

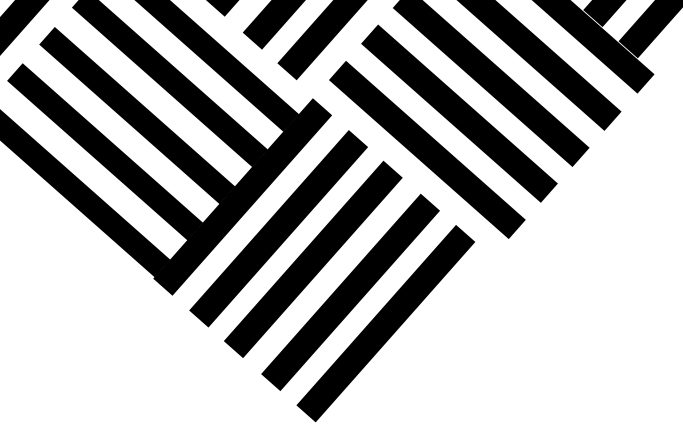


PRICE "LESS" FASHION

Determination.
Dedication. Discipline.

V-Mart Retail Limited | Annual Report 2015-16





Forward-looking statement

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. Readers should bear this in mind. 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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The financial year 2015-16 was full of challenges.

However, V-Mart successfully resisted the full brunt of the sectoral slowdown through proactive counter-measures, business model robustness and store expansion.

And that made all the difference.

At V-Mart we believe in turning challenges into opportunities; the larger the challenge, the greater the growth opportunity!





A segment of India is extensively serviced with contemporary apparel trends.

There is another Indian segment that is relatively under-serviced.

V-Mart ventured into business to service the widening lifestyle apparel needs of the relatively under-serviced India.

An India beyond metro cities.

An increasingly prosperous India.

An aspiring India.

A willing-to-spend India.

Servicing this 'other India' through product affordability, accessibility and availability.

Emerging as one of the fastest growing organized retail companies in India today.

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

Who we are

V-Mart Retail Limited was established in 2002 as Varin Commercial Private Limited (later renamed). The Company emerged as one of the pioneers in extending its retail footprint beyond metros into Tier-II and III locations.

What we do

V-Mart Retail Limited's business is spread across three verticals – apparel, general merchandise (non-apparel and home mart) and kirana bazaar (FMCG and pack staple food).

The fashion segment is the largest, accounting for 92 per cent of revenues in 2015-16.

The Company's unique selling proposition is the provision of an

exclusive range of reasonably-priced products, making it a destination-of-choice in Tier-II and Tier-III locations of India.

The Company caters to the aspiring middle-class population targeting the fashion-led aspirations of the youth and young families.

Where we are

The Company enjoys a pan-India presence across Tier-II and Tier-III locations.

As on 31st March 2016, the Company's 123 stores spread across 106 cities in 14 states and Union Territories.

The company's store coverage was 10.14 lac square feet at the close of the year under review.

Our stores



V-MART ASPIRE

V-Mart Aspire caters to the youth segment with apparel which is in-sync with the latest trends. We stay abreast of market developments 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 and are situated in selective areas which are highly populated with kids and senior citizens.

V-MART CORPORATE

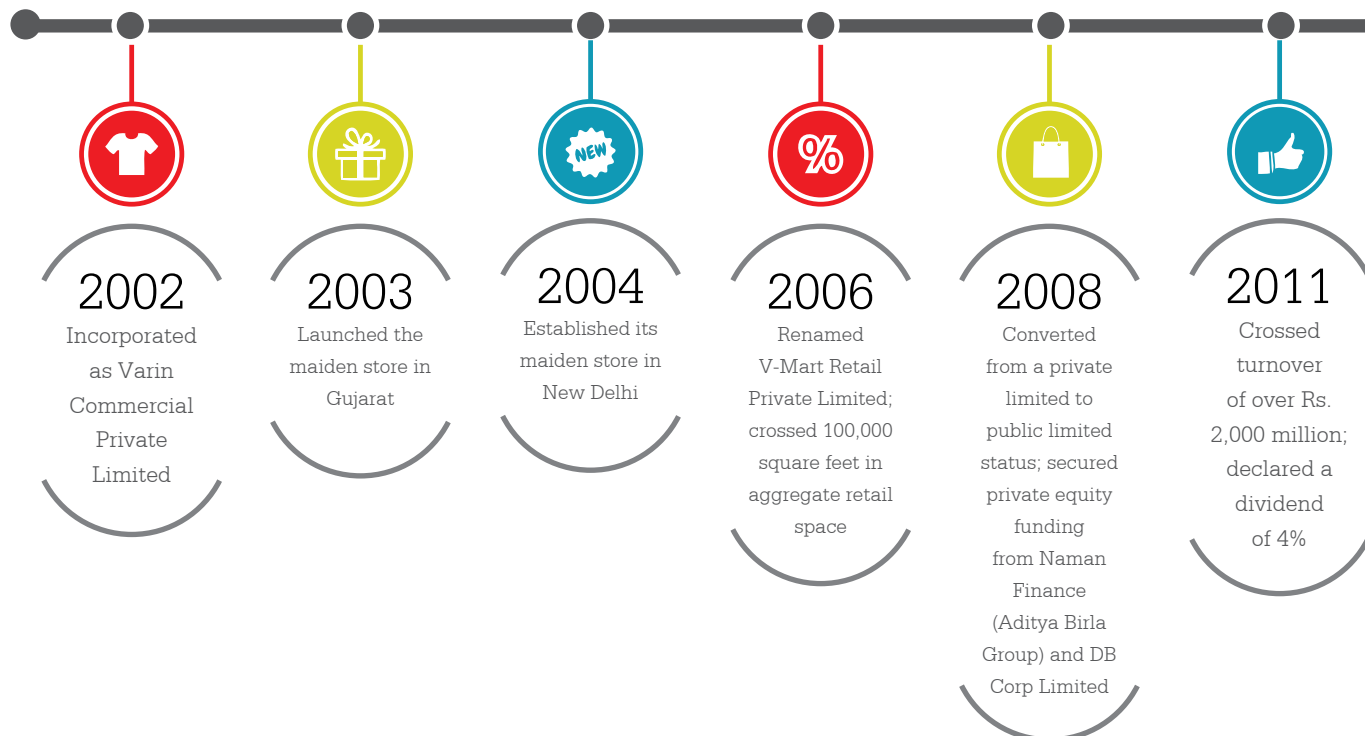
V-Mart Corporate targets office goers (both male and female) and the product line has been internally termed as Gold Line Fashion. These stores are located in areas where the population mostly comprises working professionals.

V-MART VALUES

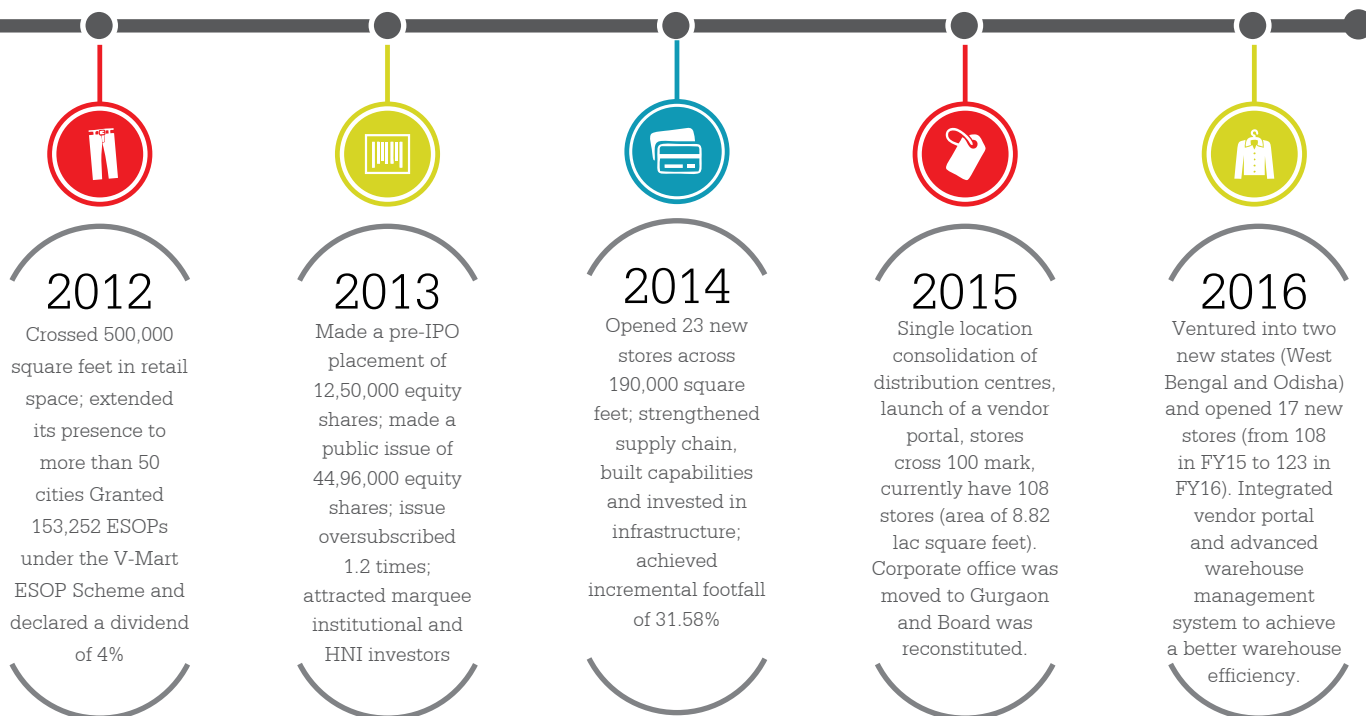
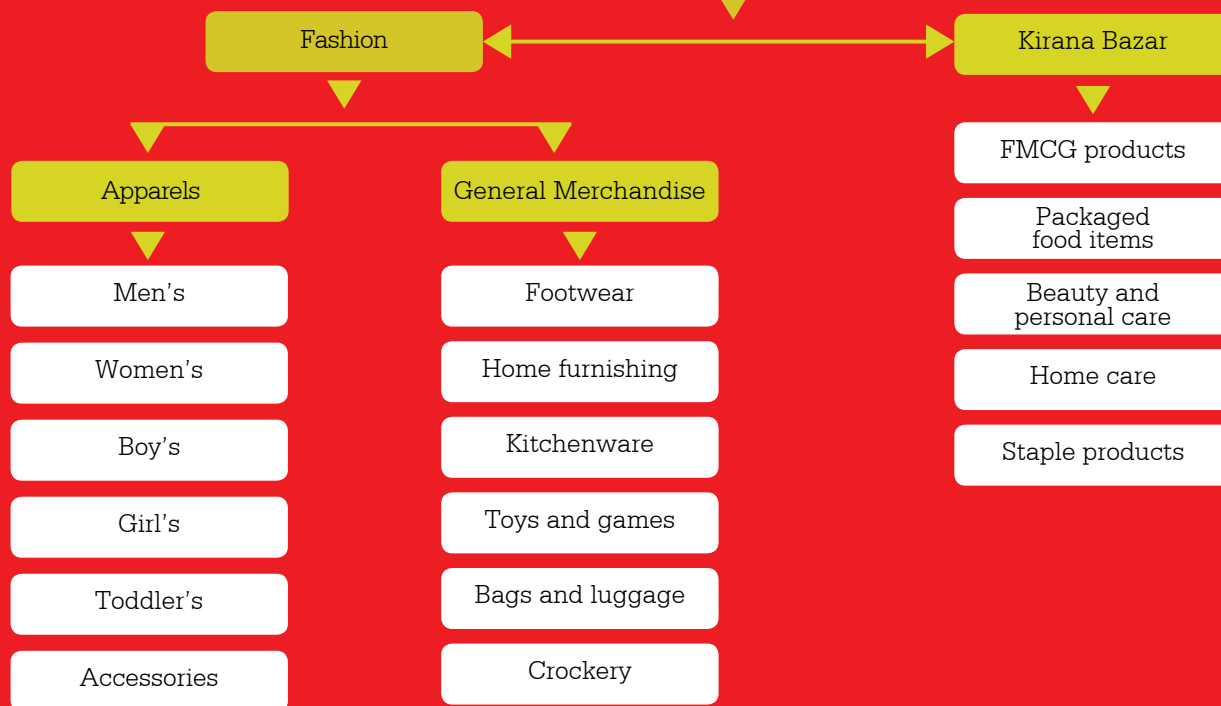
V-Mart Values caters to all age groups and focuses on cost-competitive quality products keeping in mind the economic profile of the inhabitants of the region.



How we have grown over the years



V-MART



A portrait of Lalit Agarwal, Chairman & Managing Director, smiling and wearing a dark blue suit, a blue shirt, and a red tie. He is seated and looking towards the camera.

Lalit Agarwal

Chairman & Managing Director

Chairman's message

Our three
Ds to success:
Determination.
Dedication.
Discipline.

Dear Shareholders

I present my overview as a part
of the 14th Annual Report of the
Company.

I must communicate to shareholders
the challenges we faced and the
strength we gained during the year.

Sectoral weakness

There were a number of challenges that our business encountered in 2015-16.

One, the successive failure of the monsoon began to reflect in not only lower rural and semi-urban incomes, which, in turn, affected their core product purchases, but affected their overall sentiment as well, translating into a deferment of purchases and down trading. The result was a general sluggishness in the country's retail sentiment that affected our company's revenues as well.

Two, rural incomes were stretched on account of the government plugging subsidy leaks. Through a combination of enhanced vigilance and online cash transfers, the government indicated that it saved Rs. 16,000 cr in lower subsidy scheme spending. We believe that this affected rural cash flows, which, in turn, led to lower consumption.

Three, the government's much-awaited rural infrastructure thrust did not materialize in the form and scale that one had expected. The result was local and rural employment was not correspondingly strengthened; it did not enhance incomes at the grassroots and kickstart the much-awaited rural income generation.

Four, at a time when semi-urban sales weakened, competition became increasingly aggressive with the objective to liquidate whatever inventories it possessed to keep their cash flows moving. The result was a general erosion in sectoral margins.

Five, there was a novelty factor about e-commerce in semi-urban Indian, which we believe contributed to the

organized retail sentiment weakness.

There were two specific instances that also contributed to the downtrend.

As per the Hindu calendar, the *Adhik maas* period transpired between mid June and mid July. During the year under review, a number of rural consumers selected to defer purchases. Normally what would have been a busy marriage season marked by attractive retail offtake was now marked by weak spending during the first and second quarters of the financial year under review, which surprisingly extended into the third quarter as well.

Besides, a weak winter affected the offtake of all those products that are generally consumed during that season.

Impact

The combination all these downsides – some of them unprecedented – translated into weak same store sales growth (result of a store's volume growth on the one hand and average selling prices on the other).

For the last number of years, the company had been experiencing same store sales growth of around 8 to 10 per cent, riding growing disposable incomes across semi-urban India.

During the last financial year, volume growth was affected by the various reasons that have been enumerated. Average selling prices declined on the back of a decline in the cost of commodities and products purchased by the company for onward sale, which had to be passed on to consumers.

The combination of these two realities was a negative 1% in same store sales growth (fashion) for the full year - the

first time the company experienced such a decline in its existence.

Business health

In the retail business, the need to run faster is a critical element in overall sustainability. Faster offtake and revenue growth translates into a capacity to procure larger volumes and cheaper prices for onward sale, a virtuous cycle that strengthens value in the hands of customers and the brand and vice-versa.

The Company embarked on a number of initiatives to protect its business in 2015-16.

I am pleased to state that despite the sectoral weakness and decline in the company's profitability, the critical mechanics of the company's business health were largely protected. Despite the extent and tenure of the sectoral weakness, we are proud to state that there was just a Rs 1.71 cr decline in EBITDA during the year under review.

Inventory: There is always the danger of an increase in inventory during a sales slowdown. The Company responded to a weak retail sentiment through various initiatives. The Company had moderated the number of warehouses from four to a centralized Bilaspur (Haryana) facility in 2014-15, the impact of which began to kick in during the financial year under review. Not only did the company more than double warehousing space, but was able to generate a number of upsides related to storage efficiency. The result was our overall inventory stayed around the same level as the previous year. During FY 2015-16 our winter end inventory was Rs. 31 crore in comparison to Rs. 21 crore during same period in FY 2014-15.

Vendor management: During a slow-down year when inventory begins to accumulate, there is a premium on clarity of which vendor's output lies where, of what design and in what quantity. In a business-strengthening initiative, the company launched a vendor-dedicated portal to enhance vendor-centric merchandise visibility across each store. This information, available at the click of a button, made it possible for vendors to take proactive calls in re-pricing their stock to accelerate sales flows; besides, stock movements generated leads of which vendors should deliver when their next consignment to the centralised warehouse facility (neither over-stocking nor stocking out), resulting in a better warehouse space efficiency. Besides, the company moderated the number of vendors from 1200 to 850 in exchange for superior value; it focused on the fastest moving SKUs (as opposed to providing the entire range), helping move stocks faster.

Free cash flow: When sales decline, generally there is less cash within the system to manage the business. When this transpires, the immediate casualty is a cash strain that sets off a number of other triggers: need for higher borrowings, higher interest outflow, lower margins, skew in the gearing and possibly lower credit rating. During the year under review, we rallied the organization around to save every rupee and enhance our liquidity. Our free cash flows have increased by Rs. 13.61 crore. It was

Rs. 20.01 crore during FY 2015-16 and Rs. 6.40 crore during FY 2014-15.

Net debt: During a down year, there is a premium on protecting the Balance Sheet that does not compromise the ability of the company to compete in the future. During the year under review, we continued to stay attractively liquid from a net debt perspective – the aggregate value of cash and cash equivalents and investments on our book (Rs. 37 cr) was larger than the value of total debt (Rs 27 cr).

Working capital management: During a challenging year, there is a need to

ensure that the velocity of cash inflows is higher than the speed of outflows, ensuring that there is always adequate liquidity within the system to address short-term needs. During 2015-16, the

company not just protected its working capital management but strengthened it by 113 BPS.

V-Mart
strengthened free
cash flow and
working capital
management.

Determination

This performance was the result of a determined focus: to derive higher productivity from each season's collection leveraging the established supply chain.

Dedication

This performance was also the result of the dedication of our people, derived from the attraction, retention and motivation of the best industry talent, which makes all the other objectives realisable.