To,

Listing Manager,
The National Stock Exchange of India Ltd.,
(Through NEAPS)
Symbol: EMIL
Series: EQ
ISIN: INE02YR01019

The Secretary,
BSE Limited,
(Through BSE Listing Centre)
Scrip Code: 543626

Dear Sir/ Madam,

Subject: <u>Disclosure of transcript of Earnings Conference Call for the First Half Year and Second Quarter ended 30th September 2024 held on 11th November 2024.</u>

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call held on Monday, 11th November 2024, at 04:00 PM to discuss the Un-audited Financial Results for the First Half-Year and Second Quarter ended 30th September 2024. The same is also available on the website of the Company at the below-mentioned link:

https://investors.electronicsmartindia.com/earning-call-transcripts-and-investors-presentation

We request that you take this information on record.

Thanking You,
For and on behalf of **Electronics Mart India Limited**

RAJIV KUMAR
Digitally signed by RAJIV KUMAR
Date: 2024.11.13 18:48:36 +05'30'

Rajiv Kumar
Company Secretary and Compliance Officer

Date: 13th November 2024
Place: Hyderabad

"Electronics Mart India Limited Q2 & H1 FY25 Earnings Conference Call"

November 11, 2024

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 11th November 2024 will prevail.

MANAGEMENT:

- MR. KARAN BAJAJ – CHIEF EXECUTIVE OFFICER – ELECTRONICS MART INDIA LIMITED
- MR. PREMCHAND DEVARAKONDA – CHIEF FINANCIAL OFFICER – ELECTRONICS MART INDIA LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Electronics Mart India Limited Q2 and H1 FY '25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask question after the presentation concludes. Should you need any 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. Karan Bajaj, CEO of Electronics Mart India Limited. Thank you, and over to you, sir.

Karan Bajaj: Thank you. Good evening and a very warm welcome to everybody present on the call. Along with me, I have Mr. Premchand Devarakonda, our Chief Financial Officer. We have uploaded our results and investor presentations for the quarter and half yearly-end FY'25 on the stock exchange and the company's website. I hope everyone had a chance to go through the same.

In H1 FY '25, our revenue stood at INR 3,361 crores, reflecting a growth of 13% year-on-year. Our EBITDA stood at INR 238 crores against INR 227 crores, also growing by 5% year-on-year with EBITDA margins at 7.1%. In Q2, heavy rains in South India have impacted demand. But we anticipated that the consumer spend will rebound as conditions normalize. Additionally, Q2 tends to be a softer period for electronic retailers and this year, we faced additional challenges as well.

As mentioned, with South Cluster, especially Hyderabad and Vijaywada, our key markets experienced heavy rainfalls, causing reduced footfalls and weakened demand. Air conditioner sales were impacted by the extended monsoon. However, the category also demonstrated resilience as a consistent performer, maintaining steady sales for the first half of the year and showing a growth of 46% in Q2 FY '25, a growth of 24% Y-on-Y.

Large appliances contributed to maintain their spot as the largest revenue contributor. For H1 FY '25, large appliances contributed 46% to the revenue, mobile phones contributed 42% and small appliances, IT and other categories contributed 12% collectively. In the first half of FY '25, we continue to expand our store footprint. We have opened 18 new stores, our store count as of September 2024 stood at a total of 177 stores, out of which 164 stores are the multi-brand stores, 13 are exclusive brand outlets.

We are present in 70 cities across 6 states currently. In NCR region, we have reached up to 25 stores. We remain confident in our full year guidance of adding 25 to 30 new stores. Going forward, our strategy would be to further strengthen our presence in Delhi-NCR cluster and the existing market at the same time. As we prepare for the upcoming season, we expect consumer behaviour to revolve with an increased focus on premium electronics.

Moving towards working capital, we typically see an increase in inventory during the September end in preparation for the festive period. As of September '24, our inventory days stood at 62. Going forward, our strategy will be to focus on optimizing inventory levels to drive higher cash flow conversions, which will further strengthen our balance sheet. Same-store growth for H1 of FY '25 came at 6%. And I'm also pleased to report that our North cluster has remained EBITDA positive for the 3 consecutive quarters and we expect this improving going ahead, our goal is to steadily improve margins in the North cluster, aligning them with the performance of the South cluster.

As India continues to move up the ladder in terms of GDP per capita growth, the increased disposable income is fuelling great demands for premium consumer durables and electronics such as air conditioners and washing machines, refrigerators. With increased purchasing power, more households can afford these products, transition from aspirational purchase in the cities in many urban and semi urban areas.

Additionally, a growing middle-class population, coupled with improved access to financing options and innovative product offering, is expected to significantly boost sales in these 3 categories, driving further growth going forward. At EMIL, we strategically partner with top brands and offer a wide range of products pursuing us to serve a broader base of customers. As India's GDP per capita continues to rise, we have been witnessing increased demand for high-quality consumer durable with a noticeable shift towards with the top 5 brands in key segments.

Our comprehensive product collection enables us to meet this growth demand. While our focus on trusted brand drives customer satisfaction, this powerful combination of strong brand partnership and broad product offering position us for significant growth going forward.

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

Premchand Devarakonda: Good evening, and warm welcome to all the participants. Let me begin with the Q2 FY '25 financial overview. Our revenues for the quarter stood at INR 1,386 crores as against INR 1,303 crores in Q2 FY '24 with a growth of 6% year-on-year. EBITDA for Q2 FY '25 stood at INR 84 crores as against INR97 crores, a degrowth of 13% year-on-year. EBITDA Margin Q2 FY '25 stood at 6.1% as compared to 7.4% in Q2 FY '24. Pre Ind-AS EBITDA for Q2 stood at INR 54 crores with a margin of 3.9%. PAT for Q2 FY '25 stood at INR 25 crores as against INR37 crores, a degrowth of 34% year-on-year.

Moving on to the H1 FY '25, our revenues stood at INR 3,361 crores as against INR 2,987 crores in H1 FY '24, a growth of 13% year-on-year. EBITDA for H1 FY '25 stood at INR 238 crores as against INR 227 crores, a growth of 5% year-on-year. EBITDA margin for H1 FY '25 stood at 7.1% as compared to 7.6% in H1 FY '24.

Pre Ind-AS EBITDA for H1 FY '25 stood at INR178 crores with a margin of 5.3%. Same-store sales growth for H1 FY '25 was 6%. PAT for H1 FY '25 stood at INR97 crores as against INR 98 crores, a decline of 1%, which is marginal. For H1 FY '25, SSSG sales rate stood at 6%. ROCE and ROE on an annualized basis for H1 FY '25 stood at 17.8% and 13.2%, respectively.

The working capital days as on 30th September '24 stood at 66 days. The gross debt and net debtto equity stood at 0.4x and our net debt-to-EBITDA stood at 1.09x. Pre Ind-AS cash flow from operations stood at INR 260 crores. In this brief presentation, may I now open the floor for questions. Thank you one and all.

Moderator: We have the first question from the line of Devanshu Bansal from Emkay Global.

Devanshu Bansal: First question, Karan, is there has been some growth moderation in Q2 after the very good Q1. You alluded to some sort of operating challenges for that. I just wanted to check, has there been some postponement of sales into the current festive? So if you could just help us understand how has been the trend so far in Q3?

Karan Bajaj: Devanshu, if you see historically also Q2 is always a lower quarter compared to Q1 and Q3, so Q3 becoming a festive period quarter where Diwali and Dussehra is there versus no big festival, no big product launches during the Q2. So that definitely impacts. And then moderate rainfall versus a heavy rainfall, which we experienced this time in lot of geographies that we are present in, definitely impacts a lot of footfall.

So that is, not like the only reason, but one of the key reasons for the lower growth, I would say. And definitely, what is happening is, trends over the years, whereas the festive period becomes like a go-to market for consumers to come and buy because there was a discount, cash backs and offerings by all retailers and companies.

So definitely, as somebody buying a product during the last week of September usually would postpone it by a weak or so, because this year, if you see, we started the festival on the 2nd of October with first Navaratri on the 3rd October. That kind of postponed buying is always there.

Q3 has been good, no doubt on that. The festive period was -- there were no struggles in festive period. But then how the Q3 pans out during November and December is major importance because usually, we would see a little dip in sales post the festive period once all the brands and cashback offers would get reduced, starting this week. So then you would see that impact coming there as well.

But overall, no complaints. So this was -- there has always been a quarter where -- there is one of a quarter where the numbers go down a little bit because of a lot of external factors but as expected, Q1 did well as expected. Diwali did well. That is in line with the numbers that you would expect, and then you have a lot of costs involved in running operations, especially for new stores that get launched during that quarter or new stores that are getting ready. So a lot of capex involved, a lot of manpower already onboarded.

All of those things bring down the margins a little bit. But all is under control and in alignment of what we had planned for the new store opening expansion seasons, for the Diwali season that we had planned because we had to -- from inventory perspective also, we had to buy out a lot of stocks in the last week of September, and that was the time when iPhone 16 also got launched.

There were a lot of reasons that we had to increase our inventory. That's why you would see 62 days of inventory on the books because first week of October itself would be the beginning of the season starting from Navaratri. We had to get all the stocks ready and in our warehouses. So you would see that cost also going up a little bit, yes.

Devanshu Bansal: Understood. Karan, just qualitatively, if you could indicate between Navaratri and Diwali, which is a 30-day period, like-to-like this year versus last year, how have been the trends? Any qualitative or quantitative numbers that you can throw here?

Karan Bajaj: Navaratri and Diwali, obviously, will not be able to give you an exact number on that, but the flavor has been good, all positive. So there was -- so it has been in line with what we saw historically on the 15th of August this year, what we saw during other big festival days. Navaratri and Diwali and Dussehra, Dhanteras have all panned out to our expectation.

So there is no complaints there. In fact, a few regions that you saw being flat, like, for example, the Hyderabad cluster being flat during Q2 has also performed really well during Diwali, though definitely it is not that high growth from that region, but the base being very high, we still saw good growth coming in from that region as well.

Devanshu Bansal: Understood. Lastly, Karan, I wanted to check the company has done a good job with no major increase in working capital despite 18 new store additions in first half. Typically, in the industry, we see peak inventory levels at year-end, right, because of all those air conditioners stocking that we have to do to sort of fulfil the season's demand. So I just wanted to check what is your expectation on debt level for the company at year-end, right? So we may have to sort of invest in the inventory. So any thoughts on that?

Karan Bajaj: Devanshu, just to actually detail out your question a little further. So more than year-end on 31st March, definitely, you will see higher -- not higher debt levels, but higher inventory levels panning out because of the cooler, AC and refrigerator category being in demand during that particular season of summer. But if I give a comparative to our Q3 numbers, then you would see a much drastic difference in terms of the number of inventory days and debt levels both panning out on 31st of December.

Because it has already been - whatever inventory we get planned out for Diwali has already been sold, so we're not carrying a lot of inventory currently with us, except a few categories, which is part of the plan that we have, where we have additional offers.

We usually would end up buying a little more stocks for this quarter as well, where it will support us on the margins. So apart from that, everything is in line. And the debt level also would be in line. It will not be -- historically, what we would see right now comparatively, it will keep on going down, not drastically, but a little bit going forward as well.

Devanshu Bansal: Okay. So even after these 12, 13 more additions in H2, you do not see any significant increase in debt levels, right?

Karan Bajaj: Yes.

Moderator: We have a question from the line of Prafull Rai from Arjav Partners.

Prafull Rai: I just have one question. We have guided for a 20% kind of revenue growth for the year, and that is what the general guidance we have been giving. Do you think you'll be able to meet that kind of a guidance given the sales in the festive period?

Karan Bajaj: Hi Prafull, yes, we were looking at a 15% to 18% growth. That is what we've been commenting out in the market every time we meet someone. So 15% to 18% is what we comfortably achieve. That is not a problem.

Prafull Rai: So it should be able to make up for the kind of a low growth in Q2 in the rest half of the year, right?

Karan Bajaj: Yes. if you look at the numbers where what guidance we have given out or what numbers you would pan out, we are more or less at 50% mark of it anyways. So we don't worry. about how-what has been behind us versus what is going to come in the future. So, Diwali went well, things are under control.

Now, the only delta that you would see in the higher number would be by the end of Q4, where summer sets in early, as early as second or third week of March, and we'll have an additional, say, INR100 crores, INR150-odd crores of sales happening during the last 10, 15 days of summer. Apart from that, you will not see a major change. There will be a delta of INR100 crores, INR150 crores, not more than that.

Prafull Rai: And secondly, on the margin side, see, when we started rolling out in NCR region, we saw some kind of a margin dip because of expenses involved. But now it looks like we are stabilizing there. So did you see some kind of operating leverage playing out for us?

Karan Bajaj: Prafull, just to answer your question, what will happen is, right now, we're at 25 stores. We are adding up 6 stores in the next 20, 40 days. So what will happen is because of the denominator being lower, additional 7, 8 stores together adding up in the next, say, next couple of months or a month or so, it will automatically bring down the margin a little bit. But we are looking at that region to stabilize.

We have to give it a little more time, but we are looking at that region to give us a similar kind of margin at least for the existing stores, the 7, 8 stores that we opened 2 years back. So those kind of stores will start giving us almost similar number in the next 12 months or so. We're looking at that region growing in terms of giving us a leverage on our balance sheet in the next 12, 14 months, nothing before that.

Prafull Rai: So you will start seeing some kind of inch up happening there in terms of the operating profit?

Karan Bajaj: Absolutely. We're not looking at a loss there right now. That is what is more alarming if that would be the case. Right now, we're not looking at anything in the last 3 quarters going forward, even this quarter did well. So looking at that number, we are quite confident that we don't need to worry about that region and get stabilizes from here on.

Moderator: We have a question from the line of Omkar Chitnis from Trade Brains Private Limited.

Omkar Chitnis: Sir, I have a couple of questions. From last 2 years, I'm observing that from Q1 FYI '23, net sales per store is reducing. In Q1 FY '23, the net sales per store was INR12 crores at presently INR7.2 crores. Is there any rectification action we are taking for this?

Karan Bajaj: Yes. So Omkar, actually, you pointed out the right question where I think the right comparison would be that what are the additions of stores that we add up on square feet that we add up in that particular quarter or the year. Last 2 years, as you said correctly, we've been expanding drastically and we've added new clusters and we added new space at a much higher rate than what we've been doing in the previous years or quarters.

That is why you would see that the average ticket size or the revenue per square foot would be a little lower compared to our previous quarters. But if you look at the actual number of the sales generated from the existing outlets that we are there or the mature stores or the stores getting matured, which we opened in the last 12 to 14 months, those two have been doing really well. And then we see that number comparative number. But in the presentation and in the public market, we would actually have out total store count versus the average per square foot revenue or the revenue per store generated.

That is why because the number of store count increases drastically, you would see a drop in the productivity per store. But we can give you a complete breakup of historical data as well, whereas you can compare it at a much detailed level where you will understand that the clusters that we've opened stores, which are matured, or 12 months or 14 months older stores have also grown by 18%, 20%.

Prafull Rai: Okay. Understood. Sir, as you mentioned, there are 177 stores as of Q2 FY '25. How many stores are profitable as of now, sir?

Karan Bajaj: Sorry, how many stores are in profit?

Omkar Chitnis: Yes.

Karan Bajaj: Omkar ji, looking at 7 stores that we opened last quarter, out of which you can say that these stores will take another -- all these 7 stores will be operationally profitable because they are in the existing cluster itself. So these stores are all profitable. Only, I would say, one store that we estimated for it not to be profitable is one in Hyderabad, one in the mall, which we would expecting it to go into red in the next 12, 14 months. So that is why we winded up that store. That is the only store that we've shut this financial year till date.

And I would not say that any store is in red, Operational breakeven is required for all the stores, but the only thing that if you open a store last month or in the last 45 days, it takes up a little time for it to get matured, right? Apart from that, no other store in any region that we operate are in the red.

Only how it would -- how we would defer it is that a few stores might make a blended EBITDA of, say, store level EBITDA of say 10%, some would be at 11.5%, some would be at 6.5%. So that is how the math would work out. But Delhi/NCR region on a whole, if you see, is a newer region where the EBITDA margin would be much lower compared to our Southern cluster.

Moderator: We have a question from the line of Drashti from Thinqwise.

Drashti: Sir, can you help us understand what is the unit economics of the older stores that we have? And how do we think about the profitability of those stores? What would be the growth of those stores? What would be the wage inflation and opex growth in those stores? And of the 177 stores that we have, what proportion would be the older stores? And how are we thinking about the newer stores?

Karan Bajaj: Let's see how it would work out is that we would look at a square foot average of 10,000 square feet in the mature stores. So that is an average square foot that you take as a benchmark. And then so these stores would -- for the existing cluster because most of these mature stores would be in Hyderabad alone and few of them in the Telangana upcountry market in Andhra Pradesh in Vijaywada, Vishakhapatnam and Tirupati. These are the older stores that we opened, say, 5, 7 years back.

These kind of stores, which are in a cluster where they've already matured to, say, INR50 crores, INR70 crores, INR100 crores. These kind of stores would grow at a much lower pace compared to the newer stores that we opened in the last 24 or 36 months.

So the newer stores that we would open recently would pan out to grow at, say, 18%, 20%, 30%, depending on the lineage of the store. But the mature stores, especially in the clusters where we are cannibalized by opening a newer store nearby, those stores would look at a growth rate of 1% or 2%, 3%, not more than that until unless there is a new technology change or new addition on the floor for new technology products. But these stores are all matured at, say, INR70 crores, INR80 crores on an average.

So that way, the EBITDA margin for these particular stores would look at, say, 9%, 10% kind of a number. And properties that we own where there is no cost of rental for the mature stores, then you look at 1%, 1.5% higher than the rented out stores. That is how the differentiation would be.

The newer stores would start panning out in the Southern cluster would start panning out at 5%, 6% initially for the year 1 and then eventually stabilize at 6%, 7%, 8% going forward in terms of store level EBITDA margins. And the growth rate year 1, year 2, year 3 would pan out to say 50% depending on -- for the year 1, depending on what quarter or what point we open, we were too to stabilize at 30%, 35% year 3 then would be at around 20%, 25%. And then from there on year 5 onwards, it would be at 7%, 8%, 10% kind of a number because these pockets are in Tier 3, Tier 4 towns. So you will not see a big cluster of markets and a big growth coming up there at the same time.

So it is all organic there, whereas in terms of the mature stores today out of 177 stores, you could count around 80 stores being under 24 months and the rest of the stores, especially the MBO stores are all matured over 24 months.

Drashti: Is it fair to say that it takes typically 2 years for a store to mature and after that, the growth expected in those stores would be just 1%, 2%?

Karan Bajaj: No, no, no. it depends., for example, if we cannibalize the store, for example, if I have a store in Hyderabad, which is 10 years old, which does INR100-odd crores, and we cannibalize the store because it can't take up more people than INR100 crores in turnover for big days, there's a lot of spillage and all your parking issues or a lot of those things.

When we cannibalize or we see that customers can't travel 3 or 4 kilometers or we need to open one more store in a similar cluster, then that's when we cannibalize, and once we cannibalize that store, then the growth rate is single digit there. But in case there's a market where the growth is -- the store is INR70 crores, INR80 crores and still growing at 10%, so that is a different store.

Where we don't cannibalize it, there you'll see higher growth even for the mature store. But for the stores which are over INR100 crores and all, we usually would open a new store in the same periphery because there is a lot of spillage or there is a lot of leakage during big days, weekends, summer, Diwali, Dussehra, Dhanteras. So that is how we would do. Those stores will look at a number of 1%, 2% kind of a thing, which are 10-, 15-year-old stores.

Drashti: Understood. Sir, why I'm asking this is because what I've seen is in the value growth that we've seen in our stores has not been more than 2%, 3%, which is why I'm trying to understand how the mature stores grow because volume growth, I assume, would be hardly anything in those mature stores.

Karan Bajaj: If I give you an example for quarter 2, if you've seen an INR100 crores growth on quarter versus quarter, that is quarter 2 last year versus quarter 2 this year, out of the INR100 crores, the majority of the growth has come in -- see, the mature stores, which are over 3 or 5 years have contributed to a flattish number, say, 0.5% or 1% kind of a growth rate.

But whereas the stores we opened last 24 months have contributed to almost 80% of that growth, whereas the 8 stores that we opened up in that quarter have contributed to a total value of almost INR15 crores approximately on the INR100 crores host.

Drashti: Understood, sir. Sir, in these matured stores, wage inflation would be 7%, 8%. So is it fair to say that these are EBITDA margin declining stores perennially? Or how do you think about that?

Karan Bajaj: Yes. Absolutely. In fact, our industry, if you look at a lot of the major categories that we deal with or the brands that we deal with, we don't see a price increase. In fact, price for air conditioners have gone down by 2% or 3%, air coolers have gone down, kitchen appliances have gone down. Refrigerators, television, washing machine, the average pricing has gone down by 7%, 8% actually, not increased; the other way around.

Only apart from 1 or 2 brands. In fact, iPhone this year also got launched at a lower price than last year. So if you actually see the pricing for iPhone 16 Pro/Pro Max, which got launched in the last week of September, the pricing for the high-end models are down by INR10,000 compared to last year. If you see instead of inflation, there is a deflation of pricing, especially for high-end premium products, where like a 75-inch or an 85-inch which is priced at INR2.5 lakh, INR3 lakh is at affordable at a price of INR1.50 lakh, INR1.75 lakh this year.

Drashti: No, sir, I was asking about the employee cost increase, the wage inflation?

Karan Bajaj: Employee cost, if you see -- that's what if you see this quarter as well, that was a major hit that we had to take in our expense, the rental and the expense on manpower, housekeeping and security all put together, we would see a higher cost involved there. So that is always -- you would always look at a 5% or a 4% kind of an increase in that cost every year. You can't avoid that.

Drashti: Understood. And sir, in your opening remarks, you mentioned that you've seen a noticeable shift towards top 5 brands. So what would be the contribution currently? I think it was 65% somewhere last year. So what is the contribution of top 5 brands this first half?

Karan Bajaj: Yes. it would be around a similar range, but acceptance of these brands is going up day by day. Even in our Tier 3, 4 towns, acceptance of, say, an Apple device or a Samsung television. So the customers even in entry level, say, direct-cool refrigerator or semi-automatic washing machine, air conditioners. Now people are preferring for bigger brands and better brands across categories.

Drashti: Despite so many newer brands coming in, people are preferring the top 5 brands, is what you're trying to say?

Karan Bajaj: Yes. yes.

Moderator: We have next question from the line of Viraj Shah from Shah Investors.

Viraj Shah: I just had one question. Sir, within which segment we have seen outperformance in Q2, any uptick in washing machine category because of rainy season?

Karan Bajaj: So usually, you would expect that the monsoon would bring us higher sales in dryers and washing machine. But this year, it was more or less flattish or a little negative, I would say, down by 1%. Even refrigerators and washing machine, both categories were negative this quarter. So that was a surprise for us. But then a lot of reasons for that. The whole industry was actually down by a higher number in that category. But then especially in Hyderabad, where our base was quite high for washing machine as a category, where we saw almost a 1% dip from the numbers in last year.

Moderator: Next question is from the line of Amish Kanani from Novice Investment Managers.

Amish Kanani: Sir, if you can give us some flavor of the growth, of one, which is a slow growth in the quarter and slightly better growth post the quarter in the Diwali season within mobile, large appliances versus small appliances; which one was a slow growth area in Q2 and which is the kind of, say, area or category which has picked up post Q2 where this Diwali season is looking fine for us.

Karan Bajaj: Amish Ji, not only Q2, but last 6, 8 months, the major -- the usual the growth that we've seen in the last 5 years, majority has come in from mobile phone as a category being the highest growth category individually, there is some slowdown. Mobile, which was growing at 20%, 25% in the last 5 years, now we see a 10%, 12%, 14% kind of a growth only. So that has reduced a little bit. But apart from that, large appliances have been a little flat. Television has seen decent growth. Laptops have seen a decent growth. Kitchen appliances has seen a decent growth. Other categories have seen like audio, specialized audio, all of those things, hot chimneys, those categories have seen a decent growth.

But overall, the mobile phone last 5 years, it was a growth, especially after the 4G, 5G rollout, that growth we've not seen in the last 6 months. So that is a little slower compared to what our estimation on mobile as a category would be.

Amish Kanani: That has kind of picked up post Q2? You're saying there's some sign of growth coming back.

Karan Bajaj: See, nothing. Diwali usually is a mix of all product categories, and it had the majority of the new launches during this period as well. Usually, mobile sales are driven with a lot of factors, especially new launches, new technology changes or some new features in the phone, like AI is the new thing that everybody is talking about now and AI starting at INR30,000, INR40,000 in basic phone also has become a good feature for it to sell better. So the adaptation of AI in the coming times or some better features coming in will definitely have that improvement in purchase of new devices.

Mobile phone as a category runs on 2 major conditions. One is either a really good feature or a new technology change or the upgrade cycle has to get better, whereas upgrade cycle there might be a little delay. And especially with the premium phones and the better quality of phones, we see the upgrade cycle being a little slower compared to the historic period of 12, 14 months. It has increased by a little more higher period this time.

Amish Kanani: Sure, sir. And sir, the second question is about NCR region versus Telangana and AP region. I understand there is relatively newer stores and you would expect that to pick up. Any discernible trend change in, say, similar 2- to 3-year-old store in NCR versus Telangana and AP region? Or is the NCR as a region is as profitable as South region for us?

Karan Bajaj: Right now, firstly, the most important task there was to understand the market and deliver a similar store throughput. So we are quite confident that first, we achieve a benchmark of INR25 crores, INR30 crores in year; 1 in the NCR region. That is what we are looking at right now. And the productivity for the first set of few stores that we opened up in the last 24 months or last 18 months, which are mature now, those stores are in line with what we would see in the Southern cluster.

But Delhi as a whole as a brand being very new there for us, we wanted to give it a little more time for it to start delivering us the numbers. It will be too high of expectation from our group to understand within the span of, say, 3 years or so, we start delivering a similar number that we do in South, whereas the brand is quite new, the customer preferences are a little different there.

All those things were a learning curve for us in the first 12 months, and we try to fix them and try to go from them. We see a positive growth coming in there. So we look at a very small base are done, now that growing at 40%, 50%, 60% is still a smaller number for us. We would like to create a bigger place in the going time in that region as well and start dominating that market, at least with a bigger market share than what it is currently at.

Moderator: We have a question from Rajiv Bharati from Nuvama.

Rajiv Bharati: Sir, regarding this North cluster, so for the quarter, we'll be having EBITDA pre Ind-AS loss, right?

Karan Bajaj: Sorry, I didn't get you.

Rajiv Bharati: For the quarter, for Q2, at pre Ind-AS level in the North cluster, there should be a loss, right?

Karan Bajaj: Pre Ind-AS level, exactly right, Rajiv. So there would be a decline in it because when we calculate the EBITDA post Ind-AS, the interest, the depreciation or the rental would get marked post EBITDA.

There you would see a little decline there compared to the previous quarter, but like looking at this quarter because the productivity also was a little lower compared to the previous quarter of Q1 or Q4. So then automatically, you will look at a lower number there. So that is true -- what you said is true. But then spanning out for quarter 3, quarter 4, we are in line with our expectation of being positive in that region as well.

Rajiv Bharati: When I compare this against, let's say, your South cluster where you mentioned that the SSG is, I mean, low single digits. There we have still seen we kind of held ground on the cost of retailing bit and the margins are largely stable. So this is -- you're saying it's purely the rental line item which is creating that. Above that, everything else is...

Karan Bajaj: Rajiv, what happens is that like, for example, there are almost 7, 8 properties which are not operational in Delhi as a region, for which we've already capitalized a lot of expenses. The interest has been booked because we bought these properties out and they're quite expensive property. So if you calculate all this, the cost is higher than the actual operational cost that we -- without operations that we are bearing that cost on the balance sheet with the existing operational stores.

So the non-operational stores are also very high in numbers versus the operational stores. So like in Hyderabad or in AP, Telangana region, when you open 130, 140 stores, even if 3, 4 stores are getting made, the cost doesn't impact our margins drastically, whereas in the North cluster, the base itself for operational stores is very low versus what is getting under construction today are almost 40% of the same base. So then the cost also gets negated towards the operational stores.

Rajiv Bharati: Sure. And just because your North -- the South cluster is largely static, this 70 basis point drop in gross margin, is can be purely because of the mix of this North or, let's say, in South also, we have seen a decline as well?

Karan Bajaj: No Rajiv, I would not attribute it to North-South or a particular category mix. If you see, it was a onetime quarter where you would see that kind of a dip in gross GP, whereas the product mix more or less was in line what we expected. The mobile usually in this quarter go up a little bit. The productivity from other categories were also same.

We do not see majorly, only large appliances like refrigerators and washing machines saw a little degrowth there, but apart from that, not major concern where we would try to tweak something or be worried about something. I think it was just one-off quarter where the margin got declined. Actually, if you see the whole half year also, it is down by 0.3%, 0.4%. So not much of a concern area as well.

Rajiv Bharati: So the only bit is as and when North clusters proportion increases, the gross margin would not dip. Is it safe to assume that?

Karan Bajaj: Not really, because on a INR1,400 crores, there is a contribution from North Cluster would be hardly INR80 crores. So if you see in that context, it is a small contribution.

Moderator: We have next question from the line of Omkar Chitnis from Trade Brains Private Limited.

Omkar Chitnis: Sir, previously, I got disconnected because of network. My question was how many stores are profitable as of now?

Karan Bajaj: Omkar Ji, actually, I didn't know that your call had dropped. Sorry for that. So Omkar Ji, if you look at how -- so only the stores that we opened in the last 6 months or so, only those stores will be starting off doing operational breakeven, whereas your cost for rentals and all would get covered at 4%, 5% EBITDA margin kind of a thing.

But overall, if you see, there are no stores in red, only it is a one store that we expected it to get in red in the next 12 months or so, which was in a mall because of the rental escalation going up drastically. We have shut that store. Apart from that, no other store of ours is into red where we can -- we are burning money to run that store. So we don't run stores in that manner. So all of our stores are positive.

Only Delhi as a cluster or North as a cluster definitely is much lower in terms of profitability today because a lot of other expenses are getting added to that cluster where the base itself is so low. Apart from that, no other store, no other cluster is in red or I would say that no other cluster is in a worry of our concern where we have to start shutting stores or looking into the profitability of those stores.

Omkar Chitnis: Understood.

Karan Bajaj: The margins would like -- the mature stores in Hyderabad will give you 8%, 9%, 10% kind of an EBITDA, for example. The newer stores will start giving you 2%, 3%, 4%. So blended would be at 8.5%, 8.1%, 8.2% kind of a number.

Omkar Chitnis: Okay. Okay. Sir, as you plan 25, 30 stores going ahead, so are you planning for any QIP to fund those stores?

Karan Bajaj: Sorry, can you repeat your question?

Omkar Chitnis: As you guided for 20 to 30 stores for FY '25 going ahead, so are you planning for any QIP for that?

Karan Bajaj: No, nothing of that sort, Omkar ji. Right now, with our internal cash flows and the lines of debt available with us, we are quite comfortable for the expansion. There is another INR20-odd crores left for our capex money that we had raised during our IPO back in '22. So that also another INR20-odd crores is left with us for our further expansion of capex. So money is there. So no worries on that.

Omkar Chitnis: Okay, sir. My last question is on the Slide 6, I saw that there is 0 sales from online. From last 2 years, we are not making sales from online. Our competitors are going in online aggressively to tap a smaller market. What is our plan for that, sir?

Karan Bajaj: Omkar Ji, historically also, we never were a direct seller for our consumers online as well. We never used to sell from our own portal. So what you see online is on the marketplace of Amazon, Flipkart. So usually only when a brand that we sell like a Samsung, LG or Sony or Apple, whoever it is, is only if they authorize us to sell something online, we sell online. So not that we sell online throughout the year or we sell a lot of products. So there are hardly any listings of online category, and that is only after the approvals of the bigger brands. So we don't intend to go online and sell online until and unless they ask us to do that.

Omkar Chitnis: Okay. What is about tapping the Tier 2, Tier 3 cities, sir?

Karan Bajaj: Sorry, can you repeat your question, Tier 2?

Omkar Chitnis: How are you tapping Tier 2, Tier 3 cities audience?

Karan Bajaj: Yes. So with our stores, so definitely -- if you see our stores, almost 50% are in Tier 2, 3 and 4 towns as well. So in the cluster where we are growing right now, we would see good growth coming in from those clusters, but probably a different category, a little more smaller store size, a little more aggressive or differential marketing there because not necessarily that print and radio would work in every cluster there as well. So all of those things are taken care of, and we see good demand coming in from those areas as well.

Omkar Chitnis: Okay. But as you mentioned, strategy, sir, in the case of exclusive brand outlets, are you going for any ownership and operation model type?

Karan Bajaj: No, sir. Exclusive brand outlets will be only for brand like Samsung, LG, Apple. So only after they would suggest us to open in any of the regions, we will do that, but that is not a key growth strategy for us going forward as well. Probably you might see 1 or 2 stores opening up under the EBO format. apart from that, we don't intend to open EBO formats at all.

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

Karan Bajaj: I would like to thank all of you for joining the call. I hope that we were able to answer all your questions. And for any other queries, you may get in touch with us or Mr. Deven Dhruva from SGA. We'll be happy to address all your queries. Thank you once again.

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