

# Avenue Supermarts Limited

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2<sup>nd</sup> August, 2023

To,

**BSE Limited**

Corporate Services Department  
Phiroze Jeejeebhoy Towers,  
Dalal Street,  
Mumbai – 400 001

**National Stock Exchange of India Ltd.**

Corporate Communications Department  
“Exchange Plaza”, 5<sup>th</sup> Floor,  
Bandra – Kurla Complex, Bandra (East),  
Mumbai – 400 051

**BSE Scrip Code: 540376**

**NSE Scrip Symbol: DMART**

**Sub: Transcript of Analyst/ Institutional Investors Meet 2023**

Dear Sir/ Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of conference call with Analyst/ Institutional Investors held on 26<sup>th</sup> July, 2023.

The transcript is also available on website of the Company at <https://www.dmartindia.com/investor-relationship>.

Kindly take the same on record.

Thanking You,

For **Avenue Supermarts Limited**

**Ashu Gupta**

**Company Secretary & Compliance Officer**



## “Avenue Supermarts Ltd. Investor Conference Call”

**July 26, 2023**



**MANAGEMENT:**      **MR. NEVILLE NORONHA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER,**  
**MR. RAMAKANT BAHETI -- GROUP CHIEF FINANCIAL OFFICER**  
**MR. NILADRI DEB – CHIEF FINANCIAL OFFICER**  
**MR. RUSHABH GHIYA – INVESTOR RELATIONS**

*Disclaimer: Transcript has been suitably edited to convey appropriate context and meaning (Including grammatical and language corrections)*

**Moderator:** Ladies and gentlemen, good day and welcome to the Avenue Supermarts Limited Investor Call.

As a reminder, all the participants' lines will be in the listen-only mode and anyone who wishes to ask a question may enter "\*" and "1" on their touch-tone phones. To remove yourself from the question queue, you may press "\*" and "2". 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. Rushabh Ghiya. Over to you, sir.

**Rushabh Ghiya:** Good morning all. Welcome to our Annual Conference Call. I have this morning with me our senior management team, Mr. Neville Noronha – our MD and CEO; Mr. Ramakant Baheti – Group CFO; and Mr. Niladri Deb – CFO, ASL.

We will follow our usual process, where Neville will take you through the investor presentation which was uploaded last week.

Before I hand over the call to Neville, I would just like to draw your attention to the safe harbor statement, and then I will request Neville to first take you through the presentation and then we will open up the floor for Q&A. Over to you, Neville.

**Neville Noronha:** Good morning everyone. As it is every year I will give more time for Q&A. I will run through the presentation which has already been uploaded.

Page #5 – Like we have mentioned our general merchandise and apparel contribution has been lower than the past trends while food and non-food FMCG are more or less trending on similar lines. There has been a higher impact on the downward side on the general merchandise and apparel sales contribution. And consequently, that is why our gross margins have reduced in the recent past. Our cluster-based expansion strategy continues. We constantly focus on this lever of operating leverage, which comes by having more and more stores in the same region, and that continues. We added 40 stores in this period and it is more of the same.

Page #7, DMART Ready: This is our e-commerce business model which is housed under Avenue E-commerce Limited. We added 10 cities, but the additional city locations have not added to that extent in incremental revenues because the structure or format in which we operate is more like a pilot and hence we are still in a work-in-progress approach in the new city operations. We continue to believe that grocery e-commerce has tremendous opportunity in very large towns and vertically, densely populated towns. And we continue to

have that belief, and hence to that extent, our focus will be more dominant on the large towns of the country.

Page #8:

Again, it shows the trend line of the number of stores that we have opened. Financial year '22 shows 50 stores because that was more of an overlap of delayed openings of '21. In '23, we opened 40 stores. I have spoken a lot on our real estate strategy and the reasons why we cannot accurately predict how many stores we will open in a year, but our intent and objective is obviously to maintain a run rate of the past. That's a broad point of view there.

Then we go to operating and financial summary performance, again the format, the structure, all remain the same. Total bill cuts have moved from 18.1 crores to 25.8 crores. We do like-for-like growth for 2 years and that has been 24.2%. But I think the more critical point to note is; which I have mentioned in my comments in the quarter ending Q4, where I had said the like-for-like for 6 months was, I think, 11%. That's the more comparable number that had least COVID-19 impact and it is a more comparable number where like-for-like was 11% for the second half of the last financial year vis-a-vis the year prior to that.

Again, we added 1.9 million square feet, and sales per square feet is at Rs. 31,000. This is primarily because the store sizes are larger. We are quite satisfied with our recovery except for.... I am sure there will be a lot of questions on general merchandise and apparel contribution, but other than that, I think we are pretty confident of the business. All COVID-19 related issues are behind us. We are very bullish on the brick and mortar business, and we continue to focus in this area. We believe that there is a huge opportunity to do better and better in the brick and mortar business. So, Rs. 31,000 revenue per square feet is more a factor of larger stores being opened in the recent past. Otherwise, from an ROI perspective and overall performance perspective, I think we are placed pretty well.

Page #11, again, more of the same. We have done Rs. 41,800 crores of revenue, EBITDA is 8.7%, PAT of 6.1%, and net cash flows of Rs. 3,113 crores. I think it is quite stable and we are quite pleased with what we have done.

Page #12, Days Inventory: That's an interesting data point. It has come down from 36.5, then 33.3 days to 28.8. I would like to spend a little bit more time there. I think that is the beauty about our model. Our ability to be agile and flexible, it's automatic. So if General merchandise and apparel which tend to have more inventories, if that is not doing too well, the inventory by itself also gets corrected and because the contribution of food FMCG and non-food FMCG increases and hence the mix of inventory also changes. That's why the number of days has come down.

On fixed asset and inventory turnover ratio, again, we are slowly inching back to our pre-COVID numbers. In fact, it is getting better with time. And obviously, return on net worth and return on capital these are all self-explanatory numbers, but I think the trend line everywhere is coming back beautifully to the pre-COVID levels and we are quite happy with how we are trending on that front.

I will jump to Page #14 which is a more interesting slide. Page #13 is all self-explanatory, but I would like to spend some time on the e-commerce business. Our view is that all the worries that we had about how much money we are going to lose and how this business is going to trend is actually 90% gone. We are quite confident with our ability to run the e-commerce business. And we feel that it is not an either / or. The e-commerce business or DMART Ready business can draw out its own path and build the business on its own, having the tech mindset and approaching the market from that point of view. Probably another 2 to 3 years will tell us what will be the cost side and the margin side impact on this business. The one thing I feel about grocery is that the grocery business, if run well on the e-commerce side cannot lose too much money, unlike the marketplace. And I think that is a huge positive for us. All the anxiety that we had about how much money this could lose has actually gone. We know now that it can't lose too much of money. How much money will it make? That we cannot comment. Broadly I can say it will be driven by what are the gross margins we will make in this business, which is quite challenging. But the cost of operating the e-commerce business will be relatively more than running a brick and mortar business. The fact that the order is being picked for the customer and being delivered to the customer at a more convenient location, either at her home or closer to her home, is going to cost more than running a brick and mortar business. That's the broad view that we have. So, from that standpoint, I thought I should comment on the e-commerce business.

The Food Plaza business is basically all the food services. We see an opportunity there. The Food Plaza business helps in making the brick and mortar business stronger and similarly the Align Retail business which is again a subsidiary manages all the staples business. We also believe that that's another area that has immense potential and opportunity to make the brick and mortar business stronger and stronger. And then, we have also started up a pharmacy business which again the whole principle is it complements well with the brick and mortar business and hence we are also paying attention to that side of the business.

With that, thank you for listening and we can open for questions please.

**Moderator:**

We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

We have the first question from the line of Avi Mehta from Macquarie. Please go ahead.

**Avi Mehta:**

I wanted to first start with the general merchandise and apparel segment. Now, in this quarter, you had highlighted specifically the general merchandise has recovered, but it seemed that apparel is yet to bounce back. The question that I had is, would you believe that online peers like Myntra or offline peers like Zudio are able to wean customers from our apparel offering? And what are we doing? Is that a concern for you? Or if you could kind of just spend some time to help us understand what is missing or what is hurting the growth in this segment?

**Neville Noronha:**

I would say it in two ways. Let's look at it this way - external and internal. I think externally, we all know what's going on. I think the whole country has suddenly figured out that this is a space that has a huge opportunity. And you have a lot of players who are trying to get into this space - this typical 1,000 bucks and below price point, more focused around Rs. 500 to Rs. 600 price points. And obviously, earlier, in that segment you had fewer players. So, obviously that is one area definitely. There is a lot of activity happening there and people are getting more choices. And when they have more choices, obviously it has an impact for us. Another complement for our model is that because we drive so much of traffic, there is a clear mandate - we see that a lot of these formats open very close to where a DMart store is. That's the second thing; these are both external, which are happening. And internally, I think probably apparel may not be the best aligned category compared to, say, staples or general merchandise. I think from an aspiration standpoint for a supermarket or a value retail grocery retailer, apparel may not be seen or perceived to be that aspirational compared to general merchandise or buying food or all of that. And that is an accepted norm if you do any consumer psychology testing on all these aspects, that clearly comes out. Now, considering that, considering what is happening and the market getting more efficient, what is it that we need to do internally? And that's where my question is. I think we need to do a lot of more work internally. I think from an internal structure standpoint, people standpoint. On the apparel category management standpoint, I think there have been some opportunity misses or the quality of thinking that is needed on what we should do has got a bit lost. And I think we need to work really hard there. And our view is that we can't be what somebody else is trying to be. We are very clear that we are first a grocery format retailer. And within that, how do we position apparel? I can't be a lifestyle discounted retailer of apparel, specialty value retail. I can't be that. I am a grocer first. Within that space, what is the opportunity I have? I think there is still a huge, huge opportunity to address in the basic segment and we are working on it. We are approaching it from a perspective about anything that is very low on high fashion but very basic, great value, immense value applying the principles of DMart. Like I always say that if you want to wear a T-shirt to be worn at home or you want to wear nightwear which you wear at home or you want to go to a local bazaar to do some shopping, you need some apparel or footwear, you come to DMart. But if you want to go to a five star hotel or you want to go to an expensive party, DMart is not the destination to buy apparel. We are very clear about that. I think somewhere there, we have to be more precise and we have to fine-tune our assortment more effectively from that standpoint. I think with that, we

should be fine. And I also think that our conversation should not be binary, i.e., general merchandise and apparel. Apparel should not be the issue. I think the ecosystem around non-FMCG and what are the other saliences that we can have by adding more and more horizontally into the format is something we should think about. That's the longer term opportunity. And that is why, if you remember, I have been saying that the opportunity of having larger stores is it allows you to experiment. It is not just about apparel not doing good. In the longer term, quite likely, apparel will continue to have a lesser contribution to our business, and that's okay. I hope I have been able to answer the question.

**Avi Mehta:**

As a simple follow up, in terms of the general merchandise and apparel total sales, would it be fair to say apparel is a relatively small component of it or an equal component? Any idea? Just to kind of understand the extent of how much this track can be, at least from a near term perspective? Because, I hear you that there is a portfolio work that you are essentially doing to better address that opportunity, but if you could give us some understanding of the extent of this salience.

**Neville Noronha:**

I cannot comment on that, Avi. All I can say is that between the two, apparel has a lesser contribution. That much I can tell you.

**Avi Mehta:**

The second bit, if I may, you had highlighted in the last meet that quick commerce is not a concern for us from a brick and mortar. a) If that thought continues? b) Are you thinking of exploring that space through DMART Ready? Because, there is a clear consumer need. And I remember your earlier comments that you said we will go where the consumer is. I just wanted to understand this better.

**Neville Noronha:**

I think we are in a very sweet spot, Avi, from an e-commerce perspective. The way we are doing our brick and mortar business is also how we are looking at E-commerce in terms of ensuring that the customers buy more and more. So, our focus is on increased basket values and a focus on customers continuing. Every time he or she buys on DMart Ready, her basket value has to be large enough. When we are focusing so much on that, going the quick commerce way.... Let's put it this way. Instead of ordering twice a month, if she starts buying 6 times a month or 7 times a month, but the basket values are sizable, happy to service her. If you call that quick commerce, fine, let's call that quick commerce. But we all know what real quick commerce is, right? It is a lot of impulse. It has a lot of low ticket value items. It is all about delivering in the next 30 minutes. I don't think we are focusing on that space. We are focusing on bulk. But we see an opportunity in delivering early. Earlier we used to deliver on an average, maybe 50% of the orders in 24 hours. Now we are saying 100% should be in 24 hours. Then within that, if you are saying, how much of this can be delivered in 12 hours? I think delivering in 12 hours is a good vision to have considering the size of the order we have and considering the assortment of the orders. When a customer on DMART Ready is shopping, she is not expecting the order in the next 30 minutes or 60 minutes. Because, there

is heavy stuff, buying a lot of groceries. It is like her monthly shopping and she gets great value and she also uses other apps to get her stuff quickly. But we will focus on the bulk as of now, Avi.

**Avi Mehta:** And sir, if you may allow, just the last bit. Any change in discounting from peers? Anything that if you are seeing reckless discounting kind of emerge from the other offline or online peers?

**Neville Noronha:** That continues. Our margin is a reflection of the benchmarking that is operating in the market. And I think nothing much has changed like-for-like from last year to this year. I think it remains the same.

**Moderator:** The next question is from the line of Garima from Kotak. Please go ahead.

**Garima:** Neville, first question again on general merchandise. At some level, do you think it is unfair for us to assume that the contribution of general merchandise to your overall revenue mix can actually go back to pre-COVID levels or should this just find a new intermediate normal?

**Neville Noronha:** It is a good question, Garima. When I look at our very old stores across the country, when they started.... I have responded to this question even in earlier analyst meets, but I will say this again. Whenever these businesses start, whenever these locations start, the non-FMCG contributions, i.e., the general merchandise and apparel contribution are higher. And as they mature, the contributions of general merchandise and apparel reduce. It has been a secular trend for the last 20 years. And why does that happen? That happens because when you open a store in an area which is fresh, new, first-time DMart, you tend to get a lot of people from a larger radius and then they happen to be there, they buy groceries but they also buy a lot of general merchandise and apparel. Over a period of time what happens? People who are more closer to the store, their shopping becomes more intense. Their frequency is more intense. The more frequency and more the shopping intensity, automatically they are not going to buy the same percentage or the same contribution of general merchandise and apparel. They tend to buy more and more of groceries. As my revenue keeps growing at a healthy CAGR every year, there is a higher revenue share of FMCG than of non-FMCG. From that perspective, yes, but if you ask me today, as of this year from a general merchandise and apparel perspective, should I take that view and say, oh, there is no issue? Not really. We do have an issue in apparel specifically. I also commented in my Q1 comment that probably general merchandise was more of a COVID-19 issue and a lot of other things and we have got it back more or less. It is coming back. But apparel is an issue for the comments I made just recently, and we have to work on it.

**Garima:** Can you talk a little bit about the cohort of new large-sized stores, particularly stores that have opened in relatively new areas such as parts of NCR, Punjab, etc.? Are these stores, from



a throughput and store economics perspective, behaving generally similar to your older stores in geographies that you have understood very very well?

**Neville Noronha:** With both Punjab and NCR we are quite delighted. Store economics are trending similar to how we used to trend in other regions when we started for the same tenures. We aren't having any issues there. We are quite happy with the outcomes. No issues in NCR or Punjab.

**Garima:** And third question quickly on e-commerce. Could you highlight the performance of this business within Mumbai? Because, this is your sort of longest performing geography. How much of your revenue is being contributed by Mumbai? In terms of profitability targets, do you expect this business to break even in Mumbai anytime soon?

**Neville Noronha:** That depends on how you define breakeven. Different people have different views on breakeven. For us, breakeven is at the PAT level considering head office cost, everything. From that standpoint, I can only comment one thing, Garima, that MMR region is better than the overall company.

**Garima:** Overall company meaning Avenue e-commerce?

**Neville Noronha:** Yes, Avenue e-commerce. I think Avenue e-commerce has a loss of negative 8.79% on revenue. Mumbai obviously is better than this. That is all that I can say at the moment.

**Garima:** But the majority of the revenues would still be Mumbai. Is that fair to assume although you have added a large number of cities in, say, the last 12-15 months?

**Neville Noronha:** Yes, the majority of revenue is from Mumbai. But the operating losses in the newer regions are significantly higher because when you start up....

**Moderator:** The next question is from the line of Arnab Mitra from Goldman Sachs. Please go ahead.

**Arnab Mitra:** My first question was on the relatively lower salience of GM and apparel. Neville, my question was, does this in any way affect your ability to offer lower prices in grocery while maintaining your gross margins or are there other offsets like potentially higher scale giving you better margins from your suppliers which will allow you to maintain your gap with competition on pricing despite having lesser salience of the high margin categories?

**Neville Noronha:** The answer is it has no bearing on our ability to compete. And that is why the gross margins have come down. There has been no attempt internally to say, my contributions are lower here, so I am making lesser margin, so I will raise prices or I will hold prices, I will not compete; absolutely not. And that's why gross margins have come down. And you see the numbers, right? With the PAT we have, there is no worry. From a competing standpoint,

there is nothing to bother about. It is just that PAT will go down. PAT as a percentage to revenue will go down. So, what? But we will compete.

**Arnab Mitra:** Neville, second question was, if I look at your overall bills cut, this is one number which before COVID used to grow at 20% to 25% every year. That seems to have on a 3-year CAGR basis grown at more like 8% to 9% in the last 3 years, pre and post COVID. Anything that you read into this? Are there less customers? Because, your store space addition has been similar. Is the pace of new customer acquisition even in grocery reduced or how would you read this data point?

**Neville Noronha:** The only broad point we look at Arnab is that over the last 2 to 3 years, we have opened a lot of stores in smaller towns. And like I have always mentioned, smaller the town, lesser the cost of real estate. Overall investment is lesser but even the revenue is low. Therefore, the number of bills are lower, walk-ins are lower. It is a mix of new store additions that is making you look at the numbers that way, which is a fact, but it is primarily because.... Let me put it this way. I think 5 lakhs and above towns (*to be read as 10 lakh and above population towns*), we used to have 68% of stores, say, 3 years back. It has come down to around 60% now. So, 40% of our stores are below that. Broadly, we have opened more stores in smaller towns. That is why the numbers look like that.

**Arnab Mitra:** And my last question, Neville, was on store opening. As you mentioned, you probably want to maintain the run rate of 40 stores a year. Given the opportunity size - I think you last time mentioned more than 1,000 stores potential that you see - is there any internal way you could accelerate this addition? Because, your base of stores is higher. So, as a percentage of base, the addition is actually slowing down if you do not increase the number of stores.

**Neville Noronha:** The one single point mandate is store addition. I think from a business model standpoint, everything is fine, just store addition. That is a single point agenda.

**Arnab Mitra:** My question was 40 per store a year is not a constraint in terms of your internal bandwidth of adding stores?

**Neville Noronha:** Not really. We have to work harder is all I can say. But yes, it is a huge opportunity and we have to accelerate our ability to acquire more stores. It is a huge effort; 40 stores every year, the amount of work that goes by. But we have to do it. That's the single point agenda now for us. All other levers are ready to fire. Our ability to run the stores, our internal processes, systems, tech, everything is ready. It is all primed. We just need to open more stores.

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

**Sheela Rathi:** Just extending to the previous participant's question with respect to stores. Neville, the first question is, is availability of good land parcels a bigger concern or availability of employees a bigger challenge for us?

**Neville Noronha:** Obviously, land is a bigger issue. Now, because land is a bigger issue, then you have to have a solid team to get those properties. But when land itself becomes an issue, then it has an exponential effect. Everybody is chasing the same resource to have great expertise on this, and hence having a large number of people who have that expertise and to convert or close deals is a challenge, but we are working on it. But land is an issue, not easy. That is why very few retailers do this in India.

**Sheela Rathi:** Sorry, could you repeat that?

**Neville Noronha:** I said that is why very few retailers do this; acquiring land or building stores. Generally, the reason why a lot of retailers go to the lease model is because this is a difficult area to handle.

**Sheela Rathi:** But from a near-term perspective, are we seeing challenges with respect to getting more people in our workforce? We have always maintained a 20% to 80% ratio with respect to contractual versus permanent employees. Are we looking to change that?

**Neville Noronha:** The structure of the model remains the same on all elements of the business.

**Sheela Rathi:** Neville, my second question again is on the GMA bit. You said that we are grocery first. If we believe that the focus on GMA could be modified and could be different from the past, are we willing to say that the gross margin profile for the business could be different and instead of 15%, could be 13% or 14%? Is there something which worries us or are we thinking about that in some way?

**Neville Noronha:** I can't comment on that. All I am saying is whether it is 16% or whether it is 12% or 13%, the business is resilient; the business is adaptable, agile. The key point is being relevant to the customer with the positioning of value. We shouldn't disturb that. How a consumer or a shopper thinks about DMart, that shouldn't get disturbed at any cost. So, our view is we think from that standpoint, and within that whatever is the outcome is the outcome. Our direction to the team is this - at the operating side and the merchandising side - this should never be disturbed. And then the operating side operates the business efficiently. The merchandising team then figures out what should be sold and at what price and what margin. That's it.

**Sheela Rathi:** And my final question was with respect to DMART Ready. I think, Neville, you sounded much more positive with respect to the e-commerce business this time versus the past. What has changed? I am one of the consumers who get the twelve-hour deliveries. I am very happy about that. But is scaling helping us to be more confident that we can be profitable at some

point of time? Or is there some strategic change which we have done that is helping us to feel more confident?

**Neville Noronha:**

I was just joking with my team today morning that for all the tech that we talk about in the e-commerce business, at least for grocery, actually there is more manual labor involved than a brick and mortar business. Because the effort involved in picking the material and delivering it to the home, actually that cost element and that people management is a significantly larger effort compared to the brick and mortar business. And secondly, I think even from SOP and process orientation, people think that brick and mortar business has more. In fact, that is completely wrong. The e-commerce business, especially on the grocery side, the level of precision that you need from a standard operating procedure is at a different level because somebody has ordered something 12 hours or 24 hours back at a particular time slot and they want it. The lag between ordering and actual delivery is like 12 hours or 14 hours. It is not immediate. When you shop in a store, you are picking the stuff and you are getting it billed. You are billed exactly for what you have picked. If you make a small mistake, there could be 1 item short or 2 items short in practically every single order, right? So, I think from a sheer operating principle standpoint, the e-commerce business is actually significantly more complicated on the operating side and the people side than the brick and mortar business. That was also one of the thoughts we had that if this has to be done really well, then we should be able to do it because we are supposed to be good in process optimization, efficiency, all of that. And I think from that standpoint, we are more confident today that we can run this business using the same principles with which we run the brick and mortar business. Secondly is the tech side of the business. I think we have a marvelous team, fantastic. They have done a brilliant job. They complement and they are at the forefront of this business because how they imagine and how they think about running it is very different from how we think. And hence keeping this business separate has helped us a lot. It's a complement; it's a win-win on both sides. That's why we are more confident. And from a financial standpoint, we are more confident that we won't lose too much money. That's why the confidence.

**Moderator:**

The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.

**Latika Chopra:**

Let me continue with a bit on the e-commerce. I just wanted to understand, you are currently in about 22 cities. Would you look to expand to more cities or you will want to scale up operations in new cities first? And as far as the revenue share is concerned, on a consolidated basis, though it is a single digit share, but for Mumbai, is e-commerce or DMART Ready now has a double digit revenue share and does it in any way is starting to influence your physical store expansion plan?

**Neville Noronha:**

I think we would now take a pause and focus on these cities and try to scale up within the existing cities rather than move into other cities on the e-commerce side. As far as cities like

Mumbai are concerned, that is a very interesting point. I think that is also something very fascinating. In spite of a decent contribution coming in from e-commerce in Mumbai, our Mumbai stores are also doing well, they haven't declined. We haven't got incremental revenue on e-commerce at the cost of the brick and mortar business, which is also telling us that these are probably two very.... while there will be a little bit of an overlap, but we have two different need customers that exist. There is a huge cohort of customers who like DMart but probably are not shopping in DMart and they are now all going to DMART Ready.

**Latika Chopra:** How are you getting the mix now in terms of home delivery versus store pickup? And is it possible for you to share the count of DMART Ready stores pickup points?

**Neville Noronha:** Pickup points have been mentioned. We don't split the revenue between the two. Our view is both will coexist, both are equally important for us, and we are focusing on both right now. There could be an opportunity to calibrate pickup points a little bit more so that the operating leverage that we desire from pickup should kick in. As a service, it is great, but at a financial modeling standpoint, it should work. If it doesn't work, we will scale it down. To that extent, we are calibrating it, but we will focus on both channels.

**Latika Chopra:** Neville, any updated thoughts on private labels and on customer data leveraging now that you are collating a lot of this data through DMART Ready?

**Neville Noronha:** Our position remains the same. The private label comments remain the same. It is a long game. We are doing fine. It is good. But we have to take a 10-year horizon probably in terms of how we want to build it. The team's focus is primarily on building great quality at great value.

**Latika Chopra:** But wouldn't the share be increasing given the focus in smaller towns? I would assume, because the customers might be a little more price conscious there. Private labels could be doing better. So, on an aggregate basis, is the share rising for you, even if gradually?

**Neville Noronha:** Marginally, but not really. Nothing for us to have a different strategy for small towns. Not really. I think this model is great if you have just one approach across all stores. It is more efficient, especially for private label strategy.

**Latika Chopra:** And nothing incremental on customer data leveraging?

**Neville Noronha:** No, not yet.

**Latika Chopra:** The last one is this miniMAX store format. Any feedback? Experience? Expansion plans here?

**Neville Noronha:** Again, it is a test. We imagine this format to play a deeper omni-channel role in high-cost real estate places like Mumbai or Pune. We are just testing it. You buy from the store, you pick up

from the store. Both these options are made available. We are testing it from that standpoint.

**Moderator:** The next question is from the line of Vivek Maheshwari from Jefferies. Please go ahead.

**Vivek Maheshwari:** A few questions. First, Neville, going back to the same, store additions. If you are talking about 40 store additions, that implies about 11% to 12% on your base of stores right now. If you take a 3- to 5-year view, where do you think you will be happy? Shouldn't this number be more closer to 15% or even higher in the context of opportunity? You have, I think, spoken about it in the last analyst meet also, but how about long leases if you can get those? Are you still averse to making that a reasonable part of your total additions?

**Neville Noronha:** I had commented last year also. Now it is not really about lease versus buy. The challenge is getting 30,000 square feet to 40,000 square feet store, especially in the structure and form that we want. We would love to go to malls but we don't go to malls because of the ridiculously high rental costs. In fact, we were just discussing this over the last few months. If you see now, the funny part is in a lot of cities, especially in the large metros, I think the malls have become more and more premium in look and feel compared to earlier and it is exactly opposite to what we want. I think someday the cookie has to crumble and we have to be invited or we should be able to operate in a mall is my belief, but at an appropriate price, because currently the rates are ridiculous. It is extremely high. The rental values are too much. That apart then what are we left with? We are left with standalones. Let me put it this way also that the real estate challenge is primarily in large towns from a land acquisition standpoint. And that is why you have seen that a lot of our stores have opened in small towns because it is easier to get properties there. But the point is the business is also in large towns. If I want a Rs. 100-crore plus revenue store or Rs. 150-crore revenue store or even a Rs. 200-crore revenue store, they are all available in large towns. I get my revenues very quickly there. And that is where the effort is needed. Like I said, we are ready. We are working hard towards it, but yes, it is going to be tough.

**Vivek Maheshwari:** Does that mean there is a period of, let's say in the medium term, there is a possibility that the growth rate really comes off quite a bit. Even if I just do a quick and dumb math of 10% to 11% store addition and 6% to 7% SSS, that means that you will be a 15% to 17% kind of growth company. Is that good enough for you, Neville?

**Neville Noronha:** I would love to do it better, definitely better. Not good enough for us, but if we get more stores, obviously we are ready to open more stores. Not good enough, obviously. Like I said earlier also, the single point agenda is adding more stores.

**Vivek Maheshwari:** As things stand today, Neville - forget about FY24-25, but whatever you can see 3 years out - can you add a 60-70 store sitting today? Is that what you can do or you still will stick with 40 number?

**Neville Noronha:** It is not to do with my ability. When we say our abilities, I will say 80% is our operating ability. We are ready to open 60 stores per annum. We have that ability. But from a market standpoint and opportunity of real estate, that pulls us back. Our ability, once we have acquired a property, to build it, get all the permissions and open it and then run it, 60 stores is very easily doable. We can do it. But will we be able to get 60 at a run rate level every year from the market for the next 2 years? I really don't know. Next year for sure it will not happen. I will also categorically mention that. We will not open 60 stores this year.

**Vivek Maheshwari:** One more follow up on the same question because this is important from our modeling standpoint. With all the excitement that I hear in my morning meeting around real estate and the property cycle, etc. There is a chance that the property prices may stay high. Whether commercial or residential, I am just equating everything together. Does that mean that hampers your.... Assuming that your real estate cycle stays as strong as it is in the next 3-5 years, does that mean that store additions at DMart could be lower than what the general expectations that investors have? Is there a risk on that front?

**Neville Noronha:** Because real estate prices are going up?

**Vivek Maheshwari:** I am saying let's say the markets remain as buoyant as those are right now and the prices remain as firm as those are right now.

**Neville Noronha:** While the real estate prices may go up, even our revenues have gone up. If you take a 7-8 year period of real estate prices vis-a-vis our revenues, I think if I look at it at a net-net level in large towns, I think our position is actually a little bit better than 6-7 years back from an ROI standpoint. It is just a question of getting those properties. Because of the typical nature of our buildings, it gets a little bit difficult. Let me give you an example of Mumbai. In Mumbai now because FSIs have gone up so much, we can make locations workable which were not workable in the past, because the builder has got that much more to construct. Earlier, FSI used to be 2 to 2.5. Now FSIs have gone further up. And then we can carve out a small space of 20,000 or 30,000 or 40,000 square feet at the costs that are currently prevailing in certain parts of Mumbai and we can make a DMart workable. But the sizing of our stores is very different. Getting that alignment with the developer ecosystem is a bit of a challenge. But from a modeling standpoint or availability or the current market price of real estate and our ability to buy at that price, I think we are slightly better than what we were 7-8 years back.

**Vivek Maheshwari:** The other thing is, Neville, with the deflation that we are seeing, FMCG companies taking down prices and that is an important piece for you and some of this may spread to as Pet Chem prices - I know those are still volatile - but if those go down, does that also concern you from a gross profit per square feet or per store basis? Those matrices may not look very good. So, how do you think about that?

**Neville Noronha:** Deflation impacting us negatively?

**Vivek Maheshwari:** That's right.

**Neville Noronha:** When you look at deflation as well as inflation, on both sides, we are pretty well poised if it is not excessively high across all categories. For example, let's look at edible oil today. There has been a decent amount of deflation that is happening. It has been good because there was excessive inflation last year. If you have excessive inflation or excessive deflation on very few categories, it is okay. We are just a pass through, right?

**Vivek Maheshwari:** Exactly. Yes.

**Neville Noronha:** So, it doesn't matter. When you have very large structural issues, then only it impacts us. Otherwise, either way, it doesn't impact us at all.

**Vivek Maheshwari:** Because you are a pass through, are you then suggesting in a deflationary.... Theoretically, the overall deflation - again I am taking a very stretched number, but let's say if it is -5%, are you suggesting that that will be offset by higher volumes and therefore the throughput as in in terms of gross profit per store or per square feet doesn't go down?

**Neville Noronha:** Every category or every item doesn't go through the same levels of inflation and deflation whenever we look at data. And we have a percentage markup principle. If prices go very high, then we also recalibrate our margins downwards. That is a continuous process. But in the larger scheme of things, there is no impact per se for us from a profitability standpoint because it doesn't affect every single category. My point is the blended average doesn't get distorted too much. Maybe a few basis points here and there.

**Vivek Maheshwari:** And two more if I may. One is, on slide #10 where you have revenue from sales per retail business area, if you look at FY19, 35,647 versus 31,096. Neville, if you just keep the stores constant as at 31st March 2019 and look at today's number from the same set of stores, is that number reasonably higher than where it was in FY19?

**Neville Noronha:** I don't know where the question is trending to, but I have not done the math the way you are mentioning. I think the better way to look at it, Vivek, is to look at SSSGs. SSSG has softened for sure but nothing is declining. Everything is healthy, growing. Like I keep saying, the older stores are close to inflation or slightly lower than inflation. Wherever these stores are not doing too well, it is primarily because you have another store opened close by. Otherwise, our belief is that we open larger stores just to accommodate more traffic for the longer term. And the second thing is also to experiment and try more and more categories in the non-FMCG space.

**Vivek Maheshwari:** Last question; I don't know, again, it is a fair question or not, but, Neville, with all the issues that we are seeing in general merchandise and apparel and if I just draw and again, as I said, pardon me if the comparison is not correct, but when I look at Meesho, around the same



time, Meesho has moved from zero or maybe half a billion dollar GMV to about \$4.5 billion dollar GMV. Is there a possibility that some of the DMart customers may be shopping general merchandise online because there is value and there is convenience also? Or that is a bit of a stretch in your view?

**Neville Noronha:** I have never claimed that we have exclusive rights on our shoppers. There is no sense of exclusivity at all. I am quite certain. In fact, in my own home, we try everything. And that's the way it is. That's the power of a free market. What else do I comment?

**Vivek Maheshwari:** My only point is general merchandise and apparel, is it a macro issue or is there....? You mentioned about competition in the offline space. And what about someone like Meesho who has moved from half a billion dollars or thereabouts to about \$4.5 billion in literally 4 years and provides convenience and value? I don't know the product quality, but at least pricing-wise is quite competitive. Does that worry you from a competition standpoint?

**Neville Noronha:** The only thing that worries me is that why am I not adding more stores. I don't know about others, but the market is so large, it is available for everyone. It is available for me. Whoever does whatever, 5x or 6x of revenue or maybe 8x of revenue. Great. Good stuff. Well done. But is it impacting me negatively? Not really. Is there a churn? Of course, yes. Some people are dropping off. Some people are buying less now from DMart. But I am also getting new customers who are trying me and buying from me. I am getting a set of loyal customers. The point to make is that the market is extremely large. When should I be worried? I should be worried if my overall business at a store level is not doing too well. And from that standpoint, like I have already commented, we are very confident in the general merchandise space. We have already more or less come back there. Our FMCG space is doing lovely. It is doing fine. The apparel, yes, we have work to do. It is a macro issue, but it is also an internal issue. We are working on it. And that's life. Some years you don't do well on certain things. You lose sight of certain areas. We are working on it.

**Moderator:** The next question is from the line of Amit Sachdeva from HSBC. Please go ahead.

**Amit Sachdeva:** Much of the questions have been answered but let me go back to general merchandise and delve a little bit deeper there. If I look at come what may, I think the DMart has a great appeal. There is a larger footfall and whether you like it or not, fashion has become still larger part of the revenue in that merchandise. And I would hazard a guess that probably you are still one of the largest fashion retailer in the country, which is organized even though you are not intending to be one. You are a grocery retailer and you want your choice to be very clear that you want to do those things that doesn't require high fashion content and offers great value, which I totally agree with. My question is that while the value retailing principles that apply to grocery wherein the consumer instantly feels that he is getting consumer surplus or getting delighted with the prices being offered and goods being standard he can compare

across, fashion and merchandise is not so much so. But I also observed that in this quest, the “Cheap Day” has become a little inferior because if the quality of goods was superior and the prices were low, there is a consumer delight happens. This has become a little challenging in probably merchandise. Do you need to rethink about those principles as well? Because, fashion has probably been not attended that well. Even general merchandise, other than fashion, needs completely rethink about sourcing and also better marketing in the store. I know you are not a fashion retailer, but it would require slightly harder selling in some sense. So, is there a lot of work to do here? You need to rebuild teams, build rethinking. What is the steps involved as you deal with that? Could you tell us a little bit how you plan to shape this piece?

**Neville Noronha:**

Amit, you answered the question yourself. That is how you run businesses, right? You have to look at people, competencies, market, customer, and one thing which we keep talking about internally is pre-COVID and post-COVID. Pre-COVID to post-COVID, I think everything has doubled more or less; revenues, number of stores, at least 70% more. While we were not in the best of action because there was work from home, you had COVID disruption all of that, but suddenly we have all come back to work and we have realized that the company has changed a lot from what it was pre-COVID. And people sometimes don't get it that so much has changed. We have added so many more stores, so many more distribution centers, and so many more people. So, yes, it has created significantly larger challenges for us, but I think when you have a challenge, you have to work towards getting it right. And generally, when you go through a rough patch, it is probably the areas that are not very strong that are impacted the most. And that is where apparel category has impacted us more. But we will work on it. And general merchandise, that's our bread and butter. We understand that very well. Our view there is that there is no quality or a customer standpoint challenge. It was more of a macro issue which is getting corrected over a period of time. And we are very confident there. Apparel needs more work.

**Amit Sachdeva:**

Neville, the reason I asked this question is that just wanted to fathom how large is the problem according to you and how much time will it take to address it. And thirdly, whether the impact of that headwind, whatever that headwind is, macro or a bit of as a structural part of it, has it been bottomed out and you are seeing more flattening base there or you are seeing still continued store level headwind coming from the apparel side? That's exactly what I wanted to know, to be honest in that question.

**Neville Noronha:**

Amit, you have seen the financials, right? I hope I get more questions than just general merchandise and apparel because at the end of the day, this is going to impact your gross margin and PAT by a few percentage points. You have seen the numbers, you see the trend lines. It is an issue, but it is not so much of an issue, and we are working on it. And like I have already mentioned, apparel is a smaller contributor compared to general merchandise.

**Amit Sachdeva:** And second, if I may, Neville, you make a comment that for network rollout, there is a large town focus where there is a vertical development because that is where you see larger opportunity. Has that thinking shaping your network rollout as you go forward? And if that is a construct, are you more keen to go in the larger towns and less so in the smaller towns? And if that is the case, if you could just hazard a guess in how many years that you could double the retail area that you have given the construct you are thinking about this? Not really asking about the store guidance, but broadly, as you double your business in how many years you think the area will double thinking about this construct?

**Neville Noronha:** Amit, looking at the size and the ability of the balance sheet, we can go to large towns as well as small towns at the same time, especially in the states we already operate in. While like I mentioned that from a financial standpoint, obviously having more stores in large towns is better, but that doesn't mean that a small town opportunity will not be captured or will not be harnessed. We will be doing everything. The balance sheet allows us to do that. And for the rest of your question, we always don't give forward projections. I keep saying this - judge us basis our past performance and that is what we stand by.

**Amit Sachdeva:** Would you look at smaller stores if you were to go deeper into the.... like a 10,000 square feet store also is okay rather than 30,000 or 40,000 or....?

**Neville Noronha:** Two years back also, you asked me the same question.

**Amit Sachdeva:** Yes, I am just asking again just to reconfirm.

**Neville Noronha:** 10,000 square feet is fine, Amit. You give me 100 stores in Mumbai of 10,000 square feet each. I will open all hundred. We have to get it.

**Moderator:** The next question is from the line of Richard Liu from JM Financial. Please go ahead.

**Richard Liu:** Neville, if I use the bill cuts data that you have provided and I divide that by the average number of stores that you have in various points in time, what it tells me is that your average footfall per store per day - and I am using average because I don't have further data - this average per store per day is down from about 2,800 odd in fiscal 2019 to just about 2,300 odd. That is about a 17% to 18% decline. You made up for this shortfall as your basket value is now much higher. Can you throw some perspective on this kind of behavior, please? Did less number of people visits have any impact on general merchandise, etc., given that there is also an impulsive component to that? And do you expect this behavior of lesser number of visits but higher basket size to reverse anytime soon?

**Neville Noronha:** Richard, I commented earlier, but I will come with precise numbers. 10 lakh plus towns, the number of stores contribution in financial year '20 was 69%. So, we had only 21% stores (*to be read as 31%*) in 10 lakh below towns. That has moved to 28% (*to be read as 37%*). So, a

larger chunk of our new store additions have come in smaller towns. And this number that you commented is simply because of that reason. Smaller towns, lesser footfalls. That is why the blended average has come down, obviously, notwithstanding that post-COVID, the average basket values have gone up. That also has an impact. And that is where I come back to the same question and same point of view again that we track our SSSGs across all stores store by store or even by vintage. From that standpoint, except for the apparel side or the general merchandise side area, the general footfall and the general revenue of all the other categories are growing robustly well. So, no worries there. Again, footfall to the store is not a challenge. But once she is in the store, the ability to convert them to general merchandise and apparel has weakened and we are working on it to make it better. The belief in the model is there. It is just that we need to get these areas sorted.

**Richard Liu:** One reason you gave is that the number of 10 lakh plus town stores are much lower in proportion. My question is that between these two periods, obviously the size of the basket has gone up significantly. Since there is a higher component of these smaller pop towns, are these guys also shopping with a much higher basket size?

**Neville Noronha:** Basket sizes have relatively gone up across all pop strata towns, but the average basket value in a smaller town is significantly lower than the basket value of a larger town.

**Richard Liu:** Which basically means that if I take FY2019 to be constant, for those cohort of stores that were existing in FY2019, would the basket size have been significantly higher today than what they used to be, let's say 3 to 4 years back? If I were to just stretch my imagination a bit further, the other question is that are these guys who are buying more and much more per visit a different set of people than the ones in 2019 and earlier? What I mean is, does your customer cohort also now comprises many more shopkeepers buying a lot of stuff to stock in their stores versus, let's say, end consumers like you, me, and our neighbors?

**Neville Noronha:** You are asking whether there is a B2B element in our business? No, not really, Richard. If that is what you are alluding to, no. Because, if that was the case, then our FMCG mix of margin would have come down. That is not the case. Our gross margin has come down because of lower contribution in the general merchandise and apparel business. And also to a certain extent, we have taken certain deep cuts in certain subcategories within this GM and apparel business. And that is why there has been deterioration in gross margin. But there has been no deterioration in gross margin on the FMCG side. And hence no reason to interpret that high-basket value is because of B2B. We also tightly control it. You try yourself. Go to any store and try and buy one carton of Coca-Cola 2 liters or buy a carton of washing soap and tell me what happens at the cash counter. Quite likely they will stop you.

**Richard Liu:** Related to what you mentioned about gross margin, Neville, if I look at earlier times when you had 28% share of revenue from general merchandise, etc., versus now at 23%, your gross

margin is not very different. And I am talking about consolidated gross margin. It was 15% in FY19. It is still at 15.1% for FY23. How did this happen? Are you earning much higher margin on the balance 75% of revenue?

**Neville Noronha:** I will not comment on consol. If you ask me on standalone, then maybe I will be able to comment.

**Richard Liu:** Your general merchandise and apparel share has reduced significantly. It used to be 28% earlier and it is 23% now. That is a five percentage point reduction, which is pretty significant. But if I look at your gross margin in the standalone business, at that time when the share of general merchandise was 28%, it was, I think, 14.7%, if I have my numbers correct. And in FY23 with a much lower share of general merchandise, you are still earning 14.5% gross margin.

**Neville Noronha:** Brilliant observation. But my sense for that is, Richard, I don't have a straight answer for it. Because, during this period, we have been transitioning from direct store delivery for a lot of vendors to DC deliveries. And the blended average of gross margin that we earned has gradually changed across all categories over time. That is why you are seeing that. Let me put it simply. Suppose Hindustan Lever gives me 10% gross margin, but he is delivering at my door through a local distributor. Now, I go back to him and say, look, I need my deliveries at my DC and I will do the deliveries to the stores myself. Then you get a significantly better margin from these companies, which not only covers the cost of dispatch or managing all that, but you also make a couple of percentage points more. This was over the last 5 years in the FMCG side; there has been this blended change. I hope you are getting what I am saying, and that is why it is not comparable. It is a brilliant observation, great point, but the response is this because this is what has happened. And that is why the loss of margin on non-FMCG has been compensated by going direct on the FMCG side.

**Richard Liu:** Do you have any such other tricks up your sleeves to improve gross margin other than through general merchandise and apparel?

**Neville Noronha:** Not a trick. I told you what really happened.

**Richard Liu:** Sorry, wrong use of word. Any other such leverage that you may have in the future which can help you in gross margin?

**Neville Noronha:** Not really.

**Richard Liu:** So, now the only choice is to get general merchandise and apparels up?

**Neville Noronha:** Yes.

**Moderator:** We have the next question from the line of Varun Singh from ICICI Securities. Please go ahead.

**Varun Singh:** My question is on the apparel side of the business. I understand that you already highlighted about the problem which exists and the people and portfolio category management that we need to solve. Of course, the point that you mentioned about not selling lifestyle products but daily wear products, all that taken into account, but still, having said that, apparel as a category is still aspirational no matter how much deep down the value we go. Even if you take products like inner wear, etc., and of course, all the companies are selling at all the price points. But having said that, for example, if we look at the visual merchandising or the trial rooms, it goes beyond just the product that we are selling or the employees who are engaged with the customers. As Richard was pointing out earlier regarding more hard selling, etc., just wanted to pick your thought or understanding on how we are solving the problem in the apparel over and above just the product, getting the product and the price point right. Of course, as we say that selling cheap is different than selling value.

**Neville Noronha:** Varun, we are very clear about one thing that we can't be everything to everybody. We distinctly stand for something and we will stick to that positioning. We can't create a very aspirational environment for apparel business when you are already buying groceries and some rice is falling here or some ghee is falling there, things like that. And we don't have very expensive lighting and we don't have expensive props, we can't do that. There is no point trying to say, no, we will try to create a great shopping experience from that standpoint. Nonetheless, wherever there are opportunities to make the basic look and feel better, obviously we will make it better. And at the same time, like I said, look at it from a business modeling perspective. Even if a few percentage contributions go down on apparel, it is okay. There will be other opportunities in the overall scheme of the non-FMCG space that we have still not looked at. As the economy grows, if GDP grows at 7% to 8% or 6% per annum, the market will throw opportunities for us to sell a lot of stuff that we are not selling today. I think we have to use that lens and think about what else we can do there rather than just talking about how do I retain my apparel contribution to the overall business. We will try as much as possible, but there are so many other levers to look at. That is the way we are thinking about the business.

**Varun Singh:** Absolutely, sir, got your point. I just wanted to understand, in case you are thinking of scaling down the degree of the business, the category - of course, category you already talked about, but the retail area, which we share for this very category, given that pharmacy is a new category that we have already ventured - any comments on those lines with regard to the area that we were dedicating for this segment and going forward the category that we are looking at and any thoughts on that? And also if you can share comments on how pharmacy is tracking in the existing stores and scale up as a consequence and how you are thinking about scaling up this category as well?

**Neville Noronha:** On pharmacy, it is too early to comment. Again, we have to open at least a sizable number of locations and then the financials itself will tell you how we are trending there. That's on pharmacy. But we are pretty confident on pharmacy because we used to run the pharmacy business earlier. I think at least 6 to 7 pharmacy stores were what we used to run at one point in time. And then we decided to shut it because we wanted to focus on the brick and mortar business. But we are very confident that pharmacy will do a decent job. On the impact of retail area because of lower performance of certain categories, I have said that earlier also that the model is very agile, very flexible. It is like a Lego block. Whatever you want to do, you can do. If you want to reduce space, you can reduce space. If you want to increase space, you can increase space. The incremental construction cost of the building doesn't impact the viability of the store. All those levers are available. And depending on case to case basis, location, and region, we will keep modulating the area, the space, or whatever that we want to on the higher side or the lower side. In a lot of locations, we build more, but we don't open that floor. We wait for some time, we wait for the revenues to come up and then we open those additional spaces. All those options are available.

**Varun Singh:** And the last question on the new cities, the geographies that we are venturing out to add stores. Looking at the number of cities, etc., that we have ventured out in the current financial year, we have kind of narrowed down our focus more to the existing cities. Is this because of relatively lower performance when we are venturing out in the new geographies? I understand you mentioned about NCR from the store economics tracking equivalent to system level average. Also, for example, you had said that you will be more than happy to open 10,000 square feet stores given an opportunity. Looking at these two contexts with regard to the store sizes - of course, we have also gone more conservative; even in the recent quarter, we added 30,000 square feet to 40,000 square feet - just wanted to pick your mind with regards to what is the ideal store size that now we are looking at 40,000 versus 10,000 as well as the new cities that we are choosing to venture out while we are doing all these incremental stores ready?

**Neville Noronha:** So, if you are alluding to the last quarter's three stores that we opened at 30,000 square feet, they are just three stores. We are still quite confident on opening larger stores, so, from that standpoint there is no issue.

**Varun:** And on those geographical expansions?

**Neville Noronha:** On geographical expansion, there is an operating leverage, that's why we say that we will open more and more stores in the same cities, because you get fantastic operating leverage. So that's why we like to do that. But we are also open now to spend a little more and open in cities which are little bit away. We do that also.

**Moderator:** Thank you. We have the next question from the line of Ashish Kanodia from Citigroup. Please go ahead.

**Ashish Kanodia:** So, the first question is when I look at the revenue per square feet say in FY'19 which was around 35,500 and FY'23 at around 31,000. And if I just look through your earlier comments in terms of going into smaller towns where the revenue per square feet is lower, but the cost is also lower. So, just is it fair to say that basis the store mix, area mix which you had in FY'19 that was the revenue in FY'19 and now in FY'23 when you look at the revenue per square feet, it's fundamentally purely a function of the store mix and nothing from what we keep hearing about competitive intensity and other stuff. So, is it fair to say it's largely only a function of store mix, area mix from a smaller town, largest town perspective.

**Neville Noronha:** Ashish, I have commented on this before, I am saying this again that for us it is ROI of the store. We invest in the store and we look at the revenue, we look at the gross margin, we look at the cost of running the store and we see whether we make a profit.

Now for whatever reason in that store, for that city, the contributions of General Merchandise and Apparel is different from others or gross margins are different from others, that's part of that city or that market. For us what is important is ROIC. Are we making money in that store or no?

So, from an individual pop-strata standpoint and a state standpoint, every state has a very typical behavior, so gross margins of certain regions are relatively different from other states for whatever reasons, but it is a fact. Maharashtra gives you a different behavior, South gives you a different behavior, Gujarat gives you a different behavior, North of India gives a different behavior. But the point to make is that in the overall scheme of things are you making money? And then like it typically happens certain states allow you to make more money, certain states do not allow you to make that much money from ROIC perspective. But that doesn't mean that you say, oh if one particular state is giving you a significantly higher ROIC I should drive that in the other states. I will not try to do it by nudging or doing something out of the natural behavior of the customer. We will look at, okay, are there any white spaces, are there are any gaps? What is it that's working well in Maharashtra or what is something that is doing well in Karnataka? Where are we doing well? And can we do that there through a slight nudge. That is what we do and like I said we don't look at revenue per square feet as a metric internally. We don't even evaluate our people on that front. I mean for us fundamentally gross margin, operating margin, net margin, ROIC, that's it.

**Ashish Kanodia:** Secondly on that pharmacy right, so you have done it earlier so you know the model works right. So, from an existing store point, how difficult or easy it is to setup within the existing stores because when I look at the one store there is you have kind of tried in the MiniMax right, it's basically there is a separate area being carved out and maybe SKU thing right at the



products are very small. So, just trying to understand while you may built it up in the newer store but existing stores is it still the lego model relatively easy to plug and play and scale up?

**Neville Noronha:** For the pharmacy business, right?

**Ashish Kanodia:** Yes.

**Neville Noronha:** Absolutely it will be part of the store; there shouldn't be an issue at all.

**Ashish Kanodia:** And lastly I mean just on the General Merchandise and Apparel my understanding is when I look at say the DMART Ready business predominantly your non-General Merchandise and Apparel business, right. And then when you look at the standalone business almost 3% to 3.5% revenue comes from sales to the e-commerce business. So, is that also impacting your General Merchandise and Apparel mix, I mean if the understanding is correct that its basically from the standalone you are doing some related party sales to DMART Ready and that's purely your food and then non-food so there is an impact from that as well. So, is that understanding correct?

**Neville Noronha:** Partly, but that is inconsequential from the overall impact for gross margin. I mean the General Merchandise and Apparel contribution to business, no. So, your interpretation is not correct, inconsequential.

**Ashish Kanodia:** And just lastly you talked about operating leverage, but you are also getting into maybe further into far of the cities. Now in terms of and I am just trying to understand this right maybe in existing, is it relatively easy to get real-estate and maybe if you go to a new state versus maybe trying to get a real-estate in the existing cities where you already have say four, five, six stores. And if it relatively easy to get real-estate in some of the newer states, will you look into kind of expanding more, maybe at a cost of operating leverage.

**Neville Noronha:** I think lower the pop-strata, the easier it is to get real-estate, that's broadly what our sense is.

**Moderator:** Thank you. The next question is from the line of Manish Poddar from Motilal Oswal AMC. Please go ahead.

**Manish Poddar:** So, I am just trying to understand let's say if we have to open 40 stores in a particular year, how many stores need to be vetted? And how big is the team who takes the final call of taking the property?

**Neville Noronha:** It's a multiplier. It's not like if we see 50 properties then 40 will be finalized, it's more of a multiplier. So, for example for every hundred properties somebody shortlists then 50 goes to

the next level and another 25 go to the next level, then eventually the sale deed may happen only for 10, it's like that. It's a lot of efforts, sorry.

**Manish Poddar:** So, conversion rate is roughly 10%, is that how it is?

**Neville Noronha:** No, no I am not telling you that, I can't give you a clear number there, but I am saying the initial short list to final closure is a humongous effort; it goes through three, four stages, so it's a long effort.

**Manish Poddar:** How big is the team who takes the final call, because from my checks it suggested very closely --

**Neville Noronha:** Big enough to open 40 stores at least.

**Manish Poddar:** And just the second one so in terms of private label has there been any change in terms of let's say you know one is internal in terms of number of SKUs, across categories which you foray into and second in terms of consumers habit for that category, has there been any change, let's say now you have more cleaner non-COVID number. So, has there been any change both from our approach in terms of SKUs available across categories and in terms of both consumers' habit, any change in that, that's it from a structural point of view?

**Neville Noronha:** Nothing much has changed, we are just focusing on private label from a standpoint of two things, how easy it is for a consumer to accept the private label or an unknown brand for trial and then for regular, consistent usage. So, from a consumer standpoint, which product / category is the easiest to cross that barrier, we look at that. And second is we look at what is our ability to ensure that we maintain that consistency and quality and at a price which is significantly discounted to the main brand, that's it. So, from that point, again I keep saying that progress will always be incremental and slow. We can't do a big bang here, on the private label piece.

**Moderator:** Thank you. The next question is from the line of Nihal Mahesh Jham from Nuvama. Please go ahead.

**Nihal Mahesh Jham:** Neville I will be starting over the question on GMA, just to understand, would you say that there has been a bit of a change in the customer profile that kind of shops at a DMART, because we see the change in metrics and rather than being in an assortment issue maybe the kind of customer who is walking in is different than potentially shopping for a lower share of GMA. Is that something that maybe you picked up or anything related to that?

**Neville Noronha:** Not really, in fact no way, I think the customer profile remains the same, but within that customer profile I think there has been some tightening of the purse on the GMA and it could be the reason. Especially inflation – we went through a huge surge of inflation and that kind

of disrupted a lot of things. I think the segment of customers we address on the GMA got hurt more acutely because of inflation and that could be one of the reasons why. So, the customer profile didn't change.

**Nihal Mahesh Jham:** You believe that stays the same, because as we have discussed through the call that metrics in a way of how ABB has more foot fall all that while you mentioned about opening in Tier II cities and -- but you believe that the customer profile is more or less similar to the way it was pre-COVID?

**Neville Noronha:** Yes, I will tell you some insight on the apparel business, very interesting insight. We have a huge chunk of basic products that we sell and during the high inflationary period it was that segment that just got butchered, it just got beaten badly. However, the mid to expensive pricing category was doing phenomenally well. But it was not compensating for the basic product category loss. Now because prices have corrected, all that is reversing. We are getting a lot of this basic segment sales coming back with a roar.

So, this is all demand, supply, price, elasticity that is in motion. But the only thing is that because so many things are working at the same time, the blended thing, we have to give it more time. I think probably a few more quarters and we will have a more clearer view on how apparel is trending. But we are now seeing a lot of the sales coming back on all the entry price points.

**Nihal Mahesh Jham:** My second and final question was on DMART Ready, you have obviously discussed how large maybe the contribution of a Mumbai, taking the focus to the other two cities which is Pune and Hyderabad where we have a large store presence and the fact that we have been present in the cities were relatively longer period of time and the brand DMart is also very much more than visible. So, is the share of these cities also seeing a reasonable uptick, because that is where the dichotomy is coming back, while Mumbai has scaled up, but Pune and Hyderabad also are in a way are bastion cities and that's should have also seen a good traction over the last few years.

**Neville Noronha:** You are absolutely right and we are quite pleased with how they are trending. I mean Pune again it's our ability to quickly accelerate the fulfillment center closer to the markets then that will give us phenomenal sales. So, it's just our scale up. And Bangalore, Hyderabad are also trending decently well.

If I talk about Pune and Bangalore specifically, then in fact from a time to performance period relationship, it is doing better than Mumbai. So, if I take what Mumbai was two years after launch versus what Pune was two years after launch or Bangalore was two years after launch, they are doing a better job as compared to Mumbai. That's what I am saying vertical, large towns have immense potential for our kind of e-commerce business.

**Nihal Mahesh Jham:** Just a related question, so the share of Pune and Hyderabad even Bangalore -- including has improved over the last three years if I --?

**Neville Noronha:** And without any impact to the brick-and-mortar business and that's a huge positive.

**Moderator:** Thank you. The next question is from the line of Percy Panthaki from IIFL Securities. Please go ahead.

**Percy Panthaki:** My first question is on inflation, Vivek touched upon it, but I just wanted to sort of ask once more. So, see as you say because you are a pass-through if the inflation comes down, doesn't that sort of negatively affect your SSSG because let's say hypothetically last year if there was a 15% YoY inflation in atta, person was buying the same one kilo, but 15% higher. This year if inflation comes down to 5% then the growth in his spends is now only 5% for that category. And as you say it matters which category, what is happening, but on average inflation is coming down. So, don't you think that will affect your SSSG and if the gross margins are fixed for each category then it will affect your profitability or rather profits also?

**Neville Noronha:** Yes it does Percy, but this is all in basis points, because all these crazy increase, decrease in certain sub- category it is only for that. Like for example, wheat will go up by 40% in a year or something else goes down by 20% in a year, but overall at the blended level, high inflation is 8%, benign inflation is 3% to 4%. So, we factor in that when we look at our SSSG, that what was the inflation driven SSSG and what was real volume or walk-in.

**Percy Panthaki:** So, let's say supposing if inflation last year was let's say 6% and this year it comes down to 3% or 4%, it's not a very big difference. But 200 to 300 basis points difference in SSSG at least for the grocery part which is 77% of your business so if let's say your SSSG normally is 8% to 9%, it can come down to like 6% to 7%, does that make sense or am I on the wrong track?

**Neville Noronha:** Make sense in what way, Percy?

**Percy Panthaki:** So, what I am saying is that if inflation comes down by 200 to 300 basis points is it fair to say that in the non-GMA portion which is 77% of the sales, the SSSG for that portion also could come down by 2% to 3% point versus what it would normally have been.

**Neville Noronha:** The way we look at SSSG we always factor in what the inflation has been for that year and then we make a judgment on how we are performing. We take inflation out of the picture when we evaluate how well a store is doing on a SSSG front.

**Percy Panthaki:** But from FY'23 versus FY'24, because FY'23 was a high inflation year and the SSSG was what it was after that high inflation. FY'24 could it see some moderation in SSSG versus what it was in FY'23 especially for the 77% of your business is what I am talking about?

**Neville Noronha:** That is this year, right?

**Percy Panthaki:** Yes.

**Neville Noronha:** Yes there could be and we are also seeing some of that.

**Percy Panthaki:** And that would also affect your profits right, because your gross margin would not change because of this?

**Neville Noronha:** That all I don't understand, you guys are better at all this, you figure it out.

**Percy Panthaki:** Secondly just wanted to ask in your Annual Report I see that you have opened few of these MiniMax stores. If you can just give some idea of what is your sort of vision and strategy on that format?

**Neville Noronha:** I responded to that in the earlier question. We believe that this format could have an opportunity from a pure-play omni-channel perspective. So, it becomes a pickup point and it also becomes a location to buy directly from the store. And our view is that from a ROI or operating metric it could be a slightly more efficient model especially in high real-estate areas. So, as such it's a trial and we housed it in the e-commerce business because we believe that they have the ability to integrate online/offline, shop online, pickup from store or maybe in the future even pickup from store, shop online and the delivery boy picks it up from the store and delivers at home. So, all those possibilities can be activated and that's why we are doing this, the trial, let's see.

**Percy Panthaki:** But as of now you don't see it like becoming an important growth driver like you can open 150 to 200 stores of these kinds every year or something like that?

**Neville Noronha:** DMART was never built with these grand visions; we play it one day at a time. We do trials, tests. It is typical what we call as crawl, walk, run. I learn all this from the IT guys. Something like that. So, we will do small trials, we will see how it goes and then we will do a larger trial and then see.

**Percy Panthaki:** Last question is on the CAPEX, so if I do some calculation based on your Annual Report, the CAPEX per store is roughly 25% to 30% higher than FY'22 in FY'23. So, just wanted to understand what is the reason for this especially because you are opening more stores in smaller towns now.

**Neville Noronha:** I will not give a percentage incremental, because of the way you add CAPEX in the balance sheet. But yes, in general the trend line is that the cost per store is getting higher compared to the past.

- Percy Panthaki:** And this is pure real-estate inflation or it's a function of the stores size being larger?
- Neville Noronha:** It's both, it is cost of real-estate and it is also the size.
- Moderator:** Thank you. The next question is from the line of Gaurav Jogani from Axis Capital. Please go ahead.
- Gaurav Jogani:** My first question is with regards to the DMART Ready aside, since your DMART Ready stores are largely into the major towns of Mumbai and Pune etc. and you know most of your older stores are also in these regions. So, is there a possibility wherein customers are now shifting more to the DMART Ready stuff and then they have a limited basket size, the limited basket -- basket assortment basically that they run in and this is in turn impacting the sales of General Merchandise and Apparel because they are buying these online and not visiting the stores.
- Neville Noronha:** It could be possible. As discovery of General Merchandise on E-commerce becomes more and more, there could be a shift on that side of the business from our stores to these other avenues, it is possible. That's why our belief is that on the General Merchandise and Apparel business, if you ensure that the value is great, good quality products at great value then I don't think e-commerce can deliver that. What e-commerce does? The discovery is just awesome, I mean you are browsing through social media, you are browsing through some sites, apps whatever and constantly something or the other pops up and then you like something, you click, and that's the beauty about what happens on your mobile phone. What we should focus on is to get the customer into the store, what is it that will bring her there and once she enters the store, buys the groceries and she then discovers or goes and sees the General Merchandise and Apparel products. When she sees the products and she figures out what she is paying for it, I mean it should be significantly higher wow and that significantly higher wow comes because the cost of delivering that product - I keep saying this, factory to store to consumer, tell me a model which is better than that. So, if I have my assortment very sharp, try to be very wide horizontally in as many categories as possible, but few products, few choices, and give great product at super-efficient prices, e-commerce can't beat that. E-commerce is all about long tail, I mean it's all about long tail but very high margins, because they otherwise can't deliver that product at homes at those prices with those limited small volumes.
- So, that's why I keep saying that we have to be significantly divergent in the way the products are sold on e-commerce from a positioning standpoint and then you will get the customer, you will get the stickiness.
- Gaurav Jogani:** But my question was actually you know that because we have now DMART Ready and this DMART Ready is opening convenient stores to the customer who are already shopping from the DMART stores, basically. So, now these customers are not going to the stores and because of which you know the sales of General Merchandise and Apparel is getting

impacted in our stores. So, that is what I was meaning rather than competitions on the e-commerce space.

**Neville Noronha:** Yes, I got that, but it doesn't make sense, because the share of General Merchandise and Apparel is not going down because of that. The share is going down because people are going to the stores and not buying enough of the General Merchandise and Apparel as earlier.

And while there is an element of truth in what you are saying purely from the standpoint of the number of footfalls that have come down commensurate to the incremental basket value that have gone up. So, the chance of a customer getting exposed to General Merchandise and Apparel has reduced, Yes so that extent maybe, but only to that extent.

**Gaurav Jogani:** And my next question is with regards to the if I look at the OPEX per square feet for you, so in FY'20 it was roughly around Rs. 2,300 per square feet. But now if I see in FY'23 it comes to roughly around Rs. 1,930 or Rs. 50 per square feet. So, this has come down considerably over these past years. So, anything particular that we are doing, which is adding these operational efficiencies or anything that you could highlight on this front?

**Neville Noronha:** No, not really just the base effect, just because you open larger stores. And secondly, like I had mentioned earlier also in the last Analyst Meet, when you have lesser footfalls, all cost of the store come down. And one of the main causes is our energy cost. So, it's just a base effect thing, just the number of bills have reduced and store sizes have become larger, it's just that, nothing in particular that we have done or we have consciously done to reduce cost.

**Gaurav Jogani:** And my last question is in terms of the opportunity, in terms of the existing town strata's so a city like Mumbai would have a higher number of stores versus the newer geographies that you are entering into. So, how is the focus in terms of the percentage store opening, would those be in the newer towns or the cities that you have recently entered or this will still continue to be in the existing cities more followed by the newer cities?

**Neville Noronha:** Whatever comes first. Our teams are operating everywhere, but generally the trend has been that we have opened in cities that we already are there, bulk of our revenues come from there and large towns. We are focusing on that. And then obviously now the new focus area has been the North of India, so we are focusing on UP, NCR, Punjab and Rajasthan. A lot of stores are coming there. We are focusing on that. And like I said, large towns like Bangalore, Hyderabad, these are cities which can take probably 150 stores of DMART, each city can take that kind of number of stores, so we are working on that too.

**Moderator:** Thank you. The next question is from the line of Nikunj Gala from Sundaram AMC. Please go ahead.

**Nikunj Gala:** First question on the ROI front, say if tomorrow we want to pivot to the new store only dedicated for the food FMCG and non-food FMCG then just want to understand how the ROI will be different from the two front, one is the CAPEX intensity or capital turn perspective and the operating margin perspective?

**Neville Noronha:** This is very hypothetical, theoretical Nikunj. But fixed asset ratio will be very high, store size will be very low, gross margin will be significantly lower. Operating cost will be also relatively lower. And net margin, PAT will be relatively lower than what it is. If that's what you want to know.

**Nikunj Gala:** So, at ROI level will it be very different from today's construct or it would be similar in nature?

**Neville Noronha:** I cannot comment on that, all I can say is that we will make money even then.

**Nikunj Gala:** And secondly when we mentioned there is huge opportunity out there, if I just take a two-segment food FMCG and non-food FMCG, in non-food FMCG today the category in which we are working say market is two lakh crore where our revenue would be upwards of Rs. 8,700 crore from FY'23 numbers then we have a significant like 4.5% market share and despite not being present in many parts of India. So, if I just consider where you are then this market share will be very formidable. So, do you see or from the market share perspective what is the number you think that would be doable?

**Neville Noronha:** My only view here is that these are not things to be worried about; you are saying 4.5%, I don't know what the real number is. But when 95% of the market is available, it's a gold rush; we just go ahead and open wherever we can open. I don't have a modeling number or I need to be this percent of the market and that percent, it doesn't make any sense.

I should be growing at current rates, my top line should grow at a particular rate that we should be satisfied with or happy with. Our number of store additions should be at the rate that we are happy with. Our new store addition should not in any way make our balance sheet weak, things like that. So, those are the things we will look at, you know. How do I sensibly grow? The market is not going anywhere.

**Nikunj Gala:** And lastly on, you enter any particular state typically what is the number of years you believe that to understand the consumer behavior in a particular state to then like you mentioned crawl, walk and run and in the year in which you believe that now you can expand very at significant rate.

**Neville Noronha:** I mean three to four years; three years is a good number to look at for a brand new state.



**Moderator:** Thank you. The next question is from the line of Hiren Ved from Alchemy Capital. Please go ahead.

**Hiren Ved:** I just have one question and I know this will be a little difficult because there was inflation and now inflation is coming down. But if you look at a customer let's say in a larger town, do you see in the basket premiumization happening which means that let's say if she was buying an x-grade of tea now she is moving up to a higher grade of tea, it may not happen in one year, but let's say over three, four, five years, do you see premiumization in certain categories happening?

**Neville Noronha:** Hiren, we don't track consumer data at a consumer level and hence we cannot see that unless we see an aggregate number. But in general, our view is that for modern trade as a format in large towns, the mix tends to be more towards the premium sector than the general trade.

And I think over a longer period the contributions tend towards more premiumization in larger towns, but these are very marginal movements. Because we don't have consumer data, I cannot answer your question very specifically. But in general, in any category you see the premium segment is the largest segment. For example, toilet soaps, when I take all premium segments their contribution is the highest in the category. When I look at tea, the premium segment contribution is the highest contribution for the category. I look at detergent, you know washing products, the liquids which are more premium, all the premiums powders are the largest contributors. So, by nature of the format, the affinity of getting in these customers is higher.

**Hiren Ved:** So, I mean what I am trying to get at is that if there is a general trend of premiumization that should benefit you in terms of basket value though it may be just a few basis points, but overall, over a slightly longer period of time it should benefit you, right because if I am buying a premium soap or a premium tea or a premium coffee or a premium detergent, right.

No, I am saying that would it be fair to say that the general trend of premiumization in FMCG should also get reflected in your basket values over a period of time?

**Neville Noronha:** Yes, it should.

**Hiren Ved:** And are your gross margins in the same category better for a higher premium product versus a lower premium product?

**Neville Noronha:** We don't look at it like that, Hiren. We have our own metric to look at how much we should earn on each category, but there is no discrimination on that, we don't look at it like that at all. Our simple funda is where the price sensitivity is more we would be more aggressive in our pricing there.

**Moderator:** Thank you. We will take the next question from the line of Akhil Parekh from Centrum Broking. Please go ahead.

**Akhil Parekh:** My first question is, we have highlighted that the external factors which have hurt our sales in General Merchandise and Apparels, but globally if I look at it especially you as this value retailers they have categorically set that discretionary category for them has also been impacted because of inflation. So, do you see that the higher impact on GMA is because of inflation and not because of competitive intensity going up, that's my first question.

**Neville Noronha:** Yes, Akhil in the previous questions I did mention that when somebody asked about, did your customer profile change and I said no customer profile has not changed, they remain the same but they come from a particular background wherein inflation has hurt them the most. And that is why there has been a tightening of the wallet and hence some impact on the adverse side for General Merchandise and Apparel. So, yes inflation has affected discretionary for our customers.

**Akhil Parekh:** So, hopefully if the inflation impact subsides we will see the inching back to the normal level?

**Neville Noronha:** I will not comment on whether we will go back to normal level, but we are seeing that trajectory at least in General Merchandise at a significantly better level than Apparel, Apparel probably will need a couple of more quarters to have a very clear view.

**Akhil Parekh:** Second question is you briefly mentioned that there are certain white spaces in the General Merchandise and Apparel category, so any big white space which we are currently looking at and which we may add basically in coming times?

**Neville Noronha:** Yes, there are numerous, this is not the right forum; you could visit our stores and from time to time you will get a sense of what we are doing; I don't want to comment because there is so much of work in progress. I mean we have certain views now, we may try those in a couple of stores, if they don't work we withdraw, we stop. So I really can't comment on which subcategories. The best way to make a judgment is keep visiting our stores once a quarter at least and you will get a sense of what's going on.

In fact that is something which we also keep saying, like at one end we keep saying that don't change anything, keep everything the same, everything should be business as usual, the assortment and all of that. But at the same time there is another side of thinking, that there has to be some novelty or some new opportunities should be created all the time to keep the format fresh.

And just that our product should be blockbusters, they should be something that solves a particular purpose for the customer. So, you need to have both left and right brain working at the same time. And that's why it's quite challenging at times to get that alignment; you get

leadership to understand the nuance of how to operate while keeping both that mindsets at the same time.

**Akhil Parekh:**

And lastly on the pharmacy part of the business, in past I remember I think in FY'19 we had, I mean you had answered this question -- probably looking at eyewear as a category because I think, organized retail is very small in eyewear and Lenskart as a retailer has done very well in eyewear category, but instead of that we are looking for pharmacy which is highly competitive in nature, both from brick and mortar as well as e-commerce part of the business. So, any thoughts on that why we went for pharmacy over say any other category like say eyewear?

**Neville Noronha:**

It's a natural extension, no other reason and it has a decent size of opportunity. And I don't know why you bring sunglasses in but the thought that comes to my mind is anything that is high margin and anything that needs extensive detailed servicing is something that is not our core competence. It's not that we never thought about this eyewear business but it needs a different mindset to operate, which we believe we don't bring to the table. But pharmacy is very value-driven, at certain homes you need medication for a long period of time, there is good value per month, margins are there to discount, to give great value. The similarities to the grocery business are there. And it doesn't need that quantum of personalization or service. I think that's why we believe there is an alignment.

**Moderator:**

Thank you. The next question is from the line of Tanmay Gupta from Motilal Oswal. Please go ahead.

**Tanmay Gupta:**

So, the question is, since we have open the larger size stores versus the 30,000 square feet previously so just wanted to understand that how much time does it take for the larger size store to reach at the normalized level versus the 30,000 square feet stores?

**Neville Noronha:**

So, Tanmay different stores or different cohorts operate at different levels. There is no normal or there is no midpoint average. Different stores operate at different levels, while the variability in gross margin may not be large, but there will be a huge variability in operating cost and a huge variability in profit at store level.

**Tanmay Gupta:**

So, I am just asking on a revenue per square feet level, like just to understand that for example if 35,000 square feet stores got matured in three years and after that we can see stable SSSG going forward. So, for a 45,000 square feet store I believe that the years could be I think mature years could be like four, five years. So, is that my sense right in this thing?

**Neville Noronha:**

Yes quite likely you are right, so larger the city, smaller the store size, significantly higher the turnover per square feet. And then in that order just put these three elements on a piece of paper and then you toggle them upward down and you will have differential revenue per square feet - up or down.

**Tanmay Gupta:** And also second question following of that, you know since we have added most of the larger sized store in the COVID period like in three years. So, is it right to believe that most of the stores are in base now and it should now contribute substantial growth?

**Neville Noronha:** We all hope so.

**Tanmay Gupta:** Because just calculating so most of the things are seems now in the base, so just wanted to confirm in such sense?

**Neville Noronha:** Let me answer this question a little differently. We look at cohorts at every gap of say three years. So, we have stores which are probably now 17 years and older, then 15 years and older, then 13 years and older, you know things like that. And within that cohort we look at how is the SSSG growing, is it growing at a rate higher than inflation? If not, what are the things that we need to do?

And then one of the criteria of why these stores don't do well is the stores are very small or the turnover per square feet is very high. Otherwise, these stores should grow. And if they are not growing then we work on what we need to do to make them grow, so that's it. It's a very micro region by region kind of an approach and we try and understand what we need to do to make it better.

**Moderator:** Thank you. The next question is from the line of Swati from Hill Fort Capital. Please go ahead.

**Swati:** Hi Neville, I have yet another question on Apparel which is that it looks like some of these newer larger stores they seem to have more space allocated to Apparel, at least you know when we visited the stores. So, just wanted to understand does that compound the problem #1?

And I know someone has asked this earlier, but because maybe there is larger spacing allocated to it, does it affect our ability to reinvest in the core FMCF business and keep it as attractive that's the first question?

**Neville Noronha:** Not really I think the way the organization is structured different teams run different categories, so because something is not happening right in Apparel, it doesn't impact the FMCG side. Even from a financial allocation, investment allocation, no difference. So, that's not the case.

We are very cognizant about the first part of your question which is, given more space, but sales doesn't happen, how are we especially from an inventory turn perspective getting impacted. We are very cognizant of that. In fact we have noticed that inventories have actually fallen. That's the beauty about the format. Our ability to quickly recalibrate all the

elements of that line of business is fantastic. And that needs a lot of effort, mindset, technology; you know everything has to be aligned.

Then comes the point, if contributions are lower can we reduce stores sizes, we do that also. We used to do that even in the past; we reduced store sizes, we reduce trading areas, we do that too. But the point is that's the beauty of the format that we have all these levers, capabilities available and people are empowered. In fact these calls also are taken at a significantly lower level from me, for me it's just FYI, they are doing this because of this, this and this reason. So, I think that way the organization is very agile and empowered to take calls, to ensure that the overall operating principles remain intact and the financial discipline is maintained.

**Swati:** And the second part is you did mention that there is a lot of work that needs to be done here. And I think you mentioned some of the things that we will not do. Do you mind spelling out some initiatives that we are taking here if its related to supply chain, pricing on the Apparel side, I mean?

**Neville Noronha:** I think the bigger aspect on Apparel is people, I think 70% of the issue is people, people, people, I mean they drive it. Apparel is a very person driven, competence driven business, that's the key part.

**Swati:** And just one small question, last one from me is that curious to understand if the segments mix in our e-commerce business is it very similar to the brick-and-mortar business or it is not really?

**Neville Noronha:** No, everything on the FMCG side is the same, there is very little of the General Merchandise and Apparel, very little.

**Moderator:** Thank you. The next question is from the line of Deven Kulkarni from Marcellus. Please go ahead.

**Deven Kulkarni:** Yes so I wanted to understand what sort of a buying practice were we following in the Apparel? And secondly we have seen a person from Shoppers has come in to lead the Apparel business in the last one year. What changes has he brought to the buying process for the Apparel division?

**Neville Noronha:** Too early to comment, Deven but since you are mentioning that and you are already observing that we are doing some stuff. So, that's it, it's all work in progress, we are working on it.

**Deven Kulkarni:** And what are the basic buying principles on which we work?

**Neville Noronha:** The principles remain the same, the broad ethos of what we stand for remain the same. The quality of execution has to get better. And we need Apparel experts who understand the customer and figure out what is that white space that we need to be sharper at, how do we make that white space more sharper so that we present the product in a manner that it's very difficult for anybody in competition to replicate, very simply put.

**Deven Kulkarni:** So, on the store opening front right you said you are 80% internally prepared to do a 50 store expansion, 20% there seems to be some internal capabilities still to be built out. So, in the last five years right what internal capabilities have you invested in to be able to ramp up your store count?

Secondly what are the bottlenecks today internally in store count opening, external bottleneck you explained the market real estate, all that. But internally I am trying to understand where all are the bottlenecks and expanding the capacity of store expansion?

**Neville Noronha:** It's primarily around talent. We need high-quality talent here. We all know what's happening in the country, there are these certain sectors like IT, within IT it is IT Security and IT Security Ops. There is acute demand supply mismatch, people come with three offers and one offer is 100% higher than the existing salary, one is 150% higher and it's crazy some of these things.

And it's not even about that, what we also see that even after offering those kind of crazy hikes again after six months somebody leaves, because he has got a further hike from somewhere else. I mean it's ridiculous; some of these things are just, I mean it's completely nuts you know.

**Deven Kulkarni:** Right and that's at the BD level team, right, at the top level is there any operational bandwidth constraints between let say you and Mr. Baheti in approving these properties?

**Neville Noronha:** He is right next to me, no not really. In fact, we are pretty fast in that. There are certain...

**Deven Kulkarni:** You know Neville what would help me if you could just take me through that finalization process and so that and then you can explain why there is no bandwidth constraint.

**Neville Noronha:** Come again.

**Deven Kulkarni:** If you could just explain me the how the property finalization is done between you and Mr. Baheti and then in that you can weave in why there is an operational bandwidth or not?

**Neville Noronha:** It's exactly similar to how you must have bought a house. How do you negotiate with a developer? He will tell you Rs 20,000, you will have in your mind Rs 18,000 and then you come somewhere in-between. That doesn't take more time, that's hardly 1% of the problem. The larger problem is scouting for land, bringing the developer or a land owner to a level that

suits us, the title has to be clean and clear; handshake is the easiest part. Mr. Baheti and my job is the easiest part in the whole scheme of things. We just catch a flight, go and meet him and finish the deal in 5 minutes, that's the easiest part, that's not the bottleneck.

These bottlenecks or these problems are with MNCs who come in from other countries to do real-estate deals. Corporate or promoters or owners who operate in the country where they belong to, finalizing is the least of the problem. It is the due-diligence and all the effort prior to that that takes a lot of time.

**Deven Kulkarni:** Understood.

**Neville Noronha:** And let me give you another analogy, this is probably one of the reasons why even if you look at the real-estate developer landscape, you always have each developer having his core focus in his region. And any developer who has tried to do that across the country, we know what has happened. So, this is very typical about this industry.

**Deven Kulkarni:** And that BD team is seeing a lot of high attrition that's why it's causing some internal challenges --?

**Neville Noronha:** Yes and also because this nature of role or this type of role spec is very new to this country. If you go back 20 years there was nothing like this at the scale that you would want today. So, the inherent development of talent in the sector is very minimal. Whatever talent that has developed in this sector, is either leasing which these International Building Consultants (IBCs) do or it is extremely large land deals where the clients they service are large developers. So, our need is very niche and very unique so that creates limitation for us.

**Deven Kulkarni:** Finally on the succession planning front right what we have seen is since listing there has been a lot of, there have been a few 5 to 7 VP level exits that have happened. Some of these were replaced externally. So, firstly why are these exits happening despite being heavily rewarded through ESOPS?

Secondly, why were the replacements brought in externally, what is the challenge in promoting internally?

Thirdly, how are we maintaining the company's culture? How are we inducting the new external hires into the company culture?

**Neville Noronha:** I have done a little bit of research on this, when a company moves from Rs. 100 crore revenue to Rs. 40,000 crore revenue over 20 years, the ability to retain our talent to the extent we have done, I think we will be in the minority. We have retained significantly higher number of old talent than most other industries or most of the companies who have gone through this route, #1. And I am happy to be corrected, but this is my point of view.

#2 which I have also mentioned in our BRSR, the challenge we also have is the nature of this industry, whenever we have hired people from outside, they don't last too long, it is because the nature of the job here is very different. It's very tactical, it has a huge amount of operational rigor, physical effort, travelling, meeting blue collared workers, all of that. And generally top-level leadership wouldn't want to have a role like this. And that has been our interpretation. The guys are great, but probably that's again a challenge because this industry is relatively new from that standpoint. And our need is also like that, we want people to be deeply connected to the ground. So, that could also be another challenge.

#3, third is about promoting people internally. Again, I will bet on this, the quality and the effort that we put in, in terms of promoting people from within it's phenomenal. I mean we take great pride in doing that. Even there I would love to do a ref check or I would like you, I have mentioned this even in the previous Analyst Meet. I would like you to go and see our stores. And talk to our supervisors, talk to our managers and ask them.-

**Deven Kulkarni:** Yes, no I agree your internal promotion till the buyer level or till the general manager level is superb. The layer where the AVP, VP layers is where we are in some attrition and that's where I wanted to raise like are these GM level guys not capable to elevate to the VP or what's the gap out there?

**Neville Noronha:** It is not binary. A lot of spaces -- people internally have taken those top jobs, that is N-1 or N-2. In fact N-1 and N-2, most of them have been with the firm for a very long time. But at the same time the company is also growing. Even at this rate of 18% to 20%, two years back it was growing at 30% or 25%, right. When you are adding a billion dollar of revenue you also need a lot of people from outside. You can't fulfill every position or everything internally. And then in a way it is good, it's good to bring a small percentage of people from outside, because they bring that outside perspective about things, which helps the organization.

**Deven Kulkarni:** And finally how are we inculcating these external hires into DMART culture?

**Neville Noronha:** What do you want me to say?

**Deven Kulkarni:** Let's say what is the induction process for these guys to get that DMART culture, because it's useless if you bring in someone and then he just leaves after 1 year given you know he can't fit in. So, how are you making them fit into the DMART way of working or the DMART mindset.

**Neville Noronha:** See that will start after he joins, I personally do this especially with senior leadership. N-2 or N-3, I personally have a chat and explain. So, while everybody will sell their company, we actually warn them or alert them about what this job involves so that they know what they are getting into. It starts before you hire somebody, you have to have this very candid conversation - look this is the role, this is what is expected out of you, all of that.



At the same time, whenever somebody joins we are not very number centric, even with top leadership. For the first one year, there are no deliverables at all. It may sound crazy in today's world, but I personally ensure that it's not there. He should first understand. And for a deep rooted, culture oriented, value retail kind of a format one needs to understand the nuance of what this company is all about and how this business has to be run.

All those typical trappings of any other firm where I have a KRA, I have a target, I have to deliver a profit margin, I have to deliver a store addition target, we don't do that for the first one year. We first ensure that he kind of soaks in the culture, the way we operate and all of that.

And I think when you say culture, it is not very complicated, we are a very simple, straight-forward, matter of fact Company. So, sometimes some people also get unnerved by that kind of an approach. We minimize meetings, we want action, we want things to get done, we don't want people to ideate too much. It's a very straight-forward business. And even that kind of gets unsettling. Imagine somebody who has worked in an MNC, FMCG Company where ideation is a key factor of getting the outcome right, which we also see when they operate. We try to tone that down and focus more on getting things done and more execution, more action orientation. A huge amount of people connect.

**Moderator:** Thank you. The next question is from the line of Mandar Pawar from Kotak Mahindra AMC. Please go ahead.

**Mandar Pawar:** I just wanted to understand when we are looking at the modern trade and the number of players be it online/offline, quick commerce, numbers increasing and retaining size. Has it in any way put our distributor margins or the sourcing margins at any kind of a pressure?

**Neville Noronha:** So, you are saying that, are our margins going down because of this?

**Mandar Pawar:** Yes, I am trying to check whether is there any case like that or we have been able to hold up our margins?

**Neville Noronha:** There is no issue there. I will give you one snippet on this, some D2C companies, I don't want to name them, but they haven't been coming for a long time and then when they come to us and then we deliver, we become their largest customers. We also have situations like that. We are still a very important channel for a lot of brands. In fact we say no to a lot of brands, because we think that the quality is not good enough, so we don't launch them. But wherever we find good quality at good price, we launch them; we actually become the largest customer for them.

**Mandar Pawar:** Second, just coming back to the topic of Apparels as a category. Now if I look at the sales and the ratio that you are giving in and if I assume a constant ratio for the space that you allocate

to General Merchandise and Apparels, the maths works out like on a per square feet basis we are still 20% lower as compared to the pre-COVID levels. Now of course there will be inflation in the raw material which also would have got passed which means the volume decline would be higher than that 20% in terms of value. Wanted to ask whether it is also a function of --; if it is significantly lesser space being allocated to GMA because the traction is weaker?

**Neville Noronha:** Just tell me the last sentence, last point I couldn't get it.

**Mandar Pawar:** Yes, so if I assume that the ratio of space allocated to GMA is constant than it indicates a decline in the revenue per square feet. So, either that premise is wrong where that ratio is constant and effectively you have given lesser space allocated to GMA category. Is that something which has happened, because the traction in this category is weaker, you have decided to be allocated lesser space to that and more towards the other categories?

**Neville Noronha:** No, space is not yet reduced all across. Space for GMA has not been reduced if that's what you are asking. Might be selective one of; where it's really small and it's impacting the inventory turns but otherwise no.

**Mandar Pawar:** Just one final question on, you know when I look at the cluster-based approach and the way we have spread our presence across the state two notable differences are the States of Goa and Kerala --. Just wanted to understand whether there are any specific challenges that you face in those states or something that is in not fitting completely with the philosophy that we have in terms of our operating and profitability metrics?

**Neville Noronha:** Some states we haven't gone yet. And generally, both of the states you mentioned there is a lot of land restriction, because they are ecologically sensitive regions so very little land is available for commercial activity. And those prices are extremely high. But hopefully we will have a store in one of the states soon.

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

**Tejas Shah:** Neville in our observation the limited success that we have seen in GMA retail space in the country has come from very sharp focus on private labels. So, first question, do you agree to the observation and second if yes, then how do you see private label journey in GMA space, because we have been very calibrated on private label commitment on the grocery side.

**Neville Noronha:** What is your understanding in GMA, do you think we have private labels or you think we are not private labels?

**Tejas Shah:** No, it is there, but in grocery you have been very clear that it is like, it will be like a trial and error. And on this side it is kind of when you scale up, because you mentioned on the last call

that there are multiple dimension to private labels that there is a higher commitment to inventory and we should not look at from a lens of only margin. So, just wanted to understand that when you scale up GMA and when we go on that journey, how do you see that private label commitment shaping up?

**Neville Noronha:** GMA, as I have commented, it is just to say that it is not private label, but in a way it is kind of a private label. They are manufacturer brands and they are not very popular by the name. Now just that because it is a manufacturer's brand, he is significantly more invested than say an FMCG private label brand. So, from that standpoint, I don't know what you are asking but whatever we are doing we will do it exactly within the same format and structure that we currently operate in, they are all manufacturer brands.

**Tejas Shah:** No, the question was largely on Costco model also, the way they have popularized their GMA brand. Will we invest in the branding side as well or not in term so popularizing the brand also on branding investment?

**Neville Noronha:** Our view is that in GMA it's quite chaotic, in the price point that we operate, branding as such is not large and it will evolve over a period of time. Like for example in apparel, we are doing branding now on the socks, the handkerchief. So, wherever there is very clear, sharp segmentation branding adds value; wherever there is chaos and everything goes all across the place, having a brand may not be the best way to approach it, you have to give it more time.

**Tejas Shah:** Just one academic question, by design ecommerce kind of business throws a lot of data with a lot of vanity matrix also DAO, MAO, GMB and we are usually known to keep things simple. So, I was just curious which are the Top 3 or Top 4 KPIs you monitored to kind of assess the deficiency of that part of the business.

**Neville Noronha:** It is standard and all commonsensical. We have one "on-time and in-full" (OTIF). So, on-time is if the customer has ordered at a particular time and date slot, you ensure what percentage of the orders reach at that time. In full is if she ordered 20 items then all 20 should go. At line and at depth level, things like that.

This is at the customer level, because that's the final proof of the pudding. But then to deliver that you need to do work at the backend. All orders for the next two to three days we already know right now. You have to ensure that you are planning on manpower so there are metrics around that. Then you have metrics around pickers, you have metrics around vehicles, so the usual stuff. One is the output metric and then you look at the input metrics that will drive that output metric to be delivered 100%.

And the beautiful thing about all of this is, everything is measurable, everything is digitized, everything can be tracked, there is no paper. And there is no reporting post-mortem, it's all

real-time. So, suddenly it's raining today, right now and everything is getting flooded, we know that the delivery will be affected for the future orders. We inform the customers in advance and we recalibrate the delivery schedules, stuff like that. That's how we operate the business.

I just wanted to clarify simplicity - simplicity doesn't mean that you ignore data and you don't have metrics to evaluate. We have a very sophisticated way of looking at data - to ensure that we deliver, but we don't get into unnecessary metrics.

**Tejas Shah:** And last thing whenever we speak about store expansion you actually speak in term of absolute stores usually. So, do we internally think in terms of percentage space reduction and then hence capability building also should be seen as we go on a higher base, the capacity or capability both can be seen from percentage terms?

**Neville Noronha:** Yes, internally everything is percentage, we look at it percentage, but it's not percentage of square footage addition. That is a dangerous line of thinking to go into, if you go there, then you are finished. Percentage is percentage number of stores, it's very clear, if I had 20% more stores CAGR every year and that's what I personally tell my team. If I am 500 stores, 20% of 500 are 100; we should be opening 100 stores every year. If I am thousand stores 20% of thousand stores are 200 stores every year, very clear. And then the math beautifully works, that you will get around 15% CAGR from new stores and you will get around 7% to 8% or probably even a higher CAGR because then you have consistently young cohort of stores in your system all the time and that's the story of D Mart except for the last two years. You need that for sure, but getting a number is better because it's more precise right.

**Tejas Shah:** Can you elaborate on that point and that's a dangerous line of thinking because most of our engagement with other retailers is hardly on this point.

**Neville Noronha:** Because my entire model is based on profitability at store level. So, if profitability at the store level is an objective and then if I need only 30,000 square feet store I will not have a one lakh square feet store because of vanity.

**Moderator:** Thank you. Thank you members of the Management. Ladies and gentlemen with that we conclude today's conference call on behalf of Avenue Supermarts Limited. We thank you for joining us and you may not disconnect your lines. Thank you.