**Ref. No. CS/S/L-623/2022-23** **18th November, 2022**

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| The Listing Department<br>**NATIONAL STOCK EXCHANGE OF INDIA LIMITED**<br>"Exchange Plaza"<br>Bandra Kurla Complex,<br>Bandra (E ), Mumbai – 400 051<br>**Scrip Code: VMART**<br>Fax: 022-26598120<br>Email: cmlist@nse.co.in | The Corporate Relationship Department<br>**THE BSE LTD**<br>Phiroze Jeejeebhoy Towers,<br>Dalal Street, Mumbai – 400 001<br>**Scrip Code: 534976**<br>Fax: 022-22723121<br>Email: corp.relations@bseindia.com |

**Sub: Transcript of the Conference Call held on 14th November, 2022**

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, and amendment thereof. In reference to our letter dated 11th November, 2022 (Ref. No. CS/S/L-613/2022-23) regarding the intimation of the conference call with Analysts and Investors held on 14th November, 2022, please find enclosed the transcript of the aforementioned conference call.

The above information is also available on the Company's website: www.vmart.co.in.

We request you to kindly take the above information on record.

Thanking You,

Yours Truly
For **V-Mart Retail Limited**
MEGHA TANDON
Digitally signed by MEGHA TANDON
Date: 2022.11.18 11:09:55 +05'30'
**Megha Tandon**
**Company Secretary & Compliance Officer**

Encl: As above

# "VMart Retail Limited

# Q2 FY '23 Earnings Conference Call"

# November 14, 2022

**MANAGEMENT:** **MR. LALIT AGARWAL – MANAGING DIRECTOR – VMART RETAIL LIMITED**
**MR. ANAND AGARWAL – CHIEF FINANCIAL OFFICER – VMART RETAIL LIMITED**

**MODERATOR:** **MR. HIMANSHU SHAH – DOLAT CAPITAL MARKETS LIMITED**

**Moderator:** Ladies and gentlemen, good day, and welcome to the V-Mart Retail Q2 FY '23 Results Conference Call Hosted by Dolat Capital. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Himanshu Shah from Dolat Capital. Thank you, and over to you, Mr. Shah.

**Himanshu Shah:** Thank you, Tanvi. Good afternoon, everyone. On behalf of Dolat Capital, we welcome you to Q2 FY '23 Earnings Conference Call of V-Mart Retail Limited. On the call, we have with us Mr. Lalit Agarwal, Managing Director; and Mr. Anand Agarwal, CFO of the company. We will have this call for 45 minutes and would request participants to restrict themselves to two questions per participant.

Let me now hand over the floor to Mr. Lalit Agarwal, Managing Director, for his opening remarks. Thanks, and over to you, Lalit ji.

**Lalit Agarwal:** Good morning. Good afternoon, everyone now. So this is, once again, a good time, I would say, because we are definitely, the business and the economy is coming back. And the market -- the environment seems to create positivity. Still, there are lot of areas where we keep seeing risks getting emerged from the geopolitical situations to the trade situations globally. There are multiple areas of global concerns which are coming in we all know that. And so we are also trying to understand all of those. But yes, India seems to be doing good. The Indian economy seems to be doing good and futuristically we are rightly taking those steps.

Definitely, monsoon has been okay, but yes, late rains have also deteriorated the situation in the rural and the late rains in October. So lot of crops maybe also got damaged because of that. There has been pain in the upper belt, especially Uttar Pradesh, Uttarakhand, Bihar some of these areas where we saw these non-timely rains actually have created a lot of panic in the farmers.

So there are those situations in the rural side. We saw certain parts of eastern Uttar Pradesh being completely flooded in the month of October and then there was a real challenge in even people's movement for 15 days of October. So there are some of these situations, which are hindering the common man. But, yes otherwise, I think overall the talking about the economic growth, the factories coming in, the strength of the government which we are bringing international industries into India, I think all of this is definitely booming the confidence to the consumer, confidence of the citizens of India. That will definitely add more value and that will definitely add per capita income as well.

As of now, yes, I think the retail market, market seems to be good. Most of the retailers who operate in the bigger cities and towns, because last year was -- last year, if you remember, '21-'22 second quarter was a low quarter for most of the people who used to operate in metros. So on that base, people are excited and there is a good growth that is being seen. And largely, the market has grown, both if I look at the rural India and the urban India, market has definitely grown. Still, there is a pressure on the common man, which continues, as we have spoken earlier. We continue to see those pressures there. Vegetable prices, pulses still are at very high prices. So I think -- but yes, it's stepping down, and we are able to see the acceptance level also coming in from the consumers. So consumer is also now able to understand that this is something which is going to go on, and this is the new price and the acceptance is going to come in.

So, I think, largely retailers have been doing okay. In our space, what we have seen definitely the bigger conglomerates, the larger retailers, they have all tried to expand. They have all expanded as well. And we have seen mixed response from them. Some of them have reported good numbers on the back of 2022. But yes, some have -- still are able -- have a muted growth or have a negative growth. So I think it's a mixed reaction. All the retailers who are working with the common man with the mass audience are able to feel the pressure. But yes, feel the pressure from the pre-COVID. But if I look at the last year '21-'22, which was also a good quarter for us and for this particular kind of retailer.

I think we've been able to better -- we've seen a good growth from there and I think all the areas of work that V-Mart is doing and what we are focusing on. I think that is definitely going to make us more better because right from our focus towards the whole supply chain and the complete sourcing piece, which is the product designing piece, product sourcing piece, fashion, understanding piece, I think those are the areas which we are very actively focusing on. And I had spoken also earlier that we have brought in a consultant on that area. They are guiding us on the future strategy, on the future work.

So we are definitely working a lot of areas. We have divided our merchandising team into two -- we split it into three parts, which is designing, buying, and sourcing, which we earlier had a group of one people. I think we've done some bit of that, so a lot of work is happening on that. A lot of work is happening on the cost management, on innovation, on the design sensing, how do we bring in the -- a little more trendier -- become little more trendier in terms of our fashion sense, how do we become efficient in terms of our cost parameters, because the inflation continues. Definitely we have seen a reduction in the cotton prices in the last few months, 1.5 month, I would say, that cotton prices have started tapering down, which is a good news, but yes, still the good prices are up. The prices of cotton still are way above the pre-COVID levels, but yes, the peak has come down by 30% is what we see.

So that effect should be visualized in the next season, which is the spring-summer season. We should be able to further reduce the prices in the spring-summer for the consumer. This particular season, which is going on, the autumn-winter season, we have taken a very, very strong view over the price. We've actually managed our price very well, and we have brought down the prices, which is average cost price as well as average selling prices for the consumer. And that should also bring in a good result.

Largely, winter seems to be little dull right now. The winter season till now doesn't -- we didn't see too much of -- we didn't see too much of temperature going down. But yes, I think it will be okay going forward. This is definitely early time. But yes, even the marriage season for the first 15 days was very low post-Diwali. But after that, there are a lot of marriages which is very common.

And we will definitely -- we have seen very good attraction of the winter wear range that we launched, and we did a little early launch this time, and we got a very good benefit of that early launch because the culture -- the fashion trend of the hoodies and the sweatshirts are very good, so we've captured on those trends. And we definitely feel that that particular area of product lines a big expertise of V-Mart, and that makes V-Mart stand apart from the normal retailers and all the retailers who are there in the market, whether they are national retailers or they are local retailers, our range of winter wear, our pre-winter wear range definitely has made us stand apart. I think we've been actively working on the digital side.

We've seen a very good growth on that side, both from the marketplace. Our acceptance on the marketplace like on Myntra as well as Flipkart has been very good. And we have seen very good growth on those areas. We have almost grown 100% on marketplace business operations in this particular quarter and which continues. I think we are getting better response. But now with our new addition of our own portal, we will definitely want to focus more on.

We just concluded the closing on the 11th and I think now we will focus on bringing the business back first on the LimeRoad piece, how do we first of all get that business back. There are a lot of broken pieces of processes because of the cash flow crunch that they had. We'll focus on improving and bringing them back in the first 90 days, so that the pieces are on track. And then our focus will be largely on integrating and bringing the omni culture into the system, how do we create technology, develop technology, and then how do we integrate the two customer bases and then take use of those. So we will be able to see some results coming in, in the next year from there.

Yes. So largely that's the area. Our attention towards the customer lifetime value is very high. We are focusing very highly on the retention of the customer, loyalty of the customer, our algorithms and our customer retention tools are really working very fine. We have had a lot of result which is coming, which we saw right from the increase in the average bill size of the customer and also the repeat rate.

So our repeat rates have also gone up. And I think that's something which is going to remain, because as more and more competitors come in, it is more important to protect your existing base -- existing customer and then attract new customers. So that's how we are also focusing now more on increasing the customer lifetime value as well as the frequency of the customer visits and the retention rate of the customer.

Plus, I think it's really important for us to keep focusing on bringing the new customers, because there is the new millennial customer which is going to come in into the market, and we are definitely working very highly on the complete brand imagery part, the store imagery part, trying to improve on all those areas. Our store display, our visual merchandise levels have really gone very up. So I think the towards right things, improving those right basis, improving on structure side, how do we focus on those areas, strengthening those zonal structures, strengthening the retail structure that was very important. Then we're focusing very highly on technology, on algorithms, on forecasting which is also giving us some results.

So I think in entirety, the focus towards the inventory management, the fashion management, and the aging management, and then the look and feel of the stores and giving the customer the look and feel, which is differentiated, will definitely bring in lot of results. That should bring in more and more benefit to the future. And so I think we will definitely keep speaking over this, and we will definitely keep working on this.

There are a lot of areas of focus and lot of areas of I think work that is happening in the organization from the futuristic perspective. So we are definitely working on that, right from the infrastructure development of our warehouses. We have this new warehouse which should be coming up in the next four to five months, and that is also omni available where we will have the omni facility, we will have the online processing facility as well, and our Bangalore warehouse which we acquired from Unlimited, that has also been very good.

So with these two warehouses, we should be able to handle the supply chain very well, we should be able to decrease the time taken replenish in to the store, we should decrease the time or even the cost taken to replenish in the store. That's the motto that we would have. But anyway, this particular quarter, I think we fared fairly okay.

In this festival also it looks like festival is looking good. It is still not at the pre-COVID level, but yes, from the last year level, if you look at it, we have grown and we are growing, and we are able to see customers coming back. Excitement is there in the customers' mindset. Still they are struggling with their pocket, so we are not able to see the similar results. But yes, I think it is improving a lot, both in the southern India part and the Northern India, especially in the Southern India, we have seen very good response from the new store that we opened up.

We opened up almost six to seven new stores in Southern India. And most of these new stores are giving us very good confidence, largely in Tier 3 only. And that gives us a very good futuristic understanding of that market, and we believe that that market should become a very important market to us, and we will be able to catch up those market very fast.

So with that I think I'll hand over to Anand, let him give a little more detail about the quarter's numbers, and then I'll take up your questions. Thank you.

**Anand Agarwal:** Thank you very much, Lalit, and good morning, everybody. It's really been a action-filled quarter here with lots of work happening, not only for the festive period, but as we see better signs of recovery in key markets, especially in bigger towns, and also aggravated new store openings, slight ease in commodity inflationary pressures, particularly around cotton yarn, but definitely not last but not the least, a lot of work to get LimeRoad marketplace portal and start a new phase of online-focused growth for the years to come. But first let me take you through some of the key highlights from the quarter and then we can open the house for questions.

So sales for the quarter grew by a healthy 50% year-on-year and also 61% over pre-COVID levels, definitely aided also by the addition of the Unlimited base. Like-to-like sales grew by 10% year-on-year while the ASPs grew by 27%, again, partially also aided by higher price points in South India. For V-Mart, excluding Unlimited, the ASPs grew by 20% year-on-year, which again is a very high number because we had to take in a lot of price increases and that got reflected in the increased price of products.

With 16 new stores in the quarter and two closures, the total store count stood at 405 as at quarter end. We definitely saw a much stronger recovery in Tier 1 markets and also in stores which were in malls in South India versus Tier 2, Tier 3, and Tier 4 towns where footfalls remained under pressure. At an overall level, while footfalls were up by 42% year on year, but from a pre-COVID levels and on a like-to-like basis, footfalls were still down by roughly around 29% for V-Mart business. Despite this the average bill sizes went up by 15%. So what was very clearly evident was that the rich were buying more or at least people who could afford more were buying more, and people, who were still impacted by inflationary trends and other impacts, were not coming in to shop at all.

This is a trend that we have seen for the last major part of the year gone by with slight improvement in the festive period. But still footfalls remained down if I look at from pre-COVID levels. Total sales grew by 50% as I said and 61% versus pre-COVID. Unlimited with six new stores out of the 16 new stores that we opened, six were in South, two in this quarter. It remained a profitable business, continued its profitable journey. The business definitely looks much stronger with the new stores operating at similar or better sales per square feet as compared to the traditional V-Mart business and that gives us a lot of confidence and improved rigor to open more stores in South India which can deliver similar operating metrics with lower rentals and similar operating cost.

We opened three new large stores -- large format stores, one in Calcutta, one in Agartala, and one in Odisha. They have a slightly larger FMCG mix. They are all three composite stores and, therefore our as a overall business, FMCG share also went up marginally higher. This is for the quarter, I believe, at around 11%, 12%, but on a longer run, it should stabilize around 10% or so. There is no change in strategy as far as the business is concerned. We remain very, very focused on fashion value apparel, FMCG being a tactical strategy to be adopted at key locations.

With inflationary headwinds continuing and really no increase in disposable income of the middle class and added pressure due to the deficient monsoons and also in part untimed excess rains in UP and Bihar, Tier 2, Tier 3 towns in key markets still remain under pressure. But definitely small green shoots of recovery are visible towards the fag end of festival and now also in winters. Definitely the new products that we have launched pre-winter and a lot of very exciting winter wear is pulling in good numbers and we are seeing good recovery now in the current month.

Coming on the margin side, the gross margins remained quite healthy at 36.3%, which were largely aided by, as in the previous quarters, higher margin throughput from South India business, which we have optically kept a little bit higher to manage the higher operating cost. So as a overall mix, South India business contributes roughly 20% to the sales mix, but disproportionately higher gross margin mix in the gross margin table. We also did much lower discounting in end of season sales as compared to previous years since we had very healthy inventory. We had been very prudent in buying during the last two years during COVID times, and thereby, the aging of our inventory remains very, very, healthy, which has also led to slight reduction in the provisioning that we have been consistently been following providing for the last many, many years.

Also, we had mentioned in the last couple of calls that we had increased prices, because of the expected -- continued expectation around cotton yarn price increases, and that also helped in improving the ASPs and therefore the higher realizations at lower discounting. However, also as we mentioned in the last quarter call, we have corrected part of the price increase and the impact of that should get visible in the current quarter as we also see better cotton yarn pricing coming in from last couple of months. We've also done a lot of innovations in the product, also the mix and also the sourcing strategies, which should help improve our inventory position going forward even better and also the price positioning for the customer even better.

On a go-forward basis, the margins should look marginally -- optically higher than pre-COVID due to the South India mix, but should in the long run, stabilize around 34% in the years to come. On the expenses side, expenses remain definitely under inflationary -- largely under inflationary trends. Otherwise, largely expenses remained in line, except for a bit of the higher side on the rentals, which again is an optical impact because last year we had some savings due to COVID impact which the landlords were able to pass on to us, which discontinued from this year. But otherwise, at a overall level, expenses remained much in line with the previous year trends.

Good thing to note also on the rental side was that all the new stores that we have signed in South India are on very similar price targets as that of rest of India. So the rental numbers for the new stores in South are in line with the overall India average, while the legacy stores in South India still remain high, and thereby we still need to keep the margins a tad bit higher to manage the expense pressure.

As a result of better sales, improved gross margins, lower discounting, and in line expenses, the EBITDA increased to 10.6% in this quarter versus 6.1% last year and 3.6% in pre-COVID FY '20 period. So definitely -- the performance on the margin side definitely is better. Coming to inventory, slight up-stocking, which is in line with previous years for preparation of festive period at an overall level inventory actually went up to around INR 917 crores, which is the highest that we have ever had, but it is a very thought-out strategy, it was a very carefully planned process to make sure that we were adequately prepared for the festive period, which is a very strong quarter for us.

On a per store average basis the inventory remained at around INR 2.3 crores, which is still lower than the pre-COVID levels around INR 2.4 crores or INR 2.5 crores per store for the festive period. Since we had been very prudent during COVID periods, there is significantly no old inventory that we have as leftover. So the bulk of the current inventory that we have is for festive period and for winters and remains under control.

Inventory days look optically higher at around 133. We have put in more experiments in South and we continue to run the South stores with slightly larger inventory. We should normalize to around 100 days by year end, if not sooner. At our overall inventory level, also, I think we should normalize in the next three to four months, which is again in line with the previous year trends.

Coming on the capex side, the capex for the quarter was INR 51 crores. YTD we have spent around INR 73 crores. These numbers include not only the new store expansion, but also the money that we are spending on the new store -- new warehouse rollout, which Lalit also just briefly mentioned a while back. We are targeting to complete the Phase 1 of our new warehouse by February, March, and that should come in very handy for the future growth projections.

On a full year basis, I'm still looking at a capex of around INR 180 crores, INR 190 crores. In addition to this, we should be spending -- we've already spent around INR 36 crores, INR 37 crores in closing the LimeRoad acquisition, and there will be another INR 20 crores, INR 30 crores of working capital spent on that account.

On the cash flow side, we've been overdrawn for the quarter by roughly around INR 100-odd crores. But on a net basis, it should be around INR 60-odd crores, net of investments and cash on book. So cash balance still remains largely in line with what we had planned. Because of the higher up-stocking of inventory and because of the preparation for the PDC, the festive period, we've built in more inventory, we've built in more stock, and thereby we had to marginally utilize our working capital limits. The limits that we have are much-much higher. So the cash position remains quite comfortable with no requirement for any more external funding going forward.

Online business, as also Lalit mentioned, I think just the marketplace business has gone up by 100%. But at a overall level, including our own omni-business, it has doubled. But with the new team of LimeRoad, which has just recently come on board, it's a very-very strong team, and we really look forward to increasing their contribution in the overall mix of the business and their participation in making V-Mart a very robust and a very strong technology-powered business.

So on the new stores, we've opened 16 new stores year, closed two, South doing quite well, and we remain on target to open at least 55 stores to 60 stores for the complete year. So that target remains on line, and we should be looking at a healthy rollout in the next quarter as well. Unlimited business continues to do well. There has been a like-to-like growth versus last year in Unlimited also which has been I think around 15%, 16%, which is also very heartening. The operating team there is very confident of delivering a much higher throughput, and that gives us a lot of confidence that the bet we had taken has, should take off quite well. So with Unlimited and with the newly folded in LimeRoad, I think we should have new areas of growth in the coming years and a lot to cheer about in the next quarters.

So that is all from my side on the financials. So I'll request Himanshu to now open the house for questions and let's take it from there. Thank you.

**Moderator:** The first question is from the line of Percy Panthaki from IIFL Securities.

**Percy Panthaki:** I was just looking at your sales per square feet. So if I look at the quarter, first quarter of FY '23, basically, and compare it with the first quarter of FY '20, so on a three year basis, the sales per square feet was down 28%. If I do the same thing now, Q2 FY '23 versus Q2 FY '20, the sales per square feet is down 10%. So there is a recovery from a minus 28% to a minus 10%. So do you see this trajectory continuing and do you think that there is a good probability that in the coming quarter the Q3 FY '23 versus Q3 FY '20, we would see that this minus 10% would come down to a 0%?

**Lalit Agarwal:** Percy, you are somewhere right. I don't know how you calculated, because it's not, it's looking that good, but it may not be that good because maybe in the last year you would have seen even Unlimited number, because Unlimited square feet was coming in the end of the quarter. But the sales only, which we accrued in the last year was only for the month of September. But otherwise also, I think our sales per square feet has gone up and has been bettering, both from the existing stores as well as the new stores that we have opened up.

So all the new stores that we've added up in this particular year, the 27 stores that we added up in this particular year, quarter, and then even after that six, seven stores that we added up, we are able to see good response coming in. Most of these stores have been performing very well. Sales per square feet has also gone up. We also took, as Anand mentioned, some large properties and some premium properties as well, which also gave us a good sales per square feet. That was the target and that is also something that is coming up. So I think, yes, what you are asking that is what we are working for. Definitely that's the most important KPI that I hold and my team hold, how do we increase our like-for-like and how do we increase our sales per square feet numbers every year. So that should continue.

**Percy Panthaki:** So are you seeing any improvement either in October or in the first half of November versus what you saw in Q2? Of course, seasonally anyways it would improve, but I am saying adjusted for seasonality, are you seeing that basically any of the indicators are turning incrementally positive and that whatever recovery is there, we have been recovering over the last six months, but that trajectory is continuing in that same fashion adjusted for seasonality. Of course, seasonality itself will mean that your Q3 will be better than Q2, but adjusted for seasonality whatever that gap is there versus what you were three years ago, that is...

**Lalit Agarwal:** Yes, Percy, so if I speak on it, compared to 2021, then 2021, 2022, today this particular year, this particular festival looks much better, and there is a lot of shift in the festival period and the timing and the date, so if I look at month-on-month, it is a little different. If I look at period-to-period, it is different. So I think what you are asking, still there are pressures pre-COVID if I compare it pre-COVID, but yes, post that definitely, you're seeing incremental sales coming in. And every quarter we're seeing betterment happening. And even in this festival, we have seen that betterment continued.

**Moderator:** We now move to the next question from the line of Avi Mehta from Macquarie Capital.

**Avi Mehta:** Sir, I just wanted to understand the demand environment a little better, is it that? And not necessarily in the festive period but beyond that, are you a little more, is the optimism that you would have, is it more linked to the price reduction that we have done, which is, in your opinion, enough to get consumers coming back to the stores on a steady-state basis, or do you think more is needed from an income level?

**Lalit Agarwal:** No, I think Avi, what you are saying is right. There are both the things happening because we also acted on it. We've reduced our prices and that has been taken very nicely. Our range, our product lines has been also very good. And see, as I said, inflation is still there, the pressure of the consumers are still there. But as I said, the acceptability factor which was a shock till the last two quarters and now people are somewhere able to now digest it and that inflation is going to remain here and we have to now consume. So that is there, but still the challenge on their balance sheet, their Excel doesn't match up, and they still are having that deficit on that side. That continues, and I think, but yes, the optimism has to be there because we definitely believe that optimism is going to drive growth and that is how it will happen. Yes, I think it will work.

**Avi Mehta:** So, sir, if I were to say simply, it is, we are seeing that there would be some pickup, festive is looking good, but for the real recovery it might take some time because inflation has to be, people have to chew it, they should see increase in income levels. And that in your opinion is more a few quarters away, is that the right way to see it, sir?

**Lalit Agarwal:** Yes, you're right. Still that income-led consumption is not being seen, and that's what I would not call clearly income. It is largely about income versus expenses and then that arbitrage. So that is not being seen and that definitely could take another two quarters that's my expectation.

Maybe last quarter we could see something, but yes, it may take another quarter because there are so much things happening on the geopolitical side, we don't know what comes up next.

**Avi Mehta:** Sir, in that extent, if I may, would it be fair to say that your focus would be to get Unlimited because, obviously, South India is doing much better. You're making lot better margins over there. Integration also needs your focus. That will be the first key step in your segment along with omni, because that also segment is a little different versus say store addition pace, because we've been, we have the ability to ramp store additions in existing geographies as well. But you are probably putting that at the third -- second, third step in your focus rather than the first that it initially used to be. Is that a right read-through or no, sir? I would love to hear your thoughts on that, sir.

**Anand Agarwal:** Avi, this is Anand. Let me take that. So, I think, we have our focus in all the three areas. There is no single priority that we just want to put. And at least in the last couple of years, we have strengthened our organization structure to make sure that we are able to diversify and move in these two or three different directions parallelly. But yes, there is definitely higher opportunity in South and the teams in South and the business development teams are taking cognizance of that. So there is a full-pronged effort which is happening around taking that position up very strongly.

Similarly, on the omni side, with the acquisition and the fold-in of LimeRoad, that's absolutely a new and a separate team, which is going to drive that agenda, and there will be some amount of involvement, but definitely, that team is going to run pretty much independently to drive that agenda. And lastly, but again, not the least, the offline business, the V-Mart business, the existing V-Mart business, there is adequate strength that we have built up to keep growing that and find opportunity areas like merchandising, like product, like improvement in design, like improvement in visual merchandising to keep leveraging whenever we are able to see the recovery in consumer traction back in the market.

**Moderator:** The next question is from the line of Tejash Shah from Spark Capital.

**Tejash Shah:** First question is pertinent on gross margin. Last quarter self-admittedly you said that we have slightly gone aggressive on pricing, and we want to bring it down gross margin to earlier levels of less than 33%, 32%. But even this quarter we have done very well on that count. So how should we think for the rest of the year and the pricing strategy going forward?

**Anand Agarwal:** So Tejash, you're absolutely right. It's not like we have always thought of having higher gross margins. But as I explained during my opening remarks, I think there is definitely a higher mix of gross margins that we are consciously targeting in South India to mitigate the higher operating expenditure. So if you look at the historical V-Mart business, we've hovered around 32% to 33%. Because of the South India mix and because of the higher gross margins that we need to take in from that business, there will be 1%, 1.5% increase that should come in from that business.

Plus, optically in this quarter, there is a tactical issue of lower provisioning in this quarter because of the better quality of inventory that we hold. So thereby you're looking at much higher margins. But at a longer business, on a longer scale, we should average around 34%, 34.5%. That is our long-term vision. We do not want to overcharge the customer. We do not want to earn more from the same customer. We want to sell more quantity and increase our rupee margins rather than percentage margins.

**Tejash Shah:** Very clear. Sir, second question pertains to, in your opening remark you spoke about some supply chain or backend changes that you have done in procurement, so design, production, and procurement if I heard correctly. Just wanted to know, are we doing, I'm sure you would have done, but if you can share, what changes we would have done on demand-sensing part or fashion-sensing part, A? And now with online capabilities coming, we'll have a lot of data, so what are we planning, obviously early stage, but if you can share some thoughts there. How are we planning to convert data into insights and insights into merchandise improvement which can relate to the customer demand?

**Lalit Agarwal:** Yes, definitely, there is a lot of opportunity. And as you were speaking, my eyes were also getting lit up. There's so much to demand and so much to understand. As I speak, I'm actually in London, and I'm trying to see the market and spotting their fashion trend and stuff. So there's a lot of opportunity which is available for now.

As our volume has grown, as our size has grown, as our need for trendiness has grown, I think we need to definitely keep looking at those trend spots and we'll keep looking at those various models, where the digital as well as physical, and there's no shortcut to physical. We need to definitely understand the market, understand the fashion market, fashion driver market. We have those kind of teams who have that eye and ears to try and understand and that can capture that, and then also have a process which then takes the mind to market through the shortest period of time and deliver those fashions as quickly possible to the customer which is important.

And as you said, the online world, especially from LimeRoad, we think that particular channel definitely is a fashion driver, should be the trend driver for us, should also be the channel where we could provide better trend and different trends, which is what we call curated fashion, and that's the model that we would want to build, and the analytics that comes from that, because there are millennials who are shopping there.

So that clearly gives us a very good trend on what is working, what is not working, what is coming up, what is going to work forward? So I think all of that this gives us large opportunity and then you are absolutely right, this data is once again going to help in our insight a lot and a lot more for the fashion as well as the categories plus the fashion plus the location, which fashion which location is working well. So a lot of things has to be planned. We don't want to just put too much of pressure immediately on that team, but yes, there is a lot to do going forward.

**Moderator:** We'll move to the next question from the line of Shirish Pardeshi from Centrum Broking.

**Shirish Pardeshi:** I have two three questions. The first question is, right now we have completed first anniversary of Unlimited stores which we acquired last year in August. Now quantitatively, will you be able to share, give some color how we should look at this business in terms of strategy, store, growth, merchandise, and maybe in terms of some parameters that how we should build-in in our models?

**Lalit Agarwal:** No, I don't know about what your model should build in, but yes, what I see and what I understand, so there are, see, let me be very cohereable on this. There are areas of both concern and opportunity. We have deteriorated on certain areas, which I would say that Arvind was really strong on. So we are working on all of those. We are trying to better on all of those. There are areas that we're strong on.

We will develop those sites. We got those markets. We are getting those customers. So attracting new customers is not always an easy proposition. It is a difficult proposition because the set of customers which used to come were not enough and they were more matured. We wanted more millennial customers. So that's what we are trying to drive. We are focusing on our basic models there, Tier 3 model has to be improved, let's get into those markets where still customers have not seen those prices and those fashion.

So we are working on all of that. We are still learning, a lot of misses, lot of opportunities that we got. I think positively if you see, I'm not too happy with what we have done till now. We definitely could boast out and say that we have been doing good work. But yes, I think we have not done bad as we could have.

So that is a saving size. But yes, going forward we should be focusing, as Anand said and we all say, that we are focusing more on that particular zone. We are focusing on opening more stores in those particular zones. We will continue the margin arbitrage a little bit till we don't go, get to open a number of stores, and our rental model and our cost model doesn't come to that line. But post that we would not want those consumers also to charge more. We want to normalize our margins and then make standardized margin across India. That's the value systems that we need to offer to our consumer.

And I think that's the confidence also that we want to develop. But yes, largely if you speak, we could see some growth coming in, and we want to target more. Because as Tier 1 stories are also becoming better and mall stories are becoming better, with the acquisition of LimeRoad, our trend story will also become better. And more-and-more trendiness can lead to more-and-more betterment in our consumer attention and consumer attraction. So I don't know model wise, you can speak separately with Anand and then take it up.

**Shirish Pardeshi:** Lalit ji, that's very helpful. But just maybe in terms of number, maybe if you can share what is the like-to-like growth or maybe what is the footfall growth for six months, specifically for Unlimited or maybe if you can share ASP trend how is the trend, if the growth is happening?

**Lalit Agarwal:** On the sales, I think we have grown by more than 15% from the last year number even like-to-like if I see quarter 2 to quarter 2. I think the ASP number, ASP must have gone down. I think it has gone down by around 10% to 12% because we wanted to introduce the low price point product. So it has gone down. ASP is going down. Customers have increased, number of customers have increased. The bill size also has somewhere gone down a little bit, not got up, has gone down a little bit because we can't, because as our ASP is down, it will go down. But yes, that's what our motto is, what our goal is, and that's what we will do.

**Shirish Pardeshi:** My second question on V-Mart. We have been saying and reading a lot about UP, Bihar and key markets. So will you be able to share how this last 45 days, especially Chhath Puja and the strong festivals in Bihar and UP has performed, though we know that there are pain points and you did highlight in the beginning that the consumption and demand is not there. But just wanted to know, curious if things are moving in a positive direction or still the pain points will be seen because I also gather the winter is setting into some part of North.

**Lalit Agarwal:** So, Shirish, to answer your question, we have seen positive signs. And towards the Diwali period, we have definitely seen better signs, which should continue. But yes, because our Hindu calendars are a little different and the marriage dates and those shifts happen very fast. Right now, what we are going through is a period called Tara in Hindu calendar where there are no marriages happening in the next, normally post-Diwali, on the 11th day the marriages start and then continues till the 15th December. But this year, we don't have any marriages on those days, and marriages will start by 26th of November.

So we've got some lull period which could come in, in this time. But yes, but still I think the business will come in. The pressure in Bihar continues, even Eastern UP continue, because Eastern UP, as I said, flooding also impacted a lot to them. So that area still is not under too good number. The other parts of Northern India are doing better. Even the Western UP is doing better. So I think we still are having a pressure on those numbers compared to pre-COVID level if we talk.

**Moderator:** The next question is from the line of Rakesh Wadhwani from Monarch Networth Capital.

**Rakesh Wadhwani:** Sir, I have two questions. One is I want to understand what is your thinking on the revenue per square feet because if I look at the revenue per square feet before COVID, when the V-Mart was running, so it was only around INR 600 to INR 700 during non-COVID seasonal period and during Q3, Q4 it was shooting up to INR 800, INR 900 also. And after COVID happened, the store per, the revenue per square feet went down, which is understandable, and Unlimited also happened. So just wanted to understand what is your thinking on the revenue per square feet, not from the quarter's perspective, over a period of one year or two years, because we have said like we will be maintaining, trying to maintain 10% EBITDA margin. So what revenue per square feet?

And second on the inventory, so you said inventory per store has come down from INR 2.4 crores to INR 2.3 crores, and we have mentioned in the call that inventory further will come down. So I just want to understand how you are planning to reduce inventory further? These are some questions from my side.

**Anand Agarwal:** So, Rakesh, on the overall trajectory of sales per square feet or sales growth, I think while it has already been answered but let me just reiterate. I think Percy had the similar question, but let me just reiterate. So at our overall level, there has definitely been some pressure from pre-COVID levels as we have also discussed in the last couple of questions. But if I look at the pre-COVID levels of sales per square feet, we are definitely hopeful and targeting to reach that level in the next couple of, maybe by next financial year definitely. This year definitely looks challenging given the inflationary trends and the contraction in consumer demand that we have seen so far. But from a future perspective, we are definitely looking to realign ourselves to that INR 700 to INR 800 per square feet that historically we have always averaged around. So there is no change. There is a macroeconomic situation that we're still trying to get over, and it should happen in the next six to 12 months.

On the inventory side, this is a seasonal trend, as I explained, that at an average level, typically we hold around INR 1.2 crores of inventory per store throughout the year. During the onset of quarter 3, which also coincides with the festive period, we have to up-stock and that is a trend that we have always maintained for the last many-many years.

So there are no major corrective actions that are required. It's a normal phasing out of winter or festive inventory, which has to happen over the period of October, November, and December, which again happens every year. We have bought most of the inventory that we needed to buy. October, November purchases will see very-very less amount of inventory purchases and automatically the inventory levels should come down as we are already seeing that they are beginning to come down. So by December end, we should be in far controlled stage, and definitely by the year end, it will come down to absolute normal levels.

**Moderator:** The next question is from the line of Anuj Sehgal from Manas Asian Equities Value Fund.

**Anuj Sehgal:** Yes. Lalit ji, I just had two questions. During the call, when you did the LimeRoad acquisition, you acknowledged that it was challenging and difficult to build the whole in-house piece, build the online piece in-house, and therefore, you had to pursue the acquisition of LimeRoad. So my question is that business is a very different business with heavy discounting and chasing customer growth, and it requires a different mindset. So what is the level of cash burn that V-Mart is willing to make or take to expand that business? And related to that, I noticed that the net-debt on the balance sheet, as of end of September, is the highest I think since FY '15. So how should we think about sources of capital as you pursue growth going forward?

**Anand Agarwal:** Yes, this is Anand. Let me take this. So on the LimeRoad side, we had taken up this question actually earlier also and during the LimeRoad call. So what we are targeting is to build this business profitably in the coming years. This business already has had very strong historical growth levels, and it's not a very high cash burn business. So it is not really competing to acquire a lot of customers in the near term.

It already has a good base of customers with very good customer retention rates. What we have targeted for ourselves is that we should not be spending more than 15% to 20% of V-Mart's EBITDA on further investments into the LimeRoad business. And the business model or the business plan that we have built for the LimeRoad business for the next four years adequately recognizes this concept, and we should be looking at a reasonable growth in line with what our expectations are within this number. So there is no over cash burn or no extra cash that we are looking to burn over a number of 15% to 20% of the existing EBITDA that V-Mart is able to earn.

Second question on your net-debt side. Yes, there is around INR 111 crores of debt that you are currently seeing on the balance sheet. But if you look at the net of investments, we have around INR 40 crores, INR 45 crores of cash or cash equivalents sitting on the asset side. So actually the net utilization is only around INR 50-odd crores, which is again in line with the stack up of inventory that we have had to do for this quarter end in preparation for the festive period.

Going forward, we are not foreseeing any significant cash outflows or out burns. Even as I speak to you currently, our limit utilization levels are much under control despite paying for the LimeRoad acquisition. As also explained earlier, we will be down-stocking our inventory as is the case every year because for the next three months there will be a lot of inventory which is getting sold, but with very minimal amount of purchases which will happen, thereby further improving the current asset situation, including the cash flows.

**Moderator:** Thank you. That was the last question for today. I now hand the conference over to management for closing comments.

**Lalit Agarwal:** Thank you, everyone. We have been talking quite frequently, and I don't have too many things to say. We need to perform more. We definitely need to understand more this particular market, this particular consumer, and be ready for the future, because future looks very interesting, the way the whole world is expecting from India, we should also expect the same from our consumers because everything which comes up to India is going to add up per capita income of our consumer, and then the consumption of the consumer. So we are definitely on the building up mode, and we will definitely want to build a very-very strong base so that we could actually take up the challenging future which is going to come in and then the good future which is going to come in. So thank you, and let's meet often. Bye.

**Moderator:** Thank you very much. On behalf of Dolat Capital, that concludes this conference. Thank you for joining us and you may now disconnect your lines.