SRL:SEC:SE:2024-25/24

May 17, 2024

National Stock Exchange of India Limited
Exchange Plaza, 5th Floor
Plot No. C/1, G-Block
Bandra-Kurla Complex
Bandra (East),
Mumbai – 400 051
(Symbol: SPENCERS)

BSE Limited
Phiroze Jeejeebhoy Tower
Dalal Street
Mumbai – 400 001
(Scrip Code: 542337)

Dear Sir/Madam,

Sub: Transcripts of the Q4 (FY23-24) Post Results Earnings Conference Call

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the Q4 (FY23-24) Post Results Earnings Conference Call held with Analysts on Monday, May 13, 2024 at 4:00 P.M. (IST).

This information is available on the website of the Company at www.spencersretail.com.

You are requested to take the aforementioned information on record and oblige.

Thanking you.

Yours faithfully,
For Spencer's Retail Limited

VIKASH KUMAR AGARWAL
Digitally signed by VIKASH KUMAR AGARWAL
Date: 2024.05.17 13:31:33 +05'30'

Vikash Kumar Agarwal
Company Secretary & Compliance Officer

Encl: as above

“Spencer’s Retail Limited

Q4 FY‘24 Earnings Conference Call”

May 13, 2024

MANAGEMENT: **MR. ANUJ SINGH – CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR - SPENCER’S RETAIL LIMITED**
MR. SAKET SAH – GROUP HEAD INVESTOR RELATIONS AND ESG - SPENCER’S RETAIL LIMITED
MR. SANDEEP BANKA – CHIEF FINANCIAL OFFICER - SPENCER’S RETAIL LIMITED
MR. PANKAJ KEDIA – VICE PRESIDENT INVESTOR RELATIONS - SPENCER’S RETAIL LIMITED
MR. HARSHIL GATHANI - CHIEF MANAGER - SPENCER’S RETAIL LIMITED

MODERATOR: **MR. AKHIL PAREKH – BATLIVALA & KARANI SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Spencer's Retail Q4 FY '24 Earnings Conference Call hosted by Batlivala & Karani Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Akhil Parekh from Batlivala & Karani Securities. Thank you and over to you, sir.

Akhil Parekh: Thanks, Manav. On behalf of B&K Securities, I welcome you all to the Spencer's Retail 4Q FY '24 conference call. From the management team, we have Mr. Anuj Singh, CEO and MD, Mr. Saket Sah, Group Head IR and ESG, Mr. Sandeep Banka, CFO, Mr. Pankaj Kedia, VP IR and Mr. Harshil Gathani, Chief Manager. Without taking much time, I'll hand over the call to Mr. Anuj Singh. Sir, over to you for your opening remarks.

Anuj Singh: Thank you so much. Good afternoon, everyone and thank you for your time today to have a discussion with us. I think we're talking, we after a long hiatus, we came back and we had our first call roughly about two months ago.

I think February was when we spoke. I don't know how many of you were on the call then and how many are still here, but you know, we did talk about, in that call we did talk about what we are doing in FY '24, specifically in quarter one and quarter two and we also gave an update on the quarter three because this was after the quarter three results were announced. So, I won't get into repetitive mode by telling you on what we did in H1 and what the impact would be because some of you would be on the call, but I will definitely reference that particular, sequence just to complete the whole story.

So, really, I mean, just to recap without getting into details and referencing, we had, if you remember and recollect, we had said that H1 for us was about, recalibrating, resetting some parts of the business, taking some much-needed tough decisions. So, we exited from high-loss making stores, five high-loss making stores, as well as stores in Chennai and Kerala. There were about 19 stores, roughly about 100,000 square feet trading area and sales, annualized sales of about 95 odd crores from which we exited because they were high loss making stores.

So, this definitely, we have kind of given an indication that this will impact both, H1 as well as larger FY '24. In addition to that, we also talked about how we had identified opportunities to right-size the organization, right-size in terms of a structure which was in keeping with what the top line for the company was. And we had also identified and started working on growth drivers because, as you all appreciate, we can do cost corrections and cost resetting for one time, but ultimately, the whole EBITDA swing is going to be driven by our ability to drive growth.

So, those were some of the things which we already identified in H1, executed in Q2. And in Q3, we saw, a good impact of festive season. So, if you look at it from a growth perspective, we had SSG on both parts of the business as far as SRL and NBL was concerned.

And this was both quarter and quarter growth and Y-o-Y growth as well. We'd also, at that point of time, said that, look, historically and for us, quarter 4 is a softer quarter compared to quarter 3. So, therefore, we had kind of, you may say forewarned that, quarter 4 would be soft.

And therefore, when we look at the results, which I'm sure all of you would have had a chance to look at it since we announced it on Friday, quarter 4 was indeed a soft quarter with at least a marginal growth, which was coming in. Consolidated business growth for us, the quarter was roughly a shade under 1%. But if you look at it netting off the impact of the closed stores and dispensers' part of the business, it is a 3% LFL like-for-like growth on a year-on-year basis, along with a slight expansion in gross margins.

Gross margins were at 19.5% for the consolidated business. A lot of the growth in Q4, specifically, if you look at it, Nature's Basket delivered healthy 12% growth, basis of reinvigoration of certain categories like fresh, but more importantly, the launch of three new stores and a dramatic expansion in margins, which were about 120 basis point improved. Spencer's, on the other hand, was flat, was actually minus 1% growth.

But if you look at it like-for-like basis, netting off the closed stores, a 3% growth, and margins were flat at 18.1%. During the quarter, we added five new stores, like I mentioned, three in NBL, in Nature's Basket, and two in Spencer's. Cumulative about slightly less than 30,000 square feet trading area was added in Q4. We also extended our e-commerce express delivery proposition, which we had launched in Calcutta in October, to our strategic cluster in eastern UP, namely the cities of Banaras and Lucknow.

The response has been encouraging and, is convincing us that an area which we need to focus on and expand as we get into next year or this year. Our operating costs for the quarter were, at a console level, INR118 crores. You know, it's INR11 crores more than Q4 last year, but this does not reflect the real operating costs, which have been streamlined right through the year.

So most of it will start hitting us from FY '25, where we'll be able to operate under a slightly lower operating cost. So yes, so Q4 EBITDA was negative, minus INR8 crores, compared to the INR3 crores which we had in last year. If you look at it, therefore, from a full year perspective, like I said, the impact of the H1 action, specifically on SRL, meant that our consolidated business revenue was INR2,345 crores, lower than what it was in FY '23.

And there was a slight deterioration in the EBITDA. But really, I mean, that's if you look at it, at a snapshot. But if we peel the onion a little bit further and look at it from quarter-on-quarter on H1 versus H2, it really is a story of two halves.

H1 was where we had the sharpest drop in top line, as a result of the store closures which we had. So H1 of FY '24 compared to FY '23 was a degrowth of 10%, about INR126 crores in top line. But if you look at H2, where, we had a quarter three and then quarter four, where some of this impact, the base impact wasn't there, we got into growth, because the quarter three was, on a consolidated basis, a 2.5% growth, and quarter four was 0.6%. So really, I mean, it gives us confidence. And I can say, while one data point does not make a trend, but I think it is evidence to the point that we have plateaued at a steady sales rate from which we now need to just pick up and grow the top line.

The operating cost at a full year basis, what the gross margins were, we sustained it at 20.1%, which I think is a very healthy gross margin business for a grocery led retailer. Our operating costs were at a console level INR484 crores, which is INR5 crores less versus last year. This is again largely on account of the optimization of controllable costs. And the fuller impact of which, like I mentioned earlier, would come in from this year. Our EBITDA swing was a deterioration of INR22 crores. So we were, we ended the year with INR14 crores. INR36 crores was last year. And therefore, our PBT was higher.

Again, very different story in H1 versus H2. And similarly, a different comparative when it comes to Spencer's and Natures Basket. On Nature's Basket, there has been, if you look at it, albeit on a smaller scale, it operates the business on a smaller scale. It has delivered sales growth as well as expansion in margins, and therefore improvement in EBITDA. And that gives us the confidence that we will sustain this as we move into next year. On Spencer's, I think the tough part, some of the decisions and recalibrating the operating cost structures, all of that was taken last year.

And we are confident of realizing all those operational, cost advantages going forward, starting from April of this year. The challenge will be and the endeavour and the resolve and the plans are all cantered around driving top-line growth. And I think that's where our plan for this year is all cantered upon.

So if I were to just, make the transition into what are we going to be focusing on in the coming year, clearly for us, it's a two-pronged strategy. One is to drive our revenue growth, both across SRL and NBL, that's the most important thing, whilst realizing all the aggressive cost-cutting initiatives which have been, I would say actioned off in quarter four of last year, resulting in a significant improvement in EBITDA. I think, that's a simple objective as far as the business is concerned.

And I'll talk to it a bit differently in terms of what Spencer's would do and what NBL would do. I think when it comes to Spencer's, really, I mean, we have, the plan is, roughly looking at a INR70, INR75 crores swing in EBITDA, which is going to be delivered 50% by the cost, which we have worked toward bringing out, and the other half coming from the improvement in our RGM, which will largely be driven by top-line growth, not so much by expansion in percentage margins, and that's what it is.

Now, for driving these, our operational framework is something which we call a 7C model. It essentially is, the first part of it is cost, which I will not elaborate too much, but you already left that, work which has been done. The second component of the 7C model is around driving growth, and that is starting with customers, looking at categories, channels, and which clusters, that is what will form the bulk of our growth driving initiative.

And the third part of the 7C, the other two C's are around building capabilities and ensuring and allocating capital to build these capabilities and to realize the revenue growth. So really, I mean, the 7C's are centered around cost, looking at the customer, the categories, channels, clusters in which we operate, and then building the capabilities as well as deploying the right level of capital to drive both the capability building as well as the revenue growth. I just take a, pause and talk a bit more about the growth drivers, and I think it starts with the customer.

So really for us, we've used the time to go back and really look at all our customer, insights, customer behaviour, and we do have, we're in a business where we do have the benefit of having a lot of data on customers, not just on the demographic of the customers, which actually we don't have such a good profile, but we really have a very rich profile of what they shop, when they shop, how many times a month they shop.

So the complete transaction analysis is there, and, that data, of course, we need to move into a far higher level of data analysis, and then looking at how we can do a very systematic CRM, effort on that. But really what that data shows us is that our month-on-month, comeback rate for our customers is not at the level at which it should be.

So there's a huge opportunity for us being a grocery retail business, just working on my loyal base of customers, increasing the frequency, both within the month and, let's say, within the quarter, is something which is an easier task to do than to fight the battle of trying to get new customers. So I think customers, while we will always look at how we attract new customers, an efficient way for us to drive our top-line growth would be to increase our percentage of retention, to increase the frequency at which customers shop with us, and obviously then link to retention and frequency driving the AVV. And there are systematic programs which we will drive to make sure that we're not spreading ourselves too thin.

This is not about a carpet-bombing approach, but this is really about, precision marketing. We have close to 6 million, customer data in terms of what they've shopped, when they've shopped, which channel, what time of the thing, and I think a lot of that data mining and acting on that data, whether it be a predictive model, whether it be a reactive model, I think that can drive a lot of value for the business without getting defocused and trying to, be everywhere and try and follow a very mass approach. So really driving retention frequency and monetary value of customers is one big pillar of driving growth.

The other is looking at it from a category point of view. We do operate in multiple categories, being a hypermarket. And for us, what we've also realized, and it exactly links back to the first point, is how do we sharpen our, category focus and, power play some of the categories.

I think I had alluded to some of this in my last call as well. So really for us is as part of sharpening our proposition, I think we need to fire up our core portfolio of the food portfolio which is staples, fresh, and FMCG. While today are both on the margins as well as the mix both staples and FMCG I would say do fairly well for us.

We benchmark our FMCG margins are probably top of the industry. Our staples margins are good. In staples our mix of private brands is very strong. So I think those are categories where we need to continue doing some of the good work and then the base which we have built. I think the category which where we will focus on and which is also strategic for us as part of the overall food offering is the fresh category.

And linked back to what I had mentioned about customer retention and frequency fresh is a big driver of both retention, but more importantly of the frequency. Fresh gets people to come back to your stores or order on your thing in a more frequent manner and therefore as part of our category sharpening proposition fresh would be a category which would be in focus.

Similarly, in the non-food part of it the mix for which for us has been at a steady shade under 20%. I think the endeavour is to see how we work smartly, specifically in terms of how we allocate our working capital, how do we have better inventory terms. And therefore from that point of view we are looking at how we will kind of in some sense and manner recalibrate the apparel part of our business.

General merchandise is, I think we've got the playbook relatively sorted and on apparel we will do. I will, unfortunately, I can't share more colour on that, but you will hear from that in the next quarter, but apparel will play we will play smart on apparel. I mean, it's important part of the full offering for a hypermarket, but we believe that we are better off having that while not focusing our capabilities and our bandwidth on that. We will do that doing it on the food part of the business or on the food mix.

So, that's on the category part of it. The other C which is on channels, look, we are a business where we have what we call a couple of channels. Last year in the last call, I did mention that we had started a more structured B2B program under the brand wholesale Bazaar. We launched the first Wholesale Bazaar last year in October in Siliguri.

And we've got - we believe that we've got the desired results to prove that there is a model there in certain geographies for us as a proposition. So, we will be expanding the Wholesale Bazaar. I won't say in a very proliferated manner, but in a very carefully selected manner. We will have a couple of more Wholesale Bazaars which will drive our B2B business.

Now, of course, this B2B business comes at a lower margin compared to the retail business, but it gives a much higher efficiency in terms of inventory terms, in terms of the SPSF which you generate from a big box. So, that's the one part of the channel which we do. Our focus in terms of looking at driving SSSG from the existing stores will be the primary focus. It's not that we will focus only on Wholesale Bazaar. I think the core of the business, the bulk of the business is our store business and we will drive growth on that.

The other channel for us which is our Omni-channel offering we have both an e-commerce as well as a phone delivery proposition. Today, it is at about 12%, 12.5% of the mix and we are obviously looking at what is happening in the customer and competitive dynamics. We feel we will drive this to a slightly higher level.

As part of it, e-commerce we are not getting into quick commerce. We bolstered our slotted delivery proposition with a proposition which is Express Delivery which we started in Calcutta in October and it worked well for us. We have a unique model I spoke to you guys where our fulfilment happens from stores.

So, where we have a good density of stores we can cover the entire city, all the pin codes from our network of stores. So, that's worked well. We will continue driving that, by no means has reached any level of saturation in Kolkata. So, we'll drive that. Along with that, we will extend this proposition in Banaras and Lucknow where we have a similar density of stores and we have the ability to service a high number of pin codes.

So, on the channel part of it, it will be a multiple channels which will drive our store business, B2B wholesale business as well as e-commerce and now linked to I spoke about customers, I spoke about categories, I spoke about channels. I think linked to all of this is also the fact that we will look at our performance and what we're delivering at a slightly more granular level of looking at it at a store level.

So, I think every store and therefore every cluster will need to improve and come up to the level. So, we don't want, I mean, today we have disparate performance across stores within the same cluster and across clusters. So, we want all clusters to be closer to what the average deliverable for the company is and we don't want any cluster or any store to be a big drag on the overall cluster or the overall company performance.

So, we will do that and while doing that it's not that in H1 we shut down stores so we are not in contraction mode. We will be expanding and we will be adding stores. So, we have like I mentioned in the Spencer's part of the business we added four stores last year. There is a pipeline to add more stores.

It's just that we will be this expansion will be judicious, it will be selective and it would be in concentric circles in clusters and in clusters where we have a very distinct right to play and right to win. So, you will see a lot of, I mean, you will see us opening stores like last year we opened stores in Bhadohi, in Barabanki, in Eastern UP. We added a store in - one more store in Siliguri.

So, we will see store expansions definitely and we have seven, eight in the pipeline already for the year which are in Eastern UP as well as in the East. So, there will be on from a cluster level, we will drive cluster level improvement in store EBITDA performance, but we will also drive expansion in the clusters which makes sense.

So, I think the focus in driving growth is through customers category channels and clusters. I already spoke to you about costs. The cost part we've discussed we've already taken the action. Most of these actions were done in quarter four. We are very confident that they will start playing out, they will and they are already playing out in quarter 1.

Now, this is a combination of looking at operating costs both at the store level, at the RO / DC level which is our regional offices, our DC network as well as in the corporate office. So, it's a fairly aggressive program, but we are confident that it is going to deliver and I think the last two pieces which are linked to while we attain that the right level of cost we drive growth.

We also have to be mindful for the fact that when you're doing cost optimization you should not be optimizing or cutting back on the capabilities of the organization. And therefore it's very clear for us that we do have to beef up and build our capabilities in certain areas.

Three areas which I would like to kind of call out are the ones where we need to beef up our capabilities is one is in this whole area of precision marketing what I spoke about in customers. Today, in the age of I think it's advanced analytics, there is not just advanced analytics, it's not generative AI. I think today as an organization we are far from that. And I think it's not that we are going to be betting the farm in terms of moving into artificial intelligence.

But I think the journey towards data analysis led predictive, precision marketing approach towards customers something which we want to invest a fair amount I would say from our relative size to build that capability. The other area is again linked to how data and analytics is driving different ways of working.

I think even in our supply chain we need to look at how we can incorporate some modern contemporary planning, forecasting as well as real time agile inventory management because at the end of the day we need to bring down our days on hand, we need to increase our inventory terms. Are we making good progress on that? We are not anywhere close to best in class.

But we are quite conscious of the fact that's an area which we need to do and that cannot be done just by manual brute force. That is where we need to adopt some of the capabilities which have evolved in the industry, in terms of predictive, fast forecasting, machine based learning in terms of how do you plan, forecast and then do real time inventory management. That's the second area.

And I think the third area for us is in capability building is in our endeavour to build a stronger e-commerce mix in our business. Obviously, we are conscious that this does not come automatically organically. This needs to be built and therefore the right level of investment has to be done. So the three capability areas around customer marketing, CRM.

The second is around supply chain, making sure that we are able to work what I call smart buying, effective buying, increasing terms, that will also mean that we are being very efficient in terms of working capital allocation and the use of funds. And the third area and capability building is around the e-commerce where we really want specialized real-time integrated e-commerce.

I must make the point that look over the course of the last six months realizing this, we also had - we had a chance to refresh our leadership team. So, we've had just in the last six months, I would say, we brought in a new chief merchandising officer, we had a new head of operations, we had a marketing head. So I think all of these capabilities refresh leadership is also something we've done. We've recently elevated an internal candidate as a CFO we've got a new head of supply chain and we will be similarly looking at on the e-commerce side of it.

So really, I think we do understand that the task which is cut out in terms of driving growth requires a certain level of focus requires a certain level of capability built and therefore we are willing to call that out and focus on that. And of course to do all of this also means that like I said, I referenced just one part of the capability which is human capital, but it also requires financial capital and therefore we are cognizant of the fact that we will need to deploy timely and optimum financial capital behind all of these activities to drive growth.

I think ultimately we need to get into the virtuous cycle where we are able to drive growth at a recalibrated cost level and I think that's where we will definitely also require the financial capital. And I think all of you are sharp eagle-eyed, you would have picked up that there was in the last board meeting there was an enabling provision for looking at an equity infusion at the right time in the right quantum.

So I think that is all which you can tie in the story, it's all towards driving growth in the business while we have done the one-time correction as far as the costs are concerned. So that's a brief snapshot in terms of what we want to do next year or this year, I'll be already in this year.

And that was on Spencer's and on nature's basket I think we want to continue driving the business with a mix of new store openings. So last year we launched the new format Artisan Pantry. We've opened two stores, one in Bombay, one in Calcutta. We'll be opening one more pretty soon in Bangalore. And we will also expand into a few other cities. So we're looking at Ahmedabad, we're looking at Hyderabad and more stores in Bombay and Bangalore.

So I think the nature's basket piece of this thing which comes at a higher gross margin, it's a very differentiated proposition for us. We've discovered I think I would say the mojo as well as the playbook for that. And for next year it will be about continuing to drive that. There are pretty ambitious targets as far as that side of the business is concerned on the top line growth.

I think margins they're sitting at 30% plus margins. So I think there it is not about margin expansion, there it's about looking at how we can drive top line. So I think both Spencer's and nature's basket this year the story is about driving top-line growth whereas for Spencer's it's about driving the top-line growth along with realizing all the cost optimization initiatives we've done. And together, at a consolidated level like I said we're looking at a significant improvement in EBITDA.

It's almost three figures and I think that will be driven by both top line as well as cost optimization. So that's the story in a nutshell for quarter 4, for the full year, as well as an outlook a brief outlook as far as we're going to next year. With that, I'll pause and have a sip of water while I wait for you guys to get ready with your questions.

Moderator: Thank you very much. We will now begin the question and answer session. We have our first question from the line of Anushka Chitnis from Arihant Capital. Please go ahead.

Anushka Chitnis: Thank you for the opportunity. I have a couple of questions. The first being that if you can quantify the extent of the cost savings and operating leverage benefits that you will get going forward from the closing of stores and cost optimization that has been undertaken.

And the second question is regarding your e-commerce Express Delivery that you've launched. How do you position yourself competitively in Kolkata and the other markets you plan to attend against other grocery delivery apps like Swiggy, Instamart and Blinkit? That's all from my side.

Anuj Singh: Yes, look, I think on the cost side if it's specific to Spencer's I said we've looked at all aspects of the operating business whether it be at the store level, whether it be at our supply chain or looking at our corporate office. And we've tried to be saying what's the right structure first. So it's not about, the whole exercise was not driven with the purpose of driving a certain percentage target reduction.

It was looking at for a particular scale of business, which we are at, looking at if you were to design an organization from scratch, what would that look like? And I think that was a pretty comprehensive exercise done in January, frankly, December, and then January, we kind of took the decision on that. That has, I mean, I will not be able to quantify I think, but it is anywhere in the region of 7% to 8% of total operating costs would come from that exercise.

Your second question was around express delivery and e-comm. So look, I mean, on that, we've seen, and the third part, or the second part of your second question was around, how do we position ourselves with reference to what's, happening as far as the city is concerned? So look, I'll answer the second part of your second question first. So we are not, like I mentioned, we are not getting into or following the quick commerce route of it. I think, that's a very different business model. That's a very different, the operators, they don't have stores and they're, that's, they run a very dark store kind of a business.

So it's not, we cannot eat them and get into the same business. Having said that, our primary objective is to offer our existing customers in the Spencer's ecosystem one more convenient way of ordering. And, today it is, the way I look at it is, it is, giving them that one more option of ordering. And again, not everyone requires everything at a 10 minute notice. I think, there is enough and more, luckily there are enough and more customers who want planned, who are willing to wait for an hour. And therefore our proposition is based not on speed, but our proposition is based still on convenience and the fact that we give a wider assortment.

Our assortment includes, in a city like Calcutta up to 20,000 SKUs to choose from. So, that's, where we are differentiated. Convenience is, probably common to both, one is slightly more accentuated on convenience, which is almost instant, but limited on assortment. Ours is convenience, in the sense of, order sitting from home and have it delivered to your home. So that's the element of convenience.

And I express delivery proposition is promises within 60 minutes. So which is still convenient enough, and it offers a big assortment. So that's what our positioning is. And this is what we started in October, where we used to have only slotted deliveries, which is where you choose, the given time slots and the days for delivery to moving to Express, which we launched in October. We have seen a very, very positive adoption of this. Our overall e-commerce orders in Calcutta have gone up by 30%, and of course you do see the surges, last couple of weeks we had an extreme, heat wave in Calcutta, and we saw that the number of orders,, do spike up, and people want to order from there.

So I think our proposition there is, is working well. And, and I think that's the path which you want to go down. We still believe that there is enough and more opportunity, but we have to do it with a model which fits well for our overall business model. And we strongly believe that this is the model for us, using our existing store network, where especially in cities where we have a high density, leveraging our infrastructure, which is there.

And thirdly, and most importantly, of starting with our existing set of customers, who are absolutely familiar with Spencer, the ecosystem, what is the range, and offering them the same assortment as they would get in the store, but at the convenience of either ordering on the app, or picking up the phone and ordering, and having it delivered to their doorstep. So that's what our proposition is all about. And we are seeing growth in that and we will continue to grow that and invest and fuel that growth.

Moderator: Thank you. We have our next question from the line of Anushka Kansara, a shareholder. Please go ahead.

Anushka Kansara: Yes. So, sir, my first question is, you mentioned some EBITDA figure in your opening remarks, and you also mentioned that 50% of that will come from cost rationalization. So, could you please repeat that number?

Anuj Singh: Yes, so I think the number what you're referring to is, what I alluded to is the improvement in the EBITDA going forward in FY '24-25. And the number which I mentioned was close to a three-digit mark. So, I mean, for close to INR75 to INR85 crores is the potential for our EBITDA improvement. And, like I said, 50% of that is going to be driven by our cost initiatives, and 50% by driving top-line, and therefore your RGM, your rupee gross margin. Yes.

Anushka Kansara: But, sir, if you can elaborate on the levers that will result in this kind of EBITDA, because currently we are struggling to get the break- even margin levels. So, if you can just elaborate on how we will achieve this kind of EBITDA.

Anuj Singh: Yes. So, ma'am, if you recollect, I told you that, the EBITDA improvement will come from cost and driving your growth, which will result. And I did mention, what I mentioned was the 7C model. The first C of that is the cost. The other four C's revolve around driving growth. So, looking at customers, so specific interventions on customers in the form of driving retention frequency. So, CRM management will lead to one- that's one important lever of driving growth.

The other is in terms of how we refresh our proposition as far as the category play is concerned. So, driving a lot more bill penetration, driving a lot more frequency in the fresh offering. We are unique that we have a fresh offering which straddles everything from F&V to what we call frozen to also fish and meat, which is a very relevant offering as far as this part of the country is concerned.

So, really, I mean, powering that category will be a second lever in terms of driving growth. The third lever, which I mentioned to you, was on the channel part of it, which is driving both the B2B wholesale, which is under the separate banner wholesale bazaar, as well as driving our e-commerce through the express delivery proposition in Calcutta and beyond Calcutta and Lucknow and Banaras. So, that will be the third lever for growth.

And the fourth is in terms of looking at, selective judicious expansion in the priority clusters. So, a combination of all of this is what we are confident will help us deliver the top line. Our margins, which are at 18%, the thing will, we are, it's not that we are not, wanting an expansion in margins, but we are, I would say that our number one priority is to drive growth.

So, even if I can get a top line growth at the same level of margins, that will help us to deliver an incremental rupee growth margin, which coupled with the cost optimization, which we are doing, will be a significant improvement on EBITDA. So, again, 50% of the number which I mentioned will come from cost, but an equally important 50% will come from revenue. And some of you might say that, look, cost is something which is more in your control. You've already done that. How will you drive growth? And I would tend to agree. So, the cost part of it has already been done. And the revenue part is what we will remain focused on. And we have, you know, four or five growth drivers, which I've told you, which will help us realize this. Yes. I hope I've been able to...

Anushka Kansara: So the guidance for INR75 to INR85 crores of EBITDA for FY '25. Is that correct?

Anuj Singh: It's an improvement. Yes. That's the improvement over the current level. And that is for Spencer.

Anushka Kansara: Okay. Sir, my second question is regarding the debt. So, if we look at our debt repayment obligation over next two years, it comes down to close to INR180 to INR200 crores. So, I wanted to understand that the fundraising permission that we have taken of INR300 crores, so is this to pay this near-term debt obligations and clean our balance sheet or is this for some future expansion?

Anuj Singh: So, yes, I think the enabling provision for the equity, that's not just for one part. I think it's something which will go and help us to A, drive our growth ambitions. So, it will be intellectual expansion, the capex which goes in. It is to make the right investments and capabilities and also to kind of the near-term, I would say, or the short-term debt repayment. So, it's a combination of all three. The fundraise will not be just utilized for a specific purpose. It will be for managing all three.

Anushka Kansara: Okay. So, sir, one follow-up question on this. So, how do we plan to raise the INR300 crores? Will this be through debt route or via equity route?

Anuj Singh: Yes, I think this is we will come back with the means and the timing of this in a subsequent period, as you know, it's just something which was approved by the board on Friday. We will come back at the right time and keep you informed.

Anushka Kansara: Okay. Actually, I asked this question because diluting this amount of equity at this valuation, are you comfortable with such a big equity dilution?

Anuj Singh: So, I think this is something, the exact mechanics, modalities of it, we will come back to you on what is it. Right now, the board feels and has approved the equity infusion up to INR300 crores. That's what they've approved. When and how is this something which will work and we'll come back to you guys.

Anushka Kansara: Okay, sir. Okay. Thank you.

Moderator: Thank you. We have our next question from the line of Akhil Parikh from Batlivala and Karani Securities. Please go ahead.

Akhil Parekh: Yes. Sir, just on the EBITDA swing which we are anticipating, right, an improvement of 75 to 85Cr. , and you did highlight that 50% is going to be from cost-saving. So, apart from the cost-saving which we have done as of now, right, which includes store rationalization and overhead rationalization, is there any further scope of improvement from a cost-rationalizing perspective?

Anuj Singh: So, I think, look, the store closures which did impact the top line as well as you could say was lowered some forecasts, was an exercise which was done in H1. I think what we did further was in quarter four, which is in January, we did review the organization, both at the corporate office as well as the regional offices and the stores, and we have initiated that exercise. That is the one which will yield us additional substantial cost advantage as we get into this year

It's not what we did last year in H1, but what we have done in Q4 in terms of organizing, and this, like I said, is across different parts of the organization. It is linked to both looking at the manpower, the manpower efficiency, productivity at the stores as well as the corporate offices.

Akhil Parekh: And will you be able to quantify, like, how much reduction in employee costs is expected for FY'25?

Anuj Singh: Yes, I won't break up the employee, but I think to one of the questions which was asked earlier, I said 7% to 8% of operating costs will be lowered.

Akhil Parekh: And second on the growth part, right? I mean, you did highlight 7C model as a lever for growth and from a store expansion perspective, any internal targets that we have, like in terms of the total square feet expansion for Spencer's as well as NBL for FY'25 and 26?

Anuj Singh: Yes, so I think from a growth point of view, I think, look, we are looking at both new stores as well as driving experience. That's very important because we are in like I said, we are doubling down on the clusters where we have a right to play and win. So we really need to also juice the maximum as far as our sales per square feet is concerned.

So that growth is not just going to come from expansion. It's going to come from I would say mid-single-digit SSSG growth from the existing stores. It will also not be the case that we will not add on stores. So both on Nature's basket and Spencer's, like I mentioned, we will look at selective judicious expansion in the trading area. We will look at; we have a pipeline. In NB, we are clear in big cities.

And in SRL, in Spencer's, we are clear in which of the clusters we should go. But roughly about 100,000 square feet combined is the kind of additional trading area which will be added next year, which is about 10%. Have I answered your question?

Akhil Parekh: Yes, you did. So if I combine both of the pieces, right? Mid-single-digit, like 5%-6% of SSLG and plus 10% of retail expansion. And so usually it takes 2-3 years for a store to ramp up, right? So would it be a fair assessment, like 8%-10% of a top-line growth can be expected at a consol level?

Anuj Singh: I think I won't second guess your math. I think you've done the math well.

Akhil Parekh: Sure. Okay. And on the sales throughput front, right? Any specific strategies you're planning on how to improve on the sales per square feet, both at Spencer's and Nature's Boss?

Anuj Singh: Yes, I think on sales per square feet, I think it's about driving your... It's a combination of like, you have to break it up into categories in terms of what is the area which is there. So today our non-food mix is 20% roughly.

If you look at some of our stores I think in the past, I'll be honest, in a quest to increase that, we have probably given a far higher allocation to non-food. So I think there is a combination of ensuring that you have the right trading area allocated to food, non-food. I think I did mention that from a category point of view, we will drive a lot more of fresh, which increases the repeat and the frequency at which customers come back.

So you will see a rebalancing as far as our store trading areas across categories is concerned. I also did mention that we will look at how we are a lot more efficient on our apparel or our fashion side of the business in terms of having the right assortment and the right space given. Ultimately, we want to power the sales of our food part of the grocery part of the business, which is staples, FMCG food and non-food as well as fresh, which also for us are categories which work on higher GMROF with higher rotations, more inventory terms.

So I think that would be, one aspect of driving more through the same trading area. I think the other part of it is linked back to as we expand and get a higher mix of our e-commerce through these clusters. As I told you, our e-commerce works. It's a store-based fulfilment model. So I think the more we grow in e-commerce, the more, you're getting additional throughput from the store itself.

And that will automatically drive our realization per square foot at the store level. So it's a combination of, doing the right category interventions, looking at some re-optimization of how much space, what kind of focus you're driving on the categories, as well as driving e-commerce, which will lead to that.

In addition to that, as part of the optimization exercise, I must be quite transparent. We've also looked at where we can do with a little bit of optimization of the space. So there will be stores where we have looked at how we can reduce some of the trading area. We also looked at how we can bring in some complementary alliance partners in that space.

Not just from, reducing the space for which you're paying rental, but also to drive certain specific categories, which overall enrich the whole offering. So, for example, in stores we opened a store in Barabanki and Bhadoi, where we have KFC, which is part of it. So about 2,000 square feet of that area is given to KFC. Now, it helps us on both counts.

It helps us to drive the same level of throughput from a slightly reduced plate, but it also helps us to attract a lot more traffic. So I think that these are the kind of selective interventions we're doing. Ultimately, it is to see how we can juice out a higher top line from is not the same, but a slightly smaller area. So it's a combination of all of these three things, which will help us to increase our SPSF

Akhil Parekh: Sure. My last two questions. One, is there a debt reduction guidance that you would like to provide for the next couple of years?

Anuj Singh: Sorry, I didn't get, is there a guidance for what? Guideline?

Akhil Parekh: Debt reduction.

Anuj Singh: Yes. We'll come back on that. I mean, that's something on which, it's still a work in progress, and we'll come back and share at the right time.

Akhil Parekh: Okay. So that's all from my side. Thank you.

Anuj Singh: Thank you.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to management for closing comments.

Anuj Singh: Yes. So thank you everyone for your time. I know it's a busy time of the quarter. You guys must be juggling multiple calls but thank you for attending the call. And I hope we were able to give you some colour on how the quarter and the last year went. But more importantly, on what we're planning to do. We, like I said we have a clear roadmap of execution centered largely on two things. One is to drive growth, which in all senses has been a bit elusive for us.

But we are not giving up hope and we are chasing that top line growth. And while doing that, we are being absolutely, disciplined in terms of ensuring that we are driving more with less. So really, if there is one mantra which, we want to drive in the organization and achieve is, how can we do more with less?

And I think that's the endeavour we are in as far as Spencer is concerned. And on nature, it is about, driving more with a little bit more of new stores as well as focus there. And, yes, I mean, ultimately the proof of this will be in the execution. Everything is great on paper, but, when the rubber hits the road is when we realize, how successful we've been on both on growth and cost.

But I can assure you that the management team is focused in terms of looking at all possible levers of growth. And to be honest, in our business, we do have. We are not a single trick pony. I think we have multiple categories. We have a few channels. We operate in multiple clusters. So I think we do have those levers available. It will boil down to how well we choose, focus and execute.

But I remain confident that we will be able to show, quarter on quarter, kind of growth which we're doing. So like what we saw in quarter three versus last year, quarter three, quarter four versus last year, quarter four. We will be in positive growth territory and growth will solve a lot of our problems.

The issue is in terms of how to we drive that. So that will remain the focus of the management. And, yes, I mean, look forward to being with interacting with you on a quarterly basis. And those were my closing comments. And thank you all for your patient listening. And we'll be in touch.

Moderator: Thank you, sir. On behalf of Batlivala & Karani Securities that concludes this conference. Thank you for joining us. And you may now disconnect your line.