



**BRINGING  
SMILES  
ON FACES**



Disclaimer

In this annual report, we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements – written and oral – that we periodically make contain forward-looking statements that set out anticipated results based on the management’s plans and assumptions. We have tried wherever possible to identify such statements by using words such as ‘anticipates’, ‘estimates’, ‘expects’, ‘projects’, ‘intends’, ‘plans’, ‘believes’ and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

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India is one of the most under-penetrated retail markets in the world.

In this country, when you fuse prudent geographic selection with contemporariness, convenience, choice, ambience, service, technology and affordability, you get industry outperformance.

This remarkable fusion is what sustained the dramatic improvement in V-Mart’s financials during the year under review.

Even as India’s economy grew 4.7 per cent, the company’s revenues grew 50 per cent and profit after tax 39.73 per cent over the previous year.





It took V-Mart 10 years to grow its revenues to ₹383.65 crore in 2012-13.

Then the Company achieved 50 per cent of that growth over the next 12 months of ₹574.95 crore in 2013-14.

These revenues have been accompanied by attractive margins and a healthy bottomline.

In an industry where most of the players struggled, there is just one question that most analysts are asking about our performance.

How?

THERE IS JUST ONE OVERARCHING REASON THAT BEHIND OUR COUNTRY, ECONOMY AND SECTORALLY-CONTRARIAN PERFORMANCE IN 2013-14.

**STRONGER**

- We continued to invest and strengthen our business.
- We grew the number of our stores by 29 per cent.
- We grew our retail area by 27 per cent.
- We grew our footfalls 32 per cent.
- We grew same-store sales growth (fashion) by 12 per cent.

**SUPERIOR**

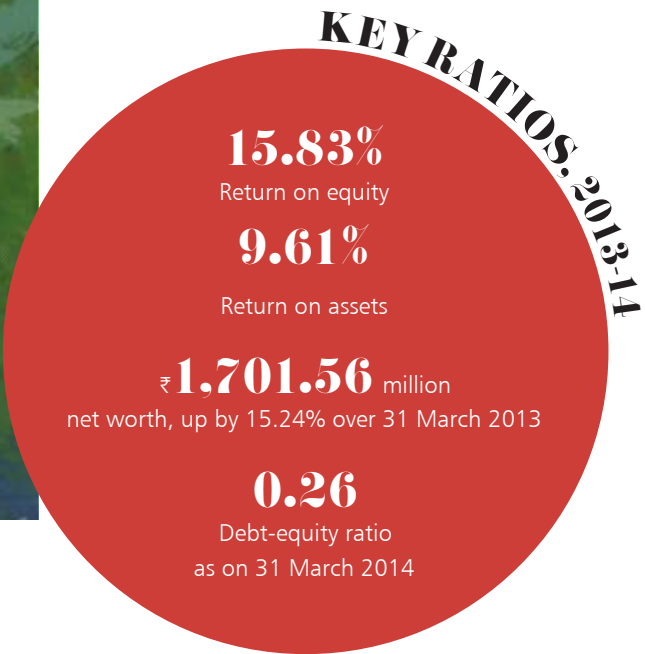
The result is that even as consumer sentiment weakened, we reported superior ratios across our business.

EBIDTA margin stood at an attractive 9.47 per cent in 2013-14.

Gearing was maintained largely around the earlier year level, 0.24 in 2012-13 to 0.26 in 2013-14, despite store expansion (20), indicating a creditable use of accruals for growth.

**IMPACT**

Which indicates that as consumer sentiment got weaker, V-Mart reported higher revenues, better margins and larger profits.



**ABOUT US**

Varin Commercial Private Limited was incorporated in 2002 and renamed V-Mart Retail Limited; the Company operates family fashion stores in the value-for-money retail segment.

VMRL is positioned as a one-stop family shop with a comprehensive portfolio of retail offerings across diverse categories.

The Company's motto of **"Price-less Fashion"** promises contemporary products and services at reasonable prices to upwardly mobile Indians in non-metro Indian locations.

**OUR BUSINESS**

VMRL's business is classified into three verticals – apparel, general merchandise (non-apparel and home mart) and *kirana bazaar*.

The Company offers customers a wide range of trend fashion products at reasonable prices, emerging as a destination of choice.

**OUR LOCATIONS**

The Company enjoys a pan-India presence across Tier-II and Tier-III cities across New Delhi, Gujarat, Madhya Pradesh, Uttar Pradesh, Bihar, Punjab and Rajasthan.

As on 31 March 2014, the Company's 89 stores were spread across 77 cities in 12 states and union territories, covering an area of 7.12 lac square feet.

**OUR VISION**

Create value and make our ecosystem proud

**OUR MISSION**

- Care for customer aspirations
- Discover and nurture talent
- Sustain ethical growth
- Harness vendor relationships

**STORE CLASSIFICATIONS**

**V-MART ASPIRE**

V-Mart Aspire caters to the youth segment with apparel which are in-sync with the latest trends in fashion. Our designers study market trends to purchase and stock merchandise accordingly.

**V-MART PLUS**

V-Mart Plus caters to all age groups and serves the basic as well as discretionary needs of customers. Since these stores serve customers of all age groups and sections of the society, the Company stocks merchandise accordingly. These stores are normally located in areas where the target customers range from kids to senior citizens.

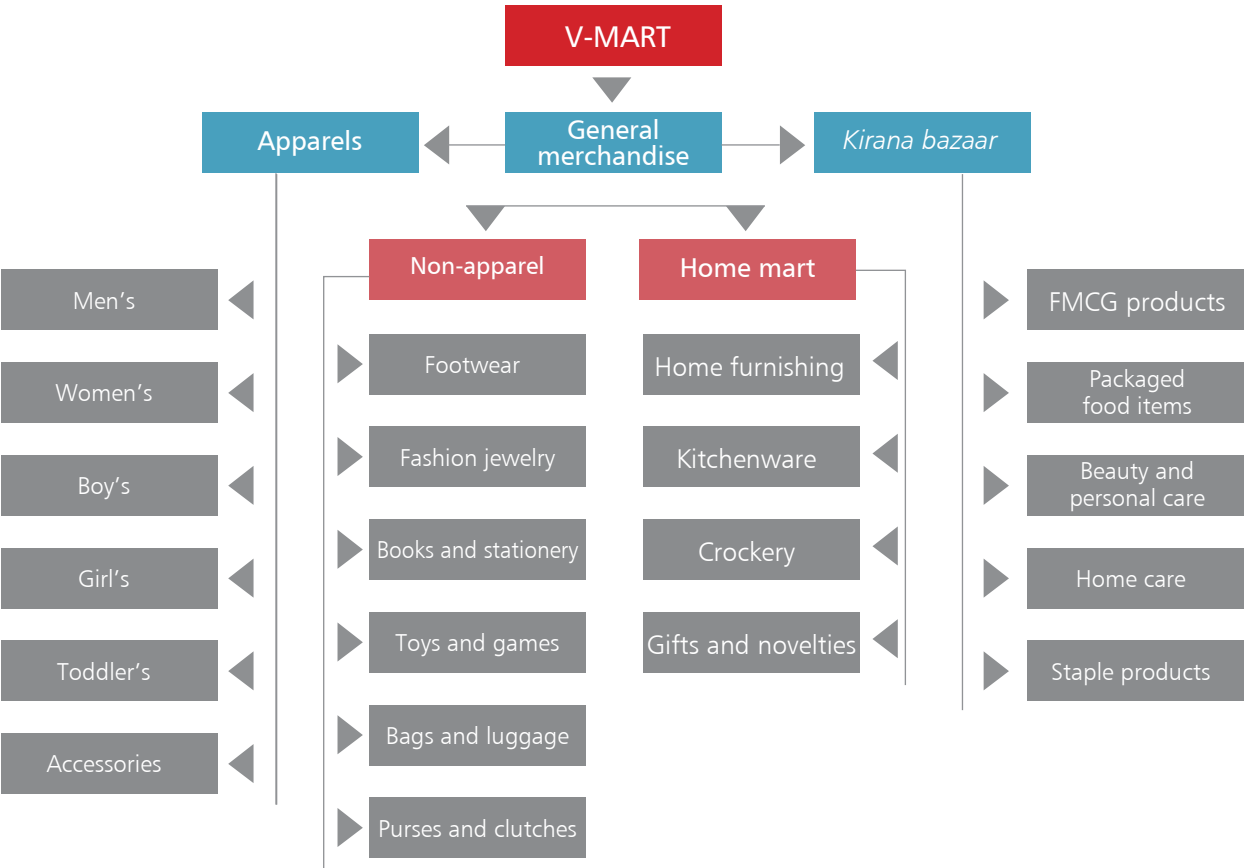
**V-MART CORPORATE**

V-Mart Corporate targets customers in the office goes group. The merchandise in these stores cater specifically to office-going individuals, (both male and female) and the product line has been internally termed as Gold Line Fashion. These stores are located in areas where the population mostly comprise working professionals.

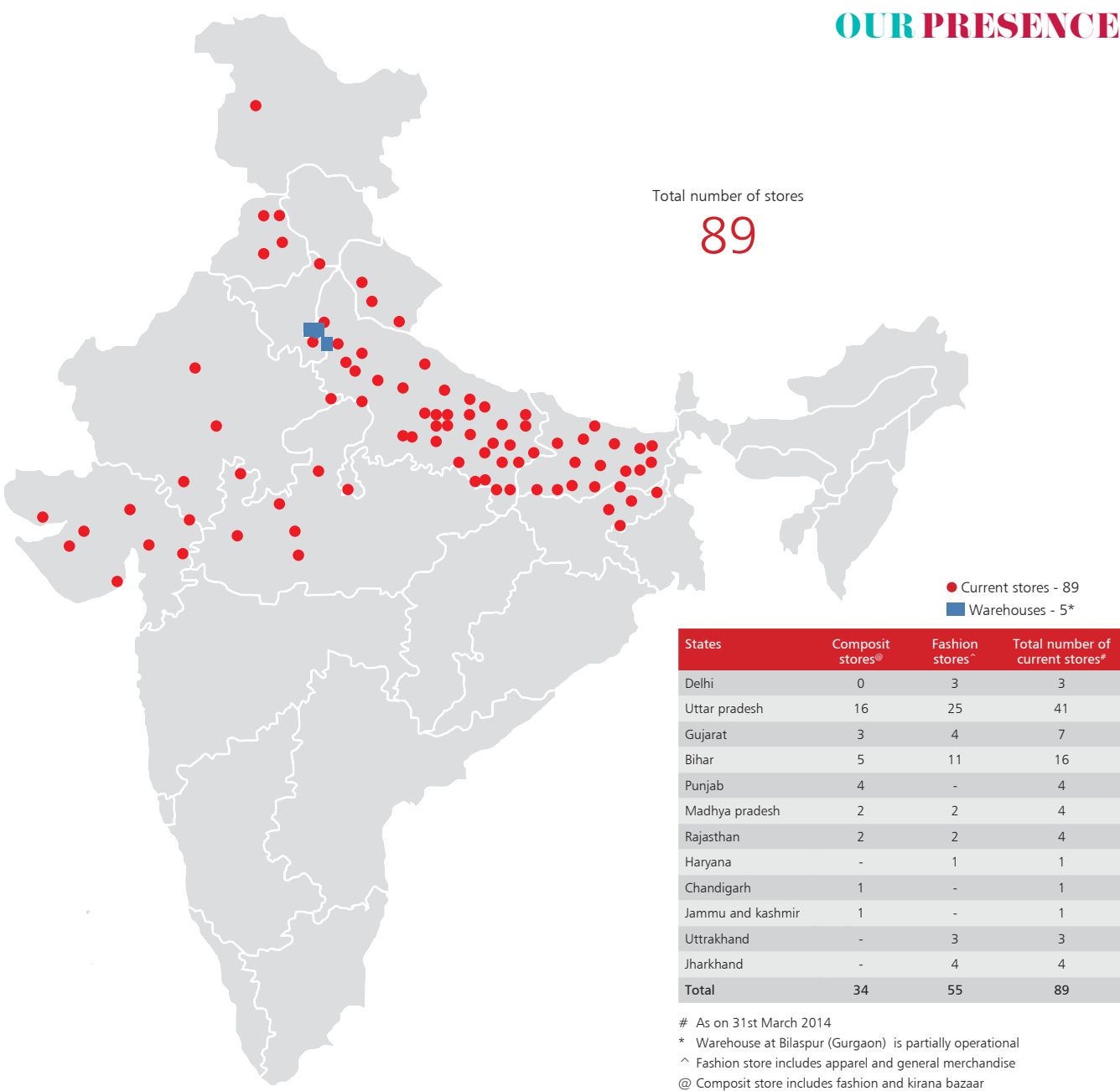
**V-MART VALUES**

V-Mart Values caters to all age groups and focuses on basic clothing needs with an insight into the economic profile of the inhabitants of the region. While it provides cost-competitive products, the quality is not something that is ever compromised with.

OUR BUSINESS VERTICALS



OUR PRESENCE



OUR JOURNEY OVER THE YEARS

2002

Incorporated as Varin Commercial Private Limited

2003

Opened its maiden store in the state of Gujarat

2004

Opened its maiden store in New Delhi

2006

- Changed name from Varin Commercial Private Limited to V-Mart Retail Private Limited.
- Crossed an aggregate of 100,000 square feet of retail space.

2008

- Converted into a public limited company.
- Investment in Equity Shares by Naman Finance, a part of the Aditya Birla Group.
- Investment by DB Corp Limited

2011

- Achieved a turnover of over ₹2,000 million in Fiscal 2011.
- Declared a dividend of 4 per cent for Fiscal 2011.

2012

- Declared a dividend of 4 per cent for fiscal 2012.
- Stores extended to more than 50 cities. 153,252 ESOPs were granted under the V-Mart ESOP Scheme 2012.
- Crossed 500,000 square feet in retail space.

2013

- Pre-IPO placement of 12,50,000 Equity Shares.
- Public Issue of 44,96,000 Equity Shares.
- Public issue oversubscribed 1.2 times.
- Attracted marquee institutional and HNI investors. Declared dividend of 10 per cent.

2014

- Opened 23 new stores in FY 13-14 with the retail space of 1.90 lac square feet.
- Strengthened supply chain, capability building and investment in infrastructure.
- Footfall increased by 31.58%, from 115.29 lac to 151.70 lac in 2013-14



## CHAIRMAN'S STATEMENT



*Dear Shareholders,*

I am delighted to present the second Annual report of the Company after going public. FY 2013-14 was a year that brought much happiness for the Company.

Our existing business model with an emphasis on Tier-II and Tier-III cities continues to perform admirably. The Company's net sales increased by 50 per cent from ₹383.46 crore in FY 2012-13 to ₹574.95 crore in FY 2013-14. The operating profit (EBITDA) increased by 36 per cent from ₹39.97 crore in FY 2012-13 to ₹54.49 crore in FY 2013-14. The Company posted a PAT of ₹25.15 crore during the current financial year as against ₹18.00 crore during the previous fiscal.

### INDUSTRYTRENDS

The Indian retail market in 2010 was estimated to be worth US\$353 billion and by 2014-15, as per the industry reports available, it is expected to reach US\$543 billion. Further, the current value of the Indian retail market is estimated at US\$500 billion and by 2020 its value is pegged to reach US\$1.3 trillion. Over 20 per cent of India's GDP is contributed by the retail sector and contributes eight percent to the total employment. India is home to one of the top-five retail markets in the world and in retail, India offers immense scope for growth.

Consumerism in India is witnessing unprecedented growth and globally, India is among the top-10 retail markets driven by favourable demographics, a young and working population, rising income levels, urbanisation and growing brand orientation. This, in turn, is reflected in India's retail market, which in 2013, was estimated at US\$520 billion and is expected to grow at a CAGR of 13 per cent to reach around US\$950 billion by 2018.

The Indian retail sector is set to grow rapidly with a gradual shift toward organised retailing formats. The organised retail market in India is burgeoning and is expected to grow at CAGR of 19-20 per cent over the next five years. Organised retail penetration is expected to increase from 7.5 per cent in 2013 to 10 per cent in 2018 at a robust CAGR of 19-20 per cent during the same period. This will be driven by a combination of demand, supply and regulatory

factors, which are expected to be the growth engines of the Indian retail market.

Tier-II and Tier-III cities in the country are emerging as the new 'hot spots' of consumption. Organised retailers are increasingly setting up stores in these smaller cities. Penetration in Tier-II and Tier-III cities and improvement in business models and operations will be catalysts of growth for the organised sector.

### OPERATIONS

The Company continued to strengthen its back-end and front-end processes during the year by under taking various initiatives. The three core focus areas for the Company were:

- Supply chain management
- Capability building
- Investment in infrastructure

We believe that an efficient supply chain is the backbone of the retail operations and it is essential to strike a balance between optimum levels of inventory whilst ensuring availability of products at all stores as per customer needs, as well as reducing operational costs.

In view of the above, the Company has initiated programmes pertaining to various aspects that will enable us to enhance the efficiency of our supply chain management system, there include - planning, merchandising, procurement, standardisation, vendor management, logistics, quality control, pilferage control, replacement and replenishment. The Company believes that the benefit of such programmes will manifest themselves over the coming years.

During the year the Company took on lease premises for a new warehouse and is in the process of consolidating all existing warehouses. Consolidation

of warehouses help in efficient logistics management, reduction in order processing and close-to-optimal inventory replenishment costs. At the warehouse products are received, stored, sorted, sequenced and transported to specific stores as needed. The Company with a view to optimise its warehouse operations has retained the services of APL Logistics as a consultant to plan the layout of the warehouses so that goods move efficiently and the Company can focus more on its core competencies. APL being an industry leader in 3PL services, were assigned the task to handle the warehouse operations with defined targets and KPIs. APL also guides us in terms of the industry-best practices and effective utilisation of IT resources.

The Company has a pan-India network of more than 1,500 registered vendors and suppliers and we believe that they are an integral element of our growth. During the year, we organised a vendor meet wherein the Company had invited the top vendors. This meet was organised to share with the vendors the changes being planned by the Company as outlined above and also our expectations from them. The category leaders were felicitated for their outstanding performance while others were encouraged to imbibe their best practices.

The Company has consistently believed that the growth at the front-end has to be supported by adequate capability building at the back-end for long-term sustainable growth. We have undertaken various initiatives at the back-end including hiring staff with the right experience and qualifications in line with our organisational structure. The Company has initiated an annual training programme to develop the skills of our human resources with minimum monthly training hours based on the requirements of the respective domains.

The Company has restructured its Performance Management System for its human resources to include goal setting exercises so that employees have clarity on the parameters for evaluation, Key Result Areas (KRAs) and which form the basis for setting organisational as well as individual goals.

At V-Mart, we believe that our customers are supreme; consequently the Company has focused on superior customer engagement. During the year under review the Company organised various customer events so as to be in constant touch with our customers and get a better understanding of their needs.

### OUTLOOK

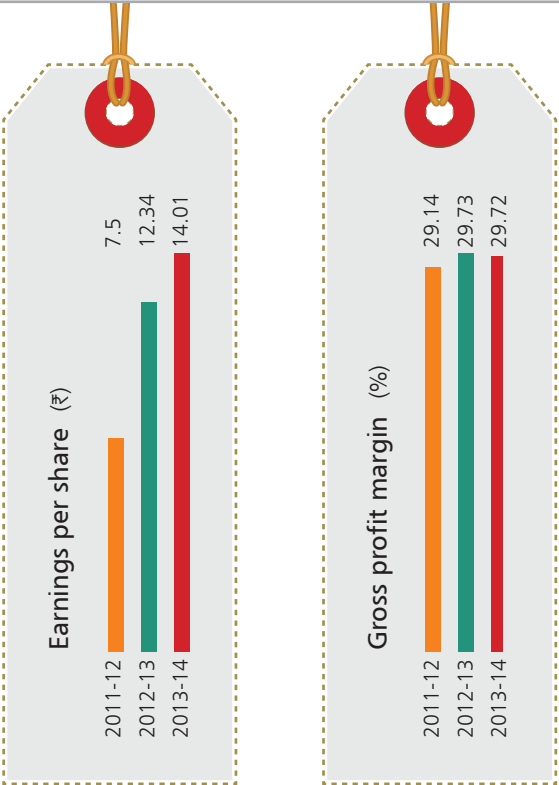
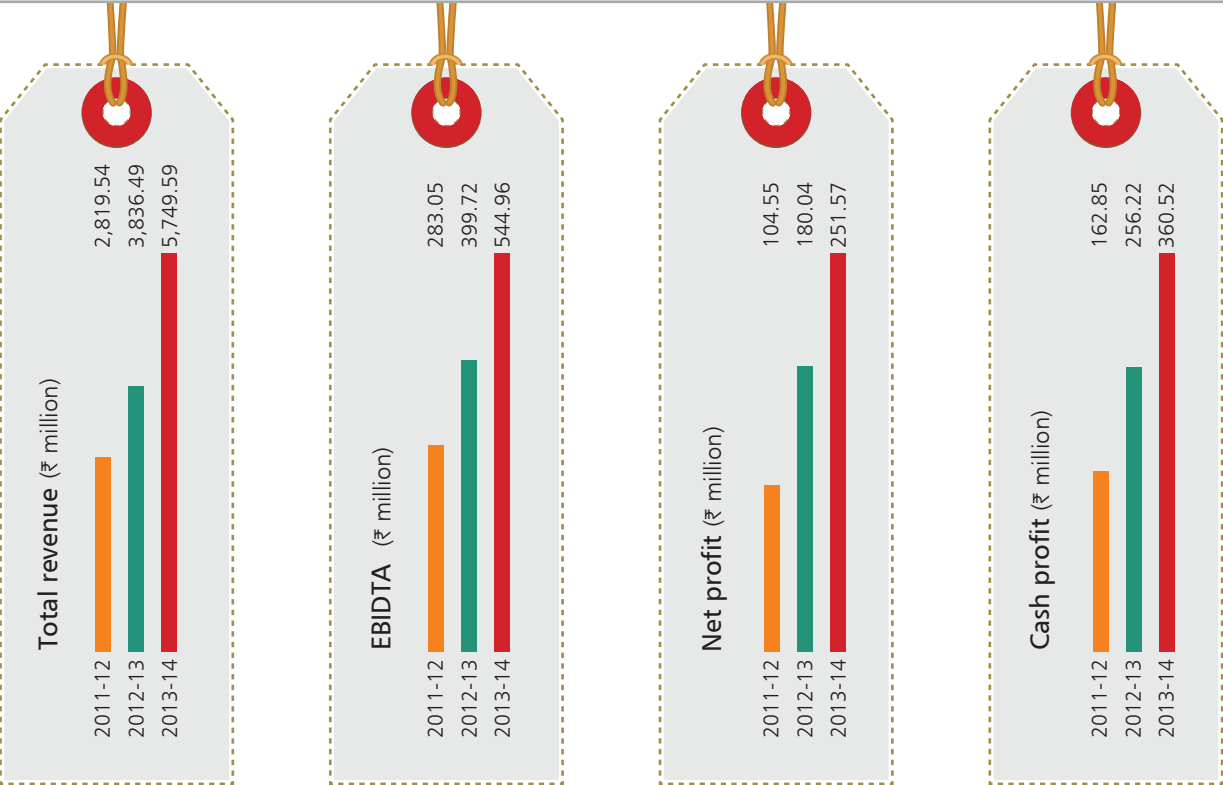
With a new, dynamic government instated at the centre, the growth projection for India is high. Various measures are expected to be initiated to attract more investments and remove infrastructural bottlenecks to boost development. At V-Mart, we expect that our business model will sustain a 30-35 per cent revenue growth and we project to add about 25 new stores in FY 2014-15. On the back of a growing post-tax bottomline, we look forward to enhance value in the hands of the shareholders. We believe that our existing business model is self-sustaining and not consider any deviation from the same.

At V-Mart we wish to make our shareholders, customers, employees, the society at large and other stakeholders happy. We thank them for their unstinted support to our business and the management.

Warm regards,

**Lalit Agarwal**  
Chairman & Managing Director

# Our performance in numbers

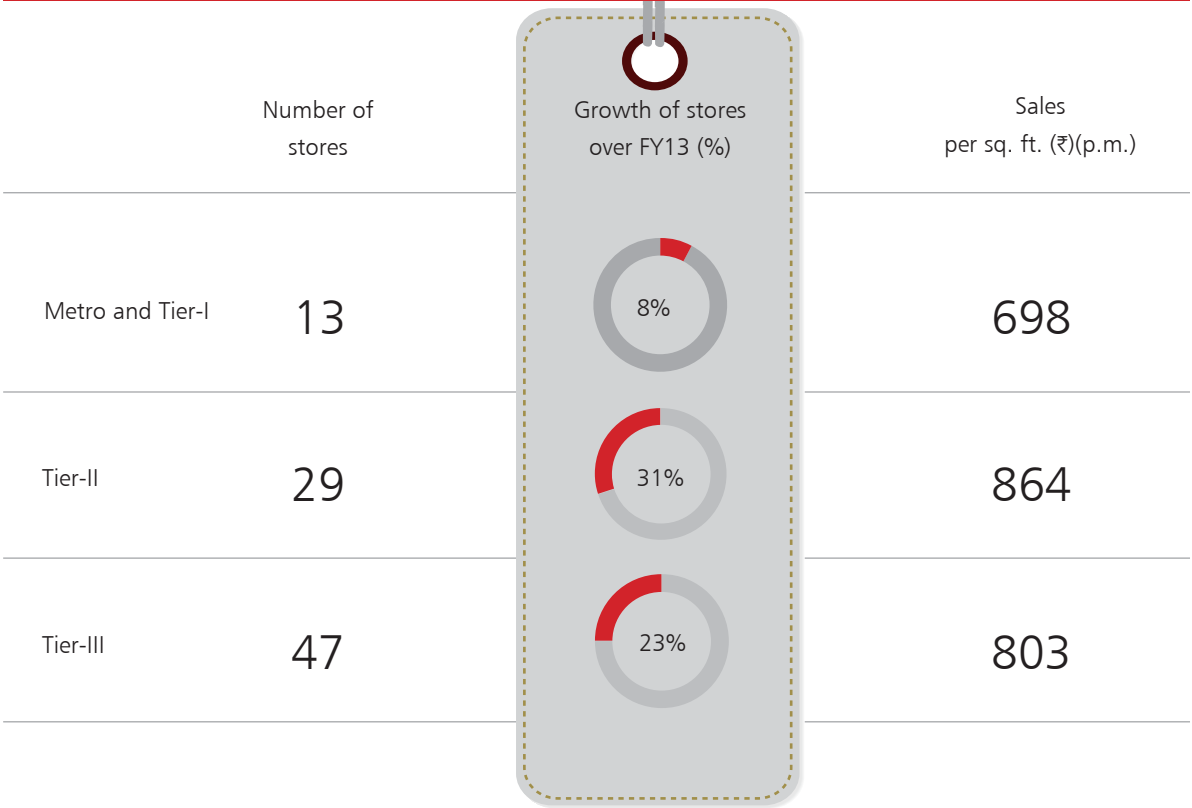


## FINANCIAL ACHIEVEMENTS, 2013-14

- Revenues grew by 50 per cent over 2012-13 to reach ₹5,749.59 million
- EBIDTA grew by 36 per cent over 2012-13 to reach ₹544.96 million
- Net profit grew by 39.73 per cent over 2012-13 to reach ₹251.57 million
- Cash profit grew by 40.70 per cent over 2012-13 to reach ₹360.52 million in 2013-14.
- EBIDTA margin stood at 9.47 per cent in 2013-14
- Inventory holding decreased from 94 days in 2012-13 to 88 days of turnover equivalent in 2013-14

## GROWING URBAN AND SEMI-URBAN PRESENCE

Financial year 2014



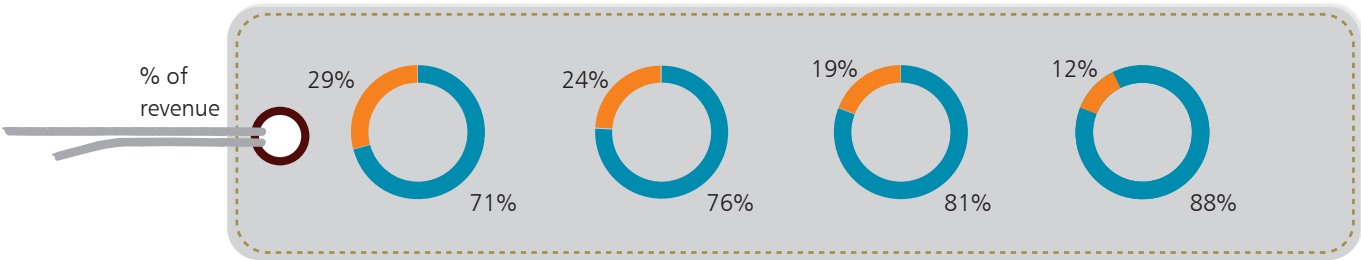
## PRODUCT-WISE GROWTH

### Fashion

	2010-11	2011-12	2012-13	2013-14
Revenue (₹ in million)	1,510	2,133	3,093	5,043

### Kirana

	2010-11	2011-12	2012-13	2013-14
Revenue (₹ in million)	630	677	738	698







# V-MART. MALL EXPERIENCE. HIGH STREET PRICING.

THERE ARE JUST TWO WORDS TO DESCRIBE INDIA'S LARGE MIDDLE-CLASS OF 75 MILLION HOUSEHOLDS OR 300 MILLION INDIVIDUALS.

'Value-conscious'.

Even as India's 500-million-strong under 25-year population is earning more than ever before, there is no incentive bigger than being able to buy the best at the lowest cost.

The definition of 'best' comprises the ease of shopping in terms of proximity, being able to buy branded products, being able to shop for contemporary styles, being able to buy into something that endures and being able to do this in a mall-like environment with products priced at par with the neighbourhood store, translating into an unbeatable 'value retail' proposition. A wide variety of merchandise with a pleasant shopping experience at competitive prices brings smiles to the faces of our customers.

The result: Same store sales growth stood at 12 per cent (fashion) during the year under review. The customers usually refer to a V-Mart store as a 'Mall' due to the experience and ambience on offer.







# V-MART. CLUSTERED PRESENCE. NATIONAL PLAY.

IN ANY ECONOMY, RETAIL OFFTAKE ESSENTIALLY COMES DOWN TO ONE METRIC.

‘Confidence.’

The greater the confidence of people in a better tomorrow, the more they are likely to shop. This is reflected in our average transaction price, which has grown from ₹489 to ₹575.

It is here that India scores well above most countries in the world. A MasterCard Worldwide Index of Consumer Confidence ranked the Indian consumer as one of the most confident in the world. When you aggregate this confidence with the scale of the country’s 700 million rural population – equivalent to the combined population of many other emerging countries – then you have one of the most exciting market opportunities in the world.

V-Mart added 23 stores to address this opportunity in 2013-14; 96 per cent of these stores were in Tier-II and III locations; each store was located within 150 kilometres from the other, leveraging efficiencies in brand spend, procurement, supply chain, logistics and inventory.

This scientific top-down approach is expected to reinforce the Company’s first-mover lead, accelerating revenues, margins and profits in a sustainable way.

Result: 81 per cent of V-Mart’s stores were profitable in 2013-14; each of the stores achieved breakeven within 45 to 60 days of launch; every rupee invested in the brand generated returns of ₹0.16 (ROE). Clustered presence helped optimise operations and serve the customers with better products, thus bringing smiles to their faces.





# V-MART. FISCAL PRUDENCE. SOUND FINANCIALS.

IN ANY BUSINESS, FINANCIAL DISCIPLINE AND VIABILITY GO HAND IN HAND.

V-Mart is no different. Over the years, V-Mart strengthened its Balance Sheet through prudent fiscal management, reflected in the following initiatives:

- In a business requiring large capital outlays for fresh store rollout, our success is measured in our ability to sustain the rollout of 23 stores while being able to maintain our gearing at a mere 0.26 (as on 31<sup>st</sup> March, 2014), ensuring that the Company has arrived at a sweet spot where growth can be sustained without stretching the Balance Sheet.
- In a business that is working capital-intensive, the Company maintained its working capital cycle at 88 days of turnover equivalent (94 days in 2012-13) indicating an efficient use of funds; the Company utilised only 71.21 per cent of its sanctioned working capital limit, indicating borrowing headroom whenever required.
- In a business that requires maintaining consistent pan-India inventory merchandise, the Company moderated its inventory cycle by six days of turnover equivalent to 88 days in 2013-14, indicating more effective stocking; correspondingly, even as the economy slowed and the Company increased store rollout, inventory turns were maintained at the previous year's levels (3.42 in 2013-14 and 3.46 in 2012-13).

Result: The net profit of the Company grew by 40 per cent in the FY 2013-14. Sound financials helped the Company to bring smiles to the faces of its financial stakeholders such as investors, lenders and employees, among others.





# MANAGEMENT DISCUSSION AND ANALYSIS



## Global economy

The global economy remain subdued as global GDP growth decelerated for the third year running – 3.9% in 2011 to 3.1% in 2012 and 3% in 2013. Most developed economies addressed the reality through appropriate remedial action. Besides, a number of emerging economies, which had already experienced a debilitating slowdown in the past two years, encountered renewed domestic and international headwinds during this period.

**Prospects:** Looking ahead, global growth is projected to strengthen to 3.6% in 2014 and 3.9% in 2015 (Source: IMF April 2014). Global activity is expected to improve during 2014-15, with much of the impetus coming from advanced economies. Many emerging market economies account for more than two-thirds of global growth and their output growth is likely to be lifted by exports to advanced economies.

**Challenges:** Global recovery is still fragile despite improved prospects with significant downside risks. Among old risks, those related to emerging market economies increased. According to the *Global Financial Stability Report*, rapid normalisation of the American monetary policy or renewed bouts of high risk aversion on the part of investors could result in further adversities (Source: IMF, April 2014).

## Global retail industry overview

The global retail market generated more than \$10.5 trillion in 2010 and

grew at a CAGR of 5.1% over the last few years to reach over US\$15 trillion in terms global revenues in 2014 and is expected to maintain strong growth in the near future. Food and groceries represent the leading market segment, generating close to 65% of the overall market. The global online retail industry is expected to reach almost \$830 billion in 2015. This represents a 90% market expansion in just five years. Electronics are the leading market segment, accounting for 34% of the overall online market. The Americas represent more than 40% of the global online retail industry.

In recent decades, the retail sector has undergone a significant transformation. Due to deregulation of foreign investment, competition/monopoly policy and land use policy, alongside broader neo-liberal reforms affecting consumer markets and trade, large retailers have consolidated their power and expanded globally. While small retailers still dominate parts of the world, transnational corporations are taking over larger market shares. As large companies seek to increase profits, they have reduced the risks of investment by subcontracting and franchising, impacting smaller firms, suppliers, consumers and employees.

## Indian economy

The Indian economy reported a growth of 4.7% in 2013-14 compared to a growth rate of 4.5 % in the previous fiscal. The mild recovery, although weak, was on the back of abundant rainfall which strengthened the agricultural sector; however the manufacturing and the mining sectors

continued to cause concern. India's growth is expected to get better over the medium-term following stronger global growth, improving export competitiveness, implementation of approved investment projects and accelerated reforms announced by the new government.

This growth of the Indian economy was on the back of the high growth in the agriculture and allied sectors, which grew at 4.7% compared to its long-run average of 3% (during 1999-2000 and 2012-13), owing to favourable monsoons. On the contrary concerns around the industrial growth persisted because of the continued slowdown in the industry due to deceleration in mining and quarrying and a disappointing performance of the manufacturing sector, with the growth averaging at around 0.2% per annum in the past two years. Thus, industrial revival is central to the sustained revival of the overall growth of the economy. (Source: KPMG, Indian Economic Survey 2013-14, July 2014)

Per capita income at current prices for 2013-14 was estimated at ₹74,920 compared with ₹67,839 during 2012-13. Current account deficit declined to US\$35 billion in 2013-14 against US\$88 billion in 2012-13, largely due to a steep decline in gold imports and increase in exports. Gross Fixed Capital Formation (GFCF), an indicator of investment, was estimated at ₹32,20,000 crore at current prices against ₹30,70,000 crore in 2012-13; in terms of GDP at market prices, the rate of GFCF in 2013-14 was estimated at 28.5% against 30.4% in 2012-13.

According to the NCAER, India's economic growth is likely to be 5.6% in 2014-15; Asian Development Bank projected India's GDP growth at 5.5% for 2014-15, depending on its ability to implement structural reforms.

## Indian retail industry

India's retail sector is one of the fastest growing in India and the fifth largest in the world. The country ranks fourth among 30 surveyed countries in terms of global retail development. The size of the Indian retail industry is estimated at US\$ 500 billion and expected to grow at 15-20% per annum. The Indian retail industry, currently worth

\$490 billion, is expected to grow to US\$750-850 billion by 2016-17, expanding at a compounded annual growth rate of 15-20%.

India's organised retail space in 2013 was approximately 4.7 million square feet, a 78 per cent growth over the total mall space of 2.5 million square feet in 2012 (Source: Business Standard, January 2014). FDI inflows in single-brand retail trading between April 2000 and January 2014 was US\$98.66 million (Source: Department of Industrial Policy and Promotion).

The retail sector plays a major role in increasing national productivity. In the developed countries, the organised retail industry accounts for almost 80% of the total retail trade; in India organised retail accounts for 8-10% of total retail (Source: IBEF).

## Growth drivers

**Growing organised retail:** The Indian retail sector is set to evolve towards organised retail. Organised retail penetration is expected to increase from around 7.5% in 2013 to 10% in 2018, growing at a robust CAGR of 19-20% during the period. This growth is expected to be derived from increasing purchasing power, skewed youth demographics, rapid urbanisation, growing number of working women and availability of quality products.

**Easy availability of debit/credit cards:** An increasing use of electronic payment modes is catalyzing retail growth. Some 19 million credit card holders and a staggering 372 million debit card holders spend ₹135 billion and ₹82 billion per month respectively at different points of sale pan-India.

**Growing urbanisation:** The country's urban population accounted for 31.6% of its total population in 2012. Between 2010-15, the country's urban population is expected to grow by 2.5% above the 1.3% growth in the total population. At this rate, it is estimated that around 843 million people will live in Indian cities by 2050, catalysing its retail sector.

**Purchasing power:** The number of working individuals per family is increasing. The annual per capita disposable income was estimated at ₹74,920 in 2013-14, increasing

## Factors driving growth in the Indian retail industry



**Supply-side factors**  
Rapid real estate and infrastructural development, easy availability of credit, innovative physical and online channels, increased service orientation

**Demand-side factors**  
Rising disposable income, increasing urbanisation, highly aware and affluent young population, growing number of working women and changing consumer preference

**Regulatory factors**  
Liberalisation of FDI policies in retail coupled with the expected roll out of the Goods and Services Tax

(Source: Indian Single Brand Retail – Poised for growth, EY-RAI report, September 2013)