"V-Mart Retail Limited Q4 FY 2019 and Full Year FY 2019 Earnings Conference Call"

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MODERATOR: **MS. SANGEETA TRIPATHI -- EDELWEISS**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q4 FY 2019 and Full Year FY 2019 Earnings Conference Call of V-Mart Retail hosted by Edelweiss. 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 this conference is being recorded.

I now hand the conference over to Ms. Sangeeta Tripathi from Edelweiss. Thank you and over to you!

Sangeeta Tripathi: Thank you, Stanford. Good Morning, Everybody. On behalf of Edelweiss, it gives immense pleasure to host V-Mart Retail for discussing it's Q4 FY 2019 and Full Year FY 2019 Earnings and Business Outlook.

From the management we have, Mr. Lalit Agarwal -- the Chairman and the Managing Director of the company; we also have Mr. Anand Agarwal -- the Chief Financial Officer.

We would start with a small overview to be given by Mr. Lalit Ji on the business and its outlook and then, Mr. Anand will take us to the results, discussing the results, post which we can open the floor for Q&A.

So, without much ado, now, I would like to hand over the call to Lalit Ji. Over to you, sir!

Lalit Agarwal: Good Morning. Thank you, Sangeeta. Thank you, everyone, for coming on the call. Once again, this year ends and we are there. The year was I would not rate it as very-very good year or may not be also a bad year. But yes, we really found this year as a very-very interesting year. And right from the environment, the economy what you saw you know because of the election year and there were a lot of contracts out in the market and infra structure projects were awarded a lot of buzz in the market, the first year after GST. So, there is a lot of changes and the business was not as usual as it used to be. People had a lot of surprises. The self-employed community did not have very good confidence over their businesses. We saw some downfall in the consumption from their side. So, environment in the market is looking dull, was a little dull and we saw some demand going low because of self-employed people opting to go a little slow on their businesses. And they had some fear in their mind, which still continues. But I think, it should come back and overall, because there was no inflation, the price rise did not happen. We did not see the product prices going up. We actually saw ASP falling and, in our businesses, also.

Overall also, we saw that happening. And in the market, we saw a lot of demand rising in from the aspiration and that is still there. And which is also in our market, also getting met by the intensive competition which is coming in. So, in spite of a lot of stores getting opened in these territories, we are also since**,** we are seen good demand coming up and we are still seeing the demand in the organized space being much more larger than the earlier times that we have seen. So, a lot of shift happening from the unorganized to organized and also an increase in the consumption from the youth population, is what we have noticed in the entire market. So, out of this, maybe we might have been able to capture some part of it. But yes, there are some other parts which we need to still work on and get more on those.

On the competition piece, I think, we are seeing enough players coming in from the last two years - three years, regional players as well as national players. And a lot of national players have penetrated very fast likes of Reliance getting into very-very intense speed. We saw Tata coming in with different formats, video and all. Video is coming up very fast. We saw Aditya Birla with some formats like Pantaloons and FILA both doing well, both coming in this territory.

Anand Agarwal: Hi, Good Morning, everybody. And thank you so much for coming together. And let me just give you a brief overview about the results for the quarter and also, a wrap up of how the entire year has been for us.

So, it has been a decent quarter barring couple of aberrations in terms of on the financial side. We have performed reasonably okay on the sales side with a 17% growth on a base of 22%, which was aided by a same store sales growth of 3.7%. We saw some very good festival periods throughout the year, be it Durga Puja, Diwali, or Chhath, and even the Holi period. But we saw definitely some amount of slackness in demand coming in right from November, December, even January, February. But Holi was extremely good for us. So, as I mentioned, I think, the entire festival period throughout the year has been pretty good for us. And given the fact that our core market of UP has performed pretty well, while at a company level we have grown at SSG of around 3.7%. But UP alone grew at around 5%, which gives us even more promise into that market being our competitive advantage and strength.

We opened a total of 44 stores during the year and closed one store. 44 stores has been the highest addition that we have done in our history. Almost 50% higher than our previous count of 31 stores last year. And of the 44 stores, 15 stores we opened only in the quarter four, which gives us a lot of confidence and promise into the capability and the team that we have built, in terms of having more robust project development and looking at scouting more opportunities and leveraging growth through more expansion in the future.

We forayed into Northeast. We opened 8 new stores in Northeast territory comprising of Assam and Meghalaya. We also went into Himachal. We opened 3 stores there in this year, so 3 new states added. So, when we started the year, we were in 14 states. Now we are in 17 states. And as we follow our cluster-based expansion model, we continue to expand inch outwards towards new territories, keep consolidating our presence in those territories and start building up from there. So, that is the strategy that we will continue to play on.

We have seen a significant ramp up in the competition and this year has not been any different. Our sense is that still the market is too huge, the market is very-very big. There are some tactical issues in the consumption patterns that we have seen in the last five months or six months, which had been across the industries, whether it is Automotive or Retail or Consumer or Consumption. But there has been slight of timing shift or a tactical shift that we have witnessed in the last four months or five months. But still, at an overall level, we remain very highly upbeat on the overall promise that the market offers. And we still are in a mode where we would want to expand more and grow on our base further.

We have seen a lot of value players coming in and players with not as strong capacity to sustain. But still, we have maintained to grow against that competition as well as national competition. And as we retain our competitive edge on the processes and the people and the technology that we have built in the last many years. And especially, on the people and the technology part, which we have been building since the last two years, so it is been a part of our strategic business plan that we are working on towards a five-year journey and this year was no different. And this year, we were in a buildup phase where we built our capacities in terms of more capabilities in people, in teams, in technology. And that is something that we want and we hope will take us further into the growth trajectory going forward.

We have revamped strongly the top players. We have hired a new CEO. We have hired a new Head of Sales. Significant additions in the team for projects; earmarked the separate team for project development and maintenance, etc. and also invested very heavily into visual merchandizing. We have invested in a new HRMS system, which is the Human Resources Management System to cater to, the rapidly growing workforce as we build towards a much bigger and a stronger V-Mart. Expanded very heavily the quality team. The apparel that we source, we have put in much more stricter controls, we have put in much more better quality parameters to ensure that the product the consumer gets from us is of the highest standard. We have been also been working on a lot of new initiatives on the digital side be it you know analysis, analytics or even enabling ourselves for our pending only launch. So, there is been a lot of investment that has gone around that.

So, in all, we have sort of spent and invested a lot of resourcing around ensuring that we are able to build a better and a stronger V-Mart for the future.

So, on the financial side, there has also been a one-off provision that we have taken against investment that we did earlier in the year in our commercial paper for IL&FS and the one-off hit that we have taken is a 100% provisioned against tax. That amounts to roughly around Rs. 9.8 crores or Rs. 10 crores, which largely is almost 75% of that is sitting in this quarter results. And therefore, this quarter's margins as well as the expenses are looking disproportionate. The presentation that you would be seeing or you would have downloaded would had that impact excluded from the overall EBITDA numbers. We have uploaded a revised version only this morning today at around 9:30 AM. So, in case you have downloaded the earlier version, kindly, make a note of taking out the new version, which only has the difference in terms of the IL&FS investments taken out from the normal operating income and expenses.

On the expenses side, I think, the year has been fairly strong. As I mentioned, we have invested quite heavily into the team development. Ad therefore, we see a slight increase in the manpower cost, going up from around 8.1% of sales last year to around 8.8%. And also, a marginal change or increase in the rent expenditure, which has gone up from 4.3 to 4.7.

The increase in rent particularly comes in on the backdrop of a slightly lower performance from the newer stores, where the full efficiency of sales has not come in for the period for which these stores have remained opened while the expenditure has come in for the full period. So, that is something that we were very focused on and we continue to monitor that. And we have put up a separate team to ensure that all the new stores and the existing stores continue to perform as per the V-Mart standard. There has also been a slight increase in the advertisement spend, margin increase of around 0.2%. So, last year was around 2.14%, which has gone up to around 2.38% this year. So, around 0.25% increase, which is largely coming in from the investment that we did in the brand ambassador program and we hired Ayushmann Khurrana and Bhumi as our brand ambassadors, which we advertise quite well. And this strategy also gave us good returns. And that is something that we would like to continue in the future, in terms of the expenditure on marketing.

The other expenditure has marginally increased from 3.4% to 3.6%, which is a delta of around 0.2%, which is coming in from a bit of lease financing that we have done for some capital assets. So, at an overall level, while the sales have gone up by around 17%, expenses have gone up by around 25%, if I exclude the one-time expenditure or the provision on IL&FS.

On the inventory side, we have had a very good year. I think, we were able to improve our inventory, days of inventory, from 86 days to 81 days through a significant effort and focus on improving the health of the inventory. While we did take a bit of a hit on our margins in doing so by running aggressive campaigns and aggressive schemes through the End of Sale Season periods. But I am very happy to see that while partially that hit has also resulted in reduction or shrinkage coming down from 1.3% last year to 0.9% this year. And if I look at the quarter, that has come down from 2.6% to only 0.4% this quarter. So, part of the shrinkage provisioning actually going in and feeding in the loss of margin and also helping the improvement in the days of inventory, which will definitely help us in the overall working capital cycle and also improve our freshness of the product, and therefore, the likability of the consumer coming in, buying more from the stores.

In terms of the retail space, we have grown retail space by 25%. If I look back at the past trend, we have been growing at around 17% to 18% in the past many years. So, owing to the fact that we have now built up capacity, we have more people, we have better capabilities. We are now in a space where we can afford to and also have more number of store openings which we can manage efficiently. So, 25% is the new norm. So, we would want to grow at 25% year-on-year in terms of new store addition or retail space and that is something that we would want to keep doing.

In terms of CAPEX, we did some investments in the 44 new stores. We also expanded our capacity at the warehouse to cater to the more number of stores that we are opening. We also did major refurbishments around 20 of our stores and also minor refurbishments at almost 20 - 30 more stores.

We have set up a new HRMS system, which also will help improve our overall people capability. And overall, at a CAPEX level, we spent at a company level from internal resources around Rs. 41 crores, and the balance some amount Rs. 15 crores - Rs. 16 crores coming through lease financing.

At our cash flow level, we generated a free cash of Rs. 14 crores, which is a similar number as last year, which was backed through much better working capital management and the reduction in inventory days.

So, overall, I think, we have seen a good amount of performance. If I look at the capacity building measures, while the bottom-line may not be as rosy or as good as has been last year. But last year was a one-off year where we had exceptionally good results both from the top-line as well as the bottom-line. But I think, from the bottom-line perspective, 9% is the new norm that we would want to target and we would want to work towards a plan where we can be in that range.

So, more or less, that is all from my side. And I now leave the floor open for questions, if you have any. Lalit, if you are there, maybe you can also complete the conversation.

Lalit Agarwal: So, I think you have told this perfectly. And there is no doubt, as I was saying that, we are trying to give the competition a good time and we trying to take them on also. We also want to work on a strategy where we want the competitor to find the real pinch and find the real challenge. So, we will be a little aggressive going forward also, in terms of our promotion, So, we want all the consumers, who have come into this the organized space, now we want them back and we want them to come down to the V-Mart store. So, we will run some, aggressive campaigns and aggressive strategy to try and bring in those customers who are also going in those other stores. And we will catch them napping because there are competitors who are getting weaker because of their management capabilities and their lack of newness or the lack of supply chain management that they have. So, we really want to explore on those possibilities in the coming year.

Anand, you can take forward and we can go for the Question-and-Answer Session.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Alok Shah from Edelweiss Securities. Please go ahead.

Abneesh Roy: Yes, thank you. Abneesh, here. My first question is on the pricing growth seen in fashion. After few quarters, we are seeing Y-o-Y growth come back in fashion. So, is it because winter sales have done well? Winter was quite prolonged, so if you could comment how winter sales has been? And why this pricing growth has come after many quarters?

Anand Agarwal: Hi, Abneesh. Yes, you are right. So, winter sales are definitely much better this quarter this year. And we have also introduced a lot of new merchandise at different price points to bring back the zing in the winter offering. And therefore, the pricing that we have seen has been slightly improved. And going forward also, we would want to improve the pricing strategy. I am not saying that we will increase our pricing. But we will provide opportunities for customers to buy at various price points and not only at the lower price points so that we are able to give a more judicious mix of how much a customer can buy from us.

Abneesh Roy: And this change in terms of the pricing providing more at the premium end also, this is a result of competition or it is just because now better designs are available for you?

Anand Agarwal: It is not only competition driven, it is more a function of what the consumer expects and demands from us. So, as we are growing bigger and we are investing more in analytical abilities, we are able to understand and also fathom what exactly or what probably should be our offering to the consumer in different sets of the markets. So, not saying that every store will carry the premium priced stuff, but we will be judicious, and we will be able to understand what we need to offer and to which customer where.

Abneesh Roy: My second question was on the expansions. So, FY 2019 saw a marked increase in competition but also, we saw a marked increase in your own new stores. So, 44 stores on 171 store base is a 26% expansion, so my question here is two: essentially, one, in the past you have seen a pizza company saw reckless expansion and then there are a few issues with a lot of the stores. So, then store closures happened, SSG got impacted and overall margins came down. Could such an issue happen for you? Second is, when I see the breakup of the new stores, in Tier-I, all the 12 stores are getting opened which is in fact higher than Tier-II - Tier-III openings. So, in Tier-I, I understand all the other retailers are already there. So, why do you want to open so many stores in Tier-I?

Anand Agarwal: So, good question, Abneesh. I think, the first part I will address in a manner that you know, we do not believe in reckless expansion. And we are quite cognizant of the fact that the entire market has gone in for reckless expansion, whether it is in the, you are absolutely right in the pizza space. But also in the retail space, we have seen that happening and we have seen people fall. And one of the strengths of V-Mart has been that we have always had controlled expansion. So, we have started expanding slightly aggressively only after we built up a team and the management bandwidth to manage that kind of expansion. And therefore, we will be very-very clear and focused as to what is the kind of number of stores that we can add which we can manage profitably. For us, top-line is not the goal. We are very-very clear that we are only chasing profitability and we are very focused on our effort to make sure that every store that we open performs as well and as per the V-Mart standards. The second part to the question in terms of Tier-I and the associated growth. So, we really do not choose our stores basis that we need to open 50 stores in particular Tier or 10 stores in Tier-I or 20 stores in Tier-II. Our teams are continuously on the lookout for all available opportunities and we would want to consolidate our presence in the markets were are already there. So, for instance, just to give you an example, in Lucknow we have 12 stores, so these 12 stores got built up over the last three years - four years and we have been adding. And as we are there in Lucknow, we see more opportunities of people associating with the brand much better and therefore, instead of opening a store in a far flung area, it makes more business sense for us to open one more store in Lucknow and take a risk there. So, it is not just about getting into Tier-I because there is less competition or more competition. We identify opportunities in terms of the customer demand and what our conception of consumption pattern can be there in that market.

Abneesh Roy: And I see FY 2020 there are 40% higher marriage dates. Do you see that as a significant benefit or it is just that the overall marriages will be similar, so overall number of marriage dates that does not really change the demand side?

Anand Agarwal: There should be a slight marginal improvement. It is not that the marriage dates, more marriage dates mean more marriages. But definitely, it has a marginal differentiation because more marriage dates mean more occasions where a customer can wear different clothes. So, therefore, there should be some improvement. But if I look at the entire year last year, whatever number of marriage dates were there, we have seen the demand getting more skewed towards the festival rather than marriages. So, I do not know whether that is a tactical shift or that is a strategic shift, but yes, you are right, more number of marriages dates should mean more business.

Abneesh Roy: And last question, so when I see your square feet of new stores, I see a big difference their big range. So, smallest store is just 5,100 square feet while the biggest store is almost more than double the size of that. So, my question is, is it just based on the location availability or there is more to it? Second is, if the store becomes half of the size then what do you get in terms of the assortment?

Anand Agarwal: So, there is no change in strategy as far as we are concerned. We are still very focused on getting a 7,500 square feet average store size. However, owing to the availability and the limited availability of space in different parts of the locations where we want to find locations, we have to sometimes bend our rules and take whatever is available. So, in some areas, especially in Tier-III - Tier-IV large spaces are not available or built-up spaces are not available. And therefore, we have to compromise and take a smaller store. And similarly, like we have gone into Northeast, Northeast has a different plate size for the stores. And therefore, we ended up taking much larger stores than what we would have thought. But otherwise, from a strategy point of view, we are very clear that we want to open only 7,500 square feet store while our average store size this year has gone up to 8,200 square feet or 8,300 square feet. The assortment mix for a smaller store is again based on how our BD team is able to analyze the market, how our merchandising team is able to analyze the market and understand the customer demands from that market. So, it is not that if it is a 5,000 square feet store, we will cut down men's section or we will cut down only the kids's section. It will depend on how is the fashion offering available for that assortment. So, if it is a Tier-IV town, we may not put in the higher premium offering there and therefore, the shelf space will get saved there.

Moderator: Thank you. The next question is from the line of Aashish Upganlawar from Invesco. Please go ahead.

Aashish Upganlawar: Sir, I just wanted to understand in your opening remarks, you said that given the competition, you would probably be spending more. I just wanted to understand what is the scenario with SSG? Especially, regards to matured stores because the overall of 3.5%, do you see that going up next year because if you are going to spend more, it should not impact the profitability as such.

Anand Agarwal: So, absolutely, Aashish, you are right. The objective and the aspiration will not be to lower the SSG or keep it at 4% - 3.5%. The objective that we will be pursuing is to definitely take it to the average level that we have been doing for the last five years of around 7% to 8%. So, that is what we will still target and we are still working on that target only. The competitive intensity or the mechanisms to counter the competitive intensity will not only come in from loss of sales or loss of margin. There are various other measures that as our strategy that we want to undertake and we are already doing that. And therefore, we would want to consolidate and strengthen our position as we lead there in the markets that we operate.

Aashish Upganlawar: Okay. And sir, I just want to understand your thoughts on how the situation looks like from a one year or two years prospective because, I mean, I understand that your markets are pretty micro markets and you manage stores very much on a ground up basis. But what we are seeing in the macro right now, it seems to be trending downwards as far as a lot of consumption sub sectors are concerned. So, in this scenario, do you think that 7% - 8% of SSG still remains a possibility or that is an aspiration for us as of now?

Anand Agarwal: No, I think it should be possible. And you know if we make the right efforts, if we make the right improvements, I think, that is something that we would still want to target and should be achievable. And we have seen better numbers in the festival periods. In fact, some of the periods throughout the year in the festival, we have seen SSG's of upwards of 30% on strong basis. So, it is not that these numbers are not realistic or not possible. We have achieved them in the past many years and we would still want to aspire and achieve them this year as well.

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

Tejas Shah: Sir, you spoke at length on competition and today at least from what picked up, you are referring more on national competition coming into your space rather than regional competition. So, just wanted to check, has the current liquidity crunch impacted your regional competitors in terms of either compromising on their expansion plan or ability to compete in marketplace with you guys?

Anand Agarwal: Yes, Tejas, I think, you are absolutely right. There is definitely some churn that we are seeing and there is some pressure that we are seeing on the regional players on their ability to operate as effectively and we have seen some slackness in terms of their ability to raise up money and also remain competitive. And yes, I think, your sense is right, there is some pressure which is building up in the lower segment in the competitive segment.

Tejas Shah: Sure. And as far as this national competition coming into our space is concerned, are they seeing it as a very, just some extension or you are seeing a very serious strategy being put out in terms of targeting your consumer with merchandise, which is as aggressive as your pricing?

Anand Agarwal: No, I am sure it must be a long thought strategy and a much grander strategy. But the fact remains that the market in spite of the national players coming in remains largely untapped given the fact that even after what we have done for the last 16 years still the unorganized segment is still upwards of 80% in the markets where we operate. So, even the fact that national players are coming, it is creating more noise, it is creating more awareness about fashion and making people much more aspirational. And we have seen that has helped us in the past, and I see no reason why that should not continue to work that way. Given the fact that we have already had a resonance in the consumer's mind in terms of what they want to buy, at what price they want to buy and what value they seek from a V-Mart store. And therefore, I am quite hopeful and still very optimistic that even larger players coming into the market will only help us grow more.

Tejas Shah: Yes. And sir, lastly, a lot of strategic investments we started a couple years back as part of our long-term business plan. Now, are we at the end of that journey in terms of the bulk of that investment is behind us? Or you believe it will still continue as we go along? So, the question is essentially, would operating leverage kicking from FY 2020 at least in terms of certain line items which were much more strategic in nature?

Anand Agarwal: So, Tejas, I do not think we really will see operating leverage for some time because we are still in investment phase. And like in the last many years, we have not really or not like, I think in the last many years, we have not really invested ahead of the curve. But now in the last two years, we have started to develop our capabilities and therefore, are doing investments which are capable of taking V-Mart to the next orbit. So, therefore, the real advantage will start coming in or kicking in only once we see some improvements and significant addition in the same-store sales growth. So, if you have a SSG of greater than 5% to 6% or 7%, I think there is some amount of leverage that one can see. But on a normalized scale, I think in the journey of our strategic business plan or long range plan, I think we are at FY 2020 will be year three. So, I think, we are still in the middle where we want to see our results coming in later.

Moderator: Thank you. The next question is from the line of Aliasgar Shakir from Motilal Oswal Securities. Please go ahead.

Aliasgar Shakir: Just talking about this pace of store additions that you have done in this year, I know you mentioned in your opening remarks, that you are also building before this significant expansion, you did build your team, which could manage this growth. Can you just a little bit talk about your team or your systems or what kind of things you have done that can allow us to probably grow at this accelerated pace?

Anand Agarwal: So, Ali, in this forum, I can only say that you know, we have spent a lot of thought and mind behind what we want to invest, where we want to invest, and how we want to invest, resources in. So, it is not just adding people, it is carefully selecting, choosing the right people who can take the business forward. So, whether it is building up the business development team or building up the projects team or building up the marketing team, building up the sales team, it is every team which will require such an addition, which we have carefully identified and supplemented. So, it is our overall journey and it is a overall project plan that we are working on, and it is not a one-off the only thing that I want to say is that it is not ad hoc and it is a carefully thought out plan that we are executing.

Aliasgar Shakir: Got it. So, given that you mentioned that you will want to target 28% new store additions, so this 40 - 44 number should now only grow further higher, right, given that base is also growing? So, we should look at probably a store addition of upwards 50 odd in the years to come?

Anand Agarwal: Yes.

Aliasgar Shakir: Okay. And just a second question is on your CAPEX, so we spent about Rs. 47 odd crores, correct, this year? Can you tell me, what would be refurbishment or maintenance CAPEX out of this?

Anand Agarwal: So, refurbishment, we spent around Rs. 8 crores or Rs. 9 crores on refurbishment. And the balance actually, on the CAPEX side, we spent around Rs. 41 crores from our accrual and around Rs. 16 odd crores in form of lease financing. This total CAPEX of around Rs. 57 crores out of this refurb CAPEX would be around Rs. 8 crores to Rs. 9 crores.

Aliasgar Shakir: Okay. So, Rs. 50 crores is basically new store CAPEX?

Anand Agarwal: Yes.

Aliasgar Shakir: Okay. I was just doing the calculation, which was sort of giving me a number of per square feet CAPEX of somewhere close to about approximately 1,300 odd you know is that the correct number or it should be higher?

Anand Agarwal: No, it would be slightly lower than that. Yes, somewhere around that only. So, somewhere around 1,250 to 1,300 is the right number for the CAPEX per square feet for the store. But that also takes into account some capacity addition at the back end in terms of the warehousing space.

Aliasgar Shakir: Okay. But typically, you know the CAPEX per square feet is significantly higher for some of the other players, particularly the national players. So, it is lower because of the lower Tier locations that we are operate in? Or is this something really different because our CAPEX per square feet is so low?

Anand Agarwal: No, our number has remained in that same range for the last many years. So, I am not sure how the larger chains or the other retail chains calculate that. But our numbers have remained at this level for a number of years.

Moderator: Thank you. The next question is from the line of Jasdeep Walia from Infina Finance. Please go ahead.

Jasdeep Walia: Sir, could you give your comments on the financing position of the vendor ecosystem in light of this liquidity squeeze by NBFC's? I am not asking specifically on vendors connected to V-Mart, just a comment on the overall vendor ecosystem.

Anand Agarwal: I think there was some liquidity squeeze from August until almost January - February. But that is again as additionally in nature because there was some amount of money, which got sucked out of the market. And I think that still continues to the extent that there is still a pressure on NBFC's and therefore, a pressure on the larger ecosystem, of supplying cheap credit to the vendors, and especially the smaller vendors will have a bit of a burnt on that. But as far as we are concerned, we have been cash positive and we have been able to effectively manage our cash and use our cash in paying all of our vendors much before time and much strongly than ever before and that we will continue to do.

Jasdeep Walia: Got it, sir. And sir, your payments to the vendors are automated in the sense that when they submit their bills, the system ensures that the payment is done after a particular period of time or is it subjective and dependent on human intervention?

Anand Agarwal: No, it is a mix. By default, there is a credit cycle for every vendor and that is a automated process. We also allow vendors to take prepayments by giving cash discounts, and that is something that is not discretionary but that is also partially automated, and platform managed.

Moderator: Thank you. The next question is from the line of Garima Mishra from Kotak Securities. Please go ahead.

Garima Mishra: My question is basically on the demand environment that you were witnessing. So, you mentioned in the opening comments that demand has been a little flat since October last year, although festive period have been good. So, what is the on the ground situation of demand now and the co-drivers of it as you see? So, where the consumers are inherently going to spend more or is it simply going to be a shift from unorganized to organize, which is going to drive your say, SSG over the next couple of years?

Anand Agarwal: Garima, that is a question that many economists are struggling to answer, so I may not be an expert on this. But whatever little that we have witnessed is that there have been some disturbances in the money supply in the consumption patterns. It may be because of lack of credit availability in the market and, therefore, which percolates downwards, till the bottom layer, till the last man standing. So, there is some amount of liquidity crunch and which is reflected in the overall sentiment of money not being there to spend whether it was in the form of money supply or the minimum support price actually not being paid out in Q3 you know October, November, December, or in the form of the NBFC crisis, which is percolating downwards in form of credit not being available for automotive segment, etc.. But we have still seen strong uptick in the festival demand. We have still seen the consumption coming back during marriage days. And especially, for the segment in which we operate, it is more a necessity segment than a luxury segment. So, I think, that demand it might still be subdued, but that demand will continue to remain there.

Moderator: Thank you. The next question is from the line of Aayushi Mohta from CD Equisearch. Please go ahead.

Aayushi Mohta: Sir, I just wanted to understand, like even the Q4 sales contribute almost 25% for full year sales. So, why is operating profit just 15% our full year's figure?

Anand Agarwal: So, one is that, as I explained earlier on in my opening remarks, we went into slightly aggressive promotions and a slightly aggressive inventory liquidation rise, which has also helped us improve our shrinkage percentage and also helped us decrease our inventory holdings, which is reflecting in a much better and a healthy inventory. So, there was some margin giveaway that we compromised and we accepted. So, that we are able to clean and manage our inventory much better. So, if I reflect back to the last year in the same period, last year, we in fact gave very less discounts and in fact had a much higher full price sell through. So, this year, we ensure that we carried less inventory home after the end of winter season and therefore, are in a much better position to tackle the year forward.

Aayushi Mohta: Your FSA promotion still I would just work out to be almost 15% of the full year's figure?

Anand Agarwal: So, I am not sure that you are taking out the IL&FS provision that we have done of around Rs. 7.5 crores on that number. But...

Aayushi Mohta: Yes, I am removing that. Basically, what I am doing is I am removing other income from the normal and adjusted PBT and I am adding back the finance cost and depreciation. So, I am just taking the operating profit figure, which comes out to Rs. Rs. 17 crores. And for full year, sir it is around Rs. 132 crores. So, it is just around 15% of full year's operating profit. While as you see, if we compare the sales figure, it is 24% of full year's figure. So, if your sales is growing at the same level, then why is it not contributing the same percentage to your profits, operating profits?

Anand Agarwal: 1t is at the year-on-year-growth for that quarter. So, the profitability in quarter four is not always commensurate with the in-season sales because of the larger proportion of End of Sale Season being during the quarter.

Aayushi Mohta: Could you please elaborate on that like…

Anand Agarwal: So, there is January and February, which is a highest sales promotion period. And also, as I mentioned, we also did much higher promotions during the Holi period, which led to much lower margins than were there in the previous year. And therefore, the profitability percentage for the quarter will not be strictly in line with the rest of the quarters.

Moderator: Thank you. The next question is from the line of Agam Shah from KDS Trading.

Agam Shah: So, can you just elaborate on the opening remarks as you said, you have made some investments in the new CEO, some hiring's you have done? And in new technology and investment, how is it going to help us going ahead? And the question was on the profitability side, I think you said that you will be aiming to grow by 9%, so less

Anand Agarwal: So, we made not certain, but significant investments in enhancing the capability set of our management pool by adding more layers. We have just introduced a new structure of a zonal management team, which has just come into force. But the preparations for that have been going on for the last six months. Apart from that, we have added a lot of roles and responsibilities for managing the entire new store operations much more efficiently. So, these are just some small examples of what all we have done. If you want a more detailed version, maybe you can come down any day to our office and we can take you through that in greater detail. Overall, I think on the remark that you mentioned about the growth of 9%, I think, we did not talk about the growth of 9%. We mentioned that we would want to ensure that we have an EBITDA margin of around 9% to 9.5% as the target that we would want to maintain.

Agam Shah: Investments have been made for the past one year to 1.5 years, especially in the last 6 months, and the store expansion wise aggressive going. So, can we say maybe, as you said earlier, like post FY 2020, we be able to see a upside cover growth?

Anand Agarwal: Obviously, the entire intent and the objective of the management and the company is to make sure that we are able to grow more efficiently and higher than ever before. But the timing of that, I may not want to comment on right now whether it will come in 2021 or 2022 or 2020. But yes, obviously, the objective of the management is to ensure that whatever efforts and the investments that we make start giving us returns in the near future.

Moderator: Thank you. The next question is from the line of Lokesh Manik from Vallum Capital. Please go ahead.

Lokesh Manik: I require a few data points. One is, what would be the proportion of private labels to revenue, the contribution of private labels?

Anand Agarwal: The private labels now contribute around 60% - 67% to our overall revenue. Having said that, we do not differentiate between the pricing or the margin levels, as far as private labels are concerned or the market labels are concerned. So, we maintain very similar kind of pricing and margin strategy as part of private labels are there.

Lokesh Manik: Okay. And sir, what would be the footfall number that we will have witnessed this year?

Anand Agarwal: Footfalls have been at around 3.5 crores.

Lokesh Manik: Okay. And the conversions, is maintained at 60%?

Anand Agarwal: Conversion is 59%, 58.5%.

Lokesh Manik: And it is the same as last year?

Anand Agarwal: Conversion has gone up by around 1.5% on a full year basis from last year.

Lokesh Manik: Okay. And our average ticket sales or average billing for the year would be?

Anand Agarwal: If you look at the investor presentation, which has been uploaded on the website, you will get all these date points.

Lokesh Manik: Okay. Because I could not get through that on the BSE….

Anand Agarwal: The average selling price this year has been around Rs. 320 for apparel, and the average transaction size is Rs. 754, which is marginally 0.5% plus from last year.

Lokesh Manik: Okay. And sir, just required some clarification, total number of stores as of date would be 215?

Anand Agarwal: As on date, it is 220. As on date, it is 220. As at the year end, it was 214.

Lokesh Manik: Okay. Yes, sorry, yearend would be 214; and we would have seen closure of one store or two stores?

Anand Agarwal: One store during the year.

Lokesh Manik: One store. And number of employees, sir, at year end would be?

Anand Agarwal: 7,500.

Moderator: Thank you. The next question is from the line of Dipan Mehta from Elixir Equities. Please go ahead.

Dipan Mehta: Yes, I think most of my questions have been answered. But just want to understand that in such a competitive environment, what is the company's USP that is question number one? And second is that do you have an M&A strategy in the sense that, are you looking at acquiring unorganized players in the areas you operate in And part B is, whether you are open to be acquired because large chains also looking to increase their presence through acquisition?

Anand Agarwal: So, firstly, I think our USP or our competitive advantage is very simple, that we are very simple and consistent. So, we do not experiment too much. We do not get aggressive too much. We are very clear in our approach. Our strategy of opening standard square feet stores across Tier-II - Tier-III markets in a particular catchment of targeting certain customers has remained consistent.

And to that extent, we have ensured that we have evolved only and perfected only that strategy. So, that has been really our competitive strength. And our ability to understand the customers, which we claim as per us is better than the market, our ability to offer the right product at the right price at the right time at the right place to the customer. Our ability to identify all these four legs of introduction through our technology, through our processes, through our understanding of the consumer sentiment is what we specialize in. Now these are not rocket science technologies. These are very simple things and I am sure these are not unique. But if somebody wants to perfect them, they can become unique as they have become for our case. As far as the M&A strategy is concerned, we do not have a plan to acquire somebody. But yes, as I mentioned, there is a lot of pressure in the retail segment. And the weaker players are now finding it tough to sustain and to grow or to raise funds. And there will be more opportunities. There will be transactions which will come across and we will evaluate them at the right time if they are of any interest.

Moderator: Thank you. The next question is from the line of Akhil Parekh from Elara Capital. Please go ahead.

Akhil Parekh: My question is, like as you mentioned, like our key forte is understanding the consumer choices. And we are mainly catering into the Hind speaking belt. Now given that we are entering new geographies, if you can specify some of the key challenges, if any we Annual Report effacing with new geographies, maybe any of the anecdotal evidences, if possible?

Anand Agarwal: See, challenges are always there, everyday there, and new territories and new stores will always post some new challenges. So, our ability to understand those challenges and to react to them very fast, our agility is the defining fact here. So, for instance, we went into Northeast and we went there with a lot of aspirations and hope, and we have opened eight stores there. And our initial understanding of that market was not very strong. We have taken time to adjust to that market, we have taken time to learn the requirements of that market and we have adapted. And similar was the case, when we went to West Bengal. So, West Bengal, three years back, was a very different market for us. And today, it is a very different market for us. And the same case has also happened in Odisha (Orissa). So, all across, in the entire journey that we have traveled, we have seen challenges, we have seen new opportunities. And with every challenge also comes with it a lot of new hope and new beginnings. So, we still remain very optimistic and hopeful that whatever thought process and the values that we have, we will be able to conquer these challenges with much ease.

Akhil Parekh: If I understand correctly in your initial remark, you mentioned that we will fortifying these new geographies from going ahead, apart from UP and Bihar like North, East, West Bengal and Odisha (Orissa)?

Anand Agarwal: Yes, you are right. We want to consolidate our presence there before we start inching outwards.

Akhil Parekh: Got it, sir. Just two more question. One is, any tracking you are doing on the repeat customers? And how much they are contributing to our total sales?

Anand Agarwal: So, we now have close to 1.1 crore customers who are registered with us on the loyalty platform that we maintain and almost 58% of our sales coming from repeat customers.

Akhil Parekh: 58%?

Anand Agarwal: Yes.

Akhil Parekh: That is for FY 2019?

Anand Agarwal: Yes.

Akhil Parekh: Okay. And sir, just to clarify the store expansion target, we will continue this 25%, kind of retail space expansion for FY 2020 - FY 2021?

Anand Agarwal: Yes.

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

Ankit Kedia: Sir, just wanted to know, on our gross margins, over last four years, our gross margins have expanded to 32 odd percent. And given that, promotional activities and discounting would be higher in the year. Do you think the gross margin expansion now is behind us and probably, there could be some decline in gross margins given that the overall margin guidance is in the 9% to 9.5% range?

Anand Agarwal: So, I think margin or the gross margin level, I would not want to see that dip. But also, I would not see a major expansion happening in the gross margin. You are absolutely right, there will be much more pressure on the gross margin levels given the competitive intensity and the kind of areas that we are getting into. So, we would want to keep it there, may not want to expand it any further.

Ankit Kedia: 9 to 9.5% range given that you will have pressure points coming from rentals, employee costs and because the store expansion is going to be at a faster clip now, so you know the probability of making mistakes could be higher and the expenses on the new management team could also be higher. So, there could be actually a decline given that FY 2018 to 2019, we have seen nearly 160 bps decline in margins.

Anand Agarwal: Yes, you are absolutely right, there will be definitely be a lot of pressure and it will be a tough act to deliver a 9% EBITDA level. And therefore also, it also answers that the same question of around operating leverage coming in. So, it will purely depend upon how efficiently we are able to deliver same-store sales growth. So, if the same-store sales growth is there at around 7% or 8%, I think the margin targets that we have set for ourselves should be achievable. If there is some dent in the same-store sales growth, there may be some shrinkage there.

Ankit Kedia: And so what is our CAPEX guidance for FY 2020?

Anand Agarwal: As such, there is no guidance. But if you backwards calculate the number of stores and therefore, the square feet area and therefore, the average CAPEX per square feet, you will reach to the right CAPEX number. But apart from that, there is no other significant CAPEX. There is a plan of adding a new warehouse in this fiscal year. But as of now, it is not yet finalized and we are still evaluating whether we will buy it out or take it on lease.

Moderator: Thank you. The next question is from the line of Manav Vijay from Essel Mutual Fund. Please go ahead.

Manav Vijay: I just have three set of questions to ask you. First of all, now considering the fact that the demand environment is weak and you have added three new states in FY 2019. You would want to add new states in FY 2020 as well or rather you would concentrate on the existing states only? That is my first question. Second is, is there any chance of improving the working capital that is possible in FY 2020? And third is, that the pilferage percentage was 1.3% in FY 2018, you could reduce it to 0.9% in FY 2019. Is it possible to reduce for that in FY 2020 considering the investment that you have made in last couple of years? Thank you.

Anand Agarwal: So, your first question on getting into newer states or newer territories, so ideally from a strategic point of view, what we would be wanting to target is to consolidate and fortify our position in the existing market rather than experiment and go out into new territories. But having said that, I think that will also depend on the kind of opportunities that the market presents to us in any new territories. If there is a very exciting new location, which is nearby our existing city or town, we would want to get into that. If it means we need to cross a border, we will cross a border. But at a strategic level, we would want to consolidate and fortify our existing states and territories to make our growth much better. The second question that you asked was around the pilferage. Actually, the 1.3% of shrinkage that we disclosed is not only pilferage. Pilferage is one part of that. It is the mix of the provision that we carry for slow and against the slow and obsolete inventory and some part of that is against pilferage. So, from the improvement in the technology that we have implemented across the warehouse, across our stores, across the supply chain system, we have been able to reduce and improve our performance on the shrinkage width and also through our very heightened aggressive plan around inventory liquidation. Especially the old season inventory liquidation, we have been able to reduce our carryover of slow-moving stock or old season stock, which has resulted into that improvement of 1.3% to that 1.9%. I think going forward, we would still want to maintain around 1% to 1.1% of shrinkage. But let us see, how we are able to perform this year.

Manav Vijay: And sir, my last question is also on the working capital, any improvement if possible?

Anand Agarwal: So, definitely it is possible. But given the fact that we are at around 81 days, I am not seeing a lot of improvement coming. So, it may not be a 5% or 6% improvement. But we are definitely constantly working on improving how much we can make this better.

Moderator: Thank you. The next question is from the line of Sabyasachi Mukerji from Centrum. Please go ahead.

Sabyasachi Mukerji: On the SSG guidance that you mentioned and now probably clocking 7% to 8%, that means on the two years to five years vintage of stores, you are guiding for a 10% capital level of growth, if I assume that the five years plus stores are clocking around 5% steady growth going ahead. Is that possible? I mean back calculating the number for this year your two years to five years stores have been growing at a pace of probably 2.5% or 3% level.

Anand Agarwal: I would not really break that down into that much of detail because that is something that is territory dependent. But suffice to say that our older stores actually are performing much better. They are in the higher SSG bracket than the newer stores. And we would want to still maintain as a target, I would not say it as a guidance. But as a target, we would want to target to achieve at least 7% SSG.

Sabyasachi Mukerji: Sir, just a quick clarification, probably the older stores, you mean by the vintage would be around four years to five years or more than five years old?

Anand Agarwal: Yes.

Sabyasachi Mukerji: And the percentage growth that those stores are clocking at would be around what percentage?

Anand Agarwal: I cannot disclose that number, but they are performing at equal level or even at better levels in some cases than the newer stores.

Sabyasachi Mukerji: Okay. And on the new stores, you are telling that those stores are not being ramped up on the full productivity. These stores are in the new geographies that you opened in the last two years. And how do you plan to ramp up those stores?

Anand Agarwal: So, it is not like that every store is not doing well. So, there are a bit of experimentations that we have done in somewhere in Tier-IV towns and some of the new territories. And the performance for every store may not be benchmarked against these standards. And wherever we see a slight slackness, we have performance improvement plans. In fact, this year, we have set up a specialized team which is going to take care of all the new stores, which are not part of the SSG bracket and ramp up their efficiency to the V-Mart standard.

Moderator: Thank you. The next question is from the line of Varshit Shah from Emkay Global. Please go ahead.

Varshit Shah: Actually, my was a little extension of the earlier. So, maybe you know, may not give an exact number but would it be fair to say that the mature stores, let us say, about two years of, more than two years of aging, would be doing around at least 5% plus SSG or it would be wrong to comment around that?

Anand Agarwal: I think they would be performing, as I mentioned just a while back, they would be performing either at the same level or better than the same level. They would not be underperforming.

Moderator: Thank you. The next question is from the line of Pulkit Singhal from Motilal Oswal Asset Management. Please go ahead.

Pulkit Singhal: Just to get a sense of the new store contribution that you have opened in 1H FY 2019, for instance, what kind of say average company level, what percentage of the company level sales per square feet do they contribute in the first year? And what kind of margins do they reach in the first year? If you could share that.

Anand Agarwal: So, while all these stores would be profitable, they would, at a benchmark level, they would be slightly lower than the company average given the vintage and given the time for which they have been operational during the year. So, at a generalized level, at a full year level, if I add together all the 44 stores, it would be if my company average of sales per square feet is around Rs. 802, so they would be at around Rs. 700 or so.

Pulkit Singhal: Okay. And the last two years, the stores that you opened broadly, FY 2018 and FY 2019, what percentage do they contribute to overall sales?

Anand Agarwal: The contribution from new stores is 44 plus 30, 74 stores, so that would be roughly around 35% - 30%. I am not very sure of this number. Let me get back to you separately off-line.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

Anand Agarwal: Thank you so much. Thanks a lot for. Lalit, are you there?

Lalit Agarwal: Yes, I am there. And I would once again like to thank everyone. And with the confidence that the organization and the company is trying to look at the five-year view and we are not in a hurry to just show numbers. And we do not want to do anything, which is long-term can hamper further sustainability of the organization. So, we have been very careful and being also aggressive and strategic in trying to counter the competitive activities which are going on and also generate enough scalable platform so that we will be able to grab the opportunity, which is there in the market. So, we would want to regularly keep doing these activities. I know that there a few of you who may not like these things, but we are there for the longer-term here. And we will keep on doing something which will be disturb the competition in the longer-term. And we can create enough value for everyone around the ecosystem, may it be investors or may it be customers. So, it should be useful for some things probably it will work and thank you so much for being patiently. Today, I was not active in the call, but Anand, did a great job. Thank you so much.

Moderator: Thank you very much, sir. Ladies and Gentlemen, on behalf of Edelweiss, that concludes this conference. Thank you for joining us and you may now disconnect your lines.