"V2 Retail Limited. Q3 & Nine Months FY22 Earnings Conference Call"

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MARATHON CAPITAL

CHORUS CALL®

MANAGEMENT: MR. AKASH AGARWAL- WHOLE TIME DIRECTOR & CFO
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Moderator: Ladies and gentleman, good day and welcome to Q3 and nine months FY22 Earnings Conference Call of V2 Retail Limited. This conference call may contain forward-looking statements about the Company, which are based on the beliefs, opinions and expectations of the Company as on date of this call. The statements are not the guarantee of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Manshu Tandon – CEO. Thank you and over to you, sir.

Manshu Tandon: Okay, thank you. Hi, good afternoon everyone. A very warm welcome to our **Q3 and 9M FY22** Earnings Conference Call. I hope you all are staying safe and healthy through these unusual and challenging times. Along with me, I have Mr. Akash Agarwal – Executive Director, Mr. Gaurav Bansal – our new Finance Head, and our investor relations team. 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.

So, let me start with the key updates:

The Company opened one new store during Q3 FY22. As on December 31st, the Company operates 97 stores spread across 15 states and 84 cities with a total retail area of 10.23 lakh square feet. Same store sales growth for the Q3 FY22 stood at (-3%).

Now, allow me to give you all an overview and our operational performance during the quarter:

So, first I'll give you a consolidated performance highlight for Q3 FY22. For the quarter, revenue from operations stood at ₹ 239 crores, registering a growth of 5% on YoY basis. Gross margin stood at 33.4% for Q3. The stores were operational on an average for 98% days of the total days for Q3. EBITDA for the quarter stood at ₹41 crores as compared to ₹44 crores in Q3 FY21. EBITDA margin stood at 17.1% for Q3 FY22 as compared to 19.2% Q3 FY21. PAT for the quarter stood at ₹12.3 crores as compared to ₹14.9 crores in Q3 FY21. Now, I'll give you a performance highlight for nine-month FY22.

Revenue from operations for nine-month stood at ₹471 crores registering a growth of 35% on YoY basis. Gross margin stood at 33.5% for nine-month FY22 as compared to 34.4% for nine-month FY21. EBITDA for nine-month FY22 stood at ₹70.4 crores as compared to ₹60.6 crores in nine-month FY21 registering a growth of 16%. EBITDA margin stood at 15% for nine-month FY22 as compared to 17.4% for nine-month FY21. PAT for nine-month stood at ₹2.2 crores negative as compared to ₹2.6 crores negative in nine-month FY21. The quarter witnessed strong demand in the festive season of October and November. However, demand tapered sharply post December 15th and till January 2022 due to restrictions imposed by various state governments in the wake of third wave of COVID. We are, again, seeing consumer sentiment returning towards normalcy since beginning of February 2022 as the national infection caseload came down. We are hopeful that the recovery shall be sharper on the onset of festive and wedding season in the coming months. All the stores are now fully operational with overall store operations days at 98% for the quarter.

Our customers continue to increasingly leverage the convenience of our digital platforms with the online channel. Our expansion plan on stores is on track. Some delay is due to pandemic. We are planning to open additional five to six stores in Q4 FY22. Our emphasis on the private label continues and growth is encouraging. Health and safety of all our customers and employees are of paramount importance, and all required precautions are being adhered to. We are confident that the business has the expertise and importantly the resilience to weather this crisis.

Given the underlying business fundamentals and the balance sheet strength, the Company is well poised to embark on a new wave of growth and create for all stakeholders. With this, I now leave the floor open for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Priyanka Trivedi from Antique Stock Broking. Please go ahead.

Priyanka Trivedi: Thank you for the opportunity. My first question is with regards to the gross margins. So, the gross margins have contracted on year-on-year basis. So, what has led to this contraction, as we have been increasing our share of in-house production. So, what has led to this decline?

Akash Agarwal: So, if you look at the nine-month number, the gross margin has reduced by about 1%. So, because there was COVID in April, May and June, we lost a big proportion of our festive days where there's the wedding season. So, we didn't want to carry over that inventory to FY23. So, we had put an extra discount to liquidate the inventory. So, it was because of extra discounting and also because of the slowdown post 15th of December, we had put early discounts on winter wear and prewinter garments as well because we wanted to liquidate inventory and go into the new season with as less carry forward inventory as possible. So, these two things contributed to 1% contraction in the gross margin.

Priyanka Trivedi: Has there been any impact of input price inflation on our gross margins or have we taken any price hikes?

Akash Agarwal: Yes. There has been pressure and raw material prices have constantly been increasing, but we have transferred most of that increase to the customer itself, and that is why we are looking forward to maintaining our gross margins at 32% going forward. So, whatever increase in the raw materials and the input prices will be transferred to the customer and it'll lead to higher prices.

Priyanka Trivedi: Okay, got it. My second question is on our store additions for the quarter. So, we have added one store while if we look at the other peers, they have been aggressively adding their stores, especially in this quarter. So, what has been the reason for just adding one store because we have been very aggressive on our outlook for the stores.

Akash Agarwal: So, we did not want to delay our vendor payments and our cash flow, because of COVID in the summer, it didn't allow us to expand as much as we wanted. So, we delayed the expansion plans and now we're back on track and hopefully COVID is over. So, we are adding about five to six stores in this current quarter and going forward next year, we'll add about 25 to 30 stores.

Priyanka Trivedi: Okay, got it. Lastly, if you could just give us a sense on how has the recovery been in urban versus rural. That's it from my side.

Akash Agarwal: So, October and November was very encouraging for us and we were seeing a positive SSG from pre-COVID levels, but the second half of December actually was very poor. I think it was also because the winter wasn't cold enough in December and the onset of winter was pretty delayed this year. So, I think that is why the quarter from pre-COVID levels was about -3% but it was very encouraging and I think Omicron has just given a free booster shot to most of the people. So, I feel we are very positive going forward because there's a lot of pent-up demand, as people have not been freely going out for the last two years, and I feel next year will be one of the best years in the last two, three, four years.

Priyanka Trivedi: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Deepak Poddar, an individual investor. Please go ahead.

Deepak Poddar: Hi Akash. First of all, congratulations on good set of numbers. I have a few questions. First is on the CAPEX. So, what does the CAPEX for first nine months and full-year CAPEX look like, and also for FY23?

Akash Agarwal: As we opened only three stores this year, there wasn't much of CAPEX requirement because the CAPEX requirement per store is about 1.1 to 1.2 crores. So, when you talk about FY23, we're planning to open about 25 new stores. So, the CAPEX requirement will be anywhere between 30 to 35 crores.

Deepak Poddar: And how are we planning to fund that CAPEX?

Akash Agarwal: So, we will be generating an EBITDA of about 80 to 90 crores next year. So, it can be funded by internal accruals.

Deepak Poddar: So, no debt required, correct?

Akash Agarwal: No debt required.

Deepak Poddar: Okay. So, since we are planning to open 20 to 25 stores next year, my question is, "How much time does a new store take to breakeven?"

Akash Agarwal: So, we've had a very mixed batch in that because a lot of stores took about one year to mature and reach its peak levels, a lot of stores took two years to reach its peak. If you talk about operational breakeven, then the store starts breaking even from the first month of operations itself.

Deepak Poddar: Okay, and what would be the breakeven levels, then?

Akash Agarwal: So, the operating expense of a store is anywhere between 120 to 130 rupees per square feet. So, the breakeven level is about 400 rupees per square feet of sales. I'm talking about breaking even at the store level without any head office overhead. And if you add the HO cost, then the breakeven level increases to about 500 rupees per square feet.

Deepak Poddar: Okay. Follow-on question on expansion. Which geographies are we planning to expand?

Akash Agarwal: We have already signed most of the agreements and they are mostly in the clusters that we're already operating in because we want to take the benefit in terms transportation, marketing. So, we are opening new stores and finalizing new stores in regions where we feel that we have a strong brand presence in and historically where our older stores have done well.

Deepak Poddar: Okay. On the e-commerce expansion, what was the e-commerce sales for first nine months and what would be your guidance for FY22 full year and FY23?

Akash Agarwal: So, the e-commerce sale was 21 crores for the nine months. It was about 4% of our total sales. For next year, we are targeting sales of about 50 crores from e-commerce. So, right now, what we are trying to do is start Omni channel. So, we are investing in technology that will enable us to deliver from stores. So, that testing is going on. I think that will further reduce the logistics costs for us. Going forward, the target is to maintain 4-5% of sales, a good sales mix from the online channel.

Deepak Poddar: So, as you mentioned 50 crores, traditionally, this e-commerce business requires cash burn. So, what is the competitive edge we have and have we burned cash till nine months?

Akash Agarwal: On the sale of 21 crores, you can say the cash burn was only 50 lakhs because most of our e-commerce cost is variable cost and most of it goes into logistics and marketing. That is why we don’t want to burn a lot of cash. That is why we are gradually understanding this new channel because it’s a new environment for us. So, we are trying to understand how to increase the marketing returns, ROAS and how to reduce RTOs, how to reduce customer returns and how to optimize inventory, how to optimize logistics, how to get faster delivery for the customers. So, we are working on all those things and investing in AI technology and tying up with third parties to understand the data backup. So, I think there won't be any significant cash burn even to achieve that 50 crores because as I said, most of it is variable, so the only investment will go into technology so that would be about 1 to 2 crores for e-commerce.

Deepak Poddar: Thank you, Akash, for answering my questions. If I have any more queries, I’ll join back. Thank you.

Akash Agarwal: Thanks a lot.

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

V.P. Rajesh: Hi Akash. Good to speak with you, again. So, first question is what is your guidance for fiscal year 2023 given it’s a normal year without any COVID related disruption?

Akash Agarwal: So, we plan to open about two lakh square feet new area in FY23. So, from existing stores, we have about 1.1 million square feet already. So, we close next year at around 1.3 million square feet and we are targeting a per square feet sale of about 725 rupees per square feet with a gross margin of 32%, and the expenses that we are forecasting is about 170 rupees per square feet.

So, if you calculate it, it comes to around 1050 crores of sales turnover with an EBITDA of about 85 crores. So, that is our target for next year.

V.P. Rajesh: Okay. My second question is in terms of debt, what is the current position and what would it look like by the end of this year?

Akash Agarwal: Currently, the debt is around 47-48 crores and I think going forward by the end of next year, it'll reduce to about 25-30 crores.

V.P. Rajesh: By the end of this year?

Akash Agarwal: By the end of next year.

V.P. Rajesh: Next year, okay. In terms of inventory, are we totally current on our inventory or is there still some old inventory that needs to be either marked down or discounted and sold?

Akash Agarwal: We've already liquidated most of the inventory that is why you are seeing lower gross margins and we've taken some extra provisions because of COVID. So, all those provisions have already been taken and I don't think any extra write-offs or provisions need to be taken now.

V.P. Rajesh: Okay. In terms of the competitive intensity, if you can give some color about what's happening to some of the other regional players or smaller players in your market, that would be really helpful.

Akash Agarwal: There is definitely increased competition from the national players like Reliance, Max and Tata, they are expanding aggressively. There has been less competitive intensity from the regional players, but like I said, I think the consumption will keep increasing and the rural middle class will keep expanding. So, I think there will be space for at least four to five very good strong players. I think it's all about who gets it right in the next few years.

V.P. Rajesh: So, when you compare your SSG from Q3, I don't know if you have done this, but how does it compare to, let's say, the website guys? I'm sorry I'm forgetting the name of the competitive brand. And with respect to V-Mart.

Akash Agarwal: I wouldn't want to comment on any other Company's numbers, but our SSG, I think, is at par with the industry average and I think it's very encouraging that the SSG was -3 from pre-COVID levels and that too it was because of December. So, I think we can easily get a positive single digit SSG to pre-COVID levels in FY23.

V.P. Rajesh: Okay, great. Thank you so much and all the best.

Akash Agarwal: Thank you.

Moderator: Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Thanks for the opportunity. My question is an extension of the point that you made while answering the earlier question. So, always we see that there is a lot of demand in market and a nucleal expand of the market or demand in general, but now the influx of competition has been huge in terms of we were battling with all the regional competitors for a while and now suddenly we have all the national players. As you rightly said, they are very aggressive and they are even getting into 3 lakh or sub 3 lakh population towns as well. So, two questions here. First, what is the value proposition that you bring as a product or as an experience to the table versus ours? And what is our right to win that the consumer still continues to prefer us over the national brands, which are lending so much comfort on brand and retail experience?

Akash Agarwal: So, to answer your first question, the national players that we were talking about, for example Reliance Trends, their ASP is above 500 and even if you talk about Max, their ASP is about 450. So, we feel that with an ASP of about 290, we cater to a different class of customer. There's a very slight overlap between a Reliance Trends customer or a V2 customer. So I feel, like I said, if we make our niche and if we are able to target that class of customer, then there is space for four to five good players at least in the value proposition. Because still there's a huge vacuum in terms of value retailing in India and still the organized retailing contribution is negligible and most of it is Mom and Pop stores and unorganized retail. So, that share will keep decreasing and organized players will start getting that chunk of the pie. I feel if we are strong enough and if we focus on assortment and product development, it's all about the product offering by the end of it. So, I feel like the product and the pricing will be our biggest USP differentiating ourselves from everyone.

Tejas Shah: So, you spoke about Max and Reliance, but if we say Zudio, Zudio is competing at almost similar price point that we offer, right?

Akash Agarwal: Yes. So, Zudio's average store size is only 5000 to 6000 square feet. Our average store size is 12000 square feet. With Zudio, I can definitely provide double the number of options to my customer. So, if I am able to provide more number of options at a better pricing or a better product assortment, then I feel like we can do much better numbers.

Tejas Shah: Sure. That's all from my side. Thanks and all the best.

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

Ankit Babel: Good afternoon, Akash. A few questions from my side. First, what was the figure of the operating days in Q3? I missed that number.

Akash Agarwal: 98%.

Ankit Babel: Okay, and what was the share of own manufacturing in Q3 and what are your plans to take this to in the upcoming festive or the wedding season in Q1?

Akash Agarwal: So, in Q3, the contribution was about 15% and the plan is to take it to about 35% in FY23.

Ankit Babel: Okay, and what kind of impact can it have on your gross margins?

Akash Agarwal: So, it is definitely giving us benefit in terms of costing, but going forward, like I said, we want to target a gross margin of 32% consolidated and because of higher input prices, we might pass half the effect to the customer and absorb half. So, it'll setoff with the savings that we're getting from the factory because we want to focus more on having that competitive advantage rather than having a higher gross margin. So, getting a higher gross margin is not our focus. Getting a higher per square feet sale and turning over the stock more times, that is the target.

Ankit Babel: Okay, and what was the inventory level at the end of Q3 at consolidated level, and what was it last year corresponding period?

Akash Agarwal: For Q3, it's about ₹270 crores consolidated and for V2 retail, it's about ₹248 crores. Last year numbers, I'll have to check, but we have been able to reduce inventory from the last quarter. So, I think we have reduced it by ₹ 40 odd crores. Going forward, we want to target inventory days of about 90 days. So, if we have a sale of ₹ 725 rupees per square feet, it translates to about ₹ 2100 rupees per square feet of stock.

Ankit Babel: So, you are targeting that on a ₹1000 crore revenue. At 90 days, it comes to around ₹250 crores of inventory. So, you believe that you will do a revenue of ₹ 1000 crores with the same absolute amount of inventory, which you currently have.

Akash Agarwal: Yes. That is why, for the additional area also, we don't need additional working capital for the inventory. We're going to rationalize this existing inventory level and operate an additional 2 lakh square feet.

Ankit Babel: So, can you give us some idea how you are going to achieve this? What efforts you are taking or what will lead to such kind of reduction in number of days and keeping the inventory at the same level with higher revenue?

Akash Agarwal: So, one of the things that we've done is we've reduced the density at few of our slow moving stores. So, we have rationalized the display inventory that was there at all our stores. So, that has reduced from about 800 rupees per square feet to about 670 rupees per square feet. So, that is the first thing that we have done. Second that we are doing is we have increased the frequency of deliveries to our store. So, the replenishment cycle has changed. So, that has enabled us to maintain lesser number of days at the store. So, these are the two biggest changes that we have done. I think we've already seen the result and we've reduced the inventory in Q3 and further down the line, we'll be able to achieve 2100 rupees per square feet of inventory.

Ankit Babel: So, reducing the density, can it have an impact on your PSF?

Akash Agarwal: Till now, we haven't seen a negative impact because what it essentially does is, it increases the freshness index of the store because whenever a new customer comes in, he/she sees more fresh stock. So, we saw that we did not have any negative impact on sales.

Ankit Babel: Okay. That's it. Thank you.

Moderator: Thank you. The next question is from the line of Sagar Parekh from Deep Financial Consultants. Please go ahead.

Sagar Parekh: Hi. Thanks for taking my question. Actually my question was just going by Ankit's question on the gross margins and scale up of our own production, the business model that we're trying to achieve. So, just curious to know that if you are expecting your sales per square feet to go up significantly once you have your own production, then why would you just expect about 700 to 725 rupees sales per square feet because that was, I believe, the number, which we have done pre-COVID also, right? So, either the sales per square feet have to significantly move up or your gross margins have to significantly move up because if you do your own model and your sales per square feet does not go up, then it doesn't make sense or your gross margins have to go up, so either of the two has to go up.

Akash Agarwal: Yes, Sagar, that's very rightly said and like I said, the production, it's a very gradual business to actually get fruits of. So, product development, we started about one- and-a half to two years back, but there were a lot of learnings and there were a lot of lessons learned and when we give forecast to investors, we always give a conservative plan. Of course, we have a very aggressive internal plan as well where if our production is efficient and does at par at what we actually foresaw when we started production, then we would easily achieve 800 rupees per square feet, but right now the target is ₹725 rupees per square feet with a gross margin of 30% to 33%. And the extra benefit that we are getting from production, like I said, because we want to kill the competition, because we want to get more market share, because we want to gain that competitive edge, we want to pass on that benefit to the consumer because if the consumer feels he is getting the same product at V2 at a cheaper price because V2 has been able to get a cheaper costing on it because of own manufacturing, then I want to get that customer into my store. So, I think it's all about gaining market share for the next two, three, four years, getting a good foothold in the market rather than getting a high gross margin. Once we feel that our brand is established and people connect with our private label, then would be the right time to actually make it a cash cow and increase the gross margins.

Sagar Parekh: I get that, but still in terms of the difference between our own production and third party purchase was about 8% to 10%, so even if you take 4% to 5% absorption or 4% to 5% price pass-through to the customers and you take the benefit of the half of it, still I think we used to do 30% to 33% gross margins in the past and we used to do similar Rs. 700-725 sales per square feet, so we are coming back to the same kind of numbers that we spoke about two years back, so it's just not adding up.

Akash Agarwal: You can say that because of the competition intensity, earlier our EBITDA targets used to be 10, 11, 12%, but now that target has gone down to about 8%. So, I think that should answer your question because right now a lot of new players are also coming in the market. So, the market environment is not same as before. So, right now the conservative target is to target an EBITDA of about 8% and of course, like I said, if the products that we are manufacturing, if its implemented well, then it can easily increase the EBITDA from 8% to 10-11%, but we don’t want to give those kind of numbers to investors until we feel ourselves that the product development and the manufacturing of new products are proving themselves and we actually foresee it. So, I think it’s too early to make that call. So, we need to give manufacturing at least one more year to actually see what kind of results it’s getting us.

Sagar Parekh: And then going forward, where do you see the own manufacturing business settling down at 50% to 55% or in two to three years, it can directly go to about 100%? Because I believe in the last call or the call before that, you had mentioned that this is just like setting an example to other vendors to setup their own shop and do it or something like that you had mentioned, if I remember it correctly.

Akash Agarwal: So, if we increase the turnover, the manufacturing percentage will keep going down because we don't plan to open more manufacturing units. What we’ll have is, we’ll have contract manufacturing and we'll have manufacturing partners that will only exclusively work with us. You can even call them manufacturing franchises. So, the idea behind having our own manufacturing unit was to ascertain the efficiency when negotiating with those kinds of vendors, so that we can show them that see we are able to achieve this costing, so that is the contract we want to work with you on. So, that was the whole idea behind it. The manufacturing percentage won't go up going forward. Only this year it will go up because obviously the efficiency was low last year and we plan to increase that efficiency, so increasing that efficiency will increase the production, but going forward the target is to have 100% private label selling in our stores, but the production contribution will keep coming down every year.

Sagar Parekh: Sure. So, by when do you think this 100% private label contribution would be reached, would it be possible in FY24 or it will take beyond that?

Akash Agarwal: I think it should take another three to four years. We have reached about 50% and gradually for FY23, the target would be about 60% to 70%, but there are a lot of categories that we have still not had private labels developed yet. So, by the next three to four years, we can be above 90% private labels.

Sagar Parekh: Okay, sure. That's it, Akash, from my side and all the best.

Akash Agarwal: Thanks.

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

Pankaj Pant: Good morning. Just want to bring an incident to you. Some time back we heard that you had opened a store in Dehradun and I was very keen to visit it. I checked with Google map, you were not to be traced. I checked with Facebook, it said yes you have opened one in Dehradun, but I had no address, no phone number, nothing. I sent a query also, nobody responded. I tried calling Haridwar and Roorkee, but those numbers were not working. What I'm trying to say is the presence was not clear that you are there. Eventually, I visited after a couple of weeks, I was able to get the address. It's a nice place, quite big by Dehradun standard and V-Mart is already here with four to five showrooms, probably maybe more because I can count four as I speak to you. So, I understand that you are trying to fight V-Mart as one of the competitors and you have made a presence in Dehradun, but the visibility is not there and considering social media is very competitive, so that presence should be marked, and I think that is the cheapest mode of promotion, so just wanted to bring it to your notice.

Akash Agarwal: Thank you, sir. The point is well taken. We do have a Google business account and we do tag all our stores on Google Map. So, I'll definitely take it up with my team and see where there was a lapse and correct it as soon as possible.

Pankaj Pant: Just wanted to bring it to your notice because I don't know about other stores in other cities, but in Dehradun, I was not able to find it for a couple of weeks and considering, I think, it is a good market with competitors with their four to five stores or maybe more, so probably I think it's the cheapest mode of publicity. Your sales team or someone can just…

Akash Agarwal: Because we do a lot of digital marketing hyper-locally in a radius of about 15 km from our stores. So, to enable that, we do have to put the location of our store on Google and Facebook, but I'll definitely check why you couldn't find the store, and I'll correct it as soon as possible.

Pankaj Pant: Yes, I felt because if the new products, which you keep coming out with like the reason you gave just now that you have disposed of the inventory and you plan to have new inventory for the wedding season. So, probably the sales team or the marketing team, they can flash the new design into Facebook page and other medium and probably they may translate into sales and it won't cost much. Yes, that will be all.

Akash Agarwal: Thank you.

Pankaj Pant: Thank you so much.

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

Bhavin: Hi, Akash. It's kind of a repetitive question, but much more focussed on Q3 given the fact that the trend always suggests that Q3 happens to be the best quarter. So, just wanted to know what led to subdued margin profile for Q3 because it's surprising given the fact that in terms of revenue, there has been a growth, but margins have taken a hit, especially in the best quarter, which has been a trend all throughout.

Akash Agarwal: Like I already said because of the lockdown for three months during the summer, we had a lot of pileup of festive wear, which we knew that will not sell at full price in the next wedding season. So, we took a decision to liquidate it because we wanted to enter FY23 wedding season with as much fresh inventory as we could. So, it was a conscious call and we knew it would lead to lower margins. So, one reason was that and the second was because the average temperatures being very high in the regions that we operate in during December, we saw that the footfall and everything was very affected and we saw huge degrowth towards the second half of December. So, we decided to put early discounting on prewinter and winter goods because it will be very hard to sell those goods in the next year prewinter and winter. I think these two were the biggest reasons that it came down, but if you look at the nine-month number, it's just a gross margin reduction of 1%.

Bhavin: Does it affect, I mean, when I consolidate and when I probably calculate the yearly numbers put together, will it affect the yearly margin profile, if someone needs to project it across?

Akash Agarwal: No, I think going forward, like as I said, margin will be maintained at, at least 32%. So, there will not be any anomaly hoping that it is a COVID free next year. So, I think going forward, minimum gross margins will be maintained at yearly gross margin of 32%.

Bhavin: If I consider Q4 performance, as in obviously, just being one month, one-and-a-half month, has there been any impact for the third wave in this particular quarter, especially?

Akash Agarwal: So, most of our stores are in Bihar and Bihar was the most affected in terms of restrictions and lockdowns. So, most of our stores were affected in January, but now thank you to the government for realizing that lockdown and restrictions were not the answer. With the cases coming down, most of the restrictions have been lifted now and February, we are seeing the customers coming back to the stores. I think it will come back to pre COVID levels once the festive season kicks in. So, for FY23, we are looking at a positive single digit SSG from 2019 pre-COVID levels.

Bhavin: In terms of the Q4, especially how would you see the impact majorly in terms of, if I need to put a number to it?

Akash Agarwal: So, I think in Q4 last year, we had a loss of ₹10 crores. So, I think the numbers should be better than the last year.

Bhavin: Okay. That's it from my side. Thank you so much.

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

Apurva Mehta: We have seen a lot of people having bigger stores from what traditionally we had around 10000 square feet store and we're seeing people now expanding to 12000 to 15000 square feet kind of stores to get better revenue. So, what is your thought on that in our store size?

Akash Agarwal: I think the store size has a lot to do with what location it's located in, and what kind of a customer density that area has. So, one of my stores is 30000 square feet, it's still doing much better than the national average in terms of per square feet sale. I don't think store size determines the performance of the store. It has a lot of other external factors that needs to be decided in terms of store size, but one benefit of having a standard store size is when you are doing your assortment planning, so it really helps in getting the purchase plan for all the articles, but otherwise the location, the kind of customers it caters to, the population density and the frontage, those kinds of things determine what size your store should be.

Apurva Mehta: On the branding side, what will be your goal for the next two to three years? Are you increasingly trying to spend on the brand because competition is heating up, so is it viable to spend on the branding and create some brand for ourselves or no?

Akash Agarwal: We feel the product is the biggest brand ambassador for us and that is what we are investing most on because if you talk about UNIQLO, if you talk about Prima, it's their product that sells. Even if you talk about Zara, they don't go big on marketing. So, I feel we want to strengthen our products first and that will give us the biggest advantage more than any marketing or branding campaign, but of course, we offer to get the customers into the store and just see the assortment that we have.

Apurva Mehta: And post COVID, how are we seeing on the rental side, are they softening or are they back to pre-COVID levels?

Akash Agarwal: So, all the concessions that we got because of COVID, I think they are over and the rentals are back to pre-COVID levels. So, I think our rentals are about 44 rupees per square feet and going forward, it's going to stay at the same level.

Apurva Mehta: And what the new stores, which we are opening like 25 stores?

Akash Agarwal: More or less at the same level.

Apurva Mehta: Anything on the cost structure we can tweak, still we have some gap to do or anything which can help us in long run to improve our margins?

Akash Agarwal: I think we are at industry-best in terms of per square feet cost because even in this quarter, the per square feet cost was about 168 rupees per square feet. So, I don't think there is a margin there to further reduce cost without having a negative impact on sales. So, I think even with this cost structure, we can get the EBITDA targets that we are looking forward.

Apurva Mehta: Okay. Thanks a lot and wish you all the best.

Akash Agarwal: Thank you.

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

Ankit Babel: Akash, just a followup. In case if we don't achieve our desired level of PSF of Rs. 725, are there any levers to maintain your EBITDA margins, if yes what are those?

Akash Agarwal: No, like I said, the cost is already consolidated and already saturated, in terms of, there is no margin to further reduce cost. I don't think, if we are not able to achieve the sales per square feet of 725, so we have to take the decision quarter to quarter. So, if we feel in the first two quarters, we are not able to achieve that sales number, then maybe we'll take a decision to pass on less of the benefit to the customers and increase the gross margin of 1% or 2%, but like I said right now the plan is to get a gross margin of 32% and a PSF of 725. We always do a monthly review where we see the budgeted numbers versus actual numbers and then the decision can be taken and implemented. So, there is only one way, which we can achieve that EBITDA by gross margin.

Ankit Babel: Any such move of retaining the profitability will make you more uncompetitive, right? If you pass on the benefit, you become more competitive, and if you retain it, you become less.

Akash Agarwal: I wouldn't say we become less competitive, but we come at par, like if we increase the price and don't pass that benefit to the customer, then the price comes at par with our competitors. So, we don't gain any competitive advantage, but we don't lose any as well. So, I think that will be a scenario where we feel that these goods are not giving us an extra per square feet sale, so we can increase the gross margin, but that is a hypothetical scenario and it will be done when we review what kind of performance we do in Q1 FY23.

Ankit Babel: And I, again, missed that number of cost per square feet, what it is, 160 or 170?

Akash Agarwal: It was 168 in this quarter, but going forward, we are taking at 170.

Ankit Babel: Rs. 170 we should model for FY23, right?

Akash Agarwal: Yes.

Ankit Babel: Okay. What is the share of private labels now in your portfolio and where do you see it going forward?

Akash Agarwal: It is about 45% right now because of COVID, we didn't plan a lot of winter wear. So, that's why we couldn't increase the private label contribution, but going forward, I see it at about 65% to 70% for FY23 and in three to four years, about 90%.

Ankit Babel: Any further investments required in your own manufacturing?

Akash Agarwal: No. The only CAPEX requirement is in technology, but that's not for manufacturing, I am just talking about the Company. So, the CAPEX requirement will be for the new stores that we want to open next year. It will be about 2 to 3 crores will be in the supply chain, the warehouse for automation, and about 5 crores in technology.

Ankit Babel: So, your current manufacturing capacities can take care of what part of revenue?

Akash Agarwal: About 30% to 35% for FY23 numbers.

Ankit Babel: So, beyond that, expansion would be required, right?

Akash Agarwal: Like I said, we don't want to expand into more manufacturing units. Beyond that, it will all be done by job workers, the contract manufacturers. So, we have a lot of units that want to work with us. The only problem was the costing, but now we can show them the actual costing that we are getting in our factory and even if you give them a return of 12%, they are willing to work with you. So, it's all about efficiency. Even till now, we have only achieved an efficiency of 60% in our manufacturing. The target is to achieve 70%. That will further reduce the cost by 3%.

Ankit Babel: What do you mean by efficiency, is it the capacity utilization you are seeing or what?

Akash Agarwal: The efficiency is basically in manufacturing, there is a standard minute that every garment takes to make. For example, a t-shirt takes about 6 minutes to make. So, if your factory is making it in 12 minutes, then your efficiency is 50%. So, like factories in Bangladesh, they achieve almost 75% to 80% efficiency. So, it's basically the minutes that you are achieving for making that product versus the ideal number of minutes you should take.

Ankit Babel: Okay. And lastly on your creditor days/payables, how are they shaping up, what are your targets there?

Akash Agarwal: Yes, so average credit days for us is about 60 days and going forward it is going to stay the same.

Ankit Babel: So, a 90-day inventory and a 60-day creditors.

Akash Agarwal: Yes, 30-day working capital cycles.

Ankit Babel: And this is on a consolidated basis, including the inventory, which you keep for your own manufacturing?

Akash Agarwal: No, the inventory target of 90 days is for V2 retail only standalone. So, if you add that, this will increase to about 95 days.

Ankit Babel: Okay, because earlier I remember, because of your own manufacturing, your creditor days used to come down because you are no longer getting credit on the own manufacturing. So, considering that, what will be your net working capital cycle?

Akash Agarwal: So, like I said, the working capital has already been employed in V2 Smart, in the subsidiary. So, there will not be any additional requirement. So, I wasn't including that working capital when we spoke about 30-day working capital cycle.

Ankit Babel: No, but you still get 60 days of credit days in spite of increasing share from manufacturing?

Akash Agarwal: A lot of vendors are at 90 days. So, the average comes out to about 50 to 60 days even if you include the cash payment done to V2 Smart.

Ankit Babel: Okay. That's it. Thank you so much.

Akash Agarwal: Thank you.

Moderator: Thank you. The next question is from the line of Rajesh Jain from G. Anand and Research. Please go ahead.

Rajesh Jain: Hi, Akash. Thank you for the opportunity and congratulations for the good set of numbers. My first question is related to rent cost. Did you pay full rent during this third wave lockdown or is there any reduction? Second question is related to the sales mix, can you explain what were the shares of ladies', men's, kids' and other general merchandize?

Akash Agarwal: So, first talking about rent, like because 98% of the stores were operational during this period. So, we did not have any rent concessions in Q3 and rent concessions were only during the lockdown, which happened in April, May and June. About the sales mix, the men's category contributes about 42% for us and ladies and kids contribute 25% each and general merchandise contributes 7%.

Rajesh Jain: Okay, thank you. All the best.

Moderator: Thank you. The next questions is from the line of Pulkit Dharmawat from Wealthsure Advisory. Please go ahead.

Pulkit Dharmawat: Good afternoon and thank you for giving me the opportunity. So, the question that I would ask is what is the average selling price and average bill value?

Akash Agarwal: Are you talking about nine-month or you're talking about the third quarter?

Pulkit Dharmawat: The third quarter and nine-month as well.

Akash Agarwal: For the third quarter, the average selling price was Rs. 341 and the average bill value was Rs.870. And for nine months, ASP was Rs. 296 and the average bill value was Rs 800.

Pulkit Dharmawat: Thank you and another question that I would like to ask is what is the regional mix in the total sale?

Akash Agarwal: The regional mix. East contributes 54% of our sales. North contributes 30% of our sales. South contributes 16% of our sales.

Pulkit Dharmawat: Okay. Thank you so much.

Moderator: Thank you. The next question is from the line of the Deepak Poddar, an individual investor. Please go ahead.

Deepak Poddar: Hi, Akash. You mentioned that inventory level is 90 days and creditors 60 days. This is for Q3 FY22 or this is what you want to achieve going forward?

Akash Agarwal: No, this is what we want to achieve. Right now, I think the paid stock is more than what we want in our books, but I was talking about the targeted numbers.

Deepak Poddar: So, what is the current inventory number, absolute number?

Akash Agarwal: ₹ 248 crores.

Deepak Poddar: And how much of that would be winter wear, obviously going back to one of your answers that most of the areas wherein you are located were under lockdown and that coincides with the winter season. So, is there any inventory currently now which we are carrying on from the winter part of it?

Akash Agarwal: It's insignificant, I think winter wear inventory leftover inventory is less than last year because like I said we put early discounts this year and that had a negative impact on our margins, but we were able to liquidate most of the winter wear and pre-winter inventory.

Deepak Poddar: So, you mentioned 240, what is the thought process or what are the steps, which we are taking to reduce those inventory levels, overall inventory levels?

Akash Agarwal: Like I said, we want to maintain these levels, but we will be able to operate 2 lakh additional square feet area with the same inventory levels, so that is the target. So, we are opening five to six stores in this quarter itself and then we will open about 25 stores next year. So, we will be leveraging the same inventory.

Deepak Poddar: Okay. Any additional inventory provision, which we would have taken this quarter, like we were taking in earlier lockdown?

Akash Agarwal: Yes, we took an extra provision this quarter also because there was another lockdown in the summer and for our old aging inventory, we took an extra provision and I think no further provisions would be required and everything has already been accounted for.

Deepak Poddar: That's it from my side. All the best.

Akash Agarwal: Thank you.

Moderator: Ladies and gentleman, this was the last question for today. I would now like to hand the conference over to Mr. Akash Agarwal for closing comments.

Akash Agarwal: Thank you everyone for joining on the call. We hope we've 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 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.