SRL:SEC:SE:2024-25/88

January 22, 2025

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

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

Dear Sir/Madam,

Sub: Transcripts of the Q3 (FY24-25) Post Results Earnings Conference Call

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the Q3 (FY24-25) Post Results Earnings Conference Call held with Analysts on Thursday, January 16, 2025 at 4:00 P.M. (IST).

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

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

Thanking you.

Yours faithfully,
For Spencer's Retail Limited

NAVIN KUMAR RATHI
Digitally signed by NAVIN KUMAR RATHI
Date: 2025.01.22 14:57:00 +05'30'

Navin Kumar Rathi
Company Secretary & Compliance Officer

Encl: As above

"Spencer's Retail Limited
Q3FY '25 Earnings Conference Call"
January 16, 2025

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

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

Moderator: Ladies and gentlemen, good day and welcome to the Spencer's Retail Limited Q3FY '25 Earnings Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Akhil Parekh: So, with this I welcome you all to Spencer's Retail 3Q FY '25 Conference Call. On behalf of management, we have with us Mr. Anuj Singh, the CEO and MD; Mr. Saket Sah, Group Head, Investor Relations and ESG; Mr. Sandeep Banka, CFO; and Mr. Pankaj Kedia, Vice President, Investor Relations. Without taking much time, I would hand over the call to Anuj sir, for his opening remarks, post which we'll open the floor for Q&A session. Over to you, sir.

Anuj Singh: Thank you, so much and good afternoon, everyone and welcome to the Quarter 3 Earnings Call. Thanks for taking the time out to join this call. We've just announced our quarter 3 results, and I would like to give you some color on the numbers since they are fresh off the block. But before I do that, I'd just like to set some context and rewind to the last 2 Analyst Calls, which we've had in the last 2quarter, Q1 and Q2. And that will give us a good context against which we will look at what we have accomplished in quarter 3.

So, those of you who've joined us in quarter 1 or quarter 2, if you would recall in our quarter 1 call on 25th July, we had announced the decision in terms of ramping down of our operations in certain stores. We did mention at that point of time that it will have a large impact on top line, 49 stores accounting for roughly 22% of top line. But we also did mention that these were one of our highest losses making stores. They accounted for roughly INR56 crores of regional EBITDA loss at an annual level. And they were in areas where our competitive strengths were lower than some of the other areas.

We also did say that this will allow us to optimize all our support costs, whether it be regional offices, DCs, corporate office costs. And the ultimate guidance objective was to say that this would help us accelerate getting to a positive EBITDA, which is your operating pre-Ind AS EBITDA from an earlier stated time-line of 12-18 months, to saying as close as within 4 quarters, we should be able to do that. That was what we had mentioned in quarter 1 in July.

When we met in quarter 2, which was – around November 6, we gave you an update on the status of our store closure, which was a large-scale exercise involving 47 stores. Obviously, it has an impact on a large number of people. We did talk about the fact that we had finished all our cost optimization exercise at the corporate office, RO, DC. And we had said that we will see a full flow- through of all of these in quarter 3.

We had also told you in quarter 2 that we are looking at developing a 30-minute e-commerce proposition, for which a lot of work on the technology and the operational side was going to be executed in quarter 3. If you all recall, I've also given some kind of a shape of a model P&L

for Spencer's where we said ideally a Spencer's P&L should look like margins of 19.5%, store opex at 13%, ending up with a store EBITDA of 6.5% and then keeping support costs less than 6.5% to reach a true operational pre- Ind AS EBITDA of breakeven. I'm very happy to state that we have made some good progress in quarter 3 against each one of those guidelines or guidance which we had kind of set out.

So, let me start by giving you a commentary on quarter 3 and then against each of those 3. Quarter 3, if you look at it, was a relatively soft festive quarter, I think for industry as well as us with respect to consumer-spend. The performance was actually quite different across the Spencer’s franchise and Nature's Basket. But if I were to talk about Spencer's, we saw like-for-like. So, we are now talking about continuing regions, which is after exiting, our like-for-like sales growth was minus 1%. Online, grew by 20%, though YTD, we are at a plus 2% as far as like-for-like sales growth is concerned in the continuing regions.

But I think it was a quarter where we superbly executed all our efficiency and productivity and cost initiatives. Our margins were at a record 19.7% for the quarter. For reference, it was 18.9% in quarter 3 last year and it was around 15% in quarter 2, which was the impact of closures.

So really good work in terms of getting margins up at 19.7%. Our operating expenses, operating costs, which is a combination of store plus support costs, were INR32 crores lower than last year. Last year, quarter 3, our operating costs were INR102 crores. This year, it was INR70 crores. Of course, it was on lesser number of stores. So therefore, store opex was lower but also on account of all the corporate support costs, which were fully realized in quarter 3.

Our sales per square foot, which is a good indicator of productivity per store, was INR1,875 in quarter 3 this year and a comparative figure for quarter 3 of last year was INR1,550. So good productivity gains as far as sales per square foot is concerned. Our store opex, though we don't give this number, I would take the liberty of saying was in the model P&L shape, which I had said, which was 13.5%, which is again 100 basis point improvement over comparable period last year. Our store EBITDAs were double of what our store EBITDAs were last year.

So, if I were to summarize the quarter 3 for Spencer's, I would say it's an efficiency-led and productivity-led EBITDA transformation quarter. It has helped us deliver a 46% year-on-year EBITDA increase. So, this is the financial EBITDA, which is post Ind AS. We recorded a financial EBITDA of INR17.5 crores this quarter versus INR12 crores in the same quarter last year. But I think the more important thing is that the operational EBITDA, which is pre Ind AS was positive, was INR0.18 crores, which is a true indicator of the operation, which means essentially that our cash losses from operations for this quarter on Spencer's was absolutely taken out.

This is the first time in the last 22 quarters that at an operational EBITDA level, we have broken even at Spencer's. So, I think a strong validation of our decision in quarter 2 to focus on core regions, exit from loss-making regions and drive improvement across all operational parameters. This also means that we are ahead of our earlier guidance of achieving positive operational EBITDA pre Ind AS by our previously stated, quarter 2 FY '26.

So, I think we've demonstrated that we have done that before that. The challenge would be, or I would say that the endeavor would be to ensure that we sustain this over the next couple of quarters because that really establishes the sustainability of the model and therefore, whatever strategic choices we've made.

The other thing on Spencer's was that we mentioned that we will work on development of an e-commerce proposition. We already have an e-commerce proposition, which is what we call an express delivery, which is in Calcutta and a few cities where we operate, where the fulfillment happens from the store. And we made significant investments and a lot of development work has gone on to develop a new tech backbone, which enhances the user experience, user interface.

So, things like discovery is much more intuitive, much more user-friendly. It is also something which is suitable for colloquial search. So, for example, today, on the new app, if I type in things like Posto it will show me all the khas khas items. If I put in anda, it will show me eggs. So, I think we made it a little bit more user-friendly, user experience is much better. Each of the products and the overall thing, basket shows your ETA. So that's what the industry norm is.

So, a lot of work has gone in terms of enhancing it. We've also pressure tested this in terms of our capabilities. We are expanding the footprint from where we service in a city. So, for example, in Calcutta, in the past, we used to service from 8 of our large stores, which would have a coverage over 99% of the PIN codes. But the fulfillment radius would be up to 8 kilometers from a store because they were 8 stores servicing. Now as we aspire to move to a less than 30-minute delivery proposition, we have reduced the area of fulfillment from the earlier 8 kilometers to 2-3 kilometers, which means that we have increased the footprint of our fulfillment centers, which is still going to be from our stores.

So, today we have 28 and by the end of the quarter, we'll have all 42 stores in Calcutta acting like fulfillment centers, which will help us deliver in 30 minutes. We've also, like I said, we pressure tested this in December in terms of what is our capacity of delivery. We have moved to 100% self-managed fleet of riders, which means that we're not relying on third-party aggregators to provide because the reliability of that, especially during peak times, is not guaranteed.

On December 31st, we received 10,000-plus orders and we were able to deliver 9,500 orders. Our AOV was close to INR1 crore that day, which gives us tremendous confidence that this proposition is something which will have a strong resonance in areas where we operate as well as gives us strong confidence that we can execute to that scale.

Just to give you a simple kind of extrapolation, the endeavor will be, on the back of this new proposition, new app, new fulfillment capabilities, the vision could be or the ambition could be that we could look at a steady state where we do 10,000 orders a day, INR1 crore a day run rate, which translates into INR365 crores business. And that is not an outlandish ambition. We've done this on 31st.

The size of the e-grocery market, you guys all know it better than me. So INR365 crores coming from the quick commerce proposition for us is something which we believe is quite achievable. It's not just a new app with a new tech backbone and fulfillment but we are giving it a new identity. And we will launch this tomorrow in Calcutta. This proposition is called JIFFY quick delivery powered by Spencer's.

Again, the promise here is anything from lentils to liquor, meats to makeup, cherries to cheese, you get groceries delivered in a JIFFY. That's the whole proposition for JIFFY. We are, like I said, launching this tomorrow in Calcutta. And we expect that our consumers will respond with the same level of enthusiasm as we have. And we are quite sure that this will be a strong growth driver for us and further build our omnichannel proposition to the next level.

So that's a bit about what we are doing. So, the two strong or the two highlights from quarter 3 for Spencer's is the efficiency and productivity-linked EBITDA turnaround, 46% YoY increase and the launch of JIFFY, our 30-minute proposition in Calcutta, which will then be rolled out in the other cities where we operate.

As far as Nature's Basket is concerned, I said it was a bit of a mixed quarter. So, Spencer had an efficiency led EBITDA transformation. Nature's Basket was slightly soft for the quarter, though there was 2% growth YoY for quarter 3. YTD growth is 3%. Margins were flat. But again, there is a EBITDA correction which needs to be actioned in quarter 4.

We did add two new stores of Nature's Basket. One was the Artisan Pantry format in MG Road in Bangalore and the other was in Ahmedabad, the Paladium Mall. Both these stores are doing well. They're profitable from month 1. So, I think that is the thing. The key, I would say, priority for us in quarter 4 would be to ensure that we bring back NB to the same level of productivity, which is Sales Per Square Foot. Margins is not an issue over here. It is driving your top line. And a lot of the initiatives that are going on there, which we'll see playing out in quarter 4.

This includes the revamped app of Nature's Basket also being relaunched. It includes the introduction of a membership program called Elysium, which will build greater loyalty, greater repeat amongst the connoisseur segment of the loyal consumers of NB. So, NB is something which is, I would say, a case where we will accelerate growth, accelerate productivity and bring it back, we are confident.

And Spencer, it's about continuing this efficiency-led EBITDA transformation. But now looking at how do we build the growth driver. And for us, clearly, the growth driver is the omnichannel e-commerce, quick commerce proposition, JIFFY, which we are launching. We will launch this in Calcutta, but we will soon take it to the other two cities where we operate and where we have a good footprint of stores, which is Lucknow and Banaras.

So that was a bit of commentary on quarter 3 and I'll take a pause and open it up for questions.

Moderator: Thank you Sir. We will now begin the question-and-answer session. The first question is from the line of Parikshit Gupta from Fair Value Capital.

Parikshit Gupta: I have a few quick questions. First would be on Nature's Basket. I just want one clarity first, please. You mentioned that there are two new stores that have been opened, one in Ahmedabad and one in Bangalore. However, the presentation mentions that from Q2 to Q3, the store count has increased from 33 to 34. So have you also closed 1 store as well.

Anuj Singh: Yes. We have closed one store in Malad, yes, in Bombay.

Parikshit Gupta: Understood. So basically, the Nature's Basket's top line growth has been a little lower. However, the premium segments in the consumer markets have been doing comparatively well. Do you attribute this low growth to the store closure? Or is it something else?

Anuj Singh: No, So it's not. Store additions do help in terms of driving top line. But even on an SSSG basis, the sales have been muted in NB. I think it's a combination of internal and external. So, I wouldn't just attribute it to the fact that we've closed 1 store, but we also opened two stores in the region. So, it's not because of that. On NB, the challenge was, the festive period is generally a high spike, which is there. This time, we didn't see that spike in festive. And actually, that is, to be fair, that has also been the case in Spencer's.

In Spencer's in quarter 3, we didn't see the spike, which normally happens in the festive year. We did benefit in October, because in October in the East, you have Pujo and Diwali both in the same month. So, October was a big month for us. December was a slightly better month for us in Spencer's because of the year-end and the fact that we have liquor as a key part of our mix. NB did not get that tailwind as far as October and December was concerned.

But, I would call it a minor blip and the teams are all kind of geared up to do intensive marketing. I talked about a loyalty program, which is a membership program, which will be rolled out and driving our same-store growth. I think some of the phenomena which has happened in terms of convenience-led consumers ordering on online, some of it did play out on the NB segment as well, which is why the team is going to look at revamping the Nature's Basket app and driving a lot more of the out-of-store as well in cities like Bombay.

What we are doing with JIFFY in Spencer's and Calcutta, that's something which can be easily replicable in Nature's Basket in Bombay. We have 20-plus stores in Bombay. And the same model can be used to deliver gourmet groceries in quick time as far as NB is concerned. So, you will see the team unleashing that in quarter 4. And we are quite confident that this is a temporary blip, and we will see improvement on the NB top line coming from same-store growth and therefore, having that whole fall through as far as your RGM and therefore, your EBITDA is concerned.

Parikshit Gupta: Okay. That's very helpful. Thank you for the elaborate answer. Just one more question on Spencer's. In the last call, you mentioned that there were a couple of new stores in pipeline. I think Bhubaneshwar was one of the locations. Can you help us with an update on any progress on that end?

Anuj Singh: No. So, I don't recollect making a thing on Bhubaneshwar. We said there are new stores in the pipeline. So, we have -- but that's not come through in quarter 3. We are opening 1 more store, I think earlier next week in Narendrapur, which is a suburb in Calcutta. And we have relocated one of our stores in Lucknow. So, we moved from one part of the mall to the other part. So yes, there were no store additions in Spencer's last quarter.

This quarter, you would see one more coming in. But as far as store expansion is concerned, look, we will take a very calibrated approach to store expansion as far as Spencer's is concerned. And the reason is because we obviously not all stores make money from month 1. So, we don't want to have done the hard work in terms of moving to a position where we are at a store level, improving our store EBITDA and then we saddle with new stores, which don't necessarily perform at the peak output from month 1. Plus, it's also, setting up a store is also an investment. It costs close to INR2.5 crores to do it.

We want to see whether this investment for us at this point of time can be fueled into e-commerce, which for us is fulfilled from stores. So again, to cut a long story short, store expansion in Spencer's will be calibrated. We are not saying we'll not do it. We will definitely do it, but it will be very, very carefully evaluated. We will do it only in our core geographies, which means a Calcutta city, up-country Siliguri and Asansol can take 1 more store. So, let's say, 5-6 stores coming up in the next 12-month horizon in East.

In Lucknow, there we see a lot of potential for us to look at what we call combination stores, gray stores, which is bright and dark stores put together. So, I think overall, if I were to give some kind of an outlook, look, between the 2 formats for the next 3- 4 quarters, probably not more than 8-10 stores is what we look at.

Moderator: The next question is from the line of Varun Singh from Alfa Accurate Advisors.

Varun Singh: Thank you very much for the opportunity.So, my first question is, please, pardon my ignorance sir, I'm tracking this company after a long time. So, if you would have already highlighted, I mean, please bear with my questions. I just wanted to know that which are the geographies that we exited? And what are the key lessons that we have learned from that?

Anuj Singh: Yes. Welcome to tracking Spencer's. So, I'll just reiterate. So earlier at the beginning of this fiscal year, we were operating in, I would say, 3 broad clusters. We had North, which had NCR, Northern Capital Region, which had Delhi, Gurgaon, Faridabad, Noida, stores in Dehradun and we had stores in Eastern UP. So that was 1 cluster. We have a cluster in the South, which was largely Hyderabad and Telangana. And then we had the cluster in East, which was West Bengal. In quarter 2 or end of quarter 1, we decided to exit from NCR and South.

And like I had mentioned in the beginning of the call, that reason was twofold. One was looking at store level profitability and seeing that as a region, which were our regions which were kind of highest loss contributing. And unfortunately, we had South and NCR, which kind of stuck out as 2 clusters where our store level profitability was much, much lower and was a drag on the overall store profitability.

The other lens with which we looked at this was, looking at it where our competitive strengths were higher. And if you look at geography like South, we were in Hyderabad and Telangana, which is a pretty competitive market with strong city-based retailers. So, there were strong city-based retailers as well as you had DMart, which is a value discounter, which is present there. And in NCR, you again had strong city-based retailers like Modern Food, Modern Stores and Sodhi's, as well as you had a very high penetration of quick commerce. So, we felt that these were the 2 reasons where our competitive intensity was higher and our competitive strength would be lower.

So, basis this, we took a decision to exit this and focus in areas where our brand and our proposition has strength, where we are able to compete much more effectively and therefore operate there. And also, we looked at the fact that, it's not that there are not opportunities over here. There is enough and more opportunity. If you look at East and East UP, they account for close to 20 crores of population. So that's a large consumption base, which is there for us.

And we believe that given the financial position, we are better off operating in areas where we have strength to really drive operational performance further in these areas and influence the whole P&L. And I think that result, though 1 quarter, 1 data point does not make it a trend but we've been able to demonstrate it quickly in 1 quarter that by doing this, by focusing on these core geographies, by driving operational EBITDA, all our operating metrics are up in the core operating regions and we are able to have a swing. I mean if you look at it, the swing is almost a INR20 crores EBITDA swing in this quarter.

So, from a minus INR20 crores operational EBITDA last year quarter 3, we're at positive INR18 lakhs. So, I think this strategy was a tough one, but it is well thought through and well executed and we are seeing the fruits of it. Now going from here, it doesn't mean that we have to operate at the same scale. Obviously, we will operate at a higher scale but continuing in these regions and building on areas of our strength as opposed to trying to be everything, everywhere. I hope I've answered your question.

Varun Singh: Yes, sir, very much. But regarding the EBITDA point, I think my understanding was given 40% decline in the overall retail area year- on-year, so maybe lot of loss-making stores would have exited in the numerator this quarter and which would also have an impact on the overall improvement, which is a kind of positive for the company. That understanding would be largely correct, right, sir?

Anuj Singh: No. So, it's a combination. So again, look, yes, you had loss-making stores, which are not there. So, what happens is, obviously, your losses go down but also your top line has gone down. So, all your other costs have to be absorbed over a lower turnover. So yes, I mean it's not just simply that you remove your loss-making stores, then you'll come into profitability. So, I think in the same continuing regions, also, we have demonstrated a store level improvement. But overall, our support costs and because we optimize the organization also to a scale which is now the scale, it's a combination of those 2. It's not just removing loss-making stores and improving the EBITDA.

Varun Singh: Fair point. Understood, sir. And second question, I wanted to understand that what is the ultimate change in our overall strategy from the lessons that we have learned from the geographies where there was strong competition from maybe DMart, city retailers and other quick commerce players. So, I mean, if you could highlight, top of your mind, 3-4 strategic interventions, changes other than the geographical expansion, change in stance. If you can highlight something, sir, that will be helpful.

Anuj Singh: So, I think the lesson learnt is that you have to be strong as far as your operating metrics are concerned to justify viability in a particular market and therefore, in a region. So that was very clear. So, if at a store level, if you don't make money and continuously you don't do it and then in a region also if you're are not doing it, you're not building up a viable proposition.

You don't have the luxury of sustaining losses in a region just because you want to have a pan-India footprint. I think every store has to have the right to kind of, if I may say, exist and then get the investments to thrive. So, I think that was 1 clear lesson. I think the other lesson was to say that, look, we can't be oblivious to where the consumer trends are going and so the consumer trends are going towards convenience, which is why you start seeing.

So therefore, we've conserved capital instead of burning through losses in 2 other regions. We have cut down the cash loss from operations by operating in a fewer regions and used some of the resources to invest behind building a strong e- commerce proposition because the way forward is going to be omnichannel. Consumers are omnichannel. Consumers come to our stores 3 times a month but they also buy their grocery online 2-3times, if not more in a month.

So, if we have to be relevant, if we have to be competitive, we need to build an omnichannel offering. And the omnichannel offering cannot be slotted delivery or delivery in 2 hours. It has to be quick delivery. And therefore, we are building a strong e-commerce proposition. We are not running away from competition. But I would say we are focusing on getting stronger and establish, as I would say, competitive moats in areas where we operate and grow in those areas. So, growth is not going to come from adding on more regions, but growth is going to come from being strong, establishing competitive moats in the regions which we operate and grow within these regions.

Varun Singh: Sir, just one last question, if I may. What is the revenue contribution for us from liquor, meats and fresh, if you can call out that number, sir. That's it from my side.

Anuj Singh: We don't normally give a mix guidance. But, to say, liquor, fresh, fresh means F&V and meat, right, put together, our contribution would be around 25% is coming from the liquor plus fresh. This is for Spencer's standalone.

Moderator: The next question is from the line of Mr. Akhil Parekh from Batlivala & Karani Securities India Private Limited.

Akhil Parekh: Congratulations to management for improvement in the operational metrics. Sir, my first question is, are you completely done now with the store closure. I think Spencer's was 90 stores is what give and take we have, and we are saying last few -- we'll add 2 to 5 stores over the next 12 months basically. So maybe give and take 100 stores we'll have probably 1 year down the line. Is it fair to assume?

Anuj Singh: Yes, absolutely. I think we are done with large-scale closures or exit from region. We are obviously, we're not, there's no such thing. Having said that, we will keep looking at stores which are loss-making and looking at either ways of improving the situation there or relocating to some other stores because very often in a city, the city also evolves into a different geographic area. So, there could be pockets of growth in that city.

So overall, we are not looking at any planned large-scale exit from any regions and store closures. In fact, the endeavor is to add-on stores in the existing clusters. Obviously, like I said, it's going to be calibrated, and it has to be weighed against the return on that investment and alternate uses of that capital, whether it be e-commerce or anything else.

Akhil Parekh: Sure. And then it implies that a larger part of the growth that has to come from the improvement in the sales per square feet, where we have seen improvement, where we have, as you alluded, have already reached around INR18,000 at Spencer's. Is there further scope of improvement? Because what I understand it from operating cost perspective, we are largely done, I believe, right? So hence, the improvement has to come now from the sales through put side for both the sales to grow as well as for operating profits to grow. Is my understanding correct?

Anuj Singh: So yes, I mean, in the sense that growth has to come from, like I said, you're right, it has to come from either adding on more growth options like online as a channel or from increasing productivity in stores. The averages hides a lot of variance. The number which I said was INR1,800 per square foot. That's an average. So, there will be stores which will be at INR3,000 and there'll be stores which will be at INR1,000.

There are regions which are higher, there will be regions that are lower. So, the idea is how do we bring everyone up and that's a combination of what you're doing. So, for example, in small stores in Lucknow, there is a huge opportunity for us to boost our SPSF by having a very focused program on fresh because fresh is what drives daily repeat.

So, we've done things like reestablish our fresh supply chain, looking at loyalty membership programs around subscription around fresh. These small stores or delis could also be a springboard for us to do e-commerce fulfillment in the neighborhood. So, a combination of getting the categories right, doing some targeted neighborhood activation and driving online will drive our SPSF, you call it same-store growth. But yes, I think we believe that is going to be a large vector for our growth. Having said that, if there are opportunities for us to add stores and which we will do, so I think the guideline was, we're looking at 8 to 10 stores in the next 12 months across the 2 regions which we operate, which is UP and in West Bengal.

Akhil Parekh: And on the operating costs? We have INR20 crores plus in employee cost per quarter and other expenses roughly around INR50 crores per quarter. So, is there a scope for improvement from here on? Or is it's fairly sustainable down the line?

Anuj Singh: Well, I think the way I'd answer this question is that, look, optimization is an ongoing exercise. But I think we have looked at, both at the corporate office and at the stores, we've looked at what's the right size of an organization for the scale of business. And we believe that we've come to the right size. Now as I think cost -- don't look at cost as an absolute for the P&L to evolve. I think as we get to a higher scale with the same level of costs, the absolute costs, I mean, your percentages will come down.

And I think that is where the whole magic starts happening. With the same level of store cost, support costs, if you're able to drive 15% higher top line, you can do the math -what your percentage will start flowing. I think that's what the endeavor is. It is to drive growth, productivity, but we had to do this to set the baseline in terms of which stores we operate in, what's the support cost.

So yes, we have to be fit to then get to a higher level of growth. And I think we've reached a certain level of, I would say, fitness in terms of not having excess weight or carrying baggage. So, we've become trim. You can't keep cutting endlessly because you've got to be careful that once you cut too close to the bone, you also cut capabilities. So, I believe we are at that stage where we have become fitter than what we used to be. And I think that fitness will help us to flex other muscles, which will be the muscle for driving growth.

Moderator: The next question is from the line of Ravi Jobanputra from Nuvama.

Ravi Jobanputra: I just wanted to ask you, is there a difference in the way we are building our merchandise mix, given we are having a better view of a more omnichannel and consumer today? And is there a category that we need to rationalize brands that we stock on other categories where we need to add brands? Any view on this?

Anuj Singh: Sorry, can you just repeat your question, please?

Ravi Jobanputra: Basically, I'm asking you to understand if there's a difference in the merchandise mix between brick-and-mortar and quick commerce.

Anuj Singh: In terms of what range or in terms of...

Ravi Jobanputra: Yes. Yes. Range.

Anuj Singh: Well, look, I mean, this is also something which we are learning as we are scaling up. From a width point of view and I think that is where our USP of our model is. Spencer's has always stood for a wider assortment. A wider assortment means that within a particular product category, we give more choices in terms of number of brands, number of flavors, et cetera. And that is possible in a large off- line kind of a store.

When it comes to online, most people start online with a smaller assortment because it's about how you efficiently fulfill from the dark stores, which typically a dark store is not more than 3,000 square feet, our hypers are 15,000 square feet. But they do this by learning. They start with 2,000 SKUs and then they start going up to 15,000 SKUs. The advantage of our model is that we're starting with 15,000 SKUs because our fulfilment is from our stores. I think from a stock-keeping point of view, so we'll start with the widest assortment, which is there.

What your question is that, look, what are the learnings and is the omnichannel consumer, which is a consumer walking into the store buying something different than what they buy when they're online? Absolutely. I think so far, the evidence has been that shopping missions, whether it be to a convenience store or to online tends to be more of a top-up kind of a shopping mission as opposed to a month beginning basket filling. And therefore, that will get reflected in how we highlight our SKUs on the discovery platform of the app.

So, put simply, if you look at in an app and you look at a category like let's say, detergents, would you show a 4 plus 2 kg pack as your first pack online? Or would you show more of a 1 kg pack, which is more of a top up. I think those are the things which need to get fine-tuned in an off-line versus an online. The broad assortment for us will be the same. Currently, even on pricing, we don't intend to have any difference for omnichannel consumers. So, I think that's something which is our approach. There's a lot of learning, which we will obviously go through the learning curve.

Today, we are not at that INR1 crore a day kind of a number, which we aspire to get to in the short term. As we do that 10,000 orders a day, there's a lot of learning. And the whole tech stack is made in a way that things like your last bought items, frequently bought, smart baskets, all of this can be created. So, I think that will automatically drive how we showcase a different merchandising assortment. So, we're not going to have a different assortment per se because the fulfillment is in the store itself. But we could showcase the assortment in a very different manner in online versus what we do in off-line.

Moderator: The next question is from the line of Naitik from NV Alpha Fund.

Naitik: My first question is regarding our current debt position, if you could share the number with us?

Anuj Singh: I'll just ask our CFO, Sandeep Banka to comment on that.

Naitik: Meanwhile, my second question is on Nature's Basket. So, what level of revenue per square feet do you think would be breakeven on EBITDA level for Nature's Basket?

Sandeep Banka: This is Sandeep here. So, debt position is INR883 crores on consol level. Over to you, Anuj.

Anuj Singh: Yes. So, on your second question, we don't divulge SPSF. But let me tell you broadly for the right shape of the P&L, I mean, Nature's Basket makes 30% gross margin. For it to kind of deliver, I would say, minimum 12% store EBITDA and therefore, get to 6-7% business EBITDA, the SPSF have to be in the range of INR3,300-3,400 per square foot. Now don't ask me a follow-up question of what it is today because I can't divulge that. But I mean, that's the level of SPSF needs to be.

Naitik: Right, right. Got it. Also, one more question I had is, I joined a little late, if you could share your strategy on the online or omnichannel business,that would be really helpful?

Anuj Singh: Okay. So, I think I kind of covered it in some ways in terms of saying that, look, we want to strengthen our e-commerce proposition. So, it's not that we are getting into for the first time into e-commerce. We made some evolution of our e-commerce proposition.

Last year, September, our proposition used to be what was called a slotted delivery. So, you would go to the app or to the website and you order, and you choose delivery slots, which was what the BigBasket model was, slotted delivering. Last year in October, we transitioned from a slotted delivery to an express delivery proposition, which was to say that, look, now we will deliver, you have the option if you have a larger cart size or you choose because there's still some people who choose delivery to happen at certain times.

So, we kept that slotted delivery, but we also evolved it into an express delivery, which was delivery within 1 hour. What we're doing now is evolving the express delivery into a quick delivery proposition, which is delivered in less than 30 minutes. So again, that is the evolution of our e-commerce offering. What's the strategy behind it? Look, we are following where consumers are moving. We are following where consumers' expectations are. And we are doing that in a fulfillment model, which works for our model.

We are not going to break our bank by trying to build new dark stores. We will do this by fulfilling from our stores. We will also be, I would say, calibrated in terms and smart in terms of how we do our customer acquisition. It's not going to be money burnt and doing very expensive customer acquisition. We have a very strong loyal base of off-line customers.

And our primary objective of our e-commerce proposition is to get that off-line customer who comes to my store 3 times a month, giving him a seamless, convenient, quick delivery option to make him or her shop 3 more times in a month online. That's my core proposition. I'm not going to be chasing share gains from well-established, well-funded quick commerce players. I'm going to offer this as a proposition for my off-line customers who already have experience with the brand, who have trust in the brand and I'm giving them a convenient option of having grocery delivered to them within 30 minutes in the city. That's my proposition and that's the approach.

Naitik: Got it. That's very helpful. Just one last question. So, what was our sales for 9 months or sort of the express delivery that we used to offer?

Anuj Singh: Sales for 9 months. Look, we don't break out numbers. But I'll give you a sense, I mean, in the respect, we do about INR50 lakhs a day with 5,000 orders. That's an average exit run rate in December.

Moderator: The next question is from the line of Rishikesh from Robo Capital.

Rishikesh: Sir, what was Spencer's Retail stores after we have closed down approximately 30 or 40 stores? Our sales per square feet looks to have gone up. If I just try to back calculate it looks around INR5,500 for Q3, which was lower last few quarters. Do you think this number is sustainable or there is more headroom for this number to go up?

Anuj Singh: So, I mean just to repeat your question. You were saying that the number of stores, what are the number of -- what's the store count for Spencer's as of quarter 3, right? That was your first part of your question.

Rishikesh: No. So, I was asking, after we have closed down the stores, our sales per square feet number is looking to go up. It used to be around INR3,800, INR3,900, INR4,000, now it's looking around INR5,500 for Q3. So, is this a sustainable number? Or do you think there is a headroom for this number to go up from here?

Anuj Singh: No. Sir, I don't know where you're picking up this number. We have our sales number, if I divide, we have 90 stores exit quarter 3, right? We did a sales of INR431 crores on a trading area of 780,000 square feet, right? So, if I do the math, what the number which you're talking about INR5,500, that's for a quarter, which means for a month, it is around 17, yes, so it's INR1,700, 1,800, which is what I mentioned in my call. Yes. So that's right. You've done the math to double check the number which I gave you. The number is INR1,800 per square foot, which is up from INR1,500, which was last quarter.

And that's certainly not the ceiling as far as productivity sales per square foot is concerned. There are players in the market which do INR2,500-2,600 a square foot. So clearly, the scope is to keep improving this SPSF. And not too far back, Spencer's used to do an SPSF of INR2,000 a square foot per month when we used to have a trading area of 1 million square feet. This is a pre-COVID days. So yes, there is scope to keep improving the SPSF. We are nowhere close to, I would say, the industry benchmark also.

Rishikesh: Do we have any internal target to get to INR2,000 per month, say, by FY '26 or by FY '27?

Anuj Singh: Absolutely. I mean, like I said, look, somebody asked the question, we are not giving a guidance or we're not giving an outlook saying I'm going to add a huge number of stores. So, a lot of growth is going to come from SSSG. SSSG growth means that from the same base of stores, we're driving a higher absolute amount, which means your SPSF will go up. So, I definitely see this SPSF going up. Now we're not giving an external guidance for this.

But yes, internally, the benchmarks are high. And again, like I said, it's INR2,200 and, or whatever 2,000-odd number, which you're saying, which is an average. So, you would have stores which are less than INR1,000. You would have stores which INR1,000-1,500. You have stores which are INR1,500-2,000. So, you have to look at the distribution of the stores. And the endeavor is to make the stores which are below INR2,000 come up to that level. And that is how you would see the average moving up.

Rishikesh: Also, my second question is with respect to the debt. Are you looking to pay off some debt and maybe by doing a fund raise? I believe last year we have approved a fundraise also?

Pankaj Kedia: Basically, yes, we have taken a Board resolution last calendar year. And since then, if you look at the consistent communication, which we have been giving in our earnings call every quarter, is the fact that we are looking at a breakeven scenario before we really get into the bandwagon. And in the last 2-3 quarters, specifically, the focus from our Board has been, as Anuj articulated, to achieve a breakeven, which is led by efficiency and productivity.

And now having demonstrated a number in quarter 3, which is a target range of 19.5% gross margin with 13.5% opex resulting into store EBITDA of 6%, which gives us a breakeven scenario now. For us now, we believe that we'll be able to demonstrate this number and when we talk to potential investors, will have a much better plan of sight in the next few months to come back and talk to you about any such plan. And whenever we do that, we'll first intimate the stock exchange, and you will come to know about that.

Moderator: The next question is from the line of Parikshit Gupta from Fair Value Capital.

Parikshit Gupta: I'm sorry, my line got dropped earlier. So, most of my questions have been answered. Just 2 of them, please. In terms of Spencer's, can you share a little bit of information about the average bill value or the number of bills, even directionally, which one of them was lower that resulted to a lower year-on-year sales number? I mean like-to-like?

Anuj Singh: In the continuing regions, right?

Parikshit Gupta: Yes, please.

Anuj Singh: Yes. I'll give you a broad line. If I look at our Number Of Bills in online versus off-line, our number of bills in online, obviously, are growing much faster, right? So, year-on-year, that growth is roughly 40%. And our off-line NOB, absolute NOB is flat. So, I think that gives a commentary. Overall, you can do the math yourself, but we do about in a quarter, we are doing about 4.5 million bills, NOBs, right? As far as the average bill value is concerned for us, again, what we've been seeing is, as you increase the share of online, online bills come at a lower ABV.

So, the ABV, obviously, as the mix of online starts going up, your overall ABV will come down. But our ABVs at an off-line level are close to INR1,500 per bill. And our ABVs on online is actually higher than what most of the industry benchmark is. We have an ABV of close to INR900-950 as far as online is concerned. But as online starts going up, you will see, obviously, the blended ABVs coming down. And even the ABVs on online are not sustainable at INR1,000. Most of the quick commerce players are going from INR300-500. We started with INR1,000 and I think as we expand that, number of bills go up, frequency goes up, that will probably come to the INR750-800 level.

Parikshit Gupta: I understand. So, in terms of deliveries, you mentioned that you are going to rely on your own fleet, which is of the size of 100-odd people currently. But as you grow the JIFFY proposition, don't you think having a third-party logistics provider would be better given the challenges of sustaining the operating EBITDA and the uncertain margins outlook?

Anuj Singh: No. So, you're right. That's always an option. But I don't think I mentioned that we will do it with 100 riders. I said that we will do it with 100% self-managed fleet, which means we will not rely on a load share or whatever X, Y, Z provider of riders is. The reason why we're doing it is because we want to have a good control on the experience and on our delivery proposition. We need to ensure that the average picking time, if you want to deliver in less than 30 minutes, our delivery radius is 4-5 kilometers.

You need to pick the order in 2 minutes, assuming the order has 6 items. You need to hand it over to the rider and the rider will take anywhere in Calcutta 15 to 20 minutes to deliver. We don't want a situation where the order gets picked in 2 minutes and we are waiting for 15 minutes because some third-party rider has decided to drop us and go for a more lucrative order.

So, we are doing this at this point of time to ensure that what we call the transition from order being picked to order being handed over to the rider is 95%, which means it doesn't go into a pigeonhole. The picker gives it straight to a rider. And the best-in-class metric for that is, what most people operate is at 95%, which means 95% of the orders are directly handed over from picker to a rider. To do that, you need to ensure that you have the right stable kind of supply of riders which are there.

So, we will manage it 100% on our own for the starting period, which is, let's say, the 2 quarters. There will be tremendous learnings in terms of which days of the week, which time of the day, our orders peak. When we looked at 31st of December where we got 10,000-plus orders, we got 3,000 orders between 7-8, which we could not service at that speed. Now I mean these are all the learnings, which will then be incorporated into how we do it. So obviously premature to say that, look, own versus outsourced riders, which is better.

Right now, we are in-sourcing everything. I'm not saying all of them are on our payrolls but we will manage them, which means we will have some dedicated or whatever mechanism it takes to ensure that they are not freelancing or they're not in a platform but they're dedicated to delivering. We'll give them the required compensation. And we'll ensure that we deliver within 30 minutes. That's the first task. Once we get to scale, obviously, there will be different optimization opportunities, which will be there.

Parikshit Gupta: I understand. Just one final clarity. The debt levels, you said INR883 crores. Is that on a gross level because it was similarly reported last quarter? Or is it on the net level?

Sandeep Banka: It's a net debt level. So, last quarter, it was INR896 crores. And this quarter, this is INR883 crores. So, we have repaid around INR13 crores.

Moderator: Ladies and gentlemen, that was the last question for today. On behalf of Batlivala & Karani Securities India Private Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

Anuj Singh: Thank you.