



Ref. No. CS/S/L-670/2023-24

22th May, 2023

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Sub: Transcript of the Conference Call held on 18th May, 2023

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, and amendment thereof. In reference to our letter dated 15th May, 2023 (Ref. No. CS/S/L-661/2023-24) regarding the intimation of the conference call with Analysts and Investors held on 18th May, 2023, please find enclosed the transcript of the aforementioned conference call.

The above information is also available on the Company's website: www.vmart.co.in.

We request you to kindly take the above information on record.

Thanking You,

Yours Truly
For V-Mart Retail Limited

MEGHA TANDON
Digitally signed by
MEGHA TANDON
Date: 2023.05.22
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Encl: As above

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“V-Mart Retail Limited Q4 FY-23 Earnings Conference
Call”

May 18, 2023



MANAGEMENT: **MR. LALIT AGARWAL – MANAGING DIRECTOR, V-MART RETAIL LIMITED**
MR. ANAND AGARWAL – CFO, V-MART RETAIL LIMITED
Ms. SUCHI MUKHERJEE – CEO, LIMEROAD
MODERATOR: **MR. JAY GANDHI – HDFC SECURITIES**



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Moderator: Ladies and gentlemen, good day, and welcome to the Q4 FY23 Earnings Conference Call of V-Mart Retail Limited hosted by HDFC Securities.

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. Jay Gandhi from HDFC securities. Thank you and over to you.

Jay Gandhi: On behalf of HDFC Securities, I welcome everyone on the Earnings Call to Discuss the Q4 and FY23 Annual Results of V-Mart Retail. We thank V-Mart’s Management for having provided us with the opportunity to host the conference call.

On the call, we have with us Mr. Lalit Agarwal – Managing Director; V-Mart Retail, Mr. Anand Agarwal – Chief Financial Officer and Ms. Suchi Mukherjee – CEO LimeRoad.

With that I request Mr. Agarwal to provide his opening remarks and proceed with the conference call.

Lalit Agarwal: Good morning, Jay. Good morning, everyone. Thank you so much for being on the call. Definitely, the business has been quite a lot of going in retail, quite a lot of things are going in the industry, and quite a lot of things are going at V-Mart. We are quite occupied with a lot of good stuff. There's a lot of emotions which are getting generated and a lot of news which are going to come in.

So overall I think the way India has been growing is quite remarkable. We are seeing definitely lot of good potential view of the consumer market of the consumption in India, definitely the way our country is growing the way people are projecting about the future potential and looking at this particular year I think because of the elections, because of a lot of global turmoil which is what people are talking about. I think India has stood up very well, so at the hinterland level what we have seen, definitely people are coming back to their normal routine. People are back into speaking positive about the businesses, about their smaller activities, having a little more higher confidence on the kind of job that they can get. People who can really work on certain particular jobs are looking at growth because in smaller cities even in places like Uttar Pradesh, Lucknow and all we are hearing people are little motivated by the industrial development by the upcoming of certain industries in the state and the approach that the state governments are taking.

We definitely feel there's a lot going on in a lot of those states a lot of India states and there's a competition. This competition definitely brings in more confidence in the people. Infrastructure development is also giving a lot of confidence with the people. Till now agriculture produce has



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also been fairly good, people have been able to—the agri income dependent people have been—fairly okay on their income levels. Definitely there are pressures in the economy which is the lower strata of the economy which forms almost 70% of the population which we have been always speaking. This K graph economy which we have seen in the market is somewhere what I'm seeing is tapering down now, both from the steepness and the degree it used to have on the upper side as well as the lower side. On the upper side, yes, we saw this demand coming up in hotels, in flight tickets, in malls. A lot of those are now honeymoon period I call and the excitement, the revenge shopping, the revenge outing, the revenge tourism, they're all now coming back to normalization. We are starting to see that degree getting tapered a little bit. We are also starting to see the lower part of the K which is the lower strata of the economy where we were seeing people, consumers getting demotivated, and they were decreasing their consumption. We are seeing those consumptions coming back a little bit. That part is also getting tapered off.

Now some normalization, some neutralization has been seen and we hope that within next one or two quarters we will be able to see positive moves coming in from all the segments. That's how our analysis and our pieces say. There are definitely states which are doing very good. There are states which are still reeling under some pressure. I think there's also a transition phase which our country is going through from informal economy to a formal economy. A lot of that we can see in the GST collection pieces as well. It's not the business growth, which is coming in, it is also the formalization of economy which is happening. With the formalization there is a lot of benefits that we have numbers, we are seeing on the screen. But there is also a pressure which is getting created in the non-formal or informal economy which is people who used to who were not used to operate in this registration or taxation environment and informal environment. They are getting somewhere affected by this whole formalization. They feel themselves a little less confident. They are under some kind of pressure and threat on their businesses. Their businesses seem to be little down, even lesser corruption and even good framework of or implementation of most of the public distribution system and public distribution of those incentives. I think those formalization also has helped the economy, help the consumer where it is reaching them to the right consumer. But also, there were few mediocre and there were a lot of bicholia which used to work and then they have somewhere getting impacted all of those because of that. We have seen some part of pressure, higher part of pressure in Uttar Pradesh, Bihar. Bihar continues having that, even Uttar Pradesh continues having that because we have seen a lot of development coming in Uttar Pradesh. That's a territory that we are watching out. That's something that we are looking at because they are definitely building a lot of things for the future. But at the current moment there is a transition phase which is going on. I think that should take another year or 6 or 8 months so that we are able to come back on that. Rest I think most of the territories are behaving well, both towards the southern India, especially in east and northeast India, their comeback has been pretty good in this particular quarter. We have seen very good growth coming in even now from those particular areas and consumption coming back from those areas.



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The confidence level also of people in Northeast because of a lot of activities and interactivities the government have started has been very good.

I think overall we are seeing good. Even the industry has been quite stable now. There's definitely more intense number of concepts which are coming into this market, in the retail and the value retail concept. A lot of activity happening here, a lot of people opening up new stores, especially those conglomerates which we know and are targeting this market. There's definitely more supply in this market, in this value retail space in Tier-II, Tier-III towns compared to the earlier days of pre-COVID days. There is definitely a lot of mapping that we did over competition, understanding the competition. We saw a lot of new stores getting built up in the last 3 years and almost 50% to 60% additional number of stores got built by us as well as by the competitors. I think there is definitely more supply. The demand definitely did not grow as per expectation. There is a lot of potentiality in India, in Bharat we all believe, and we all talk about it. But in the last 2 years, 2.5 years if we see there's lot many things happening with those consumers. The demand has not picked up, it has remained muted or little low. That is where the additional supply which is getting received is not getting matched with the demand which is there. I think there is definitely right now a little higher supply. There's also economic pressure on the lower strata of the population. We see some relief coming every week, every month and I think that's the positive news.

Balance, I think at V-Mart we continue, we believe in the long-term story. We definitely believe what we are there for, what is our strength, where should we be focusing on. We believe that the game that we used to play 3 years, 4 years back is no more the game, it is definitely a little more tighter, it is little more competitive. We need to be potentially much more capable to meet the future need of the customer, future need of the market. That is how we have prepared ourselves. We are definitely preparing ourselves. We have extensively worked with our consultant, Kearney, for the last 15 months in clearly focusing on really creating a capable and scalable model on our procurement, on our planning, on our forecasting, on our digitalization of those inventory management. I think a lot of those work in understanding the consumer, having the business survey mindset, understanding the competition and then developing and creating certain internal capabilities in our organization with respect to the nomination fabric, sourcing, technical understanding, quality betterment. So, we used to always believe in all of this, we have always done those. In the kind of model that we are preparing this is something that is more scalable and that's what we are focusing on. So, there's a lot of transition and there's a lot of process transition also going on in the company. Those are all for good, but we are very hopeful that we will be able to better our offering, better our proposition to the customer, both from the product perspective as well as the experience perspective.

There are a lot of work that we had internally generated. There's still a lot of projects which are internally going on. We are working on more than 50 projects in the company. We are very confident on certain areas. Some part of the team members have also changed and new team



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members are also bringing in some benefit into the system. I think a lot of these things we will definitely continue. We believe in the long-term story. We believe that there are a lot of towns and cities where still the kind of stores that we open is required. There is a differentiation that we have with respect to the market, with respect to what the customer needs. There is no differentiation we are trying to create, unique differentiation we are trying to create over fashion, over styling, over quality so that we stand out in the market. There is definitely a lot of room for everyone to do business. There are supply happening from organized retailers as well as digital retailers and we have heard about the upsurge of the sales of Meesho or even Flipkart and Myntra. I think there is definitely a lot happening in that market. Lot of market share also has been taken by both the players. I think it is just the economy which moves up. We are all set, and we are all there and largely internally digitally also I think we have been focusing very high, both in the front-end side of the digital customer offerings. How do we motivate the customer to really have the convenient shopping experience, both at the online and as well as the shop offline. I think we have internally also brought in a lot of digitalization in terms of creating better processes, in terms of creating better perfection or better forecasting. Because ultimately this business is more also about forecasting, understanding the right assortment, understanding the right fashion, getting into the right timing with the right quantum and the right mindset. I think a lot of those work we are doing is definitely benefiting the company.

We continue with as a great employer. We definitely want to attract the best of the talent, retain best of the talent. These are tough times for the industry and for the market and we believe being a great employer definitely helps employees also be motivated in the system. We continue doing a lot of activities on those lines. Our integration with both Unlimited has been very good. Our integration with LimeRoad as well has been very supportive, very good. This is definitely a lot of change that we have seen, cultural change pieces that we have seen with both the organization, and we have definitely respected each other. We have really come down very well. Last 5 months has been good. Definitely there were a lot of hiccups that the business had earlier when we took over and I think Suchi has been playing an instrumental role. The team has been really working hard for the last 5-6 months to try and bring back the existing business on track, bring back the core business on track and then also integrate with the V-Mart team, integrate with this particular office and try and see how do we bring in the team effort in trying to take up the organization and take up the omnichannel approach. And that's what we are talking over. Definitely not too many things have happened on those lines till now. But yes, we have a lot of plans. We are working on those of things, whatever we have done till now. The way we have launched our V-Mart products on LimeRoad channel, the way the customers are getting excited on those and the way the teams at LimeRoad sees the opportunity, I'm quite excited and I believe that there could be a unique model proposition which can get created. And we are definitely here. We are investing for a long term we believe that the long-term story is just not going to be a brick and mortar or an online. It is definitely going to be a multichannel or omnichannel approach from the consumer side and which is going to remain and be there. For a sustainable retailer, for a retailer to sustain at a longer level every retailer has to definitely have a very strong digital arm



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and that's how V-Mart is preparing ourselves and we are investing in it with that business. We understand V-Mart has not been very eager to fund the loss-making businesses because every time even our stores create losses, we have always either shut down those businesses or slowed down those businesses. We definitely believe and we will definitely invest into those businesses, so that we believe in the long-term sustainability of retail and long-term sustainability of our business.

I think those are some of the great work that is happening in our company. Even in Unlimited pieces I think we had experimented few things. There are a lot of good things which have happened. There are still a lot of things that we believe should give a kick and give a response and we did not really get those kicks and got those response. We believe there is more communication needed in that market. Our new stores in those markets have really tried very well, especially certain states and certain store lines the Tier-III model in Unlimited or in southern India, there is a lot of potentiality, there is a lot of room there is a lot of virginity in that market that we can see and we would want to focus a little more higher on that. We are excited with that opportunity and we believe there is a lot of growth possible there. We are focusing a little more on those Tier-III markets in southern India.

We will be very focused on bringing down the losses in some of the stores which are not performing or closed down some stores if required, which we are not able to bring back. That's how we are picking it up. Definitely same store sales growth is very important. There is a pressure on the same store sales growth which is not coming. But yes, I think we are coming back on track. We have seen a good growth in the last year and the last quarter. We would want to, and we are seeing some healthy signs also in this current year. Definitely we are not expecting a lot of growth because there are some months in this current year according to Hindu calendar where weddings are not there or there are some months which "Adhik Maas" which will come in. We will have some almost a neutral first quarter and the second quarter we are expecting. We are expecting a lot of growth to come in from the third quarter and that's how we see into this market. I will definitely request Anand to take over from here, give you a brief about the numbers. There are definitely a lot of numbers bundle of questions that you would have. We would definitely want to answer all of this. Anand over to you.

Anand Agarwal:

Thank you Lalit and good evening, everybody. We have actually given a lot of information in this quarter's investor deck, so I will not take a lot of time but let me just take you some of the key highlights from the quarter and then I'll also ask Suchi to give us an overview on how LimeRoad is progressing.

On the quarter:

It has been a good quarter with sales growing at 30% year-on-year and for the full year we grew at 48% with the same store sales growth of 10% for the quarter and 23% for the full year. This year in fact was also our highest ever sales and in fact it was also 45% higher than our pre-



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COVID numbers of '19-20 at the overall level. For the quarter both V-Mart stores as well as Unlimited stores grew like to like, V-Mart at 11% and Unlimited at 4%. Tier-1 markets continue to outperform Tier-II, Tier-III, Tier-4 reinforcing the K graph recovery that we've been seeing. But as Lalit said yes there is some betterment which we are now starting to see in these smaller tier markets as well and particularly around Tier-III. There were good growth in footfalls as well as volumes. We strategically dropped our average selling prices by 5% during the quarter. It was a planned decrease in line with our strategy of attracting more footfalls by increasing the mix of lower-price products and also some strategic price reductions. As a result of the slight correction in pricing and tilting of the product mix towards more value offerings the gross margins for the quarter reduced to 32% while this is lower than the 35% what we achieved last year but definitely much higher than the average range of 28% to 29% that we used to have pre-COVID. The last year's margins are significantly higher due to the impact of higher price increase taken which has now been corrected.

On the expense side:

While the expenses have increased by 52%, they also include the full impact of the newly acquired LimeRoad business. The expenses for the quarter include an amount of roughly around 38 crores towards the spend on the entire online business, including the OPEX for both vmartretail.com and LimeRoad.com. Excluding the online business spend the expenses for the quarter grew by roughly around 23% which reflects very well with the overall sales increase. The major impact of the expenditure on the online business is in the marketing expense line which is at an overall level 1% and other expenses which include the technology costs, delivery and fulfillment costs for the online platform.

As I have mentioned in the past as well, the business revenue in LimeRoad consists only of the commission earned from sales facilitated for sellers while the expenses largely consist of marketing logistics and technology costs. On a go-forward basis we are very confident of establishing LimeRoad business as a very strong growth driver for the organization and remain committed to invest in the journey to reach sustainable and profitable destination. As a perspective Unlimited has also taken 1.5 years to come at full year profitability and we have similar project plans for turning around LimeRoad and Suchi is leading that. The good part is that the team is delivering very close to the monthly growth plans and whatever plans that we have started out.

Coming to EBITDA:

For the V-Mart core business EBITDA for the quarter came in at 7.5% with Unlimited at 11.9%. The Unlimited EBITDA does not include any cost allocation of head office expenses which usually averages somewhere around 4% and that is why it is showing a bit higher in comparison. But happy to share that Unlimited business is growing strongly, profitably and helps us achieve good EBITDA at even 20% to 25% lower sales per square feet. That's the strong growth that has



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happened in the last 1.5 years to control the expenditure, to improve the sales per square feet marginally and the results are for us to see. The Unlimited team is now working on increasing the sales productivity and once that is also achieved this business should start yielding even better returns. The overall EBITDA for the quarter was marginally lower than last year, majorly on account of low gross margins and the expense incurred online growth.

On the CAPEX side:

We've spent roughly around 270 odd crores in the year which largely comprised of expenses on the new warehouse which is now scheduled to start operations by the end of this month. Other CAPEX included spends on 59 new stores and refurbishment of old stores apart from some IT-related expenditure and the investments in acquiring LimeRoad business. There have been marginal improvement in the overall working capital cycle due to the increase in payable days and marginal control over inventory. The company opened 59 new stores during the year, 47 in north, 12 in south under Unlimited brand. We also closed 16 non-performing stores, 13 in V-Mart and 3 in Unlimited. There has been increase in store closure for the last 2 years but as discussed, as a disciplined retailer we keep assessing any possible non performers continuously, monthly basis to air out any future losses. Largely these stores that we have closed in the last 2 years all belong to 2019 and 2020 source which actually did not get a very good runway to reach maturity because of the COVID related impact. Somehow, they could not just come to the overall V-Mart level or expected level of service throughput and profitability. That was the reason for their closure. I think largely the closures have been done with and there should not be any more significant closures this year.

Coming to LimeRoad:

LimeRoad has shown great potential in the last 5 months. The number of orders have increased substantially and the revenues have also increased substantially. I will request now Suchi who's leading the LimeRoad resurgence to update us on the performance and plans. Thank you.

Suchi Mukherjee:

Thank you Anand. We're now nearly 5.5 months in post the year and the first full quarter as part of the Group.

It has been a period of a lot of block and tackle deep operational operations to stabilize ourselves and we have been able to deliver conditions subsequent related to the deal as planned. With that the team has also been able to deliver 88% top line growth as well as delivered EBITDA which is better than plan and I feel good about that.

One of the key challenges going into this deal of course is operational but also team related. We are excited that the team has stabilized. We've not had even a single regretted departure. Culturally, I think the great thing is that we found voices that keep our cultural differences intact. Online and offline together are two different worlds and yet it's great to see that we've found a



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way of working. There's still a lot of collaboration to do but the important thing is that we've managed to find the voice as well as high velocity turnaround on actions.

I'm also excited that internally the LimeRoad team has been able to build line of sight to inflecting deeper metrics on the P&L. That's a good thing and not everything we try will succeed. That's the reality that's par for the course. I love the spirit and I am glad that the vision with which we went into the deal continues to pervade in terms of actions and it's only these that will yield outsized outcomes. Overall, a decent first quarter, I feel good about it but it's still day one and lots to do. Over the next few quarters, we will be building much deeper rights to win this value market. Lalit talked about the emergence and the greater velocity of emergence of this aspirational India. We are going to double down as our first pillar on category supply where we will uniquely be able to marry LimeRoad's core inherent strengths in category editorial, trendspotting, curation, data in terms of projections together with VM strong back end in delivering value pricing at what I call emerging #instatrendfashion at really high quality and value pricing. I think that will be disruptive. It's something we've always wanted to do, and I think that's what's going to be the heart of the category supply thesis at LimeRoad.

Second, we will do a lot of deep work and we already are doing it on search and discoverability for our users. We think of our users as transcending offline and online, what people call omnichannel. We've been playing a lot with, of course, stuff like GPT-4, etc., which we think will fundamentally have the ability to inflect user experience, both online, in our stores as well as will have some interesting cost characteristics. Technical product roadmap, data roadmap there in place and we'll be able to share more stuff over the next few quarters.

The third leg is trust – online we will be bringing VM's core capability in terms of pricing needs quality and I think that's an important leg to building trust online. I feel like we are uniquely positioned to do that and then finally we all care deeply about the P&L and the team will deliver a stronger P&L.

Thank you so much for listening in.

Moderator:

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We have a first question from the line of Sameer Gupta from India Infoline.

Sameer Gupta:

Firstly, we've seen a store additions of around 43 in FY23 on a net basis and this will translate to around a 12% retail area even if you take gross additions around 15%. Now historically we have always maintained a 20% kind of retail area addition. So, is FY23 first of all an aberration and going forward if the demand environment takes a little more to improve. You have mentioned that the next two quarters wedding calendar is queued. Are we going to go slow in store additions in that taking that info in account? Now we also have a net debt of around 120 crores. Historically, we've always been net cash. So, I mean how are you looking at these things?



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Lalit Agarwal:

Our belief remains similar and our approach to open up the number of or additional square feet is similar. Definitely in the last year this was an aberration where we had to close down and these closed downs are not those closed downs that we normally done. Because see if you understand that we had opened up 59 stores in the year '19-20 and those stores, some of the stores saw 6 months, some of the stores saw 4 months, some of the stores saw 8 months before the COVID hit and those stores did not see a good run rate. There has been lot of pressure in those kinds of stores which we opened in both '19-20 as well as '20-21. We have seen definitely a lower per square feet sales, even negative EBITDA from some of those stores. So, we are taking some corrective measures. We are working on lot of stores to try and improve their performance and wherever we see some of the stores are not coming back into our control and we are not able to call in the customers and we have some locational issues, or we have some higher rentals, or the EBITDA is not coming up. That is how we have taken a call to close down the stores so the net number that you are speaking about is post the closing down. We will definitely focus on adding not 20% but yes around 15% to 16% additional square feet and that's the model that we have. We definitely don't want to conserve cash because of this, because our belief in the India market, in the Bharat market is for long term and we would definitely keep investing in this belief in the times to come, even in this particular year and the next year. We will keep adding up our stores and we will be adding more than the number of stores that we have opened this year. Not on the net level but on the gross level also. I think we are targeting something, about 60 stores in this particular year.

Sameer Gupta:

Second question is on the cash CAPEX we have seen around 270 crores in FY23 and if I just add back the 80 crores of warehouse and 67 crores of LimeRoad it is still a 110 crores kind of a CAPEX for a gross addition of let's say 59 stores. That translates to around 2 crores per store versus our historical rate of around 1 crore. So, I just wanted a reconciliation?

Anand Agarwal:

The CAPEX from the warehouse is roughly around 109 crores and the LimeRoad's spend is around 76 crores and yes, the balance is towards some automations, technology interventions for refurbishment we actually every year we do some amount of at least 10 to 20 stores which go on the refurbishment and the per store refurbishment cost usually averages around 20 to 30 lakhs. On top of that there is the 59 new stores that has been added.

Sameer Gupta:

Going forward these refurbishments probably will continue but the automations and warehouses done so I can take that as non-recurring, right?

Anand Agarwal:

Yes, substantially yes but still we would keep incurring some amount of technology interventions. Technology is changing at such a fast scale that we will need to keep investing at least some bit, but it may not be very substantial.

Lalit Agarwal:

Just adding to your point the warehouse is still not operational so there is some additional investment which is going on in this current year as well. So, which continue a little bit, so you'll see some numbers coming in this year on those lines.



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Sameer Gupta: Would that be material?

Lalit Agarwal: No.

Moderator: We have our next question from the line of Shirish Pardeshi from Centrum Broking.

Shirish Pardeshi: Let me start beginning with the on-ground reality. I think the quarter gone by we have seen a demand around festive season and you alluded saying that you are expecting a demand recovery after Quarter 2, Quarter 3. Can you give us the roadmap how we are trying to build? Because on one side we are building the store network and other thing and we are also trying to extract the efficiency from the various teams. But in the medium to short term how should we look at and build in the revenue contribution from all these three businesses?

Lalit Agarwal: We can't clearly give you an indication that how are we going to build up our revenue, we definitely are targeting positive same store sales growth. We are not seeing a very high same store sales growth as we had seen in the last year. Last year was the outcome of the base effect as well. So definitely we are expecting a positive like-to-like growth from the existing stores towards the mid-single digit or a little higher mid-single digit number, that's what we should be targeting. We definitely believe we will open up, as I said, 50% to 70% of the retail area to add up. We definitely have a plan for the online business that we have because we were contributing around 2%. Now maybe we are reaching towards 3%-3.5% of our revenue. We could take that to maybe target to that, take that to maybe 8% to 10%. That's how I think maybe you could back calculate those and then understand and what's the number that you can think of. Because see we definitely see as I said India is growing. There are not too many complaints that we have. We definitely have implemented those product strategy where we had a pressure of last year where we increased our prices, and the consumers went away. This time we have really worked very hard to bring down the prices. Our ASPs are now lower by almost 7% to 8% and almost 10% in some cases. We are attracting those customers back who went away from our stores and which we didn't see. We will definitely expect those things to come back. When the market comes back this particular bottom of the pyramid, the mass audience, this definitely is our loyal customer and we have been the best one providing them. We still believe these people will be shopping with us.

Shirish Pardeshi: On the Unlimited piece, I just wanted to have one question on the margin improvement. Though it is heartening that you have done a fantastic job but in a steady state, what are the things you have done and whether these margins are sustainable, or can we say that it will improve from here? And what are the things which you have taken the measure to improve this business profitability?

Lalit Agarwal: As you understand we went into with a dual pricing approach and we had a higher even if the same products are selling in both the areas, we have a little higher priced product in the South India for the same item. That's how we bring in a little extra gross margin in this business and



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that gross margin we have seen a good response from the consumers accepting those product lines. We have been very careful on our expenses. We have definitely started conserving a lot on those, that is where we are bringing in an additional margin, we could expect one from the same store sales growth at the existing ones. How do we bring back still those 20%-25%-32% stores which are still not providing positive EBITDA? We will have to work on those to try and improve their EBITDA and take some decisions there. Three, we will have to really open up new stores. We have plans to open up a little additional new store in the Southern territory versus the other territories. We will focus on adding more stores in the Southern territory and those Southern territory stores if you understand we are opening on the V-Mart model and the V-Mart model of expenses, but the margin remains a little higher. That definitely will help us to give us a little extra alpha margin and all those stabilities should give us a good healthy limited P&L. So that's how we are targeting.

Shirish Pardeshi: My last question to Anand ji. On the LimeRoad account we have taken a loss of 44.1 crores. Can you just give little more color, is that absolute loss is in terms of inventory write off or bearing something? Some more color on that and should we have some more such losses to be incurred in FY24?

Anand Agarwal: The 44 crores loss from LimeRoad actually includes a one-time expenditure of roughly around 12 crores which we had also highlighted in our last quarter. So, on a go forward basis I think as I explained during my opening remarks as well, LimeRoad expenses primarily consist of marketing, technology and fulfillment cost and that is where there is an increasing improvement that we see in terms of how we are able to reduce the cost per order in terms of all these three aspects. That's what the team has been working and we should see quarter-on-quarter improvement. In the loss numbers I will not say that this business is going to turn profitable in 1-year. I think it is a longer runway. We had originally guided that we should be looking at profitability only after year 2. We would want to better that but as of now I cannot give a timeline but definitely we should see improvement at least in the loss numbers in succeeding quarters.

Shirish Pardeshi: Would you give some sense what is the cash burn which we are expecting in FY24?

Anand Agarwal: We had guided in our last call as well that we would want to cap our exposure on LimeRoad losses towards 20% of the overall group EBITDA and that should translate to roughly around 50 to 60 crores, not beyond that.

Moderator: We have our next question from the line of Amit Khetan from Laburnum Capital.

Amit Khetan: Lalit ji you have in the past talked about Tier-III and Tier-IV not doing as well as Tier-I cities. Now if I look at your slide #11, the sales per square feet data indicates otherwise. Is this because Arvind Stores are, the Unlimited Stores are muddling the Tier-I and Tier-II data?



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Lalit Agarwal: No, I think this is what you are seeing as sales per square feet and that definitely is both Arvind Stores as well as the way we categorize our Tier-I. For us like even a Patna is a Tier-I, a Guwahati is a Tier-I, a Bhubaneshwar is Tier-I and Lucknow is a Tier-I. That's how we see and we have definitely added lot of stores there in this Tier-I towns. Certain flagship stores also got added in Kolkata, Bhubaneshwar. I think we are seeing a little higher sales per square feet there but largely we were talking about the growth, de-growth. I think we have been always a player who have been, and we all know about this K graph of economy and we have always told that the Tier-I are doing little better compared to Tier-II and Tier-III and that is how the Tier-III have still not grown over the last 3 years. That is why the sales per square feet is being seen a little muted.

Amit Khetan: But the data shows otherwise, Tier-III sales per square feet is higher than Tier-I at least in the slides that you have shared?

Anand Agarwal: Amit let me just add that. So actually, yes you are right. Partially this is a combined impact of Unlimited where the sales productivity in some of their stores in Tier-III is slightly higher. Additionally, we also have some very good performing stores in Tier-III, traditionally, which have also been outperforming. Even when you look at in the same slide when you look at the FY22 data also, the Tier-III numbers outsmart every other Tier. So, it's got a stronger base, it's also grown for both the reasons as I said one is the UL mix Unlimited mix and second is the higher concentration of higher performing stores in that particular Tier.

Amit Khetan: And how do you categorize Tier-III? What kind of cities would fall in this?

Anand Agarwal: So, Tier-III typically are cities with more than 2 lakh population. These are typically district headquarters or districts and cities with less than 1 lakh population fall in the Tier-IV.

Amit Khetan: Lastly on these sales per square feet metric. We were doing about 800-850 just prior to COVID or maybe a year before COVID. Right now, we are at 620 overall and 650 for the V-Mart franchise. How do you see the trajectory of this metric over say the next 1 or 2 years?

Lalit Agarwal: There is definitely a lot of efforts which are going on and then there has been a lot of new addition of stores which we had and not everything has performed well. The new addition square feet of Unlimited at a lower base is also causing those numbers. I think we are inching towards those the new stores that we are adding up even in V-Mart are seeing more than Rs. 700-750 per square feet sales coming in. I think we should be back with those numbers maybe in the next 2 years. It will take some more time to reach to that number. Yes, I think we have, that's how I said in my opening remarks, we are working on those fundamental indicators and fundamental levers which will drive all of this, and this is what we are doing. All those newcomers which are coming in definitely attract consumers' attention also and I think most of that has happened. We'll see these numbers coming in the 2 to 3 years period.



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Amit Khetan: But would it be fair to say that we would reach our normalized margins only once we reach that 800 kind of mark or can we achieve that with a lower number as well?

Lalit Agarwal: I think you guys have the calculation. You can understand at this particular rate of price stores sales per square feet how have we performed on the P&L and the moment we increase our P&L even by Rs. 50 or Rs. 30 per square feet, how does it come into the bottom line. Most of our expenses are fixed in nature. Definitely any addition in the top line is definitely going to lead us into the bottom line and with the initiatives that we have taken up internally on procurement, on sourcing, on planning, all of those, we should also better our margins going forward. As of now we definitely are working to bring back the customer, to give them confidence on the prices so we are working with a very constrained margin. We don't want to give you a very much big hope on those margin lines but yes whatever we are doing internally will definitely help us to improve those margins in the coming days.

Moderator: We have our next question from the line of Tejash Shah from Spark Capital.

Tejash Shah: You spoke about engaging with some consultants during the year or last couple of years. If you can share some of the details of the project on what exactly are we trying to improve or optimize and where are we in that journey?

Lalit Agarwal: We are technically as I said the whole consumer understanding, category understanding, redoing most of those, understanding the market scenarios, understanding the international trend how do we integrate all of those and then bring into our plans and then have those capability internally of designing. And you understand that whenever we have a story, we always used to believe that we would replicate the styles of bigger brands, replicate the styles of international fashion but we never used to have a core internal design team, and this is what we have developed. We have treated our merchandising department into three parts designing, buying and sourcing and that's the outcome of the project. We have created a strong design team with a design head that's definitely giving a very good edge to V-Mart where we are able to track similar fashion which the Zaras of the world or H&M of the world can do. We are focusing on similar lines; we are definitely curating those with the requirement of our consumers. So, some of those pieces have happened. We have created a technical and a quality department which is definitely working on strongly on bringing up the quality level, bringing up the technicalities of the product fabric, bringing in innovation there because we just don't want to increase the prices whenever the raw material price increases. How do we bring innovation in fabric development? How do we work with the mills and the company's fabric companies to try and bring in those new innovations onto our floor, bring down the cost of the product? How do then we have a sourcing department which is separately created just to work more on the cost benefit, costing analysis, work on those scalabilities of the vendors, bettering the quality aspects of the vendors. I think all of those departments and then the whole planning pieces, bringing digitalization into analytics, analytical based store understanding, analytical based categories store projections. A lot of work is



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happening on all of these lines and apart from that also a lot more is happening internally at V-Mart.

Tejash Shah: How long has been all these initiatives been implemented?

Lalit Agarwal: We've been working on these for the last 12-15 months. We have started the implementation. I mean the project have started now, started some deliveries have started. This is also a transition period for V-Mart. We were not in that mode when the organization restructured, there are a lot of transition which happened. It will definitely the change management also needs to get adopted. These are pieces which are going internally into the organization. We have started some of the adoption. We will see some benefits coming into the, in this AW period which is Autumn-Winter period which starts from August itself and then we should see finally most of the initiative results should be visible in the spring summer '24 period as well.

Tejash Shah: Does it also mean that our private label share or strategy will also be aligned to this or that is independent of what we are doing on this?

Lalit Agarwal: Definitely whatever happens all of these are doing in the private label. Whatever that we do in the private label pieces this is how we are going to follow. So that's what I'm explaining you.

Tejash Shah: Second question Lalit ji historically in your listed history we have always seen you as one of the most prudent and conservative retailers who has always avoided debt even in the volatile period of demonetization or GST transition or even in COVID. Now even though it is transient, but we have now debt on the book and the kind of investment that LimeRoad will require or our expansion in North and South will acquire. How do you plan to actually go ahead on this part of the balance sheet?

Lalit Agarwal: I think you are absolutely right Tejash and your concern, and my concerns are similar, and I look at the same way that you are looking right now and then we have always believed in having cash in our book and that's how we have evolved. But yes, definitely we believe in the potentiality of the market. We believe there is lot to come for India and at this time and this is what you guys and we friends have always guided us that this is the time that we should invest into the market, and we have started investing. We just don't want to be a pure traditional mindset company which is only investing from equity. We definitely want to have a right-balancing between equity and debt. Not that we will focus on building the debt but yes, some balancing should always be done but yes, we are in the process. We have also invested heavily in the infrastructure development of warehouse. We have that asset which is already built and that is getting built. If there are any kind of pressure that we look at in the balance sheet we have an ability to offload that asset as well. I'm not indicating that right now but that's something that we could think of. As of now we are very confident that our internal cash flow, the way we have designed our projection, our internal cash flow, we should be positive on those if we see our numbers and we should be able to take care of most of our expenses internally as well and most of our expansions



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internally as well if we are able to do. We definitely have to work hard on inventory management, our working capital management, we have to work hard on even our asset management. We are tracking all of those areas and we have multiple projects like that to improve on those.

Tejash Shah:

And lastly question for Ms. Suchi. Usually, online businesses are known for a kind of a scale first and profitability later. While value retail culturally is designed to be frugal in nature and squeeze out every penny of efficiency possible from the cost structure. Where do you see LimeRoad kind of culturally fitting into V-Mart's strengthens (A) and (B) if you can answer also how do you see ONDC as an opportunity to kind of expedite our journey on going on omni path for V-Mart and LimeRoad both?

Suchi Mukherjee:

Tejash, your questions are in two parts. One is cultural and the other one is ONDC. Look on the cultural component if you think about the businesses that have done really well, globally you think about online businesses like Etsy, long tail lifestyle products. They have really high healthy EBITDA margins and I care really about creating value, value for our consumers, value for our shareholders. So culturally I think the meeting of minds was around those two values that how do we win for our consumers and how do we win for our shareholders. I have no doubt in my mind that, that comes by generating through cash, through returns. If you look at our pre-COVID history, as an independent company you will know that LimeRoad has never ever deeply discounted to grow, and we've never really taken inventory on our books. Historically we've always been collecting cash first business so those are part of the DNA and that is part of the reason why this partnership works. So hopefully that answers your question and I see no deviation there and we're all fully committed to continue to deliver that why injecting the truly different cultural DNA that I think we bring to the table, which is tremendous tech DNA, tremendous data driven DNA, opening up the TAM for the group. We're looking at the consumer who is really (+28) highly fashioned, high aspiration on fashion but still very value seeking. And so that's what we will deliver, and I think you will see us consistent on that. On your second question ONDC, ONDC we've looked at it quite deeply, we've done a lot of that integration work already and we don't have a firm view. This could go either the UPI route which means it could explode and make digital really large in India. It could also be marginally muted. It's too early to call but I do think that it is a great initiative to enable digital transactions and anything that supports that I think we're fully supportive of.

Moderator:

We'll take our last question for today from the line of Rishi Modi from Marcellus Investment Managers.

Rishi Modi:

My question was for Mr. Anand. Anand the way I see it currently the burn rate of LimeRoad alongside the store expansion plans and the debt on book, the short-term debt on books I think we'll be having to raise any equity if the operations don't turn around. So just wanted your view on any potential plans to raise equity and the quantum?



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Anand Agarwal:

No there's no plan to raise any equity or dilute equity. That's absolutely not on the anvil. I think the way we have structured our plans within the four walls of the plan for next year we should be able to manage the burn on LimeRoad because we already got a cap in place internally. On the store's expansion, the numbers that we are looking at we've worked around them and we've only quoted numbers which we can finance and which we can manage from the current flows. There will be some amount of average short-term debt, working capital utilization which will keep happening throughout the year but there is nothing beyond that, that is planned. If there are any substantial headwinds inflows, we may need to restructure some of our expansion plans but that's it. I do not definitely seek any additional capital inflows.

Moderator:

Thank you. I would now like to hand over the call to the management for closing comments. Over to you sir.

Lalit Agarwal:

Thank you everyone for being there. I definitely understand there is a lot of perception getting built over the company and I definitely want to register everyone this question what has changed? Nothing has changed. I think we are working on our plans. We are working on what we have communicated. We are definitely working on what is good for the future of retail and future of the company. We are definitely taking certain risk which is not showing up in the number and we believe in the long-term story, we will definitely take most of the actions which are benefiting our long-term stories. We definitely are those fundamental cultural companies who don't just look at those quarter-on-quarter numbers. We understand there are macros and there are situations in the market. We definitely don't want to get pressurized and nervous on taking certain short-term calls to improve our numbers. We will definitely work and keep working on improving our strength to offer and give a great experience to the consumer and that's both digitally and physically and that's what our endeavor is. We remain sure on these lines you could lose patience at times. We would want to be more and more transparent. We would definitely want to keep everyone more informed in whatever we could possibly do but yes, you guys have to also support the team and build your models accordingly. So great, thank you so much for being there and being confident on the company. We definitely would deliver and keep delivering to your expectation. Thank you. Have a great day.

Moderator:

Thank you. On behalf of HDFC Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.