



Transcript

Conference Call of V-Mart Retail Limited

Event Date / Time : **24th October 2013, 04:00 PM IST**

Event Duration : **45 min 27 sec**

Presentation Session

Moderator: Good evening ladies and gentlemen. I am Moumita, moderator for this conference. Welcome to the conference call of V-Mart Retail Limited to discuss the Q2 FY14 results. We have with us today, Mr. Lalit Agarwal, Chairman and Managing Director of V-Mart Retail and Mr. Deepak Sharma, CFO of V-Mart Retail. At this moment, all participants are in a listen only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the conference floor to Mr. Aniruddha Joshi from Anand Rathi. Please go ahead sir.

Aniruddha Joshi: Thank you Moumita. On behalf of Anand Rathi Research, we welcome you all to the second quarter FY14 results of V-Mart Retail Limited. We have with us the senior management of V-Mart Retail, Mr. Lalit Agarwal, Chairman and Managing Director as well as Mr. Deepak Sharma, CFO. We also have Mr. Manish Valecha, lead analyst for retail sector joining from Anand Rathi Research. Now, I hand over to Lalitji for his comments on the quarterly performance. Thanks and over to you sir.

Lalit Agarwal: Good evening ladies and gentlemen. This is Lalit Agarwal. Thank you everybody for being on this call & taking out time on such a premium timeslot of 4 o'clock. The quarter has been consistently good for us. We have tried to be cautious in this quarter, which generally is not a very good quarter for us. But, we tightened up and made efforts to have all our things in the right mode, so that we can achieve the right set of numbers. And we have almost done it. Overall there is a buzz in the market that the market conditions are not good, Indian economy is not doing good, global economy is not doing good. But we have, despite the negative sentiment because of the inflation and because of the lesser amount of money with the common consumer to spend on the floor, overcome all those and have actually done well which is reflected in our numbers both in sales and PAT. I thank all of my team members for achieving the success and request them to aim higher as I have higher expectations from them.

We have completed ten years of operation in October of this year. So, we congratulated ourselves and really wanted to enjoy and celebrate this occasion. But, because the season is on the verge, we took a conscious call to do it later. And we think that these ten years have really taught us good way of dealing with our business and we have learnt the way retail must have been handled and believe that we still have a long way to

go. We have learnt a lot of good things from our own mistakes and our peer's mistakes also.

So, what we have learnt is that the most important aspect is the in-store experience. We have hence made all efforts to enhance our in-store experience to the customer. Customer, we understand is the brand ambassador for us and we establish a connect with customers by one-to-one interaction with our sales staff. We have given training to our sales staff, because we understand that the sales staff who is present in the store is the person who has a contact with the customers. We say, in a lighter vein, that customers are our god and the sales staff is the poojari because they are the ones who meet the god. So, we understand that the sales staff is a poojari and we need to give due respect and importance to the poojari and take all the feedback from him. We structure our feedback mechanism around such concept and is based on the belief that ground level activity where we are working is the key to success.

This quarter has been good and is in line with our expectations. And we really are proud to say that we enjoy a special connect with the customers, strong pedigree of vendors, exclusive design and innovative offering, our widening store reach that our project team has given us and the new store openings that we are doing have all contributed to our achievement. We are entering into new territories. We entered into new states of Jharkhand and Uttarakhand. All these new territories are actually giving us a lot of motivation. And one more thing we would like to highlight is that, sourcing is the name of the game and we have actually concentrated a lot on the sourcing. My younger brother Hemant is heading the function here and he is actually doing a lot of good things in the company. So, we are motivating our merchandizing team so that they continue to source good products with enhanced elements of fashion comes into the stores and the aspirations of the customers are met. There are various avenues which are being tapped to source these products. We are also educating our sourcing team the importance of the working capital cycle so that they plan the sourcing in a manner that will lead to higher optimization of the same.

We understand that the sales have grown by 52% in this quarter and for the six months by 54% and I think Deepak can take up on the numbers. Moumita, you can transfer to Deepak-ji.

Moderator: Please go ahead Mr. Deepak.

Deepak Sharma: Good afternoon everybody and welcome to the call once again. Like Lalit-ji introduced earlier on, this is our tenth year and it has been a great journey for us. And one thing I would like to highlight is that what V-Mart has done is learn from its own mistakes as well as that of the peer group and grown from strength to strength. Despite 2009 and 2010, when a lot of the players went through a lot of trouble, we used that opportunity to evolve our business model so that we could be more in sync with the requirements of the market. And the results of those evolution of the model that happened during the 2009-2010 phase is showing results now and our constant endeavor is to learn on a daily basis. As we all know that retail is about learning on a daily basis, we are trying to ensure that our system caters to that aspect. And the results will follow automatically.

Now, coming specifically to this particular quarter, as we all know that based on the kind of the business model that we have and the places where we are present, Q2 is usually

a weak part of the whole financial year, primarily because this is the time when the monsoons are around as well as the consumers in the smaller towns where we have a strong presence i.e. the Tier-II and Tier-III cities, the shraadh season which falls during the second quarter usually is the time when the retail shopping comes to a standstill. So, in the past this second quarter used to be a volatile quarter and this time what we have done is, we have tried to plan a little bit in advance so as to reduce that volatility. And I am glad to say that we have succeeded too quite an extent. And I would like to thank our front-end and back-end teams for planning very well and executing it to perfection.

Some of the aspects that we had planned this time was to ensure that the sales and the business fundamentals remain strong. That means the customers keep coming into our stores. The growth of the stores and the sales mix also remains strong. We tried to do all this by optimizing our space utilization at the stores by ensuring that we provide higher visibility and space to the merchandise which give us better results. And that has translated into the numbers. So far as the expenses are concerned, primarily we are more or less on track. There are certain elements which of course we have been informing our investors as well as the fraternity at large that certain elements of the cost are going to remain on the uptick side, primarily because the organization is building the capability and certain investments will need to be done which will give us benefits in times to come.

I will come down to the specific elements on the presentation. The key highlights of the half yearly results are that the total number of stores have increased to 82 from 69 last March. The revenue growth is 43% year on year with the same store sales growth (fashion) at 12.6% and same stores volume growth (fashion) of 4.3%. Sales per square feet per month have improved to Rs.708 from Rs.621, with a growth of 14% year on year. The contribution of fashion segment to the total revenue has expanded to 86% from 79%, whereas that of the Kirana segment has reduced to 14% from 21% year on year. Gross profit margins have improved to 30.37% from 29.66% year on year and net profit for the six months has grown by 52% year on year.

The next slide contains the sales in millions for the April to September, six months, the growth is from Rs.1686 millions to Rs.2405 millions. The sales mix of fashion segment has expanded to 86% from 79%, whereas that of the Kirana segment has reduced to 14% from 21% year on year, EBITA is growing from Rs.163 millions to Rs.218 millions, PAT growing from Rs.65.58 millions to Rs.99.64 millions. The footfall has gone up from 51.87 millions to 69.85 millions, which is a jump of about 35%. The conversion rates have increased from 67.48% to 67.95%, which is an improvement taking into account the second quarter where usually the conversion rates take a dip. The transaction size has gone up from Rs.482 to Rs.507, which is an increase of 5.2%. The average selling price has gone up from Rs.104 to Rs.131, a jump of 26.2%. And for the fashion segment, it has gone up from Rs.178 to Rs.197, which is a 10% increase. The sales per square feet have gone up from Rs.621 to Rs.708, which is 14% jump. And the store count has gone up from 60 to 82, which is a 36.7% jump. The same store sales growth fashion has gone up to 13% for the six months period and for the Q2 on a standalone basis, it has gone up by 18%. On a volume basis, the same store sales growth has gone up for the six months period by 4.3% and for the Q2 on a standalone basis; it has gone up by 11%.

The expenses like I mentioned earlier on, there has been certain upticks in some of the expenses like manpower, which has gone up by about 70 basis points during the current

period. And the main reason for these upticks is primarily because the company has been investing in capability building, taking up training for the staff, where we have employed external consultants to educate our staff as to how we can enhance the overall experience for the customers as well as translate that into sales. Also, we have been conducting orientations for the people who matter on the frontend side, like the store Managers. These are contact programs where we educate our store Managers in terms of their responsibilities and their accountability and how they can share in the growth of the company. And also there are many other aspects which we are doing to ensure that the HR lives up to the expectations and helps us in translating the results.

The rental cost is down during the current period, which is primarily on account of the fact that the new stores which we are opening up during the first half of this year, the average rental is around Rs.24 per square foot. And this has resulted in an overall reduction of the rent per square feet, which was earlier at Rs.27 to below Rs.26. Then we have the power and electricity charge, which has gone up by about 20 basis points. This is primarily on account of the fact that diesel and the per unit cost of power has gone up, because substantial amount of the cost comes by the way of diesel consumption as the most of the States where we are highly concentrated, which is UP and Bihar, the supply is for very short durations of time and the power backups have to be functional during such time. And as a consequence of that, the increase in the diesel cost which has gone up by about 20% to 25% has also contributed to the power and electricity cost going up.

Advertisement and promotion cost has also gone up by about 60 basis points. This is primarily on account of the fact that the company is taking a conscious decision of being a little aggressive on the advertisement and the promotion side, so as to educate and have a nice brand recall from the customers at the smaller town levels. Other costs are primarily along the same lines. Retail space, as we already mentioned, we have increased from 4.9 lakhs square feet last year to 6.66 lakhs, which is a jump of about 36%. Important parameter next is the inventory days of sales. Last year we were at 95 days of inventory and we have managed to reduce that to 90 days for the September close. Shrinkage, again an important parameter, we have managed to keep the shrinkage level for the first six months at 0.86% of sales and for Q2 on a standalone basis, it stands at 0.76%.

If we come to the Q2 highlights, the numbers of stores are we already mentioned from 69 to 82. The revenue growth is 54% year on year with same stores sales growth (fashion) of 18% for Q2 and same stores volume growth (fashion) of 11%. Sales per square feet per month have improved to Rs.682 from Rs.581, with a growth of 17% year on year. And the contribution from fashion segment has gone up to 85% from 77% and that of kiriyana has reduced to 15% from 23%, gross profit margins have improved to 28.76 from 28.49. The net profit growth is 116% year on year.

I guess the rest of the slides are more or less same. We would like to throw the floor open for Q&A. Aniruddh?

Aniruddha Joshi: We can go ahead sir.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

The first question comes from Mr. Abhijeet Kundu from Antique Stock Broking. Please go ahead.

Abhijeet Kundu: Hi, congrats on a good set of numbers. My question was primarily on the gross margin front. When will you get, on the gross margin there has been a decline during the quarter. What would be the reason, because we have seen an improvement in the product mix...in sales mix. We have seen apparels which has higher margin grow at a higher pace. So, what has been the reason for that? Why have gross margins reduced during the quarter? Has there been a higher discounting during the quarter? What would have been the rate of discounting during the quarter vis-à-vis the previous year?

Deepak Sharma: Thank you Abhijeet for the wonderful question. It had been a conscious decision on behalf of the company to keep the margin levels in check, despite the improvement in the product mix, primarily on account of the fact that like we mentioned that Q2 is usually a weak quarter for the year. And to basically improve upon the fundamentals of the business, which means attract higher number of customers, increase the footfalls, increase the conversion rates, the (not sure), the volumes will play a better part in giving us better effect on the bottom line as well as the margins. And also help us in churning around the stock. So, as a conscious decision on behalf of the company, we thought that we will compromise a little bit on the margins during this quarter, so as to have an overall beneficial effect on the numbers as such, which has already been reflected in the results.

Abhijeet Kundu: Okay. And what kind of growth would have come from the Tier-III cities, like if we have to compare say, if your sales growth, I would say that what would have been the percentage contribution kind of from Tier-III cities to the incremental growth during the quarter?

Deepak Sharma: Incremental would be a little difficult to quantify Abhijeet but let me just check, so far as the other aspects are concerned, when you mentioned, it has been primarily from the Tier-III cities which has contributed the highest.

Abhijeet Kundu: Okay. There you are seeing very strong growth rates happening.

Deepak Sharma: Yes, of course.

Abhijeet Kundu: Okay. And what has been the feel from the ground, monsoons have been favorable during the year. So, what is the feedback that you are getting on ground? And what are the expectations going ahead from the festive season?

Lalit Agarwal: Abhijeet, this is Lalit. First, I will come to your question of Tier-II, Tier-III cities, I would just like to highlight one point that our store count in Tier-III cities have gone up from 16 to 27 as of now. So, our store count also has gone up in Tier-III cities and Tier-II cities have remained almost constant. So, Tier-III cities are the area where the company is targeting the most. And we feel that this is the area where we are getting the best of the benefit. So, I would like to highlight this point by referring to your second

question, as to the impact of the good monsoon on our sales. I understand that the urban consumption, of what we are seeing everyday in the media is taking a hit but, in the rural consumption, it is expected that the growth will continue and that is the same with us. And what we believe is, all the rural consumption is accumulated at the district level because the people from nearby areas come here to do the shopping and we have made conscious effort to be present at the district headquarters level. So, we are optimistic that we shall be in a position to capitalize on the growth in the rural consumption and which is from the account of good monsoons, forthcoming elections in some states and the general elections next year, social benefit programs which the Government is giving like NREGA, Food Security Bill etc. We expect all the above will translate into more cash in the hands of the aspiring consumers and would convert into sales for us.

Deepak Sharma: Abhijeet, just to answer specifically the question which you had asked about the sales growth which is there in the Tier-III and the smaller towns, the Tier-II and the Tier-III cities have given us a like-to-like growth of about 10%, whereas the metro and the Tier-I are slightly lower at about 8%.

Abhijeet Kundu: Okay, so like-to-like in Tier-II, Tier-III cities has been 10%.

Deepak Sharma: Yes.

Abhijeet Kundu: Okay fine, thanks.

Moderator: Thank you sir. The next question comes from Mr. Anuj Sehgal from Manas Capital. Please go ahead.

Anuj Sehgal: Hi Lalit and Deepak. I have three questions for you. First of all, in terms of the EBITDA margins, I understand the gross margins varied depending upon the quarter. But, if I see your SG&A as a percentage of sales, that seems to be inching up, even if I compare it to the first half of last year. And of course you talked about certain factors, the employee cost, diesel cost, but is there something that you guys are doing consciously to control SG&A as a percentage of sales and therefore maintain the overall EBITDA margins close to 10% on a full year basis? That is one. Second question is, if I look at the cash flow, the operating cash flow for the first half of the year is actually negative about minus 22 crores. And then also from the balance sheet you have gone from a net cash balance sheet to a net debt balance sheet of 20 crores. So, what is your expectation of the operating cash flow on a full year basis? And then tied to that is the free cash flow in the CAPEX numbers. And then my third question is, store rollout has been very robust. We keep getting your emails on new store rollout. In fact today itself you opened a new store in Jhansi. So, are you still maintaining the earlier target of 25 stores for this fiscal year?

Deepak Sharma: Anuj, to come to your question one by one, SG&A as a percentage of sales, yes, as you very correctly pointed out, we have been observing that they have been going up. But, if you look at the sales, SG&A expenses as a percentage of sales of the first quarter versus the second quarter, you will see that as a percentage, they have come down, number one. Number two, we are conscious about the fact that these expenses are going up and we are doing things to ensure that they stay in line with our expectations to maintain an EBITDA level of close to 10% on an annual basis. We are working on that and like I mentioned earlier on that the HR cost will increase in the first

half and it will moderate in the subsequent quarters. That is number one. Also, we are trying to focus primarily on the same stores sales growth and the sales per square feet, which will more than offset the increase in the expenses by the same stores sales growth, the revenues should be generated by the increase in the sales per square feet. Regarding your second question about the operating cash flows being in the negative to the tune of about 20-24 crores you mentioned, Anuj? 22 crores.

Anuj Sehgal: 22 crores, yeah.

Deepak Sharma: Valid point you have again, but if you see primarily it is coming on account of the increase in the inventories that we have built up in anticipation of the festive season, this year there has been two exceptional aspects which I would like to highlight, which are self-explanatory in terms of the enhancement in the inventory levels that we are maintaining for the September close. First of all, this year we have planned our winter purchases slightly better, preponing the purchases from the start of the winter to a little bit in advance, so as to procure merchandise of good quality at competitive prices. So, this year what we have done is, we have gone ahead and purchased winter inventory in increased volume to get the benefit of better prices and quality from the best of the vendors. That inventory itself stands at about 20 to 25 crores as of September end. In addition to that, during the September close, we were stocking inventory for about eight stores, which we expect to open in the month of October itself. So, if you look at it as an average inventory of about a crore plus per store, amounts to about 8 to 10 crores of inventory for the new store openings. If you aggregate both these factors together, you are already at about 32 crores of extra inventory that you have. And in addition to that normally by September end, we have 15% to 20% increment in the inventory levels vis-à-vis the first quarter end inventory, primarily on account of the buildup of the festive season. And if you factor in all these aspects, they will more than explain the deficit in the cash flows which are there. And the store rollout of course that you mentioned, yes, we are on track with the 25 stores that we have projected for the current year.

Anuj Sehgal: And does the CAPEX plan remain the same Deepak, cash flow, 28 crores or so for the full year?

Deepak Sharma: That is correct Anuj.

Anuj Sehgal: So, essentially the operating cash flow will normalize over the year and for the full year you will still have positive operating cash flow once the whole inventory situation normalizes in the third quarter and the fourth quarter?

Deepak Sharma: We are highly optimistic of the same Anuj.

Anuj Sehgal: Okay, thank you.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

The next question comes from Mr. Divyesh Mehta from Stock Axis. Please go ahead.

Divyesh Mehta: Hello. Yes sir, hi. This is Divyesh Mehta here sir. Congratulations on a good set of numbers sir. Sir, I have a few questions related to your sales figures. Sir, I just wanted to know this quarter was a very weak quarter as mentioned by you people

earlier sir. But sir, I just wanted to know, suppose if you want to rate the quarters in terms of your sales basis, which are the best quarters in the company which performs?

Deepak Sharma: Divyesh, just to give you an idea, on the top line numbers, there is not much of a variance as such among quarters. If I give you on an annual basis, if you take it as 100, third quarter it is usually about 32%-35% and the second quarter is more or less around 20% to 25%.

Divyesh Mehta: Okay. And first and fourth quarter would be sir?

Deepak Sharma: Both would be about 20-25% again.

Divyesh Mehta: 25%-25%, okay. Sir, the second most important thing I just wanted to know is, like you have completed ten years of operations. So, you people must be having a huge experience in this thing, in the Tier-II and Tier-III areas. But sir, still one thing I was a bit confused, your expenses which you said SG&A is increasing on a quarter on quarter basis, due to which your total expense and margins have been getting impacted. Do you think this thing getting stabilized in the next two quarters?

Lalit Agarwal: Divyesh, this is Lalit. We understand that there are lots of expenses which are beyond individuals control, like lot of our employee cost comes from minimum wages, which is generally guided by the State minimum wages. So, if there is an increase in the State minimum wages, our cost will go up. If there is an increase in the power cost or the fuel cost, our cost will go up. So something which is under control is maybe rentals where we need to negotiate hard with the new projects, there we would do well. Something which is under our control is increase the sales, where we can increase the sales, where we have already shown the good results. So, I think there cannot be a substantial or a regular increase in the cost, but yes, obviously it will stabilize over a period of time and we will see the results of better output through the same stores sales growth and the per square feet sales number that we are receiving.

Divyesh Mehta: Okay. And sir, one last question sir. Do you have any debt repayment plans for the next one or two years?

Lalit Agarwal: We don't have very high debt Divyesh, you have to understand. We have only debt of around 50 crores, which is in the nature of working capital funding. So, whenever we don't use it, it gets accrued in the account and we are not charged with interest. So, we don't need to repay that interest loan. We don't need to do that or neither are we trying to borrow any more.

Divyesh Mehta: Okay, no issues. Thanks sir. Thanks from my side.

Moderator: Thank you. The next question comes from Mr. Chiranshu Kumar from Girik Capital. Please go ahead.

Chiranshu Kumar: Hello. Good evening. Congratulations on a good set of numbers. Sir, my first question is related to a little bit of inventory part. Sir, if I compare it as on 31st March and I compare it as of now, I see a little bit of pile up of inventory to the tune of 163 crores. So, is there a specific reason for that?

Lalit Agarwal: I think Deepak just now explained you about the whole thing. I think Anuj had asked this question. He explained that because of the new store rollout that we have done of 13 new stores in the first six months and another five-six stores in the coming month. So, we have already communicated about the 86 stores that we have opened up till today. And also the start of the festive season, we have to stock the inventory at the store and the new season and also the winter season inventory is getting piled up. So, this is part of the process which happens. And by the December end or by the year end we will have the normal set of inventory numbers.

Chiranshu Kumar: Okay thank you sir. And my second question was again related to the borrowing thing sir. Just now you said that the working capital limit you have faced to the tune of like 50 crores. So, the jump from 31st March to till 30th September, from 33 crores to 57 crores is on account of that working capital loan only?

Lalit Agarwal: Yes. Because, you have to understand this, the working capital requirement which is due to the new store opening and the inventory increase, so around 39 crores of working capital has been increased. So, out of which we have added some from the CC limit and some from our internal accruals.

Chiranshu Kumar: Okay thank you sir. That's all from my side.

Moderator: Thank you sir. Next question comes from Mr. Rahul Bhangadia from Lucky Securities. Please go ahead.

Rahul Bhangadia: My questions have been answered. Thank you so much.

Lalit Agarwal: Thank you.

Moderator: Thank you sir. Next question comes from Mr. Varun Daga from Girik Capital. Please go ahead.

Varun Daga: Congratulations sir. This is Varun Daga here. Very good set of numbers. All my questions are answered. Just one question I wanted to understand from a longer term perspective, I just wanted to know how long does it take for a store to reach a maturity level and what would be an ideal per square feet sales number, once the store is mature. Because, it is very difficult to calculate, because we are in a growth phase and lot of the stores would be in a maturing phase. So, once the store is matured, what kind of figure we can expect from a per store number or from a per square feet number?

Lalit Agarwal: Mr. Daga, I think we have explained earlier that most of our stores in new territories are generally untapped market and new markets; so most of the places where we open up the store, even the first and the second day we receive high number of footfall. And we try and achieve the breakeven by the second month itself in terms of the revenue and the profitability. But, I don't understand the word maturity, because maturity can be ascertained in a lot of sense. But, I think over a period of a year, the sales gets stabilized and the average per square feet sales is what we target is around Rs.800 per month, should be the ideal sales from a store, which is performing well.

Varun Daga: Sure, sure, that answers the question. Thank you.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

Aniruddh sir, you may go ahead if you have any questions.

Manish Valecha: Good evening sir. This is Manish Valecha here. Sir, I have few questions. Sir, just wanted to understand, get an update on your business activity, Uttar Pradesh due to the overall unrest over there in Uttar Pradesh, how is the situation now? And how much revenue if any, we would have lost in the second quarter?

Lalit Agarwal: It is very difficult to anticipate, but yes, there was an acute disturbance of at least ten to fifteen days, depending upon the locations and cities, on the Western part of Uttar Pradesh, not on all of Uttar Pradesh. But, on the Western part of Uttar Pradesh, there was some impact in places like Mathura, Meerut, Muzaffarnagar, Saharanpur, Moradabad. So, even now there is some disturbance, because in the evening people don't come out of the home, families don't go out. So, in the evening the footfalls have dried up. So, by 05:00-05:30 pm, the footfall gets dried up. So, there would be an anticipated loss in the sales due to these situations also. So, there were few disturbances which happened, like there were flooding in the Eastern part of Uttar Pradesh. There were flooding across Bihar also. There was this Odisha cyclone which came up, which also ran up to Jharkhand and also in Bihar areas. So, that also disturbed around three to five days of sales. So, there were some disturbances, which is a general phenomena in these quarters, I think which should continue.

Manish Valecha: Okay. So, third quarter for the festive season, have you launched any schemes for the employees to push sales or any particular schemes that you have?

Lalit Agarwal: That is a good question. And yes, we have given a very good staff incentive plan for the whole quarter itself. So, we have launched a very good incentive plan for the whole frontend and the backend team, to induce them to put their best efforts. We are motivating them a lot. We have given out good incentive plans or schemes to the customers also. We are distributing more than 2 kg of gold on the purchases. So, we are trying and motivating both the customers and the employees there and I understand that that will give us a good results.

Manish Valecha: Okay. And sir, one last question on your full year tax rate, what would that be?

Lalit Agarwal: Normal tax rate. Normal tax rate of 33% is what we have charged. We don't have any exemptions.

Manish Valecha: Sorry sir, I will just push one more question. On the FMP sir, what kind of gain are we looking at and when will we be booking that?

Lalit Agarwal: I think Deepak should answer this question.

Deepak Sharma: Hi Manish. On the FMPs we had locked in at slightly better rates than they are existing right now. We had locked in around March. When we had invested, it was around 9.15% on a net of tax basis because we shall get indexation benefit. We had taken it for a fourteen month period so, the maturity will happen in April of financial year

2015. So, during the current year we will not get any dividends or accrual, most of it will come down by way of capital gains in FY 15.

Manish Valecha: Okay, so that will be in FY15, right?

Deepak Sharma: Yes.

Manish Valecha: Okay sir that is it from my side sir. Moumita, you can ask for other questions please.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

The next question comes from Mr. Kunal Safari from Anand Rathi. Please go ahead.

Kunal Safari: Hello.

Lalit Agarwal: Yes Kunal.

Kunal Safari: Sir, couple of questions. One, with the slowing down of the urban economy, do you see any impact on our business?

Lalit Agarwal: I think Kunal; our same stores sales growth should answer your question. Our same stores sales growth has not slowed down. So, I don't think urban economy is really hitting us badly. It is more to do with semi-urban and rural economy where we are catering to. So, I think we don't see any impact on rural.

Kunal Safari: Another is, the revenue share for fashion segment is at 86% as of now. So, for FY14 and FY15, what do you see this revenue share going up?

Lalit Agarwal: We had already highlighted that all the new stores that we are opening up and which we have opened up in the last year, we have not opened this with FMCG. So, now we have discontinued FMCG in all our new stores. So, obviously all the new sales and the same store sales where we are getting is more from fashion. So, in the ratio that you can see that we were in, at 31st March we were at around 79%. So, 21% was the share of Kirana. And now it is gone up maybe 86%, which is 14% only from Kirana. So, I don't think in these ratio it will keep on reducing, we are targeting it around 10% by two years.

Deepak Sharma: I would like to add to that Kunal, what Mr. Lalit just mentioned that also in addition to the aspect which is brought about due to the stores not having the Kirana segment, the space policy which also which we have implemented, we are trying to see the segment which have a higher return to have a higher allocation of space. So, if on account of that space allocation also you will see a little bit of shrinkage coming on from the Kirana segment, in terms of the sales.

Kunal Safari: Okay. Other is what would be the revenue share of apparel segment and non-apparel for second quarter FY14 and second quarter FY13?

Deepak Sharma: Fashion segment revenue, I think 85% from 77%. So, total fashion is 85%. Apparel and non-apparel is what you are asking?

Kunal Safari:Yes.

Deepak Sharma:So,this is basically 12% comes from non-apparel and 73% from apparel.

Kunal Safari:Okay, that is it from my end sir.

Moderator:Thank you sir. Ladies and gentlemen, if you have any questions,please press * and 1 on your telephone keypad.

The next question comes from Mr. Varun Daga from Girik Capital.Please go ahead.

Varun Daga:Hi again.Just one last question in terms of your long term plans going ahead for the next three years.In terms of how many stores you can really add.I think you are already adding 25 this year and you have planned to add another 25. In terms of where do you see the market and how many stores you can really add, do you think there is lot of scope at least for the next five years? You don't see any stagnation?

Lalit Agarwal:Varun, we have also updated before that out of the 600 - 620 odd districts in India, there are only 142 odd districts which have been occupied by organized retailer. So, there is a clear cut gap or space for those untapped markets for retailers like us. And this is what we are seeking one store per district.So, we have also districts where we have more than two stores and three stores also.So, there is a huge potentiality in terms of Indian consumption story in India is concerned.So, I think we have big market to cater.

Varun Daga:Right. And you focus naturally in UP, Bihar, so any particular reason why in those areas and any specific edge you have there?

Deepak Sharma:Varun, before Mr. Lalit answers you, I would like to revisit the earlier question, in terms of the target number of stores that we have. We actually have an internal system, where we do not target the number of stores. What we target is the CAGR growth rates over a period of time. And those targets for us are to ensure that we have 30% plus kind of growth rate across the P&L elements, that means the top line and the EBITDA and at the PAT level also.So, in order to achieve those CAGR growth rate numbers, whatever numbers of stores are required, we continue to open them.

Lalit Agarwal:On the question that you had we have Utter Pradesh, basically what we are trying to do is, we have this cluster based model of expansion, where we don't travel more than 150 kilometers from our existing stores.So, wherever new territory that we are getting within our 150 kilometer radius from our last store and out of those whichever is the best option that we get, in respect to the business plan that we prepare, on the return from the capital that we are going to employ, we would try and target those areas only.So, we have gone everywhere.So, we have also opened store in Madhya Pradesh, we have also opened store in Uttarakhand, Jharkhand, Bihar, Utter Pradesh, so we are targeting across the country.So, that is not the issue.The whole factor here is that we need to understand that which will give us the better return from our capital employed.

Varun Daga: Absolutely. Great pleasure talking to you. Just one more thing on the EBITDA margin, you have maintained about 10% lately. Do you think that will continue to be maintained, because if your apparel is going up, you can better that?

Lalit Agarwal: We don't expect to really extract all the juice out of our customers and our vendors. But, we want to maintain a healthy eco-system, wherein we also live and let others also live. It is not about percentage. It is more about the amount. So, whatever we are targeting is more in the fundamentals as Deepak has explained to you before also. So, this 10% is the baseline number. Yes, we would always anticipate and aspire to have better numbers than this.

Varun Daga: Great, pleasure talking to you and all the best for the future.

Moderator: Thank you sir. Now, I hand over the floor to Mr. Aniruddha Joshi for closing comments. Please go ahead sir.

Aniruddha Joshi: Thanks Moumita. On behalf of Anand Rathi Research, we thank all the participants for being on the concall and also thank the management team of V-Mart Retail Limited. I hand over to Lalit-ji for his closing comments. Thanks and over to you Lalit-ji.

Lalit Agarwal: Thank you everybody once again and I hope you should give us all the good wishes for our next quarter. And I think this is the best quarter and this is the quarter where the company relies more on. So, this should be a good number to look at and we should create magic in this quarter. So, please wish us all the good luck and let us go and work on the floor. Thank you.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a good evening everyone.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.