“V2 Retail Limited Q1 FY22 Earnings Conference Call”

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MANAGEMENT: MR. AKASH AGARWAL- WHOLE TIME DIRECTOR & CFO
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Moderator: Ladies and gentlemen good day and welcome to V2 Retail Limited. Q1 FY22 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 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. Thank you and over to you sir.

Manshu Tandon: Goof afternoon everyone. A very warm welcome to our Q1 FY22 Earnings Conference Call, I hope you all are staying safe and healthy towards this today's unusual and challenging times. Along with me I have Mr. Akash Agarwal – Wholetime Director and CFO 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 1 new store and closed 3 non-profitable stores during Q1 FY22. As on June 30th '21, the Company operates 93 stores spread across 15 states and 81 cities with a total retail area of 9.8 lakh square feet. The Company has opened 2 new stores till date in Q2 FY22 and now we have 95 stores. Same store sales growth for the Q1 stood at 67%, our targeted store addition for H1 FY22 will be delayed, however we are on track of opening planned stores for FY22. V2 with our strong customer connect we have witnessed strong rebound in demand, post relaxation of restrictions in Q2 FY22. We have seen significant pickup in volume from our online platform 'V2kart.com' as well. With our normal monsoon as so far, we foresee substantial pickup in demand during festival season starting August '21.

Now allow me to give you a quick overview on our operational performance during the quarter:

Standalone performance highlights, so revenue from operations in Q1 stood at Rs. 82.5 crore as compared to Rs. 37 crore for Q1 FY21. Gross margin stood at 31.7% in Q1 FY22 as compared to 29.7% in last year Q1. EBITDA for Q1 FY22 stood at Rs. 10.7 crore as compared to Rs. 7.2 crore for Q1 FY21. EBITDA margin stood at 12.9% for Q1 FY22. PAT for Q1 FY22 stood at Rs. 10.2 crore negative as compared to Rs. 8.9 crore negative in Q1 FY21.

The second wave and the aftermath destroyed our operations across stores in recent months. Our stores operated only for 45% of the trading days in Q1 FY22. Nevertheless, we have been presently encouraged by the rapid recovery in our customer uptake starting from the middle of June on easing of pandemic related restrictions considerably aiding sentiments and improving consumer traction. It is encouraging to note that in recent weeks over 90% of our stores are operational on most days of the week and local restrictions being increasingly, we are witnessing a sharp recovery with July registering revenue, with recovery of 85% vis-à-vis FY20 level and August is even better. So, with this I now leave the floor open for questions.

Moderator: Ladies and gentlemen we will now begin the question-and-answer session. The first question is from the line of Bhavin an Individual Investor. Please go ahead.

Bhavin: Good afternoon. Just wanted to check with you, were they any specific cost cutting measures which were undertaken by the Company because of which the EBITDA margins were robust? As well as second, how do you see the rent per square feet on a normalized level in the coming 3 quarters?

Akash Agarwal: So, yes during the lockdown period, most of our landlords cooperated with us and they gave us rent concession for the days that the stores were shut because of government restrictions but moving forward it will normalize back to its old levels which is around Rs. 44 per sq feet per month.

Bhavin: And other than rent, were there any other specific cost cutting measures?

Akash Agarwal: So, all the direct costs were obviously related to the store operations, be it power and fuel and we also did not give full salary for the month of May to our employees, so there were cost cutting across all the expenses but it will normalize now as most of the stores are open on most days, so it should come back to around Rs. 170-175 per sq feet.

Moderator: The next question is from the line of Himanshu Shah from Dolat Capital. Please go ahead.

Himanshu Shah: Sir couple of questions. One, the new store addition target of 10, is it on a gross basis or on a net basis for the year?

Akash Agarwal: Net basis.

Himanshu Shah: And any further store closures that we are looking for or what should be that number for rest of the year?

Akash Agarwal: So, we closed to around 3 stores during quarter 1 and there are no more plans to close down any store as such, so the net addition for the year is around 12-15 stores, out of which in Q2 also we have opened 2 new stores.

Himanshu Shah: Okay and secondly sir there has been an increase in raw material prices which we have been hearing, probably a sharp increase in raw material prices, despite that our gross margin has seen a healthy improvement both on a Y-o-Y and Q-o-Q basis and even compared to pre-COVID level, so anything specific over here? What has been driving this?

Akash Agarwal: The rise in prices of the raw material is across industry and it is for everyone, so the customer is bearing a part of that and we have adjusted MRP's of lot of products because of the rise in the cost, so we are looking to maintain our gross margin between 30-32%, so any increase in raw material prices would lead to a higher MRP.

Himanshu Shah: Okay and what was driving the overall price increase that we would have passed onto the consumer at a portfolio level? What is the overall price increase that we have taken in our products?

Akash Agarwal: So, it is very hard to put a number to that because it varies from category to category because cotton yarn had a different rise in prices, polyester yarn had a different rise in prices but you can say the average cost of raw materials went up by, the cost of goods sold for us went up by around 3-4%.

Himanshu Shah: Okay and lastly sir earlier we had been guiding around 20 store additions, we have scaled down that, is that in backdrop of COVID or on a structural basis now we would be looking for adding around similar number only, that is around 10-12 stores on a net basis?

Akash Agarwal: So, we always tell investors that we are looking to grow at about 20% every year. Out of which 15% is from new store additions and the initial target itself was around 15 stores but that has got delayed because of the second wave, so I think we will be able to open net addition of at least 12-15 stores this year.

Moderator: Thank you. The next question is from the line of Amit Porwal from Marathon Capital. Please go ahead.

Amit Porwal: Hi Akash I have a couple of questions. One is on the subsidiary, what would be the capacity utilization level which we have reached in the subsidiary?

Akash Agarwal: We are using about 70% of the capacity right now.

Amit Porwal: Okay and what would be our debt level both at standalone basis and consolidated basis?

Akash Agarwal: So, the net debt as on end of June is around Rs. 45 crore.

Amit Porwal: That is a little bit higher as compared to what we had in March, right?

Akash Agarwal: Yes, in March it was Rs. 35 crore.

Amit Porwal: Okay, do we see any increase in debt levels, going forward?

Akash Agarwal: No, because as you see, the sales numbers for the first quarter is low and because of the COVID-19, we had to use more of the debt for our working capital needs because we did not want to delay the payments of our vendors and our creditors. So going forward, again we will be, the net debt would be zero, I think towards the end of the year.

Amit Porwal: Okay and considering most of the stores were closed in Q1, did we write off some of our inventory or did we take some additional provisions there?

Akash Agarwal: We took an extra provision of Rs. 2.25 crore in Q1 and last year also we had taken an extra provision of about Rs. 9 crore due to COVID-19 in our inventory.

Amit Porwal: So, we are going conservative there, right?

Akash Agarwal: Yes, this is in addition to the 1% provision that we take hopefully.

Amit Porwal: And how have you seen post the relaxation of lockdown, though Mr. Manshu mentioned that you have already reached 80%, 85% of the sales volume compared to FY20. Are we seeing any festive-related demand picking up considering that Rakhi is round the corner and all?

Akash Agarwal: So, it has been very promising and we are very positive because July reached 85% and August also is looking promising. I think this Q2 should be a good quarter and we should reach about 85% of FY20, so which is a very good number because that is the pre-COVID-19 year.

Amit Porwal: So that leads to another question. What would be the EBITDA range for the next three quarters, leave apart quarter 1?

Akash Agarwal: So, I think for the whole year we are targeting an EBITDA of about Rs. 20 crore to Rs. 25 crore but that is obviously contingent to the 3rd wave because it all depends on how COVID-19 behaves in our country.

Amit Porwal: Yes obviously, thanks a lot for answering my question. I will come back into the queue.

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

Sachin Kasera: Good afternoon gentlemen, I had two, three queries, first was if you could tell us, while we all know that the season was impacted because of the second wave but just for our understanding, how have we done vis-à-vis competition, if you could give us some sense on that, that would be very helpful.

Akash Agarwal: So, I would not want to comment on any competitors' performance but as I told you like 45% of the days, our stores were open. So, you can extrapolate that number and then calculate it accordingly but it was a affected quarter, some stores were only open for a couple of hours a day, so it will be very hard to judge the performance by looking at the Q1 numbers. So, I think Q2 will give a clearer picture.

Sachin Kasera: But as for our understanding, have you done better than the industry?

Akash Agarwal: Yes, according to us, we have done better, in terms of per square feet sales, in terms of per square feet ____13:47, so I think we have done better than our closest competitors.

Sachin Kasera: Secondly, could you share the inventory levels, as on June versus March?

Akash Agarwal: The inventory is around Rs. 260 crore.

Sachin Kasera: And what was the same number in March, just wanted to understand?

Akash Agarwal: Rs. 265 crore.

Sachin Kasera: And because of this lockdown, obviously sale has been lower, will we need to make some more further provisions on the inventory because I am sure some of the inventory would have gotten aged, not anticipated as on, for example in the end of March quarter. So, do you think that we may need to make some extra provisions further for the inventory right now?

Akash Agarwal: No, so in the last 12 months, we have already taken an extra provision of about Rs. 11 crore on top of the 1% provision that we already take. So, I think that will be enough and that will cover all the depreciation that we have seen because of the restrictions and stores not being operational.

Sachin Kasera: Sure, and in terms of number of days, is inventory now at the level which you would want to be or you think that right now because of the impact of the second wave, currently you are running a little higher in terms of inventory levels and over period of time you do not want to reduce it?

Akash Agarwal: So, on a normalized sale, we want our inventory to be around 90 to 100 days, so that translates to about Rs. 220 crore to Rs. 230 crore of inventory, so that is our target.

Sachin Kasera: Sure, and how are we approaching the coming festive as well as the winter season, are we going to be quite cautious because I think what has happened and not specific to V2 but I think across industry, the second wave was quite unanticipated and everybody had a little higher inventory then, when they were preparing for the season and then the wave happened and everybody got affected. So, are going to be approaching the festive and the winter season with much more caution?

Akash Agarwal: So because of the sales in July and what we are seeing in August, we have a very positive outlook in our Q3 and I think that should be a very strong quarter for us and because of the volumes that we deal in, it is a very hard for us to procure ready stocks and 35% of our sales are private labels, so that has a lead time of about 60 to 90 days, so we have to plan in advance and you can say, it is a part of the business risk because COVID-19 is a big contingency and we cannot not plan our season because of third wave prediction, so we are very positive and we are planning our festive season with full confidence. So, I think it should be a good quarter for us.

Sachin Kasera: And just lastly, we have been talking about product differentiation and working in-house designing and also now you have setup your own factory, one of the key differentiators in the next two, three years that will probably help us outperform and do much better than industry, so can you just update us? Where are we in that journey right now and is it all going in the right direction and the speed of change is as per what you think?

Akash Agarwal: Yes, so last year our own factory’s contribution was only less than 5% of our total sales and right now on the current going run rate we have already reached about 18% and we want to increase this and go to 50%. So, 50% of the goods in our stores will be designed, developed by my in-house team, so I think for FY23 our target is to take it up to almost 50%.

Sachin Kasera: Will you be able to share us some data as to what is the normal shelf life or the response for the in-house labels and in-house production vis-à-vis what you are get it outside in?

Akash Agarwal: So, we have seen with the data that we have that, the products that are coming from our own factory is selling at, at least 20% to 25% faster rate, so the stock turnover ratio is much, the number of days is much less for our own production goods. So, the customers are liking it better and it has a better sell through and it is giving us a higher margin as well.

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

Bhavin: Just wanted to check with you, are you planning to capture any available opportunities in the market in terms of acquisitions or anything to capture the next level of growth or you just want to grow organically store by store from V2 own channel itself.

Akash Agarwal: So we do not have any such plans but you know it all depends on the circumstance and the kind of deal that we are getting, so we do not have any such plans but ..

Bhavin: What I mean to say is, when you say deal you are getting, are you looking out aggressively or are you open to looking at opportunities or you are just taking it one step at a time?

Akash Agarwal: No, we are taking it one step at a time. So, our target is to reach the Rs. 750 per square feet number and go at 20% every year and eventually take that per square feet sales to about a Rs. 1000 per square feet and increase our EBITDA percentage. So, the target was to do it this year but again COVID-19 spoilt the party, so the target for FY23 now is Rs. 750 per square feet and a Rs. 1000 crore of sales.

Bhavin: And the second question I wanted to check was, how is the digital business panning out? What is the outlook which you are looking, given these current circumstances and COVID-19 still being around, how are you seeing that business growing up?

Akash Agarwal: Which business?

Bhavin: The digital business, online sales?

Akash Agarwal: So, we have always had that stance that we do not want to burn money, we just want to have it as a complementary channel and leverage our inventory over that channel, so we did Rs. 12 crore in Q1 but because our stores were not shut, it was huge proportion of their own sales but going forward our target is to have our e-commerce sales anywhere between 5-10% but without any cash burn, so we are still learning the trade and we are still learning how to manage returns, how to reduce the marketing cost and so I think moving forward, we want to have e-commerce also as a profitable channel, so gradually we will build up on that channel.

Bhavin: But are you seeing ecommerce giving you access to new geographies within India itself or it is coming from the same pockets which you have currently aggressively presence in?

Akash Agarwal: So, in e-commerce about 30% of our sales is from the cities that we are already operational in, so 70% is new geographies and new customers for us. And because we have a CRM that the overlap is not much, so whatever customers that we are getting from e-commerce are new customers for us, so that is a positive sign for us.

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

Rajesh Jain: Hi Akash, I have two questions for you. First, would you like to share what will be our EBITDA level for the balance 9 months? And second would you like to give guidelines with respect to our topline and EBITDA for the next year?

Akash Agarwal: Okay, so I think as I said for the whole year, we are targeting an EBITDA of about Rs. 25 crore. So, the first quarter EBITDA was negative 7.5, so the rest of the nine months it becomes about Rs. 30-32 crore of EBITDA and for next year we want a per square feet sales of about Rs. 750 per square feet and we will have an area of about 1.1 million square feet. So I think if you extrapolate that, it will give you a number of about Rs. 1000 crore with an EBITDA margin of about 8-9%. That is the target for FY23.

Rajesh Jain: Okay good. One more question, would you let me know like what is your plan for next 3 years with respect to addition of our stores, what is your plan for that?

Akash Agarwal: So, every year we want to grow at 20%, out of which 15% will come from new store addition and we are targeting a positive SSG of 5%, so you can say that we will add around 15-20 stores every year, for the next 3 years.

Moderator: Thank you. The next question is from the line of Amit Porwal from Marathon Capital. Please go ahead.

Amit Porwal: One thing which the presentation and website also stresses about is the private labels, but I have seen couple of presentations for last few quarters and all, only 5 private labels have been displayed, so are we working on additions to our private label?

Akash Agarwal: Yes, they have been already applied for trademark actually, so we are just waiting for that approval before we put it on our presentation and in the website, so we have registered about 6 new brands, private labels.

Amit Porwal: And just for my information, private labels would command a little better margins, right?

Akash Agarwal: No, so because private label is basically any goods that is made in our own brand. But the extra margin would be in the product that are made in our own manufacturing unit.

Amit Porwal: So, is the private label being manufactured in-house or still it is going out?

Akash Agarwal: So, out of the 35-40% private labels that we are selling in our stores, 10-12% is from our own manufacturing unit.

Amit Porwal: Okay, so we plan to increase it further in our in-house, right?

Akash Agarwal: So, the plan is to take the private label contribution to almost 80-90%, out of which our own manufacturing and our own developed-designs, own product development would be about 40-50%.

Amit Porwal: Okay and one last question on the Omni channel sales, what would be the first quarter sales in Omni channel?

Akash Agarwal: So, we have not started Omni channel yet, I think we will start it in Q2. All the deliveries are being taken care of by the warehouse itself right now.

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

Akash Agarwal: Thank you everyone for joining the call. We hope to have been able to answer your questions. I hope everyone stays safe. For any further information, I request you to get in touch with Marathon Capital, our Investor Relations Advisors. Thank you.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Marathon Capital, that concludes this conference, we thank you all for joining us and you may now disconnect your lines.