“Avenue Supermarts Limited
Investor / Analyst Meet”

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Management Team

Mr. Neville Noronha – Managing Director and Chief Executive Officer
Mr. Ramakant Baheti – Whole Time Director and Group Chief Financial Officer
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Disclaimer: Questions and responses have been suitably edited to convey appropriate context and meaning (Including grammatical and language corrections)

Moderator: Ladies and gentlemen, good day and welcome to Avenue Supermarts Limited Investor / Analyst Call 2020. 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Rushabh Ghiya from Avenue Supermarts Limited. Thank you and over to you.

Rushabh Ghiya: Thank you so much. Good morning all. Welcome to our annual investor / analyst conference call. We do hope that you are staying safe and healthy in these uncertain times. I have on call with me today the senior management team from Avenue Supermarts, Mr. Neville Noronha, Managing Director and CEO, Mr. Ramakant Baheti, Whole Time Director & Group CFO, and Mr. Niladri Deb CFO, Avenue Supermarts Limited. I also hope that you have had a chance to look at our presentation which was shared with the exchanges yesterday and is also available on our website. We will start with Neville briefly taking us through the presentation and then we will leave ample time for the Q&A session. Just before I hand over, I would like to draw your attention to the safe harbor statement for good governance. Over to you Neville.

Neville Noronha: Good morning everybody. This is Neville speaking. I hope all of you are staying safe and I am hoping that this pandemic issue gets sorted over a period of time. As far as the presentation is concerned, I will follow a format of calling out the page number, I hope you have the presentation which we uploaded on the exchanges. I will take you through last year's performance and I am at page three, which is the business overview and operating & financial summary. We go to the business overview, on page 5, key products categories. The theme as usual is that I will go through the presentation quickly as nothing much has changed and that will allow us to have more time for Q&A. I am happy to take as many questions as possible, time permitting. We will make every attempt to answer every single query.

As far as the share of business is concerned, it is business as usual, but food being slightly better compared to the other categories, but then this is again natural secular behavior depending on which cities, which states that we operate in. There is also a factor of base effect, so as and when the existing stores do more revenue, FMCG tends to do more than non FMCG, that is the broad message that I would like to give you. As the business matures, the FMCG acceleration rate is slightly faster than non-FMCG part of the business. That has been our learning over the last 15 to 20 years in this business.

We next go to page #6, once again the story continues. Given an option, we would like to open stores in states that we already operate in. A lot of people who have heard me before would know this, but for the benefit of people who are hearing it for the first time, our principle has been that given the amount of money to be invested, we would like to invest in states and cities that we already exist in primarily because it gives you better leverage as far as operating leverage is concerned. Your cost structures are far better utilized if you are investing in the same cities and being in the same city you also know the consumer better, so your ability to earn topline and gross margins are significantly better than going to a newer market. That does not mean we do not go to new markets, but it is typically 80-20 or 70-30 principle. Every year the risk capital will only be 30%, but 70% will be in existing markets. So that has been the trend, these 38 stores have also been added with the same principle. We opened the highest number of stores ever in the history of the company, part of that was because we had a relatively lower store opening for the previous year so some of that rolled over in this year. Please go to page #7 where I will give you a feel about how the store addition trending has been and what it could be in the future. Because of COVID-19, we had disruption for the first three to four months where construction activity was totally stopped, so to that extent this year we will have relatively muted store opening, but we will make it up in the year after that because we have decent inventory of store acquisitions. Please go to page #9, these are the same format since the IPO days, they have not changed much so the trends continue – average basket value for last year grew by 6%. Like for like growth, as I have commented before it was lower but 10.9% is still very encouraging, very good. It looks lower than the previous high which is 17.8% but that is primarily because in the 17.8% we had a huge chunk of new stores which grew very, very fast and they reached a good peak and hence that base effect has impacted the last year like-to-like being 10.9%. If I take away the extremely new stores out of the evaluation, then FY2019 and FY2020 do not look very different, it is more or less there. We are quite glad with double-digit like-to-like growth. Here I would like to call out again for people who have been probably dialing in and listening to us for the first time, unlike the industry, we do a like to like for 24 months and not 12 months, which means we wait for the store to at least complete 24 months since the date of opening and then we monitor them for like to like and that is primarily because we do not want the blended average data to get distorted because new stores grow at a very high rate and we do not want the overall percentage growth to be distorted, so that is why we prefer taking 24 months.

As far as square footage is concerned, we not only added 38 stores which was a new high but we also had the highest square footage in terms of absolute value, 1.9 million, which effectively means we are opening larger stores and that has been the direction which we have taken for the last two years primarily because as and when the brand has become more and more mature, whichever city we are going to we are hitting larger absolute sales number much earlier. Therefore, to allow the store to maintain decent CAGR growth for a longer period of time, we decided that we will open larger stores because better infrastructure leads to better CAGR growth for a longer period of time. Stores which are small and which have peaked out, when I say small and peaked out it means that the revenue per square feet is significantly higher than ~Rs.32,000 or ~Rs.35,000 for the previous year but once that happens then the CAGR just flattens out with single digit or almost flat, it just about grows at inflation rate or lower. That is the reason why we have been opening larger stores. Also, another point is larger the store from a capex point of view does not mean a proportionate increase in capex. The relative increase in capex because of the incremental construction cost is lesser so it makes business sense to open larger stores. Simple underlying principle is – do I get the topline? If the topline is available then opening larger store makes a lot of sense. Revenue per square feet has gone down because stores have been larger, but that metric is important up to an extent only, but it is lower than last year at Rs.32,879. Please go to page #10, these are numbers for financial year 2020, we did Rs.24,675 Crores of revenue, 8.6% EBITDA. These are the operating leverage benefits that we are getting and that we are running this business as before in a very tight ship, keeping a very close look on cost and ensuring that the business is continuing to be run in the same way that we used to run when we had 10 / 20 stores. That is the principle on which we run the business and obviously because of the tax change effect and all of that, these are numbers that we have delivered for the last year. Page #11 again more of the same except the top right part, inventory has been stable, payables have been stable, they remain the same. Debt equity has gone through a big change over the last four years. As you would all know we also did a successful fundraise. So, all of that is self-explanatory. Our fixed asset turnover ratio is also very encouraging; this is something which is very important for us. We all look at this very carefully because we are in the capex ownership model and for us fixed asset turnover is extremely important and inventory turnover ratio is also something that we keep a watch on, but that has been more or less the same. So that is about broadly on our operating metrics. Page #12 and #13 are basically a snapshot of financials which are being published, any questions on these, am happy to take them.

Let me go to page #14, I will spend some time on page #14 which is basically Q1 FY 2021 update and a lot about what is happening right now. Numbers, I am sure most of you have gone through; this is the new normal for us. The Company was always used to doing stellar qualitative numbers; this will be something very different for us. But I think as a team we have all got together and handled the situation very well. Revenues have gone down for the reasons we have explained earlier, most of our stores were shut, stores that were operating were operating with minimal hours and apparel and general merchandise was not allowed to be sold. In fact, in certain stores even in the FMCG section, authority would say why you need a skin cream. It is not essential or shampoo is not essential. We have gone through the entire cycle, but in general it was manageable. We cooperated with the authorities, we decided not to be combative, knowledge was limited and fear was at its peak. We cooperated 100% with all authorities and built very good bonds with all of them, because we all know that we need to be in this together. I deeply appreciate the work the authorities did, even the senior-most government officials, IAS level officers. They would all be on the ground to visit and check. It is commendable as along the way, they took personal risk and ensured that everything was on track. The broad points are: store closures and lower operating hours. We also had certain unique situations in certain cities, which are very forward-looking, which with due representation allowed us to operate 24/7. That was one reason that gave us a lot of comfort that even during the peak of the pandemic those stores were doing very well. So that is one key point I would like to call out, but otherwise across the country, the further we went away from our large towns the restrictions were most stringent. DMart has very high number of people in the store and therefore a business like this would get impacted the most, so I think that is also a reason why we got impacted. We are not a neighborhood store. A lot of the business went back to the neighborhood stores, whether they were regular Kirana shops or modern trade shops, which were small 2,000-3,000 square foot store neighborhood store. They all did well and we are not a neighborhood store so to that extent we got impacted because people who are living far away could not come to the stores to buy or if they had to come then they had to wait. At certain points in time we would have queues of 2 to 3 kilometers just to buy groceries so that was how the situation was.

As far as margin dilution is concerned, bulk of the margin dilution happened because we were not allowed to sell apparel and general merchandise, those sections were totally shut so that is the key call out and we gave very liberal incentives in the beginning of the pandemic because people were afraid to come but we had to run the stores. We had crowds in the store, but then we did not have enough employees. Anybody who was staying within a one-to-one-half kilometer radius did come to work but that was not enough so to incentivize and motivate our staff we announced very high incentive so that they come to work and that worked brilliantly because we preempted that this could happen and that brought in most of our employees back to work.

Over a period of time, data came in that it is relatively safer for youngsters and we did not have too many COVID-19 cases within our premises. That also built a lot of confidence and that is because of all the measures we took ahead of time I would say. We were constantly watching what is happening globally. COVID-19 actually lagged in India as compared to Europe. We took all the pre-emptive measures, even if it meant spending a little bit more money, but we took that leap and took all the necessary precautions. There was also a very high frequency of communication internally – every day, every week we would update people, remind them what they should be doing and not doing. That helped us a lot, so everybody was aware about what they were suppose to do. So that has been the situation. The entire feel of what we think about the business has been communicated through multiple releases and also through our Annual Report. I think I will end up here and open up for Q&A. Thank you so much for listening to me.

Moderator: Thank you very much, Sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Thanks. My first question is on the store size and store count. First on the store size, in the larger stores for the first two to three years are there any benefits? I understand the later years' benefit, but in the first one or two years are you getting benefit of more SKU, is that something you are doing? And on store number essentially you said FY2020 obviously because of COVID-19 there will be lower growth and next year you will make up, so FY2020 you opened 38 stores versus 21-25 earlier so how should we look at FY2022 number will it be 38 or 40 kind of run rate for the two years combined FY2021, there will be less but those will get compensated and annual run rate takes 40 stores for the next two years?

Neville Noronha: I will take it one at a time. First is on the size and its impact. I have answered this before and I maintain the same stand that larger store does not mean we have any change in strategy in assortment, our format in assortment more or less remains the same but yes there is an advantage in your ability to sell higher margin products, it allows you to display your general merchandize and apparel relatively better than a small store. So, to that extent we see advantages. At the same time, I will not say that from day one you get benefit of a large store. In fact, the first few years the benefit is actually lesser than had it been a smaller store because there are a lot of costs involved when you are opening a larger store from an operating perspective. You need to hire more employees, electricity cost is higher, all of that, so in the shorter term it will not be very exciting, ROIC may not be very exciting, but it gives you far better run rate ROIC and a CAGR. A profitable CAGR over a longer time kicks in an accelerated ROIC in the longer term and that is the reason why we are doing this, that is my answer on the first part.

What will happen this year, to be very honest my message to all of you is do not expect maintaining the run rate of last year. We have lost four months and with monsoons, construction has got impacted severely because of this. We do not give forward looking statements, but I will tell you this year store opening will be muted. All we can tell you is we will make it up in the next year. We opened 21 stores last to last year and we opened 38 last year, so probably 21 + 38 is 59 in two years, is something we will probably be looking at but we could be as low as 21 stores next year, I do not know. We are still in a period of monsoon. So, this year store opening will be extremely muted, but at the same time we are still confident about the model and business. I am sure there will be a lot of questions on e-commerce – we understand that e-commerce is going to become big and pandemic has kind of accelerated that opportunity, but not at the cost of the brick and mortar. We are still very confident and positive about the brick and mortar business and our store addition and our focus on brick and mortar will continue. I hope I have answered your question Abneesh.

Abneesh Roy: That was quite helpful. My second question is on DMart Ready and e-commerce, you saw a sharp increase in revenue, but that does not flow to the EBITDA and operating leverage was not big, so Rs.143 Crores revenue becoming Rs.354 Crores revenue so why that was not visible at EBITDA. Second is why did you withdraw e-commerce in rest of the cities except Mumbai when still normalcy was not there, you could have continued till normalcy was there and in DMart Ready you have been always very cautious but now with every player entering into e-commerce, the biggies, what is the stance now? You are doing well on revenue so any change to the expansion plan outside Mumbai?

Neville Noronha: On the first part, as far as the e-commerce revenue versus operating leverage is concerned I do not think we should be looking at operating leverage opportunity at such low revenues. At such a small turnover of ~Rs.150 crores to ~Rs.350 crores or whatever that number is, expecting that you get an operating leverage at such low turnover – it is not the way to look at it because at such small scale it is too early. We have got some leverage, but I will still say that there is time. So that is on e-commerce financials.

As far as why did we shut it, the simple response is that the density of revenue we do at our store, it does not allow us to run both the operations from the same premise. One thing you must understand when you see Walmart or Tesco or the other large retailers globally, their assets, there is an opportunity to utilize them better through e-commerce because of the opportunity. DMart is doing very high intensity of sales per square footage, it is impossible for us once we start getting the regular revenue or we open the store for regular business to also run e-commerce, our infra is just not aligned for that. The moment markets opened and the authority allowed us to open our stores full-fledged, 10-12 hours, then we decided that it is better to focus on brick and mortar and withdraw e-commerce so that is the reason why we withdrew it.

Abneesh Roy: New cities?

Neville Noronha: New cities we are contemplating. You will hear about it as you see it launched, but there is work happening on that. It is not just contemplation; we are also working on it.

Abneesh Roy: Last question on the non-essential apparel and general merchandise, what is the status as we speak in July, what is status there?

Neville Noronha: So now we have been allowed to sell all stuff in 95% of the stores. The power is still with the collector, so he can override or overrule what the government notification at state level is, but in general in 95% and above stores, general merchandise and apparel is allowed to be sold. It is selling, but it is not selling at pre-COVID-19 rate, there is still some hesitancy there.

Abneesh Roy: Because of the working hours? Because Saturday, Sunday the working hours are lower?

Neville Noronha: We are not able to fathom what the reasons are - is it fear of spending too much of time in the stores or is it pressure because of the salary cut in the industry or job losses, we are still unable to understand it. We are trying to find out more but all I can say is that general merchandise and apparel sales are back, but they are not back to the extent of pre-COVID-19. If you look at page #5, general merchandise and apparel contributes 27%. We are not hitting 27%.

Abneesh Roy: Okay that was quite helpful that is all from me.

Moderator: Thank you. The next question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Sir I wanted to get your thoughts on customer behavior. You had highlighted that in the initial part of the lockdown that there is a focus on safety over value. How has this progressed and do you think there is a possible need for higher discounts to lure back the customers to your stores?

Neville Noronha: Discounting is a factor of market situation and what we will do, attributing any further discount to bring in more customers would not be appropriate is our view. Let me answer this question to give you more color on what is happening. What we are observing is that the profile and class of people who were shopping in DMart, relatively speaking, you have a larger section of the middle class or the lower middle class who are coming to the store and higher middle-class contribution has relatively come down, that is visually what we see. Now you could see this in two ways, premiumization may reduce, but what we are also seeing is there is an opportunity for selling more of basics in the non-FMCG side, so broadly this is what we are seeing in the market. We have commented on this that if a store is allowed to operate unhindered for a long period of time – three weeks to four weeks, we are saying 80% of the business comes back, that is the minimum. I am not talking to you about the maximum. The basic culture of the organization is to not get people excited, but it is encouraging. I mean brick and mortar business, the way we think while we are sitting at home, work from home - what we observe in the stores is very different. People are coming back to shop; the mix of the people is changing. In fact, we suddenly hear that the chatter in the middle class and lower middle class is that go to DMart and shop your items as they are still selling the items at cheaper rates while in Kirana Stores they are selling at MRP. But the point is that this chatter among the middle class and the slightly lower middle class is more around DMart now.

Avi Mehta: But it does not mean that you have to relook at your strength on consistency and your in-depth understanding of the product portfolio, does that have to change now given this or do you think it is more tactical now if that happens?

Neville Noronha: Nothing much has to change, buyers are smart and agile and they look at off take and decide what they need to do. It is not that there is a completely new ecosystem of vendors that you look for now to align. Nothing of that sort, not really. Most manufacturers have got range across the spectrum and the current assortment will solve that problem. In fact, they are quite excited with this phenomenon. We see a lot of opportunity. Our assortment breadth is more attuned to the middle-class consumers.

Avi Mehta: Yes, I mean is it that premiumization kind of moving away is better, is where I was coming, I was trying to understand from that, so you know does that kind of hinder or change our thoughts on portfolio that is what I was trying to get from you?

Neville Noronha: Premiumization has got impacted.

Avi Mehta: Okay and second bit, I know you highlighted that the focus remains on brick and mortar, not taking that away, but one of the strengths of this company has been the employee base, the organization, culture, the strength that brings in - now that allows you to experiment which you have done as well through various means to explore the opportunities like e-commerce. In that scenario while I appreciate that, you have pulled back some of the tactical initiatives that you had done to capture demand in these uncertain times; now with a trend emerging of e-commerce how would you kind of want to play that? Would you want to invest in technology a lot more in e-commerce and DMart Ready or in more offline stores? Any thoughts on that would be helpful?

Neville Noronha: We still maintain the stand that e-commerce for our kind of business, which is grocery e-commerce, the opportunities are there only in large towns. We will hold that position and we will have strategy around that. We will expand grocery business in large towns for e-commerce wherever we see an opportunity and just because of COVID-19 it is not like all hell is breaking lose and we need to accelerate to go in 1,500 cities, no, we are not going to do that.

Avi Mehta: It is not just city count; it is more in the service. Would it still be more the way you run DMart Ready or would you explore delivery-based options, how are you looking at that?

Neville Noronha: Currently we will follow our DMart Ready model unless you have something specific to tell us in terms of anything that you have a point of view on weaknesses, but I think the DMart Ready model is the model that we will expand. We are quite happy with what we are doing there, which has both options. It has a pick-up option as well as home delivery. We will also do home delivery by the way so there is an opportunity to do it using the same model.

Avi Mehta: Okay fair enough no I was exploring or understanding there are other offline, online partnership that are now becoming the talk whether do you see that opportunity in the breadth that has been talked about? The Kirana Partnership model?

Neville Noronha: We have not thought about that yet.

Avi Mehta: Okay perfect. I will come back in the queue for other questions. Thank you very much.

Moderator: Thank you Sir. We have next question from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: My first question was on competitive landscape within modern trade and we have seen one of the largest competitors expanding rapidly, one of the competitors in financial trouble so overall how do you see the competitive landscape and versus your largest competitor? Has the price differential equation remained same in the last year or have they become more aggressive and you are having to respond to that, if you could just throw some light on that?

Neville Noronha: We will continue to say what we have been already saying – that the market size too large and you spoke only of 1-2 competitors. I think there is space for at least 5-10 players in this market and there is still opportunity for every single player. The size is just too humongous. We are not worried about any competition and I also say that none of the competitors should be worried about each other; the market opportunity is extremely large.

Arnab Mitra: Okay thanks for that and on the DMart Ready business just to go back to the previous question so two years back you had a view that you are still not sure about this business, you want to keep experimenting but whether this is to be grown aggressively, you were not very sure of that. So that has essentially changed to a situation where you are saying that you are happy with the business and now you want to actually expand it, how do you take care of two things here, one is the possibility that you have been always talking about that your own consumer may actually go from the store to a DMart Ready and you do not want that to happen because the general merchandise makes us better in the store? How do you protect that as you now start to expand this business in a more regular fashion?

Neville Noronha: What I said two years back and what I say now will be distinctly different for e-commerce for sure. Two years is a very long-time for a digital business. Let me put it this way: pre-COVID-19 and post-COVID-19. PreCOVID-19 also we were relatively more positive than we were two years back about e-commerce. During the pandemic all the numbers have changed, it is crazy. Demand, costing everything has gone but the point is you have to take a bet what it will be once COVID-19 settles. Our view is that it will settle down somewhere in between. The intensity of demand that is there in grocery e-commerce today will not sustain once the pandemic settles down. And as far as the consumer shifting or moving from brick and mortar to e-commerce, those are not things that we bother about. I mean the moment you start looking at things like that, that is a very negative way of looking at it. You should let the customer free; let them shop wherever they want to. We will not design our business architecture in a manner that it will not allow the shopper to move from brick and mortar to e-commerce, I mean that will be very foolish because if she does not get that opportunity at DMart, she will go somewhere else. We do not look at it like that. If a Borivali or Mulund (Mumbai Region Suburbs) customer who is shopping in the store wants to now shop on DMart Ready then she is free to do that and we would love to give her that choice. We do not look at the business like that.

Arnab Mitra: Just a follow-up on that, you do not see that as a risk for the mix which will be much more basic grocery in a DMart Ready versus the DMart store where the consumer explores and ends up buying general merchandise; do you see that as a relatively lower mix business?

Neville Noronha: Yes, the DMart Ready business will be relatively lower mix business but then every business has to be viewed in its own way. I will look at the revenues, cost structure all of that independent to how the consumer basket is changing across two channels. I mean why that should bother us. I have to make it work within the cost structures and the parameters of that individual business. Let me answer it this way, if people are moving from brick and mortar to e-commerce I will re-look at my brick and mortar business to ensure that it stands on its own and we are pretty confident about that. Nothing is going to happen to the brick and mortar business because people will need apparel and general merchandise products too.

Arnab Mitra: Thank you so much. That is very clear. All the best.

Moderator: Thank you. The next question is from the line of Prasad Deshmukh from Bank of America. Please go ahead.

Prasad Deshmukh: The first question is on the cost structure of the new stores that you would be opening. Post COVID-19 we hear there is sharp cut in asset prices so could you just give us a sense as to in percentage terms also it would help so pre-COVID-19, post-COVID-19, what kind of capex trajectory would be?

Neville Noronha: Again, I would not recommend to think about it like that because real estate that we look for is reasonably prime real estate, it may not be CBD (Central Business District), it may not be high street, but it is still prime because we want real estate in a particular manner, it has to have clean title, it has to be in a relatively busy street, good infrastructure etc. Properties like these do not collapse; they do not fall to that extent. The only thing that happens in situations like these when real estate becomes soft is that deals happen. People close deal faster in the fear that if I wait for another three or six months the prices may fall further, but it is not like you get 30% or 40% discount, it does not happen like that. Yes, you may get 5%-10%-15% discount but that is it, but the point is deals happen faster. In a growing or a heated market of real estate deals do not happen because people say, if I wait for another six months, I can get a little more, so this is what typically happens in real estate.

Prasad Deshmukh: Got it and second question on working capital, the question is more long term so typically we have seen in global retail place working capital as a percentage of incremental sale keeps going down, in fact it enters into negative territory after like 5 to 10 years. As far as DMart is concerned what are the levers that would move this working capital as a percentage of incremental sales in such direction, if there is any possibility like that?

Neville Noronha: I have no view on that currently. We like to do it the way we are doing it. We would like to pay upfront. I do not have a view of this moving forward. It will be a factor of the market, the supplier and cost of capital scenarios in the country. As of now, we are not looking at changing any of that. We continue to do what we are doing.

Prasad Deshmukh: Got it. Thanks.

Moderator: Thank you Sir. We have next question from the line of Aditya Soman from Goldman Sachs. Please go ahead.

Aditya Soman: Couple of questions firstly in terms of delinking the sales to store area, one way to do that is online potentially; another way is exploring the wholesale business given that you are already a large customer for a lot of FMCG companies or a large buyer in a lot of agri-commodities. Any view on growing that wholesale business?

Neville Noronha: We were talking about it earlier but considering the pandemic and what we are going through, we have postponed that idea further, nothing much is happening there. We would like to focus on the brick and mortar business and a little bit more focus on the e-commerce business.

Aditya Soman: Understand and secondly, we noticed at least before pandemic that there was an increase in private label especially your own brands, was this a trend or was this just a small experiment in specific stores?

Neville Noronha: No, may be the private label team must have gone there but no strategic direction at a general level. May be at that particular store you must have seen that but nothing of that sort. To be very clear, pandemic is the time to not push private label. That is the direction I had given. Someone came with a novel idea, I said nothing doing, pandemic is the time to reassure people and people get reassured when they see familiar brands so we put a complete focus on manufacturer brands to ensure that customers get what they really want so in fact it is not the time to try and push an unknown brand when a person is already very anxious on so many other things.

Aditya Soman: Fair enough very clear. I think in terms of where you are seeing store closures or at least in the early stages of the pandemic, how did you deal with inventory that is perishable?

Neville Noronha: We have very little perishable, we do not sell F&V (Fruits & Vegetables) much and whatever we sell is more on the vendor, the inventory is not on us. Otherwise the only perishable we have, if you may call them, is what is temperature controlled like cheese, butter and stuff like that but then the nature of the business is we carry a very low inventory in general. For us the worry is not FMCG or perishable inventory, for us the slight worry is the apparel inventory which will see some problem because almost four months have passed and sale has not happened much. That is an area of concern, apparel primarily, otherwise we are okay. In general, we are okay, no major issues, but food and FMCG anyway we carry very low inventory, no issue at all.

Aditya Soman: Understood. Thank you.

Moderator: Thank you. The next question is from the line of Hussain Kagzi from Ambit Asset Management. Please go ahead.

Hussain Kagzi: Most of my questions have been answered just two questions, one is can you give any broad sense on how our margins have been for food and non-food and general merchandise over the last year?

Neville Noronha: We do not declare or disclose category margins but in general I can tell you margins are more or less same as it has been pre-COVID-19.

Hussain Kagzi: For all the three categories?

Neville Noronha: Yes.

Hussain Kagzi: And also, just one data point is can you give an indication of how many DMart Ready stores are there currently?

Neville Noronha: Around 220 in Mumbai. Mumbai means greater Mumbai. Mumbai, Thane and Navi Mumbai.

Hussain Kagzi: Okay and most of these are only in Mumbai.

Neville Noronha: Mumbai, Thane, Navi Mumbai.

Hussain Kagzi: Alright thank you.

Moderator: Thank you. We have next question from the line of Susmit Patodia from Motilal Oswal AMC. Please go ahead.

Susmit Patodia: Couple of things, one you mentioned in the annual report the two trends that would have lasting change - social distancing and consumer preference, our assumption was as soon as we have a vaccine or a durable cure these may not be long term shopping trends - if you could expand on that?

Neville Noronha: The only way we are trying to deal with this issue is by having extended hours. Where the authorities are cooperating, what we are doing immediately is we are extending operating hours. At a lot of places stores are open at 6 am, lot of places stores are opened till 11 pm, certain places stores are operating 24/7, so our view is that a set of consumers who are extremely worried about social distancing will come during these hours and shop. That is the way we are looking at this and as far as sheer numbers are concerned, like I have been repeatedly saying that if stores are allowed to operate for a longer period of time then minimum 80% of the revenue comes back.

Susmit Patodia: Second is for how long do you think availability will trump value in terms of customer behavior?

Neville Noronha: I do not know exactly. We all read, you have seen previous outbreaks, you have seen pandemics, and eventually things have to come back. So, your guess is as good as mine or your optimism is as good as mine, but we have to play by the ear, watch every month, every week as you see and act accordingly.

Susmit Patodia: And lastly if you could give us any initial insight into the impact that we may have or the benefits that we may get because of the agri reforms that are happening?

Neville Noronha: We do not do too much of fresh, so to that extent benefits I do not know to what extent we will get. As far as grains are concerned, I think we have kind of extracted the juice there because we are deeply connected to the farm for grains. Our set-up there is pretty good. I cannot put a number to this in terms of how much more will it be, but it is a very, very encouraging rule and we hope in the longer term there is no downside, there is benefit only and we are aligned to that at least from the grain / staples side.

Susmit Patodia: Right best of luck. Thank you.

Moderator: Thank you Sir. We have the next question from the line of Fatema Pacha from ICICI Prudential Life Insurance. Please go ahead.

Fatema Pacha: I wanted to ask you in some markets which are very big for you like Mumbai is big and MMR is big and Gujarat at the margin is big and there has been a decent amount of unlock in these two regions in the last 25-30 days. What are you seeing in terms of customer response in these two markets? Are you seeing risk aversion coming down? Are you seeing demand coming back because underlying demand is not bad even on the non-food side, you can see the neighboring store all out of inventory, apparel is only exception may be, but other than that demand per se is good just that you have lost share to the neighborhood stores, so what are you seeing in these two regions where at the margin unlock is in progress?

Neville Noronha: Good question. We just want more time; see the problem is inconsistent store openings. Till we do not see at least eight weeks of data, we will not be able to give a very clear indication in terms of what is really happening. In general, I can tell you this, that every additional day of store opening is better. The business is coming back, but we just need more time as far as what is happening to shopping pattern. Like I said earlier also that it is very clear that in the economic strata the higher you are, the more afraid you are and therefore the lesser you are coming to the store, but at the same time we are getting a lot of crowd from the lower strata also in the stores now. That is broadly our visual view, but we need more time to see the trend. In general, again like I said it is not like stagnant and that the needle is not moving. Every three days-four days the needle is moving more and more positive, revenues are slowly creeping back, but I think another six to eight weeks, maybe this quarter.

Fatema Pacha: Q2 is it fair to say that you would at least be on revenue per square feet flat year-on-year - will that be a good metric for you to have, how will you judge yourself?

Neville Noronha: I do not want to be the judge; we all know what happened with all the projections on the pandemic, especially from the scientific side, so I do not want to make any prediction. My request is to just wait for one more quarter and we will follow on the results with a very detailed note on what is happening. I will write extensively on what we are observing towards the quarter end.

Fatema Pacha: Thank you so much and all the best.

Moderator: Thank you. We have next question from the line of Richard Liu from JM Financial. Please go ahead.

Richard Liu: Couple of questions out here. I know you spoke a lot on e-commerce already, but I am sorry I am just raising this point again, I know your view saying that e-commerce is not a viable business considering the way it is done today and so on and so forth, it is difficult to do e-commerce in grocery, the question here really is that considering the kind of guys who are there is e-commerce field today even if those guys lose money, but there are people who are willing to lose money and in all these years that has passed, would these guys not have taken away a lot of market share and lot of consumers away from you that is question number one?

Neville Noronha: You are saying that should I be worried if somebody is spending a lot of money on e-commerce and that may take away share from us? From a pricing perspective we will compete, we will not sit tight when somebody is selling something at a significantly lower price than us. That is all I can say and it is not that I am saying this because you are asking me this question but this is what we have been doing in the past too. It is not that e-commerce grocery has not been cutting prices. If you see the last year or two, there has been a lot of aggression on grocery e-commerce pricing and in spite of that our business did not get affected. Our business did reasonably well and that is where the hypothesis again is that the size of the market is so large that there is space for everybody. While DMart might stand for value and pricing but there is something more also about DMart and that is to do with the assortment. I think a play between pricing and assortment jointly brings out something unique about what you stand for and that has been demonstrated if you look at the last two years of e-commerce aggression. There was e-commerce aggression even in the last one and half to two years, I am speaking primarily business of the past, I do not know about the future so we will see.

Richard Liu: The reason for asking this is that because if I go by a couple of the statements that you made in the last few results and also by your action of retracting from home delivery the moment things started to normalize and I got your comment earlier that it is because of infrastructure of the store. I get this feeling that you are extremely confident that e-commerce is not going to give a dent to your business no matter what, I mean despite the fact that there are guys like Amazon and now Walmart etc., I mean you seem to be very, very confident that you do not need to really get into this game. I was just trying to understand what...

Neville Noronha: I think what you are talking about is in absolute and I am talking about it as a journey. We are not trying to be so mild by saying that e-commerce would not do anything but if you tell me that do I need to put serious money right now and build e-commerce network, we will not do that. We will observe what is going on. We are reasonably agile and we can accelerate if we want to, only if we want to. We are not speaking about our pessimism around e-commerce because of our inability to build e-commerce. I think the fact that we expanded in 200 cities within a span of 15 days or one month and it was from scratch. This indicates that we can do it, we do not want to do it for some other reasons and part of which I explained where brick and mortar and e-commerce running from the same space is not the best way to do it. But if we see that e-commerce is the preferred channel for shoppers and shoppers are changing, we will also do it. But we are again saying that as of today the opportunity is in large towns only for a model like us. Do keep in mind one point that we are not talking about marketplace model. That is a model that we do not want to get into. This is pure grocery e-commerce.

Moderator: Thank you. The next question is from the line of the Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Good to hear that DMart team is keeping safe and healthy. If you could share your thoughts on non-FMCG private label share and especially how does this China sourcing rejig affect the non-FMCG private label plans now?

Neville Noronha: Our China component is very small, insignificant so there will be no impact.

Tejas Shah: In Non-FMCG also? We saw a lot of private label were actually sourced from China?

Neville Noronha: But in the overall scheme of things, our major sale is sourced from India. When you walk into a store while you see some made in China, the bulk of the component of the articles and our revenue is made in India and I am talking about only non-FMCG - that is general merchandise and apparel. Bulk of revenue is made in India.

Tejas Shah: Since our throughput per square feet is very efficient and private label share is increasing, that share was one of the most important drivers to actually increase that number so where do you see that private label numbers settling down for us both in FMCG and at a whole company?

Neville Noronha: First and foremost, revenue per square feet and private label I did not get that question clearly, but private label business is a very, very low percentage contribution to the overall business especially in the FMCG segment and we continue to retain that positioning that private label as a play will take more time. I do not see private label making huge dent in the FMCG consumer space right now.

Tejas Shah: Sure, and lastly any new initiatives or experiment that we would have taken last one year which is not meaningful to actually show up in PPT but you have personally excited about that if you can share with us?

Neville Noronha: Nothing of that sort.

Tejas Shah: Okay, great. Thanks, and all the best.

Moderator: Thank you Sir. We have next question from the line of Nitin Gosar from Invesco. Please go ahead.

Nitin Gosar: Thanks for the opportunity almost similar set of question from the earlier participant. Just wanted to understand, currently we are combating with multiple near term challenges, may be not the structural one, one is with regard to throughput per square feet – what is the reading on the consumer mind set, even if things were to change or improve, do you sense that there is an opportunity to go back to the earlier throughput levels because earlier the mindset of the consumer was where there is a crowd we should go, now probably the same mindset will think probably if there is crowd you should avoid going there, your thoughts on that and the second question is with regard to sales mix – general merchandise was a good contributor to our gross profit – your perspective on that, how much time it can take to the revive and what are the cost levers we can maneuver around if certain parameters do not go the way it has been going in the last two years?

Neville Noronha: Again, I cannot predict about the future but I can give you one data point and this is a very interesting data point. We had Raksha Bandhan, lockdown was off, and we were extremely pleased with the revenues we did. In fact, it was like a regular day, regular crowd. It was quite encouraging that way, so that is one thing that I can share with all of you. The day prior to Raksha Bandhan we did phenomenal sales; it felt like a regular day. People generally want to go out and like I said this is not a pandemic that is as serious as it was imagined to be, there is enough data out there. I can tell you about what happened with respect to Raksha Bandhan but I do not know about the future. There are so many elements that have to come to together for the business to come back.

Nitin Gosar: Your take on the general merchandise sales mix? You think it can come back to normalcy or it will take some time, do you want to see how things play out?

Neville Noronha: Like I said wait for the quarter I will write more in detail.

Nitin Gosar: Okay the point is valid Sir.

Moderator: Thank you. We have the next question is from the line of Sandip Patodia from Fundsmith. Please go ahead.

Sandip Patodia: I just had one question I do not know if you can answer it but just if you had any thoughts on the new market place model being contemplated by the likes of Reliance and Flipkart possibly on technology-enabled collaboration with Kirana stores and its impact on the value offering that you do, general retail sector and FMCG companies?

Neville Noronha: We prefer doing what we are currently doing; we do not want to get distracted with anything else. So just our current brick and mortar business, in fact we are also postponing our cash and carry thoughts that we had earlier. We are focusing just on the current DMart business and wherever we see an opportunity on e-commerce we may look at that. This is the time to completely focus and get this business back on track ASAP.

Sandip Patodia: I appreciate that. It is good to hear I just wanted your general thoughts on what do you think the impact of that model might be on players in the sector be it retail or consumer goods companies, if you have any thoughts?

Neville Noronha: I do not think I am qualified enough to make comment on that. Honestly, I cannot comment on that.

Moderator: Thank you. The next question is from the line of Garima Mishra from Kotak Securities. Please go ahead.

Garima Mishra: Thanks for the opportunity, from the land cost perspective I understand that IRR requirements for different locations will be very different but if there is absolute ceiling in terms of what you would want to pay per square foot for a land parcel that you keep in mind?

Neville Noronha: Absolutely, we will never buy an expensive place. That is for sure.

Garima Mishra: Right and any sense on what that number is?

Neville Noronha: There are two things there, what is the price that you should pay for a local area. That means very deep understanding of the local market so that you do not get tricked into buying at the wrong price. That is also extremely important. The second part is the maximum ceiling that you will ever pay in absolute terms. The third part is the rate you will pay depending on the city for that city's revenue that you make. It is therefore a combination of two or three things that will tell you that - I will not cross this line.

Garima Mishra: Okay related question to that: you are fairly well capitalized especially after this January fundraise, you know real estate like you mentioned earlier that from a deal making or from an availability perspective prices may be a little on the softer side so why are you not thinking of accelerating your store additions? I understand this year may be muted because of various lockdowns and construction activity having been halted, but any plans of just accelerating this 25 to 30 per year kind of number in the future when you have adequate capital available?

Neville Noronha: We are accelerating our acquisitions. That is not in way impacted by the pandemic, we are still very, very confident and we are continuing the acceleration of store additions, but store additions in terms of acquisitions. We are giving you a feel of next year because of the pandemic and the delay in construction. That does not in any way mean that we will delay the real estate acquisition activities, which will continue. The time we acquire land till the time it is opened typically it takes around two years.

Garima Mishra: Yes.

Neville Noronha: So that is the lag, but we are very, very aggressive in terms of property acquisition, absolutely.

Garima Mishra: Okay, got it. You are saying even during the pandemic deal making per se has not suffered much?

Neville Noronha: We are very active.

Garima Mishra: Okay, understood and just last question, FY2020 SSSG, could you give us what would have been the impact on that number had the Q4 impact of COVID-19 not happened on your revenues or something in an indicative sense?

Neville Noronha: We have not done the number; we have not looked at that.

Garima Mishra: Thank you.

Moderator: Thank you. We have the next question from the line of Sanjay Singh from PineBridge Investment. Please go ahead.

Sanjay Singh: Thank you for taking my question. Just wanted to know this separate subsidiary you have for packaging of dry grocery like pulses and all, what is that need for a separate subsidiary or is it just historical or say a plan around that?

Neville Noronha: It is part historical and part the nature of that business is very different. So, it needs a different set of people, there is no interplay between people, structure; it is more of a manufacturing setup.

Sanjay Singh: But any thoughts of taking that outside your stores?

Neville Noronha: No, not yet.

Sanjay Singh: Okay and secondly can you just share your experience of the DMart Ready stores which are also selling convenience, a convenience format of DMart Ready stores?

Neville Noronha: Encouraging is all I can say. Give us more time and since it is a separate company also, once we get a reasonable scale there then we will be able to comment, but obviously it is value accretive.

Sanjay Singh: It is better than a DMart Ready format like to like?

Neville Noronha: Which one you are talking about, I did not get it?

Sanjay Singh: The convenience format of DMart Ready - how is the experience there?

Neville Noronha: What do you mean by convenience format of DMart Ready, I did not understand that?

Sanjay Singh: DMart Ready is also selling stock from the store.

Neville Noronha: It is better, it is good, and it is encouraging. We also feel good about it that we were the first guys who build that model, this concept and it is encouraging is all I can say, but too early to comment on break even, how much money are we making and all of that, we have to see that at scale.

Sanjay Singh: With all the new DMart Ready stores be on this format or will they be on the older format?

Neville Noronha: Mix of both.

Sanjay Singh: Okay and just on a lighter note, one of your competitors is facing financial problem, have you ever thought about acquiring?

Neville Noronha: I do not think this is an appropriate forum to comment on this.

Sanjay Singh: Thank you very much.

Moderator: Thank you Sir. We have next question from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: I think a lot has been discussed on the front-end part of the business, I just wanted to check on the backend side, you already run a fairly efficient model, but any areas where you are working more to further improve the efficiencies in supply chain, technology investments for your brick and mortar, given the rising scale?

Neville Noronha: It is a good question. Supply chain is a continuous process, you build warehouses, and you build logistic architecture thinking stores will come in a particular size, format, shape and all of that. So that keeps evolving, changing. We feel that there are opportunities to make it better, but like I said this earlier, all the opportunities are in basis points - the savings. But yes, there are opportunities and they constantly evolve. That is the beauty about this business and that is what also keeps us awake at night – it is the excitement around re-architecting the whole supply chain basis intensity of sales, so more and more sales we do from the same region, opportunities emerge automatically for cost savings. It is a continuous process and we continuously look at those.

Latika Chopra: Sure, the second bit is your main premise or your mission is to ensure low pricing every day, I just wanted to understand how do you compare this pricing, how do you benchmark it, is it done at a region level, city level and how frequently you do this, just trying to understand who would be your comparable base for different product categories?

Neville Noronha: We compare with everyone, anybody who is operating within a one-kilometer radius of our store, we have a team who does that, tracks that, because our objective is to be the lowest price, so this is something very, very important for us and we have a mechanism through which we track it, so it could be anybody in the vicinity that we track.

Latika Chopra: And you would do this like on a monthly basis or like that frequently or…

Neville Noronha: It is almost daily.

Moderator: Thank you. We have the next question from the line of Amit Sachdeva from HSBC. Please go ahead.

Amit Sachdeva: Good morning and thank you for taking my question. I just had one small question on the store expansion again and I know you have been maintaining in the past that you want to own all the stores and the fact that you wanted to rent some stores in malls as well, but rental negotiations are always a zero sum game, how that thought process has changed this time post COVID-19, because I assume that malls etc., everybody would be in severe pressures and is there an opportunity to play a larger role here in terms of securing store expansions etc., in malls which might want tenant like you and would you still back your ownership strategy and I think there is an opportunity here to accelerate not just owning the stores, but also probably expanding presence through rentals as well, any thoughts here.

Neville Noronha: We have actually moderated our view on ownership over a period of time. Last two to three years, we have been open to leasing, whenever we see an opportunity to lease we will definitely lease, only thing is our request to the landlord is to lease for a longer period, so we typically like to do 20-30 years leases. We have changed that positioning for the last two to three years, we do lease, but like I said most of the properties are owned; leasing would be 20%-30% if we intend to, we will not cross beyond that, but we are open to lease, absolutely open. On malls, I am not sure right now considering the situation, but on general property acquisition we continue to be aggressive.

Amit Sachdeva: Post COVID-19 any soft rental on leasing etc., has that changed a little bit favorably for you or is it just the same?

Neville Noronha: No, leasing market is becoming very, very attractive; we are getting a lot of inbound enquiries, but mostly in malls. We are evaluating them and let us see, but yes leasing has become extremely soft, mall leasing has become extremely soft.

Amit Sachdeva: That is very good to hear. My second question is that you alluded to new stores being larger, but give you a short-term cost, but long range of growth and opportunity to expand SKUs and things like that. If I read you correctly and also put two and two together that last two years average store size has been more like 50,000-60,000 square feet versus 30,000 earlier, so what percentage of the area of the new stores is actually less operational if I may say in the fully optimized way relatively to older stores, relatively smaller. And if I may compare the 30,000 square feet stores would have typical SKUs of 8,000 or more and how this larger stores have an SKU and what kind of SKU expansion we should think about that you could do in various areas given that you believe that new SKUs could be margin enhancing and the larger format stores give you room for a longer CAGR, any thoughts here about how we think about SSG etc., in that context where it could come from – assortment, SKU expansion and also may be higher margin?

Neville Noronha: Let me put this in two ways. First is the simpler part which is the capex. When I build a larger store you are constructing more, but the incremental construction cost is a small part. If I move from 30,000 to 50,000 square feet does that mean my overall cost of the project goes up in the same proportion? No, it is just an incremental square footage construction cost that goes up. From a cost perspective it is okay, that is capex. From an opex perspective, yes, there is a higher opex and hence the trading area sizing is decided basis the near-term opportunity, so even if I have built a 60,000-70,000 square foot trading area, I may not operate the full, I may operate half or three-fourth of the area. That is a call that the local team takes and that is where you calibrate your opex, so that opex is in line with your other stores, these are the cost parts. Now on the business side, why we decided to take this direction is you get a far higher CAGR for a longer period of time and that is extremely profitable for the incremental capex so that is why we do that. Second part is that our ability to sell higher margin product becomes better, for our general merchandise and apparel - our ability to showcase the product becomes richer and better without doing any fancy investment in capex. The mix of the assortment and higher CAGR gives you accelerated ROIC. But if you tell me does that mean that I am going to have a different strategy for the larger format stores, not really. Even today depending on size of the store we have different assortment for different stores. We calibrate it basis the sizing, but that is within the overall DMart positioning that we have, so it is not something distinctly different that we do for larger stores vis-à-vis the smaller stores. For example, like say Rs.399 Kurti, small store may get may be 30 varieties at a time; the big stores will get 50 varieties at a time because the ability to showcase them is better.

Amit Sachdeva: Got it, typically how many SKUs a 30,000 square feet store have and what is your current 50,000 to 60,000 square feet store have it, if you can just broadly give us some amount, so we can appreciate the scale of the two stores?

Neville Noronha: We do not disclose the SKU numbers, but all we say is that we are relatively lower than the industry. We believe in keeping a very sharp assortment, we do not give choice to consumers, merchandiser decides what the best options available are and we give a very sharp assortment.

Amit Sachdeva: Great and in terms of pricing decisions, when we say pricing competitiveness that you want, obviously given e-commerce and given competition and your ability and intent to make pricing your competitive strategy, so has the laissez-faire given to the store managers or how is the pricing decided in response to competition, when you see some pricing change, how agile that process is in your view and how decentralized that process is?

Neville Noronha: We are as fast as couple of hours, if somebody says that there is a need to change the price in two hours we can change prices in two hours.

Amit Sachdeva: And that is across the stores or would it be just localized decision making and localized decision is implemented only locally where it is relevant or how does it work?

Neville Noronha: Tech is aligned to do anything, you want to do all stores one shot, you want to do one region while not touching the other, you want to do only one store. Everything is possible.

Amit Sachdeva: Okay, brilliant. Thank you so much. All the best.

Moderator: Thank you. We have next question from the line of Vinod Bansal from Franklin Templeton. Please go ahead.

Vinod Bansal: Couple of questions, one perhaps I am repeating an earlier one on the e-commerce part, the risk or the fears that some of us want to express is that as a platform if e-commerce gains greater traction specifically in this pandemic, some of our customers already are doing a lot more shopping in e-commerce and much larger, bigger players are competing with us, so the risk one is seeing is that offline platform might lure existing customers to online platform, Amazon or someone else in your core Mumbai market, core customer, existing customer might shift to Amazon and therefore existing store sales might lose out incrementally. That is one risk we are trying to get at especially since you are saying that DMart Ready is there, but it is not really going to scale up very fast, so do you see that if e-commerce activities from consumer side remains high, we are a good player on a weaker platform that is one primary risk if you could comment on?

Neville Noronha: The way we look at it is in two ways, because of e-commerce, is the business affecting us: yes or no, if it is not, we are okay and if because of this pandemic or whatever somebody else is doing extremely well that should not bother us if our business is doing well. At the same time, we will also look at our e-commerce business more aggressively. The whole idea of getting into DMart Ready was because of that thought, that someday some opportunity may arise. Otherwise culturally as an organization, if you go seven, eight years back, it was not appropriate even talking about e-commerce within our company, but yet we got into that business. If the analyst community expects us to build everything in the span of next six months or eight months that is not going to happen. We will take this slowly; our view is that the business is not going anywhere. Build your brand, build what you stand for which is very unique and as and when you are ready with your model and you present it to the customer, the customer will come to you, that is our view. Even if somebody else does this faster than us, we do not want to beat in that game, we want to play the game of being better than anybody else rather than being faster than anybody else.

Vinod Bansal: Right, also your DMart Ready model, as it scales up, is it profitable to the extent you want it to be profitable and heading the way you want?

Neville Noronha: No, it is not at all profitable at this scale.

Vinod Bansal: When I see the ROIC perspective is it something that you are happy with or you think that there are changes to be made?

Neville Noronha: What was the second part?

Vinod Bansal: Return on capital perspective, is it something that you are happy with or changes to be made there to achieve ROIC target?

Neville Noronha: Principle capital itself is eroding currently. Return is a long shot; there is time for return on capital and all those discussions for e-commerce. Our whole focus is to not lose money as much as possible or try to make the drain as little as possible.

Vinod Bansal: And you had mentioned in the earlier part of the call that for some of the smaller stores their CAGR flattens or just at the inflation level when the stores mature, based on the experience so far, any broad sense on how many years it takes for a store to flatten or inflation level CAGR on what sales square feet on your existing network?

Neville Noronha: Rs.32,000 is our revenue per square feet, but some of the stores do multiple of that. Stores which have very high turnover per square feet, they grow just about at inflation or less than inflation or more than inflation depending on the year, but otherwise if the infra is good, the stores continue to grow at a healthy pace.

Vinod Bansal: Some of the stores have much higher sales throughput, any broad number, at what level of throughput that we start to see this thing play out, is Rs.50,000 sales per square feet, 60,000 or70,000 what is it right now?

Neville Noronha: It depends on multiple things, in Mumbai per capita income is much higher than Karad or Satara, so it also depends on that, the flattening also happens based on the purchasing power of the city.

Vinod Bansal: Okay, thanks a lot.

Moderator: Thank you. We have the next question from the line of Atul Mehra from Motilal Oswal Asset Management. Please go ahead.

Atul Mehra: Good afternoon and thanks for the opportunity. My question is on crowd management, given our stores are amongst the kind of retail spaces which attracts the highest amount of crowds and especially in the current environment. I am not talking about post COVID-19 when things come back to normalcy, but in the current environment where number of cases are on the rise and still we do not know how we are getting out of this, how do you think about crowd management and what kind of things we are seeing at the store and one more clarification on this count was that 80% that we spoke about sales coming back to normal, is it for the total sales including the apparel and home essentials or is it only for food and FMCG?

Neville Noronha: Sales is total. If pre-COVID-19 I was doing 100 including everything then post COVID-19 I am doing 80 including everything. For crowd management, what you see is what we do. We are following local rules and ensuring that everybody maintains at least six feet distance between each other and we calibrate the entries accordingly. Wherever we see that the crowds are too much, we request authorities for allowing extended hours of operation, but it needs police alignment and if they agree then we operate the stores for a longer period of time and then we constantly announce to consumers.

Atul Mehra: You also spoke about the equation around safety versus value and these are times when people are seeking safety over value and as these things normalize and as and when we get towards normalcy in life, do you think that generally there will be a habit change where people want to avoid places of crowd say for saving some money so on and so forth, do you think that as a long term habit change, is that the risk that you see in the business that people who want on a longer term basis, value, convenience and safety than getting into high crowded places?

Neville Noronha: As I said earlier, I do not want to play the role of a predictor, I do not want to predict anything right now, wait for a quarter and we will give you more color on what is really happening. As we speak today, higher one is on the socio-economic strata, higher the fear and lesser the walk-ins. That is clearly visible, but going forward what will happen I do not know. I also gave you the Raksha Bandhan example, so that also talks a little bit about what people want. They like to come out, but longer term I do not know, I would suggest that give us time. I know as much as you know on these matters, I am a retailer, I am not an expert on all these things, I cannot comment on this.

Atul Mehra: One final question, in the past you had spoken about the e-commerce where you said that people in India do not value convenience, people value discounts and do you think that this particular event and we are all aware that people have paid premium to get even the basic essential, so do you think that this is an event where in e-commerce people will tend to favor convenience, 100% fill up of the basket and lot of those attributes which I would presume people in the U.S. value or in developed markets value, those kind of things essentially for the higher strata of people, do you think people are in that mode of paying up for those things which makes e-commerce more viable?

Neville Noronha: Broadly yes, post the pandemic e-commerce will be operating at a different level, at a higher reset level that is for sure, because there will be sudden overflow, people who never tried suddenly get introduced to this format and they like it and they are using it, so that will happen. Let us not forget one thing, even in the most developed market and if the markets are free, value precedes everything else. You see U.S., U.K., you see France and value retailers are generally the large retailers. Value is eternal, so I do not think there we have to be in anyway worried. Value in e-commerce, value in grocery, brick and mortar, value remains eternal, so if you can deliver value and still eke out a profit - that is enough.

Atul Mehra: Thank you so much and wish you all the best.

Moderator: Thank you. We have the next question from the line of Ritesh from Ambit Capital. Please go ahead.

Ritesh: Thanks for taking my question. I just wanted to check on one thing, on the sourcing bit - I know that in other categories or in the merchandise categories you do a lot of apparels and lot of other categories, do you think there are any servicing synergies there as we grow bigger and which can support the gross margin even further and secondly as we expand to more categories within that other category or the merchandise category, could you build dominance in some of those categories and try to push your share of that merchandise over the next few years, so that was the question one and then on the second, on the e-commerce my understanding is that while plenty of people are excited about e-commerce, but the logistics and assortment has been a bit of a challenge and you can see the kind of investment that Amazon has done in U.S., so it would not be just a matter of P&L you see, but the kind of investments you will have to make for many years, so in that context do you think e-commerce is something which suits your DNA at all and are you ready to invest that kind of money, if you do not invest then how the P&L will eventually fructify?

Neville Noronha: First is on the sourcing. I did not get the question on synergy around sourcing, but broadly our view is the more revenue we do and the more stores we open, the opportunity for price discovery is better. At the same time, we are not in the business to enhance our gross margin any further, I think at article levels, sub-category level or overall at a company level, gross margin would not be more than whatever we have been doing. Anything additional, in terms of efficiency at a manufacturer's level or efficiencies at our level will be passed on as price off. We try to make our products more and more efficient from a quality enhancement perspective. At the same price can I make the quality better and differentiate or for that quality can I bring the price down, we will focus on that, our gross margins will remain the same. Also, as and when the manufacturer does more and more revenues, we will ask him to make less and less margin, so that his ROICs are under control. Broadly that is our view on the assortment piece.

On E-Commerce you raised a brilliant point and that is exactly our attempt. We are trying to get the DMart Ready model aligned to our DNA. That is why we came up with this idea of doing a pickup point as a concept. What we believe is that there is an opportunity for an operating leverage kicking in if the model works. If I tell the consumer "Hey, I am not going to come to your home and can you just step out of your house, just a few paces?". We will try and put up Pick-up Points in as many locations of the city as possible. May be 200 or 300 meters from every household and she gets a delivery for free which effectively means she gets DMart product at DMart brick and mortar prices and that is what we are trying to do though the e-commerce model.

Ritesh: Just a follow-up on that, when I said the categories, other question I had there was - is there a lever to expand because I do not see that changing in the last few years. While I think the depth that you are offering in some of the categories, at least in the larger stores has increased meaningfully, but that mix has not moved more than 100-200 basis point over the last two-three years or so, so do you think it can let us say in the next five years or so change materially or do you think it is pretty much maximized in terms of the basket proportion?

Neville Noronha: How the assortment changes I cannot comment on it. But even if the assortment changes, say for example it goes from 28% goes to 40%. Even if it goes to that level if you ask me honestly, I would still like to keep my gross margin at a company level at 15% to 16%. I will make my pricing more and more aggressive and make the model more and more stronger. That is the moat. That is how you make businesses which are eternal and nobody can touch you.

Ritesh: On DMart Ready, what is the mix of pickup versus delivery, because I think you charge for delivery versus pickup with the fee, so just to get consumer idea, what is the mix?

Neville Noronha: Interesting, good question. I cannot tell numbers, but I can tell you the pickup is more, so that is the point, value is eternal; people do not like to pay extra.

Moderator: Thank you Sir. We have next question from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: Thanks for the opportunity. On slide #9, I am just talking about few parameters which you have mentioned. In that your retail business area has gone up by 32% while your total bill cut has gone up by 60% and the retail business revenue per square feet has fallen by 8% Y-o-Y on FY2019, would you be able to share these numbers for the month of June and July?

Neville Noronha: We disclose these only once a year.

Shirish Pardeshi: What I was trying to point out is that - is this significantly higher, lower, because out of 214 stores which summarizes this all, is the average run rate bill cut is about Rs.1.67 Crores, is that number as is or it is lower for the month of June and July?

Neville Noronha: I cannot comment on specific numbers right now. All I can tell you is the pandemic effect – that comes in the press with a lot of others also, it is not specific to DMart, even those who have come to shop at DMart, they have bought more than usual, so the average basket values have gone up significantly and the number of trips per customer has come down significantly, that is one thing I can tell you that has happened.

Shirish Pardeshi: What I was trying to point out is that may be number of bills cut which might have come substantially and you alluded it saying that the value of the purchase would have gone up, but is there a significant consumer behavior change that large packet sold more and small pack will have a lesser saliency which the companies are trying to bet?

Neville Noronha: Yes, large packs sold more for sure. In fact, what is interesting is also there are certain consumer trends which are very interesting. Higher efficacy products have sold more, but it did not compensate for the loss of sales of certain other categories. A classic example is liquid detergent or liquid dish wash, because the maids stopped coming and family members have to do all this activity, there is a huge trend towards picking up material which gives higher performance, so things like that have happened, but that has not compensated for the overall loss of sales.

Shirish Pardeshi: Okay, got it. My next question is on slide #5 when you have given the share of food versus non-food. I am more curious to understand, your food has gone up to 52.4% in FY2020, how the consumer behavior has happened in Q1, I am sure there is a higher propensity of buying and stocking groceries and staples, but how frozen and processed food and dairy, milk is in the share of the total food?

Neville Noronha: In general, what I can tell you is that anything that is in-home consumption has increased; food has done better than non-food – essentials, groceries, food etc. There are a lot of things that have happened in April to July period, lot of the people who earlier did not shop in DMart began to shop in DMart. There was a point in time when basic staples were not available, so basic staples sold a lot. Multiple levers have been operating at multiple times. Some direction in certain categories, that is relevant only for that month, now the maids have started coming back, so again it will reverse to the older phase, but certain section of consumers will continue to buy the higher efficacy products. If you want to know about post COVID-19 peculiar trends, then please wait for another quarter.

Shirish Pardeshi: My last question is: out of 214 stores you mentioned and I assume that you eluded saying that most of them are open, these all 214 stores are opened as on date?

Neville Noronha: Four to five are still shut, otherwise all are open.

Shirish Pardeshi: And out of this 214, how many stores are having longer working hours, what you mentioned opening at 6 o'clock in the morning and working till 10 o'clock in the night?

Neville Noronha: I cannot give you a number there, because everything is fluid, today they open, and tomorrow they may close. They will keep doing this because every local authority can make it more stringent than what is in the notification, so I do not want to give you a number as it could be misleading. We have a tracker which looks at all of these data points on a daily basis. Store closure yesterday was 6; I was just looking at my data, but tomorrow could be something else. We still have certain cities where Saturday and Sunday it is closed, certain cities close only on Sundays, certain cities suddenly come out with a notification that next 10 days it will be closed, but broad take away is - 90% to 95% stores are open.

Shirish Pardeshi: Okay, my last question is on the revenue part, for example, Mumbai is your larger market and Mumbai, Pune has seen a lot of shutdown, so will you give us a tentative share of Mumbai, Pune market in overall scheme of things?

Neville Noronha: Share of market of what?

Shirish Pardeshi: Revenue share.

Neville Noronha: Comparison to DMart or that city share?

Shirish Pardeshi: That city share.

Neville Noronha: How much share do we have of that city?

Shirish Pardeshi: Yes.

Neville Noronha: We do not get into such complex data analysis, my simple thing is pre-COVID-19 what is the sale I was doing in those cities for those stores, how soon I can hit those numbers again - that is all I keep watching for and we also keep watching about what is happening in competition. I do not think there is anything happening in competition in which we are inferior in terms of where we operate, our focus and operation, availability, assortment, pricing continues to be as strong as it was before, we just try to ensure that we get back our business; we are just focusing on that. The other aspect which obviously everybody is talking about is e-commerce. Yes, in E-commerce, there is a huge rise, even our e-commerce business in Mumbai we cannot manage the demand. I am sure a lot of you will have those complaints that there is no slot available and it is a fact that there are no slots available. It is because the demand is like 5x of our ability to supply, so these are the only two things we are looking at right now and nothing else.

Shirish Pardeshi: Okay, alright and thank you and all the best.

Moderator: Thank you Sir. We have next question from the line of Hemant Patel from Alder Capital. Please go ahead.

Hemant Patel: Thanks for the opportunity. I have one more question on your e-commerce side, I am just trying to understand this, if you look at your business as what you commented rather as a journey and we look at Mumbai region on a unit economic basis, I am just trying to understand over the next two years which part of variables do you see it improve in a dramatic sense which is either the ticket size or the frequency or logistics cost to enable us to get through breakeven point at Mumbai region unit economics level?

Neville Noronha: The question is post pandemic which areas have improved the best?

Hemant Patel: No, what I am trying to understand is which part of e-commerce unit economics, do you believe at some point, like you said that your demand is 5x of what it is at the moment right, in a post pandemic environment this will normalize to a certain extent. As a company you have external demand where customers are walking in for purchasing more in terms of a basket and frequency of purchases and as a company internally you are driving down cost economics as well on logistics, so I am trying to understand which variables will enable you to get a break even on just the Mumbai region for e-commerce?

Neville Noronha: It is primarily topline because of our model and that is why we did this pickup point model, the moment you are getting the topline, the operating leverage kicks in because a lot of your costs are fixed, you are paying rent, we have the boys sitting there, so the more topline you get the cost just plummet, so the biggest advantage is topline.

Hemant Patel: In a pre-COVID-19 environment has the customer frequency visits to DMart Ready improved over the last four, five years?

Neville Noronha: For the DMart Ready outlet, right?

Hemant Patel: Yes.

Neville Noronha: DMart Ready outlet we are restricted only because of our ability to service, otherwise the demand is huge.

Hemant Patel: Okay and if I asked this question in other way, if I look at your brick and mortar format and I look at the customer purchases on a monthly basket buying versus weekly, is that something very different from what you see in a DMart Ready format?

Neville Noronha: If I do a Mumbai to Mumbai comparison, pre-COVID-19, the shopping behavior from the basket value is more or less similar, the assortment in DMart Ready item sales was more premium.

Hemant Patel: Okay, but the ticket size would be lower, I am just trying to understand that?

Neville Noronha: Ticket size was similar to pre-COVID-19.

Hemant Patel: Okay, fantastic and is there any chance at some point of time, could you have general merchandize sale go through your ready stores?

Neville Noronha: Are you based out of Mumbai?

Hemant Patel: Yes.

Neville Noronha: You should go and see some of our stores, we do sell general merchandise at some of our DMart Ready stores, not all but some of our DMart Ready stores.

Hemant Patel: Okay, I am sorry, I missed that out. Thanks a lot, and wish you all the best.

Moderator: Thank you Sir. We have next question from the line of Rohit Dokania from IDFC Securities. Please go ahead.

Rohit Dokania: Good afternoon. Thank you for the opportunity. Just two questions from my side. Will it be possible to disclose as to how much was the contribution of e-commerce for the MMR region, so obviously we can see the full year at a company level contribution, so how much for this is MMR as a percentage?

Neville Noronha: I cannot disclose that.

Rohit Dokania: Number two, the other thing was last year when we met, you had spoken about competitive intensity and savings in terms of pricing and value with modern trade and e-commerce players, just wanted to understand pre-COVID-19 how has that been over the last let us say year or so?

Neville Noronha: The competitive intensity, right?

Rohit Dokania: Yes, in terms of pricing and value.

Neville Noronha: Brick and mortar or brick and mortar plus e-commerce?

Rohit Dokania: Both if you can sort of touch upon.

Neville Noronha: At the last year's meeting also, we have had this conversation. I think at that time I said that e-commerce has got aggressive, generally also things have got aggressive, so it is fluid, it keeps going up and down. Pre-COVID-19, I would say was relatively lesser than the year before that and now I think pricing is least on everybody's mind.

Hemant Patel: That is why I asked pre-COVID-19 not now.

Neville Noronha: Sorry.

Hemant Patel: That is why I asked pre-COVID-19 because currently pricing is not what people are looking at.

Neville Noronha: It is fluid, it keeps moving up and down, but it has been lesser, pre-COVID-19 was lesser than the year before that.

Hemant Patel: Got it. Thanks a lot, and wish you all the best.

Moderator: Thank you. We have next question from the line of Aditya Bapat from Equentis PMS. Please go ahead.

Aditya Bapat: Thanks a lot for the opportunity. I have a few questions. First question is a little bit on the longer term. I wanted to know if you people are looking at going to countries outside of India, say with similar consumer choices like value for money and preference of value over variety, like that over the longer term.

Neville Noronha: Our cluster strategy is the cluster within the country, we do not think more than five or six states, I do not think going out of the country is even considered, no way. Why do we even have to think about going out of the country?

Aditya Bapat: Okay, got it. Secondly my question is on do you plan to backward integrate further, say by owning warehouses or fleet or drivers to a larger extent so that supply chain can be controlled in a better manner?

Neville Noronha: Owning the driver and the fleet?

Aditya Bapat: Yes.

Neville Noronha: It is a good question. We have been contemplating over it, when I put this data on paper, it looks very, very tempting to do it, but I think we will leave that for a couple of years later, but yes, it is a very, very encouraging and tempting opportunity for further cost saving. At the same time, India is very efficient even on leasing in general, so most of our trucks are now leased, we use transporters, but I get your point and over the next four to five years I think once we get more and more density then the opportunity looks more and more lucrative, so may be in future, but yes point taken.

Moderator: Thank you Sir. We have next question from the line of Akshat Haria from Multi-Act Equity Consultancy. Please go ahead.

Akshat Haria: Thank you for the opportunity. I have two questions both relating to real estate. My first question is that since you said that deal making has accelerated for sure, so what kind of land bank do you generally like in terms of number of years of expansion, are you comfortable with having two year or three year land bank in hand at a time and do you see that expanding like we would be having higher land bank in hand now given softer real estate prices that is question number one and question number two is like we had smaller store size in our older stores in areas in Mumbai like Borivali, Kandivali, Mulund, Thane etc., so in those areas do we plan to put additional stores, somewhere nearby and those would be the low hanging fruits and it will also give us a lot of operating leverage, but of course the real estate prices would have gone up, so what are your thoughts on that?

Neville Noronha: Because of our model, we do acquire properties in advance because of the lag between acquisition and operating the store. However, we do not look at it like a land bank, every store or every property that we acquire, we acquire with a view that it should be opened in the next two to three years, so to that extent we have a two-year visibility. That is why we commented on store openings that we hope to maintain that 21 plus 38 we opened in the last 2 years - 59 right, hopefully we should open that many in the next two years but like we have mentioned this year will be muted because we lost three to four months of construction activity.

On the second part of your question that is what we have actually been doing, for example, see in Mumbai what happened. We had a store in Malad, then we opened another store in Mahavir Nagar (Kandivali), then we opened another store in Dahisar. All within a 2 km radius and even 1 km in some places. It works for us and we do not mind opening another store. Same happened with Mira Road and Bhayandar or Virar one and Virar two or Vasai and Nala Sopara. That is what we are doing it, it is a continuous process, we keep adding stores wherever there is an opportunity, even if the real estate price is higher, obviously if you buy later, it is higher. That is okay as long as it makes sense in the business model. We constantly do this; in every city this is what we actually do.

Akshat Haria: Understood. Thank you.

Moderator: Thank you. We have the next question from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: Thank you. So earlier in the question you answered that the DMart Ready demand is 4x or 5x, but we are constraint by our ability to service, so what is that constraint and what are we doing to overcome and manage the demand and in the cities where you want to scale up DMart Ready, can you just give some data point in terms of what sort of expansion in terms of number of store count or any other infrastructure that is needed to sort of scale that business up that will be helpful?

Neville Noronha: I will split this up in two, one is we are working within the current setup by enhancing teams to service the current demand in Mumbai, so from a tech standpoint we are perfectly okay, we can do it, no issues, multi-city all of that is possible. On the second part of the question about multi-city, I would request you to wait for some more time; I cannot comment on anything right now, we are working on something.

Dheeresh Pathak: But in the earlier part you said like in Mumbai and other places you are scaling it up right, so at least in those cities where you decided to scale it up, can you share like what sort of expansion have you seen in terms of number of store counts in the last four or five months?

Neville Noronha: I will have to check with my investor relation team on how much I can disclose, but we will make the disclosure to the extent that it is fair to everybody, so give us time on that.

Dheeresh Pathak: Okay, thank you.

Moderator: Thank you Sir. We have next question from the line of Chetan Gindodia from AlfAccurate Advisors. Please go ahead.

Chetan Gindodia: Congratulations to you for managing the pandemic. My question is more on the e-commerce business, can you throw some light on the cost metrics of DMart Ready, what is the cost that is negatively contributing in a major way to the EBITDA loss currently and with scale how we can cover it, also is there a chance for differential pricing for DMart Ready?

Neville Noronha: There are two things in e-commerce. One is your head office and tech cost, which is huge and unless we do not have a sizable revenue, it is very tough to break even. The second is at the operating level also, which is the lower hanging fruit, you have to at least break even at the operating level, so the energy that goes in breaking even at operating level itself is enormous, but once you achieve that then we have to look at how do you apportion the head office cost over the entire business and then you think about how to make money in this business. E-Commerce is a very long shot. That is the way to look at this business and hence we are trying to do stuff to ensure that we shrink this whole path to as short as possible and that is why probably people get a little impatient with us because we are very slow but that is the way we want to do it. The pricing differential piece of your question - it is very clear that e-commerce runs separately, while the broad ethos of pricing will be that of DMart, but it is not that the item will be exactly the same price at DMart Store as well as on DMart Ready.

Chetan Gindodia: Thank you.

Moderator: Thank you Sir. We have next question from the line of Srinath from Bellwether. Please go ahead.

Srinath: When I look at the assortment, some of the durables' assortment like OTG, microwaves, etc. are we looking to scale up the business over a period of time, will we be retailing the whole durables suit of products in the economy space say 7000 to 10000 ASP kind of durables, just wanted your view on how durables would fit into our retailing culture and landscape?

Neville Noronha: The idea was that the bulk of the SKUs will be similar to the DMart brick and mortar store, we want to try to leverage the buying capability of the DMart store and then once we gain a particular scale, if we want to extend our assortment beyond the DMart store business, is a call we will take at that point in time.

Srinath: No, these are assortment in the DMart stores, the OTG, the microwave, the fan and say couple of years back we did not see these, now they have seen more visible, so are we looking to expand the durable space in the general merchandize segment?

Neville Noronha: It depends on the category calls that people take, but the broad direction to the category team is that be in the lower price segment of home appliances and durables. 8-10 years earlier we used to sell a lot of microwaves and then suddenly we stopped them, but those are all calls made basis some market analysis and our positioning. In general, small appliances and low-cost durables are what we are open to sell.

Srinath: Thank you.

Moderator: Thank you. We have next question from the line of Richard Liu from JM Financial. Please go ahead.

Richard Liu: I just had one more question in the e-commerce part, regarding your everyday low price strategy and I heard your comment about keeping gross margin maximum at 15%-16% beyond that you will pass on everything, the downside of such a successful business is that you got a lot of people who are looking at what you are doing and every day low price seems to be the mantra for everybody now and given that everybody wants to be lower than DMart and DMart wants to be lower than everybody, how does this whole thing really go?

Neville Noronha: The operator who has the lowest cost will survive. At the end of the day whoever is able to give lowest prices and keep the cost very low will survive. EDLC precedes EDLP – that's it.

Richard Liu: Okay relating this back to what I was asking earlier in my last attempt at the question is that you have very, very strong pocketed guys right like Amazon and now Jio Mart and I think for Amazon EDLC obviously does not precede EDLP and they are willing to go ahead for many, many years before they realize that they have burnt a lot and I think they are pretty okay with it. Jio obviously we know have deep pocket and everybody is talking about EDLP, so to that extent it is not really unique now and in light of this new found love for EDLP by all retailers who are taking a clue from your success, how should we look at it going forward?

Neville Noronha: I have been listening to this concern for the last three to four years, but this has not panned out. It has not panned out for two primary reasons. One is that the market size is too large, why should we all burn ourselves or run down the players when there is no need to because the market is so large. While everybody does this sporadic price cut, it does not go out of hand; business still comes because the market size is so large. You just need a trigger point of pricing such that the consumer starts coming to you. You do not need to really risk down to very, very, low margins that it completely wipes out your profit. Second is also remember that retail means you are not just selling one SKU or 5 SKU or 10 SKU, we are selling 100s and 1000s of SKUs and through that assortment every retailer builds a certain positioning. It mitigates a risk to a relative extent unique to the other and then there is a particular customer affinity to that brand and that also brings a certain level of stickiness, so as always you are reasonably relevant to the consumer, you will build your own positioning. DMart stands for something beyond pricing too and there is somebody, some other retailer also who will be standing for something that the consumer would like better, so at the end of the day, that is the beauty. If you see globally also, in brick and mortar retail, it is not that winner takes it all. There are so many other retailers, multi-billion-dollar retailers operating. In brick and mortar retail I am very,

very confident that the play is for multiplayers to be operating, there is no issue at all.

Richard Liu: Thanks

Moderator: Thank you. We have next question from the line of Omkar Hadkar from Mirabilis Investment. Please go ahead.

Omkar Hadkar: My question is on the supply side, particularly your distribution and packaging centers, so we have about 43 of them and typically on an average your servicing probably 5 stores through those centers, so my question is in the next three-five years probably with scale and the new stores opening, will the distribution centers also be increasing in the same scale or will there be some operating leveraging that will be in from the…

Neville Noronha: There is operating leverage available, so when you build a warehouse you do not build for a year, it is for a longer period of time, so operating leverage kicks in, but the operating leverage may not be seen in financials, because you are building today for the next 3-4-5 years or whatever that number is, but at the same time we are also adding more and more stores every year, so this whole period of additional capex and additional capacity will continue over the next 10 to 15 years, so the operating leverage will creep in slowly, you will not see a sudden increase, I hope that I have been able to answer your question.

Omkar Hadkar: Yes, and another question is on the non-staff cost, particularly other expenses, in the annual report there is lot of focus on the green energy and stuff like that, so how do you see that power and other cost, probably the reduction plan that you have during this current time and also longer period over the next two, three years?

Neville Noronha: Cost as a percentage of revenue we are almost there, anything else I think you should look at it as a basis point improvement if at all there is. In the other expenses, there is also a huge chunk of the employee cost, but I think on operating leverage per se further benefits may be few basis points. You guys only look at lowering cost, but also remember that bulk of our cost is employee cost and if minimum wages go higher, then the cost can also go up.

Omkar Hadkar: Thanks. That is it from my side.

Moderator: Thank you. We have next question from the line of Aditya Bapat from Equentis PMS. Please go ahead.

Aditya Bapat: Thanks for the opportunity once again. I got disconnected earlier on. My question is that apart from store expansion and obviously volume growth, which are the areas do you think that your future revenue expansion can come from say by having inhouse pharmacy counter, selling books or furniture or something like that, is something like that on the cards as well?

Neville Noronha: We constantly review opportunities and this is part of the merchandizing team's job and merchandizing head's job to look for opportunities continuously, but small incremental improvements or small category additions depending on relevance. Our principle is it should be relevant to the model. For example, for furniture, the relevance is very poor, that is why we do not sell furniture, within furniture simple chairs or similar things we do sell. Our decisions are basis the relevance to the model which is: quickly view, quickly analyze and quickly pickup. Things that take time or hard to comprehend products we do not like to sell.

Aditya Bapat: Okay, got it and my second question is on DMart Ready, the rough guidance that we have is for your stores, but then what is the number of DMart Ready stores that you are targeting per year on a steady state basis?

Neville Noronha: I cannot give you numbers, this is the incubation period for DMart Ready, so unless I do not get the model right I cannot give you numbers, if the model is right, the opportunity is huge, but we have to first fix the model.

Aditya Bapat: Okay and what is the kind of capex that we incur, I understand real estate cost will be different, but on other things for a DMart Ready store?

Neville Noronha: In DMart Ready all stores are leased which means that everything else is just related to small civil and little bit of lighting and air conditioning, but if we do a square footage to square footage comparison with DMart regular store, it is around 20%-25% higher per square feet. It is very small, very tiny, so the averages are higher.

Aditya Bapat: Okay. That would be from my side. Thanks a lot, and all the best.

Moderator: Thank you. We have next question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: On the cash and carry you have delayed the plans; I wanted to understand what the reason is for it?

Neville Noronha: All hands-on are deck to manage the pandemic; we are just focusing on the current business.

Abneesh Roy: Once the vaccine comes, it will be back on track?

Neville Noronha: I cannot comment on that, we will see.

Abneesh Roy: Second is, WhatsApp in their global call said that just like tie up with Jio in India, they will be open to more such tie ups within India, so what is the thought process are you engaging with them, do you see this as something which is important for the business?

Neville Noronha: I missed the question.

Abneesh Roy: WhatsApp essentially Jio Mart has a tie up, so essentially the retailers, the customer etc., ordering on WhatsApp, so are you also engaging with WhatsApp on that?

Neville Noronha: I would not like to comment on that, but I will tell you what this is all about. To get orders from WhatsApp is possible without engaging with the WhatsApp company, there are a lot of operators who provide this service, tech partners also, so if we want to go down that path, it can be done any way, but currently we are busy with DMart Ready model and our App and our business, we are focusing only on that.

Abneesh Roy: And last question is in the initial remark you said FMCG tends to do better as the aging happens, why is it because of the better pricing in the FMCG in the minds of customer that is the thing that is why it is?

Neville Noronha: That is one, second is propensity of people who are living closer to the store coming in with higher frequencies and when the frequency increases for them then the FMCG buying becomes more.

Abneesh Roy: That is all from me. Thanks a lot.

Moderator: Thank you Sir. We have next question from the line of Sheela Rathi from Morgan Stanley. Please go ahead.

Sheela Rathi: Good afternoon. Thank you for taking my question. My first question is with respect to you talking about that at the stores we are seeing middle class and lower middle class coming to the stores and there is a kind of shift in terms of customers, is there trend you are seeing that there could be market share gains from the unorganized which is the Kirana stores on the back of this pandemic?

Neville Noronha: Quite likely but like I said, give us a quarter more to give you more color on this, but I am personally quite excited about these changes, but we need some time to see how this pans out.

Sheela Rathi: Just another question, you talked about largest stores going forward is it something you will do across larger towns and small towns or is going to be more strategic in terms of the location?

Neville Noronha: Obviously cost of real estate will be the defining factor for it. So logically it will be more mid to smaller towns' kind of strategy. I cannot be having 50,000 square feet stores in cities like Delhi or Mumbai unless it is in the outskirts. The price of the real estate will be the defining factor to decide.

Sheela Rathi: Okay one final bit on DMart Ready, obviously the DMart Ready revenue that are 2.5x even in the last 12 months, demand you said is 5x are there are any learning we have gathered especially outside the MMR because you have actually expanded into 200 cities in a period of one month so is there something which you picked up in terms consumer trends in terms of ticket size, in terms of pickup or delivery, is there anything you would like to share?

Neville Noronha: I would like to just clarify when I say demand at 5x does not mean I am clocking 5x, just to be clear, I am not giving any comment on how much revenue we are doing right now. But as far as DMart Ready is concerned what is interesting is, a lot of the people who are shopping on DMart Ready are people who know DMart. The pattern of shopping is almost similar to DMart store. What we are also seeing is that there is a reasonable premiumization which effectively was also the hypothesis of why we got into this business. There is a chunk of people who like the DMart product but do not probably like to come to the DMart store. I am just capturing that very nicely, very sweetly through this format, they are more affluent people that is why the premiumization. That is one insight I can give you on the DMart Ready.

Sheela Rathi: One last one if you can share the number in terms of what is the number of orders DMart Ready is doing on a daily basis?

Neville Noronha: I cannot comment on this now.

Sheela Rathi: Thank you, that is it for me.

Moderator: Thank you. We have the next question from the line of Atul Mehra from Motilal Oswal Asset Management. Please go ahead.

Atul Mehra: Thanks for the follow-up, just one question I have, again coming back to DMart Ready so one of the things is what is the bottleneck here in terms of fulfilling orders? If we do a rough Math of the number of stores and the revenues we have it implies about say Rs. 40,000 revenue per store per day, so are we seeing some of the store sales doing 1 lakh, 2 lakh, 3 lakh, some of the stores being in nascency so I am just trying to understand, also coming back to one of the things we spoke earlier - lot of the cost at the e-commerce level are head office and tech cost which need to be amortized with a higher amount of sales so when we say that is it that this pool of 200 stores can get us 1,000 Crores of sales or does it necessitate us to have 800-1000 stores to make up for that large common cost?

Neville Noronha: First why we are going slowly is we want to focus on the breakeven at the operating level without the head office cost – that is the first target, so unless we do not see a reasonable visibility there we did not want to expand. That probably is the thought and with DMart Ready the way we wanted it to be done and basic DNA and culture of the organization tends us to go a bit slow on this. But now because of the pandemic the revenues are significantly higher than what they used to be earlier so we will need probably another three to six months to have a broad direction on what we should be doing here. It is definitely better than what it used to be earlier and it is very encouraging, so let us see.

Atul Mehra: Okay.

Moderator: Thank you Sir. We will take the last four questions. We have the next question from the line of Amit Sachdeva from HSBC. Please go ahead.

Amit Sachdeva: Thank you so much for my follow-up. Just one curiosity: you keep referring to the business model, which is relevant category and which is not. For example, I assume that business model is your cost, ticket size, mass market, it sells quickly, does not require too much capital to be invested, etc. and you also probably see grocery is the mainstay and that is not e-commercable as much as other categories are. My question is that while we define the business around our model does it also mean that it limits your vision to think about the larger game about retailing as such where you have an opportunity. In my view, DMart is a philosophical idea where customers who think business is positioned to deliver superior value and probably they will come to expect superior value in anything that you can sell to them. Is too much of focus a sort of tradeoff between the larger businesses you could build or maybe it is too conservative at your end. I am just thinking that does it mean that is the reason you are also so conservative about online because many categories which are very online enabled and market places can be created but you are not going there because you just think about grocery as a mainstay, what are your thoughts, is the opportunity being undermined?

Neville Noronha: No, let me make this comment which is unambiguous: what you think and what we think is the same from the idea perspective. I think there is a dissonance in the speed. You guys want us to do it very fast; we do not want to do it that fast, that is the difference. We would like to evaluate ideas as they come one at a time. If it means that I can do 10 things because of this value proposition you may want me to do all the 10 in the next 12 months. I will probably do one at a time. I will do one, I will review, analyze and then I will go to the second. If I have got a strike rate of 100% by the time I had reached the third then maybe the next time I may not do one idea at a time, I will do two ideas at a time and that is the DNA of the organization. We are completely onboard and I have heard you about this before also. I think there is alignment in the thinking except there is no alignment in the speed. That’s it.

Amit Sachdeva: Sure, sure I get it, but does it mean that where I see an opportunity, to be honest you run the business we do not, we are just outside observers so pardon us for being so inquisitive, at borderline sometimes, obviously on which we could easily understand

and things, but let me just try this, for example, private label journey you have obviously been conservative about private label thing as well; let us build it very slowly over time, we can understand from mainstream FMCG brand but there are a whole lot of category which have always been served by unorganized players and smaller players. I see beyond staples very little attempt for you to actually organize that in the DMart brand. That is the reason where I am coming from is there some very obvious opportunities which can be plucked away but it is still with the regional brand which customer actually do not care whether we buy from DMart brand or another regional brand but those opportunities probably are not aggressively thought that is what my observation is but I may be wrong.

Neville Noronha: You can send us a note on, which are the categories; you think that we are missing. We are happy to relook at it. We are happy to listen to anything that is a blind spot to us. We tend to have blinkers on because of being so focused but we are happy to listen to your point of view. Please write to us and tell us the categories we are missing out on.

Amit Sachdeva: I will write you an e-mail.

Moderator: Thank you Sir. We have the next question from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Sir, I just had two book keeping questions: one was the extent of the one-off cost that could be incurred because of pandemic, would it be possible to kind of quantify it in the first quarter so you can help understand the demand impact only

Neville Noronha: We cannot comment on that.

Avi Mehta: Second, you said that the gross margin across categories has not changed was this more a yearly comment or were you talking even about first quarter because you did not see a very material kind of thankfully moderation in gross margins so I wanted to just understand the context?

Neville Noronha: For a short period during the pandemic, there was a small mix change and there was a certain recalibration on a very small set of categories for margins, small recalibration that is it. It was very marginal.

Avi Mehta: And that should be more market driven and has it been corrected back or is it?

Neville Noronha: Corrected back.

Avi Mehta: Lastly on the store acquisitions you are doing a lot a acquisitions during this pandemic but knowing the DNA of the company these 50 stores that you would add or what are the 50 or 60 stores whatever you are adding in the next two years they would have higher salience in your existing cities then in your 70:30 rule because the ability to explore new cities is kind of compromised even where we are right now. Is it my understanding correct or not?

Neville Noronha: Our strategy was any way aligned before the pandemic; we always say 80:20 or 70:30 right, 70 or 80% of stores will be in existing cities so we continue with that positioning

Avi Mehta: What I am saying excluding new cities it is extremely difficult in going and finding out, demand and preferences are not stable that is why I was trying to understand whether you are still even looking at even new city that is what I wanted to know?

Neville Noronha: Our balance sheet allows us to go to new cities. Our fundamental business or breakeven point is not so challenging, so as long as we maintain a 70:30 or 80:20 ratio of existing cities to new cities I do not think we have a problem even with the pandemic.

Avi Mehta: Okay perfect, this is the needful. Thank you very much.

Moderator: Thank you Sir. We take the last question from the line of Srinath from Bellwether. Please go ahead.

Srinath: Just wanted to understand given that location cost and wage cost significantly differ from locations and we would probably have dynamic costing, how does dynamic pricing work, is it at a store level decision, cluster level decision and would it be fair to assume that as we move into tier-2 and tier-3 cities that discounting or the value proposition that we give would be significantly stronger than what one would see in a city like Mumbai or Bengaluru?

Neville Noronha: We have all levels; pricing can be decided at a central level. Certain pricing can be decided at regional levels and certain pricing decisions can be decided at the store level. All have been given authority based on certain rules so the tech is designed to be agile; people are trained to be agile so everything is possible. In general, margins are a factor of the assortment contribution but generally the pricing to the consumer - the vision is irrespective of the real estate cost, the pricing proposition to the consumer has to be the same, I do not want my team to start getting into – Mumbai real estate is very expensive so we will make more margin in Mumbai and small town we will make less, it does not work like that. Our positioning, we are very particular about our positioning in the market so we want to be a deep discounter, we want to be seen as a retailer who has been delivering great value. If somebody is giving a ROIC of 25% and another is giving a 15% because of this common positioning it is okay as long as the blended average ROIC at the company level is delivered. I do not think too much of this microanalysis because of real estate cost. It is something that we do not bother too much about.

Srinath: Not from a margin perspective I am more referring from driving better value for footfall perspective?

Neville Noronha: The better value from footfall perspective is assortment. We always do the assortment alignment with the local market, what the local market wants is what we deliver. Assortment is totally aligned towards the local market.

Srinath: It would be based on the costing of the real estate, so if we are getting a sweet deal on real estate or the operating cost of the store is significantly low would not that give us room to pass on more to the customer and drive footfall?

Neville Noronha: That is why I am saying real estate is real estate decision; we do not mix real estate with business. Business will operate based on business calls; there should be no connection between the two. What I am trying to say is that assortment is aligned to the local markets and we have very strict protocol on what are the maximum margins we can earn on each subcategory. Nobody is allowed to cross that line.

Srinath: Got it. Thanks a lot.

Moderator: Thank you Sir. Ladies and gentlemen that was the last question we would like to conclude this conference. On behalf of Avenue Supermarts Limited, we would like to thank all of you for your participation and you may now disconnect your lines.

Neville Noronha: Thank you everybody.