



# “V2Retail Limited Q4 FY-21 Earnings Conference Call”

**June 29, 2021**



**MARATHON CAPITAL**



**MANAGEMENT: MR. AKASH AGARWAL – WHOLE-TIME DIRECTOR & CFO, V2 RETAIL LIMITED**  
**MR. MANSHU TANDON – CEO, V2 RETAIL LIMITED**



*V2Retail Limited  
June 29, 2021*

**Moderator:** Ladies and gentlemen good day and welcome to V2 Retail Limited Q4 FY21 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manshu Tandon – CEO. Thank you and over to you sir.

**Manshu Tandon:** Hi good morning everyone. A very warm welcome to our Q4 FY21 Earnings Conference Call. I hope you all are staying safe and healthy through this unusual and challenging time. Along with me I have Mr. Akash Agarwal – Whole-time Director and CFO and our Investor Relations team. I hope everyone has had an opportunity to look at our results. The presentation and press release have been uploaded on the stock exchanges and our company's website.

So, let me start with the key updates; the company opened eight new stores and closed one non-profitable store during Q4 FY21. As on March 31<sup>st</sup> '21 the company operates 95 stores spread across 16 states and 83 cities with the total retail area of 10 lakh square feet. Same store sales growth for the Q4 '21 stood at 25%. We were witnessing continuous improvement in demand when the lockdowns were announced due to second wave of COVID by end of March or start of April. Due to lockdown and related restrictions operations at majority of our stores are impacted during Q1 FY22. Further our targeted store addition for Q1 FY22 were also delayed due to sudden lockdown. So, we have seen significant pick up only from our online platform V2kart.com.

Now allow me to give you all an overview of our operational performance during the quarter. So, standalone performance highlight for Q4 FY21 was total income in Q4 '21 is 189 crores as compared to 129 crores for Q4 FY20. Gross margins stood at 22.1% in Q4 '20 as compared to 26.9% in Q4 '20. EBITDA for Q4 21 stood at 12.3 crores as compared to 3.7 crores for Q4 FY20. EBITDA margin stood at 86.5% for Q4 21 as compared to 2.8% for Q4 FY20. As a prudent measure company has made additional provision for inventories estimated at over 9.15 crores during the FY21 under review. PAT for Q4 stood at negative 8.6 crores as compared to negative 11.6 crores. PAT for FY21 stood at negative 11 crores as compared to positive 10 crores in FY20. So, with this I will now leave the floor open for questions.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Priyanka Trivedi from Antique Stock Broking.

**Priyanka Trivedi:** My question is on the gross margin. We had witnessed around 81 basis points of contraction in gross margins. What has led to this impact like was it because of higher input cost or have we driven any inventory provisioning or higher discounting, so what led to the contraction?



*V2Retail Limited  
June 29, 2021*

**Akash Agarwal:** If you look at the Q4 FY20 gross margin, it was 22.9 and it came down to 22.1%. So, first of all the main reason for that was we had to put heavy discounts on winter goods because the kind of demand uptake in winter that we saw in November and December didn't carry on the second latter part of December and January. We didn't want to have excess winter inventory on our books. We had to run deep discounting on all the winter and pre-winter goods because after the 15<sup>th</sup> of December we saw the demand certainly go down and there was some weather changes also. So, that was the first reason. Second in a lot of our stores we didn't see the footfalls coming back to pre-COVID level. And we had to run some special discounts in those particular stores to get the footfall back and get back to pre-COVID levels. So, these were the two main steps that we took to increase sales that had a negative impact on the gross margin.

**Priyanka Trivedi:** My second question is that we have witnessed a significant increase in our inventory levels. So, what has led to this increase basically in comparison FY20?

**Akash Agarwal:** So, generally, we keep inventory days of 90 days for our retail business which translated to around Rs. 2100 to 2200 per square feet of inventory per square feet. That totals to around 225 crores of inventory. We had plans to open 8 to 10 new stores in Quarter 1 of FY22 which obviously didn't happen because of the certain restrictions. We had bought the inventory for those stores in advance. We had also stocked the inventory for the wedding and summer season in advance. We had also kept about 15 crores of inventory separately for e-commerce business. So, due to this the inventory was around 265 crores.

**Priyanka Trivedi:** So, are we expecting it to normalize in by the end of FY22 to our normalize days or is it expected to be around similar level?

**Akash Agarwal:** If we get normalized sales and if we look at the inventory days according to normalize sales and pre-COVID sales then the inventory should be always between 90 to 100 days, that's the target.

**Priyanka Trivedi:** And my last question is that we still maintain 15 to 20 store addition plans in FY21?

**Akash Agarwal:** It's a very volatile situation right now. It's very hard to predict anything for FY22 but we have already signed agreements for the eight stores that were supposed to open. So, we will open those eight stores. I think the total number of stores we will open this year would be 10 to 12 stores.

**Moderator:** The next question is from the line of Faisal Hawa from H.G. Hawa & Co.

**Faisal Hawa:** How are we going to really face the onslaught of Jio through Kirana stores and they can be catering to so many more pin codes and this Jio arrangement and they seem to be doing quite



*V2Retail Limited  
June 29, 2021*

well with the initial launches. So, will we not be at a disadvantage with physical stores and with staff and stuff and do you also not envisage that we could face a real big problem in sourcing properly from our vendors also because of our volumes?

**Akash Agarwal:** Sorry you need to be louder; I didn't understand half of your question.

**Faisal Hawa:** So, how are you going to face the onslaught of JioMart which will now be catering too many more pin codes through their Kirana combination. They will be having a much better sourcing agreement and even the fixed costs will be probably much lesser.

**Akash Agarwal:** I think JioMart would be a wrong comparison because they are focused completely to FMCG. We don't sell FMCG except in 6 perhaps...

**Faisal Hawa:** It's only going to be a matter of time that they penetrate garments and it's like Amazon started with books but they actually benefited to everything in very little time.

**Akash Agarwal:** But the growth rate at which e-commerce is growing, I think there'll be space for a lot more players. The whole shift from the unorganized sector happening into the organized sector, that major chunk is happening through online and e-commerce retail. We want to build an Omni channel business where we'll service the pin codes, where our stores are present through our source. If a customer is coming from a city where we don't have any store, we will send the goods from our warehouse. I think the kind of sourcing we have and the kind of product mix and the pricing strategy that we operate in, so we are still like that the same way how we are surviving in offline retail, there is Reliance Trends, there's Max, there's FBB but we still have a niche, and we still have a different customer segment that we cater to. The same way we can have that target customers I think will be a huge space in the coming years which can be occupied with multiple large players.

**Faisal Hawa:** Can you give me two examples of very good decisions that you may have at store level to really empower the store level manager?

**Akash Agarwal:** Two decisions to empower the store manager? Did I hear that right?

**Faisal Hawa:** Yes absolutely.

**Akash Agarwal:** One of the biggest things that we undertook and we drove that across all our stores was liquidation of old aging inventory because we felt that the space that it takes, there's a huge opportunity cost because another article or another design could go in the same space and sell within 15 days. What we have taken in a big way is liquidation of old inventory. We have built



*V2Retail Limited  
June 29, 2021*

a system where the store manager can raise the request for any article or any design or any color that is not selling well at a store and then get approval within 48 hours. That is why we don't have any special end of season sale. Whenever you walk into our V2 store, we have a designated area for a discounted article. So, there's a much better churning of inventory. I would say the percentage of inventory that was one year old, maybe one year back at our store has drastically come down this year which helps us get better per square feet sales.

- Moderator:** The next question is from the line of Himanshu Shah from Dolat Capital.
- Himanshu Shah:** Our consolidated PBT losses higher than our standalone loss, so is it due to the losses in the manufacturing subsidiary that we have created?
- Akash Agarwal:** Yes, in the consolidated, I think the difference is 1.5 crores. That is for the V2 subsidiary.
- Himanshu Shah:** So, the manufacturing operation loss is only 1.5 crores because I was going to presentation and PBT loss, probably the difference was somewhere around 18-20 crores.
- Akash Agarwal:** Yes. Let me just check the figures but it cannot be a difference of 18-20 crores. I think you must have looked at a wrong figure.
- Himanshu Shah:** Because it's showing 3300 crores PBT loss for FY21 in consol and in standalone it is showing PBT loss of 13 crores.
- Akash Agarwal:** So, you're talking about Ind-AS figures, right?
- Himanshu Shah:** No, I'm comparing post Ind-AS figures from the presentation.
- Akash Agarwal:** Just give me a second
- Himanshu Shah:** It's on slide #10 and slide #13.
- Akash Agarwal:** Consolidated PBT is 15.2 crores for the whole year, negative loss.
- Himanshu Shah:** 15.2.
- Akash Agarwal:** Yes.
- Himanshu Shah:** I don't know but the presentation is showing 33.3 crores PBT loss. So, I was just going through that number.



*V2Retail Limited  
June 29, 2021*

- Akash Agarwal:** There must be some misprint on the presentation but I have the results right in front of me. It's 15.29 crores loss consolidated for the whole year.
- Himanshu Shah:** Because in financial release we are not able to see the numbers.
- Akash Agarwal:** Standalone it is 13 crores negative, so there's a difference of about 2 crores.
- Himanshu Shah:** Okay fine. I think so then this is fine. Second thing over last 4 years we have closed almost 20 stores. If I include this particular quarter, the ongoing quarter, near about 23 stores we have already closed. Now one of our competitors which is also listed entity, they were 3X of our size. They have probably closed just 25 stores since their inception. Any specific reason why there has been so much of store closures for us?
- Akash Agarwal:** There are two-three reasons. One is obviously loss-making stores. We need to take decision on the loss-making store and we take it in our plans itself that if we open 100 stores, we would have to close down five or six of them because the cost of closing down a store is about Rs. 250 to Rs. 300 per square feet. That can be recovered easily within 3 to 4-5 months. The second reason was a lot of landlords didn't want to renegotiate during the last lockdown. What we did was essentially we moved to a new building in the same city. I think six of the stores that we have closed, we have moved to a better location in the same city because the landlords were not willing to give us concessions during the lockdown or renegotiate rent. So, that was the second biggest reason.
- Moderator:** The next question is from the line of Apurva Mehta from AM Investments.
- Apurva Mehta:** How much savings, our sustainable savings going forward like rent or on the employee side or whatever cost cutting we have done in maybe last year; how much should be sustainable?
- Akash Agarwal:** All the concessions and those benefits that we got was only agreed upon till March of this year. We are renegotiating rents with landlords and about 50% of the location we have already been able to do that but lockdown was much more extended last year. This year we will see the expenses normalized to about Rs. 170 to Rs. 175 per square feet. Those concessions have been carried forward to this year.
- Apurva Mehta:** What is the normalized gross margin we would be doing for the yearly basis. If you want to just ballpark our figures for next 2-3 years and any scope of expansion in that?
- Akash Agarwal:** The target gross margin that we look at and we are planning for the next 2 to 3 years is about 31% to 32%. Any other benefit that we get from our manufacturing or from our vendors we pass



*V2Retail Limited  
June 29, 2021*

on to the consumer. Like we would prefer having a higher per square feet sales than a higher gross margin. The gross margin target is 31% to 32%.

**Apurva Mehta:** On the omni-channel are we willing to expand on our own channel, or we are also ready to collaborate with something like Amazon or Flipkart or something like that?

**Akash Agarwal:** Amazon and Flipkart are market places, but we only sell our own inventory and our own assortment that we sell at our stores. So, when I say omni-channel it basically means that we will service the pin codes that we use and leverage the store inventory and 35% of our orders come from cities where we have a store present. We will be starting deliveries from there. So, the customer can order and get the delivery within 3 to 4 hours. We also save on the logistic cost and when the customers are from cities where we don't have a store, we send them the package directly from our warehouse. That is the model we want going ahead and we don't want to burn cash in e-commerce or omni-channel business, but we want to have a focus there and grow it gradually. It was about 2.5% in FY20 and going forward we wanted to be anywhere between 5% to 10% of our old business.

**Apurva Mehta:** Last year what we did is 21, it was how much?

**Akash Agarwal:** Sorry?

**Apurva Mehta:** Last year was how much?

**Akash Agarwal:** 2.5%.

**Apurva Mehta:** On the store expansion plan, we would be maintaining around the 10,000 square feet kind of thing or we will side propose smaller store also?

**Akash Agarwal:** What we look at is about 8000 to 12,000 square feet. Going forward we look at the same size because it has worked historically for us.

**Apurva Mehta:** Our goal of reaching this 1000 crores kind of turnover, seeing the current situation would you like to revise this and what kind of revision we will see that?

**Akash Agarwal:** I couldn't understand what you said.

**Apurva Mehta:** The 1000 crores revenue target, we were targeting a 1000 crores revenue and 10% EBITDA margin on the normalized things. That was our target?



*V2Retail Limited  
June 29, 2021*

**Akash Agarwal:** Yes, because this is totally unforeseen circumstances again as totally been under lockdown, all our stores were shut. The 1000 crores 10% EBITDA margin target has moved on to FY23 now. This year again just about minimizing our losses and just surviving and coming out of this lockdown and the COVID pandemic.

**Apurva Mehta:** How is this April and may be June. Can you throw some light? How was the footfall and even how many stores are open now? Some color on the Quarter 1 kind of thing.

**Akash Agarwal:** Basically about 70 of our stores have opened and we are seeing the sales ranging from about 40% to 70% already in those stores. What we are foreseeing is from September we can see the sales come back to the pre-COVID level. We are betting big on Q3 because Q1 was down the drain for us and we just want to have a good Q3 that's what we are planning for but it's very encouraging the kind of footfalls and sales that we have seen recovering already in June. I think by September we should see the sales go back to the pre-COVID levels.

**Moderator:** The next question is from the line of V.C. Rajesh from Banyan Capital.

**V. C. Rajesh:** Akash my first question was regarding the e-commerce. Have you seen an uptick in the last 3 months since the stores were not open? If you can just give some comment on that.

**Akash Agarwal:** During the lockdown we definitely see a better conversion rate. We saw growth in the conversion rate of our website and we had a good inventory at our warehouse. We saw a good growth in our e-commerce business. That's why I said last year it was 2.5% but the target for this year is anywhere between 5% to 10%. It will be a decent number and going forward we want to bet big on this business also because it is the future and we have seen the trend all around the world and people are getting more comfortable buying from home and it is just a more convenient way. Once they have a trust on your brand so it becomes a lot easier for them to be served right where they are staying and not having the hassle to go to the store but omni channel approach will be the best way to go. Giving them an offline as well as an online omni channel experience in terms of marketing, in terms of loyalty, CRM and the completely integrated experience basically. So, to answer your question yes we did see a very good demand uptick during the lockdown and we are hoping that it continues even after the stores open.

**V. C. Rajesh:** What's the guidance on the profitability of the e-commerce channel?

**Akash Agarwal:** When I say 5% to 10% of sales, we are looking at 0% EBITDA in our e-commerce business because you can say in that part of our business, we are betting on the future. We don't want to burn cash also but we are taking an EBITDA guidance of 0% in that sale because it's all about





*V2Retail Limited  
June 29, 2021*

acquiring the customer and then getting the lifetime value out of them. Right now, is the time to acquire them and retain them and make them loyal to our brand.

**V. C. Rajesh:** What is our membership base now on the e-commerce channel?

**Akash Agarwal:** Sorry?

**V. C. Rajesh:** What is the base of members that we have where you are, you said you are spending to acquire new customers so I am sure you have a database to capture the information of these members. If you can just give you some color on that like how many members and what is the repeat rate etc.

**Akash Agarwal:** We have a database of about 7 lakhs consumers just online which doesn't overlap with our offline database. That is all newly acquired customers. We are looking to grow this to about 2 to 3 million in the next few months.

**V. C. Rajesh:** My last question is on the inventory number. In the standalone the figure is 265 crores but in the consol it is around 300 crores and delta of about 35 crores. Can you just comment on that? Is that just for e-commerce or there is something else?

**Akash Agarwal:** No, that is the inventory of the subsidiary. Basically, the sale contribution of our subsidiary right now in our retail business is about 10%. We want to increase it to 20%. The sales target for the subsidiary is about 100 crores. So, it boils down to about 3 to 4 months of inventory as raw materials and other things and subsidiary.

**V. C. Rajesh:** This is your manufacturing subsidiary or which subsidiary?

**Akash Agarwal:** Yes, manufacturing subsidiary.

**Moderator:** The next question is from the line of Vikas Jain from Equirus Securities.

**Vikas Jain:** My question was just on understanding the philosophy as to how do we look at the competition, how do look ourselves with respect versus competition like Trends or a V-Mart? What attracts customers to our store versus and of our competition? Is it like a price point, product mix? Any colors on that?

**Akash Agarwal:** You look at Trent. Their average selling price is about 70% to 80% higher than our average selling price. There's a very small overlap in the kind of customers that we both cater to but V-Mart is a direct competitor. It's a very similar space but when you ask like what attracts the



*V2Retail Limited  
June 29, 2021*

customer, I would say as the middle-class in India is booming you know. Everyone has more disposable income. The first thing that they will go for is apparel. I think value fashion is going to be a very big space and it's all about who is able to establish the brand and who has a better assortment and who's able to get into the minds of the consumers better. It's going to be such a huge segment that it can easily have multiple big and medium level players because everybody because of globalization and internet penetration everybody wants to look good. It's like fashion is a huge thing. It depends on personality. It's all about how you perceive yourself and how others perceive you. I think Apparel and Fashion plays a big role in that and as aspirations of people are going up so like we want to be a prominent player in that space. Right now, I would say we haven't been able to create much big differentiation with the direct competitors that we have but the plan is in the next 2 to 3 years to create a space where V2 stands out and we have a competitive advantage and we can deliver better numbers than them.

**Vikas Jain:** On the store's expansion front you talked about; the new store that we are planning to add; will that be on the existing geographies or we are planning to further expand and penetrate into newer markets?

**Akash Agarwal:** No all of them are in existing geographies that we are already present in and our stores already do well in. That helps us with marketing, transportation and a lot of other synergies. We are not going into new geographies or new regions. All of the stores are in clusters that we are already present in.

**Vikas Jain:** We have seen a spectacular performance in this 4Q. As we mentioned V-Mart as our direct competition. The performance of V-Mart was quite muted with respect to whereas we saw 25% year-on-year growth. Any specific reason would you like to attribute this to?

**Akash Agarwal:** That 25% is a feeding figure because last year the lockdown started around the 18<sup>th</sup> of March. This year we got the full 90 days sale. I wouldn't say that but even if you remove those 14-15 days, we saw a good like a positive SSG, but I think we took a lot of steps that we spoke about last year and that had a positive impact on the footfalls and the sales and the conversion that we saw at the store level. I think we had good plans for this year as well but again COVID spoiled it but we are hopeful and we are very positive and looking at the sales that we have already started getting with the stores would have been opening even with restrictions about closing at 6:00 pm or opening on alternate days. It means that the customers are coming back to the stores. I am hoping that the rest of the nine-months of this year can be good.

**Vikas Jain:** What are the store level EBITDA margins that we make on an average?



*V2Retail Limited  
June 29, 2021*

**Akash Agarwal:** If you talk about pre-COVID levels, the company level EBITDA margin that we made was about 7%-8% and at the store level EBITDA margin that we made was about 13%-14%.

**Moderator:** The next question is from the line of Piyush Khandelwal from BOI AXA Mutual Fund.

**Piyush Khandelwal:** My question has been answered but just to understand a little better on the demand scenario. Since we cater to the non-metro cities where the impact of second wave is higher versus last year. As you mentioned I mean the footfalls have increased so the number that you mentioned about 14% to 17% is respect to what?

**Akash Agarwal:** Some stores we have seen 40% sales, some stores we have seen 60% sales and we have seen the sales coming back up to 70%. So, it depends on the region like a lot of regions have more restrictions. There the sales are almost half of pre-COVID levels and a lot of places the sales have almost recovered to 70%-75% of pre-COVID levels, that's what I meant by 40% to 70%.

**Piyush Khandelwal:** The impact is little less as what was predicted I mean in the second wave according to you?

**Akash Agarwal:** I wouldn't say that like the stores being shut since for almost 65-70 days that impacts a lot but all I meant was last year the lockdown was extended. I think the opening up and it started happening at around July end but this year it's sooner than last year and hoping that there's no third wave and having a positive outlook for the rest of the year.

**Piyush Khandelwal:** You are expecting to hit the pre-COVID level by September?

**Akash Agarwal:** Yes.

**Piyush Khandelwal:** What's the current contribution from e-commerce?

**Akash Agarwal:** So, last year it was about 2.5%.

**Piyush Khandelwal:** We are expecting it to take it to? Any number?

**Akash Agarwal:** 5% to 10% this year.

**Moderator:** The next question is from the line of Jaspreet Singh Arora from Equentis PMS.

**Jaspreet Singh Arora:** Akash just on that store opened currently you mentioned out of 95, 70 are open currently?

**Akash Agarwal:** Yes, so about 65 to 70 opens every day.



*V2Retail Limited  
June 29, 2021*

**Jaspreet Singh Arora:** No but I thought that all parts of India is open today. Why would the balance 25 be closed? Are you saying that they are under restricted hours? Is that what you mean?

**Akash Agarwal:** Yes, because we have stores in the South as well and Orissa is still under lockdown. We have 14 stores in Orissa and a couple of locations in the North East. All of India has not opened yet but we are hoping to have that soon. In the next couple of weeks all the stores will be open.

**Jaspreet Singh Arora:** It's South, North East and parts of Orissa which is where the stores are completely shut today?

**Akash Agarwal:** Not completely shut, a few stores are open. So, like Bhubaneswar is shut, Cuttack is shut and we have three stores in Bhubaneswar so it depends on the city. There is partial lockdown not the complete state.

**Jaspreet Singh Arora:** In terms of those store addition, you gave some broad guidance stroke target, I missed that. How much you plan to open in the current financial year?

**Akash Agarwal:** Rest of the year will open in all 10 to 12 new stores.

**Jaspreet Singh Arora:** 10 to 12 against I think 27 last year?

**Akash Agarwal:** Yes.

**Jaspreet Singh Arora:** Was that 27 a one-off or are we saying that we will probably relook at this number maybe around September?

**Akash Agarwal:** That 27 was in the one-off. That plan to open 20 to 25 stores this year also but looking at the situation and there's no prediction about the third wave. We said we look at the situation and then decide on further expansion. So, we will just open the stores that we have already finalized which is about 8 to 9 and maybe 3-4 more new stores but we will take a decision again depending on how the demand is in Q3.

**Jaspreet Singh Arora:** Let's say closer to the towards the end of this calendar year once there is far more clarity than you would want to go back to that 25 to 30 store additions per annum?

**Akash Agarwal:** We want to grow at about 20% every year out of which 15% will be from new store addition and 5% we want as positive SSG same store sales growth. That is the target for the next few years.

**Jaspreet Singh Arora:** So, you said 15% or 20%?



*V2Retail Limited  
June 29, 2021*

- Akash Agarwal:** I said we want the revenue to grow at about 20% every year for the next few years, out of which 15% will be from new stores addition and 5% will be from the same store sales growth.
- Jaspreet Singh Arora:** In that case on a store, I think we are at 95 now, so it gets comes around to 15?
- Akash Agarwal:** No. All the stores don't open in the first month of the financial year. So, if you want to grow at 20% you have to open 25-30 stores because some stores are only open for 3 months and some stores only open for 6 months. So, if you calculate it we will have to open more stores.
- Jaspreet Singh Arora:** So, there is a gross number do you saying probably then you will have also some certain store closures. That's one point you're making and the other point is you're looking at addition basis maybe at 1 year lag because you would probably take 12 months or more for a store to mature is these are two things you say?
- Akash Agarwal:** No, what I'm saying is for example if I have 100 stores and if I want 15% extra revenue from new stores. So, that doesn't mean that if I open 15 stores during the year, I'll get 15% sales growth because some of the stores will have only 6 months 3 months.
- Jaspreet Singh Arora:** Therefore, you would take an average of the previous stores 3 years right, that's all on that base you trying to grow 15%?
- Akash Agarwal:** 20% and if I want 15% extra sales from new stores I will have to open at least 20% to 25% new area.
- Jaspreet Singh Arora:** In terms of sales per square foot you would have discussed as and just dialing in after a couple of quarters lag. Even pre-COVID this number has on an annualised basis the numbers dropped from Rs. 1100 per square feet to less than 700. Even Q4 I think was around less than 700. So, is this a change in assortment mix at a store level that's led to this drop and what's the outlook let's say on a steady state basis from next financial year assuming that's a very normalized year?
- Akash Agarwal:** The target that we're taking for the next couple of years is Rs. 700 per square feet. I would say that the 1100 number that you're looking at that's the situation there then and the competitive intensity then was quite different and the whole business outlook and the industry outlook was different, most of the locations that we were in there were only 1 or 2 players operating and now there are maybe 8 to 10. So, I think even with Rs.700 - Rs.750 per square feet of sales we can target a good EBITDA number of 9% -10%. I think that is an internal target that we've taken but obviously the long-term plan is to take the Rs.700 square feet to about a Rs.1000 per square feet.



*V2Retail Limited  
June 29, 2021*

**Jaspreet Singh Arora:** The competitive intensity goes back to the same as it was earlier what would be the other driver for this?

**Akash Agarwal:** How able are we to establish a brand and then create a competitive advantage because competition intensity is going to be there. So, it's about making us stronger and investing in the brand value and the brand equity so that customers are able to connect with us more. Because after 2 years of lockdown a lot of smaller players are in distress, so I think the whole industry is also got consolidate. The few people come out will be stronger and can have that edge.

**Jaspreet Singh Arora:** Are there opportunities there in such distress where you might want in terms of M&A where we are actively exploring?

**Akash Agarwal:** We've not thought about that, but we're not exploring that option as of now because the main equity for any brand in this space is the location. If we feel that there are still locations available where we have brand is present it always makes sense to get a new location and invest the CAPEX on your own, until unless you're getting a deal at a very-very bargain price that makes sense.

**Jaspreet Singh Arora:** Just quick last one this gross margin in Q3 was 36%, now it's 22 in this quarter. So, this is typically a seasonality because of high sales of winter wear in Q3 is that the larger reason?

**Akash Agarwal:** Yes. Q4 always has the lowest margin because all of January is at discount on winter and pre-winter and February is at discount on last year summer goods. So, 2 months you know heavily discounted month that is why we see anomaly in Q4.

**Jaspreet Singh Arora:** Well, Q3 doesn't have as much discounted and its largely fresh sales of winter wear?

**Akash Agarwal:** Q3 is like the main season like everything is sold on full price. There are hardly any discounts.

**Moderator:** The next question is from the line of Mahesh Kabra from Purnartha Investment.

**Mahesh Kabra:** The question is about your e-commerce venture. You said you have 2.5% contribution of revenue from e-commerce that would be roughly about Rs.13-14 crores over 7 lakhs customers that means average selling cost will be Rs. 200, is that right?

**Akash Agarwal:** That's not right because we were just talking about the database. A lot of customers registered on our website, but they don't make the purchase.

**Mahesh Kabra:** What would be your average selling price per customer order?



*V2Retail Limited  
June 29, 2021*

- Akash Agarwal:** The average order value online is about 600 and the average selling price is 235.
- Mahesh Kabra:** Suppose you have short listed Jabalpur as your next potential city for opening a new store, how much time normally takes for you to open a new store or to decide to go for a location?
- Akash Agarwal:** The turn-around time is about 90 days, but it depends like if it's a BDS like build-to-suit or is it a raw building. It all depends on that how much work needs to be done for the average time required from finalizing the store to opening the store is about 90 days.
- Moderator:** The next question is from the line of V. C. Rajesh from Banyan Capital.
- V. C. Rajesh:** The growth outlook you gave few minutes ago my question is that how will we support that growth is all going to be through internal accruals or debt, or would you need equity financing as well?
- Akash Agarwal:** To grow like if there was no COVID and we got sales like pre COVID levels then internal accruals are good enough to grow at about 20% that is our target for the next few years. There's no need for additional debt or equity.
- V. C. Rajesh:** My other question is that given we have already almost at the end of the quarter would you say the inventory that you had at the March end has that down or same or higher?
- Akash Agarwal:** It is a little lower but there's no significant change obviously because 2.5 months most of the first quarter all the stores were shut. So, the sales didn't happen and I think the main impact will happen in Q2 because we are not purchasing any new inventory and now the stores have started opening up so the inventory level will go down.
- V. C. Rajesh:** Do you foresee taking any write-down on that inventory giving it will be somewhat of 5-6 months old products?
- Akash Agarwal:** So, we have taken extra provision even last year we took an extra provision and this year also we took an extra provision over and above the 1% of sales that we historically take. So, whenever we get the stop count done it has always been within the provisions that we already have. I think in a FY21 we've taken 9.15 crores of additional provision. That will cover all the write-downs or discounting that needs to be done because of COVID.
- V. C. Rajesh:** So, you're saying as of now because of a bad Q1 you don't expect any write-downs in the inventory besides the usual 1%?



*V2Retail Limited  
June 29, 2021*

- Akash Agarwal:** No. Because of COVID itself like last year we took 9 crores extra provision. All I'm saying is extra discounting or any kind of a depreciation of inventory that happened due to COVID has already been taken care of in the results.
- V. C. Rajesh:** So, that's what I'm saying. So, this season we are not expecting anything for the Q1 stores on being opened?
- Akash Agarwal:** Yes.
- Moderator:** The next question is from the line of Tejas Shah from Spark Capital.
- Tejas Shah:** I have three questions on largely pertaining to business model. First you spoke about on a normal state basis a 100 days of inventory days will be good enough. Just wanted to understand and largely retail in India in general the model itself has very low gross margin, low EBITDA so just to be much more relevant to consumer from value proposition perspective. Ideally the tradeoff should be seen on a higher inventory churn versus so called not so the value-oriented brands in the market. So, if they are also doing three times inventory turn and we are also doing three times so where's the advantage of playing the value game here? That's the first question.
- Akash Agarwal:** That's a very good question but I would say when you open a store even the just the display store like to fill up the store you need about Rs. 1100 to Rs. 1200 per square feet of inventory. No matter what post COVID sales you get you still have to fill up that display stock of the store. I would say to get it lower you have to get a higher post COVID sale so to do more inventory turns in a year we'll have to go from Rs.700 per square feet to about Rs.1000 per square feet. That will get the inventory days of 95 days to almost 80 days. So, that is the only avenue that will get down the inventory because we feel that lowering the inventory levels that are stored will have a negative impact on the sale. Whereas the additional cost of carrying that in is just the interest costs on the paid inventory because half of it is paid off by the credit terms that we got to get from our vendors.
- Tejas Shah:** When we look at models like Zudio and all which are also playing in the same area or of the same value market, there inventory turn at least on a lower base as of now seems to better than what the established value retail players like us are doing. So, is there any change in the model or is it just a curve period like that initially you will have a good area, good locations and your turns will better and as you normalize a new scale that number will come down?
- Akash Agarwal:** I think Zudio per square feet sale is more than Rs. 1000 per square feet. So, I think that is one of the big reasons why they meant it on would be higher. But I would say it's not just that the initial store will do well and then the subsequent store will not do well. Like I said earlier without the





*V2Retail Limited  
June 29, 2021*

competition intensity it was easy but now obviously you'd have to create some advantage against your competitors so that the customer prefers you over them. I think in the value segment no one has yet come out at the market leader where they can say that wherever they have to store they get a higher per square feet sale than the peers. So, I think everyone's working on that and that is what is going to differentiate you with the competition. That is what is going to get you to the Rs. 1000 per square feet sale mark and that is what is going to get your inventory days down. So, I think that is a journey.

**Tejas Shah:** Rs. 1000 is per month you are talking about, right?

**Akash Agarwal:** Yes Rs. 1000 per month.

**Tejas Shah:** Obviously Zudio model has also an advantage of that they are totally private label. So, does that change the equation in our favor and what's your thought on going on private label for us?

**Akash Agarwal:** So, the current private label contribution in our business is about 35% and we want to grow it to about 60%-70% in the next 2 to 3 years. But I don't think like private labels get your sales per square feet at par and get your better inventory turn. So, because until unless you build a brand the customer is just coming to your store to get a value product at the best price. So, it's more than the private label it's about assortment like even if I have a good assortment and when my vendors label it will still sell better than if I don't have a good design in my private label. So, like I said for better per square feet sales it's not about private label, private label can be about exclusivity or brand reach or brand equity but for better per square feet sale it's all about having the right size at the store, understanding the customer's buying behavior and what colors they're liking, what fits they are liking and implementing it at the store level. So, it's getting down to that detail.

**Tejas Shah:** No, I meant has private labels compromises or at least compensates on margin level gross margin because you don't have a third-party vendor or even if you have third party vendors the whole brand control is under you, so I meant from that perspective. That do not push up your revenue per square feet perhaps but it gives you much more control and inventory in margins to play around with.

**Akash Agarwal:** So, you know the mostly was the manufacturer that sales though even the product that we are not getting on private labels, we are sourcing at the lowest cost. That is why we are able to select the current ASPs that we are selling at. So, I wouldn't say that there's a huge margin like if we move it to a private label we wouldn't save on a lot of costs. Of course, if we manufacture it our self then we would definitely save costs but if you're working with a manufacturer and if I tell him to put my private label that doesn't necessarily get down the cost.



*V2Retail Limited  
June 29, 2021*

**Tejas Shah:** Just last question. If we go 2 years back or just before pre COVID none of the value retailers had this online plan even in their 3-year vision or a short-term range plans also and obviously then the pandemic happened and the flow of business also shifted to online for most of the categories. So, should we see this evolution for value retailers like us more of a tactical response or you are seeing structural shift in the way your consumer in particular which was not an online consumer just 18 months back, he's also shifting to online for good and hence you are investing a lot of resources and energies behind that channel to be developed?

**Akash Agarwal:** I would say definitely there's a structural change and you can see that by the examples of Shein and the other players around the world and India is also seeing that boom now and I think this pandemic has accelerated this process by at least 3 years. So, the kind of online plans that everyone had for the next 3 years has their hands have been forced to do that this year itself and now everyone's realizing the importance of the channel. But it's a very hard build pack, so especially at low margins has low ASP's. So, I think it's a good challenge to solve and we are added and I think we are excited about this journey.

**Tejas Shah:** But do you think the way companies behave practically during the pandemic even consumers behave practically based on the forced choices that they had to make and especially the catchment area that we service and whatever understanding we have developed it's a very price sensitive and very I would say touch and feel kind of customer and he can't take risk of ordering online and then getting delivery and perhaps again resending it to you if that size doesn't fit. So, do you believe that this whole trying to see structural trends in last 18 months consumer behavior could be slightly misleading and once things normalize will go back to our old ways of interacting with the consumer and the brands?

**Akash Agarwal:** So, I would say like you know even I was under the same impression before I saw some data and I would say the biggest change has been gen Z and the young people. Basically 18-year to 30-year-old I think they're more comfortable in a new technology and buying online. Of course, like sales might go down post restrictions are lifted but the base has definitely increased, and it will keep increasing year on year and online will take up a bigger chunk. Like I said once the person has a trust on you brand then it becomes very easy for it to trust a fit, trust a size, trust a quality and just order from the store. But of course, like the offline experience is never it's going to be there and that is why we want to cater to both types of customers. That is why we will continue the store expansion as well as be present in online.

**Moderator:** Thank you. That was the last question; I would now like to hand the conference over to Mr. Akash Agarwal for closing comments.



*V2Retail Limited  
June 29, 2021*

**Akash Agarwal:**

I thank everyone for their time and hopefully this pandemic is over and we hope we've been able to answer your questions and I hope everyone stays safe for any further information I request to get in touch with Marathon Capital, they are our investor relations advisors. Thanks a lot.

**Moderator:**

Thank you. On behalf of V2 Retail Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.