To,

Listing Manager	The Secretary
The National Stock Exchange of India Ltd.,	BSE Limited
Exchange Plaza, Plot No: C/1, G Block,	PJ Towers
Bandra Kurla Complex- Bandra(E),	Dalal Streets
Mumbai - 400 051	**Mumbai- 400001**

Symbol: EMIL

Series: EQ **Scrip Code: 543626**

ISIN: INE02YR01019

Subject: Disclosure of transcript of Earnings Conference Call for Third Quarter and Nine Months ended 31st December 2022 held on 10th February 2023.

Dear Sir/ Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we hereby inform you that the transcript of earnings conference call held on 10th February 2023 to discuss the Unaudited financial Results for the Third quarter and Nine Months ended 31st December 2022. The same is available on the website of the Company at https://www.electronicsmartindia.com.

We request you to take this information on record.

Thanking You,

For and on behalf of **Electronics Mart India Limited**

Rajiv Kumar Digitally signed by Rajiv Kumar Date: 2023.02.15 12:32:37 +05'30'

Rajiv Kumar

Company Secretary and Compliance Officer

Date: 15th February 2023

Place: Hyderabad

"Electronics Mart India Limited Q3 & 9M FY23 Earnings Call"

February 10, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 10th February, 2023 will prevail.

MANAGEMENT: MR. KARAN BAJAJ – CEO
MR. PREMCHAND DEVARAKONDA – CFO

Moderator: Ladies and gentlemen, good day, and welcome to the Q3 & 9M FY23 Earnings Conference Call of Electronics Mart India Limited.

This conference call may contain forward-looking statements about the Company which are based on the belief, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participants' 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 "*" then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Karan Bajaj - CEO of Electronics Mart India Limited. Thank you, and over to you, sir.

Karan Bajaj: Thank you. Good evening, and a warm welcome to everybody present on the call. Along with me I have Mr. Premchand Devarakonda – CFO and Strategic Growth Advisor, our Investor Relationship Advisor.

We have uploaded our 'Results and Investor Presentation' for the quarter and 9 months on the Stock Exchange and the Company's website today. Hope everyone had a chance to go through the same.

On 17 October '22, Electronics Mart India Limited got listed on BSE and NSE. It was a momentous day for all of us. And thank you to all the stakeholders who have believed in us.

In the 9 months of FY '23, we have opened 19 new stores. Currently, we have 122 stores, 109 of which are multi-brand stores and, 13 are exclusive brand outlets. Out of 122 stores, 102 stores are leased, 12 are owned, and 8 are partly owned and partly leased. As on date, we are present in 38 cities across four states, and we have recently entered Kerala as well.

We continue to focus on deepening our presence in the regions we operate in before venturing into the new market, which has led us to establish brands present in Telangana and Andhra Pradesh markets. This enables the target customers to identify with our brands as well as with the product portfolio and helps our understanding of the market segment and the customer demand preferences. We believe this approach also enables us to achieve significant market share and dominate in the market we operate in.

We plan to continue to deepen our store network in Andhra Pradesh and Telangana, and also gradually plan to expand our network in the new region that we ventured, that is Delhi NCR in pursuing our defined cluster focused expansion strategy. We plan to open 26 MBOs in NCR, 22 MBOs and 10 exclusive brand outlets in Andhra Pradesh and Telangana in the coming future and adopt a methodological approach in evaluating and selecting locations. We believe that our local market knowledge, supply chain efficiencies and effective inventory management have enabled us to attain higher cost competitiveness and consistent profitability. Our customized product assortment and comprehensive product portfolio enable us to achieve better visibility, brand recognition, deeper market penetration and an increased customer base.

We have 9 large centrally located warehouse facilities now, which are backed by individual storage areas at store levels of varying sizes to cater to individual stores or a group of stores.

Coming to Q3, we have delivered strong growth of 17% revenue year-on-year at Rs. 1,482 crores compared to 1,265 crores of last year, with a 17% growth and 32% year-on-year for the 9 months FY '23 at 4,118 crores.

On account of investments made to open new stores in the new geography that is NCR, the company had increased investment in brand building, sales, and marketing. And these investments have lowered the EBITDA margin, which is expected to improve as the revenue throughput from new geographies increases.

To conclude, I would like to say that after having established a leadership position in the Andhra Pradesh and Telangana region electronic market, we have now entered Delhi NCR where we plan to capture significant market share over the few years.

In the southern region, we plan to expand our footprint in places like Vijayawada, Tenali, Guntur, Kurnool, Nellore, and more Tier-2, and Tier-3 cities in the existing clusters by the cluster-based distribution network, diversified product portfolio, strategically located logistic warehousing facility which overall would give us a competitive advantage in the existing market as well.

With this, I request our CFO Mr. Premchand Devarakonda to update you on the financial performance of the company. Thank you.

Premchand Devarakonda: Thank you, Karan sir. Good evening, and a warm welcome to all the participants. Now, I would like to present the financial overview of Q3 of FY '23.

The total revenue for Q3 of FY '23 stood at 1,482 crores as against 1,265 crores of Q3 FY '22, with a growth of 17% year-on-year. For nine months of FY '23, our revenue stood at 4,118 crores as against 3,119 crores of 9 months FY '22 with a growth of 32% year-on-year.

EBITDA for Q3 of FY '23 stood at 72.8 crores as against 77 crores of Q3 of FY '22. There is a degrowth of 5% year-on-year, whereas for 9 months of FY '23, EBITDA stood at 245.2 crores as against 203.2 crores of the corresponding period of FY '22. There has been a growth of 21% year-on-year. EBITDA margins for Q3 of FY '23 stood at 4.9, whereas for 9 months, it stood at 6%.

As already mentioned by our CEO, our initial operating and branding expenses while expanding our operations in the new territory, that is NCR, have impacted these margins.

PAT for Q3 of FY '23 stood at 21.9 crores as against 27.7 crores of Q3 FY '22, a degrowth of 21% year-on-year. And for 9 months of FY '23, PAT stood at 86.7 crores as against 68.6 crores of this period. It had a growth of 26% year-on-year.

Annualized ROCE and ROE for 9 months of FY '23 stood at 12.7% and 9.8% respectively. The working capital days as on 31st December stood at 49 days. The gross debt to equity is 0.4x, and the net debt to equity is at 0.1x, which was considerably improved on account of the IPO.

Our net debt to EBITDA stood at 0.66x. Our cash flow from operations before working capital changes for 9 months of FY '23 stood at Rs. 244 crores, which is almost equivalent to our EBITDA.

During the reporting period, our same-store sales growth rate stood at 23.5%. During nine months period, the composition of sales of electronic and consumer durables has been 48% from large appliances, 37% from mobiles, and 15% from small appliances, IT products and others. Out of the total sales, around 98% has been from the retail segment, and the top five brands contributed around 64% to our sales revenue.

With this, I would like to open the floor for questions. Thank you one and all.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Krisha Kansara from Molecule Ventures PMS. Please go ahead.

Krisha Kansara: Sir, my first question is regarding Delhi NCR. So, if you could just give a brief about the size and the number of stores opened in this new geography? Also, sir, what is the current run rate of sales coming from Delhi NCR? And have we achieved breakeven now? That is my first question.

Karan Bajaj: Delhi NCR, as we talk, we are operating 12 stores there, 8 stores were launched on the 14th of August, and 4 other stores were launched on 22nd of October. Right now we would look at these stores performing after certain gradual growth that we would be expecting. Post Diwali we saw these stores stabilizing a little bit, and then the biggest season there is summer, which will start off from April.

So, Delhi on a whole, as a scenario right now, usually when we look at 12 to 14 months breakeven in the existing market, Delhi, we were assuming that Delhi would be breakeven for us in the period of 18 to 20 months, a little higher because of the new geography and a new brand altogether.

But what we expect for a store to perform on a year one average of 25 plus crores. So, the throughput on those lines are in track, and once we churn the summer season, that is when we would be looking at the initial growth of year one, year two and year three, which would be higher, and then the store stabilizing and maturing after year four onwards. So, that is the trajectory that we have seen in the past in the existing market, and we are hoping that in the Delhi market also, we would be on the same track.

Krisha Kansara: Currently, like what percentage of sales would be coming from this Delhi NCR stores?

Karan Bajaj: In Q3, the sales percentage that have added up was around 54 crores, and for the first nine months because there were few weeks of Q2 also that added up, so the first nine months, the total revenue from Delhi that we generated around 84 crores.

Krisha Kansara: And sir, so you have recently opened a few kitchen stores, specialized stores. So, currently, how much do they contribute to the top line?

Karan Bajaj: Kitchen Stories is a specialized store format, and we have one store in Vishakapatnam and two in Hyderabad. And we have recently taken over the operations of the Kerala store as well, but the stores that we are about to launch will be launching in the month of April. So, technically today, the store is not operational in Kerala, but we are booking sales there. But apart from that the existing stores that we have in Hyderabad and Visakhapatnam, they deliver a very miniscule share, because it is specialized store only for very high-end categories of this kitchen appliances. And it is a tie up between the German modular kitchen brand Hacker. So, for that reason, these are all incubation stores where the gross margins are much higher than our regular stores, but here we would look at, you know, lesser throughput. So, the average stores would do around 15 crores to 18 crore rupees for these specialized store formats.

Krisha Kansara: 15 crores to 18 crores per store?

Karan Bajaj: Yes.

Krisha Kansara: And sir, how many more such stores do you plan to open in near future?

Karan Bajaj: We are not looking at opening more of these stores, because this has to do with the tie-up for the kitchen as well. So, probably, one or two more stores in the coming few years. Nothing on the plan to expand this store format.

Krisha Kansara: And sir, last question. So, currently, the contribution from mobile is around close to 40%. So, I just want to understand how has this contribution changed over the years. And can we easily expect that this contribution will remain in the range of 30% to 40% going forward also? Or in your opinion, will it increase?

Karan Bajaj: No. So, what happened is few months like if suppose it is the quarter of summer, where the cooling products like refrigerators, air coolers and air conditioners are a category will start delivering more, automatically mobile as a category, the penetration, the percentage of share of these products has to reduce, whereas few months where like December or November or post-summer, few of the months you would look at a higher share of this category. The lowest would be as low as 32%, 33%. And again, the highest would be around 40%. If we average it out on an annual basis for the nine months, it comes to around 35% or 36%. That is the number that we look at for a mobile category to contribute to the total revenue.

Krisha Kansara: And sir, are we seeing any demand slowdown in this segment?

Karan Bajaj: In Mobile, not at all. In fact, we are just about to launch the Samsung S23 as well, and we are seeing quite a good demand coming in for that model. We saw good demand coming in for the 14 series of Apple as well. Suppose the 5G launch completely we were expecting, you know, there will be a lot of churn in the next coming few quarters which would bring in little more growth in this category in terms of ASP going up because the 5G devices are going to be on the higher price segment. But one advantage that we had in the last six months is we have been already selling a major number of 5G devices. So, we are already there, you know, showcasing the 5G technology in our stores. So, you know, we believe that post the rollout of 5G completely in the existing markets that we are operating, we would look at definitely a churn coming in for devices from 4G to converting to 5G devices.

Krisha Kansara: So, in your presentation, it's mentioned that currently, you have just 12 owned stores, right? So, how will this number move going ahead? Like, will we be opening more such owned stores? Or will those be on lease only?

Karan Bajaj: Yes. It is more like a 80-20 split right now, whereas the 80 properties are approximately leased. Around 20 properties, around 12 properties are completely owned by us, and 8 properties are partly owned, which means that if suppose we have two stores in that building, one is owned and one is leased, when you are operating the stores, and out of that, seven to eight stores are what we have actually decided to buy in Delhi NCR. It was a major investment that we made in the last 12 months, out of which 3 stores are operational.

Five more stores of the property that we have bought are yet to be operational in Delhi, which will get operational in the next few quarters. So, going forward, it is going to be a mix. You know, the majority is a mix of lease-out properties, and very few selective locations we would be buying out. The Delhi expansion was planned on buying out the bigger ones, and we have already done the buying out in Delhi. So, we don't see a major requirement for buying out properties in the existing markets.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir, I just wanted to understand, I mean, you mentioned that this margin decline this quarter was because of the increased investment. So, is it possible to kind of quantify the investment that we would have done in brand building or sales and marketing in this particular quarter?

Karan Bajaj: Yes, Deepak. One major change that we did compared to the last year was 4.5 crores of cashback that we had paid out for the financing and the cashback that we do in the stores during the festival period. So, that was a major expenditure that we made of 4.5 crores. And if you look historically, what is the marketing spend that we made, that was another major spend that would include the Delhi launch and all the lucky draws and all the other offers that we do. So, those were two major spendings that we did. And given all calculated when it comes to Delhi, it was expected to burn a little initially because it takes a little time for the stores to stabilize.

But what I can say is that in terms of what our expectations were in stabilizing the stores, I think we are on track on doing that. And once we open a few more stores in Delhi and stabilize there, the marketing cost again would be in hands with our sale revenue. We are not expecting anything out of the box to go wrong in Delhi right now. Everything is under control there. The spending majorly would be pertaining to the cashback of 4.5 crores approximately and the marketing. So, that is the effect on EBITDA.

Deepak Poddar: So, what would that total be? So, 4.5 crores is the cashback, and the Delhi launch, the incremental investment would be how much?

Karan Bajaj: Sir, only Delhi incremental. It was an incremental in our spend in the Tier-2, Tier-3 cities in Andhra and Telangana as well. The bifurcation would be given to you. I will ask the team to send you the bifurcation as well. But the total amount was around 10 crores rupees spent between the existing markets and Delhi which was an incremental cost in that quarter.

Deepak Poddar: So, total marketing spend is about 7 crores, right?

Karan Bajaj: Sorry?

Deepak Poddar: The total sales and marketing spend is about 7 crores. Out of that about Delhi launch would be included there.

Karan Bajaj: No, it would be much higher. It is not 7 crores. It is much higher.

Deepak Poddar: Total spend was around 42.

Karan Bajaj: 45 crores, yes, for nine months.

Deepak Poddar: No, I was just trying to understand the third quarter, not the nine months. Third quarter what is the spending?

Karan Bajaj: Third quarter was around 22 crores.

Deepak Poddar: 22 crores. So, that is our marketing spend, right? And that would include our Delhi launch.

Karan Bajaj: Yes.

Deepak Poddar: And how much was this spend in the second quarter?

Karan Bajaj: Second quarter spend was around Rs. 10 crores.

Deepak Poddar: So, incremental we can say that 12 crores would have come, right? I mean, on a quarter-on-quarter basis.

Karan Bajaj: The 10 crores which I have told you that is the incremental spend that we did.

Deepak Poddar: And addition to that would be 4.5 crores cash back, right? That would be additional.

Karan Bajaj: There was a cashback of 4.5 crores. We didn't carry out any cashback last year for the same period. So, we didn't come out with cashback. And majorly, this marketing is even for Andhra and Telangana stores, because that is where we are not stabilized and the stores are maturing. So, we had started spending in those territories as well. And these Tier-2 markets and all are very heavy on vernacular newspapers majorly. So, that is the only major medium for us and theatres. And these are two expensive mediums. We don't have too many options in terms of marketing because we don't have outdoor hoardings and radio in these Tier-2, Tier-3 cities. So, the major spend goes through and marketing goes through either theatres or through the newspaper. Both are quite heavy in terms of the money required for advertising.

Deepak Poddar: And, sir, this margin front, I mean, we have always been saying that 7% is a kind of a steady state EBITDA margin for us, right? Now this quarter was around 5%. So, I mean, this journey towards 7%, would you expect that to kind of achieve in FY '24 as a whole? I mean, some understanding on that would help.

Karan Bajaj: Deepak, if you look at the 9-month number, it is around 6%. So, we don't see a drastic drop there. In FY '23 Q4 also, I would say that because we have already passed 3/4th of the quarters, and we know significantly how the product mix is going, and how the demand for cooling products is coming in. And then you can check historically how Q4 would deliver. So, we are on track on achieving the numbers that we had given out in the market earlier in terms of our estimation, and FY '24 also, we are expecting because the stores in Andhra, Telangana will mature. We will be opening new stores as well. Delhi also would be stabilizing by Q2 after the April, May, and June summer period. So, we were expecting that things would be in line for FY '24 as well.

Deepak Poddar: So, fourth quarter as well as FY '24 we are expecting that 7% EBITDA martin band, would that be fair to kind of understand?

Karan Bajaj: Sir, I would not say that. I am not exactly pointing out at a certain number. But what I would say it would be in line with what our expectations are, and it would not be a drastic jump or high or a low in that number. But we would definitely try to achieve this because it would depend on the product mix as well, where the cooling products like AC, refrigeration and air coolers would give us a higher gross margin. And that would automatically help us increase the number.

Deepak Poddar: And my last question is on your revenue. I mean, we have been talking about when you were 20%, 25% revenue CAGR, right? I mean, two to three years. So, we are holding on to that?

Karan Bajaj: Yes. If you look at the first 9-month number, we are upwards of 32% growth through the Q3 of FY '23 was at 17%, but post Diwali, if you see the markets were down really bad. But we were still able to achieve good throughput during December as well. And we have got confident in all the operations stabilizing across the newer geographies also. I think we are on track for that as well.

Deepak Poddar: On track for that, okay.

Moderator: Thank you. The next question is from the line of Sameer Gupta from IIFL Securities. Please go ahead.

Sameer Gupta: The first question is the SS growth of 10.5% this quarter that you have clogged. So, we are basically witnessing a slowdown across consumer discretionary categories, especially after Diwali. So, just trying to understand this 10.5% SSS growth in that context. Is it because, like after October, the sales for you are anyways very low in this quarter, and that is why you are not seeing any slowdown brunt? Or is it that you have bugged that trend and performed really well?

Karan Bajaj: Yes, the 10% approximate same-store growth has come in for Q3 alone. But that is not being there for Q2 and Q1. I mean, April, Q4 also, we would look at a different trajectory, but definitely, yes, it was a major slowdown. Usually, we would see a slowdown for a couple of weeks after Diwali, but then this time, that got a little more delayed for another three or four weeks. So, it went up till almost December first week. But then we were averaging out what numbers we could do. That brought down the SSG as well during that period. But then I don't see that one-off incidence happening during that period, but we are back on track again in Q4. So, we would see a much higher SSG coming in the future as well.

Sameer Gupta: Just a follow up on this. So, are you seeing any sort of, see, SS growth Y-o-Y can be misleading because there is an Omicron in the base and all those anomalies are there, but on a sales per store, something like, a metric which is better to track, are you seeing any better traction in the fourth quarter or things are more or less similar?

Karan Bajaj: See, there would be a different trajectory coming in for Q4 because we've already passed 6 weeks, so we know what is happening and most of the stores, there was nothing additionally done apart from the Delhi stores as an expansion. The SSG eventually, the majority of them would be coming from the matured stores. So, we are quite happy with what we're delivering. And we see a performance coming in from a matured store as well as for the new stores. Once the new stores stabilize, we'll definitely be looking at a much higher SSG coming in the near future.

Sameer Gupta: Second question is this 5% margin that you have reported? And my sense is that a large part of this is because of the Delhi 12 stores that you have added during the year. Now, out of the 19 stores that you have added, 12 are in Delhi and you just mentioned that a Delhi store typically would take 18 to 20 months for breakeven versus the normal 12-month trajectory for your other stores. Now, with the growth construct being similar, going forward that two-thirds of the additions will be in Delhi, how are you so confident that you will get back to the 6.5% EBITDA margin trajectory. I mean, just by the math of this bigger breakeven period for Delhi should actually skew the margin to the lower side, right?

Karan Bajaj: But Sameer, see, initially, there might be a drop off of 1 percentage or 2 percentage in the gross margin levels in Delhi operations. But then, not necessarily that Delhi is contributing to a much higher revenue number coming in from there initially. And Sameer, one more thing is that the product mix in Delhi initially today, when you compare to our existing market, where we see a 35% plus mobile phone contribution, which is one of the lowest gross margin categories with 7% coming from IT, whereas we have the larger product selling better in Delhi today for us and we've not even completed the summer season which is one of the largest contributing seasons in Delhi as a region. So, only after we complete one season of summer or one complete year of different seasons of all 4 quarters, that is where we will be able to completely in depth analyze and tell you the complete detail of that. It is too early for us to comment, it has hardly been 5-1/2 months of operations for 8 stores and 3-1/2 months for 4 stores. So, it will be too early for us to comment. But what we can look at right now in Delhi as an overall strategy is that we are able to achieve a certain decent throughput for us to be on the path of achieving Rs. 25 crores plus for every store. So, that is more important for us initially where you know the extraction is there. And it is not a burn per se, but it is an extraction that we're looking at right now. And then, it will eventually stabilize and then create a market presence for itself. So, that is what's important for us initially.

Sameer Gupta: Sorry, I didn't get that number; Rs. 25 crores sales per store on an annual basis in Delhi, that's what you're targeting?

Karan Bajaj: Yes Sameer, historically, what we look at is whenever we open a new store, how we look at the calculation of breakeven is that if it is an existing market, we look at a Rs. 30 crores throughput for year 1, then gradually increasing in year 2, then year 3 and stabilizing or maturing after year 4 onwards. So, it will take around 4 years for it to mature. But in the existing market, at Rs. 30

crore number, we would break even between 12-14 months. That is the number historically what we've delivered. So, looking at that, Delhi, because it's a newly competitive market, we'll position ourselves to Rs. 25 crores for year 1, so that is the number that we look at. And because the throughput being Rs. 25 crores, we look at a higher breakeven period, which is around 18 to 20 months. So, that is why these numbers were given out and these are all conservative numbers, but on track, like few of those stores might achieve that much sooner, few of the stores might take a month or 2 later, but in line with what we will be looking at.

Moderator: Next question is from the line of Rakesh from HDFC Mutual Fund. Please go ahead.

Rakesh: Sir, to understand this other expenses line here slightly this is roughly about Rs. 21 crores increase on a quarter-on-quarter basis and roughly about Rs. 22 crores if I look at your third quarter last year, right? So, you can help us understand how much of this has been in terms of breakup marketing; what has contributed to this increase? Maybe that will help us understand your margin profile slightly better.

Karan Bajaj: I will give you a detailed break up on this. The major numbers that we looked at where the expenses have increased, a few of them are directly proportionate to the sales itself, which are sales promotions, the dealer finance charges, credit card charges and all, which have increased around Rs. 7 crores. And marketing expenses have increased a little bit. Maintenance, power and fuel because you added new stores, so electricity costs, fuel cost for generators and all that, that has increased a little bit, that is around Rs. 1.7 crores. Other expenses, which would include all of these other things like sales promotion, DBD, credit card charges, and cashback offers, all of that put together has brought in the major increase, out of which 50% of the major increase has only come in from the marketing and advertising front.

Rakesh: So, 50% is the extra spend that you have done. Would that be a fair understanding of how the cost is working out?

Karan Bajaj: Sir, if I give you the first 9-month number, around Rs. 28 crores of profitability was the marketing spend for the first 9 months, which is adding to Rs. 45 crores. So, this would include the lucky draws Rs. 1 crore cash prize, the cars, the Rs. 50 lakh cash prize that we started in Delhi also. So, from Rs. 28 crores, directly a jump to Rs. 45 crores was in marketing itself and the sales promotion costs on say, Rs. 71 crores increased to Rs. 106 crores. So, that was another major spend around Rs. 30 crores, which is directly proportional to the sales because now cash transaction have reduced a lot. Customers are buying everything on credit cards and debit cards. So, for every transaction, there is a MDR charges the bank charges around 1.2%. Then all cashbacks on the UPI payments and all of that. So, all of these include in the sales promotion. Even the paper financing costs that we bear, which is interest cost, and the dealer buydown cost. So, these costs have gone up in the expense report.

Rakesh: So, can you help us understand slightly better in the sense that what is the cost, which is, let's say, not proportional to your sales, which has gone higher because of which the margins became lower and what would be the normal trajectory going-forward? So, if look at cost, right, as a percentage of sales or other expenses as a percentage of sales, it's roughly about 5.6% to 5.8%, third quarter or for the previous quarter, and currently sitting at 6.3%, there's about 50 basis point or 70 basis point increase, if I look at it on a like-to-like basis, year-on-year basis, right? What has contributed to the 70 basis point of incremental spend, because that will not be limited to the proportion of sales?

Karan Bajaj: Correct. Not 100% of it, but different heads over the smaller portion, but the majority of them is what I told you. I will ask Prem sir, our CFO, to get in detail with you on that right away on the call and explain it to you.

Premchand Devarakonda: Power and fuel are one of the major expenditures that are for the 9-month period. This has been 0.69% of the revenue during the current financial year as against 0.6% of the previous financial year. Then another major expenditure is maintenance. So, that includes housekeeping as well as watch and ward. During the 9-month period of the current financial year, it is 0.66% as against 0.63% of the previous year of the revenue. Then advertisement has already been mentioned, it has been 1.19% of the revenue as against 0.95% of the previous financial year. Then we have business promotion expenses, which are nothing but for that lucky draws and other launching activities which we carried out. So, that has been 0.22% during the current 9-month period as compared to 0.09% of the previous financial year. And apart from that, sales promotional expenses which have been 2.81% during the current 9-month period which has been 2.46% during the previous financial year.

Rakesh: Going forward, how should we look at these 3 bigger items advertisement and promotions, business promotions and the affiliated marketing, right? All of these costs have gone higher in this quarter. So, what I'm trying to understand is going forward what could be normal trajectory. If you see the third quarter what you have seen last year, this year, it's going to be a normal trajectory going forward. Do you expect these numbers to come down as a percentage of sales?

Premchand Devarakonda: That's right, sir. Once the store throughput improves in Delhi NCR, obviously, these costs as a percentage of sales will come down.

Rakesh: So, in that scenario, I mean how would you achieve 7% EBITDA margin in rest of '24.

Karan Bajaj: Sir, costs like rental, manpower, and advertising expenses, they are directly proportional to the sales throughput per store. Right now, a lot of the rental cost that we proportion, for example the advertising cost or sales promotion, all of these work for a limited number. So, say, for example, if I'm doing a Rs. 50 lakhs draw next year in the same quarter, I would have 25 stores in Delhi or 20 stores in Delhi, the number of spend or the number of advertising that we would do in the same quarter would remain the same but would get divided on the increase of stores would give us a higher throughput or a higher revenue overall. So, in that proportion, will definitely come down. But initially, because Diwali and Dussehra, it was a period during that quarter, we were new market players, we had to be at par with advertising with the larger players. So, we could not step back on that. So, this is all calculated initially when we started our operations in Delhi. So, in Hyderabad, in AP, Telangana, the existing market, there was not an incremental increase in advertising. Just to give you a number there, the proportion that we spent on advertising and all other aspects of marketing was definitely much lower than what our sales percentage would be. So, that is in line. So, anything would happen in Delhi, but not probably this quarter, probably next year in the same quarter; we would definitely look at a similar spend with a higher throughput coming out from that market.

Rakesh: And one last question. What is the seasonality in your business, especially in terms of gross margin? So, this quarter gross margin is 13%. Last year, same time was 13.3 percent but that was also I believe was our lowest quarter during the 4 quarters. How should we generally think of gross margin seasonality going forward for the 4 quarters, which quarters would be higher, typically what trend so that they get some sense of what is the normalized margin? I would assume that you're still guiding 14% gross margin for the year.

Karan Bajaj: Rakesh, sir, majorly, the highest grossing category or the product category that we sell is AC and cooler. This season, AC and cooler will sell automatically, we had a higher gross margin during that period. But summer would again, or the weather would again play a very important role for us. For example, this year, we would say in FY24, Q1, we would look at a longer summer for us, because Delhi also would add up to numbers coming in, not very big number but some numbers coming in from that region as well, because the summer is elongated there, and will go as long as June-July. So, if we are lucky enough with the weather supports us, we'll be able to deliver a higher throughput for AC, cooler as a category. So, we would look at the quarter where the cooling products would give us a higher GP. So, blended GP for those quarters would definitely be higher. If you look at historical data also, number 1.

Number 2, Diwali or festival period definitely on paper would give you a higher margin, but then again, that is one of the only periods where the discounting becomes the highest as well because it is the most competitive, cutthroat market that happens from customers point of view where everybody's got an ad, everybody's running an offer. So, though you get an extra margin or an extra benefit during the festive period from the brands will negotiate better, but then eventually, it boils down to discounting that on the floor. So, otherwise, cooling product category, AC, cooler, and refrigerator would be the highest grossing product category at any time for us.

Moderator: The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.

Tushar Sarda: You mentioned that Delhi will achieve breakeven at around Rs. 25 crores sales per store. So, if you can explain the store level economics of Delhi and also from the Delhi cluster, how the economics would work out because some of the costs like advertisement and marketing would be common. So, if you can just broadly explain, that would be helpful.

Karan Bajaj: So, sir, if I have understood your question correctly, so Delhi market, though the market size of Delhi is much bigger than our existing market that we've been in, that was one of the reasons that we entered that market. Rs. 25 crores were a very conservative number that we calculated our breakeven at because obviously you didn't want anything to go out of line because the margins that we control is not in our hands, but the expenses what majorly we can control. So, we didn't want to take a very high rental or a very high manpower cost strategy there in Delhi. So, we want to make sure that everything is in line till the time the brand stabilizes there. And then we can look at avenues of increasing our margins in that region. So, right now, Rs. 25 crores are what we look at for the delivery happening in year 1, and our costs are all calculated against that. So, that is why we calculated an 18-month breakeven period where even if our margins or gross margins which are 13%, 14% are lower to 11%, 12% or so in year 1, we're still able to deliver a breakeven in 18 to 20 months. That is the calculation, sir. That would increase the Capex as well as the Opex.

Tushar Sarda: What is your store cost in Delhi individually? Roughly, should we assume Rs. 2 crores a year, Rs. 3 crores a year including rentals and salaries and other overheads?

Karan Bajaj: Yes, sir. You're talking about the gross profit per store there in Delhi?

Tushar Sarda: Yes.

Karan Bajaj: It will be in that line, sir. But as I told you that only after we complete the summer season because AC and cooler are a longer period season. Only we understand that period once because we have not gone through that period in Delhi and cooling products being one of the highest grossing product categories for us, so once we go through that churn, we see how the market is reacting, we see how competitive the market is, whether we're still able to deliver a much higher gross margin that we would do in Hyderabad or in AP & Telangana, how the competitive scenario there is. Those things would only play out after the end of Q1 or Q2 in FY24. So, once we do a complete churn, year churn, we'll be able to understand the market better and then comment better on that market, sir.

Tushar Sarda: So, you have 12 stores now in Delhi, right?

Karan Bajaj: 12 stores, the 13th, soft launch is done for that store in Noida Sector 18, where the official launch will be happening in the next couple of weeks, sir.

Tushar Sarda: And how much do you plan to spend on marketing next year in Delhi?

Karan Bajaj: Sir, the Delhi marketing plan would be in line with the revenue that we would generate. It would be around in the line of Rs. 10 crores to Rs. 12 crores.

Moderator: The next question is from the line of action Akshat Mehta from Sameeksha Capital. Please go ahead.

Akshat Mehta: So, my question was on your operating expenses. As you said that your advertising expense is around, Rs. 10 crores to Rs. 12 crores on average. And this quarter also your ad expenses have been around Rs. 22 crores. So, that forms around 1.5% to 2% of your overall revenues. But if you look in the past data in 2021, '22, our ad expense forms more than 3%. So, I mean, why is there a declining trend in advertising expenses? Or is that because of Delhi that we are spending less amount there? Or what is the scenario there?

Karan Bajaj: Mr. Mehta, I didn't understand your question. Can you repeat it once again, please?

Akshat Mehta: My question was that the numbers that you've given right now for quarter 2, quarter 3, your ad expenses in those quarters, it forms around 1.5% to 2% of your own revenues for the quarter. But in the past few years, 2021 and '22, your ad expenses in your Annual Report have been more than 3% of your revenues. So, why is there a fall in advertising expense as a percentage of your revenue going forward? I mean, is this something because of the Delhi side that we're spending less in terms of as a percentage of revenues marketing in Delhi? Or what is the trend here?

Karan Bajaj: No, Mr. Mehta, in fact, the advertising expenses of previous historical years have been around 0.85, 0.9%. In fact, the COVID year, we spent one of the lowest amounts in advertising. If you look at our advertising cost for FY22 versus the revenue, it should be around 0.8%, 0.9%. I don't know, could be some added under the FY22 number where you're seeing a 3% advertising spend. Whereas as you correctly said now, because of Delhi being added, the marketing spend from 0.8%, 0.9% would be looking at upwards of 1.3% to 1.4% for this and for the financial year.

Premchand Devarakonda: Sir, you must have added sales promotion to our advertisement because sales promotion is not our advertisement. The sales promotion expenses include dealer buydown charges and other incidental expenses.

Akshat Mehta: So, what would be the quantum of that in these 2 quarters, if you can share that?

Karan Bajaj: Mr. Mehta, if I tell you like FY22 for the first 9 months, we spent Rs. 27.8 crores on advertising; for the first 9 months of this year, we spent Rs. 45.1 crores. So, you could see a drastic change in advertising and promotion compared to 9 months for FY22 and 9 months of FY23. If I give you a quarter-on-quarter number, Q3 of FY22 spend Rs. 16 crores versus Q3 FY23. We spent Rs. 22.3 crores on marketing and advertising.

Akshat Mehta: No, I was asking for sales promotion.

Karan Bajaj: Sales promotion from Rs. 71 crores in FY22 for the first 9 months, it went up Rs. 106 crores for the first 9 months of FY23. And this is directly proportional to the credit card, debit card financing, paper financing charges that we bear at the store level for customers.

Akshat Mehta: And my second question was on your gross margins, I mean your gross margin in the past for like 4 years, it was Rs. 15.1 in around FY19; from there, it has come down to Rs. 13.7 crore in FY22. And now it is in the first 3 quarters also it is coming down to 13%. So, what is driving that reduction in gross margins currently?

Karan Bajaj: Definitely, yes. We were also a little surprised by 0.5% on Q3 numbers, because right after the Diwali, we saw a major drop in the revenues for the first couple of weeks, which we had to take an impact on. How 0.5% margin in our books would directly hit the bottom line is because your other fixed expenditure remains the same, your rentals, your manpower cost, your cost of inventory, borrowing costs and all remaining the same, but that 0.5% also would impact us in terms of the number looking much higher or lower. Whereas historically in '19, '18, '17 or that kind of period, the contribution coming from IT, mobile sales were quite low whereas IT was never higher and in FY19, also IT contribution was not more than 3%. IT contribution today stands at 7%, which is one of the lowest gross margin categories and even mobile phones. Mobile phones also stand at 35%, 36% today. If you look at the first 9 months number, the blended, the gross margin level look at much higher compared to the Q3 gross margin level. Once we cross in the Q4 period, which is Jan-Feb-March, when some are setting early, we would look at the cooling products to start delivering a higher margin. That is why we are a little confident on how the Q4 would turn up and that would eventually help us deliver the annual number for '23.

Akshat Mehta: I understand this is primarily on account of the changing mix, your product mix that has changed a bit towards mobile as well as towards IT and other smaller appliances, correct?

Karan Bajaj: Yes, Mr. Mehta, you're getting it right.

Moderator: The next question is from the line of Preet Jain from Blue Jersey capital. Please go ahead.

Preet Jain: How is the response from Delhi NCR category? Are we facing any major competition there?

Karan Bajaj: Sir, Delhi NCR is one of the most competitive markets in the country, and there is no fun in not competing in the market if you are there. So, we are getting, but it is not like a backlash that we can't maintain or have to undercut a lot. But it is quite a reasonable market there because you have to look at expenses and also because the retail scenario is a little different there compared to other Southern or Western organized markets. So, you're competing a lot with brand stores and with a lot of mom-and-pop stores. You have to make sure that you can deliver better throughput and margin. Initially, yes, we were expecting it to be 10 basis points lower than what we would expect in our existing market. But then once we cover up all the seasons, once we understand the market, once we understand the preferences of the customers, then that is where we will tweak our strategy and for the future, we should be ready for it.

Preet Jain: And sir, my second question is, can you provide us the segmental margin profile of large appliances, small appliances and mobile segments?

Karan Bajaj: Yes, sure. Mobile phones give us a margin of around 9%, large appliances will give us if I bifurcate televisions, televisions would give us around 17%, washing machines, refrigerators would give us around 18%, ACs and coolers would give us around 20% That is the historical gross margin that we generate out of each category.

Moderator: Ladies and gentlemen, this will be the last question for today. I would now like to hand the conference over to the management for closing comments.

Karan Bajaj: I thank everybody for joining the call today. And I want to give a little flavor of how things are working out. So, the revenue that we've generated for Q3, though we had a little downfall, the market was a little slower in November and December, but we were still able to achieve our projected numbers for Q3. And the first 9 months, we are on track. And January and February we've already crossed January and 2 weeks of February. So, Q4 is also in control with us in terms of what is happening. And we're quite confident that once the summer sets in a little early, March quarter should be a good month for us. And eventually, we would be able to deliver a suggested number that we'd given out during the IPO roadshows going forward as well. So, thank you, everybody. And I'd like to thank our IR as well on the call. Thank you, everybody.

Moderator: Thank you. On behalf of Electronics Mart India Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.