they are facing and that is why there is a small stress at the level on the transitions and otherwise I think things are improving as we are seeing the ease of doing business has gone up, India is jumping up. So we are also seeing some improvement on the ground. There is some little improvement on the administration piece, on the compliance piece, or even on the permissions that we need to take and we get. So there are things which are happening, which are moving, some states have moved towards the retail policies that the organizations are trying to do. Even the GST committees have been listening us, hearing us, having meetings with us as a retailer, so trying to structure the



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reforms and trying to bring in the new set of policies, which we have a problem on. So there is lot of issues that we have been discussing.

Apart from that I think the economy should get boosted. Government is well there and we foresee a lot of boost coming in especially boost should come in post the bank recapitalizations also which was happened and there is a lot of movement in the infrastructure space, which will lead once again to the consumption. Otherwise, I think on the retail industry front online business had good amount of impact in this particular season, the festival season they had perpetual rounds of sales or schemes organized, which was very, very aggressive and then I think there is some element of traction which we saw in the bigger towns, in the bigger cities.

Apart from that at a lower level or at the offline level, I think most of the retailers are trying to focus more on the value segment. Everyone is trying to chase the value segment and trying to open up the stores in those smaller towns and into territory, competition is getting aggressive even from the national players and from the regional players, there are a lot of players which are trying to –

So this is what has happened and then for V-Mart I think we are trying to focus on apparel. We have also seen some tractions in the FMCG that we operate, we have seen a good growth in the home segment during Diwali times and also before that. So in the last quarter I think we have focused very much on the old inventories squaring off. We are focused on that weak period where we wanted to get rid off from our inventory. We had a good Durga Puja in Eastern India. So Bengal was very good, Odisha we managed to grow there and Jharkhand we opened some new stores and we have seen high amount of competition in Jharkhand. There were some problems there. So, overall Duraga Puja was so and then the Diwali in this particular month, we have seen Diwali also passing off. Diwali has not been too great till now because the Diwali was a little early, the onset of winter did not come in, the winter did not fall, till now we have not seen a lot of cold days in northern part of India. So we are waiting for that to happen because the sales are going to boost in from there. We will have long marriage days. The demand here we see is little subdued as of now, but yes I think it should pick up going forward.

On the internal side, I think we have done lot of automations that we have already spoken about in the warehouse, which are working very well. We have additionally enhanced those automation, we enhanced those packaging processes, those dispatching processes. The software that we were supposed to bring in on the assortment management and the rail management is in line, the project is on. We have launched the winter merchandise on the



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floor. We have already a huge amount of inventory at the warehouse. We will be able to feed and replenish the stores at well in time. we are investing really very heavily on our plans in the next five years and in the next three years are and how do we try to look at the organization, look at the manpower, the competency, the capabilities of the people and align those processes accordingly, so that we can gear up to get better quality and try to get a better output of the similar resources. We did open almost 21 stores till now or 22 stores, we are now operating 163 stores as of now. We have also opened another store on the day before yesterday.

So I think the plans are till now on the track. This quarter as you know we had got a very good impact of the demonetization in the last year in the similar quarter. So the base is very high. So we may have a lower growth in this particular quarter that is how we are planned ourselves for, but I do not know how does it turn out, but till now it has not been too great, so we still keep our fingers crossed to respect that and then balance I think we can answer your questions but I want Anand to take you through the presentation. Thank you.

Anand Agarwal:

Thank you Lalit Ji for a very nice introduction on the economy and the industry and how the company is doing. I will take this opportunity to take all of you through some of the key financial parameters and how we have performed in the last quarter. As you all might have seen in the presentation shared, the quarter has been robust. So we have had a 23% overall sales growth in the quarter with a good same store sales growth of 8% by value and 13% on volume, which has largely been possible through similar increase in footfalls at 24% and also opening of eight new stores in the same areas where we already operate which is Jharkhand, UP, Bihar, and rest of the states. The new stores that we have opened are largely in the TFO category which is in line with our earlier guidance of expanding majorly into tier 3 and tier 4 category towns.

On the footfalls, while the footfalls have grown at 24%, the conversions have remained a bit shy of our target stand previous quarters, they have come down by around 1%-2% and also the ASP for the quarter is down by around 2%, which is again in line with our plans which is to grow more on volume and less on value, so which is falling in line with our expectations. These sales per square feet have also grown by 7% which is again a healthy number and we look forward to increasing that number in the coming months.

As far as the P&L is concerned, there has been a 1.1% margin expansion. Largely on the back of improvements in sourcing, pricing, and also GST. Apart from that, the rest of the expenditure has largely been in line with our plans and much below last year. While the sales have grown by 23%, the expenses have remained much lower than 23% leading to



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207% increase in the EBITDA for the quarter. Personnel cost has grown by 22% which is also a testimony to the fact that we have been investing very heavily into improving the bandwidth and the management cadre for the organization, so that we are prepared for a better growth and a better future.

The rent expenditure is in line with our plans. It has gone down by as a percentage upfront, it has gone down by around 5.5% over previous year, which is largely benefit of the GST that we have been able to avail. The rest of the expenditure on par and fuel and advertisement and other expenditure has remained largely in line with our expectations and plans and also in line with the growth of the organization. The advertisement expense has slightly climbed by 10 basis points but that is in line with the increase spend for puja celebrations and the upcoming winter season and the festive season.

The inventory days have climbed to 96, which is much better than the same quarter last year. Same quarter last year were 103 days, so while the last quarter, Q1, we ended at 75 days. So there is a slight build up but that is again in line with the plan because of the build up of the new stores and also the build up for the festive season and the winter season. We continue to have better sales in the kirana segment and also the kids segment. Both these segments have improved their performance while kirana continues to contribute 7% to the overall business, but the growth is slightly better than the apparel business. We continue to invest in the same segment of apparel retail and in the same formats, so all the new stores that we are opening or we have opened remained in the same 8,000 square feet odd category in the same category of towns of tier 3, tier 4 segments and the growth that we see we anticipate remain to come from that area. The shrinkage for the business has also improved for the quarter or for the first half, so while as a percentage of sale last year, the shrinkage was at around 1.4%, this year we have continued to maintain the shrinkage or reduce the shrinkage to 1.2% and we anticipate that this number should remain at this level for the entire year.

The transaction size, the average bill size has also grown by around 5% and which is again a testimony to the fact that the customer is buying more of the same product, more of the better products that are being provided to him at this store. The average selling price has reduced by around 2% but as I mentioned which is in line with the strategy of the company to focus more on volume-driven growth and which ties in also very nicely with the growth strategy coming in from the lower tier towns, which is tier 3 and tier 4, where the purchasing power and the affordability might be at a slightly lower level.



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Again in terms of the EBITDA and the PAT, so EBITDA has grown by 207% for this quarter while the PAT has grown by healthy 94%, which is compared to last year where we had a loss at the PAT level, this year we are showing a profit and therefore the extraordinary growth. The migration to Ind-AS has also gone in well while it has resulted in a slight decrease in PAT at an overall consolidated level, but in terms of compliance and in terms of profitability and in terms of the overall transition, the entire Ind-AS transition has gone on well for the company. So that is all from my side, so I will now leave this floor open for questions that you might have. Thank you.

Moderator:

Thank you. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Niraj M from Goldman Sach. Please go ahead.

Niraj M:

Thank you for the opportunity. Just wanted to understand I think you mentioned in the start of the call that you have seen some competition increasing their presence in the value fashion segment and you are present in that segment only, can you share some thoughts on with some anecdotal evidence of how opening of the stores has impacted you or whether it has impacted at all or not?

Lalit Agarwal:

I think there is a huge spree primarily in the value area and everyone has understood that there is a lot of benefit and value in the value segment. So people are trying to open up right from the Pantaloons of the world or for the matter Reliance Trends or the Max or the FBB. These are the organized players apart from Vishal Mega Mart and then maybe V2. There are lot of other regional players, which has also started rolling out stores near our area, so we do normally see a competition. If it is strong one, we will take every competitor as a stronger competitor and we will try to deal with accordingly, but the moment when he opens stores in such kind of territory or nearby our area, for the first two months and first three months, there is a small drop in the footfall or drop in the sale, because the new store in the town would lead to new people or new experimentation for the consumer. Consumer would want to go visit them, I understand. They may end up buying something or other as an experimental, but the typical we have seen them returning back post three to six months understanding or comparatively visualizing the differences between us and them. It all depends upon how much are we prepared for it and how much are we able to understand and then feed the customers in that particular geography. So most of the stores that we see customers come back, but the size of the market also increases, but also there is some share initially which they take away.

Niraj M:

Then who is ultimately impacted. Is it the other unorganized player or is that average store revenues per store stabilizing at a lower level?



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- Lalit Agarwal:** No I think we are obviously – the market also grows because whenever these organized players add more into the city, the market grows and fashion element in the market comes up and then obviously there is a small moment of the stores which are not compatible or not really capable of bring in those kind of qualities and those kind of fashion and those kind of prices, do get those kind of brunt and they get impacted.
- Niraj M:** Okay and my second question, where do you see say in two to three years down the line your expansion focusing in the geographical region side?
- Lalit Agarwal:** We will be mapping the existing territory wherever we are present right now the way that we have opened few of our stores that we have opened in the last quarter, we have also opened up stores, which are in tehsils, not even at district headquarters and those stores have also done excellently well, so what we have now found out and we are trying to find that there are more than 1000 such towns in the areas where we are operating which are where the tehsil population is greater than 1 lakh or 2 lakhs and the town population is greater than 1 lakh. So there is a huge scope opportunity right now in the existing belt also, but simultaneously we are trying to also move little, little surrounding areas maybe towards the Northeast of India or maybe towards the Madhya Pradesh, Chhattisgarh side. So there are opportunities in all these areas. The development is exploring and trying to find out, but still we will be operating in the cluster format.
- Niraj M:** Okay, Sir last question on this, is that tehsils and all that leading to lower revenues per square feet for you?
- Lalit Agarwal:** As of now no we have not been able to see that, so this is what we are trying to analyze, just we have done some experiment. If that is a case then we will try and do some experiment also with the small size store, a little smaller size like 8000 or maybe 6000 store, so that what we are trying to experiment right now, we have not gone full blow on the tehsil level, so we are right now experimenting and once we have formalized the process, we will try and then roll out more stores there.
- Niraj M:** Okay Sir. Thank you very much. I will come back.
- Anand Agarwal:** Just to add Niraj, the sales per square feet has actually not gone down, it has actually gone up so while the ASP have gone down which is in line with our strategy of leading the growth to volumes, so the tehsil factor is actually not influencing the growth or degrowth in the sales per square feet.



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- Niraj M:** Sir, but those stores right now would be a smaller in number, the impact would be larger if the proportion of those stores in square footage would have gone up, so...
- Lalit Agarwal:** Yes, I think but still the kind of stores that we have seen those stores are giving almost similar kind of results till now, but still we consider them as a honeymoon period, we do not want to take a call immediately.
- Niraj M:** Okay. Got it Sir. Thank you.
- Lalit Agarwal:** Thank you.
- Moderator:** Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.
- Abneesh Roy:** Sir cut in pricing that is largely because of this competition thing you mentioned or you want to even compete more aggressively with the unorganized players available in your market?
- Lalit Agarwal:** See Abneesh, you look to understand that we have always been saying that our wisdom is to create value for the entire ecosystem, in this whole process whenever we get certain drop in the prices of the raw material or certain prices that we drop in the efficiency we try to pass it on, so in the whole process when the GST also came in what we have done is we have really negotiated well with our vendors and we have tried to map the benefit which can accrue up to the manufacture level. So that is what we are trying to pass on and also we have not seen too much of growth in the inflation at the commodity prices of the product that we try to bring in. So we have not done actually a price cut hitting our margins so what we have done we have tried and negotiated well and got the cost lowered from the vendors and then pass it onto the customer and then creating the similar kind of effect for the customer.
- Abneesh Roy:** Sir you spoke in detail on the competition in your markets, so Pantaloons, Max, FBB, how is their pricing positioning different than V-Mart in the markets where they are entering, I am not talking about these player's current stores in the biggest cities, in your cities, how is the positioning and pricing different?
- Lalit Agarwal:** I mean their pricing obviously they are trying to work at a little lower price band, but still the similar kinds of product that we sell and they sell. Their products have almost like 50%-60% higher than what our prices are. But still they tag themselves as a value price



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model and they may take away some part of our top-end customers whom they can attract because they are little better planned and there are maybe a little more visibility of their brand nationally, they can claim some kind of premium, but otherwise in that particular region, not every such national brand is really immediately successful, and at times when they open up our sales improve because comparatively we become much stronger.

Abneesh Roy: And Sir I just wanted to understand Max, Pantaloon, etc., FBB also, their economy or scale will be higher than you right because they are obviously – their overall garment sales are much, much higher as a group, so why would maybe 50%-60% more expensive than you for the similar quality?

Lalit Agarwal: Abneesh, I am not the right person answering their questions. This is the piece of the market so you need to check with them that and please let me know when they say something.

Abneesh Roy: Okay and Jharkhand you mentioned competition specifically and so in Jharkhand you are seeing more competition than you other markets?

Lalit Agarwal: No primarily in this particular quarter we saw a lot of competitors opening in every district, we saw some two competitors coming up every district in that particularly area because of durga puja time, so that is why that particular belt that we saw a lot of impact and there was a degrowth in the particular state that we saw. As I mentioned earlier whenever competition opens up, there is a hit in regular sales of the particular store, so that is what we saw, but we will recoup and we have recouped in some of the stores, but we will do that.

Abneesh Roy: And Sir when you say about recouping due you do something specific for such stores?

Lalit Agarwal: We just keep going. Because we just keep doing is it, we understand what is needed and we just keep continue doing what we have done and we take up our marketing plans a little aggressively on the promotion side, we will try to chase the competitor, we will try to understand what is the strength of the competitor, we will try to understand where he is beating you, we also try to understand his weakness, we try to really put a greater impact on his weakness and try to be powerful immediately. So because we understand that those people, the customers there have been loyal to us, they have experienced us, they know us, it is only an experimentation that they are trying to do with the different retailer, so what we primarily do is we allow them to also experience a new shop and then compare ourselves, compare us with them and then the customer can really find the difference, it is more about the either the product difference or the price difference or the quality and the customer store



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experience, the service level that we provide and the kind of relationship that we built, so it is all a combination of the whole which as a bouquet we have to present.

Abneesh Roy:

No Sir my question was you have so many stores, but in the particular area if competition is an issue, do you have difference in terms of pricing within your stores, difference in terms of marketing plans for your stores.

Lalit Agarwal:

For marketing plans obviously yes, so typically what we do is we very actively track the competitor wise stores and within the competitor wise tracking wherever there are new competitors which are coming in, we have those strength and weaknesses of those new competitors, competitor wise you analyzed them, we know where is strong in, what are the key strength areas, we would try to align our merchandise accordingly, we will try to align our schemes and promotions accordingly for that particular store only and we would also put some special merchandise so that the competitor is taken on task.

Abneesh Roy:

And Sir last question on online, what is the impact, what will be your response longer term to online, we are seeing a most retailers, physical retailers aligning with online, you must have seen the Amazon shoppers, and now Top Sales, Flipkart and maybe some of part of which are group, so what is your long term answer to this and there have been a lot of regulation changes by the government on so much of discounting in online, but still are you seeing any dip in discounting in garments in spite of those rules which have changed?

Lalit Agarwal:

No I think there are no rules, when they still will want to, they can do and the garments are not regulated by certain pricing mechanism, it all depends on certain price and these garments which are non-standardized products, which are not branded products, non-standardized garments can always be priced to whatever you want and can be discounted, but otherwise I think yes the online people are penetrating, they would always want to... once again it is a new store for that customer who is getting onto online, so for him, we will experiment, he will want to experiment, he will want to maybe order a piece or two, and then maybe his experience over the product will lead him once again whether he wants to go back to the online shop or not, but otherwise the kind of customers that we cater to as I have already told previously also, these customers are not those customers who buy very frequent, so they buy once or twice in a year, so they would not experiment looking at the photographs, but even saying that we do not say that these people will not get onto the digital platform, these people will not take decision from the digital platform, they will, so there are other online players, which are trying to tie up with offline and online that is the way to go forward because the omni channel approach is the way to go forward and that is what V-Mart is trying to focus also on, V-Mart is also trying to build its capability back and



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to suit that kind of model and whenever we see a good understanding on that model, we will also try and experiment something on the online.

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

Lalit Agarwal: Thank you.

Moderator: Thank you. We have the next question from the line of Himanshu Nair from Systematix Shares. Please go ahead.

Himanshu Nair: Good afternoon Sir and congratulations on a decent set of numbers in a difficult environment. Sir firstly I wanted to understand that our private label share as you have mentioned in the presentation is 54% now and I think we intend to increase it further. So in general we have seen that company is doing more private label enjoy higher margins, but I believe that is not the case with us correct?

Lalit Agarwal: Till now no, I mean we are not really got very good grip on that, we are still working on planning, the designing, the assortment, all those pieces. Once when we have a very good grip and then we start marketing those private label, we may then demand higher margins. As of now, no.

Himanshu Nair: Okay. Any target we have in terms of doing private label as a share of our sales?

Lalit Agarwal: We really want to get onto almost 80% of the product as private labels because we want to concentrate on the key designing and uniqueness of the designing at the store. So what we want do is, we want to give the customer those kind of experience, which they may not be able to find in any other market, so that is the core thought process, so that is why under uniqueness of pricing, uniqueness of the trend and uniqueness of the design something which is important for a customer. So that is what we are trying to do, but yes this is a very difficult task to take it up to 80%, but finally we want that to attain at that level.

Himanshu Nair: And maybe that will create a big entry barrier with regards to competition as well?

Lalit Agarwal: Maybe, you can even say so.

Himanshu Nair: Okay Sir, secondly on a store expansion strategy, you said that there are 1000 towns in your current market itself, so just wanted to know how many towns are already covered by not us



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but maybe some other regional or pan India players, would you have any data on that or ballpark number?

Lalit Agarwal:

See the regional national players I mean of late we have done some calculation and some under survey and we got some around 320 districts are covered by any form of organized retail or towns, so I think still there is a long way to go.

Himanshu Nair:

So there is still only one-third penetration on an overall basis in direct line market and Sir final question is when you open a new store, I mean I believe you had a target of 25 store openings plus this year you have already done more than 20, So I am sure you will over achieve on that front, so going forward what is the biggest challenge that we see on opening new store, is it the number of players in our current existing market, is it shortage of good quality location, is it demand for the market or availability of talent, what are the two or three biggest challenges that you see, that you face, which prevents you from opening more stores than what you are doing currently?

Lalit Agarwal:

No, I think beyond everything it is more about the internal capability of the organization, which we know every store adds on lot of pressure and lot of work on the organization and then the organization is tuned to handle such type of growth or a percentage of growth and when you try to bring larger amount of growth from the similar resource, it may bend down or it may... the decision may get diluted, so that is why we do not want to take those kind of risks which we have seen maybe in the Indian Retail Industry in the past which has happened, and we are in no hurry. We know the market is there and once we feel we are strong, we can do. We will be able to do it the market or the rental or the property or the capabilities and the skills availability, everything done output of your organization, if you have right people, right process and right technology, you may be able to handle every area of those kind I think.

Himanshu Nair:

So Sir as per current level of preparedness, how many stores you think we can keep opening in the medium term say on an annual basis?

Lalit Agarwal:

I think we are replying you with this number stores that we open up, so let us open up, so do not ask numbers from me, but yes the intend to open around 25 stores, anything above or around 25 is what we should do and maybe as we grow the base, it should typically be around 12% of the square feet area that we have, we should be able to grow that is what we intend to do.

Himanshu Nair:

All right Sir. All the best Sir. Thanks for this. Thanks.



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- Moderator:** Thank you. We have the next question from the line of Abhishekh Roy from Stewart and Mackertich. Please go ahead.
- Abhishekh Roy:** Good afternoon Sir and Congratulations on good set of numbers. Sir my first question is regarding the revenue contribution from the stores, so can you just provide me the numbers what was the contribution from the stores which are below one year, one to three years, three years to five years and above five years?
- Lalit Agarwal:** I think what you are asking is the revenue per store of these kind of clusters, it is a bit difficult immediately. You may connect offline and then Anand will be able to help you.
- Abhishekh Roy:** Okay, Sir at least can you give what is the same-store sale growth for all of these stores?
- Anand Agarwal:** Yes, so cluster wise if you speak, the same store sale growth in less than one year store or one-year store is maybe around – in this particular quarter it was around 3%, overall Y-o-Y it was around 8% and on the stores which are up to one to three years' period, this was around 7% the quarter piece and above three years up to five years it was like around 10% and above five years it was like 7%.
- Abhishekh Roy:** These numbers are on Y-On-Y right?
- Anand Agarwal:** Quarter figure.
- Abhishekh Roy:** Quarter-to-quarter, okay and regarding this – coming to the balance sheet, now the borrowings I can see that there is significant rise in the current borrowings, so can you tell me like for what purpose are these used for, whether it is used for like opening up of new stores or like building up inventories, Sir can you just explain me that?
- Anand Agarwal:** So the primary function of the borrowing in the quarter is basically to build up on inventory because as you prepare for the heavy winter season and the upcoming Diwali and the festival season, we need to stock up so, compensating line you would see is in the build up in the inventory line, so while we have cash on the balance sheet but during Q2 and/or the end of Q2 and the beginning of Q3 we try and build up inventory, so that we have prepared well for the heavy sales season.
- Abhishekh Roy:** Okay and I think by selling up the inventory you are going to repay the borrowings or will it be from the cash reserves that you are planning to.



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- Anand Agarwal:** Yes, so it is purely a working capital barrowing, so these are long-term borrowings, so these are very, very short term and we normally avail working capital lines only for tiding over small seasonal requirements, so these are catered to by normal revenue management itself.
- Abhishekh Roy:** And Sir one final question is regarding the shrinkage that you have mentioned, so actually I do not have any idea what this shrinkage as a percentage of sales refers to, can you just explain me that?
- Anand Agarwal:** The shrinkage typically refers to the loss because of either pilferage, theft, or writing off of old stock, so as a percentage of inventory we have hovered around 1.4, 1.5% in the previous couple of years, this year we have been trying to reduce the shrinkage by doing a lot of intervention at the warehouse level and doing a lot of automation and process management because of which we have been able to reduce this shrinkage from around 1.45% last year to 1.2% this year.
- Abhishekh Roy:** Okay Sir. Thank you Sir. That is all from side. I will be back in the queue.
- Moderator:** Thank you. We have the next question from the line of Aabhash Poddar from Anived Portfolio Managers. Please go ahead.
- Aabhash Poddar:** Hi. Thanks for taking my question. I just had a question on Odisha, so we have 10 stores over there and you have mentioned in your initial comments as well that they have not been performing as per expectations so what is exactly going on over there as per your estimate, is it more to do with us or it is just the market is not responding for us, can you please elaborate a bit on that?
- Lalit Agarwal:** I think Odisha overall as a market also struggled overall because we have seen a little bit degrowth in the economy in Odisha post the mining ban and the power sectors going down, and the steel sector going down, so that was a major industry which we are working there and they were trying to bring in because of that spurt, the economy has spurted and overall, we have also been learning because eastern region which has a different seasonality and a different taste, so that is what we are trying to understand and we have grown every healthy in this particular quarter in Odisha and we hope that we will be able to reach to the country wide average by the next year.
- Aabhash Poddar:** And Sir the Odisha P&L would not be much different from compared to as any other state right, it would be fairly similar, obviously it might a bit lower but not materially different, right. Is that understanding correct?



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- Lalit Agarwal:** That is what I say as of now it is below country wide average but we will be able to reach that by the next year.
- Aabhash Poddar:** Okay perfect. Thanks and all the best.
- Moderator:** Thank you. We have the next question from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Hi. Thanks for the opportunity. Lalit Ji in the beginning you made a remark that you are picking up a lot of charter which is negative in terms of for traders and all but that slightly there is a disconnect between when you see numbers at last not only yours but otherwise also in consultant space, so the charter is negative, I can understand but was GST not supposed to hit those people who were actually in that sort of trade and that is why the charter has not gone negative, Sir I was just wondering whether your outlook on the coming quarter or quarters ahead is largely based on the charter or are seeing the numbers also go slow down and coming up.
- Lalit Agarwal:** Yes, I think there is a slowness or there is a dampness which you are seeing, experiencing, this was the festival period is a large period and we did not find this festival as very exciting so that is what we are trying to indicate and because lot of people come out in open only during festival times and the large amount of people only come out otherwise the discretionary income people do shop. During festive times, you would see a lot of such people who really spend because of their earnings, we have seen a little slowness there and then we expect the same in the marriage season to continue, but I do not know I mean maybe things may change initially there is a hesitation from the trader community in really doing their business as smoother and as swiftly as they used to before the GST that is what we see there is an impact on those kind of consumers whoever these are.
- Tejas Shah:** Sure and Sir as GST impacted a supply chain and was growth constrained because of any of this issues?
- Lalit Agarwal:** For V-Mart? No, I mean for V-Mart we had managed our supply chain well in advance and well in topper, excepting the first 15 and 20 days, we did not face any of the challenges.
- Tejas Shah:** Sure and Lalit ji you explained the detail what are measures we take to take on competition, just wanted to understand in past in any instance if you can share where competition had come in and we faced the brunt initially and then we bounced back gradually if you can share any of those examples?



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Lalit Agarwal:

There would be many of such examples wherein different kind of competitions we have seen, not only one I can specify a number of examples, where national competitors, also the regional competitors one and their multiple also, so I normally quote a store called Gorakhpur we have seen – we operating one store, we started our first store in 2007 and then till now we have got up to four store there and we have also seen almost 12-13 competitors walking into that particular town opening stores, so we have seen that highs and lows every time when a competitor comes in near a particular store and we see the low also happening and then suddenly also we see ourself boosting and back to the normal. So we have seen competitors like Reliance Trends, Spencers, V2, Big Bazaar and even Max and Reliance Trends so everyone has opened and then huge number of regional players also has opened, so we have seen all those, but it happens initially it goes down but once again because the loyalty and the customers knows what V-Mart sells and what is V-Mart, so the customer comes in or maybe that market size also increases.

Tejas Shah:

Sure and Sir while answering one of the previous questions, you mentioned that in lot of places you try to do different things, so basically your new store pipeline, you just want to keep at 20 to 25 stores per year so that the existing resources of the at corporate level are strained, but do you believe that in coming period you can actually improve the bandwidth or expand the bandwidth to take this number materially higher than what we are running today.

Lalit Agarwal:

Not materially, but incrementally yes, we obviously have incrementally started opening more stores, and we will keep increasing that as the base increases, not for the sake of showing up numbers, but also for understanding that we should be able to perform and very well manage that.

Tejas Shah:

Sure and lastly one observation just wanted to understand in Jharkhand your store size is 10000 square feet roughly versus your new store openings everywhere else is somewhere around 7000, so any particular reason why Jharkhand is having a higher size stores?

Lalit Agarwal:

We may not have through, the only fact that we had a result report conducted wherein we knew that there is a higher income that is supposed to come in the Jharkhand area because of the mining, there is some mining law wherein these people who live in this mining area like they want to get some subsidy and some benefits, so their spending power is supposedly supposed to increase and then it is also about the availability of the property in that particular area and the kind of property that is available, so nothing very particular, but it is typically what it is.



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Tejas Shah: Sur. That is, it all from my side. Thanks a lot and all the best.

Moderator: Thank you. We have the next question from the line of Akhil Parekh from Nirmal Bang, Please go ahead.

Akhil Parekh: Hello Sir. Good afternoon. The question is on the loyalty membership Sir, how many members we have in loyalty membership right now?

Lalit Agarwal: How many members do we have?

Akhil Parekh: Yes.

Lalit Agarwal: We have registered more than almost 9 million customers till now as a member, out of which we see around 5 million, which are active right now and we see a good amount of repeat customer of those loyal customers.

Akhil Parekh: Okay, Sir would you be able to share in terms of sales, how much of the existing customers are contributing to our total sales maybe for just quarter, overall like so rest of FY2018?

Lalit Agarwal: See as of know the number is being captured only from 40% customers share their details right now. If there are 100 people who have shopped with us, only 40% customers give us their details, so out of that what we have seen is there is at a yearly level if we see there are almost 58% sales coming out from the loyal customers of the existing customers.

Akhil Parekh: 58% right?

Lalit Agarwal: Yes.

Akhil Parekh: Okay. In terms of technology spend, would you be able to throw some light in terms of how much it is as a percentage of sales?

Lalit Agarwal: Technology as a percentage of sales, we target around 2% but I do not know, we just do not want to spend because we have targeted, but there should be a call.

Akhil Parekh: Okay and any thought process on like developing a mobile application for V-Mart, I know you will say that we are looking around only channels and all, so do you see that coming maybe in future?



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- Lalit Agarwal:** As I told earlier also that we are gearing ourselves up and it is not only about the mobile app, mobile app is already there for V-Mart, but it is also all about that catering to the whole processes back end, which suits the mobile app and which suits the m-commerce business and which suits the online customers, so there is a different mentality and there is a different behavior and there is a different set of processes that also needs to get tagged into. That is what we are trying to build and then once we are capable, we may get on.
- Akhil Parekh:** And Sir one last bookkeeping question, for the apparels would you be able to give us percentage of total, contribution of apparels?
- Lalit Agarwal:** I think almost 77%.
- Akhil Parekh:** 77%, okay, got it. Thank you Sir. That is all from my side. Best of luck.
- Moderator:** Thank you. We have the next question from the line of Ronak Morjaria from Edelweiss. Please go ahead.
- Ronak Morjaria:** Good evening. I just wanted to understand you mentioned that this year Diwali was not good, so what would you attribute it to mainly because of competition consumers spending or something else?
- Lalit Agarwal:** Yes, I think it is a mixed bag is what we should attribute it to, initially starting with the seasonality because the winter season is little late and the Diwali was little early, so normally during Diwali times we see winter coming in northern media part. This year we have not seen any winter coming in even till now, so that was the biggest reason. Apart from that I think generally winter merchandise are a little higher ASP merchandise and winter merchandise brings in lot of sales in that particular time. Apart from that I think it is also about the market sentiments, consumer sentiments on the economy and then just competition as I have also mentioned that there is a lot of strong competition just coming in, in this territory, should be a mix up everything including the online competition.
- Ronak Morjaria:** Okay and also you mentioned that similar thing you are expecting in going ahead also despite it being a wedding season, so if you could throw some more light on that because it...?
- Lalit Agarwal:** We may not be able to forecast that accurately, but whatever we are seeing right now, we have just told you that and we expect things to get better as soon as the winter season is on,



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as soon as we see a good cold wind blowing so that should improve but it all depends upon when will this come and how well can be tag it with the winter and the wedding sales.

Ronak Morjaria: Okay and you also mentioned that now since the Pantaloon, FBB, Reliance Trends and all have also started entering, so if you could just broadly give an idea what percentage of your store area have these national players penetrated already, if you could just...?

Lalit Agarwal: Almost 30% or 25% of our stores would have someone or other national players, that city I would say, not the exact location.

Ronak Morjaria: Okay. Thank you. That is, it from my side.

Moderator: Thank you. We have the next question from the line of Agam Shah from Raj Trading. Please go ahead.

Agam Shah: Thank you for taking my question. Congratulations for a set of good numbers. My question was, are you saying the consumer sentiment is weak, so as going ahead like to increase in one of the biggest quarters for us, so you think if the demands will improve with onset of winter directly? So going ahead with the winter come in and the wedding sale coming in, can this like the customer demand maybe overcome with the winter like, so how is your growth like for the next quarter?

Lalit Agarwal: Yes, absolutely, so we are looking forward to that so while we do not issue any guidance we cannot comment or we cannot commit on a number, but definitely.

Agam Shah: No on a just broader mix?

Anand Agarwal: On a broader mix it, definitely it should get better and there is no reason why sales would not happen, once we have stronger winters coming in and because of the marriage season coming in, it is just that the last month or Diwali was not in line with the expectation and therefore the word of caution.

Agam Shah: Okay. Thank you. That is, it from my side. All the best.

Lalit Agarwal: Thank you.

Moderator: Thank you. We have the next question from the line of Nitin Gosar from Invesco. Please go ahead.



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- Nitin Gosar:** Sir just wanted to check if winter is not up to the mark, then does it impact certain set of inventories or certain type of fashion or certain type of wear or it impacts your overall business?
- Anand Agarwal:** It is not that winter is up to the mark I think the only point that we made is the winter is slightly delayed and Diwali was slightly earlier and therefore once these season is delayed, the inventory that we have is definitely going to be required to be sold, and will get sold so it is not the entire inventory is winter inventory and therefore the risk is not on the entire operations, so there is a small portion of retail inventory that we carry which is only for winters, but that is not 100%.
- Nitin Gosar:** Okay and regarding the competition keeping in mind if the winters are not up to the mark, the earlier environment which just you clarified, keeping in mind if competition were to get aggressive, then you see it is going to dampen the sentiment or dampen the expectations you are carrying for the sales for remaining two quarters?
- Lalit Agarwal:** I think you do not need create that worry we always kept that kind of cushion and we know what we are talking and we know what we are dealing with, so we have those kind of cushion built in our inventory planning and also in our sales forecasting, so nothing is new.
- Nitin Gosar:** Right Sir. Got it. Thank you.
- Moderator:** Thank you. As we have no further questions, I would now like to hand the floor back to the management for closing comments. Please go ahead.
- Lalit Agarwal:** Thank you every one. Thank you for being there and being patientful, let us look forward to a good quarter, let us look forward to a sustainable number every month and then I hope the economy is going to be back on track, the consumptions are going to grow on and then we will keep performing and giving you best of the results. Thank you so much.
- Moderator:** Thank you gentleman. Ladies and gentlemen, on behalf of IIFL Capital Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.