# "Avenue Supermarts Limited – Annual Investor and Analyst Conference Call"

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**MANAGEMENT: MR. NEVILLE NORONHA – MD & CEO**
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**Moderator:** Good morning, ladies and gentlemen, welcome to Avenue Supermarts Limited's annual investor and analyst conference call. As a reminder, all participant lines will be in the listen only mode. Anyone who wishes to ask a question may enter '*' and '1' on your touch tone telephone. Should you need assistance during the conference call, you may signal the 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, Thank you and over to you sir.

**Rushabh Ghiya:** Good morning all. Thank you Lizann. Welcome everyone to our Annual Investor and Analyst Conference Call. We do hope that you are staying safe and keeping healthy in these uncertain times.

I have on call with me the senior leadership team from Avenue Supermarts Limited – Mr. Neville Noronha – MD & CEO, Mr. Ramakant Baheti – Group CFO and Mr. Niladri Deb – CFO, Avenue Supermarts Limited.

We hope you have had a chance to look at our presentation, which was uploaded day before yesterday on the exchanges, and it is also available on our website.

We will follow the usual format with Neville taking us briefly through the presentation. Post that we will open up the session for Q&A.

Just before that I would like to draw your attention to the safe harbor statement for good governance, and I'll then hand over the call to Neville.

**Neville Noronha:** Thank you Rushabh. Good morning everybody. Hope you all are staying safe and also your loved ones are keeping fine.

Like every year I will take you all through the presentation quickly and then open up for Q&A, and I will do my best to respond to every single question, time permitting. I will go by the Page number; this is the presentation uploaded on the exchanges.

I am on Page #5 – Key Updates; I thought that it is nice to start the presentation by giving you an update of Q1 that has just passed by. Everything that is mentioned on this page, except Point #2 which we added newly, is part of what we released in Q1.

What we are trying to say on this page is how we are doing as a business, which is primarily organic sales for stores which are 2 years and older, which is Point #2. It is saying that 2 years and older stores are already doing 91% of sales in the latter part of June.

What is interesting to note there is, I had alluded about it briefly in my update for Q1, but we are now giving you more specifics that in states where regulation has been eased much earlier, we are already doing more revenue than 2019 for two years and older stores. That is a very positive sign for us. That has been a consistent direction that if stores are operated, with at least 10 to 12 hours of operations per day, but more important caveat being that they should be opened in the afternoon than evenings. If I am open at say 6 in the morning to 6 in the evening, it doesn't help as much as if it's opened at least till 8 or 9 p.m., then the sales come back. So, that's a very positive sign. We still have primarily one state where the restrictions are tough and hence that state is taking more time for business recovery.

Go to Page #6, this talks about the mix of sales:

Obviously because of COVID last year, throughout the Wave-1, and even in some states after that, there were huge restrictions on selling non-essentials. So, mix changed primarily because of restriction of non-essential sales. Food obviously had a positive growth rate vis-à-vis last year. That is why it shows 57%, Non-food FMCG, which is basically shampoos and detergents and all that, didn't perform in line with food, for the simple reason that opportunities to go out significantly reduced and hence consumption for those categories reduced. If you look at this data in context of Q4, what we saw was general merchandise and apparel business came back. It was business as usual in Q4 of last year.

But with the second wave in Q1 FY 2022, we again had a huge hit and business was literally shut for almost a month in a lot of cities. So, that was about the mix.

Page #7 same as usual; we continue to do what we have been doing for so many years, given an option, open stores in cities where we already exist. Also, there is a calibrated approach to going to new cities and new states. But it is business as usual.

We opened 22 new stores, and we also converted 2 existing stores into fulfillment centers. I am sure there will be a lot of questions on e-commerce. I will take those questions later, but just to give you a perspective, we did this more as an experiment in Mumbai because there was inherent demand, and we could not scale up our e-commerce demand, by going into a Greenfield setup.

Because we had 2 existing stores we said why not try this and do e-commerce there. We only picked up those regions where we felt that there is a store close by and a lot of the revenue that is lost is recouped by these stores which are closer. That is why we selected 2 specific stores that is one in Kalyan and one in Mira Road.

Go to Page #8, like we had spoken in the last analyst meet, primarily because of COVID Wave-1, and practically everything shutting down for the first quarter, our store openings for FY 2020-21 was not very good. We had forecasted that. But we also said that we will make it up for this year, but at that time we never imagined a second wave. We are still catching up and hoping that if there is no further disruption, we should hold on to what we had committed on store openings for a combination of last year and this year with 59 stores.

Going to Page #10, so again we go to the first chart which is 'Bills Cut', obviously because of COVID, the number of people walking into the store significantly reduced, but interestingly what happened also is that people bought more per trip, that was a good sign. That was also one of the key reasons why we could keep our costs under control. This just became more efficient for us in spite of the lower footfalls.

Like-for-like growth is (-13%) and that again happened because of COVID. This is for stores which are 2 years or older. Again primarily because of COVID but like I commented, which is also mentioned in the first slide that I spoke about, last 15 days of June has been very promising and states where relaxations were declared much earlier are already in the positive.

We added 1 million square feet this year because of the 22 stores, sizing of the store is more or less the same approximately 50,000 square feet per store, and the reasons for that is what we have mentioned earlier also, that larger stores are working out better for us, and that is why we like this size of stores to operate.

The last chart on this slide is the revenue per square feet which has again come down because of COVID, it is self-explanatory.

We go to Page #11; the first chart on the top left is basically 'Revenues'.

EBITDA and EBITDA margins again got hit obviously because of the revenue impact. We had new stores added and then we had overall revenues going down, but I still think considering the circumstances delivering 7.3% EBITDA is still not bad, and also a PAT margin of 4.9%.

In general, quite happy with how the business was run and especially thankful to our employees who did a phenomenal job in managing the business in such trying times. I am personally very happy with the way we ran the business.

We now go to Page #12; top left chart is 'Inventory':

Inventory was a very interesting area, but it also reflected the capability of the buying team and the basic fundamental of the whole business in terms of what are the kind of articles we have, what we sell, and how do we churn them. I think we have done a good job here, and the incremental inventory of 36.5 days is nothing to worry about because again when business comes back, we come back to our regular inventory days. No issues there, we have not had any major write-downs on inventory.

Fixed asset to 'Inventory Turnover Ratio': Again, huge drop because we continued with our aggressive store addition plan, it is just a simple arithmetic of lesser revenue and more addition of assets, and that is why it has gone from 4.1 to 3.1.

We don't have any debt. Niladri, can you comment on this INR 296 crores?

**Niladri Deb:** This INR 296 crores debt that you see on the right-hand top corner is largely the AS116 restatement of the lease liabilities for the stores and DCs we have. But on borrowing basis, our borrowings are nil as of last year.

**Neville Noronha:** Thanks for that Niladri. Obviously the last chart on this Page is on 'Return on Capital and Return on Net Worth' which are 11.5% and 9.9% respectively. Again, this is an impact of revenues purely and the consequent profit reduction that we saw because of COVID.

Here again my counter to that is Q4 was great, we recovered, we bounced back brilliantly well but again Q1 FY 2022 went down because of the second wave of COVID, but again we are seeing a sharp recovery in certain states where everything has opened up for shopping.

Page #13 is just a lot of details on the standalone and consolidated financials, but what I would like go to is Page #14, which is the 'E-Commerce business' and these are the numbers we have delivered. I will spend a little bit of time here on Avenue E-Commerce Limited's business.

As you can see, we have more than doubled our revenues. These are revenues primarily from Mumbai city. We started in other cities much later. Revenues were great, the business did phenomenally well during COVID. In fact, while the top line and the revenue numbers look good, we also got a lot of flak from the customers because we could not service them the way they would want. The demand was super high, and we tried our best to whatever extent we could. But we got excellent insights on the business and kudos to the team for running it really well, really efficiently, kept the costs under control. Again, for me personally, what is very satisfying is that we have kept the cost under control. We have spent just about the same amount of money that we did at significantly lower revenue, which is very promising.

But again, pre-empting question on this area - I think we have a very long way to go, while we are more positive on this business, positive simply because customers want this, any city, any place we go, there is a section of consumers, shoppers who want groceries at their doorstep or who want groceries closer to their doorstep. That is why the model that we have built and we are going to fit it in the framework of what DMart stands for, we are going to pay reasonably good attention to this business.

That is my comment on the e-commerce business, and with that I am done with my presentation and open for questions. Thank you for listening to me.

**Rushabh Ghiya:** We can open the floor for Q&A.

**Moderator:** Thank you, we will now begin the questions and answer session. The first question is from the line of Avi Mehta from Macquarie.

**Avi Mehta:** My first question as expected would be on e-commerce. I wanted to basically understand your thoughts on how you see the space evolving post the pandemic and especially, do you see this changing the way the customer looks at offline retailing? Would you revisit the offline store sizes? And if you could kind of give your thoughts on this please.

**Neville Noronha:** It is more or less the same as we spoke last year; our view is both will co-exist. In India the per capita incomes are such that the basic cost structures on the one side, which is the commercial side, and the consumer profiling or the consumer need on the other side, have still not evolved to an extent that it will impact offline, I am talking just about e-commerce of grocery retail. We believe that offline also has humongous potential, so we are going to straddle both sides, offline as well as online. We will continue to focus our attention on the offline business, it is a profitable business, it is a business we understand which has been built, fine-tuned for almost two decades. We will do both. Finally all our investment, focus, attention will be on the offline business and also in large towns of India we will look at e-commerce grocery the way we are doing right now. That is our view; that is my limited understanding on so many other things that are happening. You have instant grocery retail; you have marketplace retail, so many other digital conversations. We understand grocery retail, we understand DMart, we understand the DMart customer and we are looking at it as an alternate channel for more convenience for a particular type of customer who would not want to come to stores that often, that is the way we are looking at it.

**Avi Mehta:** Would it mean that it would be a geography wise kind of focus or cities might see more focus on online or e-commerce versus smaller towns Tier-2, Tier-1 would see more offline is that how I should read your comments?

**Neville Noronha:** Yes. We will be focusing on online more in large towns, which we have always said, that large metros, large towns, and we will straddle in that direction. When I say large town, what do you define as a large town? Somebody may say that even a 1 lakh population town is a large town. What we are trying to say is that we are going to address these opportunities from a metro perspective. Let us see how it is doing in Mumbai, Bangalore, Hyderabad, and then let me try Ahmedabad, let me try Baroda or actually Surat before Baroda considering the population of Surat. Within that we say, do I have some risk capital to even try maybe another couple of cities? We will do all of that, but our view is this opportunity is in large towns, you straddle it from very large town, metro, make it work there and then go slowly to the other cities.

**Avi Mehta:** Does the second part also hold true that the offline would then also be lesser in the larger towns, and it would be more in the smaller towns, when you see additions.

**Neville Noronha:** I constantly get asked about this and I counter it by saying why do we need to see it as a binary? Why is it that if e-commerce grows we feel that it will be a threat to modern trade? Not really. Because what is modern trade's penetration in the market? So, you have to look at that. In a metro city also, what could be the modern trade penetration? 30%-35%-40%? You still have a 60% opportunity left. Today in Mumbai city for a brick-and-mortar business, actually it is not online that is a threat. For us, it is the availability of real estate that is a barrier. So, I could be 2x of my current revenue in Mumbai if I could easily find a property in more locations in Mumbai.

**Avi Mehta:** My second question is on the near term, now you are at almost a 9% SSS decline in the last 15 days of June, and you highlighted in the results as well that it takes about 45 days of uninterrupted operations to reach back to normal. Does that imply that we would be back to normal probably by only 3rd quarter and that is when we see growth? If that is the case, if that is what you are feeling, would EBITDA margin normalization also be in a similar kind of timeframe?

**Neville Noronha:** I cannot comment on that, what we can say is that because bulk of the revenues comes from one particular state and there the restrictions are still ongoing, that is what is distorting the overall company numbers. So, really cannot comment on that specifically.

**Avi Mehta:** Would the second part be true, that the EBITDA normalization would be linked to sales normalization? Or would there be a divergence because you are doing a lot more cost.

**Neville Noronha:** The biggest contributor to improve EBITDA is top line sales, and within that, non-essential sales. These are the two important criteria. Both of these you can deliver them or bring them to normalcy only if the number of hours of operation is reasonably good.

**Avi Mehta:** For the store?

**Neville Noronha:** Let me put it this way; consumers want to come and shop. It is just that regulation to an extent hampers that as of now in certain states. From a fear standpoint, there is no fear anymore; that is our sense on the ground, from a consumer shopping perspective because the non-essential side in other states where things have opened up there is a surge, and there is a reasonable surge of buying there because of pent-up demand. But it needs some relaxation from a store operations perspective.

**Avi Mehta:** When there is a surge is there an increase in competition as well? Competitive intensity?

**Neville Noronha:** It is too early to comment on that, I don't think many operators will think about competition; meaning price discounts or whatever, because of the inherent pent-up demand. People just want stuff. They have not been shopping for a reasonably long time, on the non-essential side. So, I don't see it as competition, in fact, if there is anything, the unorganized sector has got disrupted quite a lot especially in the non-essential side, which is a good sign for operators like us. Anybody who is organized is going to see a reasonably good bump on non-essential discretionary buying.

**Avi Mehta:** I saw in the annual report that you have actually followed through and have not shared any message, I would just request that you either pen or share your thoughts in any form, either a letter or something; it will be great. It is always useful to understand your thoughts.

**Neville Noronha:** You are talking about the CEO message right?

**Avi Mehta:** Yes I am asking you because you said in the last 2 annual reports you would stop, you would stop, and you have actually done that this time. I wanted to request you to please do it in any form, if not in the annual report, any other form, any other media, we would love to hear from you.

**Neville Noronha:** Thank you for that, the only reason I did not write is because I have written a lot because of COVID. Last years' comments were a reflection of this year right? But I wrote it last year because obviously we write it around July. I have said that if there is something very meaningful I will definitely write.

**Moderator:** The next question is from the line of Abneesh Roy from Edelweiss.

**Abneesh Roy:** My first question is on the fulfillment center. Any more markets you want to do this kind of a pilot project and there was a store which was there in 4-5 kilometer radius, but any sense of loss of market share because always consumer is also quite lazy in India and E-commerce is also available in Mumbai everywhere. Any market share loss data you could point out because of this?

**Neville Noronha:** The two stores we have shut down? What we saw broadly is if the alternative store is at a reasonable distance and has capacity to service, then at least 40%-50% of the revenue comes back to those stores, around 40%. But provided those stores have the infrastructure or the capability to service. So, that is one data point I can tell you. Another data point is again that Indian consumer is very different from others. If there is one reason why people don't travel long distances it is purely because of the infrastructure. The ability, the time taken to travel is the problem, especially during weekends; otherwise people don't mind travelling little bit more distance to get great value. That is the insight I would like to give you.

**Abneesh Roy:** Any more markets you are planning there?

**Neville Noronha:** We are in Hyderabad, and Bangalore as of March, and we are looking at a few more cities, and we are also in Pune. Pune, Bangalore and Hyderabad, and we are looking at a few more cities, if you keep a track of the markets you will know we are doing some more cities too.

**Abneesh Roy:** My question was on the fulfillment center getting closed and getting converted, any more cities you are doing that?

**Neville Noronha:** Shutting stores to do FC? No, like I said we did in Mira Road and Kalyan just because of paucity of time, there was huge pressure, huge demand and we wanted to monetize that demand not just from a revenue perspective but also it will do us good, in fact it is good learning. And the tradeoffs were just 40%-50% loss just for these two stores and that is why we took that call, but I don't think that we would do that anywhere else, as of now, as we speak.

**Rushabh Ghiya:** Abneesh, in addition to that we are also there in Ahmedabad.

**Abneesh Roy:** You always discuss and for the customer also the lowest price proposition for Avenue Supermarts is exceedingly strong. Now of course with JioMart, Flipkart, Amazon, Grofers backed by Zomato, Big Basket backed by Tatas, am sure lowest price proposition would have deteriorated versus say 2-3 years back. Last Analyst Meet you had discussed that you give freedom to the local store management to address any specific issue on this front. Could you discuss how often that step was needed? Second, any sense you can give versus 3 years back how the situation is, are you the lowest in terms of pricing in any basket?

**Neville Noronha:** At an entire basket level doing a thorough analysis I would not be able to comment, but like I said even last year, our systems are very agile, decision making is pretty low in the hierarchy, store managers can decide for themselves what they want to do. Our systems and our processes are aligned to reduce prices to maintain our positioning in the market. In terms of competitive intensity of competition, I don't think there is anything meaningful to talk about there. All retailers are focusing to get their overall business back on track. I don't think the time has come yet for discounting, being aggressive on pricing and all of that. We don't see that anybody has come reasonably close to our pricing. Your concern is as good as ours, obviously if there is a business that is working well by cutting prices, maybe few other retailers will also copy that or do that, but we will see, we always said that we will compete and we will try to maintain our positioning as the best value retailer for a shopper.

**Abneesh Roy:** And the freedom to the local store manager was it something which was quite commonly used in terms of pricing?

**Neville Noronha:** Yeah from the very beginning that is how we work.

**Abneesh Roy:** Last question on the E-commerce and the delivery, three questions there. Free delivery beyond a threshold any thought process there? JioMart - there is that facility at INR 10.00 or INR 20.00 order also there is free delivery. Second is franchising DMart Ready - is that an option which is possible? We could discuss these two. Essentially third question is again on DMart Ready, when I see your store in DMart Ready it is quite small, in that small store you are selling pouch milk which is essentially extremely low margin. Is that more to popularize that product, popularize the store and as a concept to the customer because again you need refrigeration, you need space, and customer can buy that off the shelf, he doesn't need to actually order and then come there. Again, the full delivery thing is not getting popularized, the store is getting popularized. What is the thought process? Is that a long-term thing or more of a short term marketing initiative?

**Neville Noronha:** I will go one by one. Free delivery is something I don't think we will offer for home delivery. But at the same time, we have now executed a cut-off; we don't charge more than INR 79.00 per delivery; that is the max. That is the first comment. Franchising, we haven't thought about it yet, and the simple reason is you will do franchising if there is money to be made. First is that, is the model right for us, are we making money? And then what is the trade off? You want to take away a lot of the day-to-day operational rigor, transfer it to the local entrepreneur, so that you scale up faster, and so many other things. I don't think we have come in our business building journey to think about that, or even if we are thinking, implement that in the near future. We have to make the model work first, that is our response on franchising. And lastly pouch milk in the DMart Ready store, it is an idea, like this we run multiple ideas, hundreds of such ideas. Obviously milk is a footfall driver, loss leader. Everybody in India uses milk extensively right, and pouched milk is the way to go because of the value. Just to popularize the model, because see we were the first guys who came up with this concept and it looked very weird that on a shopping street there is a DMart Ready store, and there is one guy with a computer and nothing to sell. How do you generate curiosity about the model, especially when it is so unique and stands out? That is when the thought came that let us start selling milk because somebody is coming to the store and then there is some conversation, some engagement happening. If there is nothing to sell as such then what business are you in? DMart as a brand is very popular and DMart brand is there on the store but you are not selling anything. We could get into meaningful conversations with the customers. That was the whole idea of having milk there. And it came as an afterthought; we did it after we launched it. It is just an idea which has worked reasonably well for us, so we continued to do it even though like you said it is a terrible business, the gross margins itself are terribly low and then you have refrigeration, wastage, all of that. It is a loss-leader primarily.

**Moderator:** The next question is from the line of Latika from JPM.

**Latika:** I will continue on the e-commerce bit. If you could talk a little about how you are thinking of the margin profile, our PBT losses were fairly stable, and that is a good outcome given the sharp scale-up on e-commerce sales. But I am sure you would have seen a mix changing between store pickup and home delivery salience as well. As you expand into more cities, as you scale up in existing metros, what would you want to target? Would you expect these losses to remain in some kind of range-bound manner? If you could comment on that, please.

**Neville Noronha:** Pickup versus home delivery, we do not have any preference, we allow the customer to choose. Customer behavior gives us insights on how we have to tweak the model or provide our offering from an assortment perspective. We don't have any specific agenda per se, whatever helps us expand our revenue. On losses, all I can say is as we speak; what I have seen over the last two years, we are quite delighted with the way the e-commerce team has run the show. I think what you guys do is look at it from a loss's standpoint but it should be in perspective with the overall business. If you have a very capital / risk averse organization per se, then there is not going to be any high expenditure under this area. If the overall business does extremely well, maybe our aggression in this area will be more, but within the context of how the overall business is doing, that is extremely important for us. See for us again the first thing is that the model has to be a working model, a replicable model, and that is what we are looking at. That comes from the DNA of the firm. Even if we take more time in building it, in a manner that we at least don't lose money, then expanding it will be super-easy, super-fast. That is how the DMart business has been built. That is the way to look at it to be really honest. I think they are making reasonable progress.

**Latika:** I wanted to clarify as DMart Ready is a separate subsidiary, is there a part that you could potentially at some point, look, to get a partner which is more on digital, or you want to run the show on your own considering your expertise in grocery retail?

**Neville Noronha:** I have no comment there to make. I think we have a brilliant team who is running it very well. We never had that thought or that reason to look at it right now, but I do not know about the future, but no comment currently.

**Latika:** And last bit to this is that a lot of data would be coming your way on the e-commerce shoppers. Any thoughts of collecting data on the offline side, in terms of any kind of a loyalty program or anything of that sort.

**Neville Noronha:** We do not run a loyalty program, our basic philosophy of the business is that all customers are the same, treat everybody equally. I have commented on this multiple times. It seems a bit non-intuitive to do this but we aren't harnessing data much. Our data is only to the extent of so and so customer, so and so address, and they are all functional, just used for functional needs, and nothing else, and no loyalty programs.

**Moderator:** The next question is from the line of Arnab Mitra from Credit Suisse.

**Arnab Mitra:** My first question was on DMart Ready. I had actually an opposite question to the earlier one, which is that you mentioned that you obviously want to have a perfect model which works at a unit economics level; you have now done this business for a few years. Do you think the model now works at a unit economics level? And if that is the case why your rollouts are still a little slow? Because you are still a very profitable company and with the large changes happening in digital adoption, would it make sense to significantly accelerate expansion, even if it means slightly higher losses as long as you are confident of the model working at a unit level.

**Neville Noronha:** Maybe that feeling will come a couple of years later; we are not yet there from that standpoint. I know Mumbai is working in a particular way and hence let me burn cash in other cities and crunch the time. I think we are still maybe a couple of years away from that. I get what you are trying to say, but I don't think that confidence level is still there right now. While we made good progress from say last year, we have to see, and this is very important from a perspective also about once the country stabilizes from COVID. So, once COVID is completely sorted out and there is no further fear of the pandemic, then how are we trending on revenues, then what is the consumer insight, what is happening to the business and stuff like that, that is extremely important to us, but I get what you are saying.

**Arnab Mitra:** Whatever business you are getting in DMart Ready do you have a sense, is it incremental business over what we would have done from the store? Is it the same consumer now ordering from home or is it a replacement business that you are seeing. I am not sure if you have data enough to know that thing.

**Neville Noronha:** This is what we have been tracking in Mumbai. The right way to answer it is neither or nor because Mumbai has far more potential. We could have maybe a 100 stores in Mumbai, but purely for the lack of locations. To the extent that we are doing more revenue in Mumbai from the e-commerce business, we are not losing revenue from the stores. The store was doing reasonably well. There is a caveat there, now because of COVID and Maharashtra having not relaxed norms yet, I don’t have a very-very clear opinion on that yet. But in general, I would say that it is overall top line accretive even though you have online business in Mumbai. What is interesting is also that the profile of shoppers in e-commerce is slightly different. They are more aspirational, the mix is better, like for example, we are selling Davidoff Coffee on e-commerce. We do not sell Davidoff Coffee in brick and mortar. It is quite interesting from that standpoint. And the beauty of e-commerce is that it allows you to take bets without losing anything. You just buy 12 pieces or 2 dozens of something and keep it in your warehouse and you list it on your website or the app, and you get your outcomes at very-very low cost. That is phenomenal. That is not as efficient even in the brick and mortar business, as much as it is here. There are very interesting insights that we are getting.

**Moderator:** The next question is from the line of Manoj Menon from ICICI securities.

**Manoj Menon:** I actually only have one question, but request multiple facets of this, hopefully if you could help us with. This is actually on inflation in general. What we see as Agri inflation or food inflation, or even crude linked inflation in FMCG basket, etc., from the conceptual understanding that, for a retailer like you it is actually good. Question number 1 subset is: Is that even a right assertion to make? The reason that I am asking, is that even the assertion level clarity from you is because of limited, listed history, we have not seen this level of inflation in the last few years. Just clear understanding of the long term. That is question number 1.

Question number 2 within this, let us say take the case of an edible oil where there is a 50% inflation for the housewife. What is the consumer behavior? Again the conceptual understanding is, these are maybe relatively less price elastic, I can't reduce the quantum of oil which I can consume just because the price has gone up. Again, your thoughts on many of such categories, so one is on the price pass through, the second is actually on the volume, how do you see consumer behavior? The third one in your vendor negotiation, how does this work? Let us say that the vendors are also under their gross margin retention or reclaiming pressure, is it at per unit negotiation or still a percentage negotiation with your vendors?

**Neville Noronha:** The recent communication that I get from the category teams specifically on the FMCG products, maybe it is temporary, maybe it is sporadic and only for certain categories, but like you said some of the price increases are quite large. I do not know what will be the impact overall from the consumer behavior, this is across multiple categories. We will see. But I will give you one insight specifically on edible oil since you mentioned. We have seen this edible oil price increases and these huge surge multiple times. This is not the first time. Like a 30% price hike or a 40% price hike, over a period of a month or two, this happened typically in sunflower. What we have seen is that there is a rapid migration, consumers move from sunflower to the next cheap available oil, that is the insight we have got always, it always happens like that. If cotton seed is cheaper than sunflower there is a huge migration there. If soya oil is cheaper than sunflower, there is a huge shift towards soya. That is what typically happens from a consumer behavior standpoint. That is my take on inflation. In general like you said inflation is good for a value retailer. To respond to your third question, all our negotiations are percentage, the margin is basis percentage. Obviously when percentage is the same and the value goes up it is valuable for a retailer, it gives us more leverage to create better value for the consumers. You can play both. Your overall absolute margins get enhanced; at the same time you get more leverage to cut prices further. Compared to any other retailer, for a value retailer inflation is good because we can deliver better value. I hope I have answered all three questions.

**Moderator:** The next question is from the line of Kunal Shah from Jefferies.

**Vivek:** This is Vivek from Jefferies. Couple of questions. First, your stores have always attracted a lot of footfalls and, crowding has been the feature. How do you think about this in the post pandemic world and until things normalize, do you think that will have an implication on the throughputs at the store level?

**Neville Noronha:** Like we mentioned in the update, Page #1 of the update, and we have uploaded on the exchanges, two days back - on a longer term, what will happen we do not know. States where relaxation was announced much earlier, revenues have come back. Other than that, I cannot comment. Longer term maybe we will comment after another 2 or 3 quarters pass by.

**Vivek:** Couple of times you have mentioned this issue about real estate. Now in the context of whatever is happening to, let us say commercial real estate and all are you finding it easier to lock in properties both for DMart as well as DMart Ready stores?

**Neville Noronha:** Yes. Considering the softness of real estate, it has a reasonable to marginal impact, not a very positive impact for our business, prices don't reduce so much because we look for prime real estate, we look for clean titles, and those are in short supply. For us during times like these when markets soften, deals happen. Deals happen faster like any commodity, transactions increase because people fear that prices will further go down, that is the only advantage we have. Our view is that anything that we do for a DMart store, we do a deal with an understanding that it should open in the next two years, or worst case three years. So, we don't try to build a land bank beyond that. Whatever the balance sheet permits us to do; within the limits of risk; we try to accelerate our acquisitions. DMart Ready has the same issue because they are all lease properties, we are very particular about the location and all of that, and they don't come at drop-down prices, a 10%, 15%, 20% discount maybe because of the pandemic, but otherwise it is business as usual. It is difficult to get good real estate in India, it takes time.

**Vivek:** Last question on DMart Ready you made a very interesting point about Davidoff Coffee and the fact that you can just run some of these experiments. In some ways do you also think while DMart Ready is a separate business for sure, in some ways it could also be an experiment factory for your base brick and mortar DMart store, any learnings you are taking back to DMart stores?

**Neville Noronha:** Absolutely it is mutual.

**Vivek:** Assortments have undergone change because of DMart Ready, I know we are in the middle of the pandemic so there may not have been that much opportunity, but is that something that you think you will harness more as we go forward?

**Neville Noronha:** It is very complicated because it is not necessary that what sells on e-commerce will also sell in DMart (B&M). But yes, we learn from each other. It is very dangerous to say if this works in e-commerce let us do it in brick and mortar, not really. It is because you are addressing different consumer subsets. The beauty about e-commerce is that you can manage multiple cohorts at the same time because of the nature of the business. But I can’t do that in a brick-and-mortar business because it occupies a lot of real estate, which is not very efficient. For example, a store is a very expensive real estate, whereas a fulfillment center need not necessarily be an expensive real estate. It is different, but we learn from each other.

**Moderator:** The next question is from the line of Sunita Sachdev from UBS Securities.

**Sunita Sachdev:** Let me go back to the brick-and-mortar business. I wanted to know more about what you are thinking about your private label strategy. I know it is a slightly wide question, but any insights into fresh staples, non-food and non-food FMCG and, general merchandise would be appreciated.

**Neville Noronha:** On private label it is again the same story. We are focusing and looking at this opportunity as a long-term opportunity. We have a team which works on this, the building of our own label, but obviously at a much-much slower pace. All I can say is the pandemic helped the private label business relatively better than the overall franchise. Maybe it is because of the value that private labels deliver to consumers. Maybe after some time once the fear and the anxiety reduced and people started looking at tightening their expenditure, looking at alternatives and within that we saw more trials for private label. The private label business did better if I look at the full year period; that is an interesting sign. It is also because of the way we are approaching private labels, we are not going whole hog trying as many categories as possible. The direction to the team is to focus on quality, it has to be at least equal in quality to a major brand and I think those efforts are helping us.

**Sunita Sachdev:** Any comment on which categories given foods, non-foods, general merchandise, and apparel in your presentation. Where is more of your private label salience across these three?

**Neville Noronha:** When we talk about private label, we talk about only branded FMCG private label so all my comments just now were purely on branded FMCG private labels. Apparel and general merchandise is different. We focus on basic, low unit priced products, and we don't see private labels having any advantages there, so we work with manufacturer brands. My comment is primarily to address FMCG brand categories because that is where the cost arbitrage is available.

**Sunita Sachdev:** In your stores you have extremely regular, extremely loyal customers, any metric on private label that you could share, in terms of what is the percentage of basket or how is this market share across some of the major categories if you can share.

**Neville Noronha:** Nothing meaningful to comment. There is still some time. I have commented on this before that even within the branded FMCG sector even if certain categories have large margins you have a local disruptor who comes and cuts prices and brings in new products. It is a bit tough to play in this space.

**Sunita Sachdev:** My second and last question is on your B2B businesses. I know we usually don't comment on these. It is well known that there is a profitable B2B business which goes on FMCG. How big is that now, and how is the growth in that going on?

**Neville Noronha:** We don't have any B2B business.

**Sunita Sachdev:** Not at all? Not like cash and carry.

**Neville Noronha:** You might be commenting on a separate subsidiary we had formed, but there is no action there.

**Moderator:** The next question is from the line of Aditya Soman from Goldman Sachs.

**Aditya Soman:** Couple of questions. Firstly, on store expansion you indicated that you have seen some acceleration in deals. If you were to open 50 or 70 stores a year, what will be the main hindrance, and is it something that you could even do over the next three to five years, opening say 50 or even 70 stores a year?

**Neville Noronha:** We have spoken about this earlier that real estate is tough. We are trying to do our best, having a large team, ensuring that due diligence is done well, and then also building a capability from an operations perspective. So, all of this is work in progress. We are all working hard towards doing that. If you want a pointed response from me on that, as in are we ready from a capability standpoint to open 50 or whatever number of stores per annum, of course we are. But the point is, as we have always commented that real estate is very complicated in this country. And if those elements work in our favor and we are able to acquire and have decent inventory of real estate, we can accelerate store additions over the next two to three or five years.

**Aditya Soman:** The point I was also coming from was that you obviously have more clusters, right? So, when you initially started that number of clusters available and you are now opened up in more states there are more clusters available. As an absolute number, that number of new stores should be going up right? That assumption on a base level is correct right? That is all I want to check not per city.

**Neville Noronha:** We look at the opportunity from a population perspective in all 1 lakh+ population cities. In general in all 1-2 lakh population towns, 1 DMart store is okay to operate. If you do that math and if you look at the overall 1 lakh plus cities in the states that we operate, we have a decent run rate from an opportunity perspective. The opportunity is there, the opportunity is awesome. We can still have around 1,200-1,300 stores in the cities where we operate already. These all 1 lakh plus towns, we are in 96 cities, so if you just aggregate all these 96 cities' population and divide it by 1 lakh, theoretical but that gives you a broad perspective of how many stores can you add. The only hindrance there is an error factor for cities such as Mumbai, Bangalore or Hyderabad. Because you can't have one store for every 1 lakh population, purely because of real estate availability. But if you take those numbers out, still there is a huge opportunity. This is only for cities we operate in. If I look at the entire country the picture again changes. The opportunity goes up to some 2,300 stores. Sort of huge, the opportunity is amazing. Just that we have to do our stuff right.

**Aditya Soman:** In terms of the opportunity you talked about beyond your cities, we see no presence in East India. Is that something that you will be looking to tackle over the next few years, or it is still a more medium term?

**Neville Noronha:** So, you asked me about East India, right?

**Aditya Soman:** That's right.

**Neville Noronha:** I don't know, we will see, we have reached out to AP and so Orissa is on the border, we look at it look from a supply chain standpoint and then that's how we progress. But again, this is a comment which I always give, 80:20 or 70:30, right? 70%-80% of our investments will be in existing states. We would like to do that because that creates a moat, it gives you amazing operational efficiencies. So, we continue to do that. So, within that if it means that we need to go to Orissa, why not, we will go. Or we need to go to Uttar Pradesh, in fact, we are already there but maybe add more stores there. We will do that. But the point is more the money available, more the investments in existing markets.

**Aditya Soman:** Just one last one on private label you indicated obviously that you're gradually ramping up private labels. When you think of the gross margins here, do you just think of a gross margin to DMart level or do you think of two levels of gross margin, one for the product and one for at the DMart level?

**Neville Noronha:** Come again, I missed the question.

**Aditya Soman:** When you think of gross margin for private label, do you just think of it that it should be 15% gross margin like you make for DMart or do you think of it as two levels? One is the gross margin for the product and then a gross margin separately for the retail business?

**Neville Noronha:** We look at the gross margin within those categories. So, FMCG is not at 15%-16%. It is lower because it's a mix. We operate FMCG at a lower margin. Within each category we look at what margins these categories operate at and basis that we have our own modeling of what we should make on private label. But before you think about margins on the private label, you actually first have to address the End Consumer Price (ECP) to consumer per 100 grams. So, if the brand is selling at say INR 10 per 100 grams, what price should private label be at, should it be INR 9, should it be INR 8, should it be INR 7, that's the first question to ask. And then you decide, okay, what's the cost of making this product as the same quality and basis that then you decide what the margin should be. It is these two or three things that you need to evaluate and then decide the margins you need to keep, but obviously you're getting in this business, simply because you have a product at a price cheaper than the main brand and giving you margins better than the main brand. That's how you end up making more money on these categories.

**Moderator:** The next question is from the line of Anand Shah from Axis Capital.

**Anand Shah:** Just a couple of questions. Firstly, I just wanted to get your thoughts on the GT transformation. We are obviously seeing the return of GT. I mean, apart from e-commerce and especially given what Jio Mart is doing in terms of the digital transformation here, do we see any threat at all from the GT sort of coming back very strongly because that obviously is a much larger domain than e-commerce and have you at all seen that impact in any of your markets?

**Neville Noronha:** The response to that is it is great if that's happening. It's bringing the capabilities to a much higher level for GT which is very good. And from our business perspective, again I would repeat the same thing saying that the market opportunity is too large, so everybody is going to do that.

**Anand Shah:** But you don't see at all that the conversion or acceleration because let's say at the top level the pie is large, but the argument top down is MT and E-Commerce will gain because the conversion in future is happening. But if in GT for whatever reasons holds its ground, then the conversion sort of will not accelerate to that extent and that could make the entire MT more competitive.

**Neville Noronha:** I haven't got your question. Competitive - like GT will get more competitive to us?

**Anand Shah:** No, as in MT itself if the conversion doesn't accelerate, because like whatever 10% penetration of modern trade going to 20, let's say in 10 years if that doesn't happen and MT for whatever reason stays in that 10-15 bucket only, then MT itself would start getting a lot more competitive within the existing players because you want to grow and expand.

**Neville Noronha:** Our view is, defining our business as Modern Trade (MT) and defining the Kirana as General Trade (GT) – all that is the nomenclature we have done for our own simplicity of communication and understanding. What do you define a kirana guy who becomes like a MT, he puts in his technology or Point of Sale (POS) and self-service, then he also is a MT right? So, if the entire industry evolves to be a better operator, good for the industry. Good for everybody. Also remember that GT (Kirana) operates on the principle of convenience and not really value or price. We are positioned on the principle of value. So, I think we'll coexist. So, it's not an either or or. I hope I have answered your question.

**Anand Shah:** Got it. The second question was more on cost. If I look at general costs, like other expenses or staff per square feet on quarterly basis, you've done a commendable job, it has pretty much been range bound every quarter, even though your revenues have obviously scaled up from Q1, Q2, Q3, Q4 last year in the pandemic. If you can highlight this, what you have done on cost structure, because they really seem to have come down from peak, on a per square feet basis, even though we keep seeing progressive increase in your revenues.

**Neville Noronha:** How are we able to do that is your question?

**Anand Shah:** Yeah. The initiative you have taken or any line items we want to call out where very specific reductions are happening.

**Neville Noronha:** I think a lot of our costs are variable costs. So, it's nothing much. I mean, it's a part of the DNA, the way we work. It is part structural the way the business operates. Frontline also operates on a lot of attrition on a month-on-month basis. You have the ability to moderate your cost far better, if management is very tuned and focused on how our revenues are moving; what should we be doing and not doing for this month or the next month and stuff like that. Like we have always said, we are very agile; the operations team is empowered and very focused on all these things, trained very well to manage all these things. That's how it happens; it is the inherent nature of the business, right. Less revenue means less transportation costs, less logistics costs, so more or less, these are quite variable in nature and that’s how we are able to manage our costs better.

**Anand Shah:** Just one last question on your balance sheet side. We did see a sharp jump in CWIP; it was almost INR 1000 crores since you are obviously accelerating your real estate expansion here. This would be at all incremental to the 59-store guidance that you are saying, or all this would be more in that direction?

**Neville Noronha:** I cannot comment on that. Balance sheet is balance sheet; what you see there. We generally do not give any guidance, but because of COVID we wanted to reassure everybody that the real estate acquisition continued with the same pace, there was no impact on the real estate side of the business because of COVID. It's just that there has been postponement due to delay in the construction activity. That's the only thing I can comment on.

**Anand Shah:** Store acceleration I get it. Since it's been delayed and you are focused there, just on the pipeline building on the real estate, because we do see CWIP going up to a big sum. You haven't done that in the past and just wanted to get your thought if within that also there is some acceleration here on building that pipeline. Are there any plans?

**Neville Noronha:** I cannot comment on that. You can make your own assumptions.

**Moderator:** The next question is from the line of Garima Mishra from Kotak Securities.

**Garima Mishra:** Neville, any consumer behavior trends from your store that you think will sustain post COVID as well?

**Neville Noronha:** The trends are what we have commented earlier. That basket values increased with lesser footfalls. That's one trend we saw. Another trend we are seeing is, but it's not just about COVID, but in general. Whenever there is inflation, people down trade a lot so that's the second. Third is the trend we are seeing recently; we do not know whether it's the tightness of the wallet or it is restricted times to shop. Even the non-essential is very need-based shopping. So, to that extent, discretionary spending has not come in the non-essential part of the business in states where there are restrictions on timings. These are the indicators that I can give. At the same time, cities where everything is open, sales are happening well, non-essential sales are doing very well across.

**Garima Mishra:** But do you think, post COVID, we've had maybe a couple of months in between where restrictions have been relatively lesser. What I want to know is that this basket size expansion is this something that you think will normalize extremely rapidly or some impact of this COVID related hoarding mentality or whatever you may call it, going to the store a little lesser. You think some of this is going to remain basis whatever little you may have seen during the last year?

**Neville Noronha:** Too early to comment, but my broad assumption is it will come back to normal. Maybe a 5%-10% differential, but the better way to look at it is vis-a-vis demonetization. When demonetization happened, how much of the cash business went back to credit card. So, that's a good indicator to look at consumer behavior, but once everything was okay and fine, cash came back. But yes, it had maybe 5%-10% higher bump which sustained, but that's it, very marginal I would say. If you take that as a cue, I think it would be very marginal, but people will come back to their old ways of shopping behaviors.

**Garima Mishra:** The next question was on real estate. You mentioned earlier in the call that real estate availability in some sense could constraint what your actual growth potential could be. In the past you haven't been very open to leasing, but why not explore this more to grow faster?

**Neville Noronha:** It is a misunderstanding to say that, if I lease, I will grow faster, we are not a 1000, 2000, 5000 square feet store, we need large stores. Large stores are not easily available. While the opportunity to grow increases; maybe instead of say 30 stores, you will probably have 35-38 stores, something like that, because of leasing. That's it, it will not allow you to do 3x or 2x of your current run rate, just because you're saying that I'm going to lease now. And I'm saying that for the simple reason that we are still out of the reckoning in a mall. Mall operators generally don’t like us because of the rentals that we ask for. And we have always been saying that retailers like DMart bring in footfalls so you should give it to us at a price better than anybody else. I thought that in 8-10 years that maturity will come, we have been talking about it for the last 12-13 years, but it has still not happened. We still don't get invited by the mall operators and we don't go there if we don't get it at our price. So, the mall part is off. So, it is just standalone properties. So, to that extent, there is a limitation.

**Garima Mishra:** And the last question is more on your product procurement. So, is it safe to understand that the larger you grow, the more proportion of your product you would be sourcing directly from companies than their national or regional distributors?

**Neville Noronha:** Yeah. Logically yes. It makes sense to do it that way.

**Moderator:** The next question is from the line of Amit S from HSBC.

**Amit S:** I have just a question on the network rollout potential, which many people have already asked, but let me just attempt my bit as well on that. If I were to look at, there are three things here, real estate availability and procurement cycle, store size as a choice of format and third obviously the organizational capability, which is like supply chain or training of people and leadership etc. that whole package that comes with it. If I ask you one by one, if real estate and other things were not a problem from organizational point of view, how much stores you could have opened? Like, could you do given your size, is there a limit that organizational capability places on it, like 70, 80, 100 stores.

**Neville Noronha:** We have never thought about it like that. I have to think it over, I've not really thought about it like that, honestly no.

**Amit S:** Sure. But let me just stretch it a bit, obviously last two, three years, if I noticed the store sizes have been very large, I think 50,000 to 60,000 square feet, which is a great thing because you are getting real estate, you might as well get a bigger one, but then, I'm sure that many smaller store, like 10,000 to 15,000 square feet store must be also running great throughput for you and economics as well. You would know those stores very well yourself, but why not have an open mindset about, let me have larger format stores, but also maybe supermarket style stores as well, and go deeper into India rather than having to blow with that owning the real estate large store. That's a great model, but what is sort of your thinking if you can clarify and third, obviously, if you can, maybe store sizes can be flexible then rental ability can be easy and maybe penetration could be deeper because, I believe that better rollout are we like constraining it ourselves? That's the question.

**Neville Noronha:** That’s a brilliant point and honestly, we are not fixated with the 50K thing. So, in a large town obviously 50K stores are not easily available and we are very happy to sign even 20K stores. If they make sense to us, we do it, it's not that we don't do it, but our view of market is whether 50K or 20K, they are not very easily available, but we are not averse to it that we will not do, be it smaller stores also, 20K is also what we do.

**Amit S:** Where I am coming from Neville, is that if you model the entire India footprint – real estate, urban market centers, I'm sure the large formats will be then one format and the largest format would be maybe supermarket format and why not play aggressively as a tactical strategy, rather than having to pursue one line of thinking, I'm saying that eventually they will exist like that. There should be a very aggressive quest for seeking. I mean, that's kind of where I'm coming from. I'm not really pushing it too much, but that's where I was coming from, and the hope is that rollout obviously will accelerate by dealing with all these constraints.

**Neville Noronha:** Yes, fair point. Like I said, we ideally prefer 20K and above, probably you are nudging us towards 10K. We have a couple of 10K stores also. If it's a very compelling reason to even do a 10K-store, then we do a 10K-store also. Let me answer it this way. It’s not like we are rejecting stores which are coming to us which are around 10K-20K or 10K-30K, no, we're not. We are evaluating it on its own merit and if it makes sense, we will go ahead and do it.

**Amit S:** Very helpful Neville. Second, if I may quickly ask about the e-commerce integration with your own model, like you obviously have offline driven model, which you understand very well, execute really well. The cost economics are perfected over time, perfectly understandable, and e-commerce is new, compliment or enabler for it to serve the convenience kind of customer, which has emerged even more post COVID. If I were to ask you, what is the economic reality of these two services, whether the e-com business should be like an arm of the store nearby or is like some organization structure point of view where, how the incentive structures run and how the execution happens. Shouldn't it be more efficient if stores were the main economic center of that endeavor, or it should be run separately? Because my sense is that it could perhaps be more deeper, if store were to own it rather than a separate subsidiary doing its own thing. I don't know how you think about that.

**Neville Noronha:** If you could refer to my call of last year where we spoke about this. I will repeat that again. I know where you are coming from because globally all retailers are doing this and why we are not doing it is for the simple reason that we don't have the infrastructure, our asset utilization is already very high. If you look at the value per ton of India versus rest of the world and then you compare it with turnover per square foot we do, our assets are already operating at very high level of utilization and it cannot be disrupted to service our e-commerce customer, it will create dissonance and it will bring the productivity down and that is the reason why we decided to run e-commerce separately. Unlike when you go to a large retailer in the USA or UK, where there is inherent opportunity to utilize the assets better.

**Amit S:** Indeed, that’s where I was coming from actually, very clear. Just last bit if I may, for example, global role model. Because obviously retail has evolved in western markets for last 50, 70 years. What perfected several models have come in German retailers, European retailers, and US retailers, if I may ask you, who is your role model, like or at least there are many role models for different things, but how do you role model your organization or is it unique or you are shaping the product portfolio, cost economics, everything, from best practices already established. Can you, enlighten us a bit? How do you think about that?

**Neville Noronha:** My favorites haven’t changed. I like Costco, Ikea, Uniqlo. I mean these are the top three, there are many more but these are the top three which come to my mind, and it’s not just about one thing, it is about multiple things. I mean, culture, assortment, simplicity etc. it's awesome. I love these things. These are all on top of my mind and this all revolves around fundamentally culture. The way they think of products, people, business, partners, employees - it's awesome. I just love it. We are shameless copycats. In any way we like anything about any of these companies we apply thought of why it makes sense and then go ahead and implement it. These are our role models; personally for me.

**Moderator:** The next question is in the line of Sandip Patodia from Fundsmith.

**Sandip Patodia:** One quick question around if you could comment on any impact of COVID on the resiliency of your process and system oriented de-centralized company culture and in Q2 what you answered previously, you see the culture as the fundamental force behind retailing. If you could talk about what if anything has changed and whether resiliency of your culture has been proven and any insights on that?

**Neville Noronha:** Nothing much has changed. I think it's the same. I mean, people are committed; people are doing their job brilliantly well. If I think about the second wave vis-a-vis the first wave, even though the second wave had more casualties in the country, I think our team was actually more confident during the second wave. There is a caveat there; the caveat is we have a very-very young force. Retail typically has young people and 97%- 98% of our front-end employees are below 30; all young fellows. And we all know that COVID doesn't hurt or impact young people as much. So, that was a huge advantage. It was absolutely zero fear amongst our people; we took all the necessary precautions. The COVID cases in our ecosystem were very low relative to the country. I think that was the inherent advantage we had, during this time. And we are very liberal, for everything, anybody's calling in sick or whatever; we assured that nobody had any pay cuts. Everybody is comforted. In fact, we had a central command system created with quick development of certain apps to ensure real-time updates on all those who are COVID positive, to ensure timely medical care, things like that. Also we have oxygen concentrators on standby for our people and stuff like that. So, I think great culture doesn’t get shaken during tough times. You get the best out of people during tough times. I think, second wave also, my sense is we were more confident to deal with it. Let me put the business side of it also, we were more confident as a business model. First wave we didn't know what will happen to the business, but during the second wave we were very confident. Our calls, our decisions to even shut stores were more aggressive. It is okay if the store is shut for a week, two weeks, three weeks; it doesn't matter, business is going to come back because we saw that in the first wave. So, our decision-making capability was with confidence. These are the top of the mind thoughts that come to my mind and when the front end staff sees management or the senior leaders taking very decisive, specific calls, keeping safety of their fellow employees and customers as number one priority, I think it builds more confidence in everybody. So, that's the difference I would say that we saw, second wave versus first wave. I'm addressing this question in this way, because during the first wave I wrote a lot about how people reacted to the pandemic, I mean about our own employees and the second wave I think was a breeze, from a management perspective.

**Sandip Patodia:** Wonderful, thanks for that insight. Just one more question, I guess, your DMart Ready or e-commerce initiative. You come at it from a brick-and-mortar perspective, as in you are a brick-and-mortar business trying to build this out to see whether it works from an economic perspective, whether you can scale in the future. Most of the e-commerce operators come at it from a tech perspective. Right. They have expertise on technology and then come at it. So, does that, do you think that limits you in the sense, how has your team been built in terms of capabilities around technology, whether you hired a lot of people with that expertise and any thoughts on that front?

**Neville Noronha:** It's a brilliant point. In fact, that's something that plays around our mind all the time, that a brick-and-mortar retailer comes with legacy baggage, always talks about costs, talks about operations, and sometimes tends to look at technology as one ancillary part of the whole business. We're very aware of that limitation that we bring to the table. One of the reasons why we decided to set this as a separate company was knowing very well that this is the limitation we have and the fact that we run this as a separate company, with a separate CEO, allows us to bring in that dimension of giving extreme importance to technology. So, we are aware of that, and I hope that we build products on the technology side, which are as good as any other operator in the space, but I get what you're saying. Our only direction is that, build a few things, but do it really well. We'll not have a lot of the shiny disco balls, bells & whistles around technology for e-commerce, but the basic transacting system, the basic app, the basic search, the way the journey is, the navigations are, we want to be the best in class. Just do that really well, make the entire shopping journey super good. That's the direction that I've given to the team. So, point taken and that's something that's on the top of our minds.

**Moderator:** The next question is from the line of Prasad Deshmukh from Bank of America.

**Prasad Deshmukh:** I have a couple of questions. The first is actually a follow-up of the question that was just answered before this. When you do see a benchmarking, how do you take on app-based abilities, compared with say other e-commerce food and grocery players, like say Bigbasket, when I'm saying tech, I mean customer interface, backend server abilities and if you have done any senior hires, since changing strategy for DMart Ready in the last year? So, that was the first question.

**Neville Noronha:** You're talking about how do we change prices?

**Prasad Deshmukh:** No. It's more like customer experience perspective on your app versus say other e-commerce players. Is there any benchmarking that has been done and if you have made any senior hires, since change in new strategy, the DMart Ready strategy last year?

**Neville Noronha:** The second part I cannot comment on. On the first part, on benchmarking across applications, is that what you're saying?

**Prasad Deshmukh:** The customer experience and your backend server capabilities.

**Neville Noronha:** Okay. Overall, the application or customer experience, all of that, there is a team who runs it, and we ensure that on every parameter, we are as good as anybody else. And so that's a continuous process and that's what I alluded to in the previous question also, that from a technology standpoint we have to ensure that the journey for every shopping customer on the application is top class, frictionless operation throughout the journey of shopping. Whether it is search to eventual checkout and even post checkout, you are awaiting, so till the point you get the item delivered, how is the journey and also then if the customer has to reach out to us; if there are any returns, any issues, on every single element of this entire journey or touch point of communication, we try to ensure that it is super smooth, super good. From that standpoint there is a team that works on this diligently to ensure that we are among the top two, top three players in the city from that standpoint.

**Prasad Deshmukh:** And the second again is a follow-up on private label. While I understand probably the margins in private label are very similar to what you get in branded, how does the working capital cycle work in private label?

**Neville Noronha:** A good question. By the way, margins are not similar; margins are relatively better than brand companies for private label. Otherwise, you wouldn't do that business. Working capital is a very good question. We generally tend to hoard more inventories in private label products than in brand products; Obviously there are production cycles, minimum order quantities and stuff like that. And that's why, like I said, that you need to ensure that every element on the private label piece is working, only then we get into those categories. So, what's my minimum order quantity, the minimum order quantity should not be more than X number of days of sales; my running inventory holding should be within the limits that we have for those categories, stuff like that. Write offs have to be minimal, packaging has to be great. In general your inventory holding is more than for a branded product.

**Prasad Deshmukh:** Just to clarify, is this a negative working capital business for you?

**Neville Noronha:** No, it’s not. Our policy is the same. We pay quickly, so it can't be negative working capital.

**Prasad Deshmukh:** Last question on again DMart Ready. Here just want you to confirm if all your orders after charging for this INR 49 or 3% of sales whichever is higher, on the per order basis, are all the orders contribution positive at the gross level?

**Neville Noronha:** Yes.

**Moderator:** The next question is from the line of Sheela Rathi for Morgan Stanley India Co. Pvt. Ltd.

**Sheela Rathi:** I have two questions. My first question is you have talked a lot about the tough bit with respect to acquiring good real estate. So, the question here is that over the last 12 months have you seen if there are any acquisition opportunities that have got created with respect to some small modern retailers which you could think of acquiring and get this problem solved with respect to adding more stores or adding more real estate? So, that's my first question.

**Neville Noronha:** Our view is we are not very confident about acquisitions per se as we speak. Let me put it this way, if growth is our objective or store addition is our objective, is acquisition of another company the right way to do that? No. I would not say that it would be if I look at the landscape today in the country. I would rather add stores in my current setup by doing this organic method of store acquisitions.

**Sheela Rathi:** My second question is, earlier the DMart Ready delivery charges were higher which was INR 49 or 3% whichever is higher. What was the thought process behind reducing the delivery charges?

**Neville Noronha:** We have capped it to INR 79 now. You don’t get charged more than INR 79.

**Sheela Rathi:** What was the reason to cut the delivery charges? Because anyway you were seeing higher traction with consumers on the online bit.

**Neville Noronha:** Good question. It was simply because a) people were complaining, considering the competitive context and b) we took that call because the trade off to the consumer angst vis-à-vis the loss to the bottom line, it tilted towards the decision to say, come on, let's knock it off. Because in general the home delivery side of the business was anyways doing well for us. So, then we took a call to cap it off.

**Sheela Rathi:** One final sub-question on that. Last year you mentioned that home delivery and pickup were about 50:50. Is the number still similar or has there been any change?

**Neville Noronha:** Good question. It is tough to comment now because we just came out of the second wave of COVID. What I can tell you is whenever COVID was intense, it tilted significantly towards home delivery and the pickup point contribution was lower. As the first wave settled down and people were comfortable again it went back to 50:50. But with second wave again it tilted towards HD. But in general, it's kind of 50:50.

**Moderator:** The next question is from the line of Hiren Dasani from Goldman Sachs Asset Management.

**Hiren Dasani:** I just had a slightly different question on your ESG related practices. If you can maybe spend a few minutes on highlighting all the things what you are doing. I am coming from the perspective that if I look at some of the external rating providers on these parameters, I am sorry to say, but you rank very poorly on environment and the social related parameters. And part of those poor ratings is maybe because of lack of meaningful disclosures in your annual reports and in the other published documents. If you can just highlight what you are doing and if you can also increase the disclosures meaningfully on many of the practices, that would be really helpful.

**Neville Noronha:** Thanks for that feedback. There is an honest admission that we need to do more in terms of disclosures. I think we need to explain more about what we are doing on this front. We have got this feedback from multiple analysts earlier also. So, we are working on that. But we are doing reasonably good work there, especially on the environmental side. The AR speaks a lot about what we do there especially around renewable energy. We do a lot of work there. I personally look at that myself to ensure that we can convert as much as possible from the usual sources of energy to renewable. So, that's one thing. On governance I wouldn't want to say much, it's for you to judge basis what we do, what we say, stuff like that. Social again I think it's more to do with disclosures in terms of how much we should be writing. Maybe it's also a limitation because of the culture we have but that's not an excuse. When we talk less, we don't talk enough, but point taken, feedback noted. But we do a lot of work even on the social side. For our own employees or for communities within the cities we operate in, we do a lot of work with the municipal schools of Mumbai; a lot of information is there in the AR. But like I said again, feedback noted, we will make more disclosures there and speak more about what we do and wherever we see an opportunity to do more, we will do more.

**Hiren Dasani:** What I see that the meaningful difference between the industry leaders or the industry, at least industry average scores versus where you are scored, a few points on sustainable sourcing of raw materials, privacy and data security, or on the product safety and quality, I think those are most of the disclosure issues. And if you can put out a separate document on your website later on also through this thing that would be really helpful.

**Moderator:** The next question is from the line of Swagato Ghosh from Franklin Templeton.

**Swagato Ghosh:** I actually had three questions. First question is I wanted to know management's thought on bringing in some growth capital by diluting some stake in DMart Ready, probably that can lead to much higher value generation even at a lower stake for us. So, any comments on that?

**Neville Noronha:** Whatever the business needs we are able to fund from the parent company, beyond that I don't have any other comment to make right now.

**Swagato Ghosh:** The other question is you said that you did not have a loyalty program per se, but I am sure you must be collecting customer data on mobile and email

IDs, etc. So, I just wanted to know what is the level of digital engagement and outreach to our existing offline customers. And whether there is a ramp up in those engagements in the last 12 months to bring them back to the stores.

**Neville Noronha:** We don't have any specific data on offline customers, and we don't engage with any offline customers digitally with any specific customer related data. We don't have any customer related data from that standpoint for offline shoppers.

**Swagato Ghosh:** So, you do not also publish the discounts going on strategically to these customers?

**Neville Noronha:** No, we do not.

**Swagato Ghosh:** Would we be having then this data that how many of our DMart Ready customers are unique to DMart Ready? As in how many of those customers have never shopped in our offline stores. Would we be having this data?

**Neville Noronha:** No. We only have the DMart Ready data, but it is very need-based. We use it only to make deliveries to the right addresses, call the right telephone numbers so that the order fulfillment is appropriately done.

**Swagato Ghosh:** But on the offline store aren't we missing a trick here by not collecting any data and not engaging with them in any way.

**Neville Noronha:** We haven't been doing it since the very beginning and it's not that we are saying we didn't do it earlier, so we won't do it. Considering our model we don't see value in doing that. Our basic philosophy is run the business well, create very strong word of mouth, all old fashioned I know, not appropriate for today's tech world, but that's the way we are.

**Swagato Ghosh:** But you are saying you are open to change in your strategy if you find merit in it?

**Neville Noronha:** Absolutely. If business tells us that we have to change we will change. But so far, it's working for us so why change.

**Swagato Ghosh:** One last quick question is a bit of a basic question. The two fulfillment centers that you opened by closing out stores, I just want to understand why we couldn't have done a partial closure and converted back to fulfillment center because you yourself said that a 50,000 square feet store and a 20,000 square feet store both can act as DMart store. So, I am just trying to understand why we couldn't have downsized the store like the front-end store and have that store still there and maybe utilize a part of the store as fulfillment center. Why did we have to close the store altogether?

**Neville Noronha:** These are not very large stores that could allow us to run both together. Otherwise, we would have done what you said. In fact, one of our fulfillment centers is like that. It's on top of a store. So, if space is available to run both, why not. But only if it's a very large construction, otherwise no, doesn't make sense.

**Moderator:** The next question is from the line of Mahesh Kabra from Purnartha Investment Advisors Pvt. Ltd.

**Mahesh Kabra:** Query I have is about our employee number and addressing the disclosed number in the annual report is of standalone company. Why is it down YoY on contractual employees?

**Neville Noronha:** Just give me a minute. Let me check the number and get back to you. You are talking about the contractual numbers being lower.

**Mahesh Kabra:** Yeah, it's down from 38,952 to 36,869 YoY.

**Neville Noronha:** So, basically, it's a reflection of what we really need. Like I said, the efficiency has got better because the basket values have become higher, so to deliver the same number of revenue the relative reduction in the headcount has happened.

**Mahesh Kabra:** This is in spite of addition of 24 new stores, right?

**Neville Noronha:** Yes.

**Mahesh Kabra:** Another question was about; you have 39 distribution centers which were 36 last year. So, out of three, two are the fulfillment centers converted or all three are new?

**Neville Noronha:** Come again on the question.

**Mahesh Kabra:** You have 39 distribution centers which was 36 last year. So, the addition of three distribution centers includes the fulfillment center or that's separate?

**Neville Noronha:** That's separate. This is for ASL. This is Avenue Supermarts Limited - the brick-and-mortar business.

**Mahesh Kabra:** I just wanted to confirm that.

**Neville Noronha:** Fulfillment center is under AEL, it's a separate subsidiary.

**Mahesh Kabra:** So, again coming back to your employee's thing, so that shows roughly almost equal to your billing size improvement is the improvement in your employee productivity, is it?

**Neville Noronha:** Yes. Like I said, when basket value is going up during COVID pandemic, attritions are reasonably high at the front end. So, my front-end management calibrates head counts accordingly. It just gets more efficient as lesser footfalls and per basket value being higher help.

**Mahesh Kabra:** Another explanation I had thought myself, I just wanted to confirm that with you, does that have something to do with the fact that some of the stores were working under constrained working hours; even in March quarter.

**Neville Noronha:** Yeah, so multiple levers are operating.

**Moderator:** The next question is from the line of Nihal Jham from Edelweiss.

**Nihal Jham:** Three questions from my side. You mentioned in your offline business that general merchandise is a big driver of profitability. Now, traditionally e-commerce doesn't have this category given the lower gross margin and also the focus on discounting that is generally seen. Just wanted to understand how is the path to profitability that you are generally seeing especially say in a city like Mumbai where you have been present for more than three years?

**Neville Noronha:** I am sorry; there was some disturbance at our end. Could you just repeat the question a little loudly?

**Nihal Jham:** I was asking that in case of the offline business, it's known and even you have mentioned that general merchandise is a big driver of profitability. Now traditionally as we understand on the e-commerce side, there is not that significant a contribution and given that gross margins are lower and also the focus on discounting that is generally seen in e-commerce grocery. How is the path to profitability that you see in this business? And also, if you could share your experience that you have seen with a city like Mumbai where you have been present for more than 3-4 years.

**Neville Noronha:** This is a specific question for e-commerce, right?

**Nihal Jham:** Yes, specific for e-commerce.

**Neville Noronha:** We just cannot comment on what will profitability be; will there be profitability? Just cannot comment on that because profitability for e-commerce is a function of your topline gross margin. So, our focus currently is on running the operations at a reasonable cost which makes sense to us. And our objective is currently to be competitive there. Topline gross margin is a factor of market forces. But how you run e-commerce is in your hands. So, applying the same principle of DMart brick-and-mortar, that if we talk about our operating costs' prowess, can that prowess be transferred to e-commerce? So, keep away the technology cost and all of that and then how do you run the e-commerce business in an efficient manner, is the question we ask ourselves and how do we have competitive advantage there, that's the way we are approaching the business. So, if I have the competitive advantage in terms of running this business at an efficient cost, I think half the battle is won. But at the same time overall company level profitability is a factor of topline margin. So, there it is about assortment and all of that, which is a completely different game and more long haul. That's the way to look at the business. In the shorter term, how do I run the business at efficient cost, but in the longer term how do I manage my assortment piece in a manner that you get competitive advantage which is hard to copy. You have to play both.

**Nihal Jham:** And just a follow up on that, so say if DMart Ready was only operating in Mumbai and we had not made the investments in new cities, would it have been a model that may have reached profitability by now or it's difficult to comment on that?

**Neville Noronha:** Sorry, come again.

**Nihal Jham:** I was asking that say if DMart Ready was only operating in Mumbai and the investments into the new cities had not been made, would it have been a model that may have already touched a breakeven or turned profitable?

**Neville Noronha:** I cannot comment.

**Nihal Jham:** The second question was that you regularly keep mentioning on the EDLP strategy. Now, over the last year anecdotally I do notice that a lot of competitors are coming close to matching prices. Obviously not that they are still there. And I know you also mentioned the last time now that you do keep a regular tap on prices. I just wanted to get your sense that if you do see such aggressive pricing action do you want to take the steps of keeping that disparity or it is something that you are okay with one-two competitors end up matching some of the basket values or even going lower in some of them?

**Neville Noronha:** We will compete, we have always said that. We will compete; we will continue to ensure that our prices are lower. But like I said, beyond a point you also get to create differentiation because a lot of the items that we sell are something that even trackers don't pick up. We observe all these benchmarking trackers. But then those are just 20%-30% of the revenue of what a retailer like DMart does. You still have a huge chunk of business where it's very hard to compare apple to apple. And I have spoken about this in detail even earlier that we have general merchandise, we have apparel, and these are very complex categories, where you really can't do benchmarking per se. Every retailer creates its own differentiation and that allows you to operate with decent margins. So, considering all of this and we have seen this earlier also, all discounting is very sporadic from that perspective and very limited to branded FMCG products. Why I am excluding the durables and all of the expensive stuff is because we don't do business there, but otherwise you do have the apple-to-apple discounting comparisons there too, but we don't do that business. But otherwise, most of the comparison is on FMCG branded products. But we will continue to operate at a pricing which is meaningfully cheaper for consumers / shoppers than anybody else. That is a position we would love to hold.

**Nihal Jham:** Last question, you mentioned on wholesale cash 'n' carry was postponed because of the pandemic. Any plans of considering that as things normalize?

**Neville Noronha:** No. Not now. We are still looking at stabilizing our current business and focusing on our current business.

**Moderator:** The next question is from the line of Swati Mehta from Hill Fort Capital.

**Swati Mehta:** I had a couple of questions on the DMart Ready business. So, the first one is basically as the scale of the business doubled, what are the major changes that you had to make from a capability point of view? And I know you touched upon this last time in the analyst meet that you were going to make some big announcements. And whether you are happy with it because as customers we just felt that during the second lockdown that just happened, the experience could have been a little better given that we had the time to prepare during the first wave. That's the first question.

**Neville Noronha:** So, this is pertaining to DMart Ready, right?

**Swati Mehta:** Yeah, pertaining to DMart Ready.

**Neville Noronha:** Fair enough. Your feedback is taken on doing it better than the first wave. Again from a DMart standpoint when I look at the numbers, we did far better than the first wave from an e-commerce business perspective if I look at the revenues. What happened is in the first wave everything collapsed; we couldn't even service our regular orders because for the first 15 days people stopped coming to work and stuff like that. That didn't happen in the second wave. And in the second wave, by that time we had double the capacity say in a city like Mumbai. We had two additional fulfillment centers. In fact, we added a third also. So, from two fulfillment centers, we moved to five. But the point is that again during the second wave, the demand was very high. You can't service the entire demand. You will have a section of consumers or shoppers who will be very dissatisfied. And we all know, right? Even if you dissatisfy 1% of the shoppers, the noise it creates on social media is huge. An e-commerce shopper is a very demanding shopper. That's why the noise created a negative feedback and that got amplified. But otherwise, I think you need more fulfillment centers, and the more fulfillment centers you have closer to the consumer market the better it is. You are able to service more orders; you are able to service faster, earlier, with better availability. So, that's it. So, even after having these five fulfillment centers it still fell short. Now the point to make is that what happens post COVID, what happens 3 months later? Will we continue to have the demand that we are having today? Those are the questions we have to ask and respond appropriately and then do investments appropriately. So, that's it. That's the point. And as far as announcements are concerned; the announcements were about new cities which we have already done, Bangalore, Hyderabad, Pune and Ahmedabad. These are the cities we are operating in.

**Swati Mehta:** The second point that we wanted to understand better was that, as you mentioned roughly, again relating to DMart Ready, the 800 crores of sales is primarily from Mumbai area and does that mean you were the largest player in the city, and can you share some more color if you have any data on the market share for Mumbai?

**Neville Noronha:** I have no clue. I don't know what the market share is in Mumbai. Really don’t know.

**Swati Mehta:** Next question is, this is on the own label piece. Our understanding at least with the fact that the supplier ecosystem for own labels is not super strong in the country. And as we see more and more D2C brands come up, even though they have been talking a lot about improving manufacturing capabilities in India and these are for FMCG products itself. So, have you felt that and if yes, does that change your view on how quickly you want to scale up? And this is taking into consideration all the other points that you have mentioned on private labels with respect to the pricing and so on but from a supplier ecosystem point of view.

**Neville Noronha:** So, your question is how is private label playing in the e-commerce setup and in the context of D2C brands? Is that the question?

**Swati Mehta:** Yeah. And do you see the supplier ecosystem really improving. And if yes, does that change your speed at which you will take this up?

**Neville Noronha:** Our view is everybody will co-exist. First let me talk about D2C brands which is very interesting and a very evolving sector and what we understand from it. We have two types of D2C brands, some want to be on an e-commerce platform, some who don't want to and want to run it through their own e-commerce websites, or they are very particular about what websites they want to sell through. Those are the challenges we face with certain D2C brands. Obviously because lot of people’s perception about DMart is ‘oh it’s a middle-class store, not so sexy place to be in, so I don't want to erode my brand image’ and stuff like that. So, those are the challenges we face. But otherwise, niche brands have amazing potential on the e-commerce platform. That's our broad view. They do reasonably well on the e-commerce platform. Private label again, I would say it’s too early to comment, but it's not bad. The ratio or the sales contribution vis-à-vis brick-and-mortar is either equal to or better. So, we are doing reasonably better through brick-and-mortar stores. So, that's the insight on private labels. But at the same time the D2C brands mostly are niche. They are a great margin maximizing opportunity. I do not know about how they will compete at scale. That probably time will tell. My view is all three will co-exist. Private label, D2C and the big brands.

**Swati Mehta:** I just want to clarify, I meant, can we incorporate some of these D2C learnings within DMart when we create our own labels?

**Neville Noronha:** No-no. See, D2C is D2C. They are marketing geniuses. These D2C brands are successful because of deep insights. When you are talking about private labels, you are talking about straddling the entire franchise across multiple companies, multiple categories. And the general course of this is yes; you learn from everybody but at the end of the day what is the principle of private label? Equal to in quality, cheaper end price to consumer and better margin for the retailer. When you bring all these three together, I think the simpler the category or the simpler the product formulation and driving efficiency, that is the way. They are different. I mean D2C, I cannot replicate. I'm very clear about that, D2C is special.

**Swati Mehta:** Just one last question from me which is the product that we sell in a DMart Ready store, are they retailed on the basis of convenience or value?

**Neville Noronha:** Good question. It's a discovery for the consumer, shopper but in general I would say the home delivery is more…So, let's put it this way, I can't give a straight answer. The idea of coming into DMart Ready was how can we bring in a model where consumers, there are consumers who like DMart but probably don't like to come into the DMart store for whatever reason. But how do we give them the DMart experience at DMart prices? That is our attempt with the DMart Ready model. So, whatever that means, for some consumer it maybe convenience, for some it would be price. That's the way to look at it.

**Moderator:** The next question is from the line of Aliasgar Shakir from Motilal Oswal.

**Aliasgar Shakir:** I have a couple of questions on your online business. So, when you see your online business, certainly if you see over the last year, you've almost doubled but when you see your competitors in the last 3-4 years, they have gone 6-7 times. You mentioned that maybe you will probably kind of take another couple of years to see and then probably ramp up. What is the tipping point that you see that will make you far more aggressive in online wherein barely a fraction of some of your online players? If you can just share your thoughts there. Second point on the same related online is the DMart Ready. So, when we think of online, it's a mix of DMart Ready driven growth. So, is there another model that you think, you would want to try maybe at a later stage, or you think your growth online will be driven by only DMart Ready?

**Neville Noronha:** The response to the first question is if in Mumbai DMart Ready breaks even, our speed of acceleration will be better, we will accelerate faster. That's broadly the point on what does it take for us to accelerate. On any other model, I think it's still too premature. We want to fix this model first before thinking about some other model. Like I had commented earlier also that marketplace is an area we will not get into. So, that's it. If we fix this, the DMart Ready business itself, it's a crazy opportunity. Just getting this right is good enough for us for a reasonable amount of time to accelerate the expansion.

**Aliasgar Shakir:** Can you share what is really being the hindrance, is it scale, is it volumes because some of the other players in similar regions are doing multiple times of scale probably, is that correct?

**Neville Noronha:** I don't know about the others but for us, for this business to make money and I have commented last year - it is top line. If we get top line, this business can make money. The intensity of sales on every unit of measurement. Because if the intensity of sales is in order, we can make this work.

**Aliasgar Shakir:** As a consumer, I can say maybe DMart Ready today may not be probably in the top 2 or top 3 preferences for a consumer. It could be probably just purely because of the promotional campaigns and by some of the online players or I don't know what is the other reason. But I'm just thinking from the point of view of when you say volumes or sales is your key factor then how are we ranking in terms of in consumer's mind as a top online operator?

**Neville Noronha:** You have a good point. I don't have a very clear answer to that to be very honest. If you look at the e-commerce space, the obsession on consumer satisfaction is at the cost of losing a lot of money. Now obviously if you see our P&L and balance sheet for this year, obviously you've seen that there is a huge focus on ensuring that the losses are in reasonable limits. Now when you have those kinds of limitation which comes from the DNA and culture of the firm, there's going to be a tradeoff. You are going to compromise in certain areas. The point is as a company - are you comfortable with that? Of course, we are. If I want to be in the top 1, top 2 from a consumer rating perspective, then obviously the burn rates will be much-much higher. The point is we neither want to be the top nor want to be the bottom. I am a functional service. Let us for a minute take the digital away, look at the DMart (B&M) business. I am delivering very-very functional service. I am not giving you top class experience when you walk into my store. I'm just giving you good products at great value. Everything else is very transactional. The point is the moment I move that on the digital side, probably because the competitive context is of a particular order that I look relatively worse from a consumer experience perspective and the package. But it’s too early, let's see what time says. Is my product assortment and is my value compelling enough for the consumer to kind of ignore a little bit on the other parts of the experience? Let's see with time.

**Aliasgar Shakir:** So, some of the online players who are perceived to be big loss-making entities. Haven’t they all turned pretty much closer to breakeven or profitable. It would be just because of the COVID factor where their investments in marketing would have been much lower. But a lot of them have actually turned profitable. So, I was just thinking from the point of view that when you achieve scale, doesn't that itself give you enough ability to maneuver with pricing and lot of those things that would kind of make you much more competent. I am sorry to just harp on this point. But this loss-making factor that is being looked upon as an online as a vertical, isn't that really changing for lot of online players, big scale?

**Neville Noronha:** I haven't seen any other online company's financials so I cannot comment on that. But everybody knows that with the pandemic the revenues have gone up significantly. Now how does that add up in the overall scheme of things, over a period of time, I think time will tell, so we'll see.

**Aliasgar Shakir:** Just quick couple of questions. One is on DMart Ready, today DMart Ready is seen as a vehicle for online growth. Do you see that probably as an opportunity for you to drive daily business?

**Neville Noronha:** Sorry, come again on the question. I couldn't get it.

**Aliaasgar Shakir:** I am saying DMart Ready today is seen as a vehicle to drive your online business. But can DMart Ready drive growth to the daily format in specific cities probably?

**Neville Noronha:** The daily format means the regular format?

**Aliasgar Shakir:** I'm saying basically the format which has typically like 1000-2000 square feet format where it's like a general grocery kind of a daily format store.

**Neville Noronha:** That way, no, we haven't considered that yet. We need to understand the FMCG business in India, I think that's one critical point to note and we've seen in the last 10 years how the convenience format has evolved. Convenience works well if the gross margin of the business is reasonable. India doesn't give you decent gross margins. FMCG business doesn't give you decent gross margins to make that business profitable in the brick-and-mortar business. So, to that extent we are not very confident about selling FMCG or grocery in the daily format in a way that you are talking about.

**Aliasgar Shakir:** Last question was private label. I see a change probably in your, maybe I should just say stance or your conviction on private label which is significantly increasing versus earlier where we were not so aggressive on private label, thanks probably to COVID. But where do you think you can grow this private label, and do you think that this is only as a vehicle to improve your margin or do you think private label as a category can actually be a very good vehicle to even increase your customer breadth probably?

**Neville Noronha:** If you look at all global retailers, everybody started private label with a Me-Too, better price, better margin principle and then depending on your confidence in managing that category with your own internal teams. Then you begin to have differentiated products, especially on the food side, local taste. Those are the opportunities for the future. We also see it that way but like I keep saying it's a long haul.

**Rushabh Ghiya:** Lizann please give us a minute before the next question.

**Neville Noronha:** Rushabh just interrupted me to make a clarification on the store openings because there has been a slight understanding gap on store openings. I am just reiterating what we had said in the last year’s analyst meet where we said that this year that passed by the FY 2020-21 period and the FY 2021-22 period combined we said that we will open 59 stores. That was a guidance we were giving and that is what we are retaining. This effectively means that last year we opened 22 stores and so 37 should open ideally this year. I just want to clarify that and we aren't giving any guidance beyond that.

**Rushabh Ghiya:** 59 basically is the sum total of 2 years not for 1 particular year.

**Neville Noronha:** So, that's why the interruption. Lizann, we can go onto the next question.

**Moderator:** The next question is from the line of Percy P from IIFL.

**Percy Panthaki:** This is Percy Panthaki here. I just wanted to understand how your store does in a particular micro-market on an average. In a particular micro-market, let's say within a 2-kilometer radius of your store, I know you don't have this data but if you were to just guesstimate, what kind of market share within the grocery industry of that catchment would a DMart store typically have?

**Neville Noronha:** Sorry I cannot comment. We have never done all this analysis so I don't know.

**Percy Panthaki:** Secondly, you mentioned that the opportunity is that for 1 lakh population you can open one store. So, does that mean if you were to look at currently your number of unique customers transacting annually per store; would that be like 25,000 because 1 lakh population would mean 25,000 households? Is that what you mean really?

**Neville Noronha:** I mean what I said is that in 1 lakh+ population towns, one DMart store works, that's it. And this is purely basis I have put up that store, I observed it for a year, it's doing good revenue, it is giving me profit, that's it. Beyond that I do not know whether its 25,000 households or 15,000 households. I don't know that.

**Percy Panthaki:** This is based on your actual experience in a particular couple of towns or three-four towns that it is there?

**Neville Noronha:** Nine cities. We have nine cities with population below 1 lakh where we have a store. They also do reasonably well and then 1 to 5 lakh we have around 55 stores. The data is basis this, this is hard data that we have a store there and basis that.

**Percy Panthaki:** But those stores do not have significantly lower sales versus the country average?

**Neville Noronha:** Could be. I have spoken about this also again earlier that lower the population strata, cheaper the real estate. Also cheaper the real estate, lower the pop strata, lesser the revenue but at end of the day it is about ROCE right, so that works.

**Percy Panthaki:** The reason I asked is I was doing some math. Your revenue per store approximately on an average is INR 160 crores and if I take let's say a reasonable amount of let's say each transacting household spending about 2000 a month so about 25,000 a year, then you really need a much larger population to or rather transacting households to support a particular store and even within that you would have a certain market share within the catchment, right? You won't have 100%. That math works out very differently for me. I don't know what is the reason for that.

**Neville Noronha:** Have you considered repeat buying in the same month by the same household?

**Percy Panthaki:** Yes, so INR 2000 a month if I consider, per month, per household for a guy who transacts with you, that would be let's say INR 25,000 a year of a value and INR 160 crores is your total sales per store. In that case the number of households required to support is actually coming much higher, right?

**Neville Noronha:** I think the catch there is that people buy more often. Look at anybody's home or probably your own home – is INR 2000 enough for a month? It may not be enough for a number of families. I think that's the catch and so you tend to buy more.

**Percy Panthaki:** Secondly, wanted to ask regarding your approach to store expansion. You have always stated that you would rather go for a slow and steady kind of approach but isn't there a total finite opportunity? I know there is a big market share gain from unorganized which can happen over a period of time but say within a particular catchment because people don't want to travel more than 2 kilometers-3 kilometers at max. If there is another big, organized player who opens up in that catchment before you, doesn't that really reduce the attractiveness of that catchment for you?

**Neville Noronha:** So far it hasn't affected us. In a lot of cities where we have opened, there was an existing retailer operating there so it hasn't affected us yet from that perspective.

**Percy Panthaki:** In a city they might be there but in a particular micro market, in a particular 2-kilometer radius have there been cases where two large, organized retailers are present and when the second guy comes in, there is no impact on the first guy's sale?

**Neville Noronha:** There is an impact. I can speak about us. Suppose I was operating somewhere and somebody else comes close to me, my business does get impacted for the first few months but then it comes back. See that's why I keep saying that the market opportunity is too large. So far there is no problem.

**Percy Panthaki:** Lastly on DMart Ready, any kind of idea you can give in terms of how the rollout will progress over the next 3-4 years let's say if we take a longer-term period like let's say 5 years, how many cities do you think we can have a DMart Ready in?

**Neville Noronha:** I cannot comment. It's purely a factor of how we perform in Mumbai and how the business progresses in Bangalore, Hyderabad, Ahmedabad and Pune. One at a time that's the way we are. We don't give predictions for next year for the brick-and-mortar business, can't predict about what will happen here 5 years down the line, really don't know. Play it by the ear, that's the principle we operate on.

**Moderator:** The next question is from the line of Amol Gogate from Carmignac.

**Amol Gogate:** I wanted to understand from what I can hear, there seems to be still some hesitancy in rolling out DMart Ready and it seems like it's certainly much lesser than what it was 18 months ago but it seems to be linked to your thinking that you need to get Mumbai right. But isn't that a brick-and-mortar way of thinking about the business? Don't on the e-commerce side companies are lot more aggressive, prepared to expand mainly because there is a possibility that there are others who would get to the customers faster than you. So, how do you think of the lost opportunity? And also, why in light of the potential loss opportunity, why the hesitancy in expanding as fast as you can?

**Neville Noronha:** I wouldn't agree that there is more hesitancy than 18 months back. In fact, we are more aggressive now than 18 months back. That's why we have gone to these cities, new cities. Let me put it this way that these large cities have a population which is significantly higher. If you address these cities in a far meaningful way and put in some more money to ensure that we get more shoppers to shop on the application, that would be a better way to address the market opportunity. And we are taking this two-three cities at a time kind of simple approach; time will tell whether we are right or wrong in our approach. Now it seems like we are being too conservative but that's the way we are. Can't help much about that. We won't go across all cities but we will see how we do in Hyderabad, Bangalore, Ahmedabad and a couple of more cities that we are planning to do and let's see.

**Amol Gogate:** Not even expand to other cities but even Mumbai clearly from your commentaries looks like you know that DMart Ready has a lot of opportunity in Mumbai alone but you seem to be waiting to get the model right. Am I right in understanding that?

**Neville Noronha:** No, Mumbai we are going whole hog. If we are seeing pent-up demand, we are setting up fulfillment centers to fulfill that demand. Mumbai we are going all out to be very honest. And Mumbai is a 2.2 crores population city; that is MMR, the entire Mumbai Metropolitan Region. It's a large population.

**Amol Gogate:** For the other cities, is it a lack of people that you have because obviously from a funding perspective, you said the parent company can fund that initiative even in the other cities. Anything else that kind of constraints you from rolling out faster?

**Neville Noronha:** No, we are at the right pace. So, no issues there from a funding perspective or people perspective.

**Moderator:** The next question is from the line of Sameer G from IIFL Securities.

**Sameer G:** This is Sameer from IIFL Securities. I had two questions. Coming back to the last quarter performance, what we saw was a sharp contraction in gross margin. Now, I understand that this quarter there would have been a higher mix of essentials and staples but that would be true for the base quarter as well. Is there anything out of the ordinary here that we are missing on this gross margin contraction just for this 1Q performance?

**Neville Noronha:** Good observation Sameer. Actually, what happened in the first quarter of last year was new for everybody, and non-essentials were also completely shut and we had done a slight calibration of margins in the essential piece last year. That's why it's not comparable to first quarter this year. First quarter this year, we didn't touch anything there and non-essentials were again shut. That's why there was slight erosion on margins, that's it. We are pretty confident that whatever happens, things will come back and we are not too paranoid about margins per se. We let it be the way it is. Second is we didn't have any major one-time costs like we had last year. We paid significantly higher wages for people to come back to work and stuff like that. So, that's the reason but it's a good observation and that's our response.

**Sameer G:** Also on the e-commerce bit, just one question. Is it completely run separately? So, as in the same product, on a DMart store, is it available for a different price or a different deal on the e-commerce format or is it the same, at least in the similar catchment?

**Neville Noronha:** It's legally and operationally a separate entity, running a separate technology set-up, everything is separate; everything runs independently, it has an independent CEO. His name is Vikram Dasu who runs it. So, the broad ethos or what DMart stands for is the basis which the business runs. There is a lot of pricing, purchasing, buying and merchandising synergy that is transferred to that company, to that business but otherwise if you ask me, piece to piece, item to item is it the same price, no. It runs independently basis the principles of DMart and from an assortment standpoint; it is a subset of the DMart assortment. You will not find everything that is there in

DMart in a DMart Ready store. So, it is basis some analysis, some logic, we list a certain set of products in DMart Ready. Also, there are a reasonable number of articles which you sell on DMart Ready which you don't sell in DMart store and that's why we wanted this business to be run separately because it has a different principle; different go-to-market principle. So, that's how it is run. I hope I have answered the question.

**Sameer G:** Yes, very clearly but only thing is that because we are running it with the same brand in the mind of a consumer, isn't it creating some sort of distortion or maybe if I may use that term a little backlash for the brand? If there are differential prices for the same product on different platforms offered by the same company, at least in the mind of a consumer?

**Neville Noronha:** Great point. Basically, look at it from a consumer standpoint. What does DMart Ready stand for? It's the app. How the app is communicating or responding. A typical DMart Ready shopper; she would buy stuff that she would otherwise buy from DMart Store which generally is available on the app and the ethos is that pricing has to be similar, similar meaning same levels of discounts. So, you are delivering that to the DMart app. At the same time, there are certain shoppers who would want something else, which is delivered to her through the search. Only if she's searching for Davidoff Coffee then she would see it on the screen. But if she wants Nescafe, Nescafe is there in DMart and here too. It is mutually exclusive. There is no distortion in the positioning of DMart.

**Sameer G:** Just one final follow-up on that. Is the whole MMR, the metropolitan region of Mumbai being serviced by DMart Ready or is there still some spaces left out as you said that you are still opening more fulfillment centers?

**Neville Noronha:** There are gaps. Certain regions, certain areas basis the physical reach but more in the non-BMC limits. Within BMC limits, we are covering almost every pin code, unless we have a specific locational challenge that a vehicle cannot reach, or it's not appropriate to go and do business there. Otherwise, entire Mumbai city is covered but MMR obviously there are challenges in certain parts because of distance. Those are the gaps otherwise more or less MMR is covered.

**Moderator:** The next question is from the line of Amnish Agarwal from Prabhudas Lilladher.

**Amnish Agarwal:** My first question is on DMart Ready where we first started these stores as a pickup point and then delivery. Do you have any plan to convert these DMart Ready outlets? First of all, how many outlets we are having, and do we have plan to convert them into neighborhood stores because since Subhiksha was closed we don't have any organized retailer who has gone into this neighborhood kind of a formats in India? Secondly, when we are giving the guidance on the number of store openings this year at 59 which includes the carry-over from last year so how are we prepared that beyond FY22. So we will be still sticking to say 40 per annum or we have plans to go to much higher numbers looking at the fact that you are seeing that there's a potential in the distinct cities itself for 1200 to 1300 stores?

**Neville Noronha:** Amnish I would like to clarify once again, the guidance for this year is 37 stores, not 59 stores so that's one. Second is, as on 31st March 2021 we have 290 pickup points of which 276 are in Mumbai; so bulk of it is in Mumbai. About converting the pickup point stores to convenience format, we spoke about it earlier, I am repeating this again. We do have some pickup points which are relatively larger and we do sell some stuff there but that is more to focus on making it more margin accretive. That’s it but not really a complete convenience store. I would recommend you go and have a look at it and then make your own interpretations. And what was the last part of your question? Store guidance. We don’t give guidance, I am repeating this again. Last analyst meet I gave guidance because of COVID and its relevant disruptions and hence we said that pre-COVID we opened 59 stores over 2 years so we said 59 in the same following 2 years which is last year 2021 and ‘21-22. So, out of that we opened 22 stores last year so we are saying we will open 35.

**Rushabh Ghiya:** 35 to 37. We have also closed two stores. If you will calculate gross then 24 stores have already been opened in 2020-2021. The grand total for the 2 years should be taken as 59 and not for 1 particular year. I hope that clarifies.

**Amnish Agarwal:** Yes, more keen to know was that in terms of the ability of the management team to handle the store openings so any clarity on that in the medium term that how much of that we can handle?

**Neville Noronha:** This question Amnish was asked earlier also. I cannot comment on that. All we can say is that whatever the real estate team can give us, we are reasonably well equipped to handle to open stores. What that number is, I would not like to comment. All I can say is we are building reasonable capability on the operational side or the project execution side to ensure that we have a decent pipeline of store openings in the future.

**Amnish Agarwal:** And Neville just one request that if we can share on a quarterly basis the P&L of our e-com business so that will be very useful.

**Neville Noronha:** I don't think that would be possible, but point noted, we will discuss internally.

**Moderator:** The next question is from the line of Binoy Jariwala from Sunidhi Securities & Finance.

**Binoy Jariwala:** My first question is, in the last year when the sales were still recovering in Quarter 2-Quarter 3, we saw that our EBITDA margin already hit 8% and 9%. Now I understand that you might have done some changes in the way you operate the business, extracted some costs out of the system which is more structural in nature and will not come back but just would like to know from your perspective; would you like to take this as an opportunity to go further down on your gross margin?

**Neville Noronha:** So, the way I always respond to this is 15%-16% gross margin is what we look at, top line gross margin. So, we will never earn more than that. Now, how much lesser should we earn is a factor of competition and all of the other things. So, the broad principle is not more than 15%-16% gross margin, 15% just for simplicity's sake, we will never earn more than that and we will always focus on our business from our cost perspective to ensure that we run the business as efficiently as possible but obviously ensuring that we don't cut corners – employee wages, compensation, talent quality, all of that has to be top class, no compromise there but still run a very efficient ship. And then whatever profit comes at the bottom line is the profit that comes. I mean for us the first two parameters are more important and then competition. If competition makes us earn lesser gross margin so be it, we will compete. That's the way to look at it.

**Binoy Jariwala:** The second question is on inventory level. In Quarter 4 in your commentary, you said that you have a problem of plenty of inventory because you were optimistic on the business prospects. Has that inventory now normalized?

**Neville Noronha:** Yeah, totally normalized, it's become all right. We didn't know how long the lockdown would be and stuff like that, but things have rapidly come back to normalcy like I have commented. States which have relaxed norms much earlier are doing phenomenal sales, they are doing all well, all the worries have gone and we are perfectly okay on inventory. In fact, we may end up having shortage of inventory. These are crazy times actually, the way we are yo-yoing between situations in the country because of COVID it's crazy. Inflation, stock-outs, excessive inventory, flight of labor, then labor coming back, multiple things are happening.

**Binoy Jariwala:** Now a very basic question. Pardon my ignorance on this. Let us say you are now setting up stores of the average size of approximately 50,000 odd square feet. Now these are typically G+2 kind of structures or maybe even G+3 structures. Initially when the crowd is still gathering pace and it's still coming into the store, you have said earlier that you typically start the store partially not completely right and then as the crowd picks up, you open up the additional floor or so. My question is that in your retail area, when you mentioned that this is about 8.8 million square feet of retail area, there would be stores which you have not completely opened up. While counting retail area, do you take the entire retail area of the store or only the retail area, which is operation?

**Neville Noronha:** Only operational.

**Binoy Jariwala:** Which means so just for clarity purpose, you are saying that let's say it's a G+2, and you have started G+1 then you only count G+1, right?

**Neville Noronha:** Yeah, broadly yes.

**Binoy Jariwala:** Neville wanted to share one observation with you. On DMart Ready when we were looking to order, there is a waiting period of 3 to 4 days. Is there any internal target where you want to lower this waiting period?

**Neville Noronha:** Waiting period is a factor of demand. If demand is excessively high the waiting periods get longer. What we have done is; one jugad we have done is now we don’t take orders beyond a particular number of days, that's the only way to cut the waiting time because otherwise you open it for 7 days, you get orders put over 7 days, number one. Number two also to understand that there is a set of customers who don't see it as a waiting. They actually, voluntarily select a period of their choice. We have to also look at it from that perspective but point taken that these are the challenges we are facing. In our internal conversation we ask ourselves as to how do we ensure that we deliver 100% of orders within 24 hours? And if there's an opportunity to deliver within 2 hours, can we? If there is an opportunity to deliver within 6 hours, can we? These are the conversations we are having but like I said point taken. But if you look at global e-commerce, grocery retailers especially, they also have slots for a longer period of time because they want people to plan their grocery shopping. We should not just see it as waiting time. There are some people who want it on a weekend, on a particular time slot, date slot, things like that. You have to look at it both ways.

**Binoy Jariwala:** Last question is you have some land which has been acquired in the subsidiaries with approximately of INR 18 crores in FY21. With subsidiary has this been acquired in?

**Neville Noronha:** So, this is the grocery side, I think. I think it's in the ARTL business which does the grocery processing. We bought some land there to build out some manufacturing capability.

**Moderator:** The next question is from the line of Varun S from IDBI.

**Varun S:** First on real estate acquisition. Just wanted to understand that you know in the long-term, will it be okay if we match long-term assets with long-term liabilities which is a long-term debt or how are you thinking about funding the acquisition of land going ahead? I mean over and above the cash that we generate from operations?

**Neville Noronha:** If we need to raise debt to buy real estate or to help us in expanding our business of course we will do that. But the point is that it's a factor of two things. One and most importantly that, is my company capability good enough to open stores at that run rate, number one. Number two is what debt is the right debt without having any risk to the balance sheet. So, both are equally important but in general if you ask me only about "oh will you raise debt to open stores?" Of course, why not. We have done that in the past too.

**Varun S:** Kind of you are not averse to taking debt also going forward for funding acquisition, great and second question…

**Neville Noronha:** Acquisition of what? Real estate or general acquisition?

**Varun S:** For the real estate?

**Neville Noronha:** Yes absolutely.

**Varun S:** Right and my second question is, you already mentioned about that DMart is not averse to opening a 20,000 square feet store and we also have a couple of 10,000 square feet stores. But I just wanted to understand that on the maximum store size front is there any kind of limitation that we thought of that okay this is the maximum size and we don't want to go beyond that like more than 1 lakh 50 thousand square feet size of store on an individual basis. My reasoning for asking this question is, DMart can use same principles of price disruption to kind of penetrate into lot more categories. For example, consumer durable, we don't sell bicycles etc. So, I don't know I mean which all categories that there is huge amount of optionality in terms of categories that we are tapping strictly on the non-food side. This is large format store and a category evolution or tapping new category so how do you think about it?

**Neville Noronha:** The main thing is relevance and how relevant is the model to the category we operate in so that has to be retained. We like to work in categories which are simple to understand, simple to explain, easy to carry things like that but at the same time as the country, the economy evolves, if say for example, per capita incomes increase consistently at just 7% to 10% every year; that automatically overall every 3 to 5 years creates enormous opportunities. Now point is when those opportunities get created, how do you align these opportunities to your model and what are the ancillary relevant categories that you can enter into and this is a continuous activity we do with the buying teams and it is their job to do that, to review that and we keep doing small trials, small pilots and then we decide that let's do this subcategory too. In general, your point taken but we are very particular about what are the things we should not be doing but it's a very fluid situation. I don't have a very clear-cut answer. I am just giving you the broad ethos, the principle of how we do that and that's why owning property, owning a real estate and building slightly more gives you that future leverage, that future dexterity to try these new things. So, yeah, you are absolutely right.

**Varun S:** On maximum stores size, any commentary on that?

**Neville Noronha:** No, I cannot comment on that but it's logical. You don't build unnecessarily large stores just because you own the real estate. I don't think that's a very prudent way. We are very prudent with our capital and with decisions like these but I can't give you a number to say we won't build beyond this size.

**Varun S:** Just last question on customer experience, so we talked a lot about online customer experience but in the offline space, I mean the business that we know quite well and as you rightly highlighted that lot of customers who do not want to go to offline DMart stores, so these are mutually exclusive set of customers but in the offline customer space, what are the things that we are doing to improve customer experience? Because long customer queue is one of the main problems. But I don't see DMart using too much of tech to solve for this problem. For example, a customer doing self-checkout kind of stuff. If you can throw any highlight on how we are obsessing about customer experience in the offline DMart stores.

**Neville Noronha:** We follow the principle of 4RQC. So, 4RQC is right product, right price, right place and quantity, right price board and then quick check out. That's the basic ethos on which the company operates. For us, the principle of customer experience revolves around 4RQC, that's it. If I give you the right product at the right price, at the right price board and in the right quantity and then having a quick checkout, that's it. Only this you will get in DMart.

**Varun Singh:** Quick check-out when you say - is that the only thing that we are doing?

**Neville Noronha:** Let me come there, now just specifics about quick check-out; the very interesting journey. What happens is if you notice that the ratio of number of check-outs to the trading space DMart has; it would probably be one of the highest in the country, probably globally also. The problem is that as many check-outs as I add, I get more and more crowd in the store, beyond the point of the limitation of a brick-and-mortar store. You can't break down walls and put check-outs in the open, so that's the challenge. That's why during peak hours we do have queues. Then what do you need to look at? Then you need to look at technology, how fast can it be, how good your software is, how quickly can you check-out, how good are the scanners? So, we constantly evaluate and invest in technology to ensure that they should be superfast, but there will be 20% of the time in a shopping area that you will have queues. But also remember that in a brick-and-mortar retail store these queues are only during weekends and only in that 3-4 hour window. Otherwise, it is super smooth, hardly any queues.

**Moderator:** The next question is from the line of V Srinath from Bellwether Capital.

**V Srinath:** Just want to understand how does adding square feet to existing stores work? Do we build out the store like G + 3 and then keep it empty and add later or do we construct a newer floor and when we do that and we add floors do general merchandise get a higher indexation or increase in assortment from general merchandise? If you could share some light on how adding square-feet to existing store works.

**Neville Noronha:** So, this whole conversation that is starting towards adding square footage which is coming through multiple questions. These are more edge cases. In general we are relatively close to what we want to operate the store at, but it's not that we build later. Building is already made but we don't operationalize it in certain cases. So, the store is built, the building is made. That's the answer to the first part of the question. The second part of the question is obviously when you have larger stores; your ability to sell higher margin products becomes far better. So, general merchandise and apparel has a better platform on which it can be sold. So that it is kind of margin accretive; you earn better margins.

**V Srinath:** But given that we have a lot of standalone buildings, do we tend to kind of add the square-feet to existing stores in the first place?

**Neville Noronha:** No, we don't. We haven't come to that stage yet. Not really, very rare. Maybe, you are asking this question because you must have noticed it in very few locations but that's very rare.

**V Srinath:** On DMart ready just a couple of questions, so in the non-Mumbai markets are we looking at the same format where we set up significant number of pickup points and have that touch delivery as well as pick-up point experience or are the newer markets slightly more indexed to a delivery business and the second one is the last mile in the delivery operations in-sourced or are we using an outsourced operator for that?

**Neville Noronha:** So, wherever we are going, whichever city we are going, we are going with the pickup model also. Pick up plus home delivery both and we are doing the delivery ourselves.

**V Srinath:** For this come to the doorstep everything is owned by us.

**Neville Noronha:** Yes, we would like to own the entire experience.

**V Srinath:** You had alluded to it about five-six questions back about shortening the time span of delivery. What are the bottlenecks you are facing up especially in the pickup point side of the business for say to get right now from the dark store in about 45 minutes? Given that we have pickup points, fixed infra set up, if we do three-four drops a day from our distribution center, just want to understand what are the key bottlenecks for us to significantly reduce the lead time? I'm only talking about Mumbai because that's where we have density of operation.

**Neville Noronha:** Let's look at it from the perspective of this concept of instant grocery, if you're talking about it from that perspective, we don't even want to compete there. That promising in like 45 minutes and all that - that's not the business we were talking about.

**V Srinath:** No, I'm more talking about say if I order in the morning then probably pick it up from a pickup point in the evening or something like that. Significantly shorter lead times than what we have in the delivery business. I can understand we have a limitation of feet on street, but what would be the limitation for the pickup business?

**Neville Noronha:** Morning to evening is doable; it's a factor of our own capability and capacity. So, today we are unable to do it because of the distance between the pickup point and the fulfillment center. So, let me put it this way, if I have a point of delivery whether it's the pickup or home delivery which is within a 2 to 3 kilometers radius of the fulfillment center, I can probably even deliver it in six hours. But the challenge is in a city like Mumbai; till a year back there were only two fulfillment centers and some vehicles had to travel like 20 kilometers one way. Then you have to even optimize your delivery routes, so because of those challenges that you would want to first populate those slots in a manner that is more beneficial for DMart then the consumer because you want to optimize their delivery routes and that's why you couldn't offer those conveniences of good delivery. But you are able to do that with scale, as you get more and more revenue you know that in this PIN Code you generally get these many orders per day and hence you can then crunch the time from order to delivery. It will happen with time as you get more and more revenue.

**V Srinath:** So, basically, as we add larger fulfillment centers as the depth of the revenue goes up, we'll be able to shorten lead times as well as maintain logistics so that we get a cost advantage, is that a right understanding?

**Neville Noronha:** As long as you add more fulfillment centers, not larger fulfillment centers. More fulfillment centers and the travel time between the FCs and the destination have to be short.

**V Srinath:** Last question from my side is, we've been hearing that the real estate transactions have been happening. If you could kind of give us a sense of more than deal availability, deal throughput versus, say a year or so back, how has been the acceleration? So, assume, 100 was the deal throughput last Jan or just before the pandemic struck, do you see a significant improvement in the deal throughput that we are seeing especially for our expansions that are likely to be for the next 2-year window or 3-year window?

**Neville Noronha:** Let me put it this way. I have mentioned this again last year. I'm saying the same thing again now. It has been better than earlier. So, the deal pipeline is better. How much better I cannot comment, you will know as we open stores.

**Moderator:** The next question is from the line of Ashish Kanodia from Ambit Capital.

**Ashish Kanodia:** In some of the stores I notice that you have a quasi-shop-in-shop kind of a model in your new footwear segment. Just wanted to understand that what led to that having a separate shop-in-shop and what has been your experience altogether with that model?

**Neville Noronha:** So, shop-in-shop basic principle is what we can't do, we bring in a partner. The partner does it better than us. So, that's it, that's the whole principle and it serves a particular unmet need that I offer a consumer which I cannot fulfill. The biggest challenge of footwear is inventory because of design, so obviously you need a footwear expert to do that and that's why we have that in the footwear side or let's take a classic Indian Mithai example. Obviously Chandu's or a Ghasitaram or a Tewari are far better at managing that and that's why they're there. So, basically you are serving an unmet need which you can't do and then the vendor expertise has extreme high value if he rendered it himself rather than us, that's it.

**Ashish Kanodia:** Secondly, currently Bengaluru, Hyderabad, Ahmadabad or Pune how are you fulfilling the orders for DMart ready? Because my understanding is the fulfillment centers are all based in Mumbai, is that correct?

**Neville Noronha:** No, grocery cannot run like that. So, that's the principle in marketplace maybe, but in grocery you have to have the fulfillment center in the same city.

**Ashish Kanodia:** So, currently you have fulfillment centers across all the five cities?

**Neville Noronha:** Absolutely, you can't run this business otherwise.

**Moderator:** The next question is from the line of Sheersh Jain from Apex Capital.

**Sheersh Jain:** I wanted to ask, you keep saying that you are happy the way you are and you don't really want to change much because today this is what works for you. So, want to know how you make sure that you're not ignorant about the disruption around you, because the change of disruption is pretty high. How do you make sure you're not ignorant about those facts and you are moving with time, so just about that?

**Neville Noronha:** The fact that we entered the e-Commerce business itself is an indicator that we're not keeping our eyes shut and other than that like I said earlier I'm saying this again. If you guys think that we're missing out something, please tell us, happy to hear, that these are three things you should do or these are the four things you should do, very happy to listen. At least if there's an area that we've not thought about, your advice or your comments will help us think about it. So, when we say we are happy to do what we're doing is after listening to everybody, after evaluating the opportunity and then saying okay, of these 10 things, 7 or 8 things doesn't make sense to us and 2 or 3 things make sense to us. Let us try it, so that's it. That's the whole thought process on this. If you have something to tell us, please do.

**Moderator:** The next question is from the line of Runjhun Jain from Nirmal Bang.

**Runjhun Jain:** There's one-two things, which I would like to clarify and one suggestion also. First thing is when you said that everything is separate between DMart and the Avenue e-commerce platform which you are conducting. Even the purchase at the vendor level are also different or is it same or does it make sense to do a common centralized purchase?

**Neville Noronha:** Some are separate, some are same. Wherever the vendor leverage is better, it is handled at that level. So, we're talking about all the top companies, FMCG companies or any other general merchandise that is sold at DMart brick-and-mortar business; that is done by the brick-and-mortar company and whatever is unique to e-commerce is done directly by the e-commerce team.

**Runjhun Jain:** Second thing is and it's a suggestion also. We do have a minimum order value of INR 1000 for the e-commerce and what we have seen as a customer, as a consumer at the ground level that the competition mainly it has been able to get some market share because, one they have free delivery which we have already said that we're very clear we won't do that. Second is there is no minimum value. You know, sometimes it is something the way especially we just put it and you want it to be delivered probably and I don't mind as a consumer to get it home delivered, but just keeping that minimum INR 1000 value actually restricts me as a consumer to fulfill that value. In between if there is an emergency or something I'd want relatively soon, so I would go up for competition in that case.

**Neville Noronha:** Yes. Fair enough. Good suggestion. But I just want to give you a clarification that for pickup points, there's no delivery charge, it's free. We don't charge for anything to get it to the pickup point. We understood that it's an issue with a few customers and now what we have is that for every INR 1000 order that you place you get two free INR 500 orders. The reason why we've done that INR 1000 is - what is DMart? DMart stands not for convenience or just discretion buying. DMart is about full grocery shopping for your home. So, INR 1000 is a reasonable basket value. It's not too high as a threshold. And if we are confident on our prices and the quality that we offer, I don't see that as an issue. Our consumer research told us that this was an issue with a very marginal set of customers. Not very large, but still we said, okay fine, let's do this. Hence, we said that if you place an order of INR 1000 once then for top ups you get 2 free INR 500 orders. I think that kind of solved quite a lot of the issues. Secondly, as a business we have to be clear what we want to be. I don't want to be a convenience retailer. We understand that the trials get diminished because of this issue and I'm not saying that this is written in stone that we want. Assume in a reasonable period of time we have good revenues then we could think about saying that we do not want a minimum order value, we could but let's see.

**Moderator:** The next question is from the line of Vinod Malviya from Union Mutual Fund.

**Vinod Malviya:** I had a couple of questions on DMart ready, assuming that currently your DMart ready business is predominantly in Mumbai. I was just going through your numbers; you have clocked some INR 790 crores of revenue in FY21. Can you just provide some guidance over here that given the current gross margin what you're making, what should be the breakeven level or what kind of a revenue run-rate in the Mumbai market you should be able to break even?

**Neville Noronha:** I cannot comment on that.

**Vinod Malviya:** Let me put it another way. So, given the current fixed cost structure what you have, how much revenue could you generate without having any significant increase in the fixed cost? Is it possible to give?

**Neville Noronha:** Without increasing fixed cost? It's not to be seen like that. Bulk of the expenditure now is a variable cost. However, if we have significantly more revenue than what we are doing today, there will be EBITDA or a margin enhancement at the bottom-line. There's definitely an opportunity there, but the larger point is that you are speaking about this in the context of what is your gross margin today. So, if your gross margin is 100, the moment that 100 become 130 then everything changes. So, top line with better gross margin is a way to look at this business because from a cost of operations perspective I think we are reasonably there. We like the way we're running the show. So, from operating cost perspective we are pretty okay. This business will turnaround if this business allows you to make more gross margin. Which is a big question; considering the amount of investment everybody is doing here and everybody wants to own the customer from a digital side and all of that; the gross margin will become a serious challenge in the near-term future. That's the way you have to look at the grocery e-commerce business.

**Vinod Malviya:** The current gross margin which you have reported like somewhere low double digit 11% to 13% in the last 3 years, is this a threshold level which you would like to maintain or because of competition it can come down?

**Neville Noronha:** Can't comment as it is purely market driven. The whole funda is that you have to compete. If I say I will hold on to this 13% or whatever that is, doesn't work that way. So, it is market forces. The point to make is at what rate of OPEX including head-office cost we want to run this business at and at what rate do you want to lose money every year. I mean, that's the way we are looking at it.

**Vinod Malviya:** Just from a preference point of view, which model under the DMart ready you would prefer, is it a pickup model or the home delivery which is more economically viable for you from a longer-term perspective?

**Neville Noronha:** I will not comment on that and like I said that we let it be free. We don't want to tweak the model in any way to nudge people from one to the other. Whatever the customer chooses and I wouldn't like to comment on what is better for us.

**Vinod Malviya:** Just last question, just wanted to understand under your DMart Ready the home delivery again is routed to the DMart ready store or is it directly coming from the fulfillment centers?

**Neville Noronha:** They're coming from fulfillment centers.

**Moderator:** Thank you. Ladies and gentlemen, since there are no questions, we would now conclude the call. Thank you for your participation. On behalf of Avenue Supermarts Limited that concludes this call. Thank you for joining us and you may now disconnect your lines.