



Ref. No. CS/S/L-595/2022-23

12th August, 2022

<p>To: The Listing Department NATIONAL STOCK EXCHANGE OF INDIA LIMITED "Exchange Plaza" Bandra Kurla Complex, Bandra (E), Mumbai – 400 051 Scrip Code: VMART Fax: 022-26598120 Email: cmlist@nse.co.in</p>	<p>To: The Corporate Relationship Department THE BSE LTD Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001 Scrip Code: 534976 Fax: 022-22723121 Email: corp.relations@bseindia.com</p>
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Sub: Transcript of the Conference Call held on 8th August, 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 5th August, 2022 (Ref. No. CS/S/L-585/2022-23) intimating you about the conference call with Analysts and Investors held on Monday, 8th August, 2022 at 04:00 p.m. (IST), to discuss the corporate performance for the quarter ended June 30, 2022.

In respect of the same, please find enclosed the transcript of the aforementioned conference call.

The above information is also available on the Company's website: www.vmartretail.com.

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

Thanking You,

Yours Truly

For V-Mart Retail Limited

MEGHA Digitally signed by
MEGHA TANDON
TANDON Date: 2022.08.12
15:58:58 +05'30'

Megha Tandon

(Company Secretary & Compliance Officer)

Encl: As above

V-MART RETAIL LTD.

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“V-Mart Retail Limited Q1 FY-23 Earnings Conference
Call”

August 08, 2022



**MANAGEMENT: MR. LALIT AGARWAL – MANAGING DIRECTOR, V-
MART RETAIL LIMITED**

**MR. ANAND AGARWAL – CFO, V-MART RETAIL
LIMITED**

**MODERATOR: MR. TEJASH SHAH – SPARK CAPITAL & ADVISORS
INDIA PRIVATE LIMITED**



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Moderator: Ladies and gentlemen good day and welcome to the V-Mart 1Q FY23 Earnings Conference Call hosted by Spark Capital Advisors India Private 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 '*' then '0' on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Tejash Shah from Spark Capital. Thank you and over to you sir.

Tejash Shah: Thank you Vikram. Good afternoon, everyone. On behalf of Spark Capital, we welcome you to Q1 FY23 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. Let me handover the floor to Mr. Lalit Agarwal for his opening remarks. Thanks, and over to you Lalitji.

Lalit Agarwal: Good afternoon, everyone rather good evening and welcome to the conference call. Once again, a very happy and high gratitude towards all our investors and analysts who are on this call.

The business continues to become better and better from the past. Last 2 years we have been seeing every quarter improving from the COVID comeback perspective. We are definitely seeing a lot of dynamism in the market, a lot of activity, a lot of buzz as moving around. Most of the parts in the businesses and the industry or the consumption and the consumer mindset or the economic trends and the commodity prices, there have been very volatile in nature. They have been definitely, there's been too much of unrest in the market. As always, we have also been very watchful in this particular environment. Largely the news is positive. From a long-term perspective we are able to see lot of good things happening in the market in the consumer space. The country as a whole, the government which is taking to bring up the per capita of Indian consumers, there are a lot of efforts which are visible on the ground. There are good signs available from the government perspective which is largely from the state government perspective and central government perspective in terms of working towards improvement of job market and then the employment segment which is evidently very clear which gives a very good clear perspective that India is becoming stronger and definitely Indians will become stronger. This is a great opportunity for India, especially for Bharat as this government is working to strengthen and make the smaller town and the smaller regions very strong and putting a lot of investments on infrastructure. We expect a very fundamentally good growth in the basic consumption spree of our consumer base.

In the overall industry definitely, there has been swing in the consumption sector and we have almost in the entire quarter also till now we have noticed a little deflation or I would call not a deflation but a trend of consumption which is not great on the rural side. So, as I discussed even in the last call I think, that this is a K-graph philosophy which is working where the rich is becoming more richer and the poor is becoming more poorer. This is what we are able to very clearly visualize.



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On the professional side, on the entrepreneurs it is bigger—what I would call the traders or the manufacturers or the companies—most of them are becoming bigger. The professionals and the salaried classes, they are also gaining on their salary. They're also improving on that side. So largely bigger cities, bigger towns and as we see A class is gradually are doing much better in terms of both their earnings as well as their potential to spend versus the B and the C class of consumers who live in smaller town are definitely having to face the inflationary trend and the impact of the inflation a little more higher because most of their earing goes into food and the food bills and food has seen a very large inflation, almost to the tune of 30% which is what they are experiencing which is eating most of their savings and most of their budgets. So largely in smaller town with SEC B and C consumer which is people earning between Rs. 15,000 to 40000, they are finding it little more struggling or they're finding it difficult to cope up with their budgets. We spoke with multiple customers; we've done multiple surveys and tried to understand this. There is a pain in that particular household and lot of such households are not able to come out to shop or have decided not to shop in these times or have reduced their consumption. That is how we are seeing consumption getting little affected across the belt in most of the consumption sector. We have seen multiple reports coming in right from the two-wheeler to tractor sales to FMCG companies. I think that is very clearly being seen in the hinterland. On the other side we have once again seen good sustainable growth coming in till the June month from the upper segment which is a premium segment customer base that continues.

On the industry side I think most of the retailers are coming back. Most of the premium retailers are coming back and have done I think good even in the last quarter and even now. Most of the value retailers we think are—I would call—not doing as great as they would have done, both, one from the perspective of inflationary trend which is eating into the consumer's basket as well as from the perspective of the price rise that they have taken up in their product lines. Third is also because there is a higher intensity of competition in the value space from the nationalized retailers. If we compare it from the pre-pandemic level and the pre-COVID levels the number of stores and the number of stores that each retailer had plus the number of stores that their competitor had, cumulatively have almost doubled or in certain towns have tripled in the last 3 years. So that's that competitive space horizon. I think there is definitely lot of customers swing which is happening towards the organized segment. A lot of customers are moving because so many retailers have come in into this market. There are a lot of movement which is being noticed from the unorganized to the organized as well as the little bit into online which has happened and that is very clearly visible.

I think the market has not grown so much, is definitely trying to grow little more. But because of the higher penetration of organized retail, I think it is getting spread over. At V-Mart, we have definitely focused more on improving and we are continuing to focus more on improving our network effects, improving our vendor management. We did a great program only in the last week calling up almost 1000 vendors in a single hall, trying to talk to them, had a lot of communication, a lot of understanding how do we grow, how do we make them grow. So, lot of work is happening on their improvement, their development and trying to create a scalable vendor base so that we have a continuity of scaled up and a better efficient business operation in



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future. We also had a great program called Sangam with our store managers and our team 10 days back and there also we created lot of enthusiasm and boosted their motivation. So overall we are working on larger pieces, trying to strengthen our teams, trying to strengthen our community, trying to strengthen our vendor base and then try to strengthen our processes as we said last call also, that they have been consultant who is working towards strengthening certain processes of sourcing, procurement, designing, supply chain, forecasting, retail operations. We are working on all those areas to try and re-look at the entire operation, re-look at from of the scalable lenses so that we look at 3X of the business in the next 5 years, so that we could actually grow to that level. We are definitely strengthening ourself from those areas, definitely having focused on the here and now situation and how do we do our business in here and now with a mindset that we don't want to just pull sales. We just don't want to pull sales on certain discounts and schemes. We have definitely held onto our thought process of being an honest retailer and not going out and spending a lot of money to acquire a customer, not going all out and spending too much of margin to acquire a customer. We have learned our mistakes in 2019. We are trying to make up for those. We have definitely held back on our discounts. We certainly realized one more mistake that we had done. We had completely passed on the commodity price rise to our consumers which the consumers did not take very sportively. We got a negative impact in the month of May and June. So, we are trying to reverse those prices back to a certain extent, so that you're able to attract our consumers and not impact their pocket during these bad times and during the worst times when they are also reeling under the weak inflationary pressure. We are trying to make up to all of those, we had vacated certain basis points, we are trying to come back to those price points as well. There are a few things that we realized during this last quarter which we also think we had made a mistake and we want to come back on those and we will try to create some innovative solutions so that we are able to offer them newer products at the lower price point. Maybe doing innovation on fabric development or bringing up some blended fabric which can give better results to the consumer, keeping the experience intact. That's where we are. We definitely are adding a lot of stores. We have seen a very good impact coming in from our southern India acquisition. Our Unlimited, out of the rest of India business Unlimited has also performed very well. They have been able to control their de-growth or they have been to even have growth in southern stores and they are doing better than what we had expected. They are beating our targets. I think there's a lot of potential in that particular market. We also experimented with opening of another 6 new stores in that market with the same name and which is also giving us a better result compared to what openings that we did in the rest of India. What we believe and understand and the confidence that we have on the southern India market is very high. The southern India market is much more matured and most of the districts are much more prepared to launch the stores and can get more appreciated by those consumer base for our kind of version. We will be a little more gung-ho about that. Apart from that our east India market also seems to be improving well. We have taken a bigger bet in that particular market. That team also we have strengthened a lot. So that there also we have recently finalized a little bigger store in the core of Kolkata. We are trying to now take up that market also very seriously so that we gain market our share even there.



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So overall on these two regions where we were little weaker, we are trying to strengthen up and become more stronger. Apart from that digital continues to be our focus area. We still believe there is lot to be done. Our launch on Myntra has given us a good response and Myntra is turning out and Myntra customers are also appreciating the products of V-Mart and we are seeing good orders coming in from those markets places also which gives us a very good hope and which gives us a larger sense of opportunity even in the online space. There we believe that in the next 2-3 years we definitely need to strengthen our team and acquire certain technological capabilities and certain online capability, so that we are able to actually leverage this potential which is available in our hands. That is what we are focusing on. We are trying to put a lot of our mindshare on to that area, in improving our technology stack, in improving our digital understanding, in improving our potential on the change management side from our internal team members, so that we are able to honor all these opportunities which is available to us.

The business in the last quarter was not too great. If I compare from the pre-pandemic levels. But definitely I think we were able to manage our expenses. We were able to manage our profitability and fundamentally we have been managed to control our inventory and also liquidate some of those old inventories with operating at our fresher inventory range, keeping our brand imagery very strong, further improving on our brand imagery that was our major focus. I think Anand will take through with the details of the of the business that happened in the last quarter. And then we can take up your question and answer. Over to you Anand.

Anand Agarwal:

Thank you Lalit and good evening, everybody. I think as Lalit mentioned this is the first COVID free quarter in the last 2 years with almost full normalized operations. Although there were small minimal disturbances due to the Agniveer protest in some parts of UP and Bihar for a few weeks and definitely inflationary pressures played a big role in backing footfalls and consumption spending in almost all geographies. Inflationary pressures actually played a very important role keeping consumption under check in rural and semi-urban areas. Although the bigger cities, Tier 1 towns some stores and malls fared significantly better throughout the quarter. After a near normal Holi and a strong start to April, May and June remained subdued versus pre-COVID levels as Lalit also mentioned. Actually, with rural job growth slowing down and no real increase in rural income levels in footfalls in almost all parts of rural and semi-urban areas remain under pressure again versus pre-COVID levels. While on the sales front versus last year, the sales grew by 233% with the 20% contribution coming in from new south zone which continued to outperform with sustained profitability. But if I compare to pre-COVID levels the footfalls actually were down from FY20 by almost 20%. And a similar de-growth we could also see in volumes as well. Bihar faced the maximum burn of the challenges because of the sustained Agniveer led disturbances in the state for a very long period. Also, the impact of significantly delayed monsoons leading to overall economic uncertainty and consequently a dip in consumer spending, particularly in that region. Relatively south India as a result of pushing in the finer price V-Mart inventory, better systems process and also the enthusiasm showed by the south India's team and also the better mix of Tier 1 towns and also stores in malls. I think the south India business performed much better than our expectations and also came out even better on



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profitability. While the south zone ASPs grew only by 11% but I think at a country level for V-Mart, the ASPs grew by almost 20%.

Coming on the margin side; I think it has also been a very good quarter. Definitely better yields coming in from price increase taken to absorb the cotton yarn price impact which actually was taken in anticipation more because the cotton prices continued to climb up. But in the last couple of months, we are also seeing some correction there happening and is becoming very difficult to manage or hedge the position as far as the product supply routine is concerned. So, but as Lalit mentioned, we are definitely planning to correct some of the mistakes that we had done earlier on the entry price points and we will now be far better prepared as we get into the fresh new season to target the rural customer with very attractive price points that V-Mart has always been known about. Also, the margins were better because we also did lower discounting than previous years. The inventory health actually has been very good while the inventory days looked slightly higher but that's in anticipation of the upcoming season but from a health perspective this has been one of the best quarters or it will actually remain the best years where will have very good quality of inventory because in the last 2 years we bought very less and we were able to sell through very strongly.

Coming to south; also, south margins are slightly higher. We have always maintained that because the operating costs there are much higher, the gross margins there also looked much higher and that reflects in the overall margin growth. Keeping in 20% mix from south which will be at least 5% higher gross margins. I think future margin should also ease back to 34% as we have now started passing on better pricing to consumers from new season launch.

On the expenses side, all costs and have had inflationary headwind but still remain under control. Rentals from V-Mart side remained at the historical Rs. 35 to 36 per square feet while for the legacy Unlimited stores, they averaged at around Rs. 75 per square feet taking the company average to Rs. 45. Good part to note was that all the 4 stores that we opened in the quarter and also 2 new stores that we opened in this month in the south zone are at the V-Mart average of Rs. 30-35 per square feet and while these new stores are under the Unlimited brand, they have started to deliver at a very healthy Rs. (+700) sales per square feet which is 20% to 30% higher than the legacy Unlimited average sales per square feet. That gives us a lot of confidence and in fact the team is very gung-ho on much bigger opportunity that one can leverage from south India. Again, on the expense side because there were no further COVID later rental concessions and not just on rent but otherwise actually all expenses are now back to pre-COVID level.

Manpower costs remain under pressure. Although again at a per square feet level they came down a bit. Actually, while all costs went up on an absolute and also on a percentage to sales basis but except for rent, all costs remain lower than pre-COVID levels on a per square feet basis reflecting the efficiency and the kind of discipline that the team has been able to maintain throughout. As a result of the sales increase and the better gross margins were discounting and in line expenses the EBITDA increased to 15.1% versus 12.8% in pre-COVID period. While we are still not very happy with the like-to-like sales still at a (-20%) level from pre-COVID but



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from a profitability perspective I think we are quite satisfied with what we have achieved. Going forward as the corrections that we put in on the product side we are very gung-ho that we should look at even better performance going ahead.

Coming on to the balance sheet side, inventory remains under control. As I mentioned if there's one of our freshest inventories ever. In fact, the provisioning that we usually consistently pay for the last many years has been one of at its lowest level in this quarter. South inventory definitely slightly, we have deliberately put slightly higher amount of inventory in south India as we continue to experiment with a lot of new concepts, lot of new categories and also a lot of new assortments to understand and get the appetite of that new customer that we are not very well aware of but with very good results. We are also working on better pricing and also making sure that we translate a lot of learnings that we have taken from south back into the rest of India regions in the V-Mart business and whatever we have taken so far gives us a lot of promise and hope that collectively as a team we can deliver much better results. On the cashflow and CAPEX, side we remain comfortable on cash. There is adequate amount of comfort there. We had already announced plans of opening 60 stores so far. I think the team is definitely on track to over achieve that number. I cannot comment or commit on the total number of stores but definitely it will be (+60) for the year. For the warehouse, the new warehouse construction has already begun. We should get handover of the first phase of the new warehouse somewhere towards the end of this financial year.

Online business continues to go strong. We are finding newer markets, both in terms of cities and also opportunities on newer marketplaces which we will continue to leverage. We have got some good success on some of the platforms that Lalit also spoke about and we are increasing our penetration in these marketplaces and specifically on Myntra by linking them to more and more number of stores. As of now less than 10% of our stores are currently live, only less than 10% are currently live on Myntra platform. That itself gives us a lot of hope and opportunity that we can build this business much bigger and stronger.

On the Unlimited side as Lalit was talking about, I think we are very happy with the progress so far. The integration has definitely worked out extremely well. Both we are seeing, we are witnessing good amount of growth, we are seeing good amount of profitability. In fact, the businesses moving ahead of our expectations and our plans. Again, it is not yet completed one full year of operations but we will start sharing more data around that business as we tend to complete 1 year after the next quarter. But definitely very happy with what we have been able to achieve there.

On the outlook; I think we still have some headwinds on the cost side but overall, the business looks very promising. There are inflationary pressures and not only for us but I think for all the value retailers and even related industries which operate in the rural or semi-urban segment. But from a long-term perspective we remain very invested in the business and we are very optimistic on how things can grow further from here. That's all from my side and I request Tejash now to open the house for questions. Thank you.



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- Moderator:** Thank you very much sir. Ladies and gentlemen, we will now begin the question-and-answer session. We have a first question from the line of Percy Panthaki with IIFL.
- Percy Panthaki:** Just a question on your gross margin. What you've done this quarter, is it sustainable at that level going ahead?
- Anand Agarwal:** Definitely I would not want to continue with this level of gross margins. As I mentioned we had taken a slightly higher price increase and also done away with a lot of eco-level of pricing which we are not very comfortable with. We will come back to the honest pricing and the giving the full value benefit to the customer. That is where we feel we should come back to around 32%-33%-34% level of margin going forward, gross margins.
- Percy Panthaki:** Understood. On your sales per square feet, they are still about 25% to 28% below Q1 '20. What is the kind of trajectory that you are seeing on the ground? I mean how fast can we see this going back to pre-COVID level adjusted for seasonality?
- Lalit Agarwal:** Definitely as we have also reported that there is a dip in the and we're not able to get back the pre-COVID sales and we are still regrowing. So, there's a small impact. That definitely is bettering because if we look at even the quarter, the way this May behaved, June was little better and then July is more better. So, the de-growth is getting arrested and we should be able to come back little faster. It also depends upon how does the monsoon come back and how does the inflationary trend come back and then what is the geopolitical situation in the world? These are all feel good factors which will also affect the sales and which is resultant of the **(Inaudible)** (27.13).
- Percy Panthaki:** Do you think that one of the reasons why the sales have not come back fully is that your gross margins are on the higher side and that has acted as some kind of dampener on the demand or something like that?
- Lalit Agarwal:** I will not fully deny that Percy. Definitely you could as I told in my opening remarks, we could definitely buy some sales by investing on southern market, giving them schemes and trying to drive on discount which we avoided this time. Definitely, I also said that we've realized that we did some mistakes of increasing our prices which we can revert back and which we have realized and we'll revert back. Some amount of sale must have got lost due to that.
- Percy Panthaki:** The sales per square feet on south India, what percentages, is the below your organic business that is north and east, how much lower is the south India sales this quarter on a per square foot basis?
- Lalit Agarwal:** Approximately it was hovering around 20%. I think right now it is around 15% lower, should be around that and that's what it is.



Percy Panthaki: Do you expect over 4-5 quarters that this gap will totally become zero or you still think that south India per square feet basis will...?

Lalit Agarwal: Percy along with you should we definitely make this as an objective or not is the point but provided we should not reduce the rest of India sales per square feet to meet it. We definitely want to increase both of it and try to meet it, only that but also V-Mart.

Percy Panthaki: My last question is on the EBITDA margin front, as you said gross margins are high and you would want to reduce them to get more footfalls and conversions etc. But at the same time do think you can strike a balance so that once your sales per square feet restores, on an annualized basis do you think that you should be gunning for 10% EBITDA margin in FY24 pre-Ind-AS?

Lalit Agarwal: Percy, why are we doubting it. I mean definitely all our objectives and all our business plans should be made to meet all of that. That's what we have been saying but yes, at this situation in this inflationary environment we should not eye for a double-digit EBITDA. But yes, I think somewhere between 8% to 9%, 9% around we should be hovering and that's the objective that we should be looking at but this is not the right time. We'll have the pain; we may have a little higher pain as well in this quarter. We don't know. I mean let's look for it. Which side the camel sits is what is important so I think we should wait. We will definitely put all our efforts to try and meet that.

Moderator: We have next question from the line of Nihal Mahesh Jham with Edelweiss.

Nihal Mahesh Jham: Three questions from my side, since the last few quarters you have been alluding to the fact that there has been a significant weakness in rural and semi-urban markets? Just wanted to understand what according to you will be your key driver for this reversing? There's obviously a lot of expectations being built on the monsoon and as the Kharif crop comes in that things should improve but wanted to get a sense from you that what could drive a reversal in the sentiments as you see forward?

Lalit Agarwal: It's a billion-dollar question Nihal. I don't know who all in the call can answer this particular question but yes but I will try my best. But ultimately what I understand for these consumer segment who are largely our customer base, for them consistency or trust in the consistency of income is a very important piece, followed by stability in their expenses and then the future expenses. I think for here and now right now they are in a in a problem area which can come up both from the way our GDP income grows and our industrial income starts growing the MSPs or the prices of the produce which is there and then the produce which is monsoon related or the acreage of farming and stuff, where that if we see a small risk right now as we speak today because large four states that we are operating in which is Uttar Pradesh, Bihar, Jharkhand and West Bengal is reeling under a low monsoon right now. There is a risk which is available as of now we see that it may end up with the lower rainfall. So, I think definitely that can become a driver one, other than that the driver should also be a trusted future environment which is definitely COVID has not come back. We are not visible; the war get over it or there is no further



geopolitical stress which is created and once again these markets picking on recession and stuff at some point of that also impacts their feel-good factor. I think most of those when it settles down the market will come back.

Nihal Mahesh Jham: The reason of asking this to you is twofold. One is in a lot of your points that you've allude into seem more structural in terms of the fact that you are speaking of speaking of job losses and a lot of others. And secondly you mentioned you've been speaking to a lot of your customers. So, when from the feedback you get, is it that in anyways you believe in any historical seeing that say a good monsoon is something that can reverse it immediately or as you're pointing so this will be more of a gradual improvement that will happen rather than seeing all the demand come back in Q3 if I have to just ask you that specific?

Lalit Agarwal: Great, Nihal. Thank you.

Nihal Mahesh Jham: Fair enough. The other question was that if I understand right, are you alluding to the fact that you'll be looking at sharper pricing in the coming quarters and you will be reversing the price hike you have taken but you won't want to discount that is the thought process going forward. Did I understand that right?

Anand Agarwal: Nihal, for us sharper pricing always is better pricing. We have never resorted to discounting or promotions in a very big way. In fact, throughout our history almost 80% of the product that we sell has always been at full price. That is something that where we always that is a promise that has been to the customer. So, we are looking at sharper price point, in fact not just sharper price points we had inadvertently vacated a few entry level price points which we will now come back to.

Moderator: We have next question from the line of Jignesh Kamani with GMO.

Jignesh Kamani: If you take about CAGR compared to 1Q FY22, our revenue per square feet is declined by around 9% CAGR. While if you compare with other large format, not apple to apple like Super Store or Pantaloons, they are either flat or positive 2%. Just wanted to know what was the reason, are we losing market share to the competitor or everything because if I connect the dots, our conversion remains pretty healthy but footfall per store has declined 50%.

Lalit Agarwal: I think this is what I told, the way what we feel here and definitely there could be multiple other reasons. The 2-3 facts that I said in my opening remarks, one the inflation on their pocket, on their budget. Two, inflation on our product which made it right now. The decisions to come into the store and buy, certain families have actually decided not to go right now, avoid buying or maybe not buy this year. That's how the lot of such lower income group people have taken those calls is what we feel. Plus, definitely some of the customers could have also got absorbed with the competitive intensity which is grown up that could be another reason. We don't know what we don't know. So, we can't just say no to it because there are stores which have come up because



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the market is populated with more organized retail stores, we believe some transition must also have happened.

Jignesh Kamani: Second question is more near term or one year, if you take a key market like, our top three markets, UP, Bihar, Jharkhand. There's one of the wash rainfalls like UP is rain deficit like UP has almost 40% rain deficit, Bihar is 35% and Jharkhand is almost 50%. Do you think it will impact the entire disposable income from these three markets which is almost 50% of our store count.

Lalit Agarwal: So Jignesh definitely it is not good news but in the past what we have seen is one monsoon impact doesn't create a large impact on the consumption base. In the past we had this consecutive bad monsoon 2 years. When the second-year bad monsoon happened then only we saw a higher impact of consumption. In the first year of monsoon going down there was an impact but not a large impact.

Moderator: We have next question from the line of Shirish Pardeshi with Centrum Broking Limited.

Shirish Pardeshi: I think you have given a picture where the things are not in shape and size and you are saying that the rural consumption is falling. However over 10 years we have always been very positive in terms of the lower pop strata and giving them the basic style and the product at the right price. You did mention that there is a heightened activity which you have seen because of the inflation and other thing but just tell us that this income strata you have seen over many years. What is it that we have done not right in this time but because 2-3 times you mentioned that we have taken a wrong decision?

Lalit Agarwal: Yes, Shirish I think you're right. I would not say that the shape and size is bad. The shape and size is perfect but the situation right now is little mobile and dynamic where the customer is also confused. There is a stress on his pocket which you have to understand because if you look at a normal consumer who is a blue-collar consumer, earnings Rs. 20,000 a month, for him in the last 2.5 years he has lost almost six months of his income, whether he was a self-employed guy or he was a person working under self-employed. They have either not got the salary or got reduced salary. There is an impact which has happened in the past 2.5 years that is they are reeling under, then followed by that is inflationary pressure that they have. There is a pressure on his pocket on his household, you have to understand their budget, you have to just go down to their budget and see what is that he used to spend where and how does it impact them? So that is what I was in fact indicating. But yes, definitely this market from a fundamental point of view is the best market, is supposed to grow definitely in the longer and midterm but this is only at a shorter term I'm demonstrating this. Plus, what we did is what I accepted saying that we passed on both the inflationary trend as well as the GST price rise which was going to come in the tax rate which was going to come in. We also anticipated the tax to come in and we also passed on that tax right now to the customer. But that is definitely our awareness and our realization and now we are reversing those so that we get back those customers and support the customer in this inflationary trend to manage their household income.



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Shirish Pardeshi: Second question on when I look the Unlimited piece, from the Quarter 4 if I look at, we were at 73 crores, in Quarter 1 we have moved to 118 crores, so 60% jump in the revenue. What is it that which was going right or is it because of that our efficiency and the motivation and the programs what you've done for the employees of Unlimited, is that the impact or really there is a growth in the footfall and the market is really growing at that price point?

Anand Agarwal: Shirish, it is not one single aspect. I think it's a culmination of multiple things. Starting somebody people itself, second is the way we have integrated the entire process, we have done the entire merchandising revamp, the assortment revamp and also taken significantly higher bets on populating that part of the country with much higher inventory because we also wanted to experiment and understand what more can we do there. Even today we continue to experiment and we continue to explore newer markets with newer inventory to understand what more can be achieved. We still feel that the glass is still half full. We have still a lot of way to go there. It's not just that we have to match that region's performance to V-Mart level. I think if the opportunity's bigger we may just want to look at even a much larger opportunity than what we are currently at.

Shirish Pardeshi: Anandji I got what you're saying but when I look back when we acquired exactly a year before, in the September month year before we did almost about 50 odd crores and that run rate has moved to maybe 27-28 crores per month in this second half last year. Right now, the average comes out around 40 crores. So, is that the right number you look at on the core business we will be able to achieve? What I'm trying to say that this performance is heartening and it is good but what can go further, of course you have been guiding that you will add stores and other thing?

Anand Agarwal: There is no magic here. One is there is a seasonal impact. When we purchased this, there was a particular business cycle which was happening there. There was also a seasonal cycle in terms of what is the kind of product that was available there, what was the inventory size there and therefore their ability to do X amount of sales was also constrained by their historical performance. Given the fact that they have that region now has accessed to much larger pool of inventory, much more focused efforts on making sure that business has to do well. Therefore, also for ourselves we have not set up that we have to achieve only Rs. 600 or 800 per square feet. We are still trying to understand as you ask what is the level up to which we can go. We also don't know what level we can go up to but we are trying and we are trying to make it work even better.

Shirish Pardeshi: So Anandji what I was trying to understand, what you mentioned that there is a pricing correction which we are going to take, our core business which is V-Mart, is the same issue you are seeing in the western and southern market and the Unlimited franchise?

Anand Agarwal: No, not as much. Actually, the southern India market has two distinct differences. One is, it is largely more in Tier 1 and Tier 2 towns. Second is that it also has a good representation in mall stores. We are very clearly seeing a K graph kind of a recovery where the bigger towns even in V-Mart segment in north India and east India, we are seeing bigger towns performing



significantly better than Tier 2, Tier 3 towns and same thing we are seeing in south India as well. The mall stores are doing much better than other stores. The Tier 1 towns are doing much better than tier 2 towns. Tier 2 towns are doing much better than Tier 3 towns and the income levels there also are slightly better and the inflation impact also is less evident at least in that geography.

Shirish Pardeshi:

That's really helpful. My last question on the consultant. If you can elaborate something more that when did we appoint and what by what time we will get the understanding and the work which the consultant is providing and maybe a roadmap how we are going to implement and when we can see the fruit of the consultant working with us and more to quantify, is there any quantifiable target made, be in terms of franchise or in terms of the cut in inventory or maybe some savings or something, so broadly if you can specify 2-3 parameters on which we are measuring?

Lalit Agarwal:

So, Shirish you are asking too many things. But anyway, it will be a good information for our competitors as well but I don't know how to really tell you everything which can happen. But yes, if I say some of the areas where we are working on, this project has already started almost it's about 6 months back or 6 to 7 months back. It is definitely going to continue another year. There are targets of bettering the business, primarily bettering the business bettering the per square feet outcomes both in terms of sales as well as the margins or largely it is more about scaling up or trying to develop a scalable structure so that we are able to continuously keep that on and have the better perspective on product, a better sourcing ability on product, a better margin on the product and a lower inventory level of the product. So, everything has to come up. And primarily it is the GMROF is an outcome or the sales per square feet is an outcome of how much are we able to sell more, how much are we able to forecast better, how much are we able to allocate better and how much are we able to have the best product and the best design at the best value? It involves all these areas including the retail operations.

Moderator:

We have next question from the lineup Aliasgar Shakir with Motilal Oswal.

Aliasgar Shakir:

Just one bit question is, so we did speak about base correction that we would want to take. If you can just quantify what is approximate kind of a price correction that we....have you already taken it and what is the kind of initial response that we are seeing?

Anand Agarwal:

So, Ali, we had taken a price increase of almost to the tune of 17% to 18% in the last 1 year. It does not just a matter of price correction across the spectrum but definitely we are looking at correcting some of the more attractive price points and where the customer demand we are seeing has dampened. So, some price points may see a price correction of 5% to 10%, some may see slightly higher and some may not see a change. But at an overall level probably the correction might be in the range of 5%-6% and not more than that. but having said that there is also an external factor of cotton yarn prices which continue to remain very up and down and therefore if there is any significant change in the macro factors as far as the raw material supply is concerned, we may need to relook at the situation. As of now we are going ahead with some amount of correction in the price assortment bucket for the entry level customer.



- Aliasgar Shakir:** Have we already taken it in our and fresh inventory. If you have any feedback from there?
- Anand Agarwal:** Yes. We have already taken that. While this is not the fresh inventories just about to hit the stores but the full impact or the real impact of this will start getting visible from 15th of August onwards.
- Aliasgar Shakir:** Basically, before the festive season we will be having the updated products.
- Moderator:** We have next question from the line of Ekta Sanghvi with Vallum Capital.
- Ekta Sanghvi:** I just have two questions, so actually our other expenses as a percentage of revenue used to be in the range of 14% to 15% pre-COVID and now it is higher and that could be because of Unlimited probably. Can we expect it to go back to those pre-COVID level?
- Anand Agarwal:** So Ekta, yes, you're absolutely right. There's a large impact which is coming in from Unlimited. It is not only in this quarter, if you look at the last quarter and the quarter before that as well there was a marginal impact coming in from that. The Unlimited OPEX structure is definitely slightly on the higher side. While that business has a 20% revenue mix but on the expense side, it has a slightly disproportionate mix. But having said that as we continue to open more number of stores in south which are all at the V-Mart business model and the economic structure, this will get mitigated in the years to come. It will not happen overnight. It will not happen within this year but it will take probably a couple of years before that averaging out a phenomenon can happen. The second part also to the same question is that because the sales, the same source sales growth has been dismal as compared to pre-COVID levels, the expenses as a percentage to overall revenue definitely look slightly more optically higher but otherwise at a per square feet level they still remain under control.
- Ekta Sanghvi:** The second question is, in the last call I think you guided that the CAPEX costs for FY23 would be around 60 Cr however like according to our usual percentage of store addition of 15% for V-Mart and Unlimited, it seems like the CAPEX required will be more than 100 Cr based on your past average CAPEX per store. So, could you explain this difference?
- Anand Agarwal:** No, we have not said 100 crores anywhere. I think we have guided for a number of store additions of around 60 and in today's call we said it might be more than 60 number of stores. The CAPEX per store is usually around 1 to 1.2 crores per store. Plus, there is a working capital input of roughly around 60 to 80 lakhs. Therefore, the cash deployment for this new store expansion in totality should be around 100 odd crores or maybe a bit more. Plus there is a new warehouse which is getting built and on that and the CAPEX spend in the entire year should be around the 70 to 80 crores.
- Moderator:** We have next question from the line of Gopal Nawandhar from SBI Life Insurance.
- Gopal Nawandhar:** If you can give some color on our digital sales and at the profitability for that channel and what is the kind of contribution it has on the total sales?



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Anand Agarwal: So digital as of now still contributes roughly around 2% to our revenue mix. As I speak to you, we are continuously working on making it grow and we have made a lot of changes and we continue to make a lot of changes to propagate that further. As far as the profitability of that business is concerned as of now it is not a profit-making business but there are early green shoots that we are able to see that as we scale and as we grow it further it should come into black in the near future. Definitely we are not looking at us significant profitability or the same level of profitability as the offline business as we continue to invest in this part of the business which is more from a future safeguard and to make sure that we remain relevant to our omni-customer which can come through any channel.

Lalit Agarwal: I also want to add here Gopal. This is also an issue where right now we are on a business building stage where definitely we are not the best or the best operating team technically and we don't have that best efficiency available. We don't know the online customer grid. We don't know how to acquire online customer grid and to deliver them. We are also on the process of learning, identifying areas of mistakes that we are doing. We are also not going very high because we know this is not our area of expertise. The market here is very expert and market definitely is working more on negative margins and trying to acquire more customers. So, there is a lot of learning which has to happen yet. There's a lot of capability addition, capability development which needs to happen yet before we can actually build a profitable business. The model that we have built is definitely a framework is very nicely for that. We are trying to gung-ho and work more on omni-retail side, so that we are able to convert our existing customer towards if their needs on online is there. That's the overall approach that we are trying to take.

Gopal Nawandhar: And how many of stores will be omni enabled now?

Lalit Agarwal: Right now, there only around 90 stores which are omni enabled in all together where some stores only for our own online portal and some are listed for market places but we are trying to bring all stores in this particular network free.

Gopal Nawandhar: When we say like June-July when we are seeing business coming back. So, is it like across regions it is or the higher proportion of online is helping in terms of business coming back?

Lalit Agarwal: Definitely right now online contribution is very low. That will not be able to drive a lot of business coming back. Yes, largely the business come back is from our markets and still those markets which has and I will just explain you, a higher per capita income market is giving us a better response. A lower per capita market still is struggling. Like for example a market in a small district in Bihar maybe for example a district called Darbhanga or small district called Sehore which is the lowest per capita district of the country. There struggling is little more higher because there the impact on the consumer is little more higher versus a Lucknow or Patna or a Bangalore or Delhi.

Moderator: We have last question from the lineup on Ankit Kedia from PhillipCapital.



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Ankit Kedia: A couple of questions from my side. Just wanted to know the store opening strategy of Unlimited given that Tier 1, Tier 2 markets in south are doing better and our cluster-based store openings. Are we opening the stores in the similar cities? We are going for more Tier 2, Tier 3 cities because the unit economics with V-Mart it makes more sense to open in Tier 3. If you can just share some store openings, how are we doing in south?

Lalit Agarwal: I think our fundamental model is definitely focusing on our target segment and our target customer group and those customers we still believe in and we definitely believe we are mostly for them. There is a huge market and there are lot of such towns in southern India which is the strength of V-Mart where a model like V-Mart needs to exist and is not there. We have a large opportunity to get into those markets and all the new stores that we have opened up till now or that we are planning to open up are largely towards Tier 3 market and we will want to penetrate that market as soon as possible so that we get some first mover advantages as well.

Ankit Kedia: In the north, are you seeing demand being hit across categories because footfalls itself are not coming because like in women's wear ethnic we are slightly weaker and if families coming if price points are higher probably the family's not walking-in in our store. So, with the correction, are we also correcting the assortment wherein we are focusing more on women's wear products which we were slightly weaker or that is for some time later?

Lalit Agarwal: So, you are right, definitely we are working on all of that. I think some of that working has also shown result in this quarter on that particular segment that you are speaking of. But we still have a long way to cover. We definitely need to build lot of capability. One more one more information that I wanted to give. We have also changed our merchandising head, our buying and sourcing head. Then the person who has come in, has a better experience on the women's ethnic. We definitely want to drive that particular category and improve the sales on our women's wear contribution.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now like to hand the conference back over to the management for closing remarks. Over to you sir.

Lalit Agarwal: Thank you everyone. Definitely there was lot of series of questions and there seems to be anxiety over the growth and stuff but believe me and let me tell you once again that this particular market seems to be very interesting, not only to us but to the entire globe and the entire conglomerate and the entire retailers. All the retailers are trying to chase this market because there is a huge juice and lot of juice available in this market. We definitely are the best one for this market, knowing this market and will want to capture this market more and more and retain our market share, not only retain but increase our market share. We will do most of those. There are challenges that are available and we will want to fight it with a longer-term mindset, not with a shorter-term mindset. You will always see us behaving in a little longer-term mindset and not just focusing on increasing the sales or increasing the profitability but yes, definitely retaining the customer, but retaining the customer's trust which is much more important than this. With this call I would want to thank all our team members, all our stakeholders and all our auditors



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and everyone who have helped us in this whole journey. We will definitely want to perform and do better. Thank you, all the analysts and investors who have been with us, for your continued support. We'll definitely come back whenever there are a few more updates which is to be made. Thank you and see you, have a good day.

Moderator:

Thank you very much sir. Ladies and gentlemen on behalf of Spark Capital Advisors that concludes this conference. Thank you for joining with us and you may now disconnect your lines.