



“V2 Retail Limited Q1 FY18
Results Conference Call”

September 13, 2017



ANALYST:

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MANAGEMENT:

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Moderator: Good day ladies and gentlemen, and a very warm welcome to the V2 Retail Limited Q1 FY2018 Results Conference Call hosted by Systematix Shares & Stocks. As a reminder, all participant lines will be in the listen-only mode. 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 Mr. Himanshu Nayyar from Systematix Shares & Stock Limited. Thank you and over to you Sir!

Himanshu Nayyar: Good day everyone. On behalf of Systematix Shares & Stocks, I welcome you all for V2 Retail 1Q 2018 results conference call. Representing the management team today, we have with us Mr. Ram Chandra Agarwal, CMD, Mr. Akash Agarwal, and Mr. Vipin Kaushik, CFO of the Company. We would request the management to briefly discuss the highlights of their quarterly performance and future outlook and then we can start with the Q&A session. Over to you, Ram bhai!

Akash Agarwal: Good afternoon everyone. This is Akash Agarwal, one of the promoters of V2 Retail here to discuss the Q1 performance. In Q1 we saw revenues grew by 31% to 142 Crores vis-à-vis 108 Crores last year. We saw a gross profit increased from 31 Crores to 44.5 Crores in the first quarter and our margins improved from 29% to 31%.

Our EBITDA grew by 28% from 12 Crores to 15.4 Crores and the EBITDA margins for this quarter was 10.8%. The PBT grew by about 73% year-on-year, 8 Crores to 13.8 Crores and the after tax profit grew by 85% from 4.7 Crores to 8.7 Crores.

In the quarter the Company opened two new stores and we had closed down one store and as on date June 30, 2017 we operate 38 stores across 13 states with a total area of 4.6 lakhs square feet. Now we are open to any queries or questions if anyone has.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Yash Somali from Girik Capital. Please go ahead.

Yash Somali: I just wanted to actually first ask about the fund raise that you all have done, so could you all comment on what is the use of further cash. Your balance sheet is pretty strong, so just a thought process behind that maybe?

Akash Agarwal: The fund raise that we have done is basically to strengthen our model and we are also looking to expand the network of our stores and we are also investing lot in technology, and new developments and we are also hiring new people, so it is basically to augment long-term capital resources to fund the company’s growth in the near future.



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- Yash Somali:** All right. So do you think with this that your store openings would be accelerated or just your general sort of capex may be the back end or something?
- Akash Agarwal:** I think contingent to getting out locations, I think, it will accelerate our store growth and we are looking to open may be 30 stores in the next year.
- Yash Somali:** Sorry, I did not get you. How many stores would you all like to open next year?
- Akash Agarwal:** 30 to 35 stores.
- Yash Somali:** Okay, 30 or 35 stores in the next 12 months?
- Akash Agarwal:** Yes, next 12 months.
- Yash Somali:** All right. Another question on the margin front, so your gross margins are higher this quarter obviously, so would you like to comment on that? Do you think that this is sustainable or it is one-off?
- Akash Agarwal:** Yes, I think, it is sustainable. We are providing a better product mix and we have also increased the private label contribution in our sales, so I think, this gross margin is sustainable plus minus 1%.
- Yash Somali:** Thanks. So again coming back to the margins from them, obviously if we look at the other expenses employee cost that has gone up as a percentage of sales. So, I suppose if you are all investing so heavily in new stores that metric would be same right now if we revert to the earlier margins, right?
- Akash Agarwal:** The employee cost that you are seeing in Q1 also includes the 96 lakhs value that comes from the ESOP that we have offered to our employee cost. So that inflates the employee costs a bit. So the actual employee cost will be 96 lakhs less than the employee cost that we mentioned in the report, because that is the ESOPS provision that we have to take according to the current market price.
- Yash Somali:** All right. That is fair. So, but that again in your other expenses that has gone up as a percentage of sales, but I think it would be fair to assume that most of your costs would be upfront over coming quarters as you are all expanding 30 to 35 stalls in the next year?
- Akash Agarwal:** As our HO cost and the DC costs will be distributed to more retail area, I think, expenses as a percentage of sales is going to reduce in the coming quarters.
- Yash Somali:** So, it could reduce by maybe the Diwali quarter?
- Akash Agarwal:** Yes.



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- Yash Somali:** All right. Thank you so much.
- Moderator:** Thank you. We will take the next question from the line of Ronak Morjaria from Edelweiss Asset Management. Please go ahead.
- Ronak Morjaria:** Good afternoon. Congratulations on good set of numbers. I just wanted to understand on the revenue front, if I just look at the store addition in this quarter it was approximately 40% higher versus the last year and our revenues have just grown by 30%, so could you just help me understand that?
- Vipin Kaushik:** If you look at the area I think, the area has also grown by about 35% from last year same quarter and the per square feet sales and the new stores are marginally lesser than the per square feet sales of the old stores. That is why you are seeing a 31% growth in sales vis-à-vis 35% or 36% growth in the area.
- Ronak Morjaria:** But if I have to look at the SSG also, what would it be looking like, what would be the SSG?
- Akash Agarwal:** In the first quarter we saw an SSG of 1%.
- Ronak Morjaria:** Sir, I just wanted to understand since it was a EID festival season and we had wedding also being extended. We did not witness a good set of growth in this quarter because if you look at the peers they have done reasonably well benefiting from the festival and the extended marriage season?
- Akash Agarwal:** Actually we do not have the new inventory projects at all our stores. So that was an ongoing thing during the first quarter, which might have an added impact on our sales. So we have reduced our inventory days from 117 days in FY2016 to 80 days in this Q1 of FY2018. So you know the project is going on, the inventory project, so that might have a little impact on the same. So that is why the SSG was just 1%, but we were able to achieve a much better stock turnover ratio at our stores compared to last year.
- Ronak Morjaria:** Could you just help me with the exact square footage area what was it this quarter and what was it same quarter last year?
- Akash Agarwal:** I will have to check the exact numbers from last year, but this quarter we had a square foot area of 4.6 lakhs square feet.
- Ronak Morjaria:** Okay. In terms of new stores we are looking at what retail space area?
- Akash Agarwal:** You are talking about first year.
- Ronak Morjaria:** Per store area, square footage area per store.
- Akash Agarwal:** Per store it is about 10000 to 12000 square feet.



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- Ronak Morjaria:** Thank you.
- Moderator:** Thank you. The next question is from the line of Ronak Ungadkar an individual investor. Please go ahead. Ronak, your line is unmuted, please proceed with your questions. As there is no response, we will move to the next question from the line of Prakash Karuppaihan an individual investor. Please go ahead.
- Prakash Karuppaihan:** Akash good afternoon. I just wanted to know the guidance in terms of revenue for the next three or four years, the Company is aiming to achieve?
- Akash Agarwal:** We are look at grow at least 40% for revenues in the next three years and as I said contingent to getting good new locations and we have raised new money, we would like to accelerate that growth but that was the contingent to getting the good locations to open new stores.
- Prakash Karuppaihan:** Thank you. Just one more question, as you want to expand to E-commerce and logistics business does, you have any plans or written on capital in your mind?
- Akash Agarwal:** Right now we have no plans to foray into the logistics and E-commerce business in the near future but maybe in the future we might get our own portal and be omni channel, be present in omni channel, be present in omni channel because I think that would greatly benefit our business.
- Prakash Karuppaihan:** Thank you. Thanks a lot.
- Moderator:** Thank you. We will take the next question from the line of Himanshu Nayyar. Please go ahead.
- Himanshu Nayyar:** Sir, just on the investment side, wanted to understand in terms of capex, I mean, over the next couple of years how much are we looking to invest on say new stores? Are we looking at any new distribution centre, setting up a new centre and are we looking at any store renovation expenditure as of now?
- Akash Agarwal:** Typically we see around Rs.1100 to Rs.1200 per square feet of capex spent on each new stores, so if we are about to open 30 stores next year that will roughly translate to about 35 to 40 Crores of capex, and if you talk about the distribution centre right now our distribution centres are equipped enough, I think to cater until we have an area of about 8 to 9 lakhs square feet of retail space, so we would not be needing another distribution centre in the next couple of years. And talking about the renovation of old stores, I do not think, that will be a substantial amount; I think that is a very manageable amount, because we are not making big changes in any of our old stores.
- Himanshu Nayyar:** Okay, and secondly what I wanted to understand was this commendable improvement in inventory period, I mean, again is that sustainable or is there further room for improvement and what basically you guys are doing to do much better than your peers on this front?



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Akash Agarwal: I think we have an inventory turnover of 80 days this quarter and long-term sustainable target is to maintain it at 75 days and we have taken a number of steps to achieve this and we are managing our area as the stores better and we have done the assortment planning better and we have reengineered our allocation and replenishment process, so I think everything combined together to get a better results in the stock turnover part of our business and we are looking to sustain it at 75 days.

Himanshu Nayyar: One more point was in this sort of business, shrinkage and pilferages are major concern, so can you talk a bit about the steps being taken to strengthen yourself on that front?

Akash Agarwal: We have invested a lot on putting security advertised in all our products that are displayed in the store and all our extra sales coverage stock is kept in the store warehouse now unlike last year where it was kept under the store fixtures so I think we are already seeing a huge decrease in the pilferages that happens at our stores and we also have CCTVs installed at our office and we have external securities are here to keep a check on all the CCTVs and that is done centrally as well and we have a loss prevention team that reports directly to the head office and we saw a pilferage being around 1% when hard tax was not implemented 100% but now I think we would see it coming down to around 0.3% to 0.4%.

Himanshu Nayyar: Just one final question from my side, you said that the SSG was 1%, so can you share a breakup as to between volume and value part? I just wanted to understand whether realizations for us are moving up or not really?

Akash Agarwal: Actually the average selling price for us is Rs.250 and the average bill value is around Rs.700 but one of our focus areas to increase the ASPs and to increase the per square feet sales in the business so coming quarter we might see an increase in the value of the product sold and a little decrease in the volume of the quantity sold of the product because we are focusing to increase our ASP.

Himanshu Nayyar: Thanks a lot and all the best for the future. Ali, we can move on to the next question.

Moderator: Thank you. The next question is from the line of Ronak Ungadkar an individual investor. Please go ahead.

Ronak Ungadkar: Hello Akash. Congratulations for good set of numbers. So as you mentioned earlier that you are planning to open 30 to 35 stores in the next six years, so I see that mostly you are opening your stores in Uttar Pradesh and Bihar. So are you planning to go in any other geographies in pan India?

Akash Agarwal: We are not restricting ourselves to any particular geographical region. We are also looking at opportunities in the north, we are also looking at the opportunities in the south, meaning we are open to locations anywhere in India where we think there is a potential for good sales numbers



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and wherever we have our target customer segment. We are not restricting ourselves to any state or any geographical region and we might open in all parts of the country.

Ram Chandra Agarwal: Wherever we will go, we will go cluster wise in any cluster we will open five to six stores at a time.

Ronak Ungadkar: Akash, my next question is that what about the rent yield, means how much of rent you are paying cost, mostly on an average in different, different geographies because mostly you are operating a store on a rent basis, right?

Akash Agarwal: All our stores are on the rent basis. Right now the rent is around Rs.35.

Ronak Ungadkar: What, I am not able to get? Can you please repeat?

Akash Agarwal: Rs.35 to Rs.50.

Ronak Ungadkar: Thank you. Thanks a lot for that number.

Moderator: Thank you. We will take the next question from the line of Arun Baid from BOB Capital. Please go ahead.

Arun Baid: Akash, my question was in your kind of business model what do you think is the sustainable SSG?

Akash Agarwal: It all depends on the stores lifecycle and I think we are already improving our assortment that we offer to our consumers, so I would not like to put a cap on that SSG figure and the plan is to take it to a really high level, so it all depends on how hard we can work on our assortment and what better value we can give to our consumer. I do not think there is a limit to that.

Arun Baid: But what will be some numbers, you already have 38 stores and you are trying to open 30 new stores?

Akash Agarwal: Can you repeat your question? There was a disturbance.

Arun Baid: You already have 38 stores and you plan to open 30 more stores so you would have some figure in your mind that this is the SSG you want to at least achieve in that current stores we have and the stores that you are opening in the next 12 months?

Akash Agarwal: In the near future, I think we are looking to sustain a same stores growth figure of 5% to 10% and that is quite healthy for our business, but as I said, three to four years down the line I think the target is to take that per square feet sales figure to around Rs.1500 per square feet.



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- Arun Baid:** Do you have a figure in mind when it comes to this is the kind of GP percentage we are happy with to achieve gross profit margins?
- Akash Agarwal:** The gross profit margins after provisions that we are targeting is I think around 31% to 32% and we are looking to sustain that over the next two to three years.
- Arun Baid:** That would mean margins at the EBITDA level of 10% plus.
- Akash Agarwal:** We are looking to sustain our EBITDA margin of about 10% to 11%.
- Arun Baid:** From an inventory perspective, this quarter your inventory came out dramatically as you mentioned. Still why the SSG is so low. If you had such good sales, at least this should have made a bit higher, right?
- Akash Agarwal:** Yes, as I said, because ruling out of this new project was happening at all our stores so that had a little impact on the sales as well as increased competition in some of the cities we operate in and I think altogether impacted a low SSG growth figure, so we are looking to getting it back to the figures that we have seen in the last couple of years.
- Arun Baid:** We already, you know, at the end of this quarter, what is the kind of growth has been in the last two months in your market?
- Akash Agarwal:** Because of lots of floods and extra rainfalls that happened in UP and Bihar so that had a negative impact on our sales, but I would like not to talk about this quarter and we would get the numbers soon.
- Arun Baid:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Nirmal Shah from Seraphic Management. Please go ahead.
- Nirmal Shah:** I just want to understand a follow up to the earlier question, when you say that inventory rollout program had an impact on your SSG so were your stores were closed for a couple of days or how did it impact?
- Akash Agarwal:** As we reduce the inventory levels at our stores so the percentage of high ageing stocks that was present in my store increased vis-à-vis last year. So the stock clearance did not happen with the same speed as the reduction in inventory, so because of that we saw a little impact on our sales. As I said our own stores are reaching the majority stage of their lifecycle and the per square feet sales of our old store is already very high so I think it will be tough to see high SSG growth numbers for those stores so that is one of the reasons that we saw a low SSG growth figure.
- Nirmal Shah:** In this financial year how much stores you are targeting to open?



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- Akash Agarwal:** We are looking to open another 15 stores this financial year.
- Nirmal Shah:** Are you looking at some inorganic growth opportunities?
- Akash Agarwal:** No, now we are not looking for any inorganic growth opportunities.
- Nirmal Shah:** In terms of competitive intensity, what is it right now vis-à-vis two to three quarters even the last quarter what is the situation right now, if you can just add in?
- Akash Agarwal:** I think we are seeing a lot more regional competitors getting into the market that we operate in and definitely the competition is intensified and it is more than what we saw last quarter but I think the market, Indian retail market is big enough to accommodate all the new players as well as us and because of GST I think, there is a huge shift from the unorganised sector to the organised sector. So I think as you are saying there is a huge potential still untapped for all the players to operate in, so I do not think competition is going to be a threat in the near future. It is all about who is going to implement the best processes and the best systems in place so that we are able to perform well.
- Nirmal Shah:** In terms of new stores opening would it be fair that the sales per square feet on the new stores for a couple of quarters would be under pressure because of the competitive intensity?
- Akash Agarwal:** It all depends on the geographic footprint and it will be totally depending on the individual case, but I think initially when we opened the stores we see good sales numbers, so I do not think competition is going to have a negative impact on the new store opening, the first square feet sales of the new stores.
- Nirmal Shah:** Sir, my last question, in terms of the operations in the system, if you can just also highlight the recruitments what you have done at the senior management levels to support your growth?
- Akash Agarwal:** We have hired a lot of experienced professionals in almost every department in the last three to four months as we want to build a good management bandwidth that would help us to grow at a speed that we are projecting and we want to grow as and we have also invested a lot of money in new technology, we have bought a new coach systems, and we bought a new training module system, and we have also bought a software to flow in all the retail stores and that will engage all our employees and we have also as I said earlier, we have also re-engineered replenishment program and we have also re-engineered the planning, assortment planning that is done, I think, all these together is meant to target the higher per square feet and achieve better numbers and to create a competitive edge.
- Nirmal Shah:** Sir, what I meant was what are the new positions? Is it in terms of operations, procurement?
- Akash Agarwal:** We got a new retail operations guy from the leading retail group in India and we have also got a IT guy who is heading our IT now. We got another marketing person who is heading our



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marketing now and again from a well-known brand that operates in India. He is heading the supply chain. So the focus is basically strengthening all our departments and getting the right people in place.

Nirmal Shah: Will your board composition of the company will change post this fund raise? Are you giving the board's rate to the new investor?

Akash Agarwal: I would have to see the details, but I shall update you later about this because I have to see the exact detail about it.

Nirmal Shah: Thanks.

Moderator: Thank you. We will take a follow up question from the line of Arun Baid from BOB Capital. Please go ahead.

Arun Baid: Sir, my question was with sales per square feet. So what is the kind of sales per square feet we have seen in our stores as of now?

Akash Agarwal: In the first quarter we saw a sales growth square feet of Rs.1027 per square feet.

Arun Baid: Is this number, which one should look for the whole year, or how does it work?

Akash Agarwal: I think we are looking at a target of about Rs.1100 per square feet for the whole year.

Arun Baid: Second question was with regards to the money, which was raised. I am sorry, I am not aware. Who are the investors in that?

Akash Agarwal: The fund is called India 2020 fund.

Arun Baid: Sorry, who owns it?

Akash Agarwal: Lighthouse.

Arun Baid: Thank you very much.

Moderator: Thank you. We will take the next question from the line of Himanshu Nayyar from Systematix. Please go ahead.

Himanshu Nayyar: Akash, just a follow up from the earlier question on competition. I agree that regional players might find it difficult to ramp up or scale up and given that you have got a much higher scale and already proven best practices and processes, but what is your view on any of these pan India large sized retailers getting into your markets? Like people give examples of the guys like the Future Group or the D-MART. What is your USP or competitive edge which you think can still



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keep you ahead even those guys decide to enter your markets or you do not see that happening at all?

Akash Agarwal: We have studied all these retailers like Fashion Apparel, Big Bazaar, Reliance Trend, and Max and what we felt is we are still operating at a different price segment than them and we are still catering to a completely different customer class and the value that we are providing to the customer is still very different from what they are providing so I do not think we come in direct competition with these players, but definitely the plan is to provide the customer a shopping experience at par what he gets suppose a Reliance or Big Bazaar.

Himanshu Nayyar: So as of now we do not have plans to expand beyond north and east markets, so I think are the most underpenetrated as far as modern retail goes, right?

Akash Agarwal: No, as I said it is contingent to getting good locations and we are also looking at locations in the south and even Maharashtra, Madhya Pradesh, Jammu and Kashmir, so we are not restricting ourselves to any region, we will move cluster wise, but wherever we go we will open at least five to six stores in that cluster.

Himanshu Nayyar: Thanks. Are there any further questions?

Moderator: Sir, there are no further questions in queue. As there are no further questions, I would request the management to give their closing comments.

Akash Agarwal: Thanks everyone for attending this conference. Have a nice day.

Moderator: Thank you. Ladies and gentlemen, on behalf of Systematix Shares & Stocks, that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.