“V2 Retail Limited. Q2 & H1 FY22 Earnings Conference Call”

November 12, 2021

MARATHON CAPITAL

C H O R U S C A L L®

MANAGEMENT: MR. AKASH AGARWAL- WHOLE TIME DIRECTOR & CFO
MR. MANSHU TANDON – CHIEF EXECUTIVE OFFICER

Moderator: Ladies and gentleman good day and welcome to V2 Retail Limited Q2 & H1 FY22 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. Akash Agarwal thank you and over to you sir.

Akash Agarwal: Good afternoon, everyone a very warm welcome to our quarter 2 earnings conference call, I hope you all are staying safe and healthy through this unusual and challenging times. Along with me, I have Mr. Manshu Tandon – our CEO and our Investor Relations team. I hope everyone has had an opportunity to look at our results. The presentation and press releases have been uploaded on the stock exchange on our company's website. Let me start with the key updates.

The company opened three new stores during the second quarter, the company has opened one new store during the third quarter, which is the ongoing quarter. As on September 30th 2021, the company operates 96 stores spread across 15 states and 84 cities with a total area of 10.1 lakh square feet. The same stores sales growth for the quarter 2 stood at 59%. We continue to remain focused and committed to the accelerated store expansion strategy despite delays in the first half of FY22 due to lockdown. So, we are looking to open another 5-6 stores till the end of this financial year. At V2 with our strong customer connect we have witnessed strong rebound in the demand post relaxations of restrictions in quarter 2, the recovery has been much sharper with the onset of festive season, starting in quarter 3.

Now, allow me to give you an overview of our operational performance during the quarter. First I will talk about the consolidated performance for the 2nd quarter. The revenue from operations stood at Rs. 149.5 crore registering a growth of 76% year on year basis. Gross margins stood at 34.3% compared to 32.6% last year, the stores were operational on an average for 86% days compared to 45% days last year, compared to 45% for quarter 1, FY22. EBITDA for the quarter stood at Rs.19.5 crore as compared to Rs. 9.7 crore in quarter 2 last year. EBITDA margins stood at 13.4% compared to 11.4% last year.

Now, I will talk about the standalone performance for the 2nd quarter FY22, revenue from operations stood at Rs. 149.5 crore registering a growth of 76% from last year, gross margins stood at 30.8% compared to 31.8% last year. EBITDA for the quarter stood at Rs. 16.5 crore as compared to Rs. 9.5 crore in quarter 2 of FY21. EBITDA margins stood at 11.1% this year in quarter 2 as compared to 11.2% for the corresponding period last year.

Now the consolidated performance highlights for the first half of the year. Revenue from operations for the first half of FY22, stood at Rs. 232 crore registering a growth of 90% from the 1st half of FY21. Gross margins stood at 33.7% compared to 32% for the 1st half compared to last year. EBITDA for the first half stood at Rs. 29.5 crore compared to Rs. 17.1 crore in the first half last year, registering a growth of 73%. EBITDA margins stood at 12.7% for the first half of this year. The profit after tax loss for first half FY22 stood at Rs. 15.4 crore as compared to a loss of Rs. 16.2 crore in the first half FY21.

Now the standalone performance for the first half of the year. Revenue from operations stood at Rs. 232 crore, registering a growth of 90% compared to last year. Gross margins stood at 31.1% for the first 6 months as compared to 31.1% for the corresponding period last year. EBITDA for the first half of the year stood at Rs. 27 crore compared to Rs. 17 crore, registering a growth of 63% and EBITDA margin stood at 11.7% for the first 6 months of this year. The quarter began with gradual recovery from COVID-19 second wave with relaxed mobility restrictions and aggressive vaccination drive across the nation, sharply changing the consumer sentiments. Retail channels operations saw a rapid growth in demand as the national infection cape load came down. This led to a strong recovery in demand with sales moving swiftly close to pre pandemic levels in August and September. All the stores are now fully operational, with overall store operation days at 86% for the quarter. Our customers continue to increasingly leverage the convenience of our digital platform with the online channel. As we speak today, our festive sales have been extremely reassuring and we are having a very positive outlook for our Q3 results onwards. Now I leave the floor open for 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 Priyanka Trivedi from Antique Stock Broking. Please go ahead.

Priyanka Trivedi: My first question would be on what would be your CAPEX guidance for the year?

Akash Agarwal: So, we are planning to open another 5-6 stores, so I think for that we need about Rs. 7-8 crore CAPEX.

Priyanka Trivedi: Okay and my second question would be on your outlook on margins and future sales in terms of the, there is a proposed GST hike from 5% to 12% from January onwards and additionally there has been a hike in the raw material prices of cotton and yarn, so how do you see the margins going ahead and how much percentage of our inventory would be in the __07:30 thousand range?

Akash Agarwal: Yes, so the rise in the cost price of the raw materials is across the industry for across all the players, so I think instead of absorbing it in our gross margins, what essentially will happen is, that the price would go up. So, I think for the end consumer they will have to end up paying maybe a marginally extra cost for the tax hike, as well as the rise in cost of the raw materials.

So, going forward right now our manufacturing unit sales contributes about 20% of our business and we are looking to increase it up to almost 50% for the next year, so I think with that in mind we are targeting a gross margin of around 34% - 35% for FY23, even with the cost pressures.

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

Amit Porwal: First of all, congratulations on good set of numbers in a decent recovery. My question is on the number of stores addition planned for '23 and '24. Do we still maintain the guidance of around 15% - 20% increase every year?

Akash Agarwal: Yes, so for the next 3 years what we are forecasting is about 25% sales growth every year and out of that 25%, 20% will come from new store addition and we are targeting a 5% of same store sale growth. So, going forward, so we have about 10.2 lakh square feet operational right now, so by the end of the year it should be 10.5-10.6 lakh square feet, so we will add another 20%, so that will be about 2 lakh square feet new, so we should be around 15-20 stores.

Moderator: Thank you. The next question is from the line of Vinod Gandhi from Vinod Gandhi Investments. Please go ahead.

Vinod Gandhi: Hello. What is the approximate sales target for quarter 3 in financial year 21 - 22?

Akash Agarwal: So, I will not be able to comment on the sales figures that we expect but the second half of the sales should be very similar to the second half last year.

Vinod Gandhi: But in terms of this quarter, I would say there are the, in terms of the weddings and everything and most of the country opening up, will it be a higher target than the previous year?

Akash Agarwal: So, internal targets are definitely higher and till now we are seeing a good demand and we have a very positive outlook but like it is very hard to predict what happens going forward.

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

Ankit Babel: Akash a few questions, first of all can you throw some more light on your targeted gross margins of around 35% in FY23, I mean what would lead to these margins and any risk to these margins in the coming year?

Akash Agarwal: Yes, so as I said currently 20% of our sale is; contribution for our manufacturing unit sales is only 20% and every month we are increasing the manufacturing capacity and so going forward

I think next year, the manufacturing unit should contribute at least 40% to the total sales and in those 40% we will have an extra margin of about 7% - 8%, so that will help us increase the gross margin from 31% - 32% right now to 34% - 35% next year, that will be the major contributor.

Ankit Babel: So, you would like to retain those extra margins or you would like to pass it on to the customers?

Akash Agarwal: So, we are getting a benefit like, if we compare the price of cost of manufacturing to the procurement cost that we get from vendors, the total benefit is about 15% because that is the kind of margin that our vendors keep. So, out of which, we will pass on maybe 7% to the consumer and the rest 8% will be absorbed into our gross margins.

Ankit Babel: Okay, then my second question is that, what kind of sales per square feet you are targeting in the coming two quarters and next year, what are your targets?

Akash Agarwal: So, for FY23 we are targeting a sales per square feet of Rs. 725; per square feet per month.

Ankit Babel: On an average.

Akash Agarwal: Yes.

Ankit Babel: Okay, and approximately cost per square feet would range to what levels?

Akash Agarwal: The cost per square feet would range from Rs. 165 to Rs. 170 per square feet.

Ankit Babel: Okay, and my another question is, that you have a debt of around Rs. 50 crore on the balance sheet, usually your balance sheets are debt free historically. So, can you just throw some light on where do you see your debt at the end of this year, next year, whatever time period you are comfortable with?

Akash Agarwal: Yes, so we have a credit limit of about Rs. 50 crore and by the end of this year, I think we will be able to reduce the limit used by around Rs. 20 crore, Rs. 25 crore and by the end of next year, we will again be debt free because we did not want to delay the payments done to our vendors, so we paid most of our vendors even during Covid times, so we had to use the credit limit.

Ankit Babel: Okay, and this Rs. 725 per square feet, what you are targeting, I mean can you again throw some light on, do you see that ongoing demand tailwinds to take this per square feet to those levels or something internally also you people are doing to push it towards that level?

Akash Agarwal: So, like I said, in the third quarter also, looking at the October and the ongoing November, I think we were very close to pre-Covid levels and going forward we are expecting numbers to be better than pre-Covid. So, I think pre-Covid, the last financial year our PSF for the open stores that we have right now, was around Rs. 700, so we are only taking a 4% growth on that and we are expecting the new stores to at least have the same PSF as the company average, so that is the ideology behind predicting a Rs. 725 per square feet sales for next year and you are talking about the steps that we are taking, the biggest contribution like I always said, was product and if we increase the product contribution that are designed in-house from 20 to 40, so I think that should be the biggest differentiator because in that the customer is getting a much superior product as well as at a better price than most of our competitors because we are able to manufacture it ourselves and save on the cost.

Ankit Babel: Okay, and my last question is on the inventory days. My understanding that FY22 we have a lockdown impact in the first quarter and it would not be good to see the inventory in number of days terms but what are your ultimate targets to bring the inventory days to, say by in FY23?

Akash Agarwal: Yes, so going forward inventory days should hover between anywhere between 90 days to 100 days and it should be around Rs. 2100 to Rs. 2200 per square feet. So, if we have 10.1 lakh square feet, the ideal inventory value should be around Rs. 225 crore to Rs. 230 crore. so we are I think we ...

Ankit Babel: Currently it is Rs. 300 crore.

Akash Agarwal: Yes, so we will be able to rationalize it in the next six months because what happened was, we had to carry inventory due to the second wave and we had to stock for the festive and the winter seasons because we could not use that summer inventory for the festive season. So, now going forward, like I think in the next six months, it will be rationalized. Even in Q3, it will be rationalized a lot, which you will see after Q3.

Ankit Babel: No but again you have a, you know new stores opening plans which would be there in say, in the month of March or April, so you know, when you say around Rs. 2100, so I understand it is difficult to take a call as on a particular point of day, like 31st March but basically, if you end the year at round 10.6 lakh square feet, so ideally your inventory should be in the range of Rs. 220 crore to Rs. 230 crore, so is it a right number which we should look at in the, say by the end of this year?

Akash Agarwal: But I am not talking about consolidated inventory, I am talking about standalone, so the V2 has inventory, will be added to this inventory.

Ankit Babel: Okay and what would be that, at additional inventory V2 is?

Akash Agarwal: That should be about Rs. 30 crore.

Ankit Babel: Yes, so basically Rs. 250 crore is what you are targeting in the number at ..

Akash Agarwal: Including subsidiary.

Ankit Babel: Okay, so a Rs. 50 crore reduction in inventory plus whatever cashflows which would be there, why you still feel that you would not be debt free by the end of this year?

Akash Agarwal: Because we are planning to open 25 stores next year and we are going to open bulk of those stores in the month of March, April, May so that we get most of the festive sales.

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

Anish Jobalia: Yes, hi Akash and the team congratulations for a good comeback quarter in the light of the receding impact of Covid. So, I have the following questions; one is, before the second wave happened, we were targeting close to Rs. 1000 crore sales and 9% to 10% pre-IndAS EBITDA but then this target has got postponed. So, now with our strategy of virtue further, increasing the gross margins, can you share what kind of targets do you have for FY23, can we do better than that or what we were earlier envisaging?

Akash Agarwal: Yes, so you know, because of Covid what has essentially happened is that the target has moved from FY22 to FY23 because in FY24 also, we were expecting our manufacturing contribution to increase but due to Covid we did not accelerate that process. So, I think for FY23, our guidance is the same, we should do anywhere between a Rs. 1000 crore to Rs. 1100 crore of turnover with a pre-IndAS, EBITDA margin of 9% to 10%. So, we are targeting a Rs. 100 crore EBITDA for the next year, pre- IndAS.

Anish Jobalia: So, sir but when we were speaking earlier, our gross margin targets used to be 31% or 32%, but now we are speaking of 34%, 35% so would we not be expecting a higher margins or is there something that I am missing, that is my follow-up question? Thanks for the opportunity again, so my question Akash is that, when you were guiding for 9% to 10% earlier, so that time our I think gross margin targets were close to 31%, 32%, now with the increased target in around gross margins, would not we be able to do better margins, say in the next year or is there something that is not having?

Akash Agarwal: Yes, you are correct because our earlier guidance, the per square feet sales that we were forecasting was around Rs. 750 to Rs. 775 per square feet, so if we got that prices down to Rs. 725 to tell our investors but our internal targets are higher than those. So, your question is correct, because earlier the gross margins projection was around 32% but the sales per square feet projection was Rs. 750 to Rs. 770 per square feet but now we made a sales per square feet target of Rs. 725 per square feet, that gives us a sale of about Rs. 1000 crore, Rs. 1050 crore for next year.

Anish Jobalia: And second question is, in terms of getting our revenues from our own manufacturing subsidiary, so this product would be like a private label product. So, in terms of the acceptability by the customers, are there any challenges or can you speak a bit about you know the response that you have already seen, whether it is that kind of surprising on the positive side and that is why you are looking to increase the products from your own manufacturing subsidiary?

Akash Agarwal: Yes, so looking at the data, what we have seen essentially is, almost 75% of the products that we are making, has a better sell through than the product in the same range from our vendors. So, it has been a very positive result, that is why we are looking to increase the percentage of this, because all these products are exclusive products because we also get private labels from our vendors but those are not exclusive designs that are exclusive to our stores but now what we are manufacturing ourselves are designs that are exclusive to our stores. So, I think it has really helped us in connecting more with our customers and that is why we are looking to increase it even further, gradually.

Anish Jobalia: Okay, that is fantastic and if I can just ask one more. So, in terms of our consumer sentiments, I believe like our stores are more around the tier 3, tier 4 towns where the impact of the Covid has been I think higher than the other tier1, tier 2, so how is this translating to our business let us say, versus competition which has got more number of stores in the tier 1 towns. So, in general, can you speak a bit about the recovery for us from the consumer sentiment's perspective? Thank you.

Akash Agarwal: Yes, so I would disagree on one point there I think that tier 3, tier 4 were the least affected. I think the main metropolitan cities were more affected. Like if you go to the smaller towns, I think it has been one year since people forgot about Covid in most of the cities that we operate in. So, I feel the recovery for us will be much quicker than the players prominently who have stores in tier 1, tier 2 and we have already seen that happening and like even July and August were almost 90% of pre-Covid levels and we are seeing almost the pre-Covid levels for October and November. So, this is very promising and I think people have started stepping out of their homes more, they have been tired of being at home for the last two years and having lockdowns.

So, that is the worldwide trend and I think, we have a very powerful positive outlook because the number of weddings is also I think, a record number of weddings in the next 30 days and going forward in the summer and I think this trend should continue and the sales will be better than pre-Covid levels.

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

Amit Porwal: Hi Akash, one question is on the, our stores are mostly located in North and East, so are we planning, like one of our competitors has acquired certain stores in the South part of the country. So, are we looking to broad base our stores in South and West, that is question one?

Akash Agarwal: Yes, so I think for the next three to four years, the number of new stores that we are targeting, we can easily open them in the existing clusters that we operate in because we opened a few stores in the South and we realized that the assortment is very different there, so we do not have that bandwidth in our sourcing team where we can source from three different regions because the whole assortment changes, so I feel for the next 3-4 years we want to focus in the existing clusters that we are very strong in which is Bihar, Orissa, Jharkhand, the north east, so I think we have enough potential and enough district that we have not covered yet to actually cover the number of new stores target for the next 3-4 years, but after that once we feel we have saturated the existing markets, then we will look towards the South and the West.

Amit Porwal: Okay, next question is on the warehouse capacity, so how much stores can the current warehouse address?

Akash Agarwal: Yes, so we just moved into this new warehouse I think last year and we have planned the capacity till FY24, so it can easily service our still a turnover of I think Rs. 1600-1700 crore.

Amit Porwal: Okay thank you. The next question was on the rank, now with COVID stabilizing or a little behind us and the real estate seeing a pop, do we see the rental for our new stores going up?

Akash Agarwal: I think it should stay at the similar levels that we have right now which is Rs. 44 per square feet, I think the average would be the same for new stores.

Amit Porwal: Okay and the last question, what would be the CAPEX for FY23, absolute number, assuming that we are opening around 20 stores?

Akash Agarwal: So, the number would be around Rs. 25 crore.

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

Ankit Babel: Akash a couple of more question, first is what was your e-commerce sales in Q2 and what are you expecting it to be in the full year of FY22 and FY23?

Akash Agarwal: Yes, for Q2, the e-commerce sales was around Rs. 4 crore and for the first half of the year it was around Rs. 16 crore and we are looking to close the year with around Rs. 24 crore of e-commerce sales.

Ankit Babel: So, why is it declining sequentially?

Akash Agarwal: Because we are changing the technology partner. So, we are implementing omnichannel, so we are not doing delivery from stores as of now, so we are doing that implementation, so that is why we have reduced the ad-spend and we want to first take that system live and then we will accelerate on this e-commerce sales again.

Ankit Babel: How much time will it take?

Akash Agarwal: I think it should take another 45 days.

Ankit Babel: Okay so by the end of this quarter, you will be up with a new technology partner.

Akash Agarwal: Yes.

Ankit Babel: So, next year what are your targets then in e-commerce?

Akash Agarwal: Next year our target is anywhere between 5% - 10% of sales, it all depends on the traction, so you can say Rs. 50-100 crore of sales but we do not want to burn cash, so it all depends what is the marketing, ROAS and what is the kind of return and how our ads are doing and what is the organic traffic. So, it will depend on the business performance.

Ankit Babel: Yes, actually my next question was that only. That if you achieve say Rs. 50-70 crore of sales, will you make money, will you lose money, cash, non-cash, how the profitability would be?

Akash Agarwal: I think we would say the EBITDA would be maybe -1% to -2% that is it, for the e-commerce business.

Ankit Babel: Okay and these sales would be in addition to what you have guided of Rs. 1000-1050 crore offline sales.

Akash Agarwal: Yes.

Ankit Babel: And you also mentioned that for next 3-4 years you will focus on the existing clusters only as you see a huge potential here, so can you throw some light on the store potential in the next 3-4 years in these clusters for V2?

Akash Agarwal: So, like you know we have already identified about 90 locations that we are not present in, in the existing clusters and 90 different districts where we can open stores. And there are some districts in those 90, where we can have 3, 4, 5 stores also. So, if you look at the next 4 years, we want to open I think around 120 stores and which can be easily covered by the already identified locations, in these existing clusters.

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

Amit Porwal: So, Akash, you are guiding for a substantial rise and revenue and as well as stores, in coming years. So, my question is on the bandwidth, are we looking at adding up in the team, what is the plan there?

Akash Agarwal: Yes, so you know the management team and the core committee that we have in our company, their biggest priority right now is, getting the right manpower. So, we just hired a new HR head and we have already given the LOR to our new CFO and our Retail operations head has joined from EasyDay and marketing head is also about to join in the next 15 days, so I think a lot of focus is given on recruitment and getting the right people because ultimately they are the ones who would take the company to the next levels. And like, me included and the whole management team, we are focusing a lot on recruitment and getting the right management personnel, experienced people.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Akash Agarwal for closing comments.

Akash Agarwal: Thank you everyone for joining the call. We hope we have been able to answer your query, stay safe. For any further information, we request you to get in touch with Marathon Capital, our Investor Relations Advisor, thank you and have a nice day.

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