"V-Mart Retail Limited Q1 FY 2018 Earnings Conference Call"

August 21, 2017

MANAGEMENT:	**MR. LALIT AGARWAL - CHAIRMAN AND MANAGING DIRECTOR, V-MART RETAIL LIMITED** **MR. ANAND AGARWAL -- CHIEF FINANCIAL OFFICER, V-MART RETAIL LIMITED.**
MODERATOR:	**MR. AVI MEHTA -- IIFL CAPITAL LIMITED.**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the V-Mart Q1 FY 2018 2017 Earnings Conference Call hosted by IIFL Capital Limited. 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 this conference call, please signal the 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. Avi Mehta from IIFL Capital Limited. Thank you and over to you, sir!

Avi Mehta: Thank you, Lizzan. Hi, good evening, everyone. On behalf of IIFL, I would like to welcome all of you the 1Q FY 2018 Conference Call for V-Mart Retail.

From the Company, we have with us the key senior management including Mr. Lalit Agarwal -- Chairman and MD; and Mr. Anand Agarwal -- CFO.

I would now like to hand over the call to the management for their comments. Over to you, sir!

Lalit Agarwal: Hi, Good Afternoon, everyone. Once again, welcome to the call. Thank you for being there.

Overall, it has been fairly good quarter for V-Mart, good quarter for the industry also. At the outset, we see a good demand in the whole quarter, we saw that the demand is better in this particular. We saw consumption continuing which we have seen for the last 2 quarters. Post demonetization the growth story has been on, monsoon effect has been noticed in the market, smaller towns we have seen customers being excited about their consumption. We are seeing growth in the aspiration. We are noticing lot of betterment in the overall process at the ground level may it be administrative processes by the Government or may it be the power quality at the front end, or may it be the law and order situation also in the front end. So, we are seeing betterment overall at each level in the market, economy doing good.

Industry also grew in the overall quarter. Everyone in the organized retail environment has grown better than they had expected primarily led by few good things which has happened in the past. GST has been good to us. The roll out of GST has been one of the focused area for the company and for the industry, getting prepared for the GST in this quarter was a key agenda, trying to map our technology, trying to get ready with the leads trying to train the vendor base, bring the vendor base onto the same platform understand their key problem areas, understanding or improving their capabilities, trying to get into a lot of workshops with them.

So, a lot of the work company did in this particular quarter, so that enablement of GST becomes easier and for V-Mart it has been very-very smooth and very-very easy, our technology was well prepared, we were there live on the first date. All our stores are live with GST bill on the first day itself. It was a great team effort by team V-Mart and the technology partners. We really thank everyone for those. And apart from that, there has been a lot of good things which has happened in the company which we have continued doing right from the merchandizing betterment to the store experience or the store customer experience betterment, the service level, the motivation level of the staff at the back end, a lot of communication activities, a lot of information transfer activities happened in V-Mart, a lot of town halls and a lot of new initiatives have been launched. What we wanted to do is really professionalize the whole set-up, work more on the process, work highly on the key core inputs that is required for the growth is what we were working on.

So, at V-Mart things have worked for us, things have been very-very good, we have been able to handle the situation very well. We have able to get a get a good growth, good monsoon and the demonetization. Basically, on the base of low same store sales growth last year in the same quarter we have managed to have a very good quarter in terms of same store sales growth. Because also of Eid getting prepone, a lot of performance has improved and we have some sales which was supposed to be due in quarter two had come in quarter one.

So, overall the past performance, I think we should not complain, we have bettered on every area and the future perspective, we still see the same should continue but yes, the market at the moment for the last one month, we have seen a little downfall in the market and because the monsoon is also very-very good, the good monsoon also leads to a lot water logging, a lot of the issues at the front end, in the towns where we operate.

But yes, the future has to be better may be the last 45 days has not been that great as the first quarter. But yes, things are good and we expect the same from the future, we are gearing up for our festivals, we are gearing up for the festivals because the festivals have also preponed this time, Durga Puja being earlier, Ganesh Puja being now, next week. So, there a lot of activities going on in the back-end right from the sourcing, budgeting, planning, supply chain management, at the store, lot of training activities happening at the back end, a lot of training activities for the front end is happening, store manager needs and the vendor needs happened, we had a very successful vendor meet at the back end where we did a Sahyog Program wherein 550 vendors participated. So, a lot of activity we did with them.

We have got a sense on how prepared are they for our future needs and for our future betterment. How prepared are they to counter the challenging needs of fashion and to counter the qualitative needs of the customers and try to bring a value in the prices of the product that we are catering to. And also, how do they grow their business along with us, so that we are in sync with what our manufacturers will provide and how much capable are they. So, we had a very healthy session there and a lot of appreciation was made and a lot of rewards and recognition was also given in the community.

There was another input that I would like to give you, we were amongst the one who have called in for the Champions of Change Program organized by NITI Aayog spearheaded by CEO Mr. Amitabh Kant where the Prime Minister met up with the promoters of fast growing companies across sectors to take path breaking innovating ideas from them to identify opportunities across multiple themes like energy, telecom, IT, software, and education and skill development, health and nutrition.

So, I was a part of that. I contributed good news that V-Mart got selected and we got a chance to be a part of this 212 such young promoters for the last 2 days at New Delhi. So, in the last week we had that on 16th and 17th. We aerated brain storms and came up with several ideas. Good thing is that it was cross-functional set-up, I was given thematic area of education and skill development where as a part of 25 promoters I deeply engage with the HRD Ministry Mr. Javadekar and the Skill Development Ministry Mr. Rajiv Pratap Rudy and the sectaries of these ministries also there.

So, it was a great move, the best thing that I like is the Government wants to take India by 2022 and on what pillars, including democratic process being followed gave us a lot of confidence. The way the Prime Minister led this, the Prime Minister himself attended 3.5 hours in the second day and for 1.5 hours in the first day, he gave a very-very motivational speech, really brings a lot of confidence in entrepreneurs like us, we are very much charged up looking at the way the Government is trying to take input from the entrepreneurs and make their bureaucrat see and the ministry sit down and take those inputs and try to roll that out into policies and road map for the future India.

So, great move and this brings a lot of confidence in the market and for us. And part from that, I think on the back end we are working very heavily on the organization structure at the all the ends, we are trying to streamline the organization, trying to better for the better growth, we have bettered our supply chain management which we are seeing the result, we have really done good market, our brand image overall has gone up in the market, the company has taken a lot of better analytical approach towards data. We are trying to take a lot of decisions through analytics and also algorithms.

So, we have rolled out almost 8 stores in the last quarter, we wish to come up with another 8 in this particular quarter. So, let us hope we have already opened up 2 stores as of now. We are in 151 stores across 129 cities. So, we are there, I think a lot of stuff that we are doing.

I would like to introduce the new CFO -- Mr. Anand Agarwal. He will take you through the numbers. Anand, please take the call.

Anand Agarwal: Thank you, Lalit Ji for a wonderful recap of the V-Mart journey and I am very excited to share the financial numbers with all of you. It has really been a pleasure and I would begin the note by saying a quick thank you to all of you to all the stake holders who have contributed to this achievement that V-Mart has been able to achieve not only in this quarter but for the last many years.

On the financials front, I think we have had a very-very good performance this quarter on the back of an extended marriage season and the preponement of Eid. And our total sales have gone up by 39% with also the addition of 8 new stores during the quarter and also the fact that we had 21 stores which we opened last year for which we had our full quarter sale number showing into the kitty.

On a like-to-like basis the sales have grown by 23% and for stores which are less than one-year old the sales have grown by 13%. So, overall, the sales performance has been good.

In terms of the sales mix, we have had very similar trend as in the past, so the apparels continue to contribute around 80% of the total sales. The share of Kirana or the FMCG continues to come down which is a deliberate decision as the new stores that we open are not really Kirana stores. So, as a result, we will see increasing share of apparel in the overall seals in the months to come as well.

In terms of the conversion rates, the conversion rates have remained almost in the same range of around 60% while the footfalls have increased by 38% which in line with the overall increase in sale number and the transaction size or the average memo size has grown by 5%, while the average selling price has come down a bit by around minus 2% - minus 3%. But that is more in line with our conscious call of focusing more on volumes rather than only premium ranges.

As you would have noticed, we are also getting into Tier-III and Tier-IV towns now. In fact, out of the 8 stores that we have opened in the quarter 5 of them are in Tier-IV towns where the driver of sales is going to be more quantity rather than higher priced goods. So, the strategy of betting on more quantity is sort of paying back for us and we are quite confident of continuing with our strategy.

The ASP therefore, will remain at a similar level or might improve marginally because as our strategy I think we will continue to focus more on quantity led growth. The sales per square feet has increased by 13% which is again a transition of the overall total sales growth and which is going down at a per square feet level.

The same store sales growth on the apparel side has increased by 23% which is a very good number but compared to last year same quarter we had a de-growth. So, therefore, de-growth actually has to be seen in light of that.

The volume growth has been higher than 23% which is at 27%, which is again a reflection of the strategy on the volume led growth.

The number of stores that we have opened as Lalit Ji also mentioned has increased by 8 and we continue to work towards increasing that number by a similar base in the current quarter as well.

For the overall year, the target should be around, opening around 25 plus stores as we have been opening in the past years, so not a big expansion on that side.

In terms of our retail space, the retail has grown by 20% which is coming in from the new stores that we have opened and the new stores continued to be in the same size of around 8,000 square feet. Some of the stores that we have opened are slightly smaller. But given the fact that we are opening in Tier-IV towns where the availability of space remains a challenge. The model of the company remains same and we are not changing the model, so the average store size that we will open, we will continue to look for around 8,000 odd square feet of space wherever available.

In terms of the margin, our gross margins have improved by around 1.2%. But that is largely coming in from deduction in shrinkages, so we have improved our systems and process, we have put in place a lot of effort to control the shrinkage at the store level in transit and also at the warehouse level, so that 1% improvement in the margin is largely coming in from the reduction in shrink And we hope to maintain that savings and shrinkage on a one-to-one basis.

In terms of the margins, I think for the past many years we have remained at around 30% of gross margins and we continue to believe in that strategy of passing on whatever benefits that we received on the sourcing side or any other efficiency directly back to the consumers. So, that we are able to expand our base and grow our customer loyalty with a better value for money for every product that they buy. So, margins while there is a improvement we expect that it should remain in the same range for the year.

In terms of expenses, expenses have remained in line with our budgets and because of the higher top-line, the percentage of sales is almost in line with last year, man power expenses have gone up marginally by around 0.4% and that is because of the fact that we have been investing very heavily on building up the capabilities of the team, putting in more people and with the expansion the new stores that we have the new people that have been hired, and also at the managerial level and also, at the HO level we are building more capability to handle the increased volumes and the expected increase in base of the business.

The rent expense has remained in line and in fact, it has marginally come down which is due to the IndAS adoption for the first time for the Company as part of the Companies Act requirement, the first-time adoption of IndAS happened for V-Mart in this quarter and the pro rata adjustment of future event has been adjusted as a one-time excise, so this rent expense therefore comes down marginally.

The advertisement expense again, has been slightly lower and which is again a deliberate call and strategy by us of ensuring that when we are passing on a good value to the consumer basis good sourcing prices, we have cut back on our advertising spends and keeping the sales growth at a 40% growth target. So, with that 39% sales growth target, we have contained the advertisement spend at 2% which is 0.3% lower than last year.

The other expenses have also come down which is more in line with the overall growth in volumes and overall growth in top-line. So, as a percentage of sales, we have benefited because of scale.

Overall, the EBITDA has gone up, EBITDA has gone up by 107%, Rs. 37 crores EBITDA for the quarter, which is coming in from increase in gross margin by 1.2% decrease in expenditure by 2.6%. And therefore, increase in EBITDA of overall 3.8% basis. The direct co-relation of that comes into the PAT which has gone up by huge 139%. So, Rs. 224 crores of profit for the quarter.

The other significant part which I would want to highlight is the improvement in the inventory, delays of inventory that we hold, so there is a 15 days improvement in the inventory cycle and that is a quite a drastic improvement largely driven by our investments in technology on the warehouse management systems that we put in place last year and a lot of range management software and algorithms and analytics engine that we have already implemented. The benefit of which is now getting reflected in this quarter's inventory position. While 15 days is a very good number but I expect to see better improvements in the quarters to come. It may not be as large or as drastic but we continue to strive towards even more better healthier inventory.

The inventory also got fillip from slightly lower purchases in the June quarter because of the GST transition. There was a bit of supply chain not challenge but hold back from a lot of suppliers and as a strategy we held back few amounts of purchases at the end of the quarter but not very material amount.

GST implementation has been very-very successful for us. We were ready as a retail company on 1st of July, fully GST compliant and ready for business on the opening of the business hours and while in terms of the technology adoption, the GST transition has been fairly good. The total impact of GST on the financials is while it is yet to be seen the Q1 numbers have not impact because GST got implemented only from 1st of July but even going forward, whatever benefit that we are going to gain out of GST is directly going to get transfer to the consumer. But at an overall level, GST is going to be positive for the Company and for the business of the Company.

The free cash flows we have increased our free cash flows for the quarter, by around Rs. 2.4 crores and which is despite a drastic reduction in the supplier payables there is a significant improvement in the supplier payables which is part of our thought out strategy around prepayment or earlier payment to vendors basis their sell through and basis their performance and also basis a cash discounted scheme that we are able to take benefit of.

So, free cash flows continue to remain positive and we look forward to even more cash generating quarters in the times ahead.

So, that would be all from my side. And now let me open the house for questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of Aabhash Poddar from Anived Portfolio Managers. Please go ahead.

Aabhash Poddar: Just had a question around the same store growth profile. So, can you just split this 23% growth or just give us a more qualitative sense on the stores which are one year older would grown faster than the 23% print and the stores which are 3 years older would have grown faster or slower from the 23% number?

Anand Agarwal: So, yes, the growth rate for less than one-year stores is actually not faster it is around 13% while the like-to-like same store sales growth has been at 23% but less than one year stores have not performed as well as the older counter parts. So, they have remained around 13%.

Aabhash Poddar: So, what I am asking is, if a store is older than 3 years and it is included in your SSG number, would the store which are older than 3 years grown at 23% or slower?

Lalit Agarwal: Yes, so I think yes. I older stores have actually performed better in this particular quarter, so we have seen those old stores of Gujarat, Punjab, and even in Delhi growing in better rate. So, overall, we have seen stores which are greater than 5 years have grown around 27%. Stores which are greater than 3 years have performed around 21% and stores which are between 3 years to 1 years has performed almost around 25% - 24%.

Aabhash Poddar: So, it is uniform across the broad.

Lalit Agarwal: Yes, there is some higher growth from the older stores.

Aabhash Poddar: Okay. That is good to hear. And just secondly had a question on the number of stores that we are going to open for the year, so obviously, we always talk about opening around 25 stores or 2 stores on a month kind of run rate. But for the past 2 years given the slow down and the environment, we have opened less than 20 stores, so in a year where we see the demand is buoyant, should we not target a higher number of store opening, just your thoughts on that.

Lalit Agarwal: Yes, Aabhash, we are trying to chase that, we do not want to over set the expectation. We have said that last year we opened 19 stores. This year we are targeting anything above 25, so let us see how much we can close down to.

Moderator: Thank you. We will take the next question from the line of Abhishek Roy from Stewart & Mackertich. Please go ahead.

Abhishek Roy: Sir, in the last con-call, sir you mentioned that the conversion rate was down because of the manual error as the counts were done manually in the last quarter. So, this quarter also the conversion rate is around 60% and it was 62% over the last year. So, is it still because of the manual error?

Anand Agarwal: I think it continues because overall, we have improved on our counting processes and we are still using technology in that also. So, that has been standardized compared to last year, so we will see that little blur and I think it is only a matter of 2% - 2.5%, so that is very-very difficult to monitor generally because that all this is actually down of footfall may be also because the customer knows us those who wants to buy are only coming into the store.

Abhishek Roy: Okay, sir. And sir, you have allotted around Rs. 50 crores as a CAPEX, right? So, how much have you spent for this quarter, on the new stores roll out and refurbishment?

Anand Agarwal: I think we must have spent around Rs. 17 crores in this particular quarter. We have already spent around Rs. 18 crores in the quarter, around the new stores development and for the year that number you are right would be around Rs. 50 crores overall which includes investments in IT which includes investments in process improvement and also renovation and new store opening.

Abhishek Roy: Okay. And sir, can you just give us the break-up for Rs. 18 crores?

Anand Agarwal: Out of Rs. 18 crores roughly again, the 8 stores would have around Rs. 11 crores - Rs. 12 crores of CAPEX but otherwise also making preparations for new stores and investments in some technologies.

Abhishek Roy: Okay, sir. And sir, what will be the current card to cash ratio in this quarter?

Anand Agarwal: So, contribution of cards to the business has come down to around 21% while in Q4 it had grown up to around 58%. But it is now back to around 21%. But it is still higher than around 10% that we used to have in the last year before demonetization.

Abhishek Roy: Okay, sir. And sir, my last question is regarding the number of stores. So, you are now focusing on Northern and Eastern part of India, right, sir? And you have few stores in the Western part. So, are you looking to go beyond of that region to the Southern part and the Northeastern parts?

Anand Agarwal: As of now we are looking at opportunity in every state where we already are and as a strategy we now open stores within 100 to 150 kilometers of an existing store. So, till the time we have opportunities near our stores, we will continue to invest there and you would have noticed we are targeting to open around 25 odd stores in this year. So, I think, we have enough opportunities within the region for the states that we currently serve.

Abhishek Roy: So, these new stores coming up will be within the same region, you are operating right now?

Anand Agarwal: More or less, yes.

Moderator: Thank you. The next question is from the line of Abdul Karim from HDFC Securities. Please go ahead.

Abdul Karim: See, my first question is how do you see the demand impact in second quarter because of U. P., Gujarat and Bihar heavy raining and flood situations?

Lalit Agarwal: So, demand has been slightly subdued, it is not a question of demand, it is more a question of physical circumstances under which consumers may not be very flexible enough to come out and shop, while a good monsoon definitely has a good sentiment associated but because of flooding and because of swamping, there are situations where demand does get subdued and we are experiencing that in the respective areas especially in Bihar where the flooding is predominant. So, we will see some impact of that.

Abdul Karim: Okay. And how many new stores you are going to add in second quarter?

Lalit Agarwal: We are targeting to open around 8. Let us see, how much we are actually able to achieve.

Moderator: Thank you. We will take the next question from the line of Agam Shah from Raj Trading. Please go ahead.

Agam Shah: So, I had a question on, I can see from Presentation that Kirana store sales have been decreasing, so what is like going ahead focus on like Kirana, would it be like moving ahead from the new stores, will we be stopping Kirana sales or how is it like?

Lalit Agarwal: So, we have already discussed this in a number of Presentation and discussions. So, as a company we have not been focusing on increasing the number of Kirana store. So, we have 37 stores where we sell Kirana and the new stores that we open are not composite store. So, therefore, they do not offer Kirana. So, while the respective 37 stores still have growth coming in from the Kirana sales but because the overall contribution of stores which are offering Kirana continues to decrease, so therefore you see marginal decline in the overall contribution of Kirana in the total sales year-on-year.

Agam Shah: Okay. And one more question, so going ahead maybe I am taking call of say may be after 3 years to 5 years, so what is the vision on the Company like may be after a 3 years or 5 years? Can you say something on that like may be?

Lalit Agarwal: Vision of the company is very clear, I think we have plenty of opportunity and we want to keep growing we have been growing at around 27% CAGR for the last 5 years and we hope to continue the momentum not lose it. And wherever we find opportunities, we will keep growing.

Moderator: Thank you. We will take the next question from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: Sir, my first question is on your inventory. I mean, what kind of inventory days are you looking at the end of the year, days in terms of sales?

Lalit Agarwal: So, while we are down to 73 days currently, I think the ideal position for us should be make it below 50. But I do not think it is going to happen in the next foreseeable future. There are a lot of efforts, lot of supply chain improvement that are required to be done to achieve even any further improvement. So, I think 75 - 70 is the range in which we should we are likely to see the end of the year at, and maybe it can even get bigger because of more store opening in the later part of the year.

Ankit Babel: And sir, creditor days, again what is the target there again in terms of sales?

Lalit Agarwal: We continue to have 45 days of creditor, so we still target the similar number of days.

Ankit Babel: Okay. And my second question was sir, your margins in this first quarter was very healthy at 11% plus. Was there any exceptional thing in this or these are pure operational numbers?

Lalit Agarwal: No, I think Ankit you can look at the numbers and these are purely because of the same store sales growth you have to understand there are some certain fixed cost that we have bought which you got leveraged because when you have higher sales from the same fixed cost, your savings come from the fixed cost goes straight away into the bottom-line.

Ankit Babel: So, for the full year what kind of margins are you targeting, sir? Last year it was 8.6%.

Lalit Agarwal: Sir, I cannot. Please excuse us for putting numbers across. You have to make your own calculation and understand what we can achieve.

Moderator: Thank you. The next question is from the line of Anuj Sehgal from Manas Capital. Please go ahead.

Anuj Sehgal: Lalit Ji, I just want to check what percentage of your sales currently come from your private label brand V-Mart if you have any. And as your brand the V-Mart name gets more popular, is there any concerted plant to increase the private label proportion and would that then come at better gross margins?

Lalit Agarwal: So, currently we have 35% contribution from private labels, and yes, you are right, we are increasingly working towards to increase this percentage, at least double this in the times to come, hopefully in the next year or two itself. But having said, that there is no extra margin or higher margin that we currently earn out of private labels. As of now there is no strategy to increase that margin percentage on private labels as well as the business is concerned. If at all, if there is any opportunity in the long-term we will have a look at that.

Anuj Sehgal: And when you say private label that is under the V-Mart label?

Lalit Agarwal: So, it is not a V-Mart we have a host of labels which are promoted as private labels by the company and it is not V-Mart.

Anuj Sehgal: There is no plant to launch V-Mart label apparently?

Lalit Agarwal: No, V-Mart is a brand for the store and people come to that store reading V-Mart. So, within the store they may find various label of which some of them can be private labels.

Anuj Sehgal: And when you say private label that essentially labels that are being specifically build or made for V-Mart as a company?

Lalit Agarwal: Yes, absolutely correct.

Moderator: Thank you. The next question is from the line of Arun Baid from BOB Capital Markets. Please go ahead.

Arun Baid: I was just trying to ask is now our run rate would be 25 stores per year at least going ahead not for FY 2018 but going ahead?

Lalit Agarwal: Yes.

Arun Baid: And second question was with regards to have you seen any good traction in Eastern markets like Odisha (Orissa) and Bengal which was a bit of concern earlier?

Lalit Agarwal: We are better there, we are still trying to understand the consumption quality of that particular area and we were facing challenges, we have improved drastically there. But still we are performing below our average that we wanted to, so we are looking forward it in the next coming two months because of the Durga Puja and Ganesh Puja festivals. So, we should improve drastically once again there.

Arun Baid: And just a follow-up was that if we are doing 25 stores, we should build in a Rs. 50 crores kind of CAPEX every year or only this year we will have Rs. 50 crores then run rate will go to Rs. 40 crores again?

Lalit Agarwal: No, it will not. It will go above Rs. 50 crores may be. We will keep investing at the back-end and also in the older stores for the renovations.

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

Tejas Shah: Sir, just wanted to know the incremental expansion which we are planning for this year and for ahead, majority of it will come in which format of cities, will it be Tier-I, Tier-IV, if you can help us on that line?

Anand Agarwal: As a business model we continue to focus on Tier-II, Tier-III and Tier-IV towns, as a strategy, I also mentioned that we continue to open stores within 100 kilometers to 150 meters vicinity of the existing stores and that is where we continue to open stores mostly around Tier-III and Tier-IV.

Tejas Shah: And sir, in that case would it possible to give us some color on margin and capital efficiency profile between Tier-III versus Tier-IV store.

Anand Agarwal: Not clearly possible because it is not a very large base as of now in terms of Tier-IV and we have not really opened a lot of stores in the previous years in Tier-IV cities. So, we will assess.

But as of now, there is not a significant difference, we are experiencing good traction in Tier-IV towns as well.

Tejas Shah: And would it be similar between Tier-II and Tier-III as well?

Anand Agarwal: Fairly similar.

Moderator: Thank you. The next question is from the line of Aditya Singhania from ENAM Holdings. Please go ahead.

Aditya Singhania: Just wanted to get your sense some kind of outlook for gross margins for the full remaining period of the year if possible. And a general comment if you could give on early trends in GST both from your own business perspective as well as the comparative landescape particularly from the unorganized sector.

Anand Agarwal: Aditya, first on the gross margin, I think our guidance has been at around 30%, we have maintained 30% year-on-year and I see, whatever benefits that we get from sourcing or from pricing we continue to pass them on to the consumer. So, whatever efficiencies we see will get delivered on the gross margin will come from improvements in other parts which is in supply chain or in shrinkage reduction. I think, we are not looking at any strategy on expansion of profits or gross margin from a product front.

Aditya Singhania: Just wanted to get on GST your perspective from a comparative perspective.

Anand Agarwal: GST has been fairly good for the company in terms of the tax rate has remained constant or in most of the categories because we are a value retailer 5% is the tax rate which is applicable for our category. But for the 20% of the business which is non-apparel or FMCG, the tax rates have gone up. So, our overall incidence of tax has actually gone up from around 4.9% to round 6.5% so there may be a shortfall or a pressure on the top-line in terms of the net realization because of the higher tax outflow but because of the reduction in CST in there will be a marginal improvement because the CST range from 1% to 3%. So, the effective tax rate or the overall tax might give us a slight tax advantage of around 0.2% - 0.3% - 0.4% the full effect of which is yet to be realized but whatever is the benefited we are committed to pass it on to the consumer.

Aditya Singhania: And competitive versus the unorganized sector?

Lalit Agarwal: Overall, I think we have not seen too much of changes as of now because the Government machinery has not been strict enough, there have been a lot of liberty right now given to all the players, they were initially very-very hesitant on doing that business invalid bill but still as of now I mean no one is stopping them from doing it. So, I do not see any reason, but yes, the rate of adherence has gone up, they have that sense in the mind that they need to follow the GST regime. But still I think only 20% adherence is happening, on the ground nothing has changed dramatically.

Aditya Singhania: And on the supplier side the vendors for you?

Lalit Agarwal: So, for the vendors, I mean they are anywhere complaint with us. We were a little fearful that the vendors part on the taking credit of the GST on their raw materials which they are consuming that is what we were trying to work with them so that they can put technology and try to not lose the GST credit facility which is being given. So, I think it will take a more time for the vendor. All the vendors to get compliant, 70% of the vendors have got compliant but otherwise, there is some challenge it will only come up when the returns are being filed and when we see the credit not being displayed on the screen, then only we will understand the real effect.

Moderator: Thank you. We will take the next question from the line of Ronak Morjaria from Edelweiss Asset Management. Please go ahead.

Ronak Morjaria: I just wanted to understand the competitive intensity in the regions where we operate. How is expansion by the other players like Baazar Kolkata, City Life has been happening in the regions where you operate. So, are they also expanding as much as you people are planning or how is the competitive intensity out there?

Lalit Agarwal: I think the majority of the regional players are trying to expand to the rate what they have today. So, I think, most of the players are expanding, not only in the regional but also the national payers. We are also seeing competition coming in from Pantaloons, from Reliance Trends, from Fashion at Big Bazaar, from Max, so even they are opening stores even the likes you have above mentioned even they are coming up. So, we are seeing a lot of competition coming in the territory where we are operating.

Ronak Morjaria: Okay. I just wanted to check on the rental expense side, I just missed the numbers, what was the rental expense this quarter?

Lalit Agarwal: 4%.

Ronak Morjaria: 4%, okay.

Moderator: Thank you. We will take the next question from the line of Abhishek Roy from Stewart & Mackertich. Please go ahead.

Abhishek Roy: Sir, this is a follow-up question which I asked earlier regarding the CAPEX. Sir, can you tell how are you going to fund the CAPEX plan?

Anand Agarwal: All funding of CAPEX will be done through internal accruals and that has been the philosophy of the company for the past many years if you would notice our debt-equity ratio is at around 0.1 which is almost negligible and we remain conservative in terms of taking debt and whatever CAPEX is going to be there, it will be funded internally.

Moderator: Thank you. We will take the next question from the line of Agam Shah from Raj Trading. Please go ahead.

Agam Shah: So, just wanted to ask on a follow-up question by some analyst which you answered. So, as you say that you are facing some competition in areas, so this competition is from organized retail or from unorganized or from both the sets, can you just elaborate something on this?

Anand Agarwal: Largely organized, unorganized was always there. So, it is not a new set of competition, the new set of competition will come from organized players coming in the areas where we already operate.

Moderator: Thank you. The next question is from the line of Ritesh Badjatya from Asian Markets Securities. Please go ahead.

Ritesh Badjatya: In continuation to that competition from the organized players. So, just wanted to ask from the organized are more active in much nationalized brand and you are more active in the local brands and private labels. So, are this organized player is also giving you the competition in the private labels?

Lalit Agarwal: Not very clear about what your question is, private label is our label, it is our own, how can we give competition to private label?

Ritesh Badjatya: Exactly, so that organized players whoever are coming into…

Lalit Agarwal: It is a concept competition where the similar kind of conceptual stores are being opened by them in the similar kind of territory that is what we call a competition right now.

Moderator: Thank you. We will take the next question from the line of Anil Jain from EquiPassion Capital. Please go ahead.

Anil Jain: My question is regarding what percentage of our sales come from private label?

Anand Agarwal: I already answered that, that is around 35%.

Moderator: Thank you. The next question is from the line of Ajay Thakur from Alder Capital. Please go ahead.

Hemant: This is Hemant here. Two questions. One, I mean, you have reduced the shrinkage in this quarter and even last year. I just want to understand the trend here is to is there a vision in terms of you want to bring it down to where it was a few years back at around 0.8%-odd to 0.6%-odd. Can we have some insights on that?

Lalit Agarwal: We are targeting to continuously bring it down but achieving less than 1% definitely will be very-very challenging in this environment and the near-term I think 1.2% - 1.3% is what we are hopeful to achieve and let us see and take it off from there.

Hemant: Okay. And other question, I had in particular was in terms of the key markets we have just seen that you have actually rolled out a lot more in Odisha (Orissa) and you do have a large footprint in U. P. and Bihar, I just want to understand in your key market this U. P. and Bihar, if I were to look at let us say a 3 year or 5 years out, how much can we roll out before we start seeing any kind of cannibalization hitting the existing stores, I do not have a number on this but just wanted to get your insights on what you think about it?

Lalit Agarwal: So, I think Hemant there will be a lot of opportunity, there are enough districts which are still untapped and a lot of districts where the potential to have multiple stores are still alive. So, I think there is equal opportunity of the number of stores that we have already opened can be opened more in those areas.

Moderator: Thank you very much. As there are no further questions, I now hand the conference over to the management for their closing comments.

Lalit Agarwal: Thank you so much and thank you everyone for being there patientfully watching our performance, helping us to achieve the same. And we will try and keep this forward and looking forward to speaking to you in the next quarter with good set of numbers. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, with that we conclude today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.