"V2 Retail Limited Q2 FY-21 Earnings Conference Call"

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MANAGEMENT: **MR. AKASH AGARWAL – WHOLE TIME DIRECTOR & CFO**
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Moderator: Ladies and gentlemen, good day, and welcome to the V2 Retail Limited Q2 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, pleases 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. Akash Agarwal – Whole Time Director and CFO. Thank you, and over to you, sir.

Akash Agarwal: Good morning, everyone. A very warm welcome to our Q2 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. Manshu Tandon – our CEO; **Mr. Vaibhav Panwar** – our Deputy CFO; and our Investor Relations team. I hope everyone had the opportunity to look at our results. The presentation and press release have been uploaded on the stock exchange and our company website.

Let me start with the key updates:

The company opened 6 new stores and closed 4 stores during this quarter. As of September 30, 2020, the company operated 76 stores spread across 69 cities with a total area of around 8 lakh square feet. The company has also opened 5 more stores in Q3, the ongoing quarter of FY21. We have seen an encouraging response to our online platform, v2kart.com, as well as from our omni channel presence. Our strong brand recall is helping us in our online platform. With easing off lockdown restrictions and onset of festival season starting October, we are witnessing significant uptick demand, which we believe should further improve especially during winter. So we are expecting the sales to normalize at around 80%, 85% for the third quarter.

Now allow me to give you an overview of the operational performance during the quarter. The total income for quarter two is ₹85 crores as compared to ₹150 crores for the corresponding quarter last year. The gross margin percentage improved from 27.7% to 31.8% in Q2. The EBITDA for quarter two stood at ₹9.5 crores as compared to ₹11.8 crores last year. The EBITDA margin stood at 11.8% for quarter two as compared to 7.8% for FY20, quarter two. Various cost mitigation measures and prioritized cost reduction especially involving discretionary spend has helped us in navigating through this tough time. We believe many of these initiatives would continue to deliver efficiencies over the medium term. As a prudent measure, company has made additional provision for inventories estimated to be around ₹4.7 crores during the first 6 months of the year.

The loss after tax for quarter two stood at ₹ 7 crores as compared to a loss of ₹ 10.4 crores for Q2 last year. Considering that the operations were impacted due to COVID, I believe that the performance of this quarter and half year, therefore cannot be compared with figures of Y-o-Y and quarter-on-quarter basis. Now we are open to questions.

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 Ashok Kumar an Individual Investor. Please go ahead.

Ashok Kumar: Akash, it's good to see that revenue has been picking up again after the lockdown. So my question is regarding the manufacturing company that we set up last year. Could you please give a status on how it is growing and could you please confirm if we are getting the 15% tax that was announced early this year in the budget?

Akash Agarwal: So we started with capital of 15 crores for our manufacturing unit, and we set up a 100% wholly owned subsidiary. Currently our sales percentage from our own manufacturing unit is 7% to 8%, and we are looking to scale it up to at least 15% to 20% for FY22. And we are using the manufacturing facility to get the price advantage and not get an extra gross margin. So what we are doing is, we are transferring the cost benefit to the customer to create a price and competitive advantage against the competitor.

Moderator: Thank you. The next question is from the line of Manan Shah from Moneybee. Please go ahead.

Manan Shah: Could you just throw some light on how the footfalls are and, even in this festive season, how the footfalls have been and how are things progressing, whether all our stores are open and are we getting affected by local lockdowns or anything as such?

Akash Agarwal: So till Q2, we were affected by local lockdowns and we saw our footfalls reduced almost 52%. But as I mentioned earlier, in October we saw the sales being back to 70% level. and in November also we have seen a very good demand. So, for Q3 we will be back to 80%, 85% of last year. The lockdown restrictions have also reduced, and the footfall, people have started coming back to the stores. So Q2 was severely impacted, but that impact is much less in Q3. And it should normalize from Q4.

Manan Shah: Okay. And my next question was on our store metrics. So basically, if I compare our store size with our competitor, the listed competitor, our store size is much bigger compared to them. So what is our thought process on having a bigger like our square feet per store is somewhere 11,000 our competitor is somewhere around 8,000, 8,500. So what is the thought process on having an average store size of 11,000 square feet?

Akash Agarwal: So we decide on the store size looking at the market, and we haven't seen any data suggesting to us that smaller stores give us better EBITDA margins or better per square feet sales. And historically, our big stores have given us a very good output. So, it depends on what model works for which brand. So as I said, we look at the market, we do the research and we see which store size will be perfect for that market. So our store sizes vary from 3,000 square feet till 28,000 square feet. So it depends on the market, I would say and our bigger size has given us a lot of competitive advantage at a lot of locations. So, going forward also we'll be looking at an average store size of 10,000 to 11,000 square feet.

Manan Shah: Okay. But then our rent expense per square feet per month also come much higher at around ₹45 compared to our competitors who are at around ₹35. So is it possible to bring our rent expense also to a similar level, or we should be averaging somewhere around 40, 45 only?

Akash Agarwal: So I'm not sure which competitors you're actually comparing it with, but our industry, the average rentals is around ₹40 to ₹45 for everyone. And going forward also, it should stay at the ₹40 level.

Manan Shah: Okay. My next question was on the inventory. So even though having decent sales, this month, almost 50% of our compared to last year's run rate, our inventory hasn't come down as such. So have we bought more inventory for the new season new collection or how should we see the inventory moving from here onwards?

Akash Agarwal: So our inventory on September 30, 2019 was almost ₹ 260 crores. So we have brought down the inventory by almost ₹ 60 crores.

Manan Shah: No. I meant on a quarterly basis, we were at around ₹ 196 crores in March 20 and right now, we are around ₹ 190 crores.

Akash Agarwal: That's because we had to prepare for the festive season, upcoming in Q3. We were projecting a sale of 70% to 80%. So we had to maintain those inventory levels. Further, the inventory days would not be relevant because Q2 was really impacted by COVID.

Manan Shah: From here onwards, should we see this coming down or what should it average at and how many days should it average at?

Akash Agarwal: The inventory days that we target is around 90 days. It should stay at the 90 days levels when the sales normalize.

Moderator: Thank you. The next question is from the line of Amit Porwal from Marathon Capital. Please go ahead.

Amit Porwal: Just wanted to understand what is the outlook for store addition considering that we have seen some of the stores also getting closed. So if you can guide us what would be the target for this year and the year forward in terms of store addition?

Akash Agarwal: Yes. So at the end of Q2, the stores that we were operating, the number of stores we were operating was 76, and we have already opened 5 stores in this quarter. And we are looking to add another 10 to 12 stores by the end of this financial year. So we should close this financial year with a store count of around 91 - 92. And for next year, we are planning to open another 15 to 20 stores. So, at the end of FY22, we should close the store count at around 110 stores with an average store area of 10,000 to 11,000 square feet.

Amit Porwal: Any more stores which would be getting closed in the recent time, have we identified any, have we undertaken any such exercise that we may close another 4, 5 stores or whatever?

Akash Agarwal: So we have identified another 2 stores that we might close down because the landlords are not willing to negotiate or renegotiate the rent or give us some moratorium. So we'll be planning to shift to a better location in the same city. So the 6 new stores that we opened and the 4 stores that we shut, 2 of those stores were relocated within the city.

Amit Porwal: Okay. And in the rent negotiation part, can we expect the negotiated rent to continue for at least a year?

Akash Agarwal: We have most of the locations where we have negotiated, we have negotiated till March of 2021. So we won't see that impact in FY22.

Moderator: Thank you. The next question is from the line of Ram Prakash, an Investor. Please go ahead.

Ram Prakash: So one question I want to ask you is that, you receive the organized online retail market, like Amazon, Flipkart and all. Even they are getting into fashion retail by selling some stuff on a very steep discount. So how are you going to handle, are we competitive enough to for the pressure from Amazon and Flipkart, et cetera?

Akash Agarwal: So, I feel like in India, still the organized retail sector, especially in fashion, it's still a very small percentage of the total retail industry. So, there is space for everyone and there's still huge potential. And the organized retail is growing at a good CAGR compared to the unorganized. So the share of organized retail will continue to grow for the next number of years. So, I don't think we should look at them as competition and the ASPs that we operate in, there's still quite a bit of gap. So our ASP is only

₹240. So, I don't think they are in direct competition to us. But as I said, the market has potential and space for everyone and if we are able to execute our strategy well, there's a huge potential for the business.

Ram Prakash: Okay. And what about V2 Kart, the V2 Kart, is it catering traction, gaining traction in the market?

Akash Agarwal: So we just launched in Q2, and our online sales are almost 6% to 7% of our sales. And going forward, we don't want to burn money in the e-commerce space. We want to have it as an additional channel of business and whatever sales we do there, we want to have a profitable sale. So going forward, we want to have an online sales percentage of around 10% to 15%. So we have got a very encouraging response and we would be looking to grow our company as an omni channel business going forward, where we are present for the customers who want to buy our products online as well as offline.

Ram Prakash: Okay. One final question I want to ask here is that, what are in your so many stores opening and closing. What is the average age of the store of V2 Retail, two years, three years, five years, because I see every one quarter, I see two or three stores opening and closing, that's the reason?

Akash Agarwal: I would have to take out that, calculate that number for you. But as I told you, we look at the store performance over a period of at least 18 months before taking a decision on closing the store because usually in our rent agreements, we have a lock-in of one to two years. So even after 18 or 24 months, if we feel after trying different strategies that we are not able to revive the store, then we take the decision to shut the store. And the cost of shutting down a store for us is around ₹200 to ₹250 per square feet. So we feel that if we open a better location instead of that store, we will be able to cover those losses in a period of less than 6 months.

Ram Prakash: Okay. But you see, it's very difficult for the end user to understand whether the sales are coming because of old stores, or are there any stable loyal customers for the old stores sir, because the growth is so fast and the opening, closing rate is so high there's no way a person can make out whether it's because of demand or is because of some traction to the new stores, which are being opened.

Akash Agarwal: No, but if you talk about the first 6 months of the year, we closed down 6 stores, and we've opened 6 new stores, so the store count didn't change. And this is the store closures also because, as I said because of COVID, we renegotiated rent and other things in most of the places. But where the landlord was not willing to renegotiate, we had to take this drastic step. And as I said, two of those stores were relocations. So, going forward if you look at the historical data also, the percentage of store closures is negligible. So whenever we plan for new store openings also, there's no contingency that if you open 20 new stores, you might have to shut down one or two of those stores. So we always take that in our business contingency plan.

Moderator: Thank you. The next question is from the line of Ankit Babel from Shubkam Ventures. Please go ahead.

Ankit Babel: Akash, a few questions. First of all, what has been your cost per square feet in Q2 and where do you see this cost going in second half and then in FY22, operating cost?

Akash Agarwal: Yes, so for Q2, the operating cost will not be relevant because as I said going into Q2, there were still lockdowns in a lot of places where we were not paying the rent for the period when the stores were closed. So the operating cost for Q2 was around ₹125 per square feet. But from Q3 onwards, as I said the sales were also normalizing. The operating cost will normalize back to the old levels of around ₹165, ₹170 per square feet going forward.

Ankit Babel: So in FY22, also, then we are expecting things to fully get normalized, do you feel that this ₹165 to ₹170 would be the new normal?

Akash Agarwal: No. So before pre COVID also, the operating cost for us was ₹165, ₹170 per square feet. So for FY22, it will go back to those same levels.

Ankit Babel: Okay. And what is your rent as a percentage of sales you expect in say FY22 and what it used to be historically?

Akash Agarwal: So historically, our rent percentage used to be only 4.4%, but for FY22 we expect the sales per square feet of ₹750 and our rent is ₹ 44. So, it comes down around 6.6%.

Ankit Babel: So how come, the rent cost is increasing in this lockdown period, everybody has renegotiated their rents to a lower level. So for everybody, the rent cost has actually decreased. And for you, it is increasing.

Akash Agarwal: No. Sorry, I thought you asked me for FY22 numbers.

Ankit Babel: Yes, FY22 only, going forward only.

Akash Agarwal: Yes. So going forward, as I said the renegotiations have been done till March 2021. So, for FY22, our rents would be back to our normal number. For FY22, it will be back to around ₹43 - ₹ 44 per square feet. So this year, if you see our rentals are much lower because we have renegotiated the rent for FY21. But those will not carry forward to the next year. So the next year, the rents will be back to normal.

Ankit Babel: So what I'm trying to understand is, when we talk to other retailers, the feedback that we get is that there is a structural reduction in the rental cost, which will continue even in the future years and a lot of people have actually renegotiated in such manner that the fixed rent has been converted into variable rent, which is depending on the revenues of the store, which will structurally bring down the fixed cost burden also and the rent as a percentage of sales also is expected to come down structurally going forward. In that scenario, I'm surprised that your rent cost is actually increasing next year.

Akash Agarwal: So our negotiations were not structured that way. I don't know about other people, but most of the landlords that we renegotiated, it was already majorly understood that when the sales will get back to the normal level, rents will also get back to the normal level, which is very justified. And I didn't say that our rent as a percentage will increase, I said it will go back to the pre COVID level. So it will remain the same, what it was before COVID.

Ankit Babel: You mentioned it was 4.4%, right historically?

Akash Agarwal: That is historically, when our per square feet sales were around ₹1,000 per square feet.

Ankit Babel: Okay. So now you're expecting a sales per square feet to be ₹750 for next year?

Akash Agarwal: Yes, for FY22.

Ankit Babel: Okay. And if you achieve the ₹750 per square feet of sales, say in FY22, so on this level of sales and considering your cost operating cost and the gross margin levels, where do you see your EBITDA margins to shape up, say, next year, pre IndAS adjustments consider rent also as a part of before EBITDA?

Akash Agarwal: Yes. So if we are able to achieve the ₹750 per square feet of sales, then we would be able to because our gross margin is almost 31%, we will be able to achieve an EBITDA margin of 11% to 12%.

Ankit Babel: 11% to 12%. Okay, and this ₹750 sales per square feet is purely the store sales, and you are not including the online channel in this?

Akash Agarwal: Yes. So when we talk about per square feet, it will be only store sales.

Ankit Babel: And you did mention that 10% of contribution is expected from the online segment also?

Akash Agarwal: Yes.

Ankit Babel: Okay. So suppose if you end the year at around 10 lakhs square feet and the ₹750 so somewhere around, what, ₹900 crores of sales is what you're targeting from just the stores and the 10% of ₹900 to ₹1,000 crores of sales we are getting next year?

Akash Agarwal: Yes.

Ankit Babel: And on that, 11%, 12% means somewhere around ₹ 90 crores to ₹100 crores either on a conservative basis, you are targeting your EBITDA to be?

Akash Agarwal: Yes. If we achieve ₹750 per square feet of sales, we will be able to achieve an EBITDA of 11% to 12%.

Ankit Babel: So let me understand from your side that what is the risk to this figure of ₹ 750?

Akash Agarwal: So when I say ₹750, it considers the single-digit SSG growth from the pre COVID levels because for FY20, our yearly average was about ₹ 690 per sq. ft.. So from going to ₹ 690 to ₹ 750, we need a single digit, 8% to 9% SSG growth. And also an assumption that all the 3 lakhs square feet area or 2.5 lakhs square feet area that we'll be adding, will give us at least a per square feet sales of company average that is ₹750. So these assumptions are satisfied, then we should see a sales of about ₹900 crores and with an EBITDA of 7%, 8%, 9%.

Ankit Babel: So your sales coming down from ₹1,000 to ₹ 700 in the last few years, what I understand is was mainly because of very highly competitive intensity in the industry and everybody was opening stores like anything. Now in this lockdown, a lot of companies would have faced some issues in continuing their business. A lot of companies are also having debt on their book. Luckily, we were cash rich, we have survived and we are expected to do well. But how do you see the competitive landscape going forward, do you feel that once things get normalized, this competitive intensity will again become very severe, and then there could be a risk here of ₹750 per square feet kind of number. Are you considering the industry dynamics, what you understand as on date? You feel that the competitive intensity will be a lot lower as compared to what we have witnessed in the last two, three years?

Akash Agarwal: So yes, you're right. Like if you look at current year, the competition intensity has definitely reduced. But if we look at the long-term picture, this is a very temporary thing. In any industry that you operate in, you cannot base your business decisions on competitive intensity. So we want to make ourselves as strong as possible where these external factors don't really matter to us. And if our competitors are going down or shutting down stores, four new might come in next year. Or there might be more competition from national level players like Reliance or MAX. So we always take competition intensity as a variable that is out of our control. So we are focusing on ourselves. And if we strengthen ourselves and if we are able to implement product development and the supply chain and technology advancement and automations, we'll be able to achieve the number irrespective of any changes in competitive intensity.

Ankit Babel: Okay. And lastly, the share of your own manufacturing you mentioned is expected to go up to 20% for next year. So what are the gross margin benefits you expect in that part of the supply side. What would be the price difference?

Akash Agarwal: So for the subsidiary, we are operating at a no profit, no loss level. And at the price that we sell it to the retail company, we are not charging or we are not getting any extra gross margin in that. Whatever benefit or cost reduction we're getting, we're passing it on to the consumer. So that we believe that it will lead us to get more loyal customers and customers to actually see a good price difference vis-à-vis the same product at our competitors. So we want to pass on the benefit to our customers and get higher per square feet sales rather than a higher gross margin from that 20% of sales.

Ankit Babel: Okay. But the cost difference would be around 10%, right this is what you people had mentioned earlier?

Akash Agarwal: Yes.

Ankit Babel: Okay. And just one last bookkeeping question, where do you see the inventory days cycling for you on a structural way, this year could be an exceptional year but structurally where do you see your inventory days to in FY22?

Akash Agarwal: So the short-term target for inventory is 90 days and because our target for the next three years is to take the per square feet sales level back to the historical numbers of around ₹1,000 per square feet. So if we are able to achieve ₹1,000 per square feet of sales, then the inventory will further reduce to around 75 to 80 days. But for FY22, we are targeting an inventory number of around 90 days.

Ankit Babel: Akash, that's very good that you are targeting such high level of sales per square feet. But just wanted to understand that, what efforts are being taken by the management to achieve that target, and anything different that you people are doing than the competitors or what will drive such a drastic improvement in your sales per square feet?

Akash Agarwal: So, Ankit more than the things that we are doing, it all depends on the execution of it, because most of our competitors might be doing the same thing, but it all depends on who implements it better or who executes it better, because everyone will say we want to improve the product offering or we want to give the best price. But it all depends that, what level of execution or what level of planning and product development or what level of quality improvement have we done to the product. So, if I tell you the five basic things that works in retail, all of my competitors might say they're doing the same thing. But it all depends on, I would say, how well we are able to implement it and till COVID happened, we were seeing a very good run rate and we were seeing a growth number from our early 2019 to early 2020, but then COVID happened. So we are very hopeful that we'll be able to continue to trend when the sales normalize, and we should see good numbers. Because again, we are focusing on economy value and because our target customer is Tier-II and Tier-III. So we have reduced the contribution of premium, super premium, which had also reduced the percentage of debt stock. And that's why our gross margins have also increased. So, all the indications are good. It's just, we're just like Q3 is also better than our expectations. So, FY22 we should be able to grow from a good base that we have been able to create.

Ankit Babel: Great to hear all these things, Akash, and all the best to you. And we just expect that you achieve your numbers irrespective of the macro environment and irrespective of the competitive landscape.

Moderator: Thank you. The next question is from the line of V.P. Rajesh from Banyan Capital. Please go ahead.

V.P. Rajesh: ` Akash, could you give some color on the festive season. I was just asking that if you can comment on the trends you are seeing during the festive seasons over the last, let's say four to six weeks.

Akash Agarwal: Yes. So as I said earlier, in October we saw our sales almost 75% of last year. And in November, we are again seeing a number of almost 85% of last year. So, Q3 should be around 80%, 85% of last year if December goes well, if we continue the same trend that we're seeing now. We are seeing the footfall coming back to the stores and sales normalizing. So if December continues to be at the same trend that we're seeing now, Q3 should be at least 85% of last year.

V.P. Rajesh: Okay. And then there was another inventory write-down in Q2. So could you just give some color on that?

Akash Agarwal: So it's not an inventory write-down, it's an extra provision that we have taken because our stores were shut for almost four months, and the inventory that is kept at store, we believe that it won't be able to sell at full price. So we took that extra provision in terms of you can say a COVID impact because a lot of that inventory we will have to sell at a particular discount. So we took an extra provision of around ₹ 5 crores, in addition to the 1% that we take, usually.

Moderator: Thank you. The next question is from the line of Varun Singh from IDBI Capital. Please go ahead.

Varun Singh: Akash, just wanted to understand regarding this convenience driven shopping, which has picked up very, very significantly after COVID. So now that almost all the companies, including Google, Amazon, Facebook, they have started, they have already rolled out this vernacular language, so now people can other region in Hindi or Bengali or all different regional languages. At the same time, we are seeing a very obvious trend that even globally as well as in India, all apparel retailing companies are becoming obsessive about omni channel. So they are trying to target all, they are saying that they will treat all their store as a distribution center, and hence, the distribution timing will be shorter for customers, so therefore trying to supply even higher convenience, so cutting short the supply chain of distribution. And also, you mentioned that in V2 also we are trying to target this omni channel and stuff. But if you can throw some light in terms of the set of customers that we are targeting. I understand that the lower end of population might not be too much the credit card savvy, but at the same time we are seeing so much of Google UPI-driven a revolution which is being created. So you don't even need to have a credit card or anything else a simple bank account, debit card should be more than enough and even cash on delivery all such stuffs have been provided to customers. So, how do you look up to this opportunity as such, do you think that for your set of customers, it is not so relevant or you are also trying to be too aggressive and obsessive about omni channel play?

Akash Agarwal: Yes. So you're right about vernacular languages, and we are also midst of developing our own app, which will support multiple languages and also voice search, because voice search is going to be the next big thing and as you said, omni channel is going to give us two advantages. It also reduces the lead time of the product reaching the customer as well as it reduces the logistics cost. So that increases the profitability and the cost of acquiring the good for the customer. So we will be launching the omni channel like currently, we are fulfilling all our online orders from our central warehouse. But we have started a pilot in a few of our stores for our omni channel capability. And from Q4 onwards, we will have all our store inventory also live on our e-commerce platform. So yes, we are betting on it, and we want to be present in the space because we want to be a product company and as long as our product is selling whether offline or online, it's just an additional channel for sales for us. So we are focusing on omni channel, focusing on our own website, focusing on making our own app. And as I said, going forward, we want our online sales to contribute almost 10% of our sales.

Varun Singh: Of course, definitely but Akash, if you can throw some light in terms of if you are shifting the point of distribution from a central warehouse to store level, that will demand a different kind of cost structure altogether. So, if you can throw some light on that front, that how are you, how should that look like for us as a company instead of asking some third party to do sell-out for us. We will have to deal that entire distribution part of the product. So how are you looking up to that part?

Akash Agarwal: The costs won't really change for us a lot because, currently also in all our stores, we work on a store warehouse model. So in the store itself, we have a store warehouse, and we have a store display area. So we have our whole warehouse team at each of our stores. So in the same hierarchy, only we are planning to integrate the e-commerce omni channel orders. And when the omni channel orders increase multi folds, then obviously the sales that we are getting from the omni channel orders will justify the additional cost.

Varun Singh: No, what I wanted to understand is you will have to set a different team altogether to cater to this new stream of demand, which is coming to you. So there must be a different person who will be going to deliver stock to customers and a different person who will need to take a stock that where are we getting orders from?

Akash Agarwal: The last mile delivery is taken care of by logistic partners. So we have tied up with multiple logistics partners, so the last mile delivery is taken care by them and what you're saying about stock and order fulfillment and everything is done by technology. So, as I said it all depends on the number of orders. And if the number of orders are coming in huge volumes, then obviously the additional cost will be justified by the added sales because the sale of that particular store would increase. So, I don't see it as a challenge we would start omni channel and we would increase the operational capability according to the volumes that we get, because there is no additional activity, there's just activity of packing the order and sending it to the customer. So the last mile delivery is taken care of by the logistic partner and all the other costs are variable.

Varun Singh: And this system of network will be much more cost efficient compared to what Flipkart of the world is already doing. A central distribution network versus 100% decentralized model wherein all our stores are being treated as a distribution center. So what you're reading on that, will be in terms of cost, more competitive than Flipkart or Amazon kind of companies?

Akash Agarwal: So, I wouldn't comment on the comparison between Flipkart and us because they're also doing huge volumes, and they're getting benefits from economy of scale. And they also have a decentralized model where they have regional warehouses and hub-and-spoke models. But it will definitely be much lower than the cost that we are incurring today. We are fulfilling it directly from the warehouse. So our costs will definitely reduce if we use the store distribution model to fulfill the orders.

Varun Singh: That's very helpful and just one last question, Akash with regards to our mainstream business, how do you draw the strategic canvass for our business, how do you think that a customer should look or if I put it the other way around, when we talk to other apparel retailing companies and are asking them that what kind of rights to win are you creating in your categories, why do you think that customer should come to you. One common reply that we get from almost every 100% of them is, everyone says that we are different. So, customer comes to us for a better they love our design or they, so there's a point of difference that they're trying to differentiate their product portfolio. And other than this, I could not find any other great difference in terms of price, value equation, et cetera, that companies are trying to offer. Obviously, company which has got higher costs so they have to live with the relatively inferior quality products with high price, et cetera, et cetera. But otherwise, we see that the differentiation is in the merchandise that is being offered to customers. But in case of V2 retail or VMart or this low ASP segment, how do you draw the strategic canvass for our company, V2 Retail, for next after 10 years, after 20 years, how do you see the company evolving?

Akash Agarwal: So if you talk about the next 10 years, we want to be a 100% private label company. So we want to promote our private labels, and all the products in our stores will be in our private label and second, we want to work on a cost to MRP multiple of 1.65 to 1.7, which is lowest across any industry in terms of fashion. So like you said, if four people are working on a similar margin structure, then the major differentiation that you can create with your competitors by offering a different merchandise or some sort of product differentiation. Because ultimately, no matter if you talk about visual merchandising, if you talk about customer experience, if you talk about loyalty program, the biggest weightage we have to give is to the product. So when you're saying that most of the companies say that our product is different, so that is what will actually create a competitive advantage where we can say maybe in 5 to 10 years that we are better than, at least 30% to 40% better than any of our closest competitors. So the major owners of that goes to product and the merchandise offering, which also includes getting the right product available at the right time. So that also includes the supply chain of it, the timing of it, and obviously, quality, color, design. So, I don't know where I dropped. So, I was answering the last question about the next 10 years, the direction of the brand.

Varun Singh: Right.

Akash Agarwal: Yes. So basically, I was saying we are focusing on the products. The whole owners of creating that competitive advantages goes on the product. So the product includes quality, color, design, and it includes a robust supply chain structure about which is about getting the right product, at the right place, at the right time. And it's all about the ballooning India's middle class. So everyone knows the latest fashion now because of internet penetration, and everyone aspires to look good. So we want to be a brand where anyone thinks that fashion is affordable to them now. So it's not a big dent on their pocket to look good. So we want to relate to the consumer in such a way that he knows that if he goes to V2, he can look good, he can get the latest fashion, and he can get it at the best price possible like anywhere in the country. So you can say what Primark does in Europe. We want to replicate that model in India. So you can see that is the brand strategy going forward.

Moderator: Thank you. The next question is from the line of Manan Shah from Moneybee. Please go ahead.

Manan Shah: Sir, could you just help us how has the employee headcount moved and should this rationalize now or should it come back to our previous levels?

Akash Agarwal: Are you talking about employee costs?

Manan Shah: Yes, employee headcount and employee cost, yes.

Akash Agarwal: It should come back to the pre COVID levels. So our front-end employee cost is around ₹35 per square feet and like the headcount will also come back to normal because we did lay off a few people because we were not getting the sales number that we used to get pre-COVID. But now as our sales are normalizing, the hierarchy is also normalizing and we are hiring people again and the employee cost will go back to pre-COVID numbers.

Manan Shah: Okay. And my next question is on our own manufacturing. You mentioned you want to scale it up to around 20%. So how does this benefit the business as a whole that is outsourcing it and how does, wouldn't this like put strain on our working capital requirements?

Akash Agarwal: So like I said, it is giving us a cost benefit of around 10% even before we started our manufacturing unit, we used to outsource a lot of our production to job workers and the kind of cost that we are seeing now is still much better than what we used to achieve by outsourcing to them. So you can say this is a model unit or a model factory to achieve the maximum efficiency so that in future, when we are dealing with other factories, we can show them the kind of productivity and the kind of costing that we are getting to achieve better costing.

Manan Shah: So we would not be investing more in this own manufacturing, right?

Akash Agarwal: Right now, the capital of ₹15 crores should be enough going forward.

Manan Shah: Okay and how are we driving traffic to our online website, like are we giving any discounts or something like how are we trying to increase the traffic on the website and is our website online and all the cities where we have a store or like if you can give some percentage of whether we are present in 30%, 40%, 50%, 60% of cities where we are present?

Akash Agarwal: So we are present in all the cities or most of the pin codes we are delivering already for our online website. And the orders that we're getting from our city stores is around 15%, 20%. So the orders that we get from the same city where we are already present at stores is almost 15% to 20% of our total online business. And the traffic that we are driving to our website is a combination of digital marketing, that is ads done on Google, Facebook, as well as some ATL, BTL ads that we go do for our off-line stores. So we put the online ad with it because it's the benefit of omni channel that we can give same communication for both the channels. So that's how we are driving the traffic currently, but we are seeing a lot of repeat customers so at least almost 30%, 35% of our sales online is from our repeat customers. And we've got very good reviews and ratings for all the delivered products. So, it's a good sign going forward.

Manan Shah: And my last question was that is it possible for our company or rather this industry to operate at a lower inventory day like different operates at around 60 days. So along with value fashion, is its possible fast fashion also to operate somewhere around 60 days of inventory?

Akash Agarwal: That will only be possible if we are able to increase the per square feet sales to ₹1,100, ₹1200 per square feet, because the capacity of inventory that we can keep in the store remains the same, whether you're doing a ₹700 square feet of sale or whether you're doing a ₹1,400 square feet of sales. So the only way we will be able to further reduce inventories if we are able to increase the per square feet sales because then what we are able to do is, we are able to do more turns of inventory in a particular year.

Moderator: Thank you. The next question is from the line of Ram Prakash, an Investor. Please go ahead.

Ram Prakash: I, second time joined back because some questions, which I had, in fact I see that the sales of the company varies based on the season. So the Diwali, and for the rest of the season, it's not that good. But it should, but it's also not profitable it's like if it's not Diwali, if it's off season, then you may not make that much of sales, but certainly the company can turn profitable there. Is there any strategy to handle that part of the business operations?

Akash Agarwal: Sorry. I didn't understand your question.

Ram Prakash: See, your company's quarterly sales are only profitable during the seasonal Diwali season or Christmas or Dussehra and rest of the seasons, it's not profitable, either zero or making just negative profit or just breaking even. Is there any way, any strategy by which we can return profitable there also, offseason also?

Akash Agarwal: No, but if you look at historically Q1 is one of the best quarters for us because the main summer season and the wedding season happened during March, April, May, June. So, Q1 and Q3 historically are very good for us and Q2 and Q4 are usually breakeven quarters for us. So it all depends on the festive shift and when the festival happens.

Ram Prakash: So off-season also can be turned profitable is the question, because even if there is no festival, is there any way the company can turn profitable there because they're just breaking even?

Akash Agarwal: Yes. So the only reason, the only way we are able to turn profitable during off-season is to get higher sales that we are achieving right now, that is the only way we'll be able to achieve profitability.

Ram Prakash: Okay. And is there any strategy for that, any planned strategy for that?

Akash Agarwal: Yes. So in off-season, in few of our stores where we have extra area, so we are introducing FMCG products as well as non-apps products. So that really helps us during the off-season when the apparel itself can't give us enough footfalls to get a breakeven. So we are implementing those kinds of strategies to tackle with the lower sales during off-seasons.

Ram Prakash: Okay. And is there any long-term strategy there like this is how we plan to tackle in the long future also, off-season we always do this. So we can have parallel kind of product sellers and what we are already selling in which it has a long-term strategy?

Akash Agarwal: But as I said, like if we get an SSG single-digit high number, then during the Q2 and Q4 also, we can see a little bit of EBITDA. So it's all about increase in sales.

Moderator: Thank you. The next question is from the line of Vivek Bansal from FRL. Please go ahead.

Vivek Bansal: So as you mentioned that we will be opening around 20, 25 stores in the next 1.5 years. So what would be the CAPEX plan for the same, so we are planning to fund it through internal accruals or we want to take on some more leverage for that?

Akash Agarwal: No. We will be funding through our internal accruals. So CAPEX for each store is around ₹1.5 to ₹ 2 crores, which includes the inventory also. So, it will be easily funded with our internal accruals and the EBITDA that we'll be generating next year.

Vivek Bansal: So, how do you see the debt position moving over the next 1 - 1.5 years?

Akash Agarwal: So even in Q2, the debt was only ₹7 crores that we had used from our CC limit, which is also unutilized now. So we are zero debt right now and going forward also, in the 1 - 1.5 years, we'll be able to fund everything from our internal accruals. So we won't need any debt.

Vivek Bansal: And to move to a zero-debt position in the balance sheet?

Akash Agarwal: Yes.

Vivek Bansal: Okay. A couple of more questions, like I was just looking at the investor presentation. So what would be the shrinkage and damage percentage that we have incurred in the current year H1?

Akash Agarwal: So the physical accounting is still going on because in the first quarter, we weren't able to do the physical accounting because of the lockdown restrictions. But historically, we have always taken a provision of 1% for shrinkages and damages. And whenever we get the physical verification done, it comes to around 0.8%, 0.9%, so which is well within the provision that we already account for in our results.

Vivek Bansal: And you expect the similar trend of 0.8% to 1% for this year as well?

Akash Agarwal: Yes.

Vivek Bansal: Okay. And one last question, Akash, what would be our sales mix from the non-apparel products, like merchandise and foods?

Akash Agarwal: So currently, it's only 6%, but it might increase to 10% as we are introducing a lot of new categories in few of our stores.

Vivek Bansal: So we are introducing across all the stores or we have selected some stores to?

Akash Agarwal: We have selected some stores, which has extra area and where there is a demand for such products.

Moderator: Thank you. The next question is from the line of Anish Jobalia from Banyan Capital Advisors. Please go ahead.

Anish Jobalia: Our payables have moved down by around 30 odd crores. So what is our strategy going to be forward in terms of payables, now we make early payments of our vendors so that they are more happy with us and give us more favorable terms and more better products or should we were back to the earlier payment levels going forward?

Akash Agarwal: Yes. So we had some extra cash on our books, and we wanted to help our vendors during these challenging times. So we did a lot of prepayment of around ₹30 crores,

₹40 crores of creditors. Because as you said, to be on their good book and to get favorable conditions in the future and also get uninterrupted supply from them going forward. So, we wanted to help them in a good way, and we paid a lot of them off and that's why you see a reduce in creditor. But on an average, the average credit days for us is almost 45 days.

Anish Jobalia: So after COVID, is this a new normal or we again go back to pre COVID levels, the trend is that is seen in the industry is that people are looking to pay their vendors more faster so that they get a loyal vendor base, which is one of the areas where one can develop a competitive advantage so, just wanted to understand what is going to be a strategy in terms of developing a strong vendor network going forward, this could have been one but anything else that you want to add?

Akash Agarwal: So, we are already one of the best pay masters in our industry and our average credit days of 45 days is very good and we are looking to continue that going forward.

Anish Jobalia: Okay. And in terms of cash levels, we have almost come down to less than 30 odd crores. So do we need to take any debt to fund our existing operations early not the future CAPEX, but going in H2 do we look to become positive cash flow from operations?

Akash Agarwal: No, we won't be able to, we won't need any debt because the rest half of the year we will be EBITDA positive and it will cover the EBITDA negative that we had in the first half of the year. So, that should be enough for the operational cash flow requirement and the EBITDA that we will generate next year will be enough for the expansion plans that we have. So there will be no requirement of that.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Akash Agarwal for closing comments.

Akash Agarwal: Thank you, everyone, for joining the call. I hope we've been able to answer your queries and I just want to make a clarification about FY22. I said the targets per square feet sales that we are targeting is around ₹750 per square feet, which will give us an EBITDA margin of about 9% to 10%. And I said 11% to 12%, but it's 9% to 10%. And for any other information, we request you to get in touch with Marathon Capital, our Investor Relations Advisor. Thank you, and wish you guys a Happy Diwali, stay safe and stay healthy. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of V2 Retail Limited, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.