29th January, 2025

BSE Ltd.
Corporate Relation Department,
Listing Department,
Rotunda Building, PJ Towers,
Dalal Street, Mumbai – 400 023.
Scrip Code: 532867

National Stock Exchange of India Ltd.
Listing Department
Exchange Plaza, C-1, Block- G,
Bandra Kurla Complex
Bandra (East) Mumbai–400 051
NSE Symbol: V2RETAIL

Sub: Transcript of Earnings Call Q3 & 9 Months FY 2024-25 - Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Pursuant to Regulation 30 read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI Listing Regulations), please find enclosed the transcript for the conference call with the Analysts/ Investors for the Q3 & & 9 Months FY 2024-25 Financial Results of the Company conducted through digital means on Friday, January 24, 2025.

The transcript shall also be uploaded on the website of the Company. You are requested to kindly take the above on record.

Thanking you,
YOURS FAITHFULLY,
FOR V2 RETAIL LIMITED

SHIVAM AGGARWAL

Digitally signed by SHIVAM AGGARWAL
DN: c=IN, postalCode=110094, st=DELHI, street=NORTH EAST DELHI, l=NORTH EAST DELHI, o=Personal, serialNumber=3e8894d34adc5ec70046a4e579ac34acd476836a6caa13e0b6f28c5c680199a5, pseudonym=613d52fbb3f9237bf08489fac202c3b4, 2.5.4.20=b29f938f6588a23bc19439d3b96d7a4c283a36630f928bf77e25f2e09ab2c161, email=FCSSHIVAM1994@GMAIL.COM, cn=SHIVAM AGGARWAL
Date: 2025.01.29 13:45:45 +05'30'

SHIVAM AGGARWAL
COMPANY SECRETARY & COMPLIANCE OFFICER

Encl.: As above

"V2 Retail Limited
Q3 & 9 Months FY '25 Conference Call"
January 24, 2025

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the Company's website will prevail

MANAGEMENT: MR. AKASH AGARWAL – WHOLE TIME DIRECTOR – V2 RETAIL LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the V2 Retail Limited Q3 and 9 Months FY '25 Conference Call. 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.

Before we begin, a brief disclaimer. The presentation, which V2 Retail Limited has uploaded on the Stock Exchange and the website, including the discussions during this call contains or may contain certain forward-looking statements concerning V2 Limited business prospects and profitability, which are subject to several risks and uncertainties, and actual results could materially differ from those in such forward-looking statements.

I now hand the conference over to Mr. Akash Agarwal, Whole Time Director, V2 Retail. Thank you, and over to you, sir.

Akash Agarwal: Good morning, everyone. A very warm welcome to our third quarter and 9 months FY '25 Earnings Conference Call. I hope everyone has had an opportunity to look at our results. The presentation and press release have been uploaded on the Stock Exchanges and our company's website. We are thrilled to report a stellar overall performance for the first 9 months of the financial year. The company has been able to deliver industry-leading performance despite higher base and overall subdued consumer sentiment.

We believe the outperformance is a testament to the success of our strategic initiatives, which have driven excellence in innovative product development, enhanced store experiences and exceptional customer satisfaction. At V2 Retail, the strategic initiatives undertaken so far and also those under implementation has a potential to further improve our overall performance positively.

Let me start with the key updates. Revenue for 9 months ended December 2024, surpassed our historic FY '24 full year revenue from operations. Company's PAT of INR65.6 crores for the 9 months ended December 2024 has been at historically high level surpassing highest-ever yearly PAT. The company opened 45 stores and closed two stores during these 9 months, taking our total store count to 160 stores. We have added another three stores during the current quarter, taking the total store count in January to 163 stores. The store addition momentum will continue as we have a very healthy pipeline of upcoming stores.

The growth across all our stores have been very encouraging, translating into a robust same-store sales growth of 31% in the 9 months of this financial year. We have been able to consistently deliver high double-digit SSG for the last few quarters due to our customer-centric and product-first approach. The volume growth has been 43% in the 9 months of this financial year. The full price sales contributed 91% in these 9 months as compared to 85% in the 9 months of the previous financial year. We believe that our sustainable and scalable business model will help us to improve our ROCE and ROE going forward.

Now some performance highlights for the third quarter. Revenue from operations stood at INR590.9 crores, registering a growth of 58% Y-o-Y basis. The gross margin stood at 32.1% in the third quarter as compared to 31.4% in the corresponding quarter last year. The EBITDA for the third quarter stood at INR111.5 crores as compared to INR60.9 crores in the third quarter of last year, registering a growth of 83% on a Y-o-Y basis. The EBITDA margin stood at 18.9% as compared to 16.3%. The PAT for the third quarter stood at a record INR51.2 crores as compared to INR23.6 crores in the corresponding quarter last year, registering a stellar growth of 117%.

Now talking about the performance highlights of the 9 months. Revenue from operations stood at INR1,386 crores, registering a growth of 60% on a Y-o-Y basis. Gross margin stood at 29.8% as compared to 30.3% in the corresponding 9 months last year. The EBITDA for the 9 months stood at INR200 crores as compared to INR116.4 crores in these 9 months, registering a growth of 72% on a Y-o-Y basis. The EBITDA margin increased from 13.4% to 14.4% in these 9 months of this financial year. The PAT for the 9 months stood at a record INR65.6 crores as compared to INR24 crores in the corresponding period last year, registering an amazing growth of 172% on a Y-o-Y basis.

With this, I now leave the floor open for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. We will take our first question from the line of Abhishek from AB Capital.

Abhishek: First of all, congratulations on great set of numbers. So my first question was that you had guided for PAT of around INR60 crores for the whole year. Now we have already achieved that in Q3. Does that mean that you expect Q4 to be like Q2 as an EBITDA positive, but PAT flat? Or can we expect some PAT in Q4 as well?

Akash Agarwal: So this time, Eid is in March, so we are expecting a positive PAT number in Q4 as well.

Abhishek: Okay. Okay. My second question is at a broad level, like we have been having a great run for the last 1, 2 years. So how long do you think we can continue this kind of 50% year-on-year sales growth? Like how long till we hit the glass ceiling?

Akash Agarwal: The plan is to continue this growth for the next decade. This is just the beginning for us, and we want to grow at, at least 50% revenue for the next 10 years.

Abhishek: Okay. Another thing is, I saw that you have increased your average selling price to INR343. Do you think this is the maximum or it can be increased more?

Akash Agarwal: So there are two things happening here. One is the change in product mix. So the contribution of apparel has increased from, I think, 89% to almost 93%. So the ASP in apparel is higher. And we've also gotten rid of a lot of entry price point ranges where we couldn't offer a differentiated product to our customers. So it's a combination of both, but I don't think there's much more scope to increase the ASP. It should be maintained at a plus 5% to 10% or minus 5% to 10% level.

Abhishek: Okay. And my final question is you had, I saw in an interview that you had told that you will open, you plan to open around 100 stores next year. So are you planning to raise some capital or it is entirely internally accrued?

Akash Agarwal: The 100 stores that we're planning for next year will be opened through internal accruals. Our cash flows enable us to do so.

Abhishek: Okay. So no plans to raise any capital in the immediate future?

Akash Agarwal: It all depends on the market situation. Due to our past experiences also, we have learned that it's always, if you're fairly valued by the market, it's always good to have some extra cash on the books. But it won't be to like fund the expansion because that will be sufficient with the internal accruals. So it will be more to just have some war chest or just some extra cash on the books.

Moderator: Next question is from the line of Varun Singh from AlfAccurate Advisors.

Varun Singh: Many congratulations for such a great set of numbers given that consumer-facing so many other companies are struggling for growth. So my first question is on the key growth enablers with regards to whatever number that we are delivering and the incremental amount of hard work that you are putting up, if you can highlight something on the work that you are doing, which is yielding such a great set of results?

Akash Agarwal: That conversation would be an hour long because we have almost started and implemented 50 different projects, and there are 50 other projects that are being implemented right now. So it has been led by product development, improvement in supply chain, improvement in freshness of the inventory.

Varun Singh: No, no, we can reduce this entire just product development itself. So incrementally, if you wish to highlight anything, what else are we doing out there? Just on product development itself?

Akash Agarwal: Yes. So currently, our product development is still only 35% of our total product offering. And as that contribution is increasing, you can see the stellar numbers and it's been reflected in the numbers. So we are very excited about the future prospect because we want to take this number from 35% to almost 80% by next summer. So I think that will be the biggest driver and working harder on sourcing, costing, fabrics, fits and also product development.

Varun Singh: 35% to 80% next year, Akash, if you can talk about any key recruitments also that we are doing to for enhancing our abilities on this front?

Akash Agarwal: Yes. So we were building the team for the last 2 years. Now we have almost 150 people working directly or indirectly in the buying and merchandising and product development team. So it was about building a foundation, building a base. And now I think it's time to get the productivity and build the systems. And already the processes are set, the SOPs are set.

But we wanted to take a gradual approach because we didn't want to undertake a lot of risk, increasing the product development in 1 season, doubling it. So that's why we are taking a cautious and a gradual approach and increasing it 5% to 7% every month or every 2 months. And we've got a very good response till now.

Varun Singh: Understood. Understood, very fair point. And secondly, on the same-store sales growth number, which is 25% and very, very strong and robust number. What kind of number you think that is possible for us in Q4, I mean, in the near term. And of course, I think in the long range, you keep talking about 12% to be quite an achievable set of number. But I mean, any view, outlook that you want to share on this front?

Akash Agarwal: So it's a very difficult question to answer because when we got an SSSG of 31% last year, we thought now the base is higher, so let's only project 10% to 15% this year. But, we delivered much better, exactly. And we surprised ourselves. So again, for the next year, we're taking a target of 10% because even with 10% with a base of more than INR1,000 per square feet sale per month, we achieved quite good numbers.

So we believe it's always better to understate and over deliver than setting unrealistic targets.We are working hard to continue this momentum. But when we talk to investors, when we give growth numbers, we say even if we get a 10% SSSG, that's very, very healthy for the business.

Varun Singh: Understood. Very helpful. And just one last question. Given that we are becoming so much popular and which is also well reflected, getting well reflected in revenue per square feet number, etcetera. So your thought on how we are dealing this box retail strategy with regards to the look and feel of the store, refurbishment policy.

So anything you think strategically, you want to continue what you are doing right now? Or given that we are inspired by all great retailers globally, India, etcetera, do you think there is a need for change on that front? That's my last question, Akash.

Akash Agarwal: We feel there's a need for change in each and everything. The learning process never stops and especially the store look and feel and the aesthetics. So we are working on it. We have given the project to an architecture firm. And we are working on the lights. We are working on the fixtures. We are working on the layout. So definitely, there will be some improvement every year on that front as well.

But yes, we are working on it. And maybe that will increase our capex by INR100 per square feet 5% to 10% there might be an increase in capex for a new store. But the new stores that we're rolling out will be significantly better than the ones that we're running. And the refurbishment is also under process. So all the stores that need refurbishment are being done according to the new layout.

Varun Singh: Currently, what is the policy of refurbishment? I mean I understand it will be different for different stores, but still any rule of thumb you want to call out?

Akash Agarwal: So different fixed assets have different life. So it depends. So the lights have to be changed, for example, every 5 years. The fixtures have to be changed every 10 years, so it's different for a different class of fixed asset. So there's regular refurbishment happening at all stores.

Moderator: Next question is from the line of Palash Kawale from Nuvama Wealth.

Palash Kawale: Congratulations for the very good set of results on a such a high base. Sir, my first question is on the expenses - operating expenses. Both your employee expenses and other operating expenses on a per square feet basis have reduced year-on-year. So would you like to point out anything that you're doing? Or have you decreased the average employee count per store?

Akash Agarwal: So the major chunk of that is the head office cost. So as we open more stores, we're going to leverage that cost and spread it across a higher retail space area. So you're going to see that happen because the same 450 employees in the head office that were servicing 100 stores are now servicing 163 stores.

Palash Kawale: Okay. And sir, what is the average employee count per store for you?

Akash Agarwal: It is around 30 to 35 people in a 10,000 square feet store.

Palash Kawale: Okay, okay. And sir, how many stores are in pipeline for Q4?

Akash Agarwal: We would open about 20 to 25 stores in Q4.

Palash Kawale: Okay. So around 70 stores for the full year is what you're guiding?

Akash Agarwal: Yes.

Palash Kawale: And sir, do you see this business momentum continuing for Q4 as well because again, this was Q4 is also on a high base?

Akash Agarwal: Yes, we have seen the trend continue in January. And hopefully, it should continue throughout Q4.

Moderator: Next question is from the line of Gaurav Jogani from JM Financial.

Gaurav Jogani: Congratulations on our industry-leading performance. My first question is with regards to the store guidance that you have given of 100 stores probably in the next year. Now given that the store addition would almost be more than 50% odd, would that, in any way, impact the revenue per square feet given that these stores would be opened at different stages of time and, probably, they would be in different stages of maturity as well. So any sense on how the revenue per square feet could shape for the next year?

Akash Agarwal: So even if you look at this year, we are opening 70 stores in this financial year and I think we started the year with 106 stores. So it will be the same effect on the revenue per square feet because we are targeting an SSSG of 10% in the old stores. And we project that the new stores will do 20% less per square feet sale than the old mature stores because new stores take about 2 to 3 years to mature. So you can take out, calculate the blended per square feet sales. But even if we get a 10% SSSG and we add 50% new area next year, we should still be above INR1,000 per square feet revenue per month.

Gaurav Jogani: Okay. Sure. The next question is regard to the ASP. You said that you are now at least or your desired level ASP, you are nearly there and probably you could see some correction there. So what would be leading to that double-digit kind of an SSSG growth for you, if you can break that up? I mean, would it be largely volume-led? Even if it's volume-led, how are you planning to drive that?

Akash Agarwal: So yes, it will be primarily volume-led. As I said, the ASP would hover plus minus 5% from the levels. And we expect to do the volume growth with the strategies that I already mentioned that is increasing the product development percentage, passing on the cost benefit to the consumer, more robust supply chain. We increase the number of sizes that we offer in each option and it's all about better assortment planning and having a better design that the customer converts and does a good word-of-mouth marketing for your brand.

So we have seen that in the last, I would say, 7, 8 quarters, and we hope that it continues because we are working harder and the new season that we are planning is significantly better than the season that we just finished. So that gives us the confidence in terms of designs and acceptability of the products.

Gaurav Jogani: Sure. And last question from my end, Akash, is with regards to the entire value fashion industry. I mean, we have seen a strong rebound in the entire industry since the last 1.5 to 2 years. And if you can highlight, at your end, what are you seeing, if you expect this kind of growth for the industry to sustain and especially the competitive intensity, given that more and more new players are also coming in seeing this attractiveness of this industry. So some comments from your end on the competition side and the overall industry segment will be helpful.

Akash Agarwal: So we see it as an opportunity because India still has the highest share of unorganized retail, especially in the value fashion space. So even if more players are entering, more organized players are entering, at each price segment, India has a big enough consumption market to accommodate 4 to 5 big national level players at each price segment. So we see that as an opportunity because when you consolidate, you get economies of scale and it gets harder and harder for local mom-and-pop stores or single store brand to compete. They cannot spend on product development.

They cannot source at 10% to 15% lower cost. And so the customers and they start seeing that visible difference. So I think the shift from unorganized to organized is accelerating this growth. So India is poised to grow at 6%, 7% and then you add value fashion is growing faster than overall apparel market. And then you add on top of that the shift from unorganized to organized, so I think in the next 10 years, it should grow at a CAGR of 13% to 15%.

Gaurav Jogani: Sure. And so just to follow up here. I mean, this growth is actually seen in the past 2 years, while the opportunity has always existed. So what exactly has changed according to you that is leading to this faster shift towards the organized players?

Akash Agarwal: I think brands like Zudio have cleared a path or shown to people that, what is the potential of this space. And I would say, even us, we started product development 4 years back, we could have started it 14 years back. But like they say, you see the potential of a particular market and people had to innovate and they had to change their business model. And I think that's why people you see people doing better because a lot of brands have also shut down, those who couldn't keep up with the requirements of competing in this type of a market.

So the consolidation happened and the strong people who were able to innovate and who were able to execute better, they are still operating. And I think this learning process and this evolution will continue. And whoever comes out the strongest the 4, 5 people, like those will be the top 100 valuable companies in India.

Moderator: Next question is from the line of Ankush Agrawal from Surge Capital.

Ankush Agrawal: Akash, congrats on a great set of numbers. Just a quick data point, if you can share the gross debt and cash number as of Q3 end.

Akash Agarwal: So the total debt on the books is INR75 crores. That's a credit limit that we have from the banks. So we offer a bill discounting feature to all our vendors where any vendor can get their payment whenever they want at a particular discount rate, so we use the facility to fund that. That is the only debt on the books.

Ankush Agrawal: Okay. So this is the debt that signifies the bill discounting. There's no other working capital debt on the books you're saying?

Akash Agarwal: It's a mix of both, but more primarily, it is used for bill discounting.

Ankush Agrawal: Okay. And cash?

Akash Agarwal: I don't have the exact cash number, but there would be like, I think, INR5 crores, INR7 crores of cash on the books. We try to utilize the whole CC limit because we get a better benefit. So the cost of capital for us for that CC is much significantly lower than the discount rate we charge from the vendors. So we try to utilize the whole limit.

Moderator: We'll take our next question from the line of Chirag Shah from White Pine Investment Management.

Chirag Shah: Akash, one question. You spoke about premiumizing the look and feel of the studio, right? So what is the third process? Is it a natural progression? Or you want to attract different type of customer? If you can just share that because you are clearly not looking to ramp up the pricing of the product, that is the strategy you want to continue.

Akash Agarwal: Yes, so I think there's a misunderstanding. We did not talk about premiumizing the store. It was just about uplifting the overall shopping experience for the customer. For example, if you are spending more on the lights so that means the garments would look better, the colors will look more vibrant. It would be a brighter store. So we are not premiumizing the store. We are just uplifting it aesthetically and trying to make the customer experience even better.

Chirag Shah: Okay. And actually, I had a follow-up on this because any thoughts of trying to widen the customer profile, say, something someone like a Zudio-type of a customer, while product quality could be similar, they may not be coming to V2 for variety of reasons. So any thought process on that side? How we will look to attract that kind of customer?

Akash Agarwal: I think I mentioned this point also. That is why we have removed certain entry price points where we couldn't differentiate our products or where we had to offer a product with a substandard fabric quality. So we are trying to focus on the value segment. So for example, earlier, we used to start selling T-shirts from INR99 and we used to go till INR700, INR800. So now what we've done is we start from INR199 and we go up till only INR499.

So we are focusing on that value segment where we can differentiate our products, where we don't have to offer substandard products and we have removed premium and super premium also. So I think as we improve the product offering, the customers that you're talking about are a little higher middle class customer who is not currently coming to V2 would start coming to V2 as well.

Chirag Shah: Okay. And you don't think the look and feel of the store would be a big hindrance? If they want to come for the product, they will come irrespective of the designing of the store. That is the underlying fundamental concept, right? The product quality matters rather than the look and feel?

Akash Agarwal: So again, we are uplifting the look and feel also, not necessarily premiumizing it. So if they get a basic shopping experience where there's no hindrance and everything is smooth. I think just for the assortment and the price, they would still come, yes.

Chirag Shah: And the last question, if I can, on the designing side, if you can just share an update. Have you beefed up the designing team? If you can share your thoughts versus what it was last time last year?

Akash Agarwal: Yes. So I would say we have added about 35% more designers. Earlier, I think we had 15 designers. Now we have 24 designers. And again, it's not the bandwidth of the team. It was our planned approach where we wanted to increase the product development gradually so that there were no risks to the business. So current team has the bandwidth good enough to do 80% product development.

Chirag Shah: Okay. And one last question, if I can. Sorry for this. The newer geographies that you were trying, in a sense, looking to enter. Anything you would like to add any success stories? Any regions you have finalized that these are the areas that you want to focus apart from the traditional way of expanding that you are doing?

Akash Agarwal: Yes. So we entered 2 new markets. One was Andhra Pradesh and one was Rajasthan, and both locations, we've got a very good response. So what we do is there's a lot of learnings to be gathered in terms of data, assortment. So then we become more comfortable in opening more stores in that particular state. But 70% to 80% of the stores that we were opening are in existing clusters that we already have stores in. But looking at the next 3- to 5-year horizon, we want to be a national level retailer. So we will definitely, the 20% stores, we will enter new markets and test new waters because we are catering to almost 80% of India.

There are value-conscious customers everywhere who are looking for affordable, good fashion and good quality products. So until now, it has been very encouraging, the kind of response and the customer feedback that we have got from all these new markets. So we will keep exploring new markets to get that learning so that we can expand in the future horizon.

Moderator: Next question is from the line of Onkar Ghugardare from Shree Investments.

Onkar Ghugardare: Congrats on a good set of numbers. You just talked about setting realistic targets. So you are targeting around 10%, 15% kind of SSG growth, maybe 10% for the upcoming financial year, but maybe 10%, 15% for the next couple of years. But you also mentioned that the industry would be growing at 13% to 15% for next decade. And earlier, you mentioned that you aspire to grow 50% for the next decade. So does all this match?

Akash Agarwal: No. So when we say we want to grow 40% to 50% revenue, that means 10% from the same stores and the rest would be inorganic growth. So that will be coming from new store additions. And when you talk about industry CAGR of 15% that is not same-store sales growth. That is the overall size of the market. So that is all the new stores that are opening in the industry combined. So when you compare our revenue growth, that is 40% to 50% versus an industry growth of 15%.

Onkar Ghugardare: So what do you think this 40% to 50% kind of CAGR for the next decade, is it realistic in terms of like achieving it with maintaining the EBITDA margin and being a national level player?

Akash Agarwal: It all depends on the level of execution. If we keep executing our plans well, if we keep implementing these good things in terms of process, product assortment, and the sales numbers speak a lot where the footfalls are increasing even when our advertising spends are going down. So that tells us that the customer is really accepting the product and really liking the product.

So if we keep executing our plans well, then India can have easily 5,000 stores of a similar model. It's big enough to accommodate 5,000 stores. So there's no looking back. But again, we aspire to grow at that number for the next 10 years, but it all depends how well are we able to execute our plan.

Onkar Ghugardare: Okay. And what would be the sustainable level of EBITDA margin range you can give?

Akash Agarwal: So I think last year, we had a 6.8% EBITDA pre-Ind AS. And this 9 months, it's already, I think, 8%. So going forward, we want to reach the number of 10% pre-Ind AS EBITDA margin. So if you are able to establish a strong enough model and you're able to create that brand in terms of you're the best in value fashion, then that 10% pre-Ind AS EBITDA looks achievable to us in the next 2 years.

Onkar Ghugardare: Okay. And this like seasonality in Q2 and Q4, like how it will be in the upcoming years? Will it still persist? Or it will be like normalized over a couple of years?

Akash Agarwal: So now we have been able to increase our base to such a level where we can say all 4 quarters now we will be EBITDA positive. But definitely, Q1 and Q3 will be the highest revenue and profitability quarters. But now we would be EBITDA positive in all the 4 quarters if we are able to maintain this base because we've been able to increase our base from around INR600-odd per square feet per month to almost more than INR1,000.

Moderator: Next question is from the line of Chintan Sheth from Girik Capital.

Chintan Sheth: Kudos to the team for the spectacular performance so far. So on SSGR, you guys are targeting 10% kind of number. And the key point, which you mentioned in your opening remarks is the product development and the projects, which you have been executing over the last 4 years, which is the key fundamental, which drove your SSGR.

And you continue to improve and upgrade and innovate on those lines to sustain that SSGR at 10% to 15% over medium to long term. So my question is this product development, which you mentioned about 30%, taking 35%, taking it to 80%. Does that mean, we are merchandising or designing our own product in-house. That is the thing, right?

Akash Agarwal: Yes. That is the thing because private label is already 90% to 95%. But out of those, only 35% is products that were designed in-house from scratch. All the other products have some input from our merchandisers, but not all the components are controlled by the V2 team, but we want at least 80% of the products to be designed in-house from scratch. That includes each and every component of the product.

Chintan Sheth: Okay. And this designing part, what is the funnel or what is that drives the demand. You are obviously trying to understand the consumer pulse and the trend, right? That is imbued in your in-house design team, which is making and designing the product for you. But how does that funnel of the process happens to execute on ground? Because the designing is one part and the sourcing and making, ensuring that at the floor level or manufacturing level, you are getting that same output.

Akash Agarwal: Yes. So that's called the product life cycle management. So our design to shelf currently is about 90 to 120 days, depending on the product. And there are respective teams with their respective targets. So I think that is all about efficiency and execution because just getting inspirational designs is the easiest part, converting it, adapting it to your price segment is the tough part.

So I would say that's our secret source and we've been able to do it well. And that is why we've been able to get a competitive advantage, and we are at least 25% to 50% higher than our nearest competition in terms of per square feet sale in more than 80%, 90% of the locations. So I would say that's a secret source and we've been able to have a good execution strategy in that.

But the best thing about it is that it's getting better every day. Like I said, the products that we're designing and executing today are significantly better than what we sold last season. So it gives us immense positive outlook and future prospects. That it's very bright because every day, the products that we are designing today will be in our stores in the next 4 months. So the products that are being showcased currently for the June, July, August season is significantly better than what we were designing maybe 2 months back.

So it means the majority of the team is getting better. The execution is getting better. We're getting better inspirations. We are leveraging data a lot. So we map almost 40 different attributes of each and every article and then we map with gross profit per square feet data of each of those attributes and then design in a product assortment.

So to give you an example, last year, a 3-button henley neck in t-shirt sold the best. So it gave me a gross profit per square feet, almost 40% higher than men's tees. So this year, instead of doing 4 options, we are doing 12 options in that. So this kind of data analysis and deep insights really helps us in getting the customer pulse.

Chintan Sheth: And do you also use third-party trends in the market, which enables your in-house designing team to get what is currently running in the market? And the way you source it, it will be a bulk buying or it will be a small batch and then test it in the in your stores, how it is performing? And then kind of betting based on those SKUs, which are performing really well in the market.

Akash Agarwal: Yes. So to operate in any fashion business, you have to be up to date to the market. And there are reused 2, 3 different tools that also tell you what is coming in the upcoming season. It tells you what was on the runway in Milan, what was on the runway in Paris, what was on the runway in New York. So of course, you have to be up-to-date with the new trends, upcoming trends. And so we divide the product assortment into three categories.

So one is fashion, one is regular fashion, and one is core. So a lot of high fashion products that are very new trends in the market, we reduce the depth of those articles. So for example, if our average depth is 4,000 to 5,000 pieces per color. In those fashion articles, we buy only 500 to 1,000 pieces just to test the acceptability of the product in our stores, and then we plan it in bulk.

Chintan Sheth: Right. And what can go wrong? Any learning? Obviously, over the 4 years, you must have learned a lot and reworked and re-tweaked your strategy. But anything which can impact or risk your sourcing model? Because I believe that is a key driver for your SSGR. The assortment, the products, which you are showcasing in your stores at a value is what drives the growth in your stores, right? Any risk you envisage here that leads to either slowing down of your SSGR? Or how should you try to handle that piece?

Akash Agarwal: Yes. So we are trying to embed product in the DNA of our people because we are a product company essentially, and just using our retail stores as a channel to sell those products. So I would say the only thing that can go wrong is poor execution and not sticking to our plans and, again, trying too many things. That is why we feel we have established a very strong good model.

We don't want to premiumize. We don't want to open more formats. We want to continue focusing on this format and multiplying it and making it stronger, so our next per square feet sale target is INR1,200 per square feet. Hopefully, we can get there in 2 years.

Chintan Sheth: Great. And last question is on the store expansion. The per capex you mentioned, it increased a little bit by 100 square feet. What is the current spend per square feet on the store expansion side?

Akash Agarwal: So per store, the capex required is about INR1 crores, INR1.05 crores. And rest is working capital. Working capital is about INR1.3 crores per store. So if we open 100 stores, the capex plus working capital requirement would be about INR220 crores, INR230 crores.

Moderator: We'll take our next question from the line of Ankit Babel from Subhkam Ventures.

Ankit Babel: Congrats for a great set of numbers. Just one question. You mentioned in your opening remarks that you see your return ratios improving from here on. So do you have any targets there, say, in FY '26 or '27? Where do you see your both ROE and ROCE to be at?

Akash Agarwal: So I think this year, first target was to have an ROE of more than 20%, so I think we should be able to achieve that this year. And going forward, our next target is to have an ROE of 25% that should be achieved in the next 18 to 24 months.

Ankit Babel: Okay. And on working capital, do you feel that there is some improvement possible from here on? Or you feel that you have already achieved the best?

Akash Agarwal: Yes, so one of our major business challenges, operation challenge was on-time delivery. Because our vendors are still quite unorganized and a lot of them still don't have ERPs. So there was a lot of knowledge transfer, training and consolidation that was happening in the last 1 to 2 years. And we've been able to improve that number from around 40% to about 70% now. So we had to keep about 30 days of safety inventory at our DC, just so that our shelves were not empty.

And now I think going forward, we are reducing that to 15 days, so there is a scope of improvement in the working capital and inventory to a level of 10 to 15 days. We should be able to see the change from first quarter itself. And in the next 12 months, we should be able to reduce it to 10 to 15 days.

Ankit Babel: Okay. And on the creditor side?

Akash Agarwal: The credit days would be the same. It's around 45 to 50 days. It should be the same because we don't want to increase the credit term. Rather, we want to take a different approach so that we can negotiate better. We can get better cost so that we can pass it on to the consumers.

Ankit Babel: So just for my understanding, if you pay your creditors on time, do you get a preference from the creditors in terms of the product? So suppose if they come out with any innovative product or something like that, they first show it to you just because you are paying on time as compared to others.

Akash Agarwal: So more than getting the first offer for the product, it's more about getting the capacity first. So basically, if a vendor has a capacity of 50,000 pieces a month and he's a very low-cost, high-efficiency vendor, then if you are the best paymaster in the industry, he would always prefer to work with you. So it's more about having a partnership with those vendors and they preferring you over the others in terms of giving their capacity or blocking their capacity.

Ankit Babel: Okay. And last question is on the cost side. Now are you taking any measures to reduce your cost per store or the HO cost also on a per square feet basis? I mean, are you focusing on there? Or you are just focusing on the top line and the store expansion?

Akash Agarwal: So our cost per square feet is INR190 to INR195 per square feet. I think now there's not much scope to reduce costs further because that might negatively impact sales. So we are focusing more on increasing the per square feet sales, increasing the throughput of the stores, getting more footfalls, increasing the conversion, getting more retained customers, increasing the frequency of the customers. So those are the things we are focusing more on because that has maybe 25x the scope as to if you compare it to cutting down costs.

Ankit Babel: Okay. Because earlier you had a target of INR180, if I'm not wrong?

Akash Agarwal: Yes, the earlier target was INR180, but that time our rentals used to be about INR45, INR46, but now the rentals are INR53. So INR180 is an internal target. But when we talk to people, we say even INR190 also, we can achieve a 10% EBITDA margin pre-Ind AS if we get INR1,100 per square feet of sales.

Ankit Babel: Okay. And on gross margins, you had taken an approach of reducing your gross margins, but still increasing your EBITDA margins. Now do you feel that your gross margins have bottomed out? Or you feel that it can even go down from here on? Or is there a scope for improvement?

Akash Agarwal: I think it should stay between the 27% to 30% number because there are a lot of factors that go into it, whether it's full price sales, whether it's how the winter season was. But we don't target a higher gross margin. Still the plan is to get a INR1,200 per square feet of sale per month, even if the gross margin is 27%, but it should remain at this level.

Moderator: We have our next question from the line of Rajesh Vora from Jainmay Venture.

Rajesh Vora: Congratulations on a stellar show. You have mentioned about INR200 revenue per square feet per month target in 2 years and INR1,500 remains a long-term target, I assume. So is that possible in the next 4, 5 years from now?

Akash Agarwal: That's a very big long horizon to actually comment about. We're focusing on the next 6 months, next year first. And again, it's all about executing our plans and keep doing the good work that we've been doing and establishing an even stronger model, working harder on the product, working harder on the freshness of the product. So we've been able to reduce more than 1-year old inventory from about 17%, 18% to less than 5% now.

So if we keep continuing these things, then yes, like INR1,500 is the ultimate goal. So like we would aspire to reach that in the next 4 years. But the time horizon completely depends on our own bandwidth and our own capability. But yes, we are working very, very hard towards it.

Rajesh Vora: Sure. And could you help us understand a little bit about how the sensitivity of every INR100. We are already at INR1,070, INR1,069 for first 9 months. Every INR100 and you are targeting INR1,200 in the next 2 years, another INR100 plus increase. So for every INR100 increase in revenue per square feet per month, when does it go to pre-Ind AS EBITDA margin roughly?

Akash Agarwal: I would have to do that calculation. But I think even if we get INR1,100 per square feet of sale with a 28%, 29% margin, we get a pre-Ind AS EBITDA of 10%. That is the first target.

Rajesh Vora: Okay. Got it. Got it. So INR1,100, we should be able to get to 10% pre Ind AS EBITDA margin.

Akash Agarwal: Yes.

Rajesh Vora: Okay. That makes interesting. And next year, can we have all the fourth quarters PAT positive? Is that possibility?

Akash Agarwal: Yes, definitely, that is possible. But the first target was EBITDA positive, but hopefully, all the 4 quarters are PAT positive as well. We are foreseeing a very strong wedding season. So this year, May and June did not have any wedding or lagan dates, whereas this year, May and June has that. So it should be a better season.

Rajesh Vora: Interesting. And last thing, I think a lot of people have asked, I wouldn't want you to probably elaborate much on that. But just you have almost perfected the strategy and refined over the last couple of years all the learnings of Avatar 1 and Avatar 2 perfectly. How far are we on the exploiting or executing the benefits of this strategy?

Now we are obviously doubling down with acceleration in new store openings. So at what stage of exploiting benefit of this strategy are we? We are at just the beginning of that strategy? Are we halfway done, 25% done, more? If you can give that rough idea.

Akash Agarwal: Yes. So I would like to disagree there. I don't think we have perfected anything or we're not even close to perfecting anything. As I said, this is just the beginning. The vision that we have for the product assortment and the design we should have at the store, I think we've only implemented 20% of that. Because all the international brands, they make their products in India and sell it to us.

Why not an Indian fashion brand that is accepted all over the world. So our ultimate vision is getting 100% of the products to such a level where even if you open a store in any country, you become one of the best value fashion retailers there. So that is the ultimate vision. So this is just the start. We have maybe implemented 15%, 20% of our plans, and you see these numbers. But to perfect it, it will take a long, long time.

Moderator: We'll take our next question from the line of Naitik from NV Alpha Fund.

Naitik: Congrats on a very good set of numbers. My question is, you mentioned that rentals are sort of up from, say, 47 to 54. So I just want to get a sense from you on the new stores. What sort of rentals are we signing up on? And are there any major increases that are happening?

Akash Agarwal: No. So the new stores are also around INR50 to INR55 level. So there's not a major increase in that. But what I was talking about is, I think, it was 5 years back when our average rentals were INR44, INR45. But if you look at the average inflation in the market and account for it, I think that is what is reflected in the number.

Naitik: No, sir, the new stores are also similar levels. There are no major increases from INR54, INR55.

Akash Agarwal: Yes, similar levels. Yes.

Moderator: We'll take our next question from the line of Ruchita Maheshwari from Ace Lansdowne.

Ruchita Maheshwari: Congratulations on a set of numbers. Yes, just wanted to know if you can give me a breakup of your top line in the geographical terms, if it's possible?

Akash Agarwal: I don't have those numbers, ma'am.

Ruchita Maheshwari: Okay. Sir, just wanted to know in your value retail space, a lot of competition is increasing, be it Zudio or V-Mart or Style Bazaar and then you, how we are going to differentiate our product in terms of customer perception? And how we are going to place ourselves that we can continue to have that steady performance going forward?

Akash Agarwal: So we try to focus on ourselves and every brand or every company has their own DNA. For example, if there's Reliance Trends, if there's Pantaloons, there's Westside. So each of them has their own DNA, have their own product offering and have their own set of customers, so we try to focus on ourselves. We try to make our own product offering better.

And like I mentioned earlier, the market is big enough to have 5 big players with 3,000 to 5,000 stores each in the price segment that we operate in. So competition makes us maybe work a little harder. And I think it's very healthy competition, and it makes each one of us do better.

So I think every company has their own strategy and their own product offering. So there's nothing special that we are doing in order to stand out in terms of one retailer specifically. We're just trying to have the best assortment best to our knowledge in our stores so that we can get the maximum market share and the maximum number of customers.

Ruchita Maheshwari: But can you give some like any hypothetical example or unreal example where you have, say, V2 Retail store, whereas there is a nearby, say, Zudio store or maybe V-Mart? And how the competition have been and how you have been able to retain the customer? If you can just throw some light on that front?

Akash Agarwal: So we do competitor benchmarking, ma'am, and I also mentioned this that in more than 85%, 90% locations, we are at least 25%, 30% higher in sales throughput than all our competitors. And you can see that reflected in the numbers as well. So I think in the last 2 years, if you just take the cohort of the store that we had 2 years back, we've been able to increase the sales in those stores by more than 80%.

That is the SSSG of those particular stores. So you can just think what's happening vis-a-vis the competition. Because in that same time, the competition increased the sales in those stores by 15%. So the gap has increased. And again, that is the result of, I think, all the different executions that we have done across departments.

Ruchita Maheshwari: Okay. In your opening remarks, you mentioned that your ASP has increased only because of the higher apparel contribution. So will that be our endeavor to have more than 90% of apparel contribution going forward?

Akash Agarwal: Yes, apparel is our strength, and we would like to focus on apparel and ASP increase has also been because we are selling more at full price. So we increased full price sales from 86% to 91%.

Ruchita Maheshwari: Okay.

Akash Agarwal: But yes, the focus is on apparels, and it should be above 90% going forward also.

Ruchita Maheshwari: Okay. Sir, just hypothetical, I want to understand. Suppose there is a dip of, say, 2% to 3% or 2% to 5% in your apparel contribution, how much impact can we witness in your ASP?

Akash Agarwal: Again, I would have to calculate that number, but...

Ruchita Maheshwari: I know it's a big but I just want to understand how much impact we can have in the ASP?

Akash Agarwal: I think the average selling price of general merchandise is almost 60% less than apparel, so then you just need to do the math. So if we reduce apparel by 5%, 6%, there will be a huge decrease.

Ruchita Maheshwari: So that can pose a bit risk in going forward if, for instance, your general merchandise contribution increases, going...

Akash Agarwal: I don't understand your question, ma'am. Like general merchandise contribution would only increase if we increase the space, if we increase the options. So this was a conscious decision that we reduced the space that we give to general merchandise, and we increased the offering in apparel, and that is why you're seeing the contributions change.

Ruchita Maheshwari: So in the new stores, there will be no general merchandise or it will be a mix of both?

Akash Agarwal: It will always be a mix of both. Just that earlier, we were giving almost 15% space to general merchandise. But now we have reduced it to only 6%, 7% because we saw that apparel was giving us a much higher return on investment and gross profit per square feet.

Ruchita Maheshwari: Okay. Got it. And like Q4, are we seeing any end of season sales where that can impact our ASP?

Akash Agarwal: Yes. So Q4 always has an end-of-season sale because the winter, pre-winter season is not present for the next 9 months, so it will be very similar. The gross margins should be similar from the corresponding Q4s of previous years. So there's always a dip in gross margins in the fourth quarter.

Ruchita Maheshwari: Okay. And how much it would be? Rough guidance if you can give.

Akash Agarwal: I cannot give the exact guidance, but it is lower historically, and it should be lower than the other 3 quarters.

Ruchita Maheshwari: Okay. And the value retail sales market will be how much in India?

Akash Agarwal: I would have to get that number also. I think nobody has been able to project that number because there's so much unorganized retail, it's very hard to put a number to the whole market size, but it's quite big.

Ruchita Maheshwari: Okay. And I understand as you play in your cluster model and...

Moderator: Ruchita, I request you to join back the queue please, as we have other people waiting.

Ruchita Maheshwari: Just last question. Just last question, If I may. Yes, I know that you play in your cluster model space. So if one of your like assortment is not working in one store, you can easily move out. But if suppose that assortment is getting obsolete, how you plan to like how you dispose it off? And how much percentage that will be in your top line?

Akash Agarwal: So like I said, full price sale is 91%. So 9% goods are sold in discount. And we always have a discount zone at all our stores. We identify slow movers after 2 weeks of it being displayed at the store, and we dispose it off. First, we put it at a 30% discount. If it doesn't sell, then 50% discount. If it still doesn't sell, then 70% discount.

Ruchita Maheshwari: Okay. Got it. So after 2 weeks, maximum 1 week, you dispose it off?

Akash Agarwal: Yes.

Moderator: We'll take our next question from the line of Devansh Dhruv from Equentis Wealth Advisory.

Devansh Dhruv: Congratulations on a good set of numbers. So one question was what is our repeat rate currently? And how has that trend been...

Moderator: Devansh, I'm sorry. Can you use your handset mode? Your voice is breaking.

Devansh Dhruv: Am I audible?

Akash Agarwal: Yes, much better.

Devansh Dhruv: Yes. So what has been our repeat rate right now? And how has the trend been going compared to the previous years?

Akash Agarwal: So in our mature stores, we've seen almost 70% retention and 70% of the sale is repeat sales. And this number used to be 55%, 56%.

Devansh Dhruv: Okay. Okay. And any measures that you have taken to improve it?

Akash Agarwal: The product is our best brand ambassador. The price is our best brand ambassador. That is the biggest step that we have taken that has improved this. Quality standards, assortment, price, all these factors put together that has compelled the customer to come back to the store.

Devansh Dhruv: Okay. And any light on where will be our new stores, so the guidance of 100 stores that we have given, where are we, which states particularly are we targeting? And any best performing, so the top 2 best performing stores for these 9 months?

Akash Agarwal: So we are targeting all the existing states that we're already present in. So we are opening more stores in same cities also where we are already strong, and that city has potential in the same states that we're already present in, and we will enter new markets also. And the best stores in the 9 months, again, it's not something that we disclose.

Moderator: We'll take our next question from the line of Kapil Malhotra, an Independent Investor.

Kapil Malhotra: Yes. Akash, excellent set of numbers. V2 is firing on all cylinders. In one of the media interviews, you said, you plan to grow by 50% in the coming year. PAT assuming and, in your presentation, you've talked about 8.6% PAT margins this quarter and overall 4.7% PAT margins. May I understand what kind of PAT margins you foresee in the coming financial year? And what would be your finance cost for the full financial year? These are my 2 questions.

Akash Agarwal: Yes. So the finance cost should be around INR8 crores to INR9 crores for the full year. And the PAT margin should be similar to the 9-month figure.

Kapil Malhotra: Okay. So about 5% -- 4.7%, 5%?

Akash Agarwal: Yes.

Moderator: Next question is from the line of Vignesh Iyer from Sequent Investments.

Vignesh Iyer: Excellent set of numbers. So 2 questions from my side. The first question is understanding more from the discounting part of it. That is, how fast should do you discount your inventory and sell it because it's a mix of apparel that is related to festivity and there is something, which is not related to festivity.

Because I remember interacting with you earlier where you said, we are not, I mean, on gross margin side, you are okay to take a hit a bit if working capital improves. So I wanted to understand how fast the discounting happens? Should I share my second question? Or do you want me to wait till you answer.

Akash Agarwal: I'll answer this question first. So what you're talking about particular assortment being related to a festival, so that is taken care of on the purchase frequency. So for example, if something is relevant more for Eid, then we'll buy it in the month of Eid or 1 month before Eid. So any old age inventory, we always put it on discount, whether it's bought for a festival or not. For example, if we bought something for Durga Puja and if it's not selling now, we'll put it on a discount rather than wait for another Durga Puja.

So earlier, our strategy used to be to wait for 3 months to identify slow movers. But now because our throughput has also increased and the overall aging is much, much fresher at our stores. So now we only wait 2 to 3 weeks to identify slow movers and put it on a discount because what we found was the opportunity cost of that slow mover taking the space of a potential fast mover was almost 3 to 4x higher than the gross margin loss that we'll do putting that design on a discount.

Vignesh Iyer: Yes, I am here. Okay. So my second question was on the store expansion. If I got it right, you were planning to have 20% of the new stores that you will be opening in a newer market, so I wanted to understand the strategy. Would it be more of a cluster approach where you identify a cluster and have many stores in that place? Or would it be identifying a smaller micro market and opening 1, 1 store in each of the market that way? And could you give some idea of which part of the country are you targeting, I mean, for the newer stores in FY '26?

Akash Agarwal: So I'll give you an example. We opened 1 store in Goa, so we entered that new market. We got we got the learnings in terms of data and assortment for 1 or 2 years. We opened the second store. And now we are opening 3 more stores in Goa. Similar thing happened in Karnataka. So we had only 1 store. We got the learnings. We used the data, and now we have 7 stores in Karnataka. So similarly, we have entered Andhra Pradesh and Rajasthan. And so whenever we are entering new market, we'll open 1 or 2 stores there, get the learnings and then in that cluster, expand more.

Moderator: We'll take our next question from the line of Kruttika Prabhudesai from Mirae Asset Sharekhan.

Kruttika Prabhudesai: Sir, just one clarification with respect to the EBITDA margin. You mentioned that you target around 10% pre-Ind AS EBITDA margin. I would like to know what would be the post-Ind AS target for EBITDA margin? And also what would be the margin drivers for the next 2 to 3 years? If I'm speaking for the next 2 to 3 years, like '26, '27, if you could guide us on that, please?

Akash Agarwal: Ma'am, we always just calculate pre-Ind AS EBITDA margins because that is the relevant figure for our business model. So that is all the internal targets, and that is the targets we give to our investors also. So the pre-Ind AS numbers I have, post-Ind AS, I would have to calculate and tell you. What was the second question?

Kruttika Prabhudesai: The margin drivers, as in what would be the drivers for the margin?

Akash Agarwal: Yes. So the first driver, of course, would be the 10% SSSG that we're targeting. As minimum 10% SSSG would be the biggest margin driver. And second, of course, when we open more stores, we would be able to leverage the warehouse and head office cost a little further. So there might be a INR4, INR5 reduction in per square feet cost. So it will be primarily led by a per square feet sale increase.

Moderator: Ladies and gentlemen, we'll take that as the last question for today. I now hand the conference over to Mr. Akash Agarwal: for closing comments. Over to you, sir.

Akash Agarwal: Thank you, everyone, for joining this call. We hope we've been able to answer your queries. For any further information, we request you to get in touch with Marathon Capital, our Investor Relations Advisor. Thank you, and have a nice day.

Moderator: Thank you. On behalf of V2 Retail Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.