"Avenue Supermarts Limited FY 2022 Investor / Analyst Conference Call"

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Moderator: Good morning, ladies and gentlemen, and welcome to Avenue Supermarts Limited's Annual Investor and Analyst conference call. As a reminder, all participant lines will be in a listen only mode. And anyone who wishes to ask a question may enter "*" and "1" on a touchtone telephone. To remove yourself from the queue, please enter "*" and "2." Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touch tone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rushabh Ghiya. Thank you, and over to you, Mr. Ghiya.

Rushabh Ghiya: Thank you so much. Good morning, all. Welcome to our annual investor and analyst conference call. I have on call with me Mr. Neville Noronha – our MD and CEO; Mr. Ramakant Baheti – Group CFO; and Mr. Niladri Deb – CFO, Avenue Supermarts Limited. We hope that you had a chance to look at our presentation which was shared day before on the exchanges and the same is also available on our website. We will start the call with Neville briefly taking us through the presentation, post which we shall open the session for Q&A. I would just briefly like to draw your attention to the Safe Harbor Statement for good governance and will then handover the call to Neville. Thank you and over to you Neville.

Neville Noronha: Thank you, Rushabh. Good morning, everybody. It has been really long and I am very, very happy to be back at a time where everything is fine and the business is doing pretty well. And hope all of you are doing great. As usual, I will run through the presentation. This is the same presentation which has been uploaded on the exchanges. And then we will open for Q&A.

I'm on Page #5. What I can tell you from this basic slide is the aggregate share of revenue from General Merchandise and Apparel has still not gone to the erstwhile 27%-28%, but this is a weighted average for the year. However, our recent quarters gave us relatively better contribution. So, from that standpoint, it is quite encouraging.

If you go to Page #6, again, more of the same. We continue to add more and more stores in existing locations. And obviously, I've spoken about this before also that it gives a lot of operating leverage for the business. But we are also looking at new states; new cities and we had a lovely last year. In terms of store addition, we added 50 stores, which is the highest ever that we've done.

Page #7, I'm sure there'll be a lot of questions on this business as usual, the DMART Ready business, the e-commerce business. We are now operating in 12 cities as of June 30, 2022. And we're quite happy with the way the business has progressed and I will take questions later on this business.

We spoke about this, Page #8, we added 50 stores for this year. Let us go to Page #10. Again, more or less the same data, we will go one by one. We had total bills cut of 18 crores, obviously because of the additional store additions. Then we go for like-for-like growth. Like we always mention, this is for 2 years and older stores. And there's been a huge recovery because post Covid wave 2, we've had a very decent return to normalcy and even Omicron has been a significantly milder wave. So, recovery has been very good and post Omicron also the recovery has again further got better. We added 2.7 million square feet. Our stores are getting bigger and it is helping us expand our business in a significantly better way. Revenue per square feet has remained the same because the size of the stores has been larger. But that's okay, that's not a metric that we look at or we worry about too much. A larger store allows us to manage our business in a more efficient way and gives us a lot of headroom for future growth.

Page #11. Again, a very smart recovery from a revenue standpoint, EBITDA standpoint. PAT is also back to normal. My broad point of view is that business is back on track, back to normal, and we're quite glad to see that customers are coming back in full force and shopping in the regular brick-and-mortar stores. And here, I would actually also like to add that from an E-commerce standpoint, too, we haven't seen too much of a drop post COVID, which is also very encouraging. That's also an interesting data point. We're seeing that people are looking at us as brand DMART, and they're buying depending on the channel, depending on what's more convenient for them. This, I'm speaking primarily from the data we're seeing in Mumbai.

Operating financials - again, on inventory, very interesting data we see here and I would like to spend a little bit more time in the context of what we are reading about global retailers. Interestingly, our assortment is very simple, very straightforward, not very large ticket items, and we didn't really change much of our assortment throughout the last 2 or 3 years. And I think, because of the nature of the products we sell, we never had too much inventory during the peak of COVID also. And during the recovery, we've kind of come back to pre-COVID status in terms of inventory days, inventory turnover, all of that. Again speaks a lot about the assortment, the resilience, and our ability to be agile during tough times. And then, also planning for a quick, easy recovery. I think the buying team has done a phenomenal job there.

Fixed asset turnover ratio is obviously a function of revenue, but these numbers will significantly improve moving forward. And on debt, I think we don't have any debt, correct Niladri? So, if you could share something on the Rs. 416 crores of debt.

Niladri Deb: This Rs. 416 crores that is appearing at the top right is actually restatement of the AS116 lease liabilities – the stores and the distribution centers we have on lease. On a net borrowing basis, we have no external borrowings.

Neville Noronha: And just to add on the fixed asset turnover, we are aggressive in terms of store additions and revenues have lagged so far for the last 2 years, but it is going to come back to around 4 in this financial year.

Page #13 is the parent financials and Page #14 is the subsidiaries' financials and the standout there is the e-commerce business. And like you can see there, that again, business has more than doubled and our costs have been managed pretty well. And we find this business to be interesting and promising. We are more confident about this business vis-à-vis last year. And that's why the calibrated expansion to other cities. We are excited about the possibilities of this business and how it can partner with the brick-and-mortar business to give multiple opportunities through different channels for our shoppers. But like I said, very happy to take more pointed questions on this business.

We were quite cagey and afraid that as this business grows, maybe it will suck in a lot of capital and all of that, I think those problems are of the past, that anxious thinking is behind us. I think we can scale up this business by keeping our costs under control. And I don't think scale up would be handicapped by – oh it is going to take a lot of money. I think we have passed that stage. And this business seems to be promising. Whether it will make money or not we don't know, we've still not reached there. But I think we're more confident about the business than last year. That's what we can say about the ecommerce business. The Food Plaza business is the ready-to-eat / take-away fresh food in very limited pockets. Wherever we see an opportunity we try to do that. It is just like the cherry on the cake for a shopper who comes to the store. So, that's why we built and we have this business and Align

Retail Trades, the entire grocery procurement and processing business which we do, which we feel adds value to the overall business. And both these subsidiaries, Food Plaza and Align Retail Trades do their total business within the ASL DMART business. That's it and happy to take questions. Thank you so much for listening to me.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. We'll take the first question from the line of Vivek Maheshwari from Jefferies. Please go ahead. Mr. Maheshwari, can you please unmute your microphone, your phone and go ahead with your question?

Vivek Maheshwari: The first question, sir, is on the average sales per square feet. Why are you not worried with the number? You mentioned that sales per retail business area square feet will go up as we go forward, you have larger stores, but you're not too worried about the current trend. So, can you just elaborate on that?

Neville Noronha: When you're in the ownership model, you don't get too worried about it. If you're in a rental model, then that's a very, very important criteria. But otherwise, at one end, I've kept saying this, and not just last year, but the year before that too, that we build for the future and the incremental cost of real estate build-up doesn't hurt the balance sheet or the P&L much. So, from that standpoint, it doesn't matter so much. But yes, if you're leasing, you're paying rent every month, then obviously it is a very, very important metric.

Vivek Maheshwari: I see. But there is nothing, because when we look at the quarterly numbers also, the revenue per store, this was the first quarter where things were like near normal. And you did mention in your quarterly release, that about general merchandise you are a bit unsure on that. So, can you also elaborate on that point?

Neville Noronha: I'll give a very detailed note post quarter 2 FY 2023, because we said we need 2 quarters to give you very good color on that. All I can say today is that yes, it is inching towards getting better. And not just general merchandise, but general merchandise and apparel - the non-FMCG side of the business. But, yes, we're still not completely out of the woods there. We find discretionary spends in mass consumed category of products to be under a little bit of stress still. I hope you're getting what I'm saying - anything that is mass level consumed. I'm not talking about very, very expensive stuff, I think there, there's a huge boom, I mean things are doing very well. For example, if there's a Rs. 200-250 T shirt, which is generally used by probably a little bit lower middle-class kind of a customer, I think that kind of buying is getting a bit postponed. There's a little bit of stress you see there. So, things like that.

Vivek Maheshwari: And the other part is on the gross margins, in the first quarter that number moved up quite a bit, it was like a multi quarter high. And that was despite the fact that your comment again in the release that general merchandise discretionary category, you're still on a wait and watch. So, while you clarified on that point, but still, gross margins moved quite a bit. So, can you elaborate on what exactly is going on there?

Neville Noronha: Vivek, that may not be the right way to look at it. You compare it with Q1 of FY 2020, which was a non-COVID quarter 1. We are still; I think 30 or 50 basis points lower than that gross margin in this year Q1. It was slightly lower. Q1 gross margins are generally higher than the annual gross margins.

Vivek Maheshwari: So, your outlook is that gross margin, the trend that we are seeing is more sustainable. And as we go forward adjusting for the seasonality, it should be okay.

Neville Noronha: I'm not saying that. I'm just telling you a fact that Q1 generally is higher because of back to school, people shifting homes because that is the time when people change homes, a lot of stuff is bought for the home, so a lot high margin stuff sells during Q1. So, Q4 and Q1 are good, relatively better margin quarters for us.

Vivek Maheshwari: I understand which is why I said that, going forward, seasonally adjusted margin should be tracking along these lines then.

Neville Noronha: Yes.

Vivek Maheshwari: Lastly, on DMART Ready. So, interesting comments that you mentioned on the slides. Just one question. And again, I'm not comparing, let's say apples to oranges. But, when we look around, there is so much of excitement around quick commerce. Now, you also have a very spread-out model in terms of having DMART stores. So, again, as I said, I'm not asking you if you want to do 30 minutes, but do you think that there is a case? Because when I look at slots around me, I still see that, the same day delivery, that option is very far and few. So, do you think that delivery timeline is something that you want to work on? Because now that you are saying that it is not a cash guzzler and so basically there is a business model that you see over here.

Neville Noronha: Independent of what's happening outside, there is a huge opportunity for us to improve our services. And I can only tell you this that our services are not where we want them to be because we are running out of capacity. That's it. That's the only thing. So, we're just building capacity for it.

Vivek Maheshwari: Sorry, what do you exactly mean by capacity here? Because you have the store, because I would have imagined and correct me if I'm wrong, but it will be more of an OpEx related thing, because once you have the store, It is just getting the manpower over there to basically ship it, let's say from the mother warehouse to these distributed stores, and in case if the customer opts for delivery, then delivering it to the customer. So, what do you exactly mean by capacity constraint?

Neville Noronha: We are basically running this business as a separate entity. We need to build new fulfillment centers. And they need to be in particular geographies to service customers the way they would want which is, as early as possible. So, we're trying to at least achieve a 24-hour promise, but we are struggling with that to be very honest. So, we need to build more fulfillment centers to service that need. And this feeling is primarily in Mumbai. I don't think we have so much of a problem in other cities, but it is not that we don't have it, but it's not as acute as it is in Mumbai. In Mumbai, we need to build capacity at a faster pace, which is building more FCs basically. The location of the FC is very critical. That should be closer; I've said this before also, that it should be as close as possible to the demand areas.

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

Avi Mehta: First, typically you use this forum to share guidance on store additions, any update on that or would you like to share with us that number?

Neville Noronha: Hi, Avi. We don't give store guidance. But we gave it last time because of the COVID anxiety and because our first-year store addition was 22 – 20 net because we shut 2. And hence we gave the guidance for second year also. But otherwise we don't give guidance.

Avi Mehta: The second bit is on DMART Ready. I mean you are increasingly getting confidence on this. What would make you want to become a lot more aggressive in terms of addition of cities? What is it that you need to kind of see because clearly you're arguing that it does not guzzle capital that much? You are seeing this moving to a more steady state. So, I would like to hear your thoughts on this.

Neville Noronha: So, internally nothing much. Externally, I think a little bit of patience is what I would say is needed. We will go at our own pace. We are going at the pace that the business needs and the capability that we have. But if you ask me, we're in a good state. We're not in a hurry really, but we're not really going slowly too. We are happy with what we are doing. And whatever you hear quarter-on-quarter, through our press releases; it will give you a feel about the pace. Or take for example we've put up these resolutions in our AR (Annual Report) on what we are doing. That will also give you a sense of what we're trying to do with the E commerce business. If you read each of the resolutions in detail, you'll get a sense of what we're trying to do there.

Avi Mehta: Fair enough, sir. I'll kind of go through that. And lastly, sir, on the discounting pressure, just trying to understand how is that panning out? Given in the COVID environment, we did see lower focus on discounting, because people were essentially trying to get things in place. Now with normalization coming in, are you seeing discounting pressures coming back from peers?

Neville Noronha: Not yet. We haven't seen that yet. I think discounting is there, but it is not reckless. It is fine.

Avi Mehta: So, there is nothing of that sort. And lastly, sir, just follow up on that general merchandise bit, you said there is pressure at the mass end that you have witnessed. Is that more in terms of down trading? Or is it people reducing the frequency of consumption?

Neville Noronha: It is both. Now if it is soap, there will be down-trading because everybody has to take a bath, right? People don't reduce the number of baths per month?

Avi Mehta: No, but sir, discretionary is what we will --

Neville Noronha: As far as general merchandize is concerned, yes, there will be a little bit of a postponement. So, it is category to category. Certain categories, you need it. So, you will down trade certain categories and you will postpone certain categories.

Avi Mehta: So, where I was coming from is in those categories where people are down-trading, for us as a retailer, does that essentially give us an opportunity to kind of look at margin in different light because, you have to kind of get new brands, you are especially getting more, lesser-known brands or lower priced brands in, getting your margin profile may be different from what you were earlier doing. Does that argument have any validity or it would be flawed?

Neville Noronha: I don't know whether I got your question, but I will respond to it in this manner. I think I've responded about this question even earlier, that we straddle across a reasonable range of price points within each category. So, we capture the demand, depending on how the consumer behaves. However, that does not mean that we try to recoup or we do extra analytics on, oh, I lost a higher price point customer to a lower price point, so I need to recoup it by recalibrating our margins. No, we don't do that. But we try to capture the demand at a broader range of price points so that the customer doesn't go empty handed.

Being approximately right is the key. Not executing or over-engineering things or being micro manager has disastrous consequences

Moderator: We'll take our next question from the line of Sheela Rathi from Morgan Stanley. Please go ahead.

Sheela Rathi: So, my first question was, with respect to your store expansion strategy. I understand you will not be giving any numbers. But what I wanted to understand is, you know, in a city like Mumbai, where you would be having about 35 to 40 stores, wanted to understand, do we still have potential to increase stores in a city like Mumbai? I understand you don't have stores in South Mumbai. So, what's the plan out there? That's the first part of my question.

Neville Noronha: Hi, Sheela. So, again, I've responded to this earlier, I'm responding again. Mumbai can take significantly more stores than what we have. When I say Mumbai, it's MMR - Mumbai, Navi Mumbai and Thane. We can have 100-130 stores. In fact, probably even more, but I don't want you guys to get too excited about it. But yes, it is possible. So, from a demand standpoint, there's no issue. We also believe that from a pricing or real estate perspective also things got relatively better over the last 2 years, especially during COVID and hence, we did acquire some locations in Mumbai. But South Mumbai is not possible. I mean, that's very, very clear, and we will never open there at these price points. But otherwise, if you look at Virar, Vasai, Dombivli, all of those places, there is a huge opportunity – we can still acquire if land is available, prices are within the range that we look for. If you look at Mumbai as MMR, you will constantly see stores coming up. The opportunity is there, it is huge.

Sheela Rathi: The second part of the first question was with respect to North India, Ghaziabad, our first store was opened in 2017. Last 12 months, we are seeing about 5 to 6 new stores which have been opened. So, now what's the plan with respect to expansion into northern part of India?

Neville Noronha: We are quite glad about the outcome. If you see more and more concentration or more stores opening in that region, that's an indicator that yes, that region is doing well for us on all financial metrics. So, we're quite happy with NCR, we want to grow there. But again, the Delhi part of NCR like Mumbai has challenge in terms of getting real estate. To that extent, we'll get restricted. But otherwise, Ghaziabad, Noida, Gurgaon, Faridabad, very interesting locations, space will be available, and we're looking for space there.

Sheela Rathi: And is there a land bank to new store ratio, which you maintain? Is there a number in place there?

Neville Noronha: No, we don't believe in land banks. And I've commented on this earlier, our objective of buying properties is with the idea that they should open in 2 years, worst case, 3 years. We do have stores which sometimes take more time than that, but that's for other reasons, and they are very small in number. But otherwise, we don't believe in the principle of land bank.

Sheela Rathi: Today, you would have an idea in terms of what is the number of stores you would open in the next 2 years? Is that what you are saying?

Neville Noronha: If I say yes, you'll ask me how many, I don't want to make a comment on that. But yes, obviously, we will have a view on how many stores we'll be having. So, to that extent, we know, we have those properties acquired.

Sheela Rathi: The second question was your thoughts on private labels? I understand you've expanded into various categories, personal care, foods. So, is there something you would like to share there with respect to what is the share and how far you want to go in deep with respect to private label?

Neville Noronha: So, Sheela, I've commented on this earlier. Nothing changes from my previous comment. If you have my transcripts, my position on private label remains the same. Nothing changes from what I've spoken last year in the analyst meet and even in the year 2020. Everything is there on our website. Nothing changes, everything remains the same.

Sheela Rathi: And my final question was, last 2 years, you've been saying that the share of delivery versus pickup on DMART Ready has been 50%. With the reopening happening, have you seen any change there?

Neville Noronha: We can see that people prefer home deliveries more. But again, too early, and the shifts are very minor. We've also been a little biased towards or probably a little bit slow on opening more pickups in the recent past just to reduce the drain of capital. But there is still time to make judgments on that. But in general, what we're seeing distinctly, is 2 types of customers. There's one customer who is very affluent, loves the convenience of everything coming to the home, and happy to pay the delivery charge, because some of the stuff is coming at home directly. Vis-à-vis, the pickup customer is a very different customer. He doesn't want to waste money, has a lot of time available. He goes to the pickup point and gets the stuff. So, there are 2 distinctly different customers.

Sheela Rathi: So, just 1 follow up here and that's my final question. Have we seen a change in the customer cohort whom we are interacting with, after scaling DMART Ready in the last 2 years?

Neville Noronha: Again, we've spoken about that. A good chunk of DMART Ready customers are very different customers as compared to the regular DMART Store customer. I'm not saying that cohort (DMart Ready Customer) did not shop in the DMART Store, probably they did shop, but we don't track consumer data. We have no consumer data, so we can't very clearly say that. But what is coming out is that this customer is a significantly larger customer as a cohort and is a very premium customer. And that's why we are calibrating our assortment accordingly on DMART Ready.

Moderator: Our next question is from the line of Manoj Menon from ICICI Securities. Please go ahead.

Manoj Menon: Hi, team. Just 2 straightforward questions. One, any revised or updated thoughts on fresh and cash and carry?

Neville Noronha: Manoj, I didn't get the question on fresh. What do you mean by fresh? I mean, what would you like to know?

Manoj Menon: No, what I'm just trying to understand is, let's say ecommerce, has been evolving for you, because you have been experimenting a lot. But there, as a position you've taken, let's say that fresh is not necessarily very lucrative. And secondly, cash and carry while it appears to be a trillion rupees market, etc, only in FMCG. So, again, there was a position you've taken. What I'm just trying to understand in the evolved situation currently, assuming there is an evolution, so I just want to hear your thoughts on that hypothesis itself. Any newer thoughts on both fresh and cash and carry?

Neville Noronha: On both the points, we hold the same position as we had last year. We feel that fresh is very challenging to run in our model, whether It is brick-and-mortar or in e-commerce. And on cash and carry, our comments remain the same as last time.

Manoj Menon: Basically, It is still a difficult business, given the margin structures, etc, right? And because as you know where I'm coming from, because you also, as a company, would have evolved over the last 2, 3 years, you would have seen many experiments in the market. And more importantly, you are now let's say, a Rs. 10,000 crore quarterly run rate company, right. So, your scale or rather the size which gives you a scale could be very different today versus what it was 3 years back. So, that's what I was trying to understand. Is there a different thought process in cash and carry whatsoever?

Neville Noronha: Our position on cash and carry is the same that – we earlier thought we should get into that business, but we've got too much on our plate to be honest. We'd like to focus on what we're already doing and we're doing it well. We are busy with what we are doing and we are happy with just doing that.

Focus is the key!!

Moderator: Our next question is from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: Again, some questions on the e-commerce bit and I saw you're looking to invest up to Rs. 350 crores in the share capital there. I wanted to check; would you want to keep this business separate? I understand there have been some resolutions around, sharing of the premises, support, etc. But going forward, could we see more use of assets of the offline business for DMART Ready? And also, if you could share the number of fulfillment centers you have today for this business?

Neville Noronha: Yes. Last year, we've gone through the journey of thinking multiple things to leverage the ASL capability, which is not just the hard infra, but also the soft capability that ASL has built. So, a lot of the buying and merchandising strength of ASL, which has been built over the last 2 decades, has all been transferred in some way or the other to AEL. A lot of the pressure of buying actually significantly reduced for AEL. And the beautiful thing about that is, that from a consumer standpoint, they get the same products at similar prices. All of that, there's a nice synergy there. A lot of that is being leveraged. And also now in a lot of locations, we have a lot of spare physical infra available, and we are going to utilize that but in a calibrated manner. But yes, we're going to utilize that, too. And we're now a Rs. 40,000 crores company and we have a lot of talent built, which is there in the organization. So, a lot of those people who know the business, know operations, know the DMART culture are also being moved to the AEL business. Our ability to execute and accelerate at high quality that this business would need is being made available and that's all we're trying to do. And like I said in the earlier question, if you read the resolutions, you will get a feel of what we're trying to do there.

Latika Chopra: I understand you; in the past you've continued to maintain that you don't capture consumer data, right? But now with at least in large cities like Mumbai, do you want to leverage the data that you collect on consumer purchasing behavior? I don't know if you've still any changes in your thoughts on loyalty or anything of that sort. You don't kind of leverage any data collection in offline stores. Any changes on that part?

Neville Noronha: Not really. The ethos continues to be the same, Latika. It is not that we don't look at the data; we look at the data to enhance our services. From that standpoint, yes. But looking at data to upsell, down-sell or, things like that is something not a part of the DNA of the firm. We always believe that we should be a platform where customers are choosing basis what they want, very, very clean, clear, simple. This is the product, this is the MRP and this is the price we offer. And through that differential, this is the benefit you get, because you shop at DMART. And it is our responsibility to give good quality products. I mean our ability to choose the right products and make them available, that's our duty, right? Other than that, we don't nudge or push anything in any fashion. That is the ethos. That is the philosophy on which the company has been built. And I think that is something that we feel very proud about, consumers like us for that. All our consumer insights tell us that. People love us for the way we run this business. And it is very simple,

DNA / Ethos

straightforward. Unless business tells us something, because of which we are not performing well, then obviously, all those things are on the table to review.

Latika Chopra: And just 1 last question was on your store count. How many of these are leased store share? Is it still less than 10%?

Neville Noronha: 13%, at least.

Latika Chopra: And going forward, you don't anticipate this share to change much?

Neville Noronha: I've commented on this. 10%, 15% will continue to be there, like in last calls I had said. Because of the size of stores we look for, lease versus buy doesn't give you much of a leverage, maybe 20% leverage, like instead of opening 40 stores, you may be able to open 50 stores, so to that extent. But because of the size of the stores that we need, the market scenario doesn't change much. We just need to have a reasonably large team who is always out in the market looking for new properties. That's the way.

Moderator: Our next question is from line of Amit Sachdeva from HSBC. Please go ahead.

Amit Sachdeva: Neville, I have a small thought there on the way discretionary buy has evolved, like you mentioned that the mass end of it is under pressure. Now question is that, is there an opportunity here to redefine the value proposition as you said, because where there is a bit of a challenge like that, because there's online to offline or offline to online progress which is happening, especially for even mass and consumer of those categories. Have you done some more thinking that whether it's time to actually calibrate the entire pie of discretionary product, rethink it, reimagine it, and maybe position the stores slightly differently than has been positioned in the past. But my sense is that this might not just be discretionary demand being slow. My sense is consumers may have structurally changed habits of where they buy those discretionary goods from and maybe so. So, have you done some more work there, that can this be an opportunity to change the value proposition entirely? My sense is that it's also a retailer's responsibility to sell what a consumer may need, as you rightly say, but discretionary probably may require a different thinking at this stage or what are your thoughts here.

Neville Noronha: So, Amit, hi. Good to hear you again. But on this specific question, it is too complex a point that you're trying to make. And I don't think we are thinking about it that

What does D-Mart focus on?

way. Our view is that our business focuses on very basic everyday use simple products. And we would like to stick to that. We'll see with time, I mean, it is not as gloomy as I may have communicated. Overall, the business is roaring, doing extremely well. There are certain categories on discretionary side where you have this pressure. But otherwise, overall this is fine. I don't think for this specific cause, we need to do anything significantly different. We don't think that.

Amit Sachdeva: Because I also linked it to basically areas, for example, which is non-operational during the COVID times, because especially from the last 2, 3 years, the larger stores were opened, like, for example, average store anything would have been 60,000 square feet versus much lower numbers previously in the past. Now, I would probably assume you haven't changed this number, but I would assume that part of that area is still dormant or not active or maybe used later on for future proofing of growth or as you expand, footfalls expand whatever in that area. But now that you're also saying that part of that area would go to DMART Ready and e-com infrastructure. But in some sense, this is also a bit of an area, which was kept for discretionary purchases more rather than staples part of it. How do we think about then this area, part which is still non-operational? Can you give us a split of that say, if you have X area added in the last 3 years, what proportion of it is still non-operational.?

Neville Noronha: So, very little of the space is non-operational. It is just that we have said that larger stores give us more opportunity to sell discretionary products in a better way. And hence, discretionary product contribution to the business increases. So, that position holds. That is one point. The second point is that addition of new categories is a continuous process. It is not that we are stuck on to what we've been doing in the past. I mean, every year or 2, you'll see that we're doing a few things differently, which is adding incrementally to the existing categories. That's the job of the buying and merchandising team. What we only ensure is that it should be aligned to the model, it has to be salient and similar type of categories to what we already sell. But we keep doing these trials. And the whole idea is that we go back to the buying team and say, look guys, we're opening bigger stores, we need horizontally a better scale up of categories. So, that's a continuous process, Amit.

Amit Sachdeva: If I may just, what I really wanted to ask is, during COVID time, obviously, the footfalls had been gone and online push has happened. Now, It is safer to assume that you would not exhaustively be using all your capacity, I'm just thinking that as the pace of recovery has happened and footfalls are improving for physical infrastructure, I'm just trying to sort of second guess here, what opportunity would be there in terms of which area was, for example, not fully exploited, there you'll see a larger tailwind from that area as well, that could converge in this year as the economy is opening up, not just a headline customer coming back and buying, but in fact, a larger area being available for purchases, and price is sort of second just that, how we should think about the revenue growth drivers here, area being one, footfall being one, but previous area added not being added this year, but still can add to that pie. You know where I'm coming from. So, just wanted some help here to how to think through the year of the recovery.

Neville Noronha: Once I finish, let me know if I've answered your question. So, I'll take it one by one. Utilization of the entire space of DMART Stores is already done. We are back to full flow in terms of the business, number 1. When I speak about stress and all of that, we speak in too much detail. What I mean is it impacts the business maybe in basis points, maybe 1% here or there or 2% here or there. To that extent is my comments that there is stress in certain areas, that's one. The second part is that this year also, the weighted average size of stores is higher than last year. And even last year it was higher than the base we had. The trend is that we're opening larger stores. So, that and then time has passed, 1.5 years have passed and we've got some insights on the e-commerce business. Coupling all of this together, we are now saying that, hey, is there an opportunity to do some part of the e-commerce business in some of these stores which are larger stores? You have to connect all of these 3 together. I hope I've answered your question. That's the way to think about it. And obviously we are thinking about all of this because certain amount of operating leverage is available.

Amit Sachdeva: And would you ever start considering opening smaller stores at some stage or the first plan would be to go for all out the largest possible? Or the strategy would be that let's go wide and fast, even if It is 5000, let's go from 5000, Or you'll just stick to that principle right now, for now and later on, we'll see that sort of positively. What I'm trying to say is, can we be a little bit more pervasive about it rather than very, very larger format? Is there change in thinking there?

Neville Noronha: No, we like the large format. We would like to focus more on the large format, and obviously, the e-commerce business.

Moderator: We'll take our next question from the line of Nihal Mahesh Jham from Edelweiss. Please go ahead.

Nihal Jham: Three questions from my side. Just speaking on the larger stores that you've recently been opening. So, how does the store economics for that differ versus the earlier stores? Is it mainly that you're looking at a larger share of say the general merchandise being the key driver? Or do you expect some of the space to use for e-commerce also going forward?

Store Economics: How does the management think about it?

Neville Noronha: They are all mutually exclusive. When we set up a store in a particular location, our math is around – will the store make money on the brick-and-mortar side, that's the main call to take. And incremental construction cost, whether it is a warehouse or the brick-and-mortar business or a small fulfillment center or the e-commerce business, are very incidental to the overall working. Will this store make money in the brick-and-mortar business? That's the way to look at it. And size of the store is obviously a factor of price of the land, construction, location, what have been the revenues of other DMART stores in that vicinity and on the basis of that you decide the size.

Nihal Jham: Just had a follow up there. If you say take the example of some of the stores we recently opened which let's say has been in excess of 80,000 square feet or so, do we see that the share of GMA is more than the 25%, 27% that is the average for the company as a whole or significantly higher, I would ask?

ROIC is a key metric

Revenue @ 3x with 18% general merchandise & apparel contribution >

Revenue at x with 28% contribution from Merchandise & apparel

Neville Noronha: Not really, the moment you go store by store. What we declare is average, right? And you'll have these variations store by store. But in general, let me tell you on the higher margin business, that is general merchandise and apparel, when we say pre-COVID was 28%, you'll have a lot of stores which are above 28%. Is that good? Is that bad? I mean, we shouldn't be saying, oh, if that contribution is high means it's great, not really. In fact, as the business grows, as the stores mature, actually the general merchandise and apparel contribution reduces. But it trades off with the absolute revenue that the store does. So, if you ask me that given a choice of 28% general merchandise and apparel contribution for a particular revenue versus if their overall revenue becomes 3x, at a significantly lower, say maybe 20%, general merchandise and apparel contribution or even 18%, I think the 3x business is better business to have because the ROIC is awesome, significantly higher. I think getting too fixated on the general merchandise and apparel business may not be the right way to look at it. And It is a fact with a lot of our older stores who do very, very high throughputs, their general merchandise and apparel sales are not 28%, they're much lower than 28% and still they deliver great ROIC.

Nihal Jham: I'll move on to the second question. This was on DMART Ready. I think last year, you alluded there being a focus on your city wise profitability. And as the city gets profitable, you look at scaling up. I would assume that Mumbai has obviously reached that scale and we've obviously entered a few more cities this year. Now, based on what you've seen over the last 5 years since DMART Ready has been launched---

Neville Noronha: Your assumption is wrong by the way, sorry to interrupt, because if the question gets too long, I may end up not responding to that, so I don't want you to end up with an assumption, but we are not yet breaking-even in Mumbai.

Nihal Jham: I'll correct myself on that. But how many more cities do you see this format getting into based on the metrics you've seen with some of the new cities that you've looked at?

Neville Noronha: Except Mumbai, other cities have still not reached that level to make that comment. So, probably, we have to wait another year to make that comment.

Nihal Jham: I'll wait for that. Just 1 last question was that in Q1 FY 2023, would it be fair to assume that you clocked a positive like-for-like. Why I'm asking that and where I'm coming from is that say in metro cities like Mumbai, Pune, which are key for our overall business, are we seeing any impact on footfall versus pre COVID? Because these are cities where e-commerce traction had generally been higher. So, just wanted a sense on that.

Neville Noronha: For the brick-and-mortar business?

Nihal Jham: Yes, for the brick-and-mortar business.

Neville Noronha: Just to be fair to all our shareholders, allow me to comment post Q2 FY 2023 on anything specific on these trends. In general, we have said that the business is back. I mean, it is pretty good. But specifics, I will give it to you through a note at the end of Q2 FY 2023.

Moderator: Our next question is from line of Hari Vijayendran from Hill Fort Capital. Please go ahead.

Hari Vijayendran: I just wanted to understand the bill cuts here. I think your average bill size is about Rs. 1,600 or Rs. 1,700. So, what would be the proportion of bills which are below in the Rs. 500 to Rs. 1,000 range? And how much would be from ticket sizes, which are much larger?

Neville Noronha: I can't comment on that. In general, since you raised this point of bill cuts, we have seen a huge surge on the average bill value, which is obviously a disclosed number. And this is a factor of 2 things. One is obviously inflation. Inflation is playing a role there. I think COVID has also helped. To a certain extent, during COVID they were buying a lot, I mean the basket values were pretty high and I think that habit has somehow sustained. And it has helped us also as a business, less crowd, more revenue, on all elements. Actually, financials have changed a lot because of this change in buying behavior. So, yes, but in general, basket values have gone up, which is very, very good for us.

Moderator: We'll take our next question from the line of Richard Liu from JM Financial. Please go ahead.

Richard Liu: So, 2 questions out there. One is, I mean, if you look at, a medium to long term, right, I mean, for stores that have been in existence, what would be the level of revenue growth, first off, over a long number of years that you will be happy with? I'm saying in the context of pretty muted revenue per store on an average that we are seeing post COVID compared to the numbers that we used to see earlier. What would be a number that would be an acceptable one for you for the portfolio on the whole?

Neville Noronha: Basically, even the oldest of stores, if they are growing at the rate of inflation, which means no volume growth, and when we say older stores, these are stores which are doing very high turnover per square feet. And then even if they grow at inflation, just about the rate of inflation, we're very happy. That is more than enough. That is the way we look at it, in terms of very, very old stores.

Richard Liu: And if you take the average of the fact that you have older stores plus newer stores, on a whole, how much do you think this should grow at?

Neville Noronha: I cannot comment on that, Richard. We declare LFL, basis that you have to make a judgment. But it is very dynamic, and now the base of younger stores is much higher because as we are trending for the future, we've added more and more stores. Earlier, we used to add 15-20 stores. Then we moved from 20 to 38, then now 50. So, obviously that will now tilt the like-for-like for a higher rate of growth. Multiple

LFL will tend to get higher as D-Mart adds more stores incrementally YoY, since growth is higher in newer stores as compared to older stores

Investing Lesson: Too many variables and complex financial modelling to make investing decisions is a recipe for disaster, most times!

Credible Mgmt + Few variables, like ROIC, Cash Flow, Price you pay -> Simplification helps!

levers keep moving, but I cannot predict that. For us it is very simple. We just look at ROIC for a store and we ensure that our people are managing the business well, that's it. Then beyond that, we don't go too much into detail on financials.

And if I speak more specifically, about the recent quarters, right, and I think one of the person who asked a question earlier also mentioned that we've probably now seen a few quarters of or at least Q1 was the most normal quarter post COVID as it has ever been. If I look at whatever are the numbers, revenue and number of stores that are available to me, the average revenue per store, as a CAGR versus 3-year ago level which is just about 2%, right? I mean, is this an acceptable number to you? And any reason you can fathom as to why this is lower than the….

Rushabh Ghiya: I'm sorry, Richard, we lost you in between. Can you repeat that part with the numbers? We couldn't get you clearly?

Richard Liu: So, if I look at the revenue that you reported in Q1, right, and the number of stores that you have, and I derive an average revenue per store for the network as a whole, that number seems to have grown at about 2% CAGR versus 3-years ago level, right. This 2% growth in average revenue per store is on the lower side of what we were used to seeing pre-COVID. Is this a number, an acceptable one to you and is there any reason why you think that this number is now lower at the rate that this network used to grow at prior to COVID?

Neville Noronha: Richard, while arithmetically your number may be right but I will respond to this question in a different way. For us, Richard, what we look at is age wise like-for-like growth. I mean, I'm alluding to the question earlier to this which you were asking. So, that is how we look at it. I look at stores which are 10 years and older. Then I look at stores, which are between 10 and 5. Then I look at stores between 5 and 3. And in each of these cohorts, we look at it store wise, how are these stores performing? And if they're performing well, why are they performing well, and if they are not, what are the reasons. What we have seen over the history of this firm is in these cohorts, if any particular store is not performing well, it's primarily for 1 reason only: there's another DMART store which has opened close by. Otherwise, you've always usually seen a decent volume growth, not just value, but volume growth also. So, from that standpoint, when I look at Q1 FY 2023 data, I think we have significantly recovered and we've got decent growth. I don't think It is 2% at an aggregate level, it's much better than that.

How does management look at LFL?

Based on the below age cohorts of stores, management views LFL & tries to understand how & why that store is over-performing or under-performing (not just looking at it from an aggregate level)

> 10 years
< 5 < 10 years
< 3 < 5 years

Richard Liu: So, you would say that the Q1 performance is a reasonably acceptable one for you from a per store basis.

Neville Noronha: Yes. And one reason why your data may be a bit distorted is because there's a lot of preloading of new store openings in Q4 of every year. The entire annualized sale is not baked in. And then in the last 2 to 3 years, the number of stores we have opened have been much higher to the base. So, things like that. But it's not 2%, 3%, that much I can tell you.

Richard Liu: And the second question here, if I look at the size of your network as it expands, and you need to let's say go to, lower and lower tiered towns, cities or neighborhoods, can you give us a sense of how should one look at, let's say, store level economics between a large center and low center, right? I mean so higher revenue in higher tier centers along with higher CapEx spends offset by the lower throughput and lower need to spend CapEx.

Neville Noronha: Higher population city directly correlational to higher per capita income for that city, directly correlational to the real estate price of that city, which is directly correlational to the higher revenue I do in that city. It is very clear. Mumbai, Bangalore, Hyderabad kind of cities, the turnover per store we do is much, much better, but the real estate cost is also relatively higher. At the end of the day, if it is a small town, the real estate is very cheap, revenue is also very low. But finally, you look at ROIC. In all of this I can tell you one thing, larger towns is where generally the returns are relatively better because the purchasing power is good and the purchasing power kind of offsets the incremental real estate cost at a better level.

Management remaining concentrated in the metros vs expansion in Tier 2 cities --> All boils down to ROIC

Richard Liu: So, is it fair to say that as we grow larger, the ROIC profile of the stores will keep going lower and lower.

Neville Noronha: I don't know about the future.

Moderator: Next question is from the line of Vinod Bansal from Canada Pension Plan Investment Board. Please go ahead.

Vinod Bansal: One question on this new quick commerce space. There have been quite a bit of traction in the last 12-18 months. While they themselves are not making money, I suspect it might be disrupting the existing models. Any sense if they had any impact on your sales per store? I say this because whatever scale they have achieved, it must have come from the market share gains. So, whether it is the Kiranas that are losing or the incumbents like yourself or the e-com traditional, who are the ones that are losing the most? Any color you can give on that.

Neville Noronha: Our business is doing fine, is all I can comment and we play in the positioning on value. We don't play much on the convenience format. So, our numbers are pretty much intact, is a point of view we can make on this particular question.

Understanding What You Stand For is paramount

Vinod Bansal: Just to rephrase, therefore you are saying that the ups and downs that you might have in your numbers, they are in no way connected with the growth in the quick commerce business?

Neville Noronha: I cannot comment on anybody else's business. All I can say is that our business, whether it is large metros or cities after that, all small towns, everywhere, our business has recovered and is doing relatively well.

Vinod Bansal: Also, you mentioned that the general merchandise and apparel category is the only part that is a bit slow, given the mass consumption in this sector is a bit weak, everything else is fine. When I see a total bill cut of 18 crores a year compared to 20 odd crores you were in FY20, this is total bill cuts and your number of stores is much higher. How do you connect that, so the bill cuts per store would be significantly lower? So, total bill cuts itself has not fully recovered, what could be the reason behind that?

Neville Noronha: First is that it is annualized for the full year. What we are saying now is that our overall revenues have come back pretty well. We are doing very well. Q1 was fantastic. We just want to see whether that will be sustained for Q2. And the average bill cut per customer is also sustaining, I mean it is not going back to pre-COVID levels. Even after you factor in inflation, we have got a bump, which is higher than inflationary growth, which is very, very encouraging. So, that's the way to look at it.

Vinod Bansal: Can you share the numbers and what will be bill cuts for the quarter?

Neville Noronha: We don't share for the quarter. The number will be disclosed next year. But like I said, after Q2 FY 2023, I will give some additional color on our businesses.

Vinod Bansal: I'm sorry, I'm repeating the last question on the revenue per store and a 3-year CAGR. I know you explained that very well. If you look at SSSGs across all age cohorts and you find those numbers to be much better and acceptable. What I'm repeating here is that pre-COVID, the same math would tell us that your revenue per store was growing at about 9%-10%. And that would sit well with the SSSG analysis store by store. That number now, as an earlier participant said is about 2%. And there's a huge disconnect with what you're saying now. So, earlier one could see the connection between the SSSG analysis that you would do and the sales per store analysis we would do, there's a big gap now. Could you explain how do we reconcile that? We don't get the data that you have and therefore we have to work with our very limited data that you provide to us. So, how do we look at this number changing? Even on guidance, let it be 5%, or go back to 10%, how do you sort of see that moving up?

Neville Noronha: Vinod, see, on Page #10 of our presentation, top right, like-for-like growth is what we referred, which is 2 years and older stores, and that's the metric. I mean I don't know where 2% is coming from.

Vinod Bansal: 2% simply is, if you look at the total sales divided by the store network at the beginning of the period and the closing of the period, that number you say, X and what that number was 3-years back, which is the last normalized pre-COVID number, which is 1Q FY 2020, right? From 1Q FY 2020, last pre-COVID normal quarter, this normal quarter and that CAGR is about 2%. That CAGR used to be much higher 8% to 10%. Now that math should normally work very well with the SSSG math that you do, but it is not working out. And that makes one sort of think if the business has indeed fully recovered or not. And if not, why is it so? And therefore, we are asking, if you look at the SSSG number, also, right, FY '21, whatever sales per store, you declined 13%, you had grown back 16%. So, net-net, you're zero, right, from FY 20, which is where the sales per store number also shows a weaker number. So, are we at all seeing any growth coming because of the expansion or the new stores or the older stores are still struggling to come back to the pre COVID levels? That's what we're trying to arrive at.

Neville Noronha: Vinod, okay, I get it. See, again, we've never done the arithmetic the way you have done or Richard, who asked the question earlier. I think there's an error in that arithmetic, from the performance of the business.

But I will again, come to the specifics of like for like. You're absolutely right, 16.7% versus the negative 13.3%, means you're back to zero. But let us not forget that this is a weighted average where during Q1 FY 2022, wave 2 of Covid was a significant downner and the business takes time to recover. We commented in Q4 FY 2022, and again in Q1 FY 2023 that now the business is back. I'll not give numbers; I'll give it in Q2 FY 2023, like we have promised a more detailed note on what's happened to the business. And also because you need time. We need more time to make that comment. But in general, let me tell you how we look at numbers. Now, especially because of COVID, what we have done with all our old stores is we look at the value sale that has happened for that store, and then we apply the weighted average inflation per annum for each of these stores and then we multiply that CAGR inflation for every year. And then we look at vis-a-vis that how has the business done in Q1 of this year? Or actually, we do that even on a month-on-month basis. I have numbers even for July, but obviously, I can't tell you all of that. But considering the numbers that we see for Q4 FY 2022, Q1 FY 2023 and July 2022, our business has recovered, it is doing fine. What that number is? Wait for Q2 FY 2023. I hope I've answered your question from that standpoint.

Moderator: We will take our next question from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: I just look at your business in a different way because there's confusion in the SSSG versus sales per store, etc, etc. Just let's look at the total sales growth. So, the total sales growth 3-year CAGR in Q1 has been about 19%. This is the same 3-year CAGR approximately with 100 basis points here or there, which we saw in Q4 and in Q3, also, the 3-year CAGR at a total system sales level. Earlier, we used to grow our total sales in the region of 25% plus. So, even if we look at it that way, I mean, our growth rates are now at high teens, are 20%. Is that sort of a fair representation of the underlying business? Or is there still some one of our weakness in that?

Neville Noronha: Well, what you've just mentioned is perfectly right. As the base grows higher, sustaining that level of CAGR may not be possible. It is all a function of how many additional stores that I keep adding every year. In fact, we were just having this conversation a few days back internally and I mentioned this probably in the last year's analyst meet as well, about the one fundamental difference that is happening to our business – earlier whenever we used to open a new store, the CAGR growth at a very high rate used to continue for 3-4 years. Now, because the brand has become very, very popular, all of that is getting front loaded. So, when I open a store, within the first 1-1.5 years, I am getting that sale at a very high level and because we track like for like for 24 months, that is 2 years and older stores, all the incremental revenue has already been baked in and hence the moment it gets qualified for like for like growth, It is already a Rs. 150 crore store or a Rs. 120 crore store. So, keep that also in mind.

Percy Panthaki: Secondly, and here I'm looking at full year FY ’22, I understand there is a Delta variant impact, but still I'm analyzing FY 2020 versus FY 2022, 2 years point to point. So, while there is understandable reason why GMA clearly is down, so GMA per store on the 2-year basis is down like almost 20%. The food business on per store again full year, 2-year, point to point is about 1% to 2%. But even the non-food FMCG to your point-to-point FY 2020 versus FY 2022 is down 9% on a per store basis. Now, this is the thing, which is confusing that if because of delta wave, etc, people were sort of avoiding modern retail and going to kirana, then that should have a similar impact on the food as well as the non-food portfolio. Why is the impact here so different?

Neville Noronha: So, Percy, I'll tell you honestly. Please understand, good 6-7 months was COVID. And in COVID, your non-food consumption significantly reduced. People were washing lesser clothes; people were washing lesser utensils because there was no maid. All of those things were there, probably not using as many toiletries that they would otherwise use, because they're not going out. If one goes up, the other will look lesser. When one thing goes up, no one says anything like - you have done a good job. What has gone down, you people are after that. See the point is you have to look at it from a perspective of consumption during that period.

Percy Panthaki: In fact, I understand Neville. Actually, I'm comparing also versus large FMCG companies. We have data of about 12, 13 FMCG companies. And if you look at their sales for FY 2020 versus FY 2022, they've actually seen decent growth, I mean, more or less in line with what usual growth rates would be. So, I was just talking from that point of view. And just understanding the difference between food and non-food, and I mean, I understand your point of view that basically the food consumption has been much higher than non-food. And that's true also to an extent. But the differential is quite large, I mean, plus 1 or plus 2 on a per store basis versus minus 9. I just wanted to understand that. But anyways, I'll keep that question for later. One last question from me. And I know you don't have exact actual data, but whatever your best estimate is in terms of how frequently a consumer shops at DMART per month?

Neville Noronha: How frequently a consumer shops at DMart? Our sense is around 2.5 times.

Percy Panthaki: 2.5 months a month. So, about Rs. 1,600, Rs. 1,700 is the average bill value. So, if I multiply that by 3 that is monthly spend on DMART. Is that the right way to understand it?

Neville Noronha: Broadly, that's our sense.

Moderator: Our next question is from the line of Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani: Sir, my first question is with regards to the cost. If you see the cost line items below the gross margin and between EBITDA that as you know has been significantly lower over the last few quarters and more so in Q1 when we had a normalized quarter. So, if you just compare it versus pre-COVID level also, it's like down around 10%, 12%. What is aiding this lower cost, both on the other expenses item and the staff cost?

Neville Noronha: It is purely top line scale. Within the same infra, same people, you're just doing more revenue, number 1. And number 2 is also because the basket values are going up at a much better pace, the number of shoppers entering the store are lower, and that also has a lot of advantage in terms of lesser heat load, lesser air conditioning cost, all of that, and you relatively tend to have slightly lesser number of employees to run the operation when the basket values go up. So, it is just pure scale efficiency.

Gaurav Jogani: And sir, my next question is with regards to the DMART Ready bit. I was just going through your annual report and just read that that you have tried 2 formats of the DMART Ready MiniMax wherein, that grocery kind of a store experimented in Mumbai and Hyderabad. So, any particular thought process there? Why these formats have been tried out? Or any color can you give on that?

Neville Noronha: It is just an experiment, but beyond that, nothing else. We just thought we'll try something there. But we're still stuck at 2.

Gaurav Jogani: And sir, the follow up on DMART Ready, if you can help us out, how many DMART Ready stores that you have in total as of now. And also we have seen some bit of losses in that business going up despite sales almost doubling there. So, if you can highlight, what has caused the losses to go higher despite higher scale?

Neville Noronha: I missed the last line. Can you repeat the last line that you asked?

Gaurav Jogani: So, I'm saying that the DMART Ready turnover they have actually doubled Y-o-Y in that sense. However, the PAT losses have actually also gone up by around 75%. So, despite higher sales, why the losses are also going up.

Neville Noronha: We are still in the scale up mode. And that's the key reason, and a lot of the expenses, almost 90% of the expenses are variable cost. We're still in a scale up mode. That's why it has been linear. And yes, we have 519 pickup points now, as of end of March 2022.

Moderator: Next question is from line of Varun Singh from IDBI Capital. Please go ahead.

Varun Singh: Sir, my question is in the online e-commerce space, we see that most of the companies have kind of changed the competitive landscape by becoming super-efficient on delivery. So, there is a 10-minute delivery, 20 minutes delivery etc. So, given this context of hyper delivery focus, sir, how do we wish to operate or at company philosophy levels, sir, how do we wish to compete? Is it only purely on assortment and the value offering because on convenience, we are losing significantly to the competitive pressure.

Neville Noronha: So, Varun, it is a good question. But like we've said earlier, we like to play in the space of value, and even in the e-commerce business we like to play in the space of value. Let's correlate it to the brick-and-mortar business. The whole country operates on the principle of convenience through the Kirana stores, which was like 95% or 97%, at one point in time, and we still decided even at that point in time that we'll go into the value space. We like the value space; we understand the value space. And we like to play within that whether it is brick-and-mortar or e-commerce.

Varun Singh: And sir, secondly, wanted to understand that, as you rightly pointed out that online, offline customers are very, very different. One is affluent, second is relatively less affluent. But I just wanted to understand that how we discriminate between these 2 customers with regards to assortment as you said that we are accordingly curating assortment for online customers, but I wanted to know that does an online customer have access to almost whatever sells at DMART offline stores? And do they also enjoy almost 100% similar pricing or how is it, if you can please elaborate.

Neville Noronha: The ethos of pricing remains the same; it may not necessarily be item to item same price. But assortment is far more restricted on the DMART Ready app. DMART

Ready is more focused on groceries, FMCG. We do sell a little bit of non-FMCG, but it is a very small range.

Varun Singh: But in FMCG, it'll be 100% similar offering level, what they will enjoy at an offline store.

Neville Noronha: The pricing ethos has been told to be the same, it's not 100% same.

Varun Singh: It is not the pricing, the product, sir.

Neville Noronha: Product, like I said is a smaller subset. It is a smaller subset of the DMART Store business.

Varun Singh: And sir, just 1 last question. On retail expansion, what is the company's operating philosophy? So, for example, how do we make a decision that okay, this year we are opening 50 stores, that's fine. But next year or after 4 or 5 years, we will start opening 60-70 stores. I mean, what is your philosophy with regards to driving store expansion rate?

Neville Noronha: Our sincere attempt is to do better than last year. That's an attempt. Sometimes we achieve it, sometimes we don't but we have always said this that on store openings please judge us basis past performance. We are trying our best because the model we operate in sometimes we may even end up not opening as many stores as we opened in the previous year. But take a longer trend line, longer time period and make your judgment.

There is no grand strategy of doing biz. Its just incrementally doing better than yesterday!!

Varun Singh: Over a period of time, for example, if we open 50 stores and we have a base of 300 stores and if we have a base of 500 stores that is a very different story because if we keep on adding 50 stores all the years then our expansion rate will reduce, so sir we are judging based on what we opened last year, how would you think about it?

Neville Noronha: So, if you look at the past, except for COVID period of FY 2021, we have had a creeping incremental store addition. Our worry is similar to yours that as my base goes up I should be adding more and more stores so that my incremental inorganic sale as a percentage to my base has to A) either be the same or B) creepingly go up. So, yes that is our attempt.

Moderator: Thank you. Our next question is from the line of Akshen Thakkar from Fidelity International. Please go ahead.

Akshen Thakkar: Just a slightly different question from me, could you just help us highlight what are the constraints to adding more stores. So, obviously there is a much larger capacity you have scaled up like you said from 20 stores to 50 stores last year, but if that hypothetically has to go to 100, I am saying if it has to go to 100, what is the constraint today, is it capacity at your end, is it availability of supply, do you think execution will falter, just wanted to get your thoughts around that?

Neville Noronha: The biggest impediment to add stores is availability of good properties on which you can operate. That is definitely the number one priority and the number two priority from our standpoint is whether we have a team to seek out and get those properties, which is just conversion and third which is again very important is whether our teams are ready to go to that level of store acceleration or opening up of those stores such that they are run in the same way that the existing stores are being run. I think for the second and third point we have built reasonably good capability. I do not want this to be considered as a leading statement, but we opened 50 stores last year and it was a breeze. Our internal ability to open stores is there, but then markets are very dynamic. When markets tighten deals do not happen. When we have trouble in the market deals happen, so things like that. Lot of external factors, dependencies will continue to remain in this business. Basis that, we will plan our growth for the future in terms of store additions.

Constraints of Store expansion?

Akshen Thakkar: If I could just slip in one more question, if I look at brand formats like yourself, globally at a time of high inflation, one typically associates better market share performance, the format itself is small in India, but based on whatever data you would be tracking, would you think something like this is happening right now where the customer is getting value at DMart and hence shopping at DMart right now?

Neville Noronha: Whenever there is tightness, high inflation, it is definitely beneficial, but I mean that is a global thing. What you mentioned, we also agree with it. Yes, that is true. People look for better deals in tough times.

Moderator: Thank you. Our next question is from the line of Hasmukh from SUD Life. Please go ahead.

Hasmukh: I have one question on sales per square feet number from longer term perspective. Do you think opening larger and larger stores of about 50,000-60,000 square feet will make sales per square feet continuously below that Rs. 35,000 level because some sort of saturation etcetera, or best level of store size would be 50,000 square feet to make better metrics on per square feet basis?

Neville Noronha: Can you repeat the question, sorry I could not follow.

Hasmukh: Do you think that opening of larger and larger stores above 50,000, 60,000 square feet will make sales per square feet number to be continuously below Rs. 35,000 mark because some sort of saturation etcetera or best level of store size might be lower than that to make better metrics on per square feet basis?

Neville Noronha: Like I referred in the previous question, revenue per square feet metric is not that important criteria for us because we are in the ownership model and also this Rs. 27,454 of last year has also a factor of second wave of COVID so that is why it looks low. But in general, this is not a number we bother too much about. For us, what is really important is - what is the money that we are investing in an asset, in a location and do we think we will make a return which is within our target of ROIC? That is the way we look at it. When you are opening larger stores with a view that it allows you a longer period of CAGR, your turnover per square feet in the initial years is much lower. It has a tradeoff. That is the call you have taken so that in the longer term your CAGR growth rates are better off than had you opened just a small store in the beginning. That is the business call that we take.

Moderator: Thank you. Our next question is from the line of Binoy Jariwala from Sunidhi Securities and Financials. Please go ahead.

Binoy Jariwala: Three-four questions from my end, one is on the GM. We have done about 15% GM, with this 15% kind of GM we are able to attain EBITDA margin of 9% plus with the cost leadership that we have exhibited in the last two years. In the past Neville you said that 8% EBITDA margin is suitable EBITDA margin, would you like to reinvest this 1% extra EBITDA margin and go lower on your GM?

Neville Noronha: Binoy, very good question. In fact this is one thing I have been thinking about a lot for the last few months, but I do not have an answer yet, but I will tell you in general how we look at this business. 15% is the gross margin. We will never earn more than 15% and after that whatever happens below, that is a function of market forces in terms of what PAT it should be. I have very categorically spoken about 15%-16% gross margins. I do not recollect anything about EBITDA, but I know where you are getting at and what you are saying. This is something for us as a team to reflect on

While most companies talk about increasing margins, D-Mart has committed to keeping its Gross margins intact at 15%, thereby making its offering more valuable to its customers. This is how MOAT gets built!! Be the lowest cost operator!!

especially from a perspective of competitive context, but in general we believe that if competitive intensity increases we are not ashamed to cut prices and we will go ahead and cut prices, but otherwise 15% gross margin in this business – that is the way we look at it.

Binoy Jariwala: Not proactively would you go below a 15% GM, let us say operate on 14% GM that accelerates your sales within the store also, it is a multiplier effect all across.

Neville Noronha: I do not know. These are contemplations, reflections, thinking that we do internally. All we will confirm / guarantee / write in stone is that we should not cross 15%. I have said 15%-16%, but now I am pretty confident to even say this year that we should not cross 15%.

Binoy Jariwala: Next question is on the store network, in the last two to three years you have been adding very large size stores, now if in a G+2 storey building and you are operating currently only two floors, G plus 1 and one is not yet operated, the retail area that is counted is only of the area that is under operations or would you count the entire building?

Neville Noronha: We add all areas which are needed to run the business. Certain places we carve out some space to store some goods, all of that is part of the retail business area. Now, because over the last three-five years the revenues per store is rapidly going up and therefore those days of keeping one floor empty, opening it up two years later and all that has kind of reduced. Obviously because 30 to 40 to 50, we are basically taking that leap of faith and opening larger stores from day one. These situations of opening only part of the store have kind of diminished.

Binoy Jariwala: Second, at your existing sites, as your stores matures and given the throughput, do you have additional space to add one more building or maybe provision to let us say build one or two more floors, is there a provision, anything like that?

Neville Noronha: Theoretically it is there, but we do not do that. We have done it in a couple of places and we feel it is a big pain in a public place, in an operating store to add another floor and doing such an activity. Unless, it is a pressing need because the store is doing exceedingly well. Only then we do it.

Binoy Jariwala: And you said that the real estate team, the bandwidth that the team has, is also very important to store additions here. So last time you eluded that you can hypothetically add, let us say 50 stores a year, in the last con-call, what is the kind of bandwidth that you have now?

Neville Noronha: This is for the real estate team right? It is better. How much better I do not know, but it is definitely better than what we had, but we are working on it.

Binoy Jariwala: Last time you gave a number; can you give a number this time?

Neville Noronha: I really do not know, but Binoy very difficult to comment on that because then you guys will project instead of 50 incrementally this much more stores will open and I do not want that to happen, but we are doing our best. We are trying to do our best such that we are able to sustain a decent run rate of store opening.

Binoy Jariwala: Two more questions, you said DMart Ready pick-up points are 515, how much of them would be in Mumbai?

Neville Noronha: 519. Approximately, 300 in Mumbai.

Binoy Jariwala: Is the MMR region, in terms of adding more DMart pick up points, is it saturated or you still have some pin codes?

Neville Noronha: From a consumer demand perspective I do not think it is saturated. I think I spoke about this also earlier. I mean you could have even 1,500 pickup points, but at the end of the day they have to make money. We are focusing now on the intensity per Pick-up-Point (PUP). You should get a good intensity per PUP so that they make money. So, that is the issue.

Making money & not burning money! That's how D-Mart is ensuring that each of their Pick-up-Points (PUP)s get good intensity of Sales

la: Last question is on Align Retail, you have done some CAPEX there if I am not mistaken, what is that for? Last year we had we acquired some land also so what is the plan there?

Neville Noronha: Just to build manufacturing capabilities. Lot of sorting, grading, packing and all of that. It is primarily for that.

Binoy Jariwala: And is the CAPEX over, operational now?

Neville Noronha: Most of it is done except one location, but this will be continuous. Now we are going to the North, so we would like to have some setup there, things like that.

Binoy Jariwala: I did not understand what you meant by manufacturing?

Neville Noronha: When I say manufacturing, it is just that we buy grains, we clean it, sort it and pack it, basic packaging.

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

Tejas Shah: You spoke in past that how we see a runway for opportunity of offline stores is 1 lakh or 2 lakh population per store can be served, as a ballpark figure in long term, do we have similar metric for DMart Ready Retail Fulfillment center, anything which can be like ballpark number in terms of what population can be served from one Ready store?

Neville Noronha: Too premature Tejas to think about that business in that fashion. Our first focus is if not profitability what the path to profitability there is and we need to get that in order for sure. Opportunity is there. I think you can use a similar lens to the brick-and-mortar business from an opportunity standpoint, but our view is that first how do you make the operating model in a manner that it is scalable and at least we breakeven there. I think our attention is more towards that then looking at market sizing and all of that.

1st: getting the Operating Model correct, which is scalable

2nd: Look at market sizing, etc.

Most start with 2nd!!

Just a follow up on that so when I see DMart Ready roll out, as on today we have rolled it out in a state like MP where we have 12 stores, but in Tamil Naidu, apparently from other companies we pick up that it is a higher online adoption market, we have not rolled it out, so any strategic or operational insight you can share, how we go about choosing next location for rolling out?

Neville Noronha: It is primarily the population, but Indore and Bhopal standout because even though population is relatively lower it is just because we had additional capacity there – real estate which we could deploy quickly and that is why we have done that, but otherwise the playbook is about going to large metros first and then progress from there. But now there is another thing, which is also a part of the resolutions - we are exploring, looking at more cities where at the DMart store, the available Infra is good. So, even if the city population is relatively lesser it allows us to enter these markets at very low upfront capital cost. Because our digital teams are in place, corporate office, all of that is in place and technology is scalable. Then, at a very small incremental cost we can go to more cities and that is the kind of thinking that we are applying for the future.

Tejas Shah: And just stepping out from our sector, but when we look at QSR in India, the leader uses the concept of split store metric, which actually we also do, but we do not call it out and the decision over there is led by customer service parameter of not able to deliver certain percent of orders within stipulated time. So, two questions on that – first (A), do we have such a parameter that on service levels which makes us decide on splitting the store and (B) because of this split stores the leader in QSR is saying that the relevance of SSSG has actually gone down because of splitting store continuously and hence they have come with a term of like-for-like growth which talks about the cohorts which has not been split, so if you can throw your insights on these two points?

Neville Noronha: You are talking that if I open another store close by the existing store, then the existing store's business goes down, is that the point?

Tejas Shah: Initially, but it bounces back. So, in the interim it actually hurts your SSSG calculation?

Neville Noronha: So, what is the question?

Tejas Shah: So, the expansion is then split into two buckets, one where the mother and the split store are not part of like-for-like calculation and the one which are running without the split are calculated for SSSG and the one which are split, the mother stores have not been included in the cohort for this calculation.

Neville Noronha: I get it now. We do not do that. For us it is very simple SSSG. I will give you an example - so next to Malad Store we opened a very large store hardly 2 kilometers away in Goregaon. Malad Store sales have dropped and it has gone negative, but that is part of SSSG. We do not do that because then it gets too complicated. I understand where you are coming from, but then what did you add, what did you remove, at what distance from the existing store? It gets too complicated. From that standpoint, I have commented about this also earlier that we have to see all these data points in totality. I mean you just cannot see SSSG independently or you just cannot see turnover per square feet independently, you have to see in totality where do you stand, but to answer your question on specifics on SSSG, we do not do that and we do not intend to also moving forward.

Looking at independent things, especially when each of them are dependent on each other does not make sense!!

Looking at just margins alone does not make sense, it needs to be seen along with the capital employed to achieve those margins!

Tejas Shah: And now the first point, any service level parameter that you value it to decide on split stores?

Neville Noronha: I did not get that part of the question, in terms of?

Tejas Shah: So, I am just stretching the same example like QSR decides that we are not able to fulfill certain order within a stipulated time period or let us say weekends they feel that store has needs to be split now to maintain the same level of service quality, so similarly do we have any parameter which leads us to believe that this store, the example that you gave Malad, Goregaon, so what are the parameters that leads you to decide that we need a store nearby now?

Neville Noronha: That is a good question. The only thing is the scale of effort needed once the decision is taken is humongous. So, for example, say a Powai store or a Malad store – these stores are at the brim for the longest of time. So, we take a decision that we need another store, but getting another store takes huge amount of time because of the size and format we are in. So, that is one part, but obviously looking at the data we know when we need another store in the vicinity. That is very clear. I think what is more important and that is what probably we are known for is the Principle of Kaizen – in terms of one of those small elements that we need to constantly keep improving on a day-to-day basis such that I am able to serve my customer in a better way and the guiding principle of that is our whole 4RQC direction. It is not just about checkout, it is about the product, it is about the price, it is about availability, it is about software, technology, everything that helps deliver our 4RQC. And I think that is the one single positioning which aligns every single department, every single employee whether it is a front end, middle manager, front end manager, corporate office, top management - we all align to this one principle and I think that really brings the efficiency out of the business and that is why we stand out. All our metrics on efficiency, consumer feedback, all of this revolves around 4RQC.

Tejas Shah: And those list of Kaizen initiatives, would extending time limit or time duration for a store like you have done it in the past also, like even at late night stores have been opened, would that be one of the last initiatives to maintain or improve SSSG or efficiency of that store or that comes somewhere in the middle.

Neville Noronha: Yes, that is in fact one big overhang post-COVID. During COVID we extended shopping hours in almost all stores and in a lot of these stores we continue to have longer shopping hours even now. So, pre-COVID versus post-COVID the shopping hours have been significantly extended, mostly at all of our stores.

Moderator: Thank you. Our next question is from the line of Ankit Kedia from PhillipCapital. Please go ahead.

Ankit Kedia: Two questions from my side - in one of the comments you mentioned that the footfalls in the stores continue to be below and hence from operating leverage perspective you need lesser manpower at the store level. In couple of quarters as the business will move back to pre-COVID levels do you think the operating leverage will be lower going forward, as you may need to recruit more staff, both permanent and temp staff, with electricity cost also inching up?

Neville Noronha: It could be or it could be not. What is trending is that our basket value continues to be high. So, if it remains at this level and you do more revenue, then I think operating leverage will continue to remain. It would not reduce but let us see. I do not know, let us see. So, another two months to pass by and that will give us a better feel on that.

Ankit Kedia: So my second question is on DMart Ready - incrementally new city launches are only for home delivery and not for pick up and now with more DMart stores being part of the network for DMart Ready, would we more focus on home delivery versus pick up in DMart Ready?

Neville Noronha: That is a good question. What we have noticed in small town is that the real need for a pickup point is not there because these towns geographically are smaller. In certain towns like Vizag, we already have more than one store. We have got a lot of learning over the last few years. We find the home delivery system to be less complicated, if I may say so. And hence in some of these cities we have launched the offering without the pickup point and just do the home delivery.

Ankit Kedia: Sir but also that counter point which you made initially, that these customers would have more time in these smaller cities and they might not be willing to pay for home delivery, so how do we tackle that in these smaller cities?

Neville Noronha: So, we are trying to have the pickup point within the store.

Moderator: Thank you. We will take our next question from the line of Amnish Aggarwal from Prabhudas Lilladher. Please go ahead.

Amnish Aggarwal: My questions are mainly around DMart Ready where now I think if I look at say past three years, numbers are close to 10x in terms of sales and today we are much more confident about the format and scalability but looking at the way the competitive intensity is panning out in this particular, you can say the online format, what are the steps we are taking to improve our efficiency in terms of cost, that is number one. Secondly to compare the time to delivery and thirdly how has been the response in the city beyond Mumbai, Pune etcetera where we entered in the last one or two years or anything novel which we are doing over there and fourthly what is currently ratio of pickup and delivery in bigger cities like Mumbai?

D-Mart Ready's performance:

1. Confidence of the biz model
2. Home Delivery Vs Pick-Up

Neville Noronha: First and foremost, confidence comes not from the point of view of the business, profitability or any of these things. We are confident for two reasons - we are getting better than last year on older locations like Mumbai. People love the offering, more and more customers are shopping. We need to open more fulfillment centers because capacities are kind of peaking. So, our sense of confidence comes from there. The second sense of confidence is also coming in because our brick-and-mortar business is also doing very well. Hence our ability to fund this business gets easier, but like we said that we will calibrate the investment, commensurate to what is the limit to which you can fund this business, but yes compared to last year we are feeling better about this business, that is one. Second is on pickup versus home delivery. I think it is a function of how many pick up points you have, the more number of pick up points you have, the ratio more or less remains the same, but in whichever region or whichever micro market we have decided to have lesser pickup points then obviously the ratio of home delivery increases vis-a-vis pick up. So, to that extent we are calibrating it in a manner that the unit operating metric gets more efficient and it is more value accretive and hence we are tilting it because every pickup point needs some time to breakeven. I think in the pickup model what we believe is having lesser density and spreading out in the city such that they are evenly present in all areas of a city would be a better approach rather than doing a big bang and having a very high level of density of pickup points and hence to that extent pickups may not be as easily available as say in Mumbai city. So, to that extent HD (home Delivery) contribution then will go higher. So, that is the part on the pickup versus HD. I think I missed one another question. If I missed it Amnish you can ask me again.

Amnish Aggarwal: It was regarding, there were actually two more, one was regarding the steps we are taking to improve the efficiency in the overall DMart Ready model and to compare the delivery time because that is where some of our competitors are quicker or they are trying to you can say play around?

Neville Noronha: Again, both these questions are contrary to each other. If I try to look for efficiency my service to the customer goes down. So, we are playing the balance. The best way to shrink delivery time is to have more fulfillment centers and have them closer to the demand area because fulfillment centers that we open peak-out within 6-8 months and so you need to add another one. So, that is the best way to reduce delivery time and efficiency will simply come from throughput – more throughputs per FC, more throughputs per vehicle, more throughputs per employee. Efficiency will come in and magically all the numbers will change. So, from that standpoint I think the way the DMart model is, the way we think about cost, a lot of that knowledge at the operating level is being transferred to the DMart Ready business and that is what excites us. The problem with the model is the gross margins. I have eluded to that even in the last analyst meet that making money in the business is a function of how much of gross margin will I be able to make. So, eventually that is a longer term view we should take on the business, but from the operating standpoint, I think we are pretty confident about running the show with the same ethos, with the same beliefs, principles of the brick-and-mortar business and we are confident there.

Amnish Aggarwal: You said that fulfillment centers usually peak out in 6 months, so are we witnessing the same trends in the newer cities where we have entered in the last year or two?

Neville Noronha: No. All of these comments of mine are for Mumbai. If you would remember we have always been saying that metros, large towns, high density, vertical cities is where we see this opportunity and that is what is exactly being planned out. But whenever you go to small towns it requires up-fronting all these capex cost and waiting time for business to come. Small towns take more time to scale up and that is why again we are having a different approach to the business as we go to other towns, that we do not want unnecessary upfront CAPEX and we believe that going through the route of using the brick-and-mortar assets and getting charged only for the variable cost would be a better way to make capital more efficient.

Amnish Aggarwal: How much would we say Mumbai and Pune as a part of total demand, Ready sales if you can share?

Neville Noronha: It will be a dominant share that much I can tell you.

Amnish Aggarwal: And just final question from my side, I think a couple of years back we eluded that in the catchment or the states we are having our physical stores brick-and-mortar stores is the potential of say 1,200 stores as we estimated that time, so has that number changed now?

284 stores as of FY22, Runway for at least 4x -5x from its existing store count.

No, it remains the same. Population and cities do not change – around 1,500ish

Moderator: Thank you. Our next question is from the line of Suraj Nair. Please go ahead.

Suraj Nair: Two questions if I may - on the team itself, so if I look at the global large retailers like Walmart, Costco, many of them, what I see is that they have built a significant strength in terms of analytics bench strength, they have a large and very deep quality of analytics and today you could argue that it is kind of stable thing because especially if I look at two of your competitive advantages. One is that ensuring a high inventory turnover in a country as diverse as India, with changing tastes and preferences and also from a point of view of capital employment in terms of where to scout for new places to open stores. One would think that having deep analytics capabilities is essential to these things. So, I was just wondering if you could explain how you are building on that aspect and how large is your analytics team, who heads that, if you could throw some color on that, that is my question?

Neville Noronha: It is a very simple business Suraj. The names you gave of the global companies, the scale at which they operate, the number of articles that they operate with, these are all 50-60-70 year old companies. They are very complex, their tech evolved at a period of time when there was no tech at all. So, their systems are not as simple, straight forward as we have because we directly adopted the best technologies. It is not as complicated as you are assuming it to be and I think one of the biggest values for any great business is to have a bunch of highly talented people across the organization, it is not just about analytics, it is not just about real estate. We all come together as a team, each brings in great value from their standpoint and that helps the business and then obviously keeping them with you for a very long time. I think it is a lot of things together that makes a great business. So, I do not have a straight answer for this, real estate, projects, it is all a team effort. Everybody brings in their quality to the table and our business is much simpler than the names that you took.

Suraj Nair: Which leads me to the second question, in fact because in one of the previous con-calls you had mentioned that the number one challenge that you have been working on and you spent two-three years working on is essentially as you scale, putting in place the right culture, training programs and ensuring that the right culture is imbibed, talent stays on and all of those things. Can you give me some concrete examples, maybe there are multiple initiatives that you have been working on, but how do you address this part that as you scale, as you get bigger and bigger and especially given the decentralized nature of your business, how do you ensure that the right talent is there in the right place and they stay on for long tenure?

Neville Noronha: Suraj just one simple thing - if you identify rightly and look at where he comes from and you take him to a place that he would have never reached had he been in any other firms, that is it. So, it starts from the front-end guy to maybe even a person like me, where did we all come from? I mean we are all very simple fellows. At every level of the organization that is the broad ethos, where did this guy come from and then does he have the potential to be at a level that he would never get that opportunity anywhere else, that is it. So, everything else follows, whether it is training, great people practices. Everything else is an offset of how do we create that feeling in every single employee. So, there is a sense of ownership that cuts across every single person in the firm, it is not just top management or middle management and not there in the working staff or supervisory staff, you create that sense of ownership at every level.

Culture & Organisation building GYYAAN by Neville - Solid & Simple, Its so fundamental, often gets missed!!

Suraj Nair: You did say that you had spent about couple of years holding training programs, was there any particular emphasis why you felt because this is something that you will be doing, what you just said, I assume that is something that you would be doing on a day in, day out basis. It is like ingrained at every level. So, you did say that you would spend specifically about a couple of years working on some specific aspect of it, would you be able to throw some light on what that exactly was?

Neville Noronha: So, I have spoken about this in detail I think two years back but I will talk about it again. See one is that it is a huge organizational setup. Now till the time you are 10, 20, 30 stores you are much more connected with the stores, you know people, you know this must be happening in this particular way because I spent time with them, I know he will do a good job, all of that. But as you grow, as you scale up how do you know sitting in the corporate office that every single store is doing it the right way? And that is where SOPs, standardization and all of that comes into play and again it is the same playbook like how McDonalds does it or Walmart does it or all these big QSR or retailers do it. You map the entire organizational activity through very perfectly documented SOPs and then you ensure everybody follows it. And how do you ensure that, you just have a very strong L&D program and in today's tech world that is the beautiful thing. In today's tech world I mean you can digitize every single thing and you have brilliant audit trails and you are assured that every single person knows what he is doing because you have this ability to do online certifications. So, we ensure that every single person who is doing that critical task is actually going through an online certification so we are assured that yes he knows his stuff. So, every single person is mapped to a certain activity, to a certain certification, he has to pass or do so many certifications per annum only then does he qualify to get promoted to the next level and stuff like that. All of these are hygiene factors, these are qualifying factors and then there is obviously qualitative and subjective evaluation done by the line managers or line supervisors. That is how you run this place. However, I would say it is never 100% perfect, but I think 80%-85% we are there, we have done all of this for the last three to four years and I am quite pleased with the outcomes.

Suraj Nair: Last one from me, you know once the store matures let us say in a metro versus semi urban versus a rural location, if I may just divide it to three simple buckets, once the store matures what is the ROI profile of these in the metro versus the semi urban versus the rural?

Neville Noronha: It is not really metro versus semi urban versus rural. In general, as the store matures the ROICs are pretty high, pretty good. I have spoken about this earlier, like on an average, the turnover per square feet today is Rs 27,000 and when it was Rs. 35,000 I would say that our mature stores are at multiples of Rs 35,000. So, if our turnover per square feet is multiples of Rs. 35,000 and say a Mumbai store which was bought 15 years back, then imagine what the capital price was at that time and then you make a judgment on what is the kind of ROIC. This is nothing special about DMart. If you take Walmart or any of these great organizations' last 30 years' balance sheet, P&L and if you do the Math, they will be throwing cash on the old stores like crazy. That is the beauty about this business, patience pays. If you are operating all this right, over a period of time, returns are awesome.

A = P (1+r) ^n

N (number of years) is the most dominating factor in this Compound Interest formula, i.e., Patience

r = rate of return is important, however, not that important.

Older stores generate crazy ROIC. Even if they generate returns which just cover inflation, it still leads to terrific outcomes!!!

Thank you. Ladies and gentlemen, we will take that as the last question. On behalf of Avenue Supermarts Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.