"V2 Retail Limited Q3 FY21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to V2 Retail Limited Q3 FY '21 Earnings 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, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Akash Agarwal – Whole-Time Director and CFO. Thank you, and over to you, sir.

Akash Agarwal: Good morning, everyone. A very warm welcome to our Q3 FY '21 Earnings Conference Call. I hope you all are staying safe and healthy through this unusual and challenging times. Along with me, I have Mr. Manshu Tandon, who's our CEO and our Investor Relations team. I hope everyone had an opportunity to look at our results. The presentation and press release have been uploaded on the stock exchange, and our company's website.

Let me start with the key updates. The company opened 13 new stores and closed 1 store during the third quarter. During the 9 months, company opened 19 new stores and closed 7 stores. As on December 31st, 2020, the company operates 88 stores spread across 16 states and 77 cities with a total area of 9.25 lakhs square feet. We have witnessed strong rebound in consumer demand during this quarter. Despite certain restrictions, owing to the pandemic, our revenue recovered fully, and we were also able to grow by 4% as compared to the third quarter last year. Agile, OPEX management, along with good surge in festival shopping allowed us to deliver a significantly better quarter than the previous 2 quarters. The company remains net debt-free as on December 31, 2020.

Now allow me to give you an overview of our operational performance during the quarter. Total income for the quarter grew by 4% to 227 crores as compared to 219 crores in Q3 FY '20. Gross margins improved from 29.9% to 34.6% in the third quarter. EBITDA for Q3 stood at 41.9 crores as compared to 35 crores in the same quarter last year. EBITDA margin stood at 18.4% for this quarter as compared to 16% last year. It is important to look at the profitability numbers on the basis of pre-Ind AS. Pre-Ind AS, EBITDA grew by 33% from 21.9 crores to 29.1 crores. Similarly, EBITDA margin grew to 12.8% as compared to 10% in FY '20 Q3. PBT grew by 38%, from 17.5 crores to 24.2 crores in this quarter. As a prudent measure, company has made additional provision for inventory estimated at over 6.35 crores during the 9-month period of FY '21.

PAT for quarter 3, FY '21 stood at 13.8 crores as compared to 20.8 crores, which included the pretax exceptional gain of 12.5 crores in FY '20 Q3. PAT for 9 months FY '21 stood at negative 2.4 crores. With this, I now leave the floor open to questions.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Manan Shah from Money bee Securities. Please go ahead.

Manan Shah: Can you throw some light on how is the momentum sustaining in January? And what is your outlook for the current quarter and the next year?

Akash Agarwal: So, we have seen the footfall coming back to our stores already, and the sales have already normalized. So, for next year, we're planning at least a positive SSG of 5% and the rest of the sales growth would be from new stores.

Manan Shah: And how is the competitive intensity currently? Have you seen any players exit the market or the competitive intensity reducing?

Akash Agarwal: So, definitely, if you compare it to last year, the rate of new store openings by our competitors has reduced drastically. And a lot of competitors who are opening a lot of stores have slowed down the momentum. And I think a lot of them are consolidating as well. So, I think that will also have a positive impact.

Manan Shah: Okay. And what would be our current working capital position? And on the inventory side, were we able to liquidate the older inventory and now are we into, again, have pressure inventory?

Akash Agarwal: So, because of COVID, we literally did not have any sales for the period of almost 5 months. So, the inventory days that we have is 84 days at the end of the quarter. And going forward, also, we want to maintain it at around 90 days.

Manan Shah: Recently, our biggest competitor, V-Mart did a QIP, which we understand is for growth. So, are we also planning to raise any cash to accelerate our store count? Or any sort of those things in your mind?

Akash Agarwal: So, currently, we want to grow at 20% to 25% every year. And to achieve that growth, we are able to do that with our internal accruals. And the day we feel that we've built a very solid and a robust model where we're getting a per square feet sale of almost Rs. 900 to Rs. 1,000 per square feet, and we are much better than the competition, then we would accelerate the growth, and then we can think about raising more capital.

Manan Shah: And I noticed our employee cost has jumped on a sequential basis. So, we've probably done a lot of new hiring?

Akash Agarwal: Yes. We are hiring new people, but I don't think it has gone up drastically because we are still looking for more people because we're building a good base to support the growth in the future. But in terms of expenses, our expenses are going to be at the level of Rs. 175 to Rs. 180 per square feet.

Moderator: Thank you. Our next question is from the line of Apurva Mehta from AM investments. Please go ahead.

Apurva Mehta: Sir, congrats on a good set of numbers in such COVID-like situation. Just wanted to ask about this gross margins. It has smartly moved up by almost, pre-Ind AS, it was smartly moved by almost 5%. So, how sustainable are this? And what kind of EBITDA margin we can foresee in coming quarters and next year?

Akash Agarwal: So, this jump in margin is a mix of a lot of things. It's a mix of better product mix, better sourcing rate. And also, we had to put a discount last year in December itself because we were left with extra winter inventory. So, that is the biggest impact that we had last year. And going forward, the gross margin that we're targeting is 30%, 31%, and the EBITDA margin that we are targeting is 9% for FY '22.

Apurva Mehta: And what will be your expansion target for next year for the store count?

Manshu Tandon: We expect to add another 5 to 7 stores in Q4 of FY '21. We have already added 12 new stores in the current year, and our store count is 88 as on December 31. We have added 2 more stores and current count is 90 stores. Our target is to reach approximately 10 lakh square feet of operationality in FY '21 and we will further add another 2 lakh square feet in FY '22. So, around 15 to 20 stores in the next year.

Apurva Mehta: And average size of the stores will be, where you have any huge ballpark you are looking at, average size or it depends upon area to area and region to region.

Manshu Tandon: Both the area and the locations which we are getting, but the approximate size of the store would be around 12,000 square feet.

Apurva Mehta: And any new geographies, which we are trying to penetrate and trying to select new geographies?

Manshu Tandon: Not right now, we are looking at consolidating in the areas, in the geographies where we are doing pretty well. We are trying to be denser in these geography and cover more districts in there, like Bihar, UP and Orissa and Northeast and not any more geographies as of now.

Moderator: Thank you. Our next question is from the line of Sameer Gupta from IIFL. Please go ahead.

Sameer Gupta: 2 questions I have. One is that competitors have highlighted how lack of socializing occasions has had an impact on demand for apparel purchases. And something similar is not seen in your results. So, any light on that? That's the first question.

Akash Agarwal: Yes. So, we've definitely seen a shift in the product mix. So, for example, we've seen a degrowth in men's denim and men's casual shorts, whereas we've seen a high increase in men's pajamas and T-shirt. So, I think people are buying more apparel that they can wear at home. And about the total demand, I think we are in a price segment. Our ASP is only Rs. 270, Rs. 280 yearly average. So, we are in a price segment where we are essentially selling essentials apparel to our customers rather than party wear or occasion wear, which will contribute to a very small proportion of our sales. So, I think the demand for our ASP is not affected because obviously, like if there's winter, people would need winter clothes, and people would need essential wear always. So, we haven't seen any big impact on our demand.

Sameer Gupta: Got it, sir. And another question from me, sir, and this is more of a long-term question. So, you have been the pioneer of value retail in that particular geography. And any market sizing exercise you have done, like this 90-store footprint, where exactly can it go in, let's say, the next 10 years, basically, in your geographies where you operate at?

Akash Agarwal: So, we are opening stores in districts, which has a population of 4 lakhs to 5 lakhs also. So, if you take out those number of districts, I think it's not a problem that we have currently. I think we face that problem once we reach of a store number of maybe 1,500. So, right now, we have already identified, I think, 70-80 new locations that we can easily open. So, I think it's not a problem that we're going to have until we open, maybe, 1,500 to 2,000 stores because there's a huge potential for this size of a store because essentially, wherever we open a store, it caters for radius of about 6 to 8 kilometers predominantly. And urbanization is happening. So, I think more people are going to come out of the rural areas. So, this is not a problem that we're going to have in the near future.

Sameer Gupta: No, sir. I was not hinting to a problem. Just understanding the kind of market size that can happen for you. Just another corollary to this. So, in an area where we operate and typically other competitors also operate, any sense on what kind of market share we have? Like, is it around 15%, 20%? Or is it like more than that? Why I'm asking is that because some larger retailers have also expressed intent of getting into Tier-3, Tier-4 cities, as their growth avenues start shrinking. So, just trying to understand that aspect.

Akash Agarwal: So, I think it's very hard to determine the market share in a particular state or a region. But I think there's good potential for maybe 3, 4 more big players to enter these kind of markets because the shift that is happening from the unorganized to organized, has accelerated. So, still, the organized sector has a very small proportion of the overall sales. So, I think the market has paid for everyone. So, the market size and everything, I think it's adequate for everyone to actually operate and make profits.

Moderator: Thank you. Our next question is from the line of Ankit from Subhkam. Please go ahead.

Ankit: Akash, first of all, your view on this extra provisioning of the 6.3 crores, which you have done for the inventory, now what do you mean by this extra provisioning? I mean, it was not required, but on a conservative side, you did or if it's over and above your normal provisioning or how does it pan out?

Akash Agarwal: So, typically, we did a provision of 1% of sales every quarter because whenever we do a physical count, shrinkages amount to about 0.8%-0.9%. So, this time, we took an extra provision of 6 crores for the 9-month period because during COVID we saw the old 18 inventory percentage was increasing, so we might have to put discounts in that. So, it's an extra provision that can be set off in the future when we actually sell those stock off.

Ankit: So, this was over and above the 1% normal provision which you do?

Akash Agarwal: Yes. It's over and above that 1%.

Ankit: My second question is your sales per square feet was Rs. 850 in Q3, whereas it was below 700, I guess, for the largest player in your space. I just wanted to understand now what have you done differently which has resulted in such high sales per square feet as compared to your competition? Is it a product mix? Is it your geographical locations? Or I mean, what was the reason for that?

Akash Agarwal: So, I would not want to comment on my competitor, but our target is to go back to the Rs. 1,000 per square feet sales number, which we were already achieving historically. So, I think this year in FY '22, the first target is to get to Rs. 750 per square feet and get an SSG of at least 5% and then going forward, in 2 to 3 years again achieve that number of Rs. 1,000 per square feet. So, I think it could be a mixture of product mix, better supply chain, technology integration that would be mix of all that.

Ankit: So, what I was trying to understand is that is your backward integration helping you to generate some new product designs or any product different and the competition, which is helping you to have a higher or what?

Akash Agarwal: So, backward integration doesn't help us with the product design. It definitely helps us with a lower cost. For product design, we have a product development team. So, there we have a good design team of almost 10 to 12 designers. So, we are making products in our own designs, own brands. So, definitely, that gives us an edge, but the contribution of that currently is only 12% to 13% in our business. So, we're looking to take it up to at least 40% to 50% in the next 2 to 3 years.

Ankit: So, that will help you in lower cost?

Akash Agarwal: Backward integration will help us with the lower cost and the product development, that would help us with better designs, better assortment, better color, so that we get some exclusivity at V2 stores.

Ankit: Next question is that you mentioned that your footfalls have now normalized. So, just to get a flavor of how things are on ground. So, was your January month better than the January month last year in terms of overall sales? Or how we should look at it?

Akash Agarwal: So, I wouldn't comment on the January numbers, but I would say that, yes, we have seen a good trend. And I think the sales have already recovered to the pre-COVID levels. So, going forward, like I can expect Tier-2, Tier-3, the impact of COVID is stopped completely forgone**.** So, we are expecting similar sales to the pre-COVID period going forward.

Ankit: How much was sales from e-commerce in Q3?

Akash Agarwal: So, in Q3, e-commerce sales was only 2.5 crores because we shifted to a new warehouse. So, we have moved to a new distribution center, a bigger distribution center. So, we were setting that up. And that's why e-commerce business was completely shut for about 55 days. So, Q3 would not be able to judge the e-commerce numbers. But going forward, e-commerce should contribute anywhere between 5% to 10% to the overall sales.

Ankit: Was there any cash burn or losses in Q3 from e-commerce?

Akash Agarwal: No, there no cash burn.

Ankit: There was no cash burn, right?

Akash Agarwal: No.

Ankit: So, what are your targets for e-commerce in FY '22? You did mention the 10% of total sales, right? Around what?

Akash Agarwal: Because we don't want to burn cash in e-commerce. So, we will grow till we can grow profitably and organically, and we would cater to the existing set of customers. And we will not burn money to acquire new customers. So, I think it should contribute anywhere between 5% to 10%, depending on the results and how well we are able to execute it.

Ankit: So, this guidance of Rs. 750 per square feet to Rs. 800 per square feet, this doesn't include any e-commerce sales, right? This is purely from your brick-and-mortar stores?

Akash Agarwal: Yes.

Moderator: Thank you. Our next question is from the line of Sachin Kasera from Svan Investments. Please go ahead.

Sachin Kasera: My question was regarding this inventory provision. So, if you could tell us what is the current inventory breakup in terms of number of days? And what is the likelihood that this may either get reverse or you may have to provide more?

Akash Agarwal: So, the current inventory days is 84 days at the end of the quarter, and that inventory already is after the provision that we've already taken. And going forward, we want to maintain that 90 days to about 90 days.

Sachin Kasera: And what do you see is the likelihood that we may be able to reverse this provision? Or when will we get that clarity? May be by Q4, we will get that clarity, whether additional provision is required, or maybe you are in the position to reverse the provision?

Akash Agarwal: So, we have been very conservative in taking the provision. So, I don't think additional provision is required, and it will be set off during the next year when we are actually giving discounts on old aging inventory.

Sachin Kasera: What was the contribution of winter collection this quarter versus last year? And what was the growth there?

Akash Agarwal: I don't have that number, but it was very similar.

Sachin Kasera: Because there were some issues that this year, winter sales were much better than last year.

Akash Agarwal: No, for us, it was very similar. And actually, we opened new stores in Orissa. So, there, there is no winter wear sales.

Sachin Kasera: I'm saying what is the position on the creditor side? Are we able to get better payment terms or better pricing post COVID?

Akash Agarwal: I don't think COVID has any impact on that. But because we always have extra cash flows on our books. So, we have been able to get better prices than we've been giving a discounting facility to our vendors to get early payments. So, I think that has helped us in getting better prices yet.

Sachin Kasera: Sure. And this in-house manufacturing that we have started, can you just give us a brief update, how much we have invested there? Currently, what is the capacity? And going forward, over the next 2 to 3 years, what percentage of your sourcing could be from the in-house manufacturing?

Akash Agarwal: So, we have invested about 15 crores in that facility and the capacity of that facility is about 8 lakh pieces a month. And currently, we are producing anywhere between 4 to 5 lakh pieces a month. And currently, the manufacturing unit sales contribution is about 10%. And I think if we operate it at full capacity, it should be around 20% to 25%. And in the next 2 to 3 years, it all depends, the results and execution and we'll see like what benefits are we actually getting from this. And then we think about it.

Sachin Kasera: I'm saying this quarter I think the subsidiary has made a profit and contributed a small profit of around 80 lakhs to 1 crore this quarter itself?

Akash Agarwal: It's not 1 crore, I think it's a smaller number. I think it's around 50 lakhs.

Sachin Kasera: 50 lakhs, okay. But if you are successful in this model, you intend to scale this up and increase the share of in-house manufacturing even higher over the next 2 to 3 years?

Akash Agarwal: We will see for the next 1 year, how it operates and how it performs and what benefits are we getting and then we'll make that decision.

Moderator: Thank you. Our next question is from the line of V.P. Rajesh from Banyan Capital. Please go ahead.

V.P. Rajesh: My question, is if you can just repeat what is the EBITDA guidance for fiscal year '22?

Akash Agarwal: So, for FY '22, we are expecting an EBITDA percentage of about 9%. I'm talking about pre-Ind AS numbers.

V.P. Rajesh: Which was basically 12% this quarter, and I think 11% last year. So, can you just explain why the margins will go down? Are you planning to invest more...?

Akash Agarwal: I think you're talking about post Ind AS figures. I'm talking about pre-Ind AS EBITDA margin of 9%. And third quarter is always the highest because of a better product mix and winter wear sales, but I'm talking about yearly average EBITDA of 9%.

V.P. Rajesh: Pre-Ind AS, okay. And in terms of your in-house manufacturing, has it met your goals so far in terms of what you were trying to achieve in the first year of operations?

Akash Agarwal: Yes, like currently, we are only operating at about 50% to 60% of the capacity. There have been some hiccups, and obviously it's a new business. So, it's going to take time to mature and actually settle down. But we are happy with the current results. And going forward, we are working hard on it, and it should give us good results and positive results and actually help us achieve at least 10% lower cost, which we can further pass it down to the consumer to give us a better competitive edge and a competitive advantage. So, I think it will be a great help.

V.P. Rajesh: Right. And what are the challenges there? You said there were some hiccups. So, what are those challenges? If you can just give some color on that.

Akash Agarwal: So, there are a lot of challenges. It's like any other business. So, challenges can be efficiency. There is no fabric sourcing, accessory sourcing, pattern. So, there are normal challenges, operational challenges, technical challenges. But we are handling it like how we handle it on our other businesses. So, I think it should be settled down in the next 1 year, and we should reach the full capacity. And it will really help us with that.

V.P. Rajesh: Right. And my last question is regarding the traffic in the stores. I believe you said that it's back to pre-COVID levels. So, are you saying both in terms of traffic as well as sales? Or which metric are you commenting on?

Akash Agarwal: So, we actually don't look at the footfall numbers because we don't believe them to be accurate because we've tried 2 to 3 different technologies, and we haven't been able to figure out one, which can actually give us the actual footfall numbers. So, what we rely on is the bill card numbers and so the bill card numbers show us that it has almost reached pre-COVID levels. So, we are assuming that the conversions are the same, and we're getting the same number of bill cards pre COVID.

Moderator: Thank you. Our next question is from the line of Manan Shah from Money bee Securities. Please go ahead.

Manan Shah: I wanted to know that once a new store is opened, how much time does it take for it to breakeven? And at what sales per store does it breakeven?

Akash Agarwal: So, operational level breakeven happens from the first month itself. So, our breakeven per square feet sale is only, I think Rs. 550 per square feet. So, if we achieve that number, then the breakeven happens from the first month itself.

Manan Shah: And you mentioned that our plan for next year is to add another around 2 lakh square feet. So, I wanted to know what sort of CAPEX will be required? And what sort of working capital will this require? And would it require for us to take any debt or short-term debt or anything on that side?

Akash Agarwal: So, to open 2 lakh square feet, we need about 20 crores of CAPEX. And about 20 crores are needed to invest in the inventory. So, 40 crores are what is required to open 2 lakh square feet. And we don't need any additional capital for that. We will be able to do that when the EBITDA and the cash flow is generated to next year.

Moderator: Thank you. Our next question is from the line of Sameer Gupta from IIFL. Please go ahead.

Sameer Gupta: Just wanted to, sir, understand your strategy on your e-commerce business. So, are we using the help of aggregators? Are we doing it via our own website? What is our right to win or USP that we offer via this channel in our stores? I understand that we give a typical shopping experience, one-stop shop, to a whole family's needs of apparel. But in e-commerce, that proposition is somewhere lost. So, what exactly is our competitive edge here? And what is our strategy on a broad sense?

Akash Agarwal: So, I would just say one thing. The biggest competitive edge would be the product. So, the price and the variety that we offer at that price range will be the game changer. So, what we are relying on completely is our omnichannel business. So, we want to deliver from our stores to actually save on the logistic cost. So, that will be the whole business model for e-commerce. So, we want to do as many store deliveries as we can, and we will also make the store inventory life to the customer for same-day delivery. And for customers that are coming from cities where we don't have a store, we will ship directly from our warehouse. And currently, we have our own website also, and we are listed on multiple marketplaces as well. So, we are taking both approaches because we want to leverage our inventory in as many sales channels as we can.

Sameer Gupta: Got it, sir. But just one follow-up on this. So, when we list it on aggregators, what exactly does the consumer have to type to get a V2 Retail product? Is it like our private labels, then we are only restricted to our private labels and aggregators? Just trying to understand that aspect?

Akash Agarwal: Yes. So, it's our private labels and the brand. So, if you do a brand search, then you'll get the product. But we are in top and making a brand page on multiple marketplaces. So, maybe soon you see our V2 Retail brand page on marketplaces.

Sameer Gupta: And can you disclose the breakup of sales from aggregators versus your own website?

Akash Agarwal: No, we don't want to give that sales mix now. But I think going forward, it will have an equal share.

Moderator: Thank you. Next question is from the line of Sachin Kasera from Svan Investments. Please go ahead.

Sachin Kasera: Yes. If I look at the 9-month gross margin that you have reported, that is around 33.4% versus 29.1%. So, 2 questions. On the 6 crores provision, is this 33.4% is after a 6 crore provision?

Akash Agarwal: Yes, that is after the 6 crore provision.

Sachin Kasera: If we adjust for the provision of whichever we look at it, what explains this 450 basis point increase in gross margin. And next year, you're guiding for 30%-31% gross margin. So, any reason why you expect it to go down from what you reported in the first time?

Akash Agarwal: So, you're seeing this number, it is very skewed because this year we didn't have a full first and second quarter. So, whatever sales you're seeing in the 9-month period happened in the third quarter. That's why this gross margin is so skewed. So, again, if we have full first quarter and second quarter number, so the gross margin will normalize back to 31%-32%.

Sachin Kasera: I'm saying, if I see your cost below gross profit, that's gone down by around 30 - 32 crores in the first 9 months. So, how much of that is related to onetime sales because either you've got some concessions or the stores were closed, so you didn't have to pay salaries, or you cut salaries. And secondly, is the Q3 number of 50 crores quarter that you have shown in the per square feet a more normal number that would look at going ahead?

Akash Agarwal: I didn't understand your question. You're talking about expenses?

Sachin Kasera: Yes, expenses below gross profit. So, your staff cost and the other SG&A, which has gone down from roughly around 130 crores in 9 months FY '20 to around 98 crores in 9-month FY '21. So, of this 32 crores sales, how much is permanent and how much was one-off because either the stores were shut, so we didn't have some cost, or we now cut salaries or...

Akash Agarwal: All of this was an impact because of COVID because we were not paying rents. We have got rent concession. We were paying a percentage of salary, so I think going forward, our cost expenses per square feet is going to stay at the same level of about Rs. 170 to Rs. 180 per square feet.

Sachin Kasera: The Q3 numbers broadly reflect a new normal of Rs. 170 – Rs. 180 per square feet?

Akash Agarwal: Yes. Q3, the expenses are normalized.

Sachin Kasera: Sure. Next question is on the debt figure. So, if you could help us with what could be the debt and the cash and so maybe the gross debt and the cash and the net debt numbers, if you could share?

Akash Agarwal: So, 20 crores is the cash balance and about 11 crores is the debt.

Sachin Kasera: So, we have roughly around 9 crores of net cash.

Akash Agarwal: Net cash, yes.

Sachin Kasera: And as we end the year and look for more stores, do you think this net cash will go down or how do you say this?

Akash Agarwal: So, it varies from month to month, but we have enough cash flows to fund our growth for the next whole year. So, that shouldn't be a problem.

Moderator: Thank you. Our next question is from the line of Anil Jain from Equipassion Capital. Please go ahead.

Anil Jain: I wanted to know if we have season ability in the business. So, what is the revenue split between the 4 quarters? Can you just ballpark figure?

Akash Agarwal: Because the festival dates in India are not fixed, it depends on the Hindu calendar, it's very hard to judge the contribution. So, if Durga Puja happens in October, then Q3 is the highest contributor. If Durga Puja happens in September, then Q1 is the highest contributor. So, it all depends on the festivals. If Durga Puja and Diwali and Holi and Eid, so it varies according to that.

Anil Jain: And my second question is regarding the gross margins. We have in-house contribution also, in-house manufacturing contribution also. So, what is the difference between the gross margin on in-house manufacturing and overall company gross margins?

Akash Agarwal: The gross margins are the same. As I said, the extra benefit of cost that we are getting, we're passing it on to the consumer. For example, if we were buying a shirt for Rs. 200, and now we are able to manufacture it at a lower price, so we are passing that benefit to the consumer and putting it at a lower MRP because we started manufacturing not to get higher gross margin, but we want to actually get a better edge over our competitors and pass it on to consumer.

Moderator: Thank you. We'll take our next question from the line of Karthi Keyan from Suyash Advisors. Please go ahead.

Karthi Keyan: So, this is my first interaction. So, excuse me if I'm asking you basic question. 2 things. One is, is there substantial scope for you to rationalize your store count because you seem to be spread across too many states? Does that become unbuild from the point of view of managing the spread? And second part of the question would be, what is the scope for rent rationalization? I've seen from your presentation that you've been in the Rs. 45 range. Is there scope for you to rationalize on that count?

Akash Agarwal: I think I'll answer your second question first. Going forward, our rent that we are is around 45, similar levels. So, I don't think there's any scope for that. And because there's still demand in good markets and good areas and good locations, so I don't think that is coming down. And answering your first question, now we are only focusing on geographies where we are already very strong. And we have a good presence, and we have built a loyal customer base. Because then we get a lot of synergies in terms of marketing and transportation. So, we are taking that approach, and we are trying to expand in geographies that we are already dense and performing well in and where we already have a better customer. So, that's the approach for the future.

Karthi Keyan: Right. And just to understand, the Rs. 800 per square feet revenue that you said is on an annualized average basis, right, for next year?

Akash Agarwal: That is monthly average.

Karthi Keyan: What I meant was spread across the 4 quarters adjusting for seasonality?

Akash Agarwal: Yes.

Moderator: Thank you. We'll take our next question from the line of Ankit from Subhkam. Please go ahead.

Ankit: Akash, just a follow-up. Since last 3, 4 years, our sales per square feet had been coming down. Now we are expecting a bottom in that and also expecting the sales per square feet to again go through that first Rs. 800 and then Rs. 1,000. So, what I want from you is that if you can highlight a few reasons that what went wrong and what were the reasons for this fall? And from those, what have you learned from the strength and what corrective measures you are taking, which will help to take the sales per square feet as an upward trajectory?

Akash Agarwal: So, if I start listing down the reasons, I think it is going to take a long time. So, I would just give you the 2, 3 biggest factors that I think led to decrease in the post COVID sales. So, I would say first was earlier when we were achieving those numbers, there were a lot of cities where we were the only retailer present in that market or 1 of the 2 retailers that were present in the market. And when you look at it now, I don't think we even have like 2 stores, where we are the only 1 or we are 1 of the 2 retailers. So, one is, obviously, the competition intensity, which changed drastically over the last 4 years, which is again coming down a little. And second, we also made a few wrong decisions where we started focusing on increasing our ASPs, and we started promoting more premium and super premium products, which we have already reversed, and we've seen a very good result of that, and we've seen a very positive impact of that. And ultimately, it all comes down to the product. So, I think earlier without doing any differentiation also, we were able to get good sales because our competitors were not that strong, and there were not as many competitors as there are today, and the customers didn't have that many options. But now if we work on our product and assortment, I think the first target is to get 750 to 800, then slowly, gradually in the next 2 to 3 years, get to that Rs. 1,000 per square feet sales number.

Ankit: No, Akash, in lot many earlier conference calls also, you mentioned that there are no entry barriers in our business. And the competition can come any time, and we have to be ready for that. So, what I need to understand is that okay, last few quarters was impacted by the COVID. But if you are expecting things to normalize in the coming quarters, we can see the competitors becoming aggressive again. So, in that backdrop, how we have invested be rest assured that in spite of a higher competition, you people, what are you doing differently now that in spite of a higher competition, you'll be able to achieve your targets of high sales per square feet.

Akash Agarwal: So, typically, what we were doing till now was just a commodity business. We were just buying what the vendors were waiting for us and selling it. So, we were just trading, basically. So, now we have shifted that focus into creating a brand where entry barriers are less today because they can approach the same vendors and sell the same stuff. But ultimately, if I start my product development and I start selling exclusive designs, then there are entry barriers, right? Otherwise, even someone like Zara, they can get a competition any day. But Zara consumers know what they get in Zara, they don't get anywhere else. So, that's why I said, it's all about competition.

Now our complete focus is on product. So, we want to offer such an assortment where anyone who enters the market and buys from the vendors and sells it cannot compete with us. And if they have a store next to us, we are at least 30% to 40% higher in terms of per square feet sales and profitability from them.

Ankit: So, to achieve this, your backward integration will help you? Or a design team will help you?

Akash Agarwal: The backward integration will help product development. Backward integration definitely helps us with getting the product faster and getting the product cheaper. But what I told you, so backward integration contributes only 10% of the business right now. But when I talk about product development, I want product development to contribute 100% to the business. So, product development is all about designs, assortment, colors, trends, accessories and new techniques. So, whatever a good brand might be selling at 1,200, we want to sell the same thing at 300 or 400. So, that is the target. So, basically, we want to make fashion affordable to everyone in India. And because of urbanization, globalization and penetration of the Internet, people are getting more fashion conscious, and everybody wants to look good. So, we want to destroy the mix that to look good, you need to spend a lot of money. So, that's what we stand for, and that's what we're working towards because I don't think anyone in the industry works on a multiple of 1.65. I'm talking about a cost to MRP multiples. All the brands work from a multiple of 2.5 to maybe 5. So, we want to tell the customer that what you buy from a brand at 5x, you can buy the same stuff from us at 1.7x. So, we want to do a volume business. We want to replicate what PRIMA has done in Europe. So, that's the plan.

Ankit: So, basically, the share of your private labels will increase the loss going forward, right?

Akash Agarwal: Yes. So, the plan is in the next 5 years, private label should contribute 100% of the sales.

Ankit: What is it currently?

Akash Agarwal: Currently, it's 30%. Because during COVID, we couldn't give a lot of planned orders. So, that's why it came down a little. But I think in FY '22, it will again be back to at least 40% to 50%.

Ankit: So, just for my understanding, the increase in private label would be the key reason for a higher sales per square feet. Is it the right way to understand for me?

Akash Agarwal: No. I don't think private label contribution actually contributes to higher per square feet sales. It doesn't matter. It's all about the product. So, if you make a bad product in the private label, so that doesn't actually help you get better sales. And if you have a very good product that's not in your private label, so that will give you a higher sale. So, private label is just to actually create that loyalty to a brand maybe and get the customer to relate to your brand better, but private label doesn't lead to higher per square feet sales or anything. It's the product, no matter which label. And obviously, going forward, when we focus on a private label, we start marketing, then we will start getting some organic sales on the private label, and we'll get some loyal customers. So, that will really help us.

Ankit: Sorry to harp on the same question, Akash. But just one thing which I can understand is how are you going to differentiate it from others? I mean, the product development was always there in your company. So, what differently you are doing this time? That's the only thing I need to understand.

Akash Agarwal: So, product development team, we have assembled the team, I think, 7 months back and it takes a lot of time because it's a completely new, you can say, it's also a new business altogether because we were buying the designs from our vendors earlier and now creating those designs, aligning the designer's thoughts to our customers' requirements. So, I think product development contribution right now is only 12% to 13%. So, just imagine, if you are getting better sales in those 12% to 30% articles, if we increase that contribution to 30%, 40%, 50%, that will have a wonders effect on the sales. So, that's what I meant. So, basically when our own designs contribute to about 50% of our sales, we'll be able to achieve the numbers that I'm talking about.

Moderator: Thank you. We'll take our next question from V.P. Rajesh of Banyan Capital. Please go ahead.

V.P. Rajesh: Yes. Akash, I just wanted to confirm some of the numbers I heard. So, for fiscal year '22, you are saying that you will do at least Rs. 750 per square foot per month. And you'll start the year with 90 stores and each store is around 12,000 square feet, right? So, if I do the math, you will be north of 1,000 crores in revenue next year just from the current stores that you will start the year with. And plus you will expand by about 20%, as you said. Are those numbers correct?

Akash Agarwal: Yes. So, it all depends on when the stores open, but we will end this year at 10 lakh square feet. So, 10 lakh square feet that gives a monthly average sale of 75 crores. So, 75 crores annually, I don't think it's a 1,000 crore then. So, I think there's something wrong with the calculation.

V.P. Rajesh: INR 75 crores in 12 will give you around 950 crores, let's say.

Akash Agarwal: 900 crores.

V.P. Rajesh: 900 crores, right, yes. So, what I'm saying is with the new stores as well, you will then potentially be looking at a 1,000 crore of revenues in the financial year '22?

Akash Agarwal: Yes, that's right. Because you earlier said 1,000 crores from old store and then growth of 20%.

V.P. Rajesh: Yes. No, I was using 12,000 square foot per store, but maybe that number is a little off. But that's wonderful. So, at 9% EBITDA margin on 1,000 crores, you'll be looking at 90-plus crore of EBITDA, right? So, that's fantastic.

Akash Agarwal: Yes.

Moderator: Thank you. Our next question is from the line of Pankaj Kumar, an individual investor. Please go ahead.

Pankaj Kumar: My first question is this 1,000 crores roughly sales what we are looking for the next year, this is all through offline? Or this includes online also?

Akash Agarwal: So, I think the 1,000 crore number is our target, including offline and online. As I said, online is still a very new territory for us, and we don't want to burn a lot of cash there. So, we're still learning and experimenting. So, we feel that we are able to build a very robust model where we are making a profitable online business. So, maybe we'll increase the spend and get a higher sales there. But this 1,000 crores includes everything. It's a consolidated number.

Pankaj Kumar: I appreciate that. Going forward, what are your thoughts? Where is the market moving? Is the market moving towards online? Or it is just a passing phase and people will still continue to come to stores and do the buying?

Akash Agarwal: So, I think U.S. and China are the 2 most developed retail markets. And there also, online sales still only contribute, I think, 25% of the total sales. So, I think offline retail is always going to be there. And especially in the towns that we operate in because coming to a store is a whole experience for Tier-2, Tier-3 town people because that AC and it's like a shopping mall for them. So, I think that's always going to be there, but we don't want to miss out on customers who want convenience and ease of deliveries at their doorsteps. So, I think we want to cater to all customers because there's always going to be a mix of both customers who are comfortable buying online, who are comfortable buying offline and/or go omnichannel, who come to the store, get it delivered at the home or vice versa. So, I think we want to be present both online and offline. And I read a research report also like brands who will be present online and offline, both will always have a much better advantage than brands who are just offline or who are just online. So, there is no one path to take. I think you need to be present on both channels.

Pankaj Kumar: That brings me to my last part of the question. Now just to quote one example, like Reliance Retail is there with deep pockets and with JioMart. And from groceries, they have moved to this clothing's also. Their participation in clothes sales is in very few stores as of now. But 1 year down the line, we see there would be many more stores and online sales with Facebook and WhatsApp and what not, what is your strategy to counter them?

Akash Agarwal: So, I think our strategy is not to focus on the competition much. Our strategy is always to focus on ourselves because competition is always going to be there. So, it's like if Reliance entered the industry, it doesn't mean that it wipes out the complete industry. So, our focus is to be stronger. And our focus is to execute all the plans we have and get the best assortment available to the consumer at the best possible time and in the shortest possible time. So, I think if we are able to achieve that, like even, like, whoever enters the market, we'll always have our own identity and have our own space. So, there's nothing to worry about. Because as I said, the market is huge, and it can easily accommodate a lot of big players.

Pankaj Kumar: I agree with you there. But then, it's a David versus Goliath fight. They have deep pockets; they can fight the competition for long. They can underprice the product. So, your strategy on this part?

Akash Agarwal: I don't really have an answer to that because I'll give you an example. Like, Zara is a 60-year-old brand, and Primark opened its stores, maybe 15, but Primark is doing better than Zara in a lot of cities now. And Zara had a much deeper pocket than Primark. So, it's not just about deep pocket. It's about your brand, your execution, how you run the business, your operations, your supply chain. So, don't think if anyone has a deep pocket and it's entering the same industry, we should think about that so much. We are strong on ourselves, and we have a good customer base because like Airtel is still surviving after Reliance entered with Jio, right? So, they have their own market share.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the floor back to Mr. Akash Agarwal for closing comments.

Akash Agarwal: Thank you, everyone, for joining on our call. We hope we have been able to answer your queries. Stay safe. For any further information, we request you to get in touch with Marathon Capital, our Investor Relations adviser. Thank you.

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