



**“V-Mart Retail Q2 FY22 Earnings Conference Call
hosted by Edelweiss Securities Limited”**

November 10, 2021



MANAGEMENT: **MR. LALIT AGARWAL – MANAGING DIRECTOR, V-MART RETAIL**
MR. ANAND AGARWAL – CHIEF FINANCIAL OFFICER, V-MART RETAIL

MODERATOR: **MR. NIHAL MAHESH JHAM – EDELWEISS SECURITIES LIMITED**



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Moderator: Ladies and gentlemen, Good day and welcome to the Q2 FY22 Earnings Conference Call of V-Mart Retail hosted by Edelweiss Securities Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nihal Mahesh Jham from Edelweiss Securities Limited. Thank you and over to you, Sir.

Nihal Mahesh Jham: Thank you Rutuja. On behalf of Edelweiss, I would like to welcome you all to the Q2 FY22 Conference call of V-Mart Retail. From the management today we have Mr. Lalit Agarwal – Managing Director and Mr. Anand Agarwal – Chief Financial Officer. I would now like to hand over the call to Mr. Lalit Agarwal for his opening remarks. Over to you, Sir.

Lalit Agarwal: Good morning everyone. Wishing all everyone a very, very Happy Diwali and good festival days coming in. So wishing everyone such on a very positive note where we are not seeing too much of hue and cry over the virus so it has been a very good festival time for everyone around India. So, thank you for being on the call thank you Nihal.

I am very happy to come on this call on a positive note where things are looking better, market is bettering every day, every month, every week and we are seeing a good response week-on-week improvement that we are able to see and especially in the four, five weeks where we are able to see much this pace continuing and also bettering every time.

So, overall, I think consumption is coming up, consumption has become better especially in the fashion segment it has really picked up very well. It was also on the backdrop of two lockdowns and two bad periods and where there was also a gap created for the consumers where their wardrobe were little empty and they wanted to now come and buy products for them and came out and show off. So, I think also because of the fact that the virus is not coming back and the confidence and the trust that the people have now over the little bit of stability over this period is also asking them to try consumption on if there is a wedding in the house they could invite 300 people, 400 people if there is a vacation that they are planning, they could go out, they could reach people there is a transportation are almost becoming everything is becoming normal, schools have started opening, still colleges have not opened to that degree, but these are very good signs which is definitely leading into a better consumption opportunity requirement and also ultimately will lead into consumption and as we all know this COVID has really changed the perception of people, the life of people, the way people looks their own living, the way people want to live.



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So today definitely due to the past which has happened saving is increased, expenses have reduced, but I think in the coming future the saving is going to be little more lesser and people will spent and spent for themselves and spent for their lives and spent for what they want to do so that is my basic understanding that is what we are able to see, but yes there is a small difference right now the smaller town we still do not see that kind of huge growth in consumption we did not see that in Durga puja before September or around September. We are able to see that coming in the month of October and now in the November, but still the amount of good growth or amount of the excitement that we are able to see in the bigger cities maybe Varanasi, Lucknow, Allahabad and Patna is not what we are able to see in smaller towns.

So, yes there is a small gap and I think how would consumer handle their pocket because they are getting beaten by the inflationary trend, they have not earned too much they are actually the lower part of the income group had actually lost some money in the pandemic peace which they are done with. So, they will have to make that app and there are still some opportunities, some people have still not gone back to cities and their original place of work that is also hitting to their pocket the family income. So, here are these some of the reasons there has been some expenses in terms of mobile phone or a laptop which has also been incurred because of the children study and all so even that is getting a share of their wallet. Otherwise, I think industry is doing great the apparel industry, the retailers we are getting good report as far as the organized trade is concerned. We are seeing a huge growth also from the conglomerates like Tata or whether it is Reliance or it is Walmart owned or online ecommerce or Amazon ecommerce.

So, there are people who are trying to pitch hard, pitch more into retail, absorb, acquire the market, get into the market little more faster. So, we are seeing a good share of retail also going to them, but still there is lot of cannibalization, there is lot of I would say density in the market now and the movement from unorganized to organize are also scaled up and that is also accelerated, people are moving more towards the organize because organize now is widely available in almost all the cities a big cities of India. So, that is where we are and then for V-Mart I think it has been a very good quarter and a better quarter as we all know are still not compared to the last year pre-COVID level we were down. I think the consumption is moving up we had a great time.

What we would understand here is once we again are having a very good inventory levels, having a very good control over the products, having a very good understanding about the customer, the change in their customer behavior because of COVID, the change in the pattern, the change in the consumption of particular product line what will work, what will not work, how much will that work, how much should we buy, what should we buy has been really big challenging situation there has been lot of ups and down, there has been lot analytical, re-analytical forecasting activities which has been happening and definitely there is even a very good tough time and challenging time even to our leadership team who has come out very well I would



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congratulate my leadership team who has done an excellent job handling these up and down, handling these in such a nice way so as we have not been pooled into very high inventory or even the margins are consistent.

On the other side integration on the Southern business which is acquired by Arvind Unlimited business has been very good I am proud to say that our team did a great job in integrating the IT on the process, on their people, on their team very well done integration is what I would call, but yes still we will need to integrate ourselves with the customer understanding, customer behavior understanding, the differentiated customer of the particular brand, the differentiated customer in that particular geography, we will have to really launch the product and the strength of V-Mart which yet to come we will have to integrate the brand image we have to attract the youth which is yet to happen, but Yes overall we only operated one month in this particular quarter and we were satisfied with the overall responses otherwise normally when you take over a business your sales go down, process goes haywire, billing stops, customers are not being catered to, employees have restrictions so we did not get any of those bad news and we had very good we did not even lose a single hour of sale so that is the good news that I would want to give you otherwise we will definitely take more questions in the call, but I would want everyone, every participant to restrict because we already have given too many updates about the Unlimited business in the past two calls.

We do not have too many things to share right now, but yes we will definitely want to clear up all the doubts and all your queries on all these. Otherwise, I think once again the organization is very consistent there is very good news that we also have the splitting of my role I have to become more focused; I have now taken up the seat of the Managing Director, I have relinquished the post of the chairman, bringing up better corporate governance bringing the top in line corporate governance purposes so that we brought in our best independent director on the job who could really do a better job than what I have done. So, we have made Mr. Aakash Moondhra as the Chairman of the Company who is a Independent and Non-Executive Director and that is a pride moment for us that is definitely something that not too many promoters and too many founders have done, but it did make me think multiple times because ultimately we need to reach to the highest level of corporate governance that is our focus and that is what we will want to do.

We continue on our ESG drive, we are also looking at environment sustainability both very closely, society and society development is also very close to us, we have been focusing on educating people, building capabilities, we will also opened to skill development centers in the past in North East and one in Bengal. So, we continue doing something which is also benefit our society something which will also bring our place in the hearts of the people where we actually earn.



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So, that is where we are I would definitely want Anand to take you on the number side and on the report side so I will hand over to you kindly go ahead and give the details about the performance of our business in the last quarter.

Anand Agarwal:

Thank you Lalit and good morning everybody. Anand this side it has been a good recovery this quarter and with South India operations just getting started we look forward to a very exciting new phase of growth for V-Mart but let me take you through some of the key financial highlights from the quarter and then we can open the session for questions.

So, primarily the second quarter is a relatively small quarter with no major festivals or any major consumption drivers and is usually low on margins Q2 be typical end of season sale liquidation rise, etc. However, owing to the extended lockdowns in Quarter 1 the recovery in this quarter becomes important while the quarter saw 95% of operational days, but it was still impacted by limited working hours, contracted footfalls, lack of customer trust at least in the beginning part of the quarter and also regulatory weekend closures in some states which impacted the overall throughput.

Despite this I am happy to share a growth of 8% over pre-COVID levels on a consolidated basis for the quarter which also included a 7% contribution mix from the newly acquired 74 South India stores and 1% growth on a standalone basis only for existing V-Mart store which is a 101% recovery over pre-COVID levels which is FY20. The increase in ABS was 18% versus last year which also denotes a healthy trend of consumer buying apparel which his getting normalized versus last year where more of comfort where home wear clothes were in demand whereas this year we are seeing more festive and occasion were being sold which signifies a deep-rooted recovery in the consumer mindset. The customer traction also has seen steadily building up and the footfalls are now trending close to 80% plus levels as compared to 2019.

On the margin side where there has been an immense pressure on product sourcing cost due to at least 20% to 30% flare up in yarn prices, but we have been able to pass on the price increase completely back to the customer. The change in product mix and lower discounting has also led to a marginal expansion in gross margin or product margins versus last year while they remain almost in sync with what we used to see at pre-COVID levels.

On the expense side keeping in mind almost full level of operational days there were no major cost savings apart from a onetime 8 crore rental concession that we receive this year on account of COVID as against as the 16-crore concession that we receive last year in the same quarter other than that almost all other expenses remained at normal pre-COVID levels. There are no other major rent reductions anticipated in the next quarter as all operations are back to normal operating levels. There is a addition in expenses also due to the operating expenditure of the 74 South India stores, but which remained as per plan and in fact we look forward to rationalizing this and making it more efficient as we move along.



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Thereby to sum it in terms of EBITDA the quarter ended with 6.1% EBITDA at 21 crores as compared to EBITDA loss of 4 crores last year and 11 crore EBITDA positive last to last year in Quarter 2 FY20 which is pre-COVID levels.

On the cash flow we remained quite comfortable on the overall cash position, major deployment of cash has been in the acquisition of the 74 stores in South India.

CAPEX for newly opened 14 new stores and some amount of CAPEX were setting up of a new warehouse which you have already discussed in the past the first phase of which should be ready by next financial year. Inventory at 560 crores remained in line with the buildup for the upcoming festive requirement and included approximately 110 crores of stocks pertaining to the South India stores which has recently been taken over.

The South India stores stock include inventory which is only less than one year old which has been taken over as all the old stocks remain outside the purview of the acquisition transaction. We have also started using part of these South India stocks in some our North India operations with very encouraging response and conversely we are also feeding some of the sharper price stocks from the V-Mart traditional inventory into the UL stores, Unlimited stores, the Unlimited stores to position the sharper price point that V-Mart is known for. As far as the online business is concerned the online business continues to grow strongly albeit on a relatively small base, but we remain very committed and very focused on building this to a large level with availability on V-Mart Retail dot com apps on IOS as well as android as well as android and also with a very limited assortment present on marketplaces as of now the contribution mix from online is around 1%, but we continue to build this business towards 5% revenue mix in the next two to three years which should be aided by hyper local delivery and lower cost to service nearby customers. Digital transformation remains a key focus area for the Company and we have setup a special new team to focus and leverage on technology led initiatives to improve efficiency in all parts of the business.

Coming on to the store expansion on the new store expansion plans we remain fairly committed to keep expanding not only in the online space, but also maintain the rate of growth of 20% to 25% on physical store addition. So, far this year we have opened 24 new stores and in addition we have also acquired 74 stores in South India and thereby the tally for as on date stands at 376 stores for the Company. There are plans to open a total of forty plus stores in this financial year out of which have already been opened and some of these new opening might now also starts happening in South India.

On the Unlimited piece the business is showing definitely good early promises of a stable and profit accretive base in South India in the quarters to come at a zone level and without any significant overhang of corporate overheads. In the last two months of operations and without any significant changes made in the cost structure and any big-ticket systems or merchandize



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inventory planning etc. the operations have remained quite satisfactory although it still remains very early to make a judgment on how soon can we start looking at in line with V-Mart kind of profitability and growth.

There is a strong team that we have inherited in the South and there are a lot of initiatives planned for South India including opening up of new stores right from this financial year itself. There is also a lot of synergy being leveraged in terms of products, visual merchandizing and also operational excellence which is being crossed pollinated from South to North and vice versa to benefit the entire organization and we remain committed to make the combined operations in sink on providing better fashion and value to the customers.

On the outlook, I think there are two challenges that remained opened while we remain extremely bullish and optimistic on the overall retail and business scenario I think the key challenges one is on the continued cost pressures in terms of the cotton price increases and second is on the anticipated GST rate increase which the government had announced to be effective from January this year while we have made contingency plans on mitigating plans for both of these as far as the cotton prices are concerned we have already passed on the full impact of the price increase in terms of higher prices, but if things remain in the upward trajectory we will be continuing to increase the pricing going forward as well.

As far as the GST rate increase is concerned while the government had announced that this might be effective from 1st of January, but we are still to hear on how the migration process etc. will actually plan out. There may be short term challenges in terms of how to mitigate the loss on the existing inventory, but we remain optimistic and will remain in dialogue with the finance ministry through associations and communications to ensure that this transition is also managed and mitigated to a large extent.

So, that is all from my side and I now request the moderator to open the house for questions.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.

Shirish Pardeshi:

I have few questions the first question there is an incremental dichotomy out there in the market that whether this physical retail will back the customer and we recently saw in the morning even Nykaa IPO was having a super bumper listing and they are also entering into the online retailing, so in your sense how this physical retail piece will shape up for V-Mart or is that incrementally the consumer will drive down to the other channels of connect?

Lalit Agarwal:

This is definitely one discussion which is occupying almost to 50% of our board time and board meeting time and the strategic discussions which comes in and which is always discussed at our top leadership team and what comes out is going to be purely multi or omni channel. So, it is



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neither this or nor it has to be multi for everyone omni for everyone whether online people want to build their business, want to establish their brand, want to have a grip over the customers, consumption they will have to be available in both the channel even for V-Mart it will be very important, but yes physical experience more and more digital will definitely drive people for those physical experiences because they definitely once locked in a room are tired in a room and tired with a screen they want to come out and also experience their physicality and that physical experience. So, I think it will be genuinely a large piece over the digital channel which is going to be both omni as well as I would call customer want it to be available in both the platform not in the real sense only because people have lot of time in India and they still do not want to save time to do right now it is more a grab oriented dealer, a price oriented deal which people have locked down to, but yes we have started realizing from this quarter in the last quarter that people are now also looking that we are also getting a very good traction on the kind of honest price approach that we have taken in the online channel. I think that is also going to play its own role and we will have a very good win over the digital customer in there.

Shirish Pardeshi:

I completely agree your view, but just one follow up you always have been vocal about price list fashion and I think what I am trying to hint at is that the customers which we serve in Tier 2, Tier 3 or the value conscious customer, do you really think it will be becoming a threat or us or you think it is an opportunity?

Lalit Agarwal:

It is definitely an opportunity Shirish and I had also told us before so there is lot of new areas, lot of new cities and lot of new data that we are receiving the top 1,000 cities where we are getting footfall from and 1,000 cities where we are getting business from we are tracking them, we understand, we have got some lot of revolutions on that, there are lot of towns which got discovered. So, I think those fundamental things are also very important and we will definitely take and make this as an opportunity that is what the approach of V-Mart is all about.

Shirish Pardeshi:

My second question is on the winter portfolio we have a very strong winter portfolio which also drives our top line, heavy top line and it impacts the profitability for the Company, in the early stage I mean around festive season how this traction is happening and if you could spent a minute or two how is the inventory is tracking up, how the initial response in the market which is just getting opened up especially our Hindi belt which is very strong market like UP, Bihar, Jharkhand?

Lalit Agarwal:

So, I think winter and pre winter or even the Northern India retail business has been really understood by V-Mart and the team of V-Mart very well that process that we have to plan, choose or create and also supply and handle the supply chain is really very strong and we believe there has been a great launch of our pre winter and winter collection we have really picked up and the acceleration in the sales from those categories have been very good especially in this year we have seen a very good demand coming in, we have seen a very good response from the consumer



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the feedback are awesome on our pre winter collection I want to congratulate on this moment even though I appreciate my entire merchandizing team who have done a great job in bringing up very differentiated and unique product in the market which is bring in lot of differentiation in the V-Mart brand as together. So, we are really booming on those side, we have definitely taken up some price rise on those product lines, but we are seeing customer paying them and what we have done is we have worked a little more hard on the product designing, little more hard on the manufacturing so that we are able to one compensate some of those price hike to the manufacturing cost reductions and otherwise we have worked with team to create a very good product which is perceived as much more better and little more lesser price product would be seen as a much more better product in terms of the look and feel of the product. So, that is what we are focusing on and that is giving us good result and we believe this is a clear differentiation with any kind of retailer whether they are the top most of national retailers or even their local retailers. We have a very clear edge in this particular collection.

Moderator:

Thank you. We will move to the next question that is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki:

Sir, first question on the South India foray so you said that some of the new stores you will be opening up now in South India also, so firstly when you do that will there be branded V-Mart or will there be branded Unlimited for now and secondly if you are branding them V-Mart will you open those new stores even before the rebranding of the Unlimited stores to V-Mart takes place that is the first question on that and related to that how long do you think before the Unlimited business turns OCF positive?

Lalit Agarwal:

We have long list of questions and you have to be little patient full to answer for all those questions, but **(Inaudible) 28:50** we still are on the research mode, we still are on the finding mode, but how well is the Unlimited brand established in the market we want to first understand that the brand perception, the brand understanding of the consumer, the brand strength in the market so we are doing all those kind of formal process involving them in the process, but yes we will continue opening and whenever we put it up the strategy on that date is going to be because we want to change the look and feel of the store and the brand ultimately.

Percy Panthaki:

Secondly just wanted to understand in terms of the normal store opening not the South India, but in your existing markets, what strategy are you adopting there are you sort of trying to saturate the three or four states that you are in or are you planning to open higher number of stores in the states where you have only a minimal presence?

Anand Agarwal:

It is not identified goal as to that we only want to saturate let us say UP or Bihar I think it is a very distributed strategy. We are definitely using the cluster-based model that we have evolved over the years and drive it to perfection so which will mean that we will also open more number of stores in the core markets while inching outwards and spreading ourselves to newer areas and



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newer geographies like we have been doing in the last many years. So, just as an example we have opened more stores in UP this year and we have also opened stores in North East, we have also opened stores in let us say West Bengal etc. and Rajasthan so it is a distribute approach.

Percy Panthaki:

And lastly on ecommerce strategy the price points that you are putting in ecommerce are they similar to the price points you have in your store or are they slightly higher price point?

Anand Agarwal:

They are exactly the same in fact the same merchandize is getting populated on the online channel. So, when you visit V-Mart Retail dot com you will find exactly the same merchandize. There is also a little bit more new experiment that we have started doing which is in terms of putting in some exclusive merchandize which is available only online and not in the stores which might be at a slightly be a differentiated price point or in form of packs of two or packs of three which is something very prevalent and popular on the online channels.

Moderator:

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

Ali:

So, I have couple of questions first is on your store addition Anand you mentioned we are looking to add 25% new stores so even if I take the current number works out somewhere about 90 or 100 stores now in the past if we see 19, 20 on an average done about close to 40 stores, 50 stores so if we are looking to add that accelerated pace can you just share some insight in terms of what capabilities you may have built internally in terms of the pipeline or properties how we plan to basically execute that kind of pace of store addition and I understand obviously this pace is going to continue, so if you can also share some color in terms of the opportunity the market to add maybe 100 odd stores consistently for the next maybe three, five years?

Anand Agarwal:

As we understand and we have seen in the last many years the 20% to 25% retail area addition pace is based on the fact that we have the management bandwidth and the operational bandwidth to manage that number of new opening and accordingly we keep on adding and improving the capabilities and the width of the teams not only in the core head office, but also in the distributed geographies where we operate. So, we divided sort of branch out operations into a zonal structure three years back and thereby we have now regional teams which are taking care of the business development function, identification of new site function independently and this capability also now exist in the South India region while it already was there in the North East and West regions which we had earlier used to operate. So, thereby we are quite conscious and confident that we should be able to maintain this rate of growth.

Ali:

Also can you share some color in terms of the pipeline of properties you may have built?

Anand Agarwal:

There is no number that I can share, but definitely there is always 50 to 60 properties which are under concentration and in various stages of wetting maybe just at the proposal stage or at a site



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visit state or stage or many different stages that we do as a tick mark process but suffice to say there is a healthy pipeline and we do keep building on the pipeline consistently.

Ali: Second question is Unlimited correct me if I understood rightly you mentioned that if I exclude the Unlimited business then standalone V-Mart has grown 1% so that implies basically that rest of about 20 crores, 21 crores in this quarter has come from Unlimited now Unlimited started I think from first of September, so if you could share some more color in terms of why such a small number I mean what could be the steady state number of Unlimited if I just assume all the stores are opened and fully up and running and related question over there is I understand that you will have a detail strategy conversion on a limited separately, but just if could share what are the avenues that Unlimited has to improve the margins so I understand rental obviously will maybe little sticky so there would you have optimization of cost as one of your key strategy or you think throughout can significantly improve I mean I am just trying to get some insight in terms of how would we look to improve margin profile and profitability in Unlimited?

Anand Agarwal: Ali while it is very early days for me to comment and really pass a judgment on how a sales trajectory etc. will go on, but I can just add to what I already said see September first of all is a small month and it is also the first month of the transition which happened so we had anticipated the kind of numbers that had come in and we are quite happy with the number that came in. It is in line with sink with what those post had achieved in the past. So, there are no surprises negative or significantly positive we are happy with what we got in September and so far also in the month of October and so far what we have seen in November I think the progress is happening as we had anticipated and as per plan. As far as the profitability and cost structure store there are no big changes that we have made in the cost structures there is only one change which has happened organically which is the removal of let us say the corporate cost structure of the erstwhile management team of the Unlimited team that was managing that business, but otherwise on our store level on a operational level there are no major changes that we have made or we are planning to make. I think our combined focus of the entire team is to bring sales productivity higher and that should compensate in terms of higher profitability and bringing it at par in the long term to the near about range at which V-Mart traditionally operates.

Ali: Just for I mean modeling or maybe understanding point of view what would be the steady state revenue potential of Unlimited?

Anand Agarwal: I think steady state we should aspire and we are planning and targeting to take it to near about levels of what our normal new store of V-Mart would operate.

Ali: Somewhere about 19 crore yearly run rate?

Anand Agarwal: I do not want to put any numbers, but definitely we would want to have a very harmonious and stable structure across.



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- Ali:** And that should take about a year or it could be sooner?
- Anand Agarwal:** It should be at least one year or more.
- Moderator:** Thank you. The next question is from the line of Madanagopal Ramu from Sundaram Alternates. Please go ahead.
- Madanagopal Ramu:** Good performance in the quarter, but if I look at from pre-COVID level like Q2 FY20 the footfall is still obviously there has been some disruption in the operation as you highlighted in the initial commentary, but as we moved into the festive season how was the footfall compared to say festive season what was the experience?
- Anand Agarwal:** So, Madan have now been growing up, but I must also add that footfall are not really the same. One should not look at footfall in the same bread as we used to let us say look at them two years back because there is also a slight shift in the way consumer come for shopping. So, earlier people used to come for shopping in groups in larger groups or friends and families of three or four and today there is a slightly more focused approach where people want to come only to shop particular things that they want to buy and only in festival times a very special times that they would come in let us say groups of two or three, but having said that I think our 80% recovery on footfalls and slightly higher recovery in terms of the number of bills cut is definitely giving us confidence that the customer trust is now back in full force.
- Madanagopal Ramu:** Are you saying the festive season in terms of SSG flat compared to pre-COVID or are you seeing some growth also?
- Anand Agarwal:** I would say it is still not flat, but definitely during the festive it has been flat, but at least for the quarter it was definitely not flat it was at around 85% of recovery on the SSG or like-to-like, but during festive we are seeing more close to flat or growth also in a lot of areas.
- Moderator:** Thank you. The next question is from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.
- Shirish Pardeshi:** Just two questions from my side one is that on Unlimited you mentioned that the recovery or the one month period what you have seen heartening when I look back before acquisition they did somewhere around 320 odd crore and the run rate was about 26 odd crores and the number you said about 4.5% contribution, is it safe to assume that the understanding whatever you have got and the parameters on which you have evaluated that has surpassed in the one month of operation?
- Anand Agarwal:** As Lalit also said I think one month is too shorter time to pass in a judgment let just be a little bit more patient because if we say anything right now or if we decide something right now that



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one month is the barometer or the benchmark I think it may just lead us to some wrong conclusions let us just wait for a little while before we can start giving out good commentary on the Unlimited piece.

Shirish Pardeshi: On the second part you mentioned that you have taken about 8% odd price increase because of cotton yarn inflation is there any further price increase in the Quarter 2 you have passed on or it is that whatever you have taken in Quarter 1?

Anand Agarwal: So far what you we have taken is somewhere around 8%, but further price increase is not ruled out because the cotton yarn prices are not showing signs of any abatement. As a consequence therefore also in our next year planning there might also be a quantity degrowth in terms of the number of pieces that we are able to sell because of the higher price increase that may eventually be required to happen.

Moderator: Thank you. The next question is from the line of Jaspreet Singh from Equentis PMS. Please go ahead.

Jaspreet Singh: My first question was around this recovery Anand which you mentioned 85%, so what I am trying to understand is compared to two years back same quarter for a matured store for V-Mart would the recovery be back in terms of let us say the revenue per day or revenue per month as we speak or maybe the month of September?

Anand Agarwal: I just explained that Jaspreet so in the September month or September quarter the recovery was for a like-to-like store was somewhere around 85% and that is also amplified that in the data that we have published in the investor presentation there, but as I speak in the festive period in the last two, three weeks we have seen close to 100% recovery on the same store basis for the mature stores or all these stores.

Jaspreet Singh: So for the quarter it was close to 85 and now in the subsequent month it is reaching 100% for a matured store?

Anand Agarwal: Yes.

Jaspreet Singh: Second is in terms of margin the December quarter typically is one way we get the best margins between 20% and 22% or ballpark whatever be that number given you have highlighted the headwind of cotton prices, but at the same time I am talking about only V-Mart ex-Unlimited, do you think there is a case where that could be after going forward given that we would also have seen some kind of cost rationalization on the overheads which might sustain for a long period of time?



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- Anand Agarwal:** Jaspreet there are no cost rationalizations for a long-term period. We have actually stated that in our previous last many calls. Retail is largely a fixed cost business and otherwise also the inflationary pressures are not only on the cotton side there are inflationary pressures all around you look at the commodity cycles, trade cycles everything is going up. This has been the year of inflation so I do not see any margin expansion happening because of cost saving and otherwise also as a philosophy V-Mart firmly believes in operating on its pricing model and we will pass on if there are any more margins that we can accrue we will pass them back to the consumer in terms of pricing.
- Jaspreet Singh:** And just a quick last one again you may have touched about the previous calls which is trying to understand is there room for maybe not immediately or because you would need a couple of quarters to absorb, integrate etc. for Unlimited maybe next calendar part would there room for another round of acquisition for which you might start working subsequent quarters?
- Anand Agarwal:** I do not suppose and I cannot say anything with certainty. These are things which happens because of more special reasons so nothing on the radar we are not looking or working at anything, but we will keep exploring and we will keep looking at things if there is something we will definitely let you know.
- Moderator:** Thank you. The next question is from the line of Devanshu Bansal from Emkay Global Financial Services. Please go ahead.
- Devanshu Bansal:** Sir my question was on the expected change in GST rates so just wanted to check is there any mismatch currently between the input tax credit and the outlook GST in the current regime?
- Anand Agarwal:** So while not directly as far as we are concerned on the product side, but definitely there is a mismatch in terms of the GST on the CAPEX that we do versus the output tax that we pay on the goods that we sell. So, output tax on the goods that we sell is almost on 85% of the goods it is at 5% while around 10%, 15% of the goods it would be 12% or 18% because there is some portion of FMCG also that we sell, but if I look at the input tax credit let us say on the services or on the CAPEX that we do on the new stores the average GST rate works to around 18%.
- Devanshu Bansal:** So any blended level that you can indicate I just wanted to understand as and when GST increases to 12% will we able to offset higher amount of ITC because currently we may be able to offset may be 5%?
- Anand Agarwal:** Definitely from that perspective it is a positive there is no doubt on that it will definitely lead to better absorption and that is our accumulation of ITC, but I think the worry is not from that side. The worry is more from getting the consumers to pay more for the same goods and also there is large amount of inventory that we hold on which we had paid only or we had received an input of only 5%, but if things go as per what the government is proposing we will meet to end up



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paying or depositing a 12% GST on that inventory as well in terms of output tax as and when it gets sold.

Devanshu Bansal: Secondly just wanted to check on the price hike that we have taken you have indicated 8% so far how is the competition extent, what is the sense of price hikes getting ready on competition any idea on that?

Anand Agarwal: Our sense is that almost everybody has taken a very similar kind of price hike it may not be very clearly visible but our studies and our understanding shows whether it is very similar.

Lalit Agarwal: See this is definitely something which has shaken up the industry and there is lot of interactions and lot of debates which is happening both the price rise because of the fiber and the yarn prices going up which is definitely shaking up everyone nothing is in control. Everyone is on their toe to understand what kind of prices, what kind of products, what kind of MRP should we charged up and there is a increase that everyone has taken up no one is able to resist that and people are also account for a still additional price rise the entire industry is doing that whether it is unorganized trade or organize trade everyone will have to buy at a very high price and sell it at a higher price. Other than that on the GST front the whole industry is focusing on this let me inform you that I am also working with the entire industry group to try and talk to the government understand, build those methodologies and understanding that why it will be difficult for the consumers to pay these kind of prices and these kind of taxes, but still I do not see a lot of response from the government there are 80% chances that it may get implemented.

Moderator: Thank you. The next question is from the line of Vinod Malviya from Union Mutual Fund. Please go ahead.

Vinod Malviya: My question was regarding the organic growth now before this Unlimited store acquisition you had given a broad guidance of reaching some 600 odd stores like four to five years and that was largely if I remember correctly it was on the Organic side, now you have added 74 stores of Unlimited so should we like assume that close to 670 to 700 stores would be added by over the next four to five years including the Unlimited stores this is basically be inorganic and organic growth?

Anand Agarwal: Vinod I think our projections while remain intact our aspirations also remain intact and we remain very optimistic on the overall opportunities that the market offers, but we are not chasing any large numbers, we are not aspirationally growing in terms of that we have to open 600 stores or we have to open 100 stores I think we are firmly guided by the profitability principles, we are firmly guided by what the consumer expects of us and thereby that number will totally depend on what is the right location and what are the right opportunities that we are able to see and therefore leverage. So, there is no number that we are chasing that we have definitely to reach



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this number at any cost. I think what we are definitely chasing is a profitable and efficiency led growth.

Vinod Malviya: Something which you have done in the past we have not leverage our balance sheet for the sake of (Inaudible) 42:44 that trend will continue going forward so whatever growth happens that has to come with the support of the balance sheet rather than the leveraging that?

Anand Agarwal: Yes absolutely.

Moderator: Thank you. The next question is from the line of Vikas from Equirus. Please go ahead.

Vikas: Sir my question is relates to Unlimited if you can just give us a broad sense of whatever September month revenue that we have recorded, was it like how much the recovery that we had versus pre-COVID level say back month specific? Second question would be if you can reiterate what you just said to an earlier participant question regarding what levers do we have with respect to bringing Unlimited profitability nearer to our V-Mart margin level?

Anand Agarwal: Actually, your voice was not very clear from what I understood you asked two questions one is around the recovery percentage that we spoke in the first question and second was on the profitability projections or for the South India stores.

Vikas: Sir first question was regarding like-to-like performance of Unlimited for the September month that we recorded this time and how was that with respect to probably pre-COVID levels last year and another one was correct as you said the lever that we have for bringing Unlimited profitability to our V-Mart store level?

Anand Agarwal: For the Unlimited stores the like-to-like comparison was not really relevant because there were significant amount of changes which happened during the pre-COVID times versus what happened in this year and as I said earlier we would not really want to comment too much on the performance on the first month itself it is too shorter period I think we should just see little bit more patient in terms of we are also being very patient in terms of understanding the right trend so that we can take the right action. Now as far as the profitability is concerned we remain firmly focused as a Company always on making any part of the business operation profitable and we are very hopeful and very optimistic that we should be able to repeat and replicate the same kind of model or structure in this newly acquired set of source. It might take a little bit of time we have already given us and planned for one to two years of run rate wherein we would want to reach similar kind of levels and we will continue to monitor the situations and keep coming back to the larger analyst group as and when we have something major to report.

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



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Ankit Kedia: So my first question is regarding the CAPEX can you highlight the CAPEX which we have done outside the acquisition for the first half and for the remaining half and what is the target of CAPEX?

Anand Agarwal: So, first half apart from the acquisition of this 74 stores the other CAPEX largely has been on the new store additions and also purchase of land which we already reported in Quarter 1 call for building up a new warehouse on which work is shortly about to begin. For the remaining part of the year again there are going to be two parts one is around the new store addition. So, roughly around 15, 20 stores should get added in the second half and there would be some amount roughly around 20 crores, 25 crores of CAPEX that should get spent on the building for the new warehouse.

Ankit Kedia: So sir the major part of the warehouse CAPEX will come next year and not this year?

Anand Agarwal: Correct.

Ankit Kedia: Sir second question is regarding the gross margins so currently the ASP and the gross margins of Unlimited are slightly on the higher side and initially last call you had eluded that from the next season we will pretty much migrate to the same cost structure of V-Mart at the Unlimited stores level as well, so should the gross margins actually correct going forward at the Company level given that at least next 6 months of gross margins would be slightly higher?

Lalit Agarwal: Ankit we are evaluating and what we believe the customers there are able to pay or able to attract or we are able to attract customers to pay a little higher prices on the similar product and definitely some of the good things which have been happening and there is a margin structure that are Unlimited even following, but our focus will be largely to bring up the thought process on the customers mind that we are actually delivering them at better value or better product. So while creating the product there may be a dent on the gross margins from the earlier times, but we still would have a higher margin too because one we will be largely a fashion store. Two it will be similar season geography wherein we may not have to discount too much for the season sale and end of season sale so there are not too many winters and summers which are there in the Northern part of India. So, we will have a lesser discount margins which will go out and also third I think it is also because that we do not have any other business of Kirana which are lower margin businesses so we also gain some margins from those lines. So, I think overall the gross margins on those lines or those side of the business and those portion and those geography will be much higher and definitely we are bringing in efficiency in our operations. All those practices we have been building up in V-Mart when these efficiencies are implemented at the Unlimited level. We will definitely see a better outcome and a lower cost so that is a approach that we will take I would want everyone to rest on this piece for little while and we will definitely keep giving you additional information in the coming time.



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Moderator: Thank you. Ladies and gentlemen this was the last question for today. I would now like to hand the conference over to the management for closing comments.

Lalit Agarwal: So, thank you very much definitely these are testing times, these are lot of iterations, algorithmic calculations are going on that how do we handle inflation, how will retailer handle customers, how will customer take up inflation, what will be the strategy adopted by different brands and different industries and definitely eating away lot of the mindshare and the discussions the board meeting share in each of the board rooms. So, these are definitely big questions to get answered in the consumption industry, consumer industry. All the consumer industry must have got that impact and I think once again this shall also pass I want to think, customers are definitely going to earn or whenever there is inflation we say economy runs better. It is a higher GDP or per capital income for individual customers so that is how we take this as a very good growth opportunity and we anticipate a very good growth phenomena coming in a two years for the entire India. Thank you so much for being there patient fully we will definitely come back in the next quarter.

Moderator: Thank you. On behalf of Edelweiss Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.