



**“V-Mart Retail Ltd. Q2 FY20 Post Result
Conference Call”**

November 4, 2019



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MODERATOR: MS. PARIN TANNA – B&K SECURITIES



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Moderator: Good morning, ladies and gentlemen. Welcome to the V-Mart Retail Limited Q2 FY '20 Post Results Conference Call hosted by Batlivala & Karani Securities India Pvt. Ltd. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Parin Tanna. Thank you, and over to you, ma'am.

Parin Tanna: Good morning, ladies and gentlemen. On behalf of B&K Securities, I extend a warm welcome to everyone on the call. We have from the management team, Mr. Lalit Agarwal -- Chairman and Managing Director and Mr. Anand Agarwal -- CFO. I shall hand over the call to the management to give a brief overview on the quarter's performance, post which we will open the floor for Q&A. Thank you and over to you, sir.

Lalit Agarwal: Thank you, Parin. Good morning, everyone. Welcome to the call once again. We are setting in the midst of the high-polluted this time which is actually giving lot of tough time to the Delhiites. But anyway, so the quarter went a little average.

We would not call it a great quarter, and this is what was expected because there was a lot of hue and cry about economy. So, we saw some pressure on the rural consumption, we saw this time the customer in the suburban or the semi-urban areas talking about slowdown, talking about little bad business environment because lot of trading community, the self-employed community was suffering from the liquidity crunch and it came out, but there is also some amount of cheers and some amount of aspiration rise which is being seen because of the little digitally influenced customers who are trying to create a different side of the economy and trying to create a different consumption level. So, we are seeing average economy in the rural town because monsoon was good, agriculture income did not get impacted, so we find that other side of the coin is almost good, it is only that the feel-good factors are low and the trading community is getting impacted and so people are getting into silos and people are getting into that shell of not consuming out in open or saving a little bit for the future needs maybe because there is a lot of hue and cry by the media. Otherwise, there is nothing which is being witnessed which is of concern or which is of problem in the market.

Industry wise, I think retail has been doing great, lot of opening of stores in most of the tier-2, tier-3 towns, even tier-1s, we are able to see lot of value retailer increasing in the market, lot of consumption going to organized space, organized industry has bettered and it is getting bigger. National chains like Reliance, Aditya Birla, Tata everyone is trying to focus on the value side. We are seeing lot of penetration of their stores in markets in a lot of the territories. Not everyone is giving us a tough fight, but yes, they are trying to acquire some market share from those areas.



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And apart from that, those regional retailers continue to operate, continue to expand, there are a few retailers who have been doing good, there are a few retailers who are struggling. So we have all kind of effects coming in and for V-Mart I think we have been focusing highly on our thoughts of the similar nature where we believe that the customer, youth and the young family who lives in these towns are much more aspirational and there is a temporary phenomenon of low consumption but I think it is going to go up and it is going to keep consistently up wherein the consumption will grow for fashion, customers are digitally influenced, customer want to consume better product, they are looking out for good fashion. We are getting surprised by the amount of fashion requirement which is coming in from the stores. The large demand of trendy products which is coming in which is actually driving the sales. So, that is also keeping us on our toes where we are trying to fulfill their demands and trying to create a differentiating factor in the market where all the value players who provide basic and simple products, but we would edge out in providing the fashion products. So that is what our large focus is now on and that is where we are focusing, we have done lot of reorganization in our organization structure, we have done the zonal structure which is coming into play, we have redone our front-end merchandize, we have given the customers front-end experience to the store. So, we are trying to improve on those areas of customer experience, trying to create a differentiating factor in the market and we are focusing very highly on fashion. So that is our primary objective and then we continue to invest in our new store expansion and then new store is what we believe that we had built up the capabilities, now we are accelerating our rate of growth. So, we have setup almost 42-stores this year. Right now, it is 253-stores as I am speaking. So, in October month, we added around 15-stores. So, we really pushed the pedal high on the growth path, believing that there is consumption which is going to grow in the market and this is the right time for us to penetrate into those markets and keep growing. That has given little bit of pressure on the existing numbers, but we are working for the future and we will keep working on the time given.

I will request Anand to take you through the numbers and then look forward for your questions. Thank you so much. Anand please.

Anand Agarwal:

Thank you, Lalit. I think yes, the quarter has been not so strong but in terms of sales, I think while we managed to put up a good show in terms of overall sales growth of 20% with a 1% like-to-like and volume degrowth of around 8% but the highlight of the quarter really was the growth in the ASP by 16% and the average bill size growth of around 13%. We opened 40-new stores last year same time; end of Q2 we were at 190-stores and current year we closed the quarter at 239-stores, so a net addition of 49-stores; in fact, we also closed two stores during the quarter, so actually we added 51-stores in the last 12-month period which is a big performance in terms of how we have grown the pace of growth of new stores and there has been a lot of effort which has gone into building up this kind of capability. So, all the investments that we have been doing in terms of getting better people, getting more people, improving our logistics, improving our infrastructure, etc., is yielding these kind of growth numbers.



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Overall, at a sentiment level, I think the market still remains slightly hazy; we have seen almost 9% growth in footfall, the conversion rates have also grown by around 0.5%. But looking at the volume degrowth and the growth in ASP together, I think the experience that we have had is that the customer is getting more choosy, customer is demanding better product, more fashion, he is coming in more numbers but buying lesser quantity but buying much better merchandise than what he was earlier demanding. So, there is definitely a sort of a shift. There has been reasonable amount of monsoon; the monsoon has been in fact better than normal, the pre-festive period especially the September-end period was pretty encouraging. As we all know that the festive period was preponed by 12-days this year, so Durga Puja happening in the first week of October, led to good amount of growth in all the eastern markets, in fact, West Bengal which has traditionally not been our strongest market, grew by almost +30% on a like-to-like basis. Overall East market which includes West Bengal, Odisha and Northeast accounts for almost 15-20% of the sales mix, grew by 20% like-to-like. UP which is our strongest market, had a 4% like-to-like growth. I think some of the pain points which came were from the Jammu region because of the political disturbances there and some of the other northern markets of Punjab, Himachal and Uttarakhand which led to the overall performance of like-to-like remaining at 1%, but as Lalit mentioned, I think we still remain very-very bullish, we are still very hopeful, we are playing for the long run and we still believe that the market is very-very wide and if we look at the new stores that we have been opening, we are getting more deeper into the same cities and towns where we were earlier present. So, reinforcing our belief that the market is still wide open and we are getting good dividends from each of these markets.

So, if I look at the new stores that we have opened, we opened three stores in West Bengal this quarter, two each in UP and Rajasthan and then some more in Assam, Meghalaya, Madhya Pradesh and Bihar... in fact, Meghalaya Was The 18th State Where We Went Into and as I speak, We Went into A New State Arunachal Also in October. So total of 19 states that we are present in now. The festive period also showed a good demand in the kirana segments. So, while overall the share of kirana grew by around 1% but that is largely driven by the festive demand.

As far as the margins are concerned, we were able to increase our margins by almost 200 basis points which has largely been driven by better merchandise, negotiating, better sourcing and improvements in technology and increasing the ASPs. Also, the fact that we sort of slightly disrupted the market in August which is traditionally the EOSS time, end of sales season time; we gave much lower amount of discounting during the EOSS and that led to a slight improvement. We have always been cash positive and we used the cash to negotiate much better payment terms with our vendors and we acquired more customers during the quarter through more innovative promotions. So, while as I mentioned the footfall grew by 9%, but that too even despite lower amount of discounting during the quarter. Because we gave much lower discounting, we gave much lower EOSS. So, there was a slight decrease in the overall liquidation during the quarter, but still we maintained higher provisions for older stocks and therefore the shrinkage grew to around 1.5%



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On the expenses side, because the end of Q2 was signaling the start of the festive period, we spent much higher amount on marketing. Marketing expenses actually grew by around 79% year-on-year which was largely driven by how we look at the overall festival period panning out. Also, the fact that we opened 14 new stores in Q2, and 15-stores were due to open in October, we stepped up our investments in marketing, in logistics, in packaging, in manpower, etc., which is required to make sure that all of these stores get to a good start. So, while the full potential of these stores may not get fully reflect in the quarter numbers, but I think there is a fair amount of expenditure which we were supposed to do and which we did to ensure that these stores get to a good start. There is almost 26% area addition which has happened and we crossed the landmark of 2 mn/sq. Ft. which is again a big milestone for us.

If I look at the other expenses, there is again a slight increase. If I look at like-to-like basis, excluding the impact of IndAS 116 on lease rentals, so if I look at a comparable basis, the other expenses have grown by 37% which is slightly disproportional, but again largely driven by advertising and other logistics-related expenditure. There is also some amount of investments that we have done in building up our omni-presence. So, we have launched omni, we are doing a test marketing there and early signs look quite positive. There are also some organization changes that we have been talking about for the last couple of quarters. We have implemented zonal structure. We have got more capabilities added up to ensure that we are able to sustain and scale this growth as we go along. So, expenses look slightly disproportionate, but these are investments that we continue to do and these are with a purpose of ensuring that we remain sustainable and we get to a scale and the bandwidth that we have is scalable for even higher amount of growth.

If I look at the inventory, the inventory has increased by six days over last year same quarter; last year we had inventory days of around 100 days; we had 106 days as of September end, again largely driven by the 15 new stores and the festive period which was due in October. So, a large amount of that we have taken to ensure that we have adequate stocks lined up for the festive sales in the warehouse ready for dispatch. So that sort of increased the inventory, but otherwise inventory remains well under control, and at overall level I think we are still targeting improvement of inventory days on a full year basis and the ensuing quarters should see some improvement coming in from there.

CAPEX has been on plan, in fact, the new stores that we have opened have pretty much been on target. While from a targeted number we might still be slightly short from our internal projections, but otherwise, I think the growth that we have seen in new stores has been unprecedented and team has done a fairly strong job in ensuring that we were able to cash in on the festive season, and the large part of that 20% growth that we are seeing is coming in from the new stores.



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As far as cash flow is concerned, we have been negative in Q2, but that is in line with how our performance has been YoY in Q2 because that is the end of the lean period and the beginning of the festive period, so you build up inventory. So, that is where the financial stack up.

Big change on the IndAS 116 implementations as we also spoke about that in the last quarter. IndAS 116 came into force from 1st April 2019, and basically what it means is that we are required to capitalize the balance period of the leases as a right-of-use asset and a corresponding liability is created to balance it off. In our case, that reflects into asset addition of around Rs.446 crores and corresponding liability, and a notional interest on that liability is also required to be accounted for and accrued which is sort of impacting the PAT or also the PBT. If I look at a comparable number, on the P&L side while our rentals go down by Rs.19 crores for the quarter, the EBITDA goes up by Rs.19 crores, the depreciation goes up by Rs.14 crores which is a carve-out from the rental number, and interest is broken down into two parts; one is relating to the rentals which is Rs.5 crores, so total of Rs.19 crores square off, and then an additional notional cost of interest on the liability that is created on the books of Rs.440-odd crores, notional interest cost of Rs.8 crores is also included in the interest numbers. So that sort of pushes off the results or the PBT numbers by Rs.8 crores. So total charge of Rs.13 crores on the interest line for the quarter. But, if I look at the same number on YTD basis for first half, the rentals go down by Rs.38 crores, EBITDA goes up by Rs.37, 38 crores, depreciation goes up by Rs.28 crores and interest related to rent goes up by Rs.13 crores while the interest cost on the notional liability goes up by Rs.15 crores. So, for H1, the right way to read the PBT should be excluding the Rs.15 crores charge. So that is how the IndAS impact the number. So, at overall level, IndAS net Rs.450-odd crores of change on the balance sheet and net negative impact of Rs.15 crores on a YTD basis on the interest line.

So, that is as far as the financials are concerned. At overall level, I would just want to conclude by saying that I think we are working towards a long-range plan. We have been building up the organization layers in the company, we are building up technology, we are building up process. So, to ensure that we achieve the 4-year, 5-year targets that we have taken, the infrastructure has to follow suit, and we are very optimistic on the overall size and scale of the market despite the competition coming in and the consolidation which is happening in the market, I think we still remain very bullish on the overall prospect of the market.

So, with that, I will just conclude my remarks and open the house for questions. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Akash Damani from Edelweiss. Please go ahead.

Abneesh Roy: This is Abneesh here. My question is on the EOSS. You mentioned you have reduced the discounting. So, my question is, have the other players also done the same in this quarter, and is this one-off, so in the next EOSS, do you again expect that the discounting will be lower?



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- Anand Agarwal:** While this is an experiment that we did this year, it is not something that we will want to replicate every time. There is an experiment and because we saw slight weakness in the market and the footfalls especially during the EOSS time was slightly lower. Customers were coming in, any case to buy. So, it is not something that we have decided as a strategy. We will take as the market comes along.
- Abneesh Roy:** But what was the specific trigger that I could not get because your volume is down 8%, so in a weak market when volume is down 8%, what was the end result I could not get?
- Lalit Agarwal:** There is a pressure in the market. The volume is down and this is what we are seeing because of the impact of a slowdown and stuff. But what we are seeing which is motivating is the increase in the ASP and increase in the ASP is largely by two factors -- One is that the discounting has gone down because in the month of August when every time and every year or every retailer was going on discount, we actually relied more on the fresh inventory and we wanted to give the customer the differentiated look and which worked for the company. We might have lost some ground on the quantity sales, but we actually got a higher margin from there. But, overall, we wanted to take the unique position of bettering our fashion merchandise, bettering our aspirational merchandise and trying to give the customer different experience on the product, and that is what we are trying to focus now on.
- Abneesh Roy:** Sir, my second question is on the new store opening. So, when I see the size of the new store, there is a very big range; your smallest store in this quarter in terms of new opening was 5,646 square feet and the biggest was around 5x of that. So, why is such a big range? Second, entry into Kolkata. Most of the expansions last few years has been in tier-2, tier-3 market. So, what is the reason behind going into a big city like Kolkata?
- Lalit Agarwal:** Abneesh, once again, we have not gone into Kolkata as such, we have gone into a suburban part of Kolkata which is Barasat, which is actually district Kolkata, but it is not in main city. So, we are not still targeting the main city, we are still targeting the smaller towns and the urban, semi-urban areas. That is what our focus is. And I think there is some confusion in the size of the stores. We have been similar, there have been one or two stores which have been a little lower and there have been one store which is a little higher. So, I do not think we have targeted. Our average size is still around 7,000 to 7,500, but at times you get some property, which are smaller in size, so you accommodate because of the market area, and at times, you do not get some property, so you open around 10,000 or 11,000 square feet of store. Our focus still remains around 7,500 to 8,000 square feet
- Abneesh Roy:** But in the presentation, Bengal size is mentioned as 25,422?
- Anand Agarwal:** The presentation actually what you are seeing is the aggregate area of the retail square feet for each state. So, Uttar Pradesh is looking at 13,661 square feet but that is for two stores, it is not



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for one store. So, the number of stores that have been opened in the quarter is 14 while we are looking at serial number 1 to 9. So, that is the way you have to look at that number.

Abneesh Roy: You spoke briefly on omni and you said the initial response is good. So, could you give some color, and because response is good, will you become a bit more aggressive on omni or is it more just a convenience to your existing customers?

Anand Agarwal: Obviously, the intent will be to scale up omni, but right now the phase in which we are in, we are still trying to perfect the model, like when we get into a new territory, we are in a new format like we went into tier-4, similarly, when we are getting into omni, we are still trying to figure out what works for us, what works best for the customer, we have got the platform working, we have got the app working, we have got the customers now coming in. But we are not getting very aggressive in terms of our marketing or the positioning. I think we are still trying to perfect the model in terms of the operational efficiencies and our own strengths. We are trying to understand what is the customer preference when he comes to online and so on and so forth. So, we will get stronger there, but it will happen in phases.

Moderator: Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Sir, first question pertains to if you can give us some qualitative comment on how the festive season went by and how is the demand environment in general around season?

Lalit Agarwal: Tejas, festival was good. We could not complain. See, this time the festival you need to understand because we primarily operate in the northern markets, and in northern markets, normally when Diwali is in October, you do not tend to get the sales from the winter merchandise, the seasonality plays effect. So, this time, this festival is just like a festival in 2017 when the Diwali was in October. So similarly, what happens is this time we do not sell too much of winter merchandise, and you will shift those winter merchandise sales to November. The festival was average, it was not high growth, but yes, we will anticipate a higher balance part of the Q3 wherein you will get a better marriage season and a better winter merchandise season. That is what we expect because winter is right now not on and it should be on just within this week.

Tejas Shah: If we look at your business structurally and when we are small, there was a low base, but now on a higher base also this 3Q concentration still continues to be ruling all fundamental numbers, be it profitability or capital efficiency both. So, in your four to five-year medium-term plan that you are working on, is there any thought on that how to diversify this risk?

Lalit Agarwal: Tejas, we are not doing business to improve our quarterly numbers or make our quarterly numbers look similar. This is how India behaves and this is how our consumers behave and that is the area that we operate largely on and this is our strength. So, we believe that our customers who are primarily small-town customers and those who operate in middle and the lower middle-



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income group, they largely consume during festival and marriage, and that is how they will keep consuming. So, we cannot change their consumption pattern or we will not move into any of such kind of businesses which will try to drive sales on Q2 and Q4. So, we will continue doing what we are doing. There may be some shift happening because of the geographical presence that we have, but I think largely this is how it will continue to have. So, this is how we target our Q3 very strongly... it will remain strong, because this is what India consumes, I cannot do anything on this.

- Tejas Shah:** What is the exact debt on books as on September?
- Anand Agarwal:** The debt as on 30th September would be around Rs.75-odd crores, that is only working capital lines drawn from banks.
- Tejas Shah:** Is there any change in our philosophy of not depending on to debt too much to expand, business we are expanding so fast, we are okay to actually cross that line once in a while?
- Anand Agarwal:** Absolutely not. There is no change in philosophy. There is absolutely no change in the way we do our business, and we will still continue to expand basis using our own internal cash accruals.
- Moderator:** Thank you. The next question is from the line of Jignesh Kamani from GMO. Please go ahead.
- Jignesh Kamani:** Just on the strategy part in 1Q and earlier quarter, competition from the regional players and the organized players are very high. So, we decided to be slightly aggressive on the pricing which probably in second quarter as you said we are focused more on the better ASP and the lowest on the pricing. So, are the competition is less or what is the change for the policy?
- Lalit Agarwal:** I think we still continue to act very aggressive and we do not want to just be aggressive on the price, we do not want to do a price war, but we want to be aggressive on the customer acquisition piece which is largely from both the sides which is one, trying to attract the customer based on the fashion and the products that we are offering; and two, always try to reward the customer for being with us or coming to us. So, maybe the loyalty process where the customers getting repeated or even acquiring the new customer. So, we want to reward the customer for a particular size because we are seeing sudden out spurt in the market on those slowdown media hype which is being created. So, we do not want our customer to get on to that, and we are trying to retain our customer and keep our customer with us. So, we will be driving on both the areas, we will not put discounts, we will not try to show them that we are giving out huge discounts or promotions, but we are trying to give them rewards and recognition whenever they are with us.
- Jignesh Kamani:** But is it safe to assume the company is reducing from the movement of regional player now compared to last year?



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- Lalit Agarwal:** I will not say that because the regional players as you know they call themselves organized, but structurally in the organization not everyone is able to pull themselves up as far as the high number of store management is concerned. So, there will be some regional players who are able to do that well and will be able to keep growing, but there will be some who may not be able to control anything and then maybe really falling apart. We will always wish them good luck and we will always wish them to grow along with us because that is how the industry keeps growing. But yes, there has been pressure on certain retailers, but in spite of that, certain retailers are doing good.
- Jignesh Kamani:** Anand, how is the inventory position post festival season -- has it come back to normal level or still we are carrying high inventory post festival?
- Lalit Agarwal:** We are very comfortable on the inventory piece because we had anticipated this inventory because we opened 15 new stores in October and we were focusing highly on the Diwali, Durga Puja sales and then also in the winter merchandise inventory as we normally do. That is why the 30th September inventory looks optically little higher. But during the October month also we had high sales target and then continue doing that in the third quarter. So, by the end of the third quarter, we should be around the similar number or better in the days of inventory as far as inventory days is concerned.
- Jignesh Kamani:** So, October end post festival, per store inventory has come down to normal level?
- Lalit Agarwal:** I think it is under control.
- Moderator:** Thank you. The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.
- Shirish Pardeshi:** Just two questions: First, I have seen that shrinkages gone up. Is there any specific reason particularly this season the increases are higher?
- Anand Agarwal:** Absolutely not. There is just business as usual. So, we have provided for as part of our long-standing policy on provision of old inventory. It is just a normal provision. Normally, during the Q2, we do a lot of EOSS and liquidation. So therefore, this quarter we did slightly less liquidation exercise. So therefore, we created a higher amount of provision which is reflecting in shrinkage. Otherwise, it would have come as part of margin.
- Shirish Pardeshi:** I see the Kirana sales is going up. Maybe could you elaborate what is the discounting which has gone up or is the demand which has gone up or consciously we are trying to drive more of Kirana sales?
- Lalit Agarwal:** There are two parts: One is that as we get into festive period, so there is always higher demand for FMCG goods. Festivities are around buying more sweets, chocolates and gifting items, etc.,



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Second is compared to last year, we have been implementing impulse sales items around all our billing counters in all the fashion stores as well. As that ramps up, that comparable number looks slightly bigger. But at overall strategy layer, I think the bigger point that I would want to make is that we remain consistent with our approach of being apparel-centric and fashion-centric retailer. So, Kirana or FMCG play will still be limited.

Shirish Pardeshi:

Just last question on the store expansion guidance for the second half and FY '21?

Anand Agarwal:

For full year this year, I think we should be looking at opening 60-plus stores, we are well on track, I think we have already opened around 42 so far, and I think that numbers look very well within reach. If we have much more capacity available, we might even look at expanding that further. For '21, I think we will still remain at around 25% addition to our base which we have been doing for the last couple of years. So, we should remain in the same range of 25% addition over the existing base.

Moderator:

Thank you. The next question is from the line of Chirag Lodaya from ValueQuest Investment Advisors. Please go ahead.

Chirag Lodaya:

Sir, my first question is on overall expansion. So, this year you have again lowered your SSG guidance and we are seeing some pressure on margin. Still we are not calibrating on expansion front. So just wanted your thoughts on the same?

Anand Agarwal:

The expansion is in line with our strategy of overall growth as I just mentioned that we have been growing at 25% for at least two years, and that is the same rate at which we want to continue building, and the expansion at our end is always driven by three factors -- One is that it has to be a cluster-based expansion. So, we do not really get into absolutely new territories, we like to get into territories which are nearby or adjoining our stores wherever we are. Second is that we remain debt averse and we would want to expand only till the point that we are able to manage with cash internally. Third is all expansion has to be profitable. It has to add to the profitability and the bottom line and not be a drain or a stress. So, if all these three parameters are met, we will still continue to expand in a range. But that does not mean that we are going out of range, we are going very aggressive, we are not adding 200-stores in a year, we are not doubling, we will expand in a conservative manner.

Chirag Lodaya:

What is the CAPEX for full year?

Anand Agarwal:

I think on a full year basis, we should be spending almost like Rs.100 crores or so which is the total cash outlay, the inventory that gets added for the new stores plus some additions in the warehouse and also some technology improvements.

Chirag Lodaya:

After this CAPEX of Rs.100 crores on a yearly basis, we will be still net cash positive?



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- Anand Agarwal:** Yes, we still should be targeting cash positive.
- Chirag Lodaya:** What is the reason for sharp increase in other expense? Despite A&P if I adjust that also there is a sharp increase in other expense on a half yearly basis.
- Anand Agarwal:** Advertising has gone up by 80% as I just explained and there is 30%, 31%, 35% increase in the manpower cost. Because you are preparing for the festive season, there is a high amount of logistics and the other related costs which are related to the merchandise upkeep shifting, procurement, etc., that is a buildup for the next festive period coming in.
- Chirag Lodaya:** Is it due to your investments in omni channel which is dragging your P&L at this point of time?
- Anand Agarwal:** Not largely. While omni remains an investment area, but it is not a significant investment that will impact the numbers at such scale.
- Chirag Lodaya:** On a full year basis, still 8.5%, 9% kind of margin is achievable for the company?
- Anand Agarwal:** I think it may not be 9%, but we will still try to target somewhere around 8% or so.
- Moderator:** Thank you. The next question is from the line of Manoj Bahety from Carnelian Capital. Please go ahead.
- Manoj Bahety:** My question is maybe like what kind of same-store sales growth you target which can take store level inflation, I mean, considering the same-store sales growth, which we have achieved this year, I think inflation may be higher than that at a store level?
- Anand Agarwal:** Roughly 3% to 4% SSG is able to offset all kind of inflationary pressures, and that is what I think we are still hovering at roughly around 3% if you look at the YTD numbers, and we still remain optimistic on how the Q3 especially the winter period and the marriage season goes. So, to answer your question, 3%-4% is something that sets off the inflation.
- Manoj Bahety:** This 3%-4% is overall or only volume growth?
- Anand Agarwal:** Overall value.
- Manoj Bahety:** So, if same-store sales growth is higher than 3%-4%, then it will be margin accretive at a store level, right?
- Anand Agarwal:** To a certain extent, yes. While we really do not believe in getting a lot of operating leverage because we would want to reinvest some part of that back into the operations so that we are able to create a much more sustainable and growing format. But yes, there will be some amount of leverage available.



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- Moderator:** Thank you. The next question is from the line of Ayushi Mohta from CD Equisearch. Please go ahead.
- Ayushi Mohta:** Sir, just wanted to understand what has been the impact of consumer spending stress in your business?
- Anand Agarwal:** The impact has been basically more around how the footfalls have happened and how the conversions have happened. So, while at a sentiment level I think in the markets where we operate in all the tier-2, tier-3 cities which are largely Agri-driven markets, there is not much of a ground-level change that we have seen. Customers are still coming to shop, customers are still coming in higher numbers. So, if you look at the footfall growth, it has grown by 9% and the conversion has also grown up by 0.5%. So, that is a healthy sign. But I think more importantly, the trend that we are seeing is that the customer is getting slightly more choosy in what he really wants and what he demands. So, he is seeking much better fashion even if it comes at a higher price point, and at least whatever numbers that you have seen during the festive period there is much higher demand for better fashion.
- Ayushi Mohta:** But still your average selling price has increased, like around 16%. So, if there is so much stress in the market, so like how would the consumer spend so much?
- Anand Agarwal:** That is exactly what I am trying to say that we are not seeing so much of a stress as has been made out in the sentiments. So, while in the manufacturing sector, in the automotive sector, yes, there is a lot more stress, but at least in the semi-urban markets where we operate, we are not seeing so much of a stress on the ground, it is more a sentiment-driven stress.
- Moderator:** Thank you the next question is from the line of Ali Asgar Shakir from Motilal Oswal Securities. Please go ahead.
- Ali Asgar Shakir:** Sir, my first question is just on your growth point of view, I mean, your footfalls have been growing, but if I look at it from a per store or a per square feet basis, I see nearly about 14%, 15% decline in your footfalls per store. Of course, that has got compensated by your increase in average selling price or even your transactions. But just I want to understand more, you discussed about the slowdown point of view, I mean, how much would you really attribute this to slow down or maybe the eCommerce guys who are very aggressive this quarter, was that a reason or you did take a price increase or maybe curtailed your EOSS, because the volatility in the numbers on a per store basis is so high or is it because of the new stores that you opened which have been sort of seeing some kind of lackluster growth, if you can just throw some color on this?
- Anand Agarwal:** Ali, very good question. There are two, three parts to this. So definitely there is some stress in the market, whether it is sentiment-driven or there is actual degrowth happening in the rural markets, but whatever it is, there is definitely some stress in the markets and that has reflected in the overall performance of a lot of cities and towns. But having said that I think the degrowth



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on a per square foot basis is around 4% while the volume degrowth is around 8%. So, mix of that is actually reflecting in the number that you just stated. But the per square feet degrowth is largely being driven from the new store addition while the stores have been added, if you look at on YoY basis, they are almost like 49-stores which have been added. So, while especially in the last one- or two-months September or August, while these stores have added in the square feet base, but their full potential has not really come in, in the numbers, so that is one impact, and the other part is definitely there is some stress. Lalit, do you just want to add something?

Lalit Agarwal:

I agree with your question. There has been some pressure from the economic slowdown as well as maybe knowingly or unknowingly there is something that some consumption should be getting shifted to the online players also, we do not know, we cannot enumerate that. But yes, we have seen lower volume sales which might be the outcome of the two. There is some pressure. We cannot deny that, and we should not deny that.

Ali Asgar Shakir:

So, a quick follow-up on that is given that we have taken a price or rather EOSS have taken some price increases, do you see that we may have to sort of become little more aggressive or how is the festive season going on, and are you already making some amendments over there in terms of your pricing aggression to sort of accelerate growth?

Lalit Agarwal:

I think we are not actually doing lot of pricing aggression. What we are doing is the customers' requirement or what Anand was speaking that the people are demanding more better fashion and better products. So that is what we have been largely hearing from the stores front whenever you use to visit the store and you talk to the consumers. Customers because of the digital influence, as I call that, digitally influenced customer is much more aware about fashion, is much more aware about trend and is much more aware about what he wants to wear. So that piece is coming in and people are demanding better products. So, that is what we are witnessing. That is how we are putting in those inventories little more and getting those responses. So, I think as soon as this whole hue and cry about slowdown gets over, that should really result into better same-store sales growth immediately after this hue and cry goes over.

Moderator:

Thank you. The next question is from the line of Ankit Kedia from PhillipCapital. Please go ahead.

Ankit Kedia:

Sir, you mentioned that the UP same-store sales growth was 4%. Can you share the number for Bihar as well?

Anand Agarwal:

Bihar was negative. Jharkhand was 5%. Bihar was negative largely because just around 20th of September or so for the last one week, it witnessed very huge amount of rainfall. The festive seasons got washed away.

Ankit Kedia:

Sir, you also mentioned that some Northern states of Punjab, Himachal, Uttaranchal were pain points. So, is it only for the quarter or are we seeing something structural because these are not



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core markets? So, from expansion point of view if these continue to be pain points, we will focus on UP, Bihar and East India and not so much on the North side of India?

Anand Agarwal: It is not really a structural problem. So, if you just dissect the entire north, there is one part which is Jammu region which is definitely impacted because of the political disturbance there. But other parts of North India are usually winter markets, and as the winter season progresses, we will see growth coming back there.

Ankit Kedia: On your lower discounts in end of season sale, what was the response of competition to that? Did we see even competition of lower discounts or we stood out for giving lower discounts and hence footfalls happened in competing stores?

Anand Agarwal: I think we stood out and we changed it consciously as a strategy. We sort of disrupted the market. In spite of that we saw not a huge dip in the footfalls during August.

Moderator: Thank you. The next question is from the line of (Kunal Shah) from IIFL. Please go ahead.

Avi: This is Avi here. One thing that I could detect is a clear focus on store additions that you are spelling out, notwithstanding the near-term concerns on demand that have kind of. I mean, in that context you highlighted that some players have smaller scale, but they cannot grow bigger, would we explore inorganic spend to kind of boost scale with most step jumps rather than the steady state that we are at, just trying to understand your thought over there sir?

Lalit Agarwal: I think we have always been witnessing these retailers growing and we know these retailers are growing. So, V-Mart is not in a drive to acquire properties and just add on to properties. So, we know this business.

Avi: No, I do not mean it that way. If I may say, you found that secret sauce and it is working very well for us. It's just there are players who do not have it and you can definitely kind of up the growth rate. I do not know. I was just trying to understand because finally...

Lalit Agarwal: I understand where you are coming from and this is the area we always look forward. We always understand all the competition both from the competitive perspective and also from the M&A perspective if at all there are any possibilities we want to look at them. But we really have not found any of those retailers to that level of standards where we operate in the governance and those capability standards. So, we just do not want to acquire properties, we want to acquire businesses if at all or if it adds some value to the business. So as of now we do not see any retailers working in that space. We really do not feel that we can do that. But we will still keep our eyes wide open and look at everyone in a similar way.

Avi: Just a bit was this quarter the change in strategy on discounting. Is this in a way suggesting that our brand value is actually much more in terms of we can command a better pricing, did you



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take that away as well from this quarter? I actually was looking at this little positively rather than negatively that you have taken a feedback from a customer that a customer actually believe V-Mart is much more than just people demand...?

Lalit Agarwal:

You are absolutely right, Avi. This is what our focus, our intentions are. We are trying to develop this brand proposition wherein we want the customers to take us differently on value fashion, not only value basics. So, we just want to be say one of the players of hypermarket where we are providing the core products, not quite fancy products. So, we are one of the retailers who wants to stand out as a trendier fashion product which has provided the value. So, we just do not want to get into that rat race of price where the online players and even the regional players will get into. We want to really stand out on product, what product do you want to buy and when do you want to buy what. So, I think that is the large proposition we are trying to drive where we have got a very-very positive response and we will continue to do that.

Moderator:

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

Pulkit Singhal:

I am from the asset management team. Just trying to understand the strategy on discounting, I mean clearly, over the last two, three years, competition has come up in a big way and now you also have national players and we are in the macro environment of slightly slower growth. So, your focus on lower discounting or margins, do you not think this would result in your customer segment, which tends to be a lot more deal focused to move to other players, and may kind of backfire?

Lalit Agarwal:

Pulkit, once again, reiterating we are not a short-term player, we are a long-term player, we just do not want to cash out on the opportunity right now in the market, we will want to develop a brand philosophy or a brand salience which will upgrade the mind perception of the customer on fashion. So, we want to retain our position there and we want to do that and that is the best thing which the company is doing and that is the strength of the company and that is what the customer also wants to reward us. So, we will want to remain there. We do not want to get into the small-small problem that we look at in the market and there will be players who will have more cash to try and give more discounts, there will be customers who do not have cash flow management issues who wants to drive some more small temporary sales. So, we do not want to deviate from our strategy, we will keep continuing on our strategy even if we suffer some temporary loss.

Pulkit Singhal:

What does this translate to in terms of gross margins, I mean, is there some level that you said, "Okay, below this we will not go in terms of discounting." Because I think the first half has been roughly around 31%-odd. So, is that what you kind of said, "Okay, we do not want to go below this and we will just..."



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- Lalit Agarwal:** I think on Q on Q basis, you will see some differential number on that side, but we do not want to say that we will carry old inventory, we will always try to discontinue or liquidate the older inventory as ageing goes on. But still we do not want to aggressively do discounting. So, we will stand out as clear as that. We will want to reward those customers who remain with us. But yes, this is what we would want to do.
- Moderator:** Thank you. The next question is from the line of Lokesh Manek from Vallum Capital Advisors. Please go ahead.
- Lokesh Manek:** A couple of clarifications: One is on the IndAS impact. We wanted to understand that the second point that you have mentioned in your last slide where it is mentioned that interest is added and payments are reduced from lease liability for the future period. These payments are the actual rent expense?
- Anand Agarwal:** Payments are actually rent expense, and as I mentioned earlier, there are two parts to the entire IndAS impact -- one is the rentals getting reclassified into depreciation and interest cost, and second part is the additional interest cost on the notional liability that we have created on the books, so that amounts to around Rs.7, 8 crores, for the quarter and Rs.15 crores for the half year period.
- Lokesh Manek:** And the second clarification was that our EBITDA for this quarter would be loss of Rs.5 crores if I am not mistaken, am I correct on that, excluding IndAS impact?
- Anand Agarwal:** Excluding IndAS impact, the EBITDA loss for the quarter would be Rs.8 crores.
- Lokesh Manek:** I can understand where the balance Rs.3 crores would be coming from because the first half is EBITDA reported as 72% which if I adjust for the increase of EBITDA due to rent expense is 38%, so net would be 34%, last quarter EBITDA is 39%, difference is Rs.5 crores, so Rs.3 crores would be arising from...?
- Anand Agarwal:** For the quarter, the adjustment in EBITDA is Rs.19 crores, which is entirely due to rent. And pre IndAS, the EBITDA would be Rs. (-8) crores, post IndAS the EBITDA looks at Rs. (+11) crores.
- Moderator:** Thank you. The next question is from the line of Mayank Sangani from ITI Capital. Please go ahead.
- Mayank Sangani:** What I wanted to understand is how the competitive intensity is, and have the other guys benefited from higher EOSS for this quarter?



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- Anand Agarwal:** I think we mentioned that we have not done higher EOSS. The competitors did whatever EOSS but I am not too sure about how their performance was. We were fairly okay during the EOSS period despite not giving out much higher discounts.
- Moderator:** Thank you. The next question is from the line of Anuj Sehgal from Manas Fund. Please go ahead.
- Anuj Sehgal:** Hi Lalit ji! In the beginning and during the call also you mentioned that a lot of your customers are now digitally influenced because of new trends and fashions. But then the same customer is also digitally savvy and has a propensity to try online, so one is that. And then the other factor is even in a slowdown period, people are willing to cut their discretionary spend and they are willing to use a cheaper brand or so, but they do not want to give up their digital access to internet. So, have you seen any impact of this in terms of the spending patterns in the area that you operate?
- Lalit Agarwal:** Hi Anuj! You are correct. There is no doubt that customer has not reduced their digital spend and they are digitally motivated and influenced and they will want to buy more fashion, and then they can also approach to the digital players which are available online and now which we are also trying to experiment and be there. But we keep experimenting and we keep checking and we keep auditing the kind of products available digitally and the kind of products available to us. People will experiment, people will want to test the digital platform. But in the kind of quality that we see, with the kind of effect we have received, the kind of quality the similar prices are much, much lower. So, we will still want to concentrate on both, the trend, the fashion, the quality and then the prices because how do you keep that trend in the prices or feature in the prices, quality of the product that the middle and the good level and then lower the prices. So, we will continue doing what we are and there will be upswing and downswing of the customer who will want to buy something digitally, experiment, something digitally people who will buy more products in a year will experiment more. But people who have limited capabilities will only experiment it with the trustworthy player and that is where we stand.
- Anuj Sehgal:** And then my second question is at the store level, have you seen any increase in employee turnover?
- Lalit Agarwal:** No, I think it has been almost fairly average, we have actually bettered there, so, we do not seek lot of turnover at the store level.
- Moderator:** Thank you. The next question is from the line of Sabyasachi Mukherji from Centrum Portfolio Management Services. Please go ahead.
- Sabyasachi Mukherji:** A couple of questions: First, on the SSG volume decline of 8% probably first negative number in last 14-quarters. Also, if I look at the footfall per square actually the absolute footfall numbers



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have grown, but then footfall per square feet has come down. Any specific reason, any market you are seeing weakness?

Lalit Agarwal:

Sabyasachi, I do not know, this is the first in the last six, 14, 12 quarters or not, but yes, we have not seen a lot of growth in volume, yes, you are absolutely right, and this is what we witness and we understand that this is there. So, there is a pressure, no doubt and you cannot deny that, there is a pressure of slowdown and there is a pressure which people want to spend a little consciously, they will only want to spend in products which they really wanted. So, that is what is being witnessed and which is very temporary. And footfall per square feet, yes, you will get that because we divide it by the number because we have opened almost, as Anand was mentioning, 51-stores in the 12-month period, which has not completed 12-months of its operations. So, there will be lesser amount of operational days for the store, and this is how you will not get so much of a footfall. And more the store becomes older, people who only understand, believe in V-Mart, pure buyers comes up to us.

Sabyasachi Mukherji:

Can you quantify the negative L-to-L growth in Bihar?

Anand Agarwal:

I think it was in low single digits.

Sabyasachi Mukherji:

Second question on the operating margin. In first quarter call, you mentioned that you would be targeting 9%. Now you say that probably 8% is achievable. Any further downside you see, I mean, 8%, can we achieve that or will it slide down further?

Anand Agarwal:

I think these are just targets and plans. So, unless we really have something on the ground, I really do not want to comment any further on that. It is just a target I think a number that we would still want to achieve.

Moderator:

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

Kunal Bhatia:

Sir, you mentioned that your new store openings would be from your internal cash flows. So just wanted to understand how are the sales panning up post the festive season because are you witnessing such a good growth on a month-on-month basis that the coming Q3 and Q4 would be enough for getting down our debt as well as improving the working capital situation and getting back to the previous cash flows? Secondly, just had a clarification in terms of the right-to-use of asset and the corresponding liability. In terms of projection, how do we assume that?

Anand Agarwal:

So the festive season I think Lalit has addressed that question a couple of minutes back. Festive period has fairly been okay, not too great, but not too bad either. Bigger point is that Q3 always is the biggest quarter for the year, led by festive, marriages and the winter inventory which is much higher in value. So, therefore, the debt or the working capital limits that we have usually every year are stretched around this Q2 end and beginning of Q3. So, we are fairly confident



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that as the inventory levels get under control, that working capital lines and the debt level also will get back to normal which is fairly normal for every year. The second part of your question was around the right-of-use asset and how does that pan out for the future. So, if we are looking at 25% addition to the retail area every year which means that even if our rental cost remains in line with our past actual numbers, so we should look at 25% increase in the RoU number YoY.

Moderator: Thank you. The next question is from the line of Saurabh Ginodia from Stewart & Mackertich. Please go ahead.

Saurabh Ginodia: Sir, last quarter, you indicated that you are working on vendor consolidation program which will help in control of your sourcing cost. So, what is the progress there and what kind of a gross margin improvement can you predict from that side?

Anand Agarwal: So there has been a lot of work which has happened on the sourcing side and we have been working on this program for close to one year now and there are some very good results. So, the margin expansions that you have also seen in this quarter while some of that has come from lower discounting, the other part has also come in from the vendor consolidation and the improvements in the product mix that we are now able to get because we are trying to get closer to the customer in terms of understanding what really he is wanting. Also, to share on the similar lines that we have also been expanding our private label share which has almost touched 70% and that would also not have been possible without the vendor consolidation. So, on all the three fronts, I think the progress is quite visible. And while we will not really want to expand the margins abnormally, but the future margins should remain in the same range.

Moderator: Thank you. Ladies and gentlemen, that is the last question. I now hand the conference over to Ms. Parin Tanna for her closing comments.

Parin Tanna: We will get the closing comments from Lalit ji.

Lalit Agarwal: Thank you, Parin. Thank you all, the patient analysts and people who were there on that side of the table. We continue to look at the forward long-term strategy, long-term plans. We still believe there is a huge potential. We want to penetrate more in those cluster-based approach being more cluster focused on tier-2 towns, bigger, larger towns where we have seen a lot of success, we want to bank on those success, we want to penetrate more into states of Madhya Pradesh, Rajasthan, continue doing that, continue to expand in those tier-2, tier-3 towns as well, and looking forward for your continued support and looking forward to your continued availability in all the calls. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Batlivala & Karani Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.