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Ladies and gentlemen, good day, and welcome to the Q2 FY '19 results call of V2 Retail Limited, hosted by Emkay Global Financial Services. We have with us today Mr. Ram Agarwal, the Chairman; Mr. Akash Agarwal, Whole-Time Director; and Mr. Vipin Kaushik, Chief Financial Officer. (Operator Instructions) Please note, this conference is being recorded. I now hand the conference over to Mr. Anubhav Gupta of Emkay Global. Thank you, and over to you, sir.

Anubhav Gupta, Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [2]

Thanks, Vikram, and thanks to all the participants who have joined this call. We also thank the top management of V2 Retail who have given us the opportunity to host the second quarter FY '19 earnings call. Over to you, Mr. Akash and Mr. Ram.

Yes. Hi, everyone. We're here to discuss the second quarter results for V2 Retail. So I'll just discuss the major numbers for this quarter. So the revenue for the quarter grew by 13% at INR 137 crores -- INR 155 crores from INR 137 crores in the respective quarter last year. And gross profit for the quarter increased from -- 1 second.

EBITDA for the quarter declined by 179% from INR 100 million last year to a negative INR 79 million and profit before tax declined from INR 81 million last year to INR 317 million in Q2 FY '19. And the major difference between the quarter 2 of last year and this quarter was the shift of the Durga Purja season and because of our huge presence in the North and the Northeastern region, a big chunk of our sales are dependent on Durga Purja and festival sales. So I think a huge chunk of that quarter 2 sales has been shifted to the third quarter. So that is why there's a huge shift in the post festive sales and the EBITDA margins for the quarter. And we're also investing a lot in technology, and we've also built a 60- to 65-member product development team. And the current contribution for our own production and product development is only 2%. So the investment has already been done, and the results will be seen, I think, in the next 6 to 8 months. So already, the goods that our own design products are selling much better than the goods that we procure from our vendors, and it is giving us extra margin also. So we are looking to increase this contribution from 2% to at least 20% to 25% in the next year. And also, because we opened 14 stores, and we're also opening another 5 to 6 stores in this Tier 3. So we don't capitalize enough consumables like packing materials, hangers, mannequins. So that has no impact on the increase of expenses for quarter 2 as well as doesn't ease off provision of INR 1 crores, and there's a lease equalization provision of INR 1.38 crores in the P&L. So that is inflating the expenses.

So now I'm open to -- we're open to questions.

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Questions and Answers

Operator [1]

(Operator Instructions) Your first question is from the line of [Bayun Katan] from Ohm Portfolio.

Unidentified Analyst, [2]

Can you explain this INR 23 crores one-off that is coming this quarter? Is it due to (inaudible) deal, et cetera?

Akash Agarwal, V2 Retail Limited - Whole Time Director [3]

Yes, as for the MRA, there was a Right of Recompense clause when we sold the business to TPG. But we didn't want to be under litigation with the banks, and we wanted to get out of the CDR process. So we didn't provision for it because we weren't expecting this outflow from the business. But as part of the settlement to get out of the CDR and to remove the Right of Recompense and to remove all the shares pledged to the banks and all the properties not being released by the banks. So this amount of INR 20 crores, INR 21 crores will be the actual outflow. So that was agreed upon and which will be transferred to the banks.

Unidentified Analyst, [4]

Okay, so that outflow is due for quarter 3?

Akash Agarwal, V2 Retail Limited - Whole Time Director [5]

Yes. And the total..

Unidentified Company Representative, [6]

That will be paid on February.

Akash Agarwal, V2 Retail Limited - Whole Time Director [7]

So that will be paid in February 2019, and the total sacrifices of the bank was INR 136 crores.

Unidentified Company Representative, [8]

INR 132 crores.

Akash Agarwal, V2 Retail Limited - Whole Time Director [9]

INR 132 crores, out of which TPG...

Unidentified Company Representative, [10]

(inaudible)

Akash Agarwal, V2 Retail Limited - Whole Time Director [11]

TPG is paying INR 111 crores, and we are paying the INR 21 crores.

Unidentified Analyst, [12]

Okay, so there is no more elaborative or remark now V2.

Akash Agarwal, V2 Retail Limited - Whole Time Director [13]

No, we will completely out of the CDR process.

Unidentified Analyst, [14]

Okay. And these EBITDA losses, what we -- is it just because of the shift or -- and a couple of reasons that you mentioned? So basically, the business gets back to normal in October, which I assume we will pay back on our normal EBITDA run rate?

Akash Agarwal, V2 Retail Limited - Whole Time Director [15]

Yes, I think so. And they're also -- the post festival sale was [62 paise] for the quarter. And as I said, there's a huge increase in costs because of the certain measures that we have taken. But I think [Q4], we should be back on track.

Unidentified Analyst, [16]

In October, sir?

Akash Agarwal, V2 Retail Limited - Whole Time Director [17]

October? We have seen flat growth.

Unidentified Analyst, [18]

Okay, considering that October was weak last quarter, you still see a flat growth?

Akash Agarwal, V2 Retail Limited - Whole Time Director [19]

Actually, we compare period to period. But if you compare October to October, yes, we can see like a little growth, that's it.

Operator [20]

We have a next question from the line of Rashmi Kwatra from Sixteenth Street Capital.

Rashmi Kwatra, Sixteenth Street Capital Pte. Ltd. - Founder & CIO [21]

My question was already answered in the last question, so it's okay. Thank you.

Operator [22]

(Operator Instructions) We have the next question from the line of [Josin] Singh, individual investor.

Unidentified Participant, [23]

My question is like earlier, we had a target of reaching 100 stores by FY '19. Are we still on track to reach 100 stores?

Akash Agarwal, V2 Retail Limited - Whole Time Director [24]

So our target was always to open 50 stores or 5 lakhs square feet in this year. So we've already opened 2.5 lakhs square feet, and I think we should be able to open another 2 lakhs square feet. So I think we will be able to open 4.5 lakhs square feet this year, and we will end at 1 million square feet.

Unidentified Participant, [25]

Okay. And what is the current pledged likely? Are you saying that it is almost 71%. Is it right?

Akash Agarwal, V2 Retail Limited - Whole Time Director [26]

I don't know the exact number, but a major chunk of the promoters' share is pledged to the bank, which will be released by the bank after this amount is transferred.

Unidentified Participant, [27]

Okay, so there is no more pending apart from this INR 23 crore, which we have seen in this quarter.

Akash Agarwal, V2 Retail Limited - Whole Time Director [28]

Yes, this is the final settlement amount.

Operator [29]

(Operator Instructions) We have the next question from the line of from [Sameep Kasbekar] from Greenfield Advisory.

Unidentified Analyst, [30]

You mentioned that our performance was impacted by the shift in the Durga Purja was it last year? But then you then mentioned that October was flat year-on-year. So Durga Purja was shifted from September last year to October this year? Then why is it flat?

Akash Agarwal, V2 Retail Limited - Whole Time Director [31]

Sure. Again, like I told the other person that we always compare period to period. So when we compare period to period, the growth was flat. And I can't talk about actual October-to-October figures. But third quarter, we should see us getting back on track.

Unidentified Analyst, [32]

And how is the value sales standing up?

Akash Agarwal, V2 Retail Limited - Whole Time Director [33]

We are bullish about it, and we think we'll trend.

Operator [34]

We have the next question from the line of (inaudible) from Systematix Shares & Stocks.

Unidentified Analyst, [35]

This INR 21 crores you're saying you're netting off against the CCDs of TPG Wholesale Private Limited, is that where you're saying INR 21 crores?

Akash Agarwal, V2 Retail Limited - Whole Time Director [36]

Yes, the actual outflow is INR 25 crores, out of which CCD value is INR 4 crores. So our net cash flow -- net cash outflow is only INR 21 crores for the period.

Unidentified Analyst, [37]

So we would actually be paying INR 25 crores in February and we would receive INR 4.6 crores, and then therefore, net of -- is that both the entries will happen in the month of February?

Akash Agarwal, V2 Retail Limited - Whole Time Director [38]

Yes, that is how it works.

Unidentified Analyst, [39]

And the -- is it booked also in the fourth quarter, the expense and the other income?

Akash Agarwal, V2 Retail Limited - Whole Time Director [40]

Already booked in this quarter. You can see it on the slide.

Unidentified Analyst, [41]

Sorry, sorry. I mean, the cash flow would -- okay, and the cash flow...

Akash Agarwal, V2 Retail Limited - Whole Time Director [42]

Cash outflow will happen in the fourth quarter.

Unidentified Analyst, [43]

Fourth quarter. And you mentioned if this were not to be done, if you had not acceded to TPG's negotiations, it would have tantamounted to this getting into litigations, and therefore, the promoters placed -- continuing to be placed and the tenders case would have been resolved and which could have taken a couple of quarters or couple of years. Is this what you meant?

Akash Agarwal, V2 Retail Limited - Whole Time Director [44]

Litigation and also we have a couple of properties that are held by the banks. So our Hubli property, for example, is worth INR 30 crores. And we already will sell that because bank is not allowing us to -- is not releasing the property. So I think we wanted to get out of the CDR process, get all our proxies released, get our shares released. And because of the CDR process, we were not able to go to banks for CC limits or even allocated cut in the company. So we just wanted to get out of the CDR process, and litigation may have gone on for maybe 5 years. And we wanted to get done with it go so we decided to pay off the banks and settle it for once.

Unidentified Analyst, [45]

Sure. With this all the issues with regards to the previous organization which (inaudible) and this thing has been settled, and there's nothing more that could be there.

Akash Agarwal, V2 Retail Limited - Whole Time Director [46]

Yes, yes. Completely out of it now.

Unidentified Analyst, [47]

Sure. That's helpful. And just lastly, on the, if you can help -- I mean, I'm sure it was a negative number. What exactly was that in the quarter for the first half? And how do you see second half?

Akash Agarwal, V2 Retail Limited - Whole Time Director [48]

So first half, the SSG was minus 14%, but again, it is pertaining to the festive season shifting. But for the whole year, I think we should see anywhere between minus 2% to minus 3%.

Unidentified Analyst, [49]

Okay, so that means a second half would be like 10%, 11% or thereabouts?

Akash Agarwal, V2 Retail Limited - Whole Time Director [50]

Yes, we can hope for it.

Unidentified Analyst, [51]

And the -- for the store count addition, you mentioned you've just lowered it a bit from 5 lakh to 4.5 lakh. Is that what I had heard?

Akash Agarwal, V2 Retail Limited - Whole Time Director [52]

Yes, yes, we are lowering it from 5 lakh to 4.5 lakh.

Unidentified Company Representative, [53]

(inaudible)

Akash Agarwal, V2 Retail Limited - Whole Time Director [54]

So we're already operating around 9 lakhs square feet. And we are planning to open maybe, I think 2 lakhs.

Unidentified Company Representative, [55]

Withing 2 months or more than that, more than that.

Akash Agarwal, V2 Retail Limited - Whole Time Director [56]

So we should close the year at 1 million square feet.

Unidentified Analyst, [57]

And this has been done because of these 2 things, which is the negative you've seen first half and the cash outflow of INR 21 crore this year? Or is there anything beyond this?

Akash Agarwal, V2 Retail Limited - Whole Time Director [58]

Yes, and also there has been a delay in the workflow for the stores that we were planned. We planned to open in August, are opening a couple of months late. So it impacts the cash flows to the whole, so the cash flows that we expected from those new stores have not been into the system yet. So I think that's why we revised our plan to open the stores.

Unidentified Analyst, [59]

Fair enough. Anything you could leave us with for the next financial year '19, '20, in terms of the store openings and the lakh square-foot operations.

Akash Agarwal, V2 Retail Limited - Whole Time Director [60]

Yes. So I think we'll stick to our growth expectation of about 40% of revenue and 40% of EBITDA every year. And I think next year, due to our increase in contribution of our production, product development, our own designs, so we should see a good SSG number in all the investments that we have done and all the investment that we have done in processes, systems, IT systems. And I think [Hana] also should also be live by next year. So I think all those things together should help us get a positive SSG and a good EBITDA number.

Operator [61]

We have the next question from the line of Hiren Dasani. from Goldman Sachs Asset Management.

Hiren Dasani, Goldman Sachs Asset Management (India) Private Limited - Executive Director of Investments and Portfolio Manager [62]

I mean, when you say October was flat, do you mean in term of festive sales or do you mean in terms of overall?

Akash Agarwal, V2 Retail Limited - Whole Time Director [63]

So when I talk about same figures growth, I was talking about the same stores.

Hiren Dasani, Goldman Sachs Asset Management (India) Private Limited - Executive Director of Investments and Portfolio Manager [64]

Okay. So from minus 13% of SSG in the second quarter, you are saying multiples improve towards 0% in mid-October.

Akash Agarwal, V2 Retail Limited - Whole Time Director [65]

That was again period to period. That wasn't October to October.

Hiren Dasani, Goldman Sachs Asset Management (India) Private Limited - Executive Director of Investments and Portfolio Manager [66]

What do you mean by period to period? Sorry.

Akash Agarwal, V2 Retail Limited - Whole Time Director [67]

Festive period from last year to festive of this year. The same pertaining there, so I haven't given figure for October to October, and I don't have that figure with me. But I think third quarter should be positive.

Hiren Dasani, Goldman Sachs Asset Management (India) Private Limited - Executive Director of Investments and Portfolio Manager [68]

I think it would be better if you made this comment clearly more a data point because otherwise, it's kind of bound to be misinterpreted. When you said slide are you meaning the same-store sales growth?

Akash Agarwal, V2 Retail Limited - Whole Time Director [69]

Well, I said our Durga Purja to Durga Puja sales were flat as were our October to October. But I think third quarter, we should see a positive message.

Hiren Dasani, Goldman Sachs Asset Management (India) Private Limited - Executive Director of Investments and Portfolio Manager [70]

Yes. So Durga Purja to Durga Puja flat on a same-store basis.

Akash Agarwal, V2 Retail Limited - Whole Time Director [71]

Yes, yes, same-store. Flat SSG, flat SSG.

Hiren Dasani, Goldman Sachs Asset Management (India) Private Limited - Executive Director of Investments and Portfolio Manager [72]

Okay, okay. Because I mean, obviously, you increased quite a few stores over that year so...

Akash Agarwal, V2 Retail Limited - Whole Time Director [73]

Exactly, exactly.

Hiren Dasani, Goldman Sachs Asset Management (India) Private Limited - Executive Director of Investments and Portfolio Manager [74]

Yes. And you know there is also somebody that would be competition in this kind of format is increasing in the smaller towns and some of the well-trained employees of the retail stores and all that? So how do you guys respond to that?

Akash Agarwal, V2 Retail Limited - Whole Time Director [75]

Yes, definitely, I think at least 10 to 15 new players have come in the last 2 to 3 years. And I think competition intensity, we keep on growing because a lot of other companies have also raised capital, and they are also coming up with new stores. So that's why we are focusing on building strong systems. So we want to be so strong and we want to create that competitive advantage and create some sort of differentiation, which will be led through our product. So, which enable us to get a higher percent of the sales than them and which will help us get a leadership position in the market. But it's true that the competition is increasing, so that's why we want to differentiate ourselves and we're working on strengthening ourselves so that we can grow from that base.

Hiren Dasani, Goldman Sachs Asset Management (India) Private Limited - Executive Director of Investments and Portfolio Manager [76]

And why wouldn't you like to consolidate the store opening for a while, see what the volume is looking or not? And then kind of moving to next level of growth?

Akash Agarwal, V2 Retail Limited - Whole Time Director [77]

So we have a policy where we see that our return on equity is more than our return on capital, the return of cost of capital. Then if we feel that -- if we have money on the books, then it's always better to open new stores rather than keeping (inaudible) or elsewhere. But definitely, if we feel that we are not meeting certain parameters and the business is not giving us the targeted return, then we would have to rethink our strategy and we will sit on the drawing board again maybe we decide that we don't want to open any store. But we have certain parameters that -- and if we go below that, then we would think about not opening. So as long as we're getting good returns on our capital, then I think we will be opening the stores. And also, most locations that we operate in, we still have the highest gross square feet sales amongst our competitors. So I think that is good encouragement for us to open new stores.

Hiren Dasani, Goldman Sachs Asset Management (India) Private Limited - Executive Director of Investments and Portfolio Manager [78]

And new stores that you opened in the last, let's say, 18 months or so, are they tracking your internal benchmarks on where they should be in the first 6 months or much better?

Akash Agarwal, V2 Retail Limited - Whole Time Director [79]

They are a little below that, but they are still almost at par with the company. Just a little below the company average.

Hiren Dasani, Goldman Sachs Asset Management (India) Private Limited - Executive Director of Investments and Portfolio Manager [80]

Obviously new stores would be below the company average. But I mean, in terms of your ramp-up, are they tracking where they should be or not?

Akash Agarwal, V2 Retail Limited - Whole Time Director [81]

It's a mixed batch. A lot of stores are ramping up and a lot of stores have met our expectations, and a lot of stores are below expectations also. So we have shut down a couple of stores because of the certain reasons that wasn't up to the benchmark of our [most retail] sales.

Operator [82]

So we have the next question from the line of [Nivach Monsecar]-- sorry, it's not. We have the next question from the line of [Avi Sheikroy] from [Stuart] and (inaudible).

Unidentified Analyst, [83]

Sir, in the recent -- over the last few seasons, you had said that the e-commerce they have reported very good sales number for the recent (inaudible) retail or Indian big festive sales figures. So do you see that there was any impact from the business that has been impacted by the e-commerce world?

Akash Agarwal, V2 Retail Limited - Whole Time Director [84]

So we conducted a survey in our stores if our customers are buying online, and we concluded that most of them are not yet buying online. So I don't think that there's a huge overlap with these Amazon and Jabong and Flipkart with our customers yet. So we are not impacted by their sales. But definitely, we think that e-commerce will be the way to go in the future. That's why we're already building our own portal, and we want to have an omnichannel business. So I think our portal will be live in the next 15 days. So I think e-commerce, we're very positive on e-commerce, and we want to be present both online and off-line. So we will be ready when our customers move online.

Unidentified Analyst, [85]

So what is target -- what is the number you're targeting for the omnichannel business? How much business you're expecting from that?

Akash Agarwal, V2 Retail Limited - Whole Time Director [86]

That decision then will be made after we launch. It all depends what kind of response we're getting. So we're not looking to spend a lot on e-commerce initially, just to complement our existing off-line business. So the customers who are already coming by stores, we have done promotion to get online. So that will all depend on what kind of response we get after we go online.

Unidentified Analyst, [87]

So I believe the model that you have there -- so that will be the delivery to the stores, right? Or will you have delivery implemented?

Akash Agarwal, V2 Retail Limited - Whole Time Director [88]

Sorry, can you repeat that question?

Unidentified Analyst, [89]

The delivery. You find the consumer and you have an online order. So what is it that you providing that possibility that you are providing to supply your products?

Akash Agarwal, V2 Retail Limited - Whole Time Director [90]

Yes, because we are to reach every customer in the country, we'll have our tie-up with our logistic partners as well we'll have an option where the customer can go to our store and pick it up, pick the goods up. So we won't charge any shipping from it. So it all depends on what the customer chooses. So if he lives in the same city where there's a retail store, he can go to the store and pick up the order.

Unidentified Analyst, [91]

Okay. I wonder if you go back (inaudible) and also your status by FY '19, you can be negative 2 to 3 percentage. Then -- but (inaudible) they are expecting a positive (inaudible) so (inaudible) for you (inaudible) Can you just elaborate?

Akash Agarwal, V2 Retail Limited - Whole Time Director [92]

Yes. So there are basically 3 tiers of competition for us. So one will be national level organized big retailers like Reliance, Trends, [STB], Max and Trend. And the second tier would be direct competitors. These are additional players like D-Mart, (inaudible), Bazaar India. So there are about 20 different chains of stores like this so -- who are directly competing with us. And then the third tier is local entrepreneurs with maybe 1 or 2 stores in those cities. So I think there is competition intensity right now, and that is why we're not very bullish on SSG for this year. But I think when we implement on the things that are playing on our own production and product development would start coming in and the contribution for that increases. So I think we should see a good SSG for FY '20.

Operator [93]

We have a next question from the line of [Akhil Bharat] from [Inara] Capital.

Unidentified Analyst, [94]

So of the 70 stores you have, would you be able to classify how many are in Tier 1, how many are in Tier 2 and how many are in Tier 3?

Akash Agarwal, V2 Retail Limited - Whole Time Director [95]

I don't have the numbers, but I think 95% would be in Tier 2 and Tier 3. And that would have an equal base share, I think. But you can see it in the presentation. I think it's mentioned there. Mostly, it's in Tier 2 and Tier 3 towns. Tier 1, we have already minute presence.

Unidentified Analyst, [96]

Are you planning to go in Tier 4 towns?

Akash Agarwal, V2 Retail Limited - Whole Time Director [97]

We don't have a huge focus on Tier 4, but mostly the focus is Tier 2 and Tier 3.

Unidentified Analyst, [98]

Okay. Also, case number would we have simply to know what percentage for the quarter?

Akash Agarwal, V2 Retail Limited - Whole Time Director [99]

We provision for 1% every quarter, and there's no regular stoppage that happened at our stores. So the shrinkage comes between 0.7%, 0.8%.

Unidentified Analyst, [100]

And do you see this kind of 0.7%, 0.8% into next year?

Akash Agarwal, V2 Retail Limited - Whole Time Director [101]

Yes, I think considering 1% -- you know 1% should be ideal for the next couple of years.

Unidentified Analyst, [102]

And the last question has to with your saying that it's kind of flattish number and as for my channel, shares are evaluated as well as retailers understand this is kind of flattish growth for Navaratra and Durga Puja, so is it because of weakness in the consumption? Or is it mainly because of the high competitor intensity?

Akash Agarwal, V2 Retail Limited - Whole Time Director [103]

I wouldn't say it's a decrease in consumption as a whole, but I would say that -- I'll just give an example. In some of the Tier 3 town, there are only 2 retailers operating, and now there are maybe 5 or 6 retailers that are operating. So I think it's because of more competition so everyone is feeling the heat. And I think the consumption as a whole in India is not going down. It's

nice but that rise is not at the same pace as the number of players operating in the market. So it all depends on who executes the processes well, who makes the best team and who has the best SOPs. So it all comes down to execution. So that is where our focus is on, and we want to build a long-term business so we want to build a model where -- because right now, there are no entry barriers to this business. So we want to create a model where it is not easily replicable and where we have a clear competitive edge. So whenever we open a store, people think twice before opening anywhere near us. So all the work is going on that. That is why we built a huge development team. So I think this current team can support a much larger area. So we are investing for the future, and I think we should see the results of this in the coming quarters.

Unidentified Analyst, [104]

Did I hear right, didn't you say in short term you might see some pressure (inaudible) because of the ...

Akash Agarwal, V2 Retail Limited - Whole Time Director [105]

Yes, I think that is the right interpretation. You can say that because a lot of people have raised money. People are opening stores. There are [5, 5] new stores opening everywhere we operate. So initially, there is a challenge because the customers definitely move to the new player. But I think if we keep ourselves strong and if we are able to establish whatever SOPs and systems that we've made. So I think we should be back on track.

Unidentified Analyst, [106]

Okay. And then last question on production side. You said we have a production development team of around 65 members. Is that number right?

Akash Agarwal, V2 Retail Limited - Whole Time Director [107]

Yes.

Unidentified Analyst, [108]

Okay. So you when you say production in-house, so that really doesn't mean manufacturing in-house, or will you be creating samples and building them from..

Akash Agarwal, V2 Retail Limited - Whole Time Director [109]

So we will be creating samples, and it will be all done by third-party contractors. So we only develop designs so it will be product development. And the production team just handles that the production should come on time. So they just handle the PPC, so that is the production planning cycle.

Unidentified Analyst, [110]

The ASPs would be better or is in-house better?

Akash Agarwal, V2 Retail Limited - Whole Time Director [111]

ASPs would be quite similar, but margins will be 2% to 3% better -- gross margin.

Unidentified Analyst, [112]

(inaudible) so why the margins better in the business?

Akash Agarwal, V2 Retail Limited - Whole Time Director [113]

Because we will be getting it made from direct factories. So where we are -- any vendor that we work with, they charge at least 10% to 15% margin. So they act as middlemen because not every vendor has its own factory. So I think we should be able to save at least 7% to 8%, of course.

Operator [114]

We have a next question from the line of [Hirsit Shah] from Emkay Global.

Unidentified Analyst, [115]

Can you hear me now?

Operator [116]

Yes, we can.

Unidentified Analyst, [117]

I just wanted to understand, what is the tax expense for the year because I think you had this onetime hit. So the absolute tax hit on the P&L and all the cash outflow from there.

Akash Agarwal, V2 Retail Limited - Whole Time Director [118]

So because of our deferred tax assets, our tax expense for this year would be 0. So we have to start paying taxes from next year onwards.

Unidentified Analyst, [119]

And will it hit on the P&L, I mean?

Akash Agarwal, V2 Retail Limited - Whole Time Director [120]

It will be a hit in the P&L.

Unidentified Analyst, [121]

And tax expense of P&L and cash outflow? Will there be some expenditure booked as an expense, right, in the P&L or that would be almost 0?

Unidentified Company Representative, [122]

(inaudible)

Akash Agarwal, V2 Retail Limited - Whole Time Director [123]

So we have about INR 60 crores of losses that we can set it off against the profit that we earn this year. So I think that will be shown as a...

Unidentified Company Representative, [124]

(inaudible)

Akash Agarwal, V2 Retail Limited - Whole Time Director [125]

That will be shown as a deferred tax on the P&L. That will be impact on the P&L. And from next year onward, we will pay the proper taxes.

Unidentified Analyst, [126]

Understood, understood, understood. And what's -- where is the impact on booking capital and what are you projecting for the whole year and the year-end number of days or...

Akash Agarwal, V2 Retail Limited - Whole Time Director [127]

So we are looking to have an inventory of about 90 to 95 days, and our creditors is almost about 45 to 60 days. So you can say that we want to keep a working capital of about 45 to 50 days.

Unidentified Analyst, [128]

Understood. So there's no major change even if you ramp up your own production, right?

Akash Agarwal, V2 Retail Limited - Whole Time Director [129]

No, because we get fabrics on credit. So I think it all depends on how fast we're able to get the goods converted. So I don't think there will be a huge pressure. I think we should be able to work with a similar working capital. And if even there's an increase in the working capital needs, the higher margins will actually set it -- set off against it, so...

Operator [130]

We have a next question from the line of [Neeraj Marsinkar] from Goldman Sachs Asset Management.

Unidentified Analyst, [131]

My question is to discuss one question about your assumptions on future growth number. Now that your H1 revenues and EBITDA has been lowered and what you might have expected this year. How are you thinking about how you should be growing and investing in the next year? And I just wanted to know your thoughts on strategies.

Akash Agarwal, V2 Retail Limited - Whole Time Director [132]

So again, as I said, like 40% growth for us is pretty conservative. I think that is a number we are looking at, 40% revenue growth, even for next year in terms of revenue, EBITDA and store additions, everything. And this quarter's performance doesn't really make us think about our growth strategy. Because again, as I said, new stores post festival are also good and all stores, if you remove the festive period, are still part of last year sales. So I think we are looking to grow at 40% and still open new stores. But definitely, we want to increase the square footage number, and we're working towards that. But it doesn't -- we don't really have to consolidate our growth or stop our growth in order to do that. So we want to do it simultaneously. We want to work on our existing systems, increase our existing margins, increase our existing per square feet sales by opening new stores. So I think nothing has changed over there.

Unidentified Analyst, [133]

And when you are talking about market growth rate, what are you thinking about in a particular area in that?

Akash Agarwal, V2 Retail Limited - Whole Time Director [134]

So I think for the next 1 year, we're taking of SSG of 0%. So I think all the 40% will come from new area.

Unidentified Analyst, [135]

Okay. So what do you need to -- in regards to taking debt to do investments and keep growing at that pace?

Akash Agarwal, V2 Retail Limited - Whole Time Director [136]

I think it will all depend on the circumstances at that point of time. Because at the end of this year also, we'll be left with cash surplus in our books that will enable us to open, I think, a lot of stores. So it will all depend on the cash flow planning. And whichever route we find will be the most attractive for the business at that time, we will go for that.

Unidentified Analyst, [137]

And with the plans that you have, what is the time line that you're seeing when you will get the shares unpledged?

Akash Agarwal, V2 Retail Limited - Whole Time Director [138]

I think in February, after the payment is done, it should be done in the fourth quarter or in the first quarter of FY '20 and the pledge should be released by that time right away.

Unidentified Analyst, [139]

So you're saying February for the payment but this should be paid by June.

Akash Agarwal, V2 Retail Limited - Whole Time Director [140]

It should be done within, I think, 30 to 90 days after the payment of term.

Operator [141]

We have a next question from the line of [Arun Bet] from [Above] Capital.

Unidentified Analyst, [142]

Just wanted to clarify. You said that you're targeting 0% SSG for the next 1 year. Is that correct?

Akash Agarwal, V2 Retail Limited - Whole Time Director [143]

Yes, because we see the competitive intensity and you know the competition pressure also. So internal targets are definitely higher, but we always tell our investors that we shouldn't be very bullish on the SSG. I think we should target 0% SSG. But as I said, because new players are coming in right now in the next 1, 2, 3 years, a lot of players will open new stores. So I think whoever survives this and then becomes -- gains the leadership position in the market. So post those 2 to 3 years, I think that company or those few companies that will be left will start running up normal profits. So then will be the time to increase the EBITDA margins and get to high SSGs.

Unidentified Analyst, [144]

So my question came more because you said that next year, you're expecting a 40% growth in top line and 40% growth in EBITDA. With 0% SSG, how can that be achieved?

Akash Agarwal, V2 Retail Limited - Whole Time Director [145]

That will be done by new areas. We will have to open 40% new area.

Unidentified Analyst, [146]

That's true, but you'll have some cost situation with the manpower, even with your overhead, your electricity expenses. So all will go up so you have to have an SSG in excess of 4% to 5% so that your 40% top line will equal to at least 35% EBITDA growth. In that case, what is the best story you can have?

Akash Agarwal, V2 Retail Limited - Whole Time Director [147]

The element that goes up is basically the rent and not all manpower goes up. People who have been with us for 1 year, their salary is bigger growth of about 10% average. So the total impact of that on total store cost is not significant enough.

Unidentified Company Representative, [148]

(inaudible)

Akash Agarwal, V2 Retail Limited - Whole Time Director [149]

And right now, actual cost (inaudible) can support a much larger area. So I think the total actual cost right now is INR 35 crores. That should come down to INR 20 crores to INR 25 crores when we're operating double the square feet area. So I think that will set off the rising cost of the store, and we should be able to grow the EBITDA and revenue both by 40%.

Unidentified Analyst, [150]

And what's the rental cost and what is your sales or average rental cost per square foot?

Akash Agarwal, V2 Retail Limited - Whole Time Director [151]

INR 44 crore right now per square feet.

Unidentified Analyst, [152]

And that will go up by what percent every year?

Akash Agarwal, V2 Retail Limited - Whole Time Director [153]

It goes up by 15% every (inaudible) so that comes to around 4% every year.

Unidentified Analyst, [154]

I'm sorry, you mentioned number of INR 44 crores per square feet.

Akash Agarwal, V2 Retail Limited - Whole Time Director [155]

Yes, so 4% of INR 44.

Operator [156]

Ladies and gentlemen, due to time constraint, that was last question. I now hand the conference over to the management for closing comments. Sir, over to you.

Akash Agarwal, V2 Retail Limited - Whole Time Director [157]

So thank you all for everyone for attending the call. And we are right now, focusing on recruitment, training and getting the right head of departments into place and getting the right SOPs implemented. And I think we are making an organization for the future, and we're working long term. So that is why you can see our costs are a little higher than the benchmarks. And I think as we open new area, our cost per square feet should go down and as all these new projects and initiatives are implemented. So we are bullish for the third quarter as well and as well as the future of the company. And again, we want to grow at 40% every year, and we would revisit the numbers if we have certain parameters of EBITDA percentage per square feet sales, new stores per square feet sales that we will need to revisit. And every month, we do a review for each store EBITDA. And we also take into contingency that every 100 stores we open, at least 5% to 6% of those stores will not do well. So we take a decision to shut down those stores as well. So I think as we increase our revenue contribution, product development contribution, the company should be back on track, and we should see positive SSG soon. Thanks a lot.

Operator [158]

Thank you very much, sir. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.