6th August, 2024

To,

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

National Stock Exchange of India Ltd.
Corporate Communications Department
"Exchange Plaza", 5th Floor,
Bandra – Kurla Complex, Bandra (East),
Mumbai – 400 051

BSE Scrip Code: 540376

NSE Scrip Symbol: DMART

Sub: Transcript of Analyst/ Institutional Investors Meet 2024

Dear Sir/ Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, please find enclosed herewith the transcript of conference call with Analyst/ Institutional Investors held on 30th July, 2024.

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

Kindly take the same on record.

Thanking You,
For **Avenue Supermarts Limited**

Ashu Gupta Digitally signed by Ashu Gupta Date: 2024.08.06 18:04:39 +05'30'

Ashu Gupta
Company Secretary & Compliance Officer

Encl: As above

"Avenue Supermarts Limited

Investor/Analyst Conference Call"

July 30, 2024

MANAGEMENT: **MR. NEVILLE NORONHA – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – AVENUE SUPERMARTS LIMITED**
MR. RAMAKANT BAHETI – GROUP CHIEF FINANCIAL OFFICER – AVENUE SUPERMARTS LIMITED
MR. NILADRI DEB – CHIEF FINANCIAL OFFICER – AVENUE SUPERMARTS LIMITED
MR. VIKRAM DASU – CHIEF EXECUTIVE OFFICER – AVENUE E-COMMERCE LIMITED
MR. RUSHABH GHIYA – INVESTOR RELATIONS – AVENUE SUPERMARTS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Avenue Supermarts Limited Investors Conference Call. As a reminder, all participant lines will be in the listen-only mode and anyone who wishes to ask a question may enter star and one on their touchtone phone. To remove yourself from the queue please enter star and two. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rushabh Ghiya. Thank you, and over to you, Mr. Ghiya.

Rushabh Ghiya: Welcome to our Annual Investor and Analyst Conference Call. I have on call with me Mr. Neville Noronha, our MD and CEO; Mr. Ramakant Baheti, Group CFO; Mr. Niladri Deb, CFO, Avenue Supermarts Limited; and Mr. Vikram Dasu, CEO, Avenue E-commerce Limited.

We hope that you've had a chance to look at our presentation, which was shared on Friday, and the same is also available on our website in case you would like to refer to it. We will start the call with Neville briefly taking you through the presentation along with Niladri, and post that we will open the Q&A session.

Just before that, I would like to draw your attention to the Safe Harbor statement for good governance. So, with that, over to you Neville.

Neville Noronha: Good morning, everybody. Like the format is every year, we will spend some time on the presentation and then give most of the time for the Q&A. This time, we're splitting the presentation in two parts. I will be taking the business overview, followed by our CFO, Niladri Deb, who will then take you through the operating and financial summary.

So, on the business overview, which is the key product categories page. It's more or less the same. I think last year has been a period of consolidation, and also a lot of the anxieties that we had around general merchandise and apparel is more or less behind us. While the numbers do not indicate to that extent yet, but we are seeing a smart recovery in the second half of last year and in the first quarter of this year. So, GMA has moved from 23.04% to 22.37%. It's a drop, but more or less it's coming back.

But just to pre-empt some of the questions that may come on this, we are not going to be 28% or 27% like it used to be earlier. A broad trend line will be around the current run rates of around 23%, is the sense we get. But otherwise, it's been a good year. I mean, most of the numbers have been shared, and I would take more specific questions in the Q&A and discuss more about this.

We go to the next slide, cluster-based expansion strategy continues to be the same. The principle is more of the same - try and open as many stores in existing markets. We also keep trying to go to new states, new regions, new cities. But otherwise, the broad principle is, if there's an opportunity to deploy capital in existing markets, it's a better option. We opened 41 stores in last year gone by. And as usual, the numbers look good, we're doing fine and all the new stores opened also are fine. So, it's a usual day at work, broadly, from that standpoint.

Then we come to DMart Ready. We had said in the last year’s analyst meet that this year would be a year of consolidation and we'll try and test whatever we have done and hence, we added just one city. The strategy around the e-commerce business, the DMart Ready business is very consciously to be not very fast. We can generate significantly higher revenue than we do currently, but it's a conscious decision to fix the model, make it right and bring in high throughputs in the existing cities, that's the thinking that we have on this business. But, obviously, we'll take more questions on our business, as well as what's happening in the market from a larger context of competition and all of that.

Year-wise store addition, we have already said that we opened 41 stores. We maintain to deliver basis our past performance. That's what we keep saying. The number of stores opening will be around these numbers going forward. But we, as usual, don't give forward looking statement in terms of what the exact number is and reasons also remain the same. But broadly as a Company we are prime to open equal to or even more than this number of stores. But there are a lot of other factors that depend on our store opening numbers.

So, with that, I end my part of the presentation, and I would request Niladri to take over the operating and financial summary part of the presentation. Thank you.

Niladri Deb: Thank you, Neville. I take you through the bill cuts. We delivered 30.3 crores bill cuts in the year just gone by. Like-for-like growth that we disclosed is for stores which are open for more than at least 24 months. We delivered 9.9% like-for-like growth. The total retail business area at the end of the fiscal '24 was about 15.1 million square feet. We opened 1.8 million square feet area in the current year. And the Revenue from Sales per Retail Business Area sq ft came at about INR33,000 per square feet in FY '24, very close to the FY '20 number of INR32,879.

Moving on, the revenue from operations as disclosed earlier is INR49,533 crores, delivered in the stand-alone business. EBITDA margin of 8.3%, so almost INR4,100 crores of EBITDA. We delivered 5.4% PAT, about INR2,695 crores. And the net cash flow from operations of INR3,343 crores. All of the indices grew over the same period last year.

We move to the operating and financial summary for the days inventory and payables. Our payables came at about 7.1 days and about 29 days of inventory, more or less similar to what we were in the pre-COVID period. Debt and equity, we all know we don't have debt, but the debt that you see on the balance sheet is about the Ind AS 116 disclosure and the equity is about INR19,281 crores.

Fixed assets turnover ratio came in at about 3.6, very close to the number that we've been trailing even pre-COVID and inventory turnover ratio of about 14.6. And finally, the return on net worth and ROCE, ROCE came at about 19.1%, marginally lower than FY '23 and the return on net worth about 15.1%.

Slide 13 has the key financials for Avenue Supermarts and the stand-alone and consol. Sales grew by 18.4%. Gross margin reduction of about 37 bps and

PBT reduction of 43 bps led by the gross margin slide and a bit of cost increases in other expenses that came up, and the PAT delivery of INR2,556 crores -- sorry, INR2,695 crores, which was a 5.4% growth. We must point out that last year we had an exceptional tax gain. So, ignoring the tax gain of the prior year, the PAT improved by close to 12%. At consol level, the sales improved by 18.6% or INR50,789 crores and a PAT delivery of 6.6% growth. Without the one-time tax advantage of prior year, the PAT grew 13.5% to INR2,536 crores.

The key subsidiary financials, Avenue E-commerce delivered a 31.7% sales increase, close to INR2,900 crores and we had a loss of INR185 crores, which was a 240 bps loss reduction over the prior year. Avenue Food Plaza did INR177 crores of sales and a loss of close to INR6 crores – it is in expansion phase. Align Retail Trade, our subsidiary which does grocery packing did INR2,800 crores of sales and a PAT of INR33 crores, improved by 44%.

That's the summary from the financials and operating session.

Rushabh Ghiya: I think we can now open the floor for Q&A. Thank you, Niladri. Thank you, Neville. We'll just open the Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer. The first question is from the line of Abneesh Roy from Nuvama. Please go ahead.

Abneesh Roy: Yeah, thanks. My first question is on the product mix you have given. So, I see that foods is the only segment which has gained as a percentage of the mix, while rest of the two have seen a slight dip. Wanted to understand is it purely because of the food inflation and in FY '25? Because FMCG companies in the HPC space will take a hike. The non-foods FMCG should regain some of the lost share. What will be your comment on that? You are focusing more on general merchandise and apparel. So, wanted to understand why it's not visible in terms of numbers. There was a dip of around 33 bps. When do you see this reversing?

Neville Noronha: So, Abneesh, on the food contribution going higher - it is primarily driven around agri food inflation. It was primarily driven on that. While staples, if I look at edible oils, went through a deflation period. But I think minus the oil basket, the agri side, that is the staple agri minus oil went through unprecedented inflation during this period of time. So that is the reason why the food contribution has gone up.

On the GM and apparel side, I think we had a larger issue on the apparel side, but like I have commented last year, apparel is a smaller contributor in the GMA mix. Hence, the blended impact was only what you see on the slide, right? GM is more or less back on track, trending equal to what we were prior to COVID.

Apparel has done a very smart recovery. We did very quick improvements there, primarily around leadership, team, sizes, all of that is in place. In fact, 70%, 80% of the work is already done. And if you look at the last two quarter's performance, one thing that is heartening to know is, apparel is the highest growing category amongst all our categories. Like I had commented last year, right, it is more of an internal issue on the apparel side.

We just needed to build a very good leadership pipeline. And in fact, I’m quite delighted with the early improvement - I didn't expect it to be improving so quickly. But I think the team has done a brilliant job. But still a long way to go. But we're seeing brilliant green shoots on the apparel side of the business.

Abneesh Roy: Sure. My second and last question will be on the DMart Ready. So, we have seen a year of consolidation and only one city getting added. So, what were the learnings from there? And we have seen quick commerce, for example. Now, they are seeing more consolidation, more on service rather than discounting. So, rain fee, delivery fee, loyalty fee, a lot of fees are coming in and that's good from an overall business sustainability perspective.

I wanted to understand are you also thinking at some stage about quick commerce and also start charging for some of these because ultimately now it’s more of convenience rather than pure discounting. Plus, what is your take, is the worst behind on discounting? Because Zepto has raised huge funding very recently, while the other two players seem to be focusing more on service rather than just discounting.

Neville Noronha: Our whole perspective has always been to have a divergence in terms of our approach to the business. We prefer not to do stuff like what most people try to do. So, we continue to chart our own course on the e-commerce side of the business and we are pretty confident of expanding this business, albeit not as fast as you will expect it to be. But we will continue with the current model.

We don't intend to do any quick commerce. I think our model is pretty robust and the learnings have been to try and get more and more revenue in the large towns / cities. That's the low-hanging fruit. That is where there is an emergence between our model, about our ability to deliver and also the expectation of the market. So, a Mumbai customer or an Ahmedabad customer or a Delhi customer, they like e-commerce, they like material coming to their home since time is in short supply, timetables are tough to manage, things like that. I'm not saying everyone, but mostly the more affluent people, they would like to have a certain component of their grocery buying to come through e-commerce. I think serving that customer through our DMart Ready channel sounds very interesting and promising. So, we will continue with our own methodology of running the DMart Ready business.

Abneesh Roy: Just one follow up on this and then I'll end. So, could this be second year of consolidation? And when I see, you have DMart Ready in few Tier 3 cities also. For example, Kolhapur, Belagavi, Bhilai, Raipur and, say, Anand. So, could these be deprioritized and ultimately may not make much of a sense given your kind of a business model?

Neville Noronha: Quite possible. See, I think brick-and-mortar retail is still very aspirational and still fun and enjoyable in small towns. And we clearly see that from a psychological standpoint that customers enjoy going to retail stores like ours in small towns.

Abneesh Roy: Okay, thanks. That's all from my side. Thank you.

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

Arnab Mitra: Yeah, hi. Thanks for the opportunity. So, Neville, my first question was on store expansion. I think in the last call you had mentioned you have invested in people in the expansion side and also in some of the processes which will increase your capacity of adding stores. Do you see that happen in FY '25? Or it will take some more time before you can significantly step up from this approximately 40 stores that you've been adding for the last couple of years? And what are the other bottlenecks that you're still seeing in that capacity?

Neville Noronha: I don't have a very clear, concise answer in numbers for you, but I'll just give you a feeling and flavour of what we intend to do here. We are primed and ready in terms of opening around 40-50 stores. I mean anything between that is what we are ready and we will deliver broadly. Obviously subject to regulation, permission, all of that, but we have that kind of inventory to at least commit saying 40-45, we will do, every year.

If you were to look at our store opening trend, we do 40-something stores, but in another two to three years, this 40 should go to a 60 or a 70 per year. We are working like that. We are thinking about it like that, but it will be very lumpy. So, you will see a 40, 40, 40. Suddenly it may go up a little bit higher. That's the way we are thinking about it and working towards it.

I've been saying this repeatedly that typically 10% to 15% of my number count should be my new store opening, broadly. That's the way we think about it. So, if that happens, then we'll get a very decent CAGR run rate over a 10-15-20 year period. That's how it has been in the past two years, right? For example, if I have 400 stores then I should be opening 60 stores. If I have 800 stores, then say 15% of 800 stores. That's the North Star. That's the way we think about it.

Arnab Mitra: Thanks for that, Neville. Yeah. The second question I actually had was a follow up on the quick commerce thing. So, clearly, one of the big changes last one year has been this big scale up of quick commerce, especially in the top six, seven cities. Are you seeing any impact on your big city stores, like a Mumbai, Bangalore kind of location? And does it in any way impact the future store potential in, let's say, the top 10 stores that you would have earlier envisaged? So, any thoughts on how you're seeing this evolve?

Neville Noronha: Actually, we've been crunching data for the last two years on this and how is this format impacting us? Surprisingly, it is not. If there is any one reason that impacts our metro revenues, it's actually our own ability to operate the store. So, if any store is not run well, for whatever reason, either it's an infrastructure issue or the store has already peaked out, delivering very, very high revenue per square feet, or the quality of management is not up to the expectation. That's when these stores struggle. And not really because of the competitive context - specifically about quick commerce. That's our analysis of things.

But, okay, if you say a city that is not having any intense quick commerce versus a city that has quick commerce, there could be a 1% to 2% SSSG CAGR impact. I mean, I don't have a very clear point of view there. I can't pinpoint it exactly. But will I say no? Absolutely not. I will also not agree to that, maybe 1%-1.5% kind of an impact could be there. But is any of my store declining, negative? Do I see very large red flags? Absolutely not.

Arnab Mitra: Understood. Thanks. And just one last question. Any rethink -- you have historically not had a big focus on fresh as a part of your mix, and that's one of the categories which at least quick commerce companies, say, has had high growth and high margins. Anything of this changing which would change your approach towards that category versus what it is currently, that's brick-and-mortar?

Neville Noronha: Brick-and-mortar, I don't think so. Brick-and-mortar, there has to be some structural changes in the economy which prevents the roadside seller to stop selling fruits and vegetables. Only then could be a case for modern trade to sell fresh in a profitable manner. That's our view, especially in a model like ours.

Arnab Mitra: Okay. Thanks so much, Neville, and all the best.

Neville Noronha: Thank you.

Moderator: Thank you so much. The next question is from the line of Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: Hi, Neville. I just wanted to get your thoughts on the apparel segment. I mean, what exactly did we change? You said you're at 70% to 80% on that journey. So, what is left to be done? Would love to hear your thoughts on that, please.

Neville Noronha: We have done whatever we have done for the current size of revenue, but we are imagining what we would be five years, 10 years from now. Apparel is very, very talent driven and individual driven - the guy or the lady who's running that specific category, how he or she thinks about what should be done. From a team capability standpoint, the confluence of synthesizing between what DMart stands for, what the ethos of DMart are, and what apparel should be. It's not very easy.

A category like apparel for a grocery kind of a model is very complicated. And a lot of people who come from outside, their understanding of value retail, their understanding of deep discounting is, I would say, very limited. So first, that buy-in itself is very, very challenging. And this is a very talent, individual-driven kind of a business, right? Everybody brings in their own personality to the category. It's not very easy to get that synthesis.

Avi Mehta: You said that you wanted to focus on basics there. So, is that thought no longer the case? You still want to have some fashion, but the type of fashion is probably what has to be realigned. I mean, I just want to kind of better understand the portfolio change that you're trying to do here.

Neville Noronha: Philosophy remains the same. Basic, basic, basic. You can be fashionable yet by being basic. When you say fashionable, it's about being in trend. But how do you ensure that your product line, is not susceptible to the vagaries of change of trend at very short notice. That's the whole idea.

Avi Mehta: Okay. Okay. Fair enough. The second, Neville was on your comment that you do not expect salience to move back to the 26% to 28% levels for general merchandise and apparel. Why this? And if that is the case, does that change how should we look at same-store sales growth from a new category addition - basis uptick that has traditionally or earlier come?

Neville Noronha: I have commented on this earlier, I have maintained that stand that whenever you open a new store, you get people from a larger radius coming to a store.

When you get that kind of a customer into the store, they end up buying a lot of non-FMCG. But as the store matures, the percentage of households who begin to buy from you from a smaller area significantly increases. And hence, that basically drives the intensity of the food, FMCG and groceries here.

And this has been a secular trend for the last 20 years. It is just simply because of that. It's a secular trend. And as we mature and we become larger and larger, the food and grocery and the low-margin contribution will increase. We have to then figure out how should you run the model such that you deliver on your profits in line with the construct changing with time.

Avi Mehta: Okay. But sorry, Neville, just to push back, I thought adding larger stores would have probably helped us drive, maintain that salience, that thought is not accurate?

Neville Noronha: That thought continues to be accurate because we continue to believe in the fact that having larger stores keeps you ready for the opportunities of the future. But at the same time, I do not want to build in very high expectation that we will go back to 27%, 28% and hence, there will be a bump in gross margins.

Not really. I'm just giving you a very realistic scenario of the future. We're getting ready for the opportunities that can emerge because of GDP going up and hence, people wanting to buy more and more horizontally in the high-margin sector. We are priming ourselves for that. But will that definitely guarantee 28% or a 29% contribution of GMA? No, I don't think so.

Avi Mehta: Okay. I understood. And lastly, if I may, sorry. Just on the quick commerce space, you did point towards 1%, 1.5%-odd impact, very rough in your view. Is this reflecting more discounting in your view or just that the consumer is now keeping less pantry? How should we look at this from that point of view?

Neville Noronha: The way we are looking at it, Avi, and this is through real experiments, real events that have happened - any store with a very, very high throughput, it's kind of overflowing at the brim, I just need to open more stores around that cluster. It's as simple as that. So, assuming I'm doing INR20 crores a month on a particular store and it's like very high throughput turnover per square feet, and I open another store close by and this INR20 crores store drops down to INR15 crores, but that additional store again gives me an additional INR20 crores. Right? So that's the whole idea.

So, can I add more stores, is the solution to issues like these. And we have done this kind of activities. By design, during COVID time, we bought many new locations even in Mumbai. And this is the outcome. That net of both, the old and the new store, it is value accretive for us. So that's the way to do it. Notwithstanding the opportunities that are available in DMart Ready. We do that too. But it is not either / or. I keep saying brick-and-mortar and e-commerce is the way to go.

Avi Mehta: Sorry, Neville, I was referring to the 1%, 1.5% as you said -- I think you said it is possible from the quick commerce perspective. And that's what I was trying to kind of understand, that when you say there is a possible impact from e-commerce, you're essentially saying because the consumer is reducing their inventory. How are you looking at this impact? That's what I was trying to understand. The impact from our own capacity, that I am clear on. But this one I was trying to kind of understand how do you look at this?

Neville Noronha: Like I said, stores which are doing exceedingly high revenue per square feet, its ability to grow at the rate of inflation gets a bit challenged. That's the point I wanted to make. And then at the other end, you have from a commercial standpoint, quick commerce who is delivering excellent convenience. Almost zero friction and delivery at home. So, then the top end discerning customer, probably who's shopping at DMart may fall off. To that extent there could be a 50 bps to 100 bps kind of change in growth rates for such stores. That is the point I was trying to make.

Avi Mehta: Okay. So, you are referring from that consumer probably going away and that is the possibility. Got it. That's all from my side. Thank you very much.

Neville Noronha: There is a disclaimer there **-** my observation and comments are only for this year. So, if something significantly changes during the year, I will talk about it next year. So, this is my understanding of what's happening right now.

Avi Mehta: Okay. Okay. So, you're saying as on date, if this scenario becomes either less stable or more stable for us, it might kind of produce an increase. Got it, sir. Got it. Thank you very much, sir.

Neville Noronha: Thank you, Avi. Thanks.

Moderator: Thank you. The next question is from the line of Latika Chopra, JPMorgan Chase. Please go ahead.

Latika Chopra: Hi. Thank you for the opportunity. My question is on your expectations on gross margin profile over the medium-term. You clearly mentioned the mix is going to probably be stable with general merchandise and apparel. I was trying to understand a couple of enablers of gross margins and your thoughts on that on the FMCG and food side. One was, your terms of trade with leading suppliers in order to leverage the scale benefits - how does that play out?

Do you see premiumization of the FMCG and food portfolio within your mix? And the last enabler could be the private label contribution. So, if you could share some thoughts on how these key things could behave and would they in any way imply potential for gross margin improvement over the medium-term? That's the first question. Thank you.

Neville Noronha: Hi, Latika. I'll take the terms of trade and the branded FMCG part of the question first. This is all work in progress. The whole idea is that the more and more revenue you deliver and the more and more contribution you deliver from a business contribution to a FMCG company's business, obviously, your bargaining power improves.

Now, you have two ways to deal with it. Your improvement in bargaining power means more gross margins or better value to consumers. That's the choice as a retailer you have to take. And we do that, right? We decide, okay, how much of this has to go back to consumers and how much of it has to be retained. So that is one way of looking at it.

On private labels, I have constantly made comments which have remained consistent and it continues to be the same. It's a very, very long journey. You have to give it a lot of time. India is still a USD2,500-USD3,000 per capita income country. Private labels play out beautifully when at least the country is at a USD7,000-USD8,000 kind of per capita income. We have a long way to go from all these standpoints. And I continue to hold that position that branded companies are very, very competitive and it's not very easy to deliver a private label at equal to a better quality at significantly cheaper price.

See, we want the products to be significantly cheaper than a branded company product at a significantly large discount. Only then does it really play around with the ethos of what DMart stands for. You would like to put the DMart name on the product only if it stands for that. That's why from that standpoint, we believe that this is going to take a lot of time.

Now, coming to the overall scheme of things. See, whatever we do today, 14%-15% gross margin, we're going to play around that. Anything beyond that, we want to pass it on to the customer. We don't want to retain it because we are running this on the principle of value. Delivering great value through high-quality operational excellence and keeping costs low. That's the broad philosophy. The feel I'm getting from this question is that it is more about margins.

My response to you is, we are more a top line-driven company and we believe that if we continue to remain relevant to the customer from a value standpoint then margins, ROI, all of that will follow. It will come. But the philosophy is to be very, very relevant, distinctly relevant, differentially relevant to consumers. Consumers, when they think about DMart, they think different. That's the whole philosophy. It captures the imagination of the customer from delivering great products at great value. That's the philosophy of the business.

Latika Chopra: Thanks. The second bit was a follow up on something you alluded to while answering the question on apparel, on talent. Just wanted to hear from you, any particular changes or incremental talent that you've hired at category head levels, on the technology side, on your e-commerce operations, anything you want to talk about or share with us on capability building side. Thank you.

Neville Noronha: It's a good question. I think we are grappling with two things. One is that, we are running an enterprise which in absolute terms is very, very large. When you talk about a 15% or a 20% CAGR, if you add that and look at that from a value term, it's a very, very large value, right?

And this value is being delivered, again, from distributed points of sale. It's different stores, locations, culture, people, all of that. There's an enormous, what should I say, management bandwidth requirement to just get this entire ship running in the right trajectory, right direction, and with the relevant speed.

We are thinking about what this Company will be 10 years from now. We're not talking about the next year. And hence, if you want to reach there in a nice way without too much of damage or bruises, then what is the kind of talent we need to have today in the next two years, in the next three years, next five years. That's the way we're thinking about it.

If you ask me, my team and I, the top leadership is thinking about how we should imagine the quality of talent we should have that can take us to where we want to be 10 years from now. The moment you put the right questions on the table, then you have a very clear view about what you need to do from a talent standpoint. And that's probably the ethos I wanted to share with you.

Latika Chopra: Sure. Thank you, and all the best.

Neville Noronha: Thanks.

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

Vivek Maheshwari: Hi, Neville and team. A few questions. So first, on the store addition, you did mention about lumpy additions at some point. But when you look at additions internally, do you also think about it as percentage or you typically look at it more like 40 to 60 stores? How do you think about the additions on an annual basis?

Neville Noronha: Like I said, for this year also, we have projected 40-45 stores. I mean, again, I'm saying that I don't want you to project something very large in the immediate future. But in the longer term, we have to go at a higher run rate. If you remember, in my last analyst call also I said that we are ready to even open 60 stores. The capability as of last year was we can even open 60 stores per annum. So, you can take a range of 40 to 60 over the next three years.

Vivek Maheshwari: Okay. And a follow up to that, Neville, and pardon me if it's a naive question. But let's say, in an economy where real estate is doing so well and there is a formalization - what is the bottleneck when you are thinking about adding the stores? I know you buy out the land, and this is substantial investment. But in a cycle where real estate is doing so well, can you just highlight why it is lumpy? Why it is not as predictable? Is it the team issue? Is it the site issue? Can you just elaborate?

Neville Noronha: We decide that we will open these many stores in this much timeline. But in India a lot of things don't happen on time. And some locations also surprise you. They happen ahead of time, but that's more of a rare phenomenon. That's how it is. It is unpredictable. And I have commented on these multiple times over the last three to four years.

Vivek Maheshwari: Sure, sure. I recall that. The other question is on DMart Ready, at a system level, Neville, what would be the average delivery time in case of, let's say, DMart Ready, wherever the customer opts for delivery?

Neville Noronha: On home delivery, we fleshed out some data. We ignore the time between 11:00 p.m. and 06:00 a.m. in the morning. Ignore this time. We don't count that as delivery time. But I think around 40%-45% of our deliveries happen within 12 hours.

Vivek Maheshwari: Within 12 hours. Okay.

Neville Noronha: And about 86% of our deliveries happen within 24 hours, and then balance 14%, why it doesn't happen is because customers plan the date of delivery. It's not that we can't do it, but when we give them visibility on when do they want their slot, they purposefully pick a date, which is later, because of which the balance 14% is after 24 hours.

Vivek Maheshwari: Got it. Okay. And on one of the points, again, Neville, you mentioned about there is maybe 1%, 1.5% impact because of QC, etc. But do you find yourself in a bit of - although that's a conscious choice you have made, but in a bit of a disadvantageous position, simply because you don't have customer data.

So, let's say, if I'm a shopper at DMart and I move to QC, you will never come to know, given that you don't have the intelligence in terms of how many times I'm coming to your store. Do you think you may need to rethink on the data strategy because the competition is coming from unknown quarters also now? Or you think that you are happy working with the aggregates, as has been your strategy for such a long time?

Neville Noronha: Yeah, it's a good question, Vivek. Internally when these same questions have been asked by my team, I say that, look, the only one single indicator that probably we are blindfolded or refused to accept what is obvious is, if my sales or my profits is telling me something negative. If my sales are great, my customers are talking nice about me, my model is working perfectly fine, my margins are intact, my SSSG growths are intact, then why should I change? Number one.

Number two, specifically, to answer your question on the QC side. QC is convenience. QC is full price. It is completely opposite to what DMart stands for. DMart is value. DMart is, I would say, a little inconvenient It's a bit inconvenient. But it delivers great value. So that's it.

So, we would like to rather play on the positioning of value and then create something in the digital space. And I think when you think like that, DMart always believes in doing something which is very difficult for others to follow. If you build DNA such that everybody can see what you're doing, but they can't do it. I mean, that is our pursuit, the model that we try to build.

Vivek Maheshwari: Got it. And as a follow up to that question, and that would be my last one, Neville. From a top-down, when you look at as the head of the organization or the CEO, there are, let's say, for argument's sake, there are two verticals that you have, right? One which is DMart, and the other is DMart Ready. I know there are a few more beyond that. One has a lot of data, right, DMart Ready, whereas the other one is working on aggregates.

Do you find that DMart Ready data to be rich? Are you able to do -- do you do a lot of analysis on that? Is that a precursor for you to -- if the data is rich, if you have a lot of insights, is that a precursor to implement that in DMart? So, can you just talk about what is your view on all the data that you collect at DMart Ready level?

Neville Noronha: I think I'll give this opportunity to Vikram, who heads DMart Ready for us, to respond. Vikram, can you take this question?

Vikram Dasu: Yeah. Hi, Vivek. So, the question is around how we are leveraging data, right? Is that right?

Vivek Maheshwari: That is right. And -- so, one part is, how are you -- what all are you doing with that data? Number one. And number two, from DMart Ready, is there a case -- if there is something good that you are doing with that data, is there a case to think about it, in case of DMart-based business itself?

Vikram Dasu: Sure. I'll let Neville address the latter part of that. But on the data part, yeah, you're right, there's a lot of data that we generate on every second basis within the business, and we use a lot of that data to sort of improve our own input metrics. There are tons of things that happen for us to be able to fulfil an order that a customer places. You may also have seen that we're not super big into aggressive marketing or advertising. All of that data that we are generating, we are using it to improve our internal metrics. There is a lot of data that we generate, not just on customers, but also on how we are operating.

And will that be useful for DMart? By all means. But as Neville mentioned, there are tons of things that we are already doing, right? We are working on making sure that the value proposition is right for the customer. What else do you really work on? As long as we know that the stores are working at the most efficient levels and the input metrics are showing the right directional trajectory, there's not too much else that you can really do with data. And we use that data in a sensible manner. I'm not suggesting that data is useless or anything like that. It's just that we are not big into using data to manipulate customers' behaviour in a short-term outlook. Does that make sense?

Vivek Maheshwari: Okay. Sure. I like the word that you've used. And Neville, any thoughts on -- from this perspective to the off-line store?

Neville Noronha: Integrating information of the online space for the off-line store - I'll tell you only one very clear insight, Vivek, which I think I have alluded to, not last year, but I think last to last year. I think the digital space just fascinates you in terms of what all they can do which we cannot. I think there are some very powerful elements of what online space can do which we cannot, which is the cost of experimentation and the long-tail item selling capability. I think that is something that brick-and-mortar, at least, a DMart brick-and-mortar can't do.

I think that's where it compliments also - they are the big brother and not us. It's very humbling. Very humbling what digital can tell you, teach you at very short notice. And I think from that standpoint, we're leveraging the information and the learning. That's my point of view on the digital side. The DMart Ready business.

Vivek Maheshwari: Got it. Got it. Thank you. And wishing you and your team all the very best, Neville.

Neville Noronha: Thanks. Thanks, Vivek.

Moderator: Thank you very much. The next question is from the line of Sheela Rathi from Morgan Stanley. Please go ahead.

Sheela Rathi: Yeah, thanks for taking my question. Hi, Neville. My first question was to do with your opening remarks, Neville, that since the second half of last year, we are seeing a smart recovery in the GMA portfolio. And you also said that we will maintain the current levels of 23% and not going back to 27%, 28%. Now, how should we understand this from going forward perspective, that where will these improvements get reflected in terms of the Company's P&L going ahead?

Neville Noronha: Hi, Sheela. I keep saying this. I don't know what is the aspiration level in the analyst community on gross margin, but we've been towering between 14% and 15%, or 14% and 15.5%, and that's where it's going to be. So, whether it's GMA, whatever it is, or whatever it could be, the way we look at it is what is the blended average gross margin going to be?

And in this business. I really cannot predict beyond a point. I mean, there is a range within which we can say, okay, fine, this is where we're going to be. But I can't give you a finite number, and most importantly, business is dynamic, competition should be factored in, multiple other things, right? So ideally, can't give you a straight answer, but I think 14.5%, 15%, 15.5%, those are the kind of ranges we play in from a gross margin standpoint. You have to look at a blended gross margin.

Sheela Rathi: Actually, my question was not to do with the margins actually. My question was, GMA is coming back. The shares are maintained at 23% level. Will it get reflected in the top line growth then? I mean, how should we capture it apart from your commentary that GMA is coming back? Will there be a way to capture it? Because, like you're saying margins will be maintained. It will get more and more challenging for us to analyze that in terms of share.

Neville Noronha: I can't give you any projections on what our growth rates are going to be, number of stores that we are going to add, what our gross margin is going to be. I can't give you that. It's difficult. I can't tell you that. It's not that I have information I'm not sharing with you, but I can't crystal ball and give you a finite number there. I'll give you colour. I'll give you qualitative understanding of where we are trending.

Sheela Rathi: Fair point. Second point, again, is that, you mentioned for e-commerce that consciously we are making a decision not to grow very fast. But are there any areas in the last few years where we think that we should speed up in terms of growth going ahead? Obviously, store expansion is something you have already called out. But when you think about formats like Minimax, is there an opportunity for us to take that up? We added six stores this year, but how does that fit into our growth strategy?

Neville Noronha: I think from the e-commerce standpoint, and this is again, a very divergent call I'm making from what I actually thought would be the way e-commerce would be - we are seeing that the home delivery model is a better model. So, it's exactly opposite of what we used to say earlier because the numbers prove it.

Home delivery in large towns is the way to go. We should do whatever it takes to build fulfilment centres in large towns quickly, as quickly as possible so that we are able to deliver in at least 12 hours. I mean, that's the aspiration. So, primarily growing faster than what we are doing right now in large towns in DMart Ready is the way to go.

Sheela Rathi: And on Minimax?

Neville Noronha: It's still an experimentation. We feel that the market is not yet ready for that model.

Sheela Rathi: And in the past, you have mentioned the share of home delivery used to be 50%. How has that number trended now?

Neville Noronha: Had I said 50%?

Sheela Rathi: More or less similar, that is what you had mentioned in the past, a couple of years ago.

Neville Noronha: So now it's better. Whatever in the past is getting better and better. What is happening is that there is a sharper segmentation in the consumer's mind. The consumer says, look, if you want me to take all the effort and come to a store, then I want great value. And that's what DMart stands for. And there's another customer who says, great, DMart is giving great value, but it's also charging me for home delivery.

So, if you're giving me convenience, I might as well take that convenience wholeheartedly and get the product delivered at home. So, there's a clear, clear segmentation happening in the consumer's mind and the pickup point is sitting somewhere in between. It’s a bit fuddy-duddy, right? It's neither here, nor there, and hence, the gravitational force is tilting either to the store or to home delivery.

Sheela Rathi: So, we will have to relook at our DMart Ready stores. Is that what you are coming to really?

Neville Noronha: If you've seen the data, we have recalibrated, consolidated, right? We've shut a lot of pickup points. It's primarily to kind of rework on the whole operating model on the DMart Ready side.

Sheela Rathi: Just one final question. We saw some advertising on first three orders free on DMart Ready. Was there a tactical call in terms of getting more customers? And what was the kind of success we saw around it?

Neville Noronha: I'll ask Vikram to respond to that.

Vikram Dasu: We are seeing some good kind of traction there on that promotion. The idea here is to let customers sample our service. And our data has suggested that people who use our service for two or three times tend to stick with us because they really grokked the value that we are providing. And so, that's something that we've started doing a few months before. And it's starting to show some really good results.

Sheela Rathi: Thank you.

Moderator: Thank you very much. The next question is from the line of Aditya Soman from CLSA. Please go ahead.

Aditya Soman: Hi. Good afternoon. Sir, two questions. One, I mean, just mathematically, as your cash from operations increases, and especially as you're opening more stores in smaller towns, would the number of stores just mathematically go up because we have more cash available to open stores, given that utility would match store adds, capex and cash from operations?

Neville Noronha: Opportunity to open more will increase, definitely.

Aditya Soman: Great. And the other thing is, I mean, just to add to this, right, the area of the cluster also keeps widening, right? So, when you open within the cluster, even that cluster itself is widening. So, in theory, I mean, there is no reason why -- I mean, I know you've said 40 to 60 stores over two to three years, but in theory, that number should keep going up as your -- one, as your revenues and cash flows improve, and second, as your cluster size increases, right?

Neville Noronha: Absolutely, Aditya. So, I was just reflecting back on all my comments over the last seven, eight years, just reading through all of them. If you remember post-IPO, I used to talk about 10 to 15 stores. We moved from there to 40 to 60 stores. So, obviously, it goes up, right? It will. It has to. Our entire effort is in that direction.

Aditya Soman: Very clear. And secondly, I mean, just on private brands, right? I mean, I just want to break this question up a little bit. So, one, you have these DMart Premia products, which I can sort of get this from sales of Align Retail, which will be somewhere between 5% to 6% of sales. And then you have all these branded products that you are now launching. At last count, I had found about 130 of them but maybe there's more. And then there is general merchandise which you pack. So, can you give us a rough sense of what the contribution of each of these would be overall?

Neville Noronha: We don't disclose it. We don't disclose those numbers.

Aditya Soman: The DMart Premia stuff, that would be fair, right? That the Align Retail numbers would be a good way to deduce that?

Neville Noronha: Yes. Partly yes.

Aditya Soman: Okay. And the other part of the business, would it be at least similar size, larger size, any sense on that?

Neville Noronha: No, I'll prefer not to comment on that.

Aditya Soman: Okay. Then maybe just, I mean, even if not numerically, right, I mean, I see that the number of products has been increasing and maybe accelerating in the last year or so. Would that be a fair assumption?

Neville Noronha: I'll give you a direction about how to look at this. You will get a sense of how well we are doing in private labels, simply basis the PKD. That's it. That's the way to look at it. If the product is lying on shelf for too long, that means the category is not doing well. It's as simple as that. So, make a call basis that.

Aditya Soman: That's very cool. Thank you.

Neville Noronha: Yeah.

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

Garima Mishra: Yeah. Thank you so much for the opportunity. Neville, first question, in the previous call, you had mentioned that the proportion of overall store count located in cities with population of more than 1 million had declined to 60% in FY '23 from a larger number earlier. So, was this a trend you witnessed in FY '24 as well and maybe this is a trend to be witnessed in the future also?

Neville Noronha: So, I remember during the last year's analyst call, I kind of jumbled up a lot of numbers. We have ensured the homework was better this time. We've got 1% better in less than 5 lakh town population, we were at 28% of the store cohorts in FY '23, it's become 29%. So, we have 29% of our store cohorts in less than 5 lakh population towns. In financial year 2020, that number was 21%. So, in five years, we've got an 8% increase in store count in this pop strata. I hope you're getting it, Garima. So, from 21% of the store cohort in financial year 2020, we were at 28% last year. This year, we are at 29%. So, 29% of our stores are in lower pop strata towns.

Garima Mishra: Understood. That is clear. Second, if you just look at that slide on store addition, and while, of course, a lot of stores do go back into clusters where you're already present, you do keep adding stores in newer areas as well, let's say, Rajasthan, NCR, etc. So, for specifically some of these stores, are these stores tracking metrics that are similar to those in your core geographies, let's say, of Maharashtra, Gujarat, etc.?

Neville Noronha: Broadly, everything is in line. There is no major divergence. So younger the vintage, the financial metrics will be relatively lesser than the balance cohort. But the newer store cohort trend line has been the same for the last 10 to 15 years. So, everything under control.

Garima Mishra: Okay. Okay. Understood.

Neville Noronha: And irrespective of regions. That's the beauty about our model. The beautiful thing about our model is whether it's North India, South India, West India – East, we're still not there but from a financial standpoint, we are doing fine. And that's why the model cuts across all SEC, ethnicity, culture, everything, and that's the beauty.

Garima Mishra: Understood. That's good to know. One question, Neville, in the 1Q FY '25 results release, you did mention that some of your opex had gone up due to efforts on improving service levels and building capabilities for the future. So, could you explain what exactly, which line items are you referring to here?

Neville Noronha: Broadly, two things are happening. I think we've been all talking about product inflation, but I think at a lower level, wage inflation is also going up rapidly. Okay. That's one thing which is very, very clearly being observed. The second thing is, we are also working on building our capabilities, talent, all of that from a perspective of a little bit more longer thinking in terms of, like I just answered in the previous question, that what will this Company be 10 years from now?

Or what should it be like? And hence, what is the kind of talent ecosystem we need to build and start thinking about from today? And I think this thought had emerged a year and a half, two years back, and we were in the journey of building those capabilities over the last one year. It's a combination of both of these.

Garima Mishra: Got it. So, if I hear you right, this essentially refers mostly to people and talent within the organization.

Neville Noronha: Absolutely.

Garima Mishra: Got it. Last question from me. This is on DMart Ready. So, Mumbai is, I think, your oldest city in terms of numbers of years present. So, do you think at least in Mumbai, or let's say, MMR, to be specific, you're present in pretty much all pin codes that you would want to be present in?

Vikram Dasu: This is Vikram, we are present in all but a couple of pin codes, which are actually not very serviceable. But, yeah, MMR, Mumbai Metropolitan Region, we are fully covered.

Garima Mishra: Got it. Thanks, Neville. Thanks, Vikram, for answering my questions.

Vikram Dasu: You're welcome.

Neville Noronha: Thank you. Welcome.

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

Amit Sachdeva: Hi. Thank you so much for taking my question. Hi, Neville. I have two questions, one on DMart Ready. It's a very basic question. Is DMart Ready consumer seeking convenience at the margin or more value? Basically, where I'm getting at is because there is a clear -- you also mentioned that the convenience pie, which is -- consumer is trying to sort of get a service, is willing to pay for it.

But my question is, in the last four or five years, you've built DMart Ready, which is clearly showing that EBITDA margin is still minus 2% to minus 3%. So operating model, even if some scale up has happened, profitability is still elusive. Is there an opportunity for price discrimination here between physical store to online? And if it is profitable and stands on its own feet, then your ambition to grow faster may change as well.

I mean, what I'm trying to ask is that, is it the limitation because you want to give value, but convenience is a conflict? How do we think about this? Why not pursue that as a convenience opportunity which can price discriminate and get more profits out of it and hence, can grow faster and can service more customers who want that convenience? I just want to get a thought on that?

Neville Noronha: The thought is very clear, Amit, just because it's digital, we are not saying it will be convenience. Our positioning will be on value.

Amit Sachdeva: Sure.

Neville Noronha: We are very clear because in the consumer's mind, DMart stands for value. We want to maintain that. We don't want to create dissonance in the customer's mind. It's not good. DMart stands for value. The idea is, how do we build an operating model that in spite of delivering at home, can you bring that value proposition saliency in the consumer's mind? That's the whole idea. So, whatever it takes to do that, I think that's what we'll focus on.

Amit Sachdeva: So, what we could change that this EBITDA margin starts to move in a positive direction?

Neville Noronha: I don't have a point of view. We simply feel very delighted and excited that we've reached here in such a short period of time. And with the kind of EBITDA losses that you just mentioned. I think it's promising. And you have to give these things time. The best part is, you have a brick-and-mortar business delivering great profits and is able to fund. And with such low losses, I think the larger business can afford to give it more time to make it profitable and to stand on its own feet over a period of time.

Amit Sachdeva: Got it. No. Fair enough. Thanks so much. Just a last bit on this is, on DMart Ready. What's the ticket size of DMart Ready order, if I may ask?

Neville Noronha: We don't disclose those numbers.

Amit Sachdeva: Okay. No worries. On DMart Ready, I completely understand. My second question is on the general merchandise. I don't know whether this estimate is correct, but correct me if I'm wrong. I think for the full year, the revenue mix was 22.37%, and in the first half of FY '24, this mix was 23.21%, which would imply that this mix actually deteriorated to 21.6% in the second half of general merchandise, which seems like a bit of a deterioration rather than an improvement. And while you say Q1 has become better, how do we reconcile that? Are the numbers in Q1 substantially better than 21.6%, which was in the second half? Or is this assessment wrong? Correct me if I'm reading this incorrectly?

Neville Noronha: How are you comparing it? How are you comparing Q1?

Amit Sachdeva: No, I'm just saying that for the full year, that number was 22.37%.

Neville Noronha: Okay.

Amit Sachdeva: So, if I take that number, 22.37%, you get a certain number in the revenue mix, taking the four quarters. Right? And when you take first half, first half was 23.21%.

Neville Noronha: Where did you get first quarter -- okay, okay. Sorry. Yeah. Okay.

Amit Sachdeva: So, implicitly, the second half becomes 21.6%.

Neville Noronha: Correct.

Amit Sachdeva: So, which seems like a marked deterioration rather than an improvement. While you say the second half was quite good and Q1 seems quite better as well. It seems to me that there was still deterioration happening in the second half of the revenue mix.

Neville Noronha: Okay. I've not done the numbers the way you've done, but I've got the sense of what you're trying to say. My response to that is that, first quarter is actually from a revenue mix standpoint, the best.

Amit Sachdeva: Okay.

Neville Noronha: And then is the Diwali quarter. Okay? Then is Q2. Okay? And the worst is Q4, March quarter.

Amit Sachdeva: Sure.

Neville Noronha: With a reasonable confidence, I can say that, this financial year will be equal to or better than FY '24 GMA contribution.

Amit Sachdeva: Got it. Got it. And it is because the apparel is sort of bottomed out and looking like a little bit better. Is it an opportunity to shape the general merchandise mix, non-apparel, as well? Or are you still stable and nothing really much can change here?

Neville Noronha: The way to look at it, Amit, is apparel we believe we can go back to the older days of contribution, which was maybe pre-COVID. That's one part.

The other part is, we see an opportunity in GM, general merchandise to be a larger opportunity in the long term. So, for us, the general merchandise opportunity is a larger opportunity and apparel is more defensive. We can get back to where we should be. But are we very optimistic about apparel as much as we are about GM? No. GM salience to our model is better than apparel salience is to our model.

Amit Sachdeva: Got it. Without seeking any guidance because I think one of the things that was earlier asked as well, that if the GMA, general merchandise starts to do at least better, one would expect that revenue growth should accelerate in the remaining of the year. I mean, without seeking guidance. But do you feel little confident that we are on that trajectory that revenue growth should accelerate as well over FY '24, given the network rollout and given the other problems are getting fixed? Because we saw something like 18-odd kind of percent of numbers in the first four quarters on an average. But do you see that number should be better as well in FY '25, the growth trajectory? Without seeking any guidance, but the way things are moving, what's your sense?

Neville Noronha: I would say the other way around. I would be a little conservative on the guidance from that standpoint, rather than being optimistic, I would say that it is getting more and more challenging to maintain a 15% to 20% CAGR growth rate if I continue to grow at only 40 stores per annum. The real driver of CAGR growth rate is accelerated store additions.

Amit Sachdeva: Sure.

Neville Noronha: Yeah. So that's the way to look at it. And we don't look at, oh, because my GMA contribution went up and that should be the driver of revenue growth. Absolutely not. The driver of revenue will be the store additions.

Amit Sachdeva: Understood. That's very clear, Neville. And on the store addition, since we are at it, like the last two quarters, the average area that we roughly calculate is still around 40,000 now, which was way high in '22 or something like that. So, is it now the right template of 40,000 kind of store, is that a reasonable way to sort of see the store sizes or is it quite variable still?

Neville Noronha: Very variable, Amit. We don't look at it like that. I've repeatedly said that. When you're in the model that we have, I mean, whatever land is available, what sizing, the construct, all of that. Right? It is a broad range we play in. Like we said, historically we were at 30,000-35,000 square feet. Obviously, we see opportunity in the store size being larger for sure, but forget the range, don't go by the 5%-10% vagaries of average store size every year.

Amit Sachdeva: Got it, got it, got it. Fair enough. Thank you so much, Neville. And thank you so much for answering my question.

Moderator: Thank you very much. The next question is from the line of Harish Bihani from Kotak Mutual Funds. Please go ahead.

Harish Bihani: Good afternoon, Neville and team. Hello?

Neville Noronha: Hi, Harish. Go ahead.

Harish Bihani: Hi. So again, my question is on the store addition. If I look at your last few years conversation, even in the last conference call, you clearly mentioned that you test your team, yourself on a 15% number. But when we look at this number for last few years, it's trending below the 15% number. Now, we were presuming that this 15% number should at least start coming through from fiscal '25, given that there would be backlog of some delays, etcetera in fiscal '24, that should come through.

But basis the initial conversation that we had so far, it seems like, we'll be again closer to 40, 45. So this is a little perplexing to me. And you mentioned that there will be delays, India factor, delays happen, but at least there should be a point of breakout. It's not happening, Neville, for last few years, especially, last year was okay. There were issues last year. At least this year, we should have seen some signs of things improving on that store count number. And we should be doing, say, a 55 this year, 65 next year and 75 next year ballpark to be able to do a 15% CAGR number that you're talking about.

Neville Noronha: I take that feedback, Harish. And the only thing I'll tell you is we're trying our best. I completely feel and sense the point you're trying to make, but we'll try our best to do what's needed for the health of the business and the growth of the business. But point taken. I have no defence on that standpoint that you have. That is also our aspiration. So yeah, but we'll try to do our best on that front.

Harish Bihani: Sure. And like in the apparel business where you clearly mentioned that there were internal issues and we are working on that and things should improve, in this case, how much of this is internal and how much of this is external?

Neville Noronha: I have answered. I have answered repeatedly on this question. I understand the mood that your community has on inorganic growth, revenue growth and the drivers of it, primary being store opening. But the story is the same. It's both internal, external, everything. But...

Harish Bihani: No, I meant the store opening. Is it that there are internal bottlenecks which again we presume that you would have made the changes in the last few years and you'd have seen a ramp-up over there. At least to do 200 stores in the next three years, you need to have visibility today to do 200 stores, right?

Neville Noronha: You’re absolutely right. I think I spoke a lot about it in the last analyst meet. Maybe not this year, but the year after that, I hope that we will have a better rate of store openings, additions.

Harish Bihani: This is an internal bottleneck, Neville, or there are some external challenges and prices have shot up, you're not getting the right store location because you're still buying 90% of stores that you need to build up?

Neville Noronha: It is multiple things, internal, external, everything. But we're working on it. But external is also a factor. Let me put it this way. Who else does what we do in the country, a country of 140 crore people, in a business such as retail, at this scale, who else does what we do? Nobody or some people do in parts. It's tough. It's extremely, extremely tough. I've been saying this, but not as an excuse, just to give a colour to what this model is. And we like to do things which are difficult, right? Especially when it's difficult for others to do. But we're okay. Even if I'm adding 40 or 50 stores per year, it's great. It's good. Can it be better? Of course, it can be better. Is it testing our capability? Of course not. We can do significantly better than this.

But we'll see, I keep saying this, judge us based on the past. You have data for the last seven years, probably even three to four years prior to IPO. You see the trajectory of store additions and then you judge us. But I will not give you a very precise number and what it will be in the future. But point taken. We are all working hard on that.

Harish Bihani: Sure, sure. Thanks so much. Take care.

Neville Noronha: Thanks.

Moderator: Thank you. The next question is from the line of Akshen from Fidelity. Please go ahead.

Akshen: Hi, sir. Two questions from my side. One was just around the business model. When we see value retailing landscape globally, we've seen global peers try different experiments. I don't know if you have thoughts on whether something like Costco can be done in India by somebody like you? That's one.

Second is, as you alluded that in smaller towns and cities, DMart is still a destination, people go and shop, you get a lot of footfall and you own the land around it. I don't know if there is thought to monetize that footfall through different means. At the top of my head, good food or some entertainment, something to that effect can be done? Or you see yourself largely sticking to value retailing? That's the first question. I'll let you answer and then ask the second one.

Neville Noronha: It's two questions in one. One is, you said Costco, and can we do something like Costco in India? I have replied to this in multiple forums, that retail is very intrinsic to the culture, history, many other soft aspects of a particular country. And you cannot usually parachute a model that has worked somewhere else in another country very easily, specifically when it comes to value retail or grocery, I have no comment on the other types of retail.

I mean, like for example, let's look at luxury retail, right? The playbook is exactly the same, format, assortment, all of that. I'm not commenting on that kind of formats. But when I talk about food, basic items, all of that, a lot of other nuances that matter, and hence local retailers automatically get an advantage over an MNC kind of a retailer. So that's one thing I'd like to respond to about the relevance of a Costco model in India. So that's the way we think about it.

Second thing is you said about monetizing other aspects because of the trend of footfalls. Our very clear view on that and in fact, it's also very clearly my personal view that the moment you start diverting the focus from your core business, it's not a good sign. I think the DMart model has got such a humongous multi-decadal opportunity just by doing this. And you succeed in this only when you have that razor-sharp focus, because it's a low margin, high efficiency, high employee connects kind of a business. If you try to distract yourself from focusing on these aspects and focus into other things, it will diminish value for the entire business, especially when the opportunity is so large. I think focusing just on doing DMart is the way to go.

Akshen: Secondly, you made your view very clear on private label and you feel that existing brands do a better job at it. Until and unless you don't -- you can't do it at the right price, there's no point doing it. Just as an extension to that question, when we go visit the stores now, we see a lot of new brands, D2C brands, on the shelf. Just wanted to get your philosophy that is this something that you experiment or is this trying to maximize your gross margin or is this something that you typically pull for and hence that finds itself on the shelf of DMart?

Neville Noronha: It's only pull, pull, pull. It's just customer preference. We only focus on that as a number one priority. So D2C brands who become reasonably large and now want to have the next level of growth, they come to us and that's the right approach. People should come to DMart only when an INR10 crores company wants to become an INR100 crores company. A company who has zero or INR1 crores, if it comes to DMart, the chances of success are going to be very, very limited.

Akshen: Okay, thank you so much.

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

Percy Panthaki: Hi, sir. Firstly, couple of questions from the annual report. So, I see that capital commitments have gone up to about INR3,600 crores versus INR2,100 crores earlier. So that's a very large increase. Does this have any bearing on the number of stores that will come up in the next few quarters? And if not, then what does this number really signify? That's one part of the question.

The other part is, if I look at your annual report and look at the amount you paid for the land per square feet of stores added in this year, that is about INR7,300 per square feet of land cost for the 40 stores added this year versus INR4,600 per square feet for the 40 stores added last year. So, there's a significant inflation in land cost. So, is this on account of a change in the city mix where you have opened up more in metros or something like that? Or this is just a pure inflation in the land? So, these are the two relating to the annual report and then I'll probably have one on something else. Yeah. Thank you.

Neville Noronha: Percy, that's not the way to look at it. I'm not a finance guy, but the limited understanding I have and Niladri is also with me, he'll add on to any points I have missed. The way I understand the balance sheet is that whenever you buy land, even though it's not operational for the store, it goes into your fixed assets, it doesn't go into CWIP. So, the entire land aggregation and addition that happens year-on-year could be for stores which are not only opening in that year, but also in the next few years.

Percy Panthaki: Got it. Got it.

Neville Noronha: So, it's the wrong way to look at it. But that's only one part of the answer. The second part of the answer is, if I take a three-year, five-year period, then land prices have definitely gone up. So, whatever we've paid for land, say, in Mumbai or Bangalore – Mumbai is an exception, I'll come to Mumbai separately. But if I take Bangalore or Hyderabad or many of the small towns also, the price at which we used to buy land maybe five, seven years back vis-a-vis to what I buy today or the price that we bought 10 years back to what I'm buying today, of course, there is a huge level of inflation in land.

So, you have to look at it from that standpoint. Maybe if I have a 10-year balance sheet data and I lump three years together and then compare it with number of stores opened in three years and then derive some mathematical excel working, that will be more accurate than doing an annual number. Some blending will happen there.

Percy Panthaki: Understood. Understood. And the capital commitment?

Neville Noronha: Sorry?

Percy Panthaki: Capital commitments, INR2,100 crores versus INR3,600 crores Y-o-Y?

Niladri Deb: So capital commitment, Percy, is an outcome of open purchase orders at the end of the year. It depends on how many purchase orders are in various stages of progress. So, there could be a building we just started constructing in the month of, say, March. Right? So, the entire cost of the purchase order open is backloaded and hence you will see it as a balance sheet figure. It's a position at the end, at a point in time, not representative of the actual number. So, it depends on when you take the slice. If I have a store which is large and there's a capital commitment of, say, INR20 crores in that store, so that will inflate the number. But it's a fair indication of the likely construction cost that we are budgeting to incur over the next two, three years.

Percy Panthaki: Okay. So, does this in any way sort of -- I mean, the fact that it is inflated so much on a Y-o-Y basis, is it a right conclusion to say that the number of store openings will also sort of inflate accordingly over the next one, one and a half years or no?

Niladri Deb: It's a mix, I would say yes and a no. It's a question of the cost of construction in a particular city, the size of the store we are planning to open, the number of lifts we have in a particular store, and stuff like that.

Percy Panthaki: Understood.

Niladri Deb: Not very linear.

Percy Panthaki: Understood. Understood. My next question is on your e-commerce venture. So just first of all, as a hygiene, sort of, just wanted to see if you could share a couple of numbers, that is the number of DMart stores end of FY '23 as well as end of FY '24. Is it possible to share that?

Neville Noronha: For DMart Ready or DMart?

Percy Panthaki: Yeah, DMart Ready, sorry, not DMart. DMart Ready is what I'm talking about.

Neville Noronha: So, you're talking about the pickup points, is it?

Percy Panthaki: Yeah. Then the number of stores. Yeah, that is the smaller sort of stores that you have of DMart Ready, which we see in the road sometimes, that would be the pickup as well as the delivery points. Right?

Neville Noronha: So approximately, we've shut down around 200 locations. Percy, we had 573 last year. There are 341 this year, we shut down 232.

Percy Panthaki: So, has the area of operations that you can service also come down accordingly?

Neville Noronha: No. So, this was to improve operating leverage. So earlier, suppose if there were pick-up-points in say maybe a 1-1.5-kilometre radius kind of thing, probably it has reduced. So maybe we reduced it to increase the range. Maybe now you'll find one pickup point every 3 kilometres kind of a range or 4 kilometres range, to kick off or improve the operating leverage of the pickup point.

Percy Panthaki: Understood. Understood. And lastly, on your brick and mortar business, I got it in the previous discussions that basically you want to maintain a particular margin and any kind of efficiencies you have, you will pass it on to the consumer to become more competitive. So, I just wanted to understand if you have any more drivers lined up which can increase your discount versus MRP versus what it stands today. So, I think one or two years ago, you had done this direct delivery and stuff like that, which had given you 100 basis points. Are there any other drivers you see which can increase your discount to MRP versus what it stands today?

Neville Noronha: Yeah, it is the same playbook. It is about private labels, it is about GMA contribution, things like that. It's about your overall top line growth rate and hence how important you become for your suppliers in the branded space, so it's all three.

Percy Panthaki: So, any kind of rough guesstimate you can give that over the next two to three years, how much more you can sort of increase the discount versus what it is today, 200 basis points, 100 basis points? Any rough guesstimate on this?

Neville Noronha: Cannot. Cannot.

Percy Panthaki: Okay. Okay, sir, that's all from me. Thanks, and all the best.

Neville Noronha: Thanks, Percy.

Moderator: Thank you. The next question is from the line of Amnish Aggarwal from Prabhudas Lilladher Private Limited. Please go ahead.

Amnish Aggarwal: Yeah. So, hi, Neville. So, my questions are essentially on DMart Ready. You see, now, as you said, we have shut the number of pickup points. So first of all, what is now the ratio of your home delivery versus pickup? And if I look at, say, in the slightly longer term, as you also said, that there are consumers who want convenience and there are consumers who want, you can say, your pricing. Now, if I look at, say, the quick commerce players, as they gain scale and they grow in size, maybe their terms of trade also improve over a period of time. So, on this count, where does DMart Ready stand with the other players involved?

Neville Noronha: So, it's a good question. Obviously, when any suppliers' contributions increase or sales increase, their bargaining power will also increase. We are cognizant of that but at the same time, what we believe in a business such as retail, which is very process-oriented, you don't have any IP, it's all about who does it better.

When we crunch our numbers at an operating principle level, from a cost level, I think we have a huge, huge advantage compared to quick commerce from a cost of operation standpoint. But I think where they have an edge over us is the gross margin. Their ability to earn gross margin is significantly better than us because they operate on the principle of convenience. So that's the way to look at it.

To that point, I think eventually, who's going to win in the market is the question to ask. Our view is both will coexist. There is a set of customers who want delivery in 15 minutes, 20 minutes. They don't mind paying the premium. And it's a lovely model from that standpoint and very relevant for a country like India, especially large towns, where infra is a bit creaky. For people to reach from Point A to Point B is a bit challenging. So, from that standpoint, people who value time and convenience and comfort, this quick commerce business is fantastic. It will do well.

At the same time, there is a set of customers who deeply appreciate value. So, for example, if they have an INR10,000 or INR15,000 budget on grocery, if there's an opportunity to say, hey, you know what, 50% or 60% of items, I don't need to have them quickly, but saving INR1,000 on that makes a lot of sense to me. And we believe that she will come to us for that. Now, what we also believe is, considering all things equal, if competition also tries to play the value game, I think in the long run, we will do better at that job. So that's the whole thinking.

And we'll also try to take a decent share of that, even that discerning customers' wallet share. That's the way to look at it. So, for example, you'll have different customers and different SEC classes. The very premium SEC class will probably buy less from DMart. People will buy through multiple formats and DMart will try to be one of those for every customer of a city.

That's the whole idea. And the digital strategy is also that, that we decide to get into this to play in that wallet share and not say that I will only do this, I will only address this customer segment. The idea is that, is there an opportunity to service within the discerning customer and take a part of that wallet share from the customer? And over time, we believe that customers will gravitate towards DMart also. That's the thought.

Amnish Aggarwal: Okay, that's very helpful. And Neville now with 341 of our pickup points, and I believe each one of them would be say, maybe 200 or 300 odd square feet, so have you ever thought of that, can you convert those pickup points into something like a dark store or new dark store and also try to participate in the e-commerce market?

Neville Noronha: No, 200 square feet is not good enough to run a dark store. A dark store I think needs at least 5,000 to 7,000 square feet to even do decent justice to the customer basket. So, it can't work, 200 square feet can't work.

Amnish Aggarwal: Okay, understood. And like last year, we just added one more city in DMart Ready? So, are we done with the near term or we would see again this expansion in a number of cities?

Neville Noronha: I want to comment on that because the next we are going to meet is one year later and 12 months is a long time in digital commerce. So, we will play by the ear. We will see how things go over the next 12 months and then decide what we need to do.

Amnish Aggarwal: Okay, thanks a lot.

Moderator: Thank you. The next question is from the line of Mihir Shah from Nomura. Please go ahead.

Mihir Shah: Hi, Neville, thank you for taking my question. Firstly, on the bill cuts, they have been going up. Just wanted to check on the trend of the shopping basket size. Do you see it reducing and what is the impact of this on you? Does it increase your SKU mix? So that's one. So, part two of it is do you see consumers experimenting more with brands and does that also require you to increase your SKUs and variety more?

Neville Noronha: I think basket value has gone a little up in the last year. So, one thing, what we saw during COVID was that significant shopping habits changed, suddenly basket values went up during COVID which basically meant that the trips to the store reduced. And I think that really helps us from all aspects of the business. And that has maintained. So, basket values have been maintained.

And so, on your other parts of the question, I think it's a continuous work in progress. See, the whole pursuit of the buying team is to catch the trend.

Right? Catch what people are buying, what are the new things that are happening in the market and continue to be relevant to the shopper. That's part of the job on a going concern basis. That's the way we think about it.

Mihir Shah: Understood. Okay. Secondly, Neville, on revenue per square feet, it has come back to FY '20 levels. Can you throw some light on the average revenue per store in metros versus Tier 2, 3? And assuming you're driving more traffic because of the bill cuts being higher, what else is driving the revenue per square feet higher?

Neville Noronha: It's multiple things. It's not like it's going leaps and bounds. This is a blended average of multiple things. We look at SSSGs at a store by store level basis age vintage. That's the way we look at it. Footfall is going up, sales are going up for each of these stores. The mindset is store by store. Everything is reviewed store by store. We don't really believe in blended averages, per se. So, I don't know how to answer your question, but if revenue per square feet is going up by INR1,000 or thereabout, INR1,000 or INR2,000, there are multiple levers because of which it's happening that way.

But broadly, what we are seeing is that younger the store, higher the growth rate. That is one trend. At a company level, we are at INR32,941 per square feet. But each cohort of stores are in very, very different ranges. The range is very, very wide. Like our very old stores are at a multiplier of this. It's not like 20% - like the top end store is not 50% higher revenue per square feet. It's a multiple of INR32,000. Challenges on growth come when they peak out. So, if the top 10 stores having the highest multiple of INR32,000, they sometimes don't even grow at inflation rate. And it's not because there is anything wrong with that business. That store has peaked out.

So, then the smartest thing to do is to open another store close by and distribute the revenue. So, the net gain, that is one store versus the old store plus new store open combined is value accretive. That's the way to look at it. But turnover per square feet has collapsed. So, it's not the right metric to look at.

Mihir Shah: I see. I was basically trying to understand if the newer stores will have essentially significantly lower revenue per square feet and the blend idly. But I hear you, I mean, on what you are indicating.

Neville Noronha: Yeah.

Mihir Shah: Lastly, on DMart Ready, see, usually, Neville, FMCG brands, they indicate that any of the products that sell online have a higher gross margin profile sheerly because of the kind of products that the consumer buys are of better value. When we look at DMart Ready gross margins, what levers do you see to improve the gross margin profile for DMart Ready and will that be one of the key drivers for you to become profitable in a shorter period of time?

Neville Noronha: Yeah, I think assortment is the key. You have to have a reasonable divergence, reasonable, not very large, reasonable divergence on the brick and mortar assortment to improve the margin profile of DMart Ready.

Mihir Shah: Okay, so you are indicating that, that is one key area of work that -- versus DMart brick and mortar, which has that higher gross margin profile, DMart Ready can get better than that?

Neville Noronha: Yeah, so like I said, right, all the hard work that is done is done on the opex side. I think from an opex side, we are doing pretty well. I think now to make DMart Ready profitable is more of a margin challenge. I'm not saying there is no other operating leverage on the cost side; there is, but that will kick-in. We are pretty confident it will further kick in over time. But to make money in this business, it's a game of improving the margin profile.

Mihir Shah: Got it. And can you share, out of the 22, 23 cities that you are in now, how many of them would be breakeven at EBITDA level? I mean, I recollect you indicated metros had kind of maybe broken even earlier or something.

Neville Noronha: No, no. I have not indicated that. I have said that Mumbai is better. I had commented that Mumbai is better. And I maintain that stand even this year. If from 8.3% or something negative, we are at 6-point-something negative, so at 6.3% of negative, Mumbai is better than that. I can definitely confirm, but too early to comment on all this right now. Mihir, it's too early to comment on all these numbers right now. I think even getting these numbers in place is pretty good. And I think the trajectory line on cost optimization is in place. We need to see a further opportunity to improve cost. Like I said, this business is all about how we manage the gross margin profile.

Mihir Shah: Got it. Thank you very much, Neville. And wishing you all the very best.

Neville Noronha: Thank you. Thank you so much, Mihir.

Moderator: Thank you. The next question is from the line of Varun Pratap Singh from ICICI Securities. Please go ahead.

Varun Pratap Singh: Yeah, thanks for the opportunity. Sir, my first question is on the pharmacy category that we're trying to build. What is the update over there, sir?

Neville Noronha: The update is it's still work in progress. We're quite happy with the outcome, but it will take us a reasonable amount of time to scale this up and have them in as many stores as possible. But like I said last year also, when we just about started, that we were pretty confident about this business, we have done this business before.

We understand this business, and I have nothing new to say this year, it has played out the way we had imagined it will play out. And the challenges there is all about the team buildout, the structure, people, getting the infra in place, the stock, the technology, the usual stuff, and it's on track. It's a great complement to the customer. So, customers are also enjoying this fact that, oh, I can now even buy my regular medicines at great value. So, it's a great complement to the main DMart business.

Varun Pratap Singh: Okay, so currently, in how many stores we would be having this category available?

Neville Noronha: Seven stores.

Varun Pratap Singh: Seven stores. Okay. Right. And sir, my second question is on the apparel segment. So, I picked up your thought in the FMCG that private label has a very long runway, given where India stands in terms of per capita and our ability in terms of how much value or quality we are able to add. But in the apparel segment, private label is becoming a sunrise sector. So how are you thinking about private level solution in this category divergent to our -- I mean, to your line of thinking in the FMCG business?

Neville Noronha: With the new team, new thoughts, new thinking, we're sharpening that. And you will see a lot of consistency on branding, on colour themes, a lot of that on the apparel side in DMart. I think there is merit in bringing some discipline, - if I may say, in terms of basic colour coordination, branding, all of that. So, it is work in progress.

Varun Pratap Singh: Okay, right. And currently, sir, how much -- I mean, if you want to call out how much would be private label contribution in the apparel segment itself?

Neville Noronha: We don't disclose and it doesn't matter. You don't have to look at it like that. See, from our business standpoint, the way we operate the business, and I've commented about this earlier also, almost entire thing, 90%-95% of it is private label. See, the brand, when do you call it a brand? When you're charging a premium for the brand name, right? There's no such premium. You negotiate the cost of the product at fundamental factory cost operating level, with a small margin for that supplier who's making that garment and he supplies to us. And then we put in a mark-up and we sell it. So, it's not a brand.

Varun Pratap Singh: Okay, got it. And sir, in DMart Ready, you called out that our rate of expansion may not be high, it will be moderate. But still, like, how are you thinking about -- I mean, what is your definition of the growth rate in this business, which appears to be -- I mean, as you rightly pointed out, big data and our ability to do long tail selling of SKUs, so, I mean, how would you define the right kind of growth rate from a three to five-year time horizon and any comment if you wish to offer?

Neville Noronha: See, we don't have a very clear number to give to the e-commerce team. Let me put it this way. The e-commerce team in the last two years, have been told very clearly, grow as much as you can, okay? Because we know what the operating model is. It's up to them and their ability about how fast they can grow. It is no more a point of view of saying, oh, we cannot lose so much money.

That conversation is over since the last two, two and a half years, okay? Because we know how much this business will lose now. So, there is no restriction from that standpoint. The larger point is how quickly can you grow? How many additional fulfilment centres can you add in a city like Mumbai, in a city like Bangalore, in a city like Hyderabad, in a city like Gurugram or NCR. Those are the conversations we are having, if you want to get a colour of how we are thinking about the e-commerce business.

Varun Pratap Singh: So, having done all the hard work on the opex side of controlling the cost, sir, what is the hard work that we are doing to drive the revenue growth with regards to customer awareness, etc.? Anything on that side, if you want to highlight?

Neville Noronha: I have spoken about this in last year's meeting also and probably the year before that. The e-commerce business is nothing to do with making people aware. What's the point in making people aware if I don't have capacity? I have to first build capacity. So, one of the key reasons why we are not making customers too aware is because we don't have capacity. And yet we are working hard on building capacity.

At the same time, like some of you commented, we had all these bus hoardings where we plastered a few buses with DMart Ready ads in Mumbai because we built capacity. We created capacity in Mumbai. And then we went around talking to town saying, hey, you know what, why don't you try DMart Ready? So, first is building capacity, then spending money on telling people to come and shop is very easy. You just need a lot of money to throw. That's the easy part. The difficult part is building capacity.

Varun Pratap Singh: Understood, sir. And sir, just one last question that any new -- are there new categories similar to pharmacy that we would have entered in FY '24?

Neville Noronha: Other than pharmacy?

Varun Pratap Singh: Yes.

Neville Noronha: No, no. Anything that makes the DMart brick and mortar business strong is what we will do. Anything that will make the digital, that is the DMart Ready business strong is what we will do. Anything beyond that, we should not do.

Varun Pratap Singh: Sure. Okay, sir, thank you very much. Wish you all the best. Thank you.

Neville Noronha: Thanks, Varun.

Moderator: Thank you. The next question is from the line of Tejas Shah from Avendus Spark Institutional Equities. Please go ahead.

Tejas Shah: Hi, Neville and team, thanks for giving me the opportunity. Neville, you again reemphasized today the strategic importance of deepening penetration in existing markets or existing region. Now, if -- correct me if I'm wrong, but we have not entered a state for a very long period now.

Rushabh Ghiya: Tejas seems to have dropped. We can take the next question and then we can take a question from Tejas.

Moderator: Sure. The next question is from the line of Nihal Mahesh Jham from Ambit. Please go ahead.

Nihal Mahesh Jham: Good afternoon, Neville and team. I had three questions. The first, Neville, is in your reference to looking at DMart from a longer term 10-year perspective, this comment you made of DMart, obviously, wanting to be value first. So just taking your discussion on GDP per capita, even in terms of private labels, do we have comfort that, say, over the next decade, there won't be a larger cohort, say, which moves to convenience as the GDP per capita improves and then maybe you want to plan about the business model now and look at convenience more going forward?

Neville Noronha: For the same category of products or segments, not only of a retailer, but any product, the value or the mid segment is always the largest pie of the market. That's the way we look at it. Now how much bigger will it be, what is the proportion? We don't know, but I think value, we believe, will be a larger segment compared to convenience, even in the grocery segment.

And we'd like to play in that. It's as simple as that. And that has got no relevance to per capita income, how developed the economy is. Like you look at Western Europe, you look at USA, value is where the biggest retailers are, right? So, we like to play in that space. Now whether it's digital or it's brick and mortar, doesn't matter. So, I would like to clarify that too, but we would like to play in the space of value.

Nihal Mahesh Jham: Sure, point taken on that. The second was on your comments on Minimax, just wanted to understand how are you looking at that format? Is it that you're looking at an independent offline model or there is a thought of this becoming, say, a part of the delivery of network and maybe then the unit economics differs and you can look at larger openings going forward in terms of this format?

Neville Noronha: Earlier also somebody asked me on this Minimax format, I think you don't need to overthink. Even we are not overthinking on this model. It's just a trial, but we aren't seeing much progress there. So, it's just there to kind of check if something is happening there. Nothing exciting yet, to be honest.

Nihal Mahesh Jham: Got that. Final question is, say, of the 40, 45 stores that you're targeting for this year, any sense of what will be the so-called split stores - share of the split stores that had to open because of, say, certain stores getting maxed out, just for reference?

Neville Noronha: No, I probably didn't get your question. What did you mean by split stores?

Nihal Mahesh Jham: What I meant is you referred that some stores were open because certain existing stores got maxed out. So, when you opened a certain store, they had to ease the capacity from those. So just to understand if those stores will be a larger share of the 40, 45 that you're planning to open.

Neville Noronha: No, no, no. Nothing like that. In fact, they'll be a very small component. We have these maxed-out situations in cities like Bangalore, Hyderabad, Mumbai, these kinds of locations. But our store openings are in a significantly larger number of cities. I think last year we opened stores in 12 new cities. So, it's a mix. You can't put a number or you can't model anything around this.

Nihal Mahesh Jham: Point taken. That was it and thank you so much.

Moderator: Thank you.

Neville Noronha: Tejas?

Tejas Shah: Hello? Am I audible?

Rushabh Ghiya: Tejas, you are on. I think we didn't hear your question. So maybe you'll have to just repeat the entire thing again.

Tejas Shah: Sorry for that. So, Neville, you again kind of highlighted or reemphasized today that the importance of kind of going deeper into the market. And if our numbers are correct, then perhaps we have not added any new state in last many years. So just wanted to understand from two perspectives, does it -- like when you enter a new state, does it make it easier to kind of up the pace of expansion because it's a virgin market and it becomes easier to kind of identify good location, A? And, B, we also noticed that distribution centres have increased from 49 to 62. So, kind of wanted to understand, is it a kind of precursor that you have to invest before you kind of ramp up your store expansion run rate?

Neville Noronha: So, if you're looking at distribution centre addition as a precursor to new state entry, no, not really. In fact, it is the other way around. Whenever you go to a new state, we don't pre-empt investment through distribution centres in that state first. We, in fact, supply them from the existing distribution centres, which we feel is more prudent. Only once we get critical mass, we build distribution centres. That's one point.

Second point is, going to new states, I think it's just more bang for the buck because we know the older states better. And second is, it gives us better operating leverage. But that apart, we do see opportunities of going to Orissa, going to Uttar Pradesh (UP) and you will see some stores coming up in UP. We have already tied up a few firm deals in these states. So, any state that shares the border with the existing state is a natural progression for our business.

Tejas Shah: Very clear. And just expanding this point to your GMA mix logic that you have given us in past also that when you enter a new territory, the GMA mix has to be higher and it goes down as you open more store in the same market. Should we expect this cyclicality in GMA when you enter a new state or virgin territory initially, it will bring much more disproportionate GMA mix versus your current expansion that you're doing in your existing territories?

Neville Noronha: Absolutely. So, for example, let's say, hypothetically, suppose I add 400 stores and hypothetically I add another 400 stores next year. My GMA contribution will go above 30%.

Tejas Shah: But if, let's say, of those 400 stores, 300 are totally new market and not in the existing markets, would it be again disproportionately higher?

Neville Noronha: Could be. Could be. But that's not necessarily a good thing. And that's what I keep telling you guys, that I think there's over-obsession on this GMA contribution just because optically it gives you better margin. Always remember that absolute revenue is the key driver of profitability. So, I could be an INR30-40 crores store with a 35% GMA contribution, but INR150 crores store with a 20% GMA contribution would be giving you better ROI.

Tejas Shah: Got it. And the last one, I'm not sure if I understood it correctly, but you mentioned that fashion apparel is personality or team-driven business or more personality or team-driven business. And we have observed that in both Indian and international fashion retail that business fortunes can be volatile depending upon how the team -- merchandising team actually moves in and moves out. So, when you're building a business for 3, 5, or in fact, 10 years, how are we trying to institutionalize some of those things? Because it can't be, let's say, a team of personality-driven, if you are building a business for 10,15 years.

Neville Noronha: So, you reduce the impact of personality. It's as simple as that.

Tejas Shah: But is it that easy in fashion as it was in, let's say, other divisions?

Neville Noronha: Not easy, relatively, not easy. And that's why you need to be significantly, exceedingly more stubborn when you're dealing with categories like apparel in terms of evangelizing the ethos of what DMart stands for, not everybody believes in it.

Tejas Shah: Got it. That's all from my side. Thanks and all the best.

Neville Noronha: Thanks.

Moderator: Thank you so much. The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: Hi, Neville and Niladri. Good afternoon. Thanks for the opportunity. I was just referring to slide number 13 where you have given the gross margin is around 14.5%. And if I look at the DMart Ready gross margin, there is a difference of about 200 basis points. I do understand there is a mix change and everything which would be there. But would you be able to share, if I look at, the brick and mortar business would have about close to 57% contribution from food, this portion or proportion of this would be much higher in the DMart Ready?

Neville Noronha: Shirish, that's not the way to look at it. If I remember maybe the last analyst meet or the year before that, I commented on this, that you have to look at the e-commerce business as similar to, say, the FMCG business of the brick and mortar. Because the non-FMCG selling or the ability to sell non-FMCG in the e-commerce segment is not so easy. Okay? So that's the way to look at it. And hence, how you play the assortment of a digital space is going to be exceedingly challenging. That's the way to look at it. So how do I bump up that margin? It's not just by replicating what's happening in the brick and mortar business.

Shirish Pardeshi: But I would assume, Neville, we have the terms of trade with the top five brands in non-FMCG also. So why there should be, in the first place, margin difference?

Neville Noronha: Okay, so that's a wrong assumption. There's no concept of a terms of trade in non-FMCG space. Non-FMCG space is very, very transactional and all the margins are front ended on the product itself. The principle of operation there is very, very different.

Shirish Pardeshi: And just harping little more, you mentioned that the margin is one of the things, because in the -- internal things, you have already done to improve the margin for DMart Ready. So, it's the external thing, which is there, if the margin expansion is happening, what are the top two, three drivers, you think, which will pan out over the next two, three years?

Neville Noronha: Again, one thing, it's just the assortment play, the assortment which will drive more margin and what is your ability to sell that assortment just by someone seeing on the screen, and how do you make that profitable? Because the moment you shift towards saying, look, I'm now going to bring an assortment to just give me 30% and 40% gross margin, your return rates will rapidly go up. And hence then what is the net margin you're going to make? And is it value accretive? That is the question to ask.

Shirish Pardeshi: Okay.

Neville Noronha: So, it's very, very challenging.

Shirish Pardeshi: Okay.

Neville Noronha: And that is being reflected in what you see in the world, right, not just in India. It's very easy to bring in top line. Where is the profit? Don't see any profitability there. Right?

Shirish Pardeshi: Got it. Got it. My second and last question. If I look at the steady state when we used to have a GMA contribution, about 28%, the best sense, what I have got at that point of time, about 35% used to be contribution from the apparel. Now, when this has settled around 22%, 23% in your aspiration, and it will remain stable, this apparel business will go back to that one-third contribution or it will remain at where it is now?

Neville Noronha: I haven't ever disclosed what is the apparel contribution within the 22% or 28%. And I have no view on where it will be. I cannot comment on what it could be.

Shirish Pardeshi: No, directionally. I'm not asking the number, but directionally, because you run the business, you know what was there about -- maybe it was 28%. Is that number primarily becoming positive or showing some momentum over the last two, three quarters? That's what we have seen.

Neville Noronha: I really don't look at it that way. See, I think this whole GMA conversation began during COVID and we started disclosing these numbers or giving emphasis on these numbers just to give a sense of why gross margins at the blended company level are going down.

But if you ask me, as a team who's running the business, are we too worried about this GMA going down? Of course not. We only focus on footfall, basket value, conversion, and overall like-for-like growth rate. It means that customers are continuing to patronize and visit our stores and buy from our stores.

Now, as long as the basket values keep on growing, the number of footfalls keep on growing, and that's it. I mean, mix can be whatever. See, mix should never be forced. Mix is your story. Mix tells you what people like you for, and what are they rejecting you for. It's as simple as that. So, I think the essence of a mix is it is telling you something. The customer is telling you, hey, listen, this is what I'm telling you.

And you act based on that. Just because something is giving me more margin, I will force fit or push the customer to a particular area forcefully? No. But if information or whatever the customer is telling me gives me an opportunity to improve and say, okay, I'm not doing this right, can I try other multiple things to make it right. I mean, that's the way -- it's not a straight answer if you get what I'm saying. Right?

Shirish Pardeshi: Okay, got it. Just lastly a question on the bigger store what we have opened in last one year. What are the hits and misses? Or maybe if you can share the learning, which has surprised you positively or negatively?

Neville Noronha: I think the biggest issue is we have to up our game as the scale is going up. So, everybody talks about scale giving leverage, scale helping, scale gives bargaining power, everything. We all talk about positive things about scale. And I've come to realize over the last three to four years, I mean, I think scale can become a monster which can bite you if you don't do it right. You end up losing more than gaining if you don't manage. So, scale is creating a lot of challenges for us. And we have to be cognizant of this and build capability so that how customers thought about us 5 years back, 10 years back, is it equal to that or better than that? So, the perception should not diminish in her mind, in her imagination.

And second, which is equally important, same for our employees and our vendors or even the larger ecosystem. I think how they think about us has to be equal to or better than what it was in the past, because with scale, everything gets diluted. So that, to my mind, is the biggest, biggest threat for the business in the long run.

Shirish Pardeshi: Okay, thank you, Neville.

Neville Noronha: Thank you.

Moderator: Thank you. The next question is from the line of Chanchal Kumar Khandelwal from Birla Mutual Funds. Please go ahead.

Chanchal Khandelwal: Thanks, Neville, for taking my question. I just wanted to pick your brains on the quick commerce part of it. What do you think are they doing right? Now, why this question again, let me rephrase it and understand it from your perspective. Because if I say top seven cities, they put together USD 4 billion, USD 5 billion of sales today. And in top seven cities, if I take your sales, you would be similar or tad lower. So, if they have been able to get a USD5 billion sales in top seven cities, and they are talking about aggressive growth, and they are working on a gross margin because their assortment and the mix will be different. So according to you, what are they doing right? And how do you envisage that five years from now?

Neville Noronha: I will not be able to comment on them much, just that I have deep respect for what they have built. It's amazing what they have built. I had a lot of reservations. I met some of their leaders and the way their model was, the structure was earlier, to what they have been able to do now, deep respect for what they've done. It's an amazing model. It is relevant for India. It's a smarter model than probably the marketplace. But it's different. It's addressing a different need. We are addressing a different need and that's the way I'll talk about it. And I will not be able to comment further on their model beyond whatever I have said just now.

Chanchal Khandelwal: So, there is -- sorry.

Neville Noronha: Let me finish. One more point. The larger point is, I'm just now specifically answering your question. All this is happening because the market size is very large. The sheer size of opportunity for grocery retail in a country like ours of 140 crore population is humongous, large.

And I am glad that there are many more businesses which are pursuing or reaching to the point of breakeven profitability. It's needed. I mean, this country needs more success stories in retail. And there's no better success than reaching profitability or coming close to profitability. It's good for the industry, but it is serving a different customer need. DMart is serving a different customer need. That's the way to look at it.

Chanchal Khandelwal: So, I understand that. And in one of the replies, you said that value is the largest part of the pie and you will address value and you'll be the leader in the value. But where I'm coming from, say, five years from now, you capture the top 10 brands, this guy captures the bottom 20 brands, because there is one play on brand and one play on private label. And if private label and the second 20 brands become bigger, which are willing to give a higher margin to quick commerce, somewhere that gross margin impact may help them scale the business to a different level altogether. So that's the mix I'm trying to understand.

Neville Noronha: So, like I said, I'm not able to comment on what they could do, but it's challenging and exciting. We'll play it, we'll see how it goes. We'll also compete and let's see who wins. And you could have more than one winner. You see it globally, right? It's not winner takes it all and multiple players will coexist. This size of market cannot be fulfilled just by one, two, three players. You need more players and all can be profitable.

Chanchal Khandelwal: Sure. So just lastly, given that quick commerce is going to scale up much faster in next two, three years, is it right time for us also to speed up the button?

Neville Noronha: We will not do things because somebody else is doing something. We will do basis our capability and our competence and let the best man win.

Chanchal Khandelwal: Sure. Let me leave it at that. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, due to time constraint, the next question will be the last question, which is from Shrenik Bachhawat, PGIM Mutual Fund. Please go ahead.

Shrenik Bachhawat: Hi, sir, thanks for the opportunity. Most of my questions have been answered. Just one last on the private label strategy. So, over the longer term, say, 10 years, 15 years from now, if our private label segment becomes a much bigger pie, do we plan to open private label-only stores at a later stage in time?

Neville Noronha: Doesn't make sense at all. The value of private label is when something next to it is at 30% or 40% higher price, then people perceive the value of private label. Private label has no place to be standing alone and selling, doesn't make any sense. What is the principle of private label? You leverage on your operating cost, right? Your operating cost is almost zero because it's riding on that same rails, right? So, doesn't make sense to have anything independent. Now that's our view. Somebody else may be doing something different, but that's our view.

Shrenik Bachhawat: Okay. Got it, sir. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we can take one more question, and it will be the last one, which will be from Mr. Binoy, Sunidhi Securities & Finance Limited. Please go ahead.

Binoy Jariwala: Thank you for the opportunity. I hope I'm audible?

Neville Noronha: Yes

Binoy Jariwala: Okay. Neville, So a bit on the store additions. In the last year's con call, you mentioned that the way you are thinking about store addition is that can you typically add about 20% of the store count every year and that's the framework in your mind. This year, that number you've spoken is 15%

number. So why sudden change in that mental framework in a year's time? That's my first question.

Neville Noronha: Binoy, this an aspiration, but what do you mean by change? Come again? I didn't follow the question clearly.

Binoy Jariwala: Meaning, in terms of your mental framework, that you're setting it up and your building capabilities, last year, you spoke that you'd like to see store additions growing at roughly about 20% CAGR. Now, this year, you've spoken that you'd like to see store additions to grow at roughly about 15% CAGR. And you've not spoken about the 20% number. Instead, you've spoken about a lower number, which is 15%. So that's the reason. So, my question is pertaining to this, that why you have a sudden drop in this number? Are you seeing something on the real estate, difficulties on the real estate front? What is it?

Neville Noronha: No, it is the same. The theme is the same, 15%, 20%. Okay? You replace everything that I said, 15% with 20% even for this year, right? That's the aspiration. We want to add more stores. The single point agenda is store addition. The store addition will drive the CAGR. So, no change from that standpoint, if that is what you are alluding to.

Binoy Jariwala: Okay. Okay. That explains. Second is on the DMart Ready. You said that MMR operations are much better than the rest of India. So, has MMR broken even at a PBT level?

Neville Noronha: No, it has not.

Binoy Jariwala: Okay. And on Reflect Healthcare, if I would just pick your brain on this. So, what is the thought process behind how do we want to launch Reflect Healthcare? How much space would we be carving out within the store and for a dedicated pharmacy, etc.?

Neville Noronha: I think pharmacy takes around 600, 800, or sometimes even 300 square feet. So, a very small space. So, from that standpoint, not a challenge. And we are trying to now do the easier ones, where we have more space. We have very high throughput footfalls, where we'll get operating leverage by having at least seven to eight stores in a city, that kind of things. So, we're trying to do that first, that is stage one. That's the way we're thinking about it.

Binoy Jariwala: Okay. And in terms of the opex, will it require any additional opex, or?

Niladri Deb: It's very inconsequential. Just the furniture. Nothing much.

Binoy Jariwala: Nothing much. Okay, okay. And my last question is on DMart Minimax where you said that there's not much to read into, but I'm just wondering, 21 stores that you operate as on March, you had added six stores last year. So very unusual of the DMart ethos, right? You typically tend to perfect a model before expanding it.

And we are already seeing 21 stores of Minimax. And this is not even like Minimax is a counter within DMart. It's like a proper, separate store, a smaller DMart store. So just wondering, what are you thinking here in terms of -- can you speak a little bit about this format and what are you trying to solve for the company as well as the customer here?

Neville Noronha: So, we've been contemplating, is there a way for the Minimax Store to merge with the pickup point. That is a thought, and it gives you a far better omnichannel play. That is the thought around it. There are two ways of looking at the omnichannel way. One is you say convenience, relative convenience and omnichannel, or you say extreme deep discounting and omnichannel.

So, we took down the path of extreme discounting with omnichannel. So, it's a kind of a work in progress. And it's not that the financial metrics are bad. That's why we added a few more. The profitability metrics are actually better than the pure play digital or the pickup point metrics. So, from that point, it is good. But is it good enough to say, can we have 500 or 1,000 locations? Not yet.

So, to that extent, we are still in the phase of perfecting the model. But to get more granularity and more reference, we have extended to a few more cities just to get a feel, at a multi city level, does this really make sense?

Binoy Jariwala: Is there any time line that -- internally that you're thinking about in terms of when -- by when you think you'll have an answer to this question?

Neville Noronha: I don't know, maybe another year or two, we'll get a very clear picture. So, we have our EBITDA target, we have a PBT target. Only if we get to those levels of target, it's worthwhile to put energy, build an independent team to run this independently and just scale it up. I mean, that's the thought. So, unless we don't achieve that EBITDA target, knowing very well what is the depreciation cost to it, so basically PBT target. So, if we get a desired PBT target, then we'll expand. The best way to look at it is if you're seeing a rapid increase of Minimax stores, that means we've achieved our PBT target. That's the way to look at it.

Binoy Jariwala: These stores are on lease, right, unlike the DMart stores which are owned?

Neville Noronha: They are on lease.

Binoy Jariwala: Okay. One last question to you and then to Niladri, one question. Will we -- so to you is, a few years back, we contemplated entering big box wholesale format. So -- and then we put it on the back burner. So, any thoughts on that? Or it's still on the back burner?

Neville Noronha: I don't think we should get into it. It's not even on the back burner. It's out, it's in the trash can.

Binoy Jariwala: Okay. One question to Niladri on accounting is that -- just wanted to understand, so when we typically buy out a property with the land, do you -- how do you account it as capex? Do you split the land and account the land in the land part and the building in the building part? How does that work from an accounting point of view?

Niladri Deb: So, you are referring to a ready-built property, right?

Binoy Jariwala: Yes

Niladri Deb: So, in a ready-built property, what we do is we do a valuation of the property when the store opens and then we split the cost based on the valuation certificate into land and building.

Binoy Jariwala: Into land -- so it is not that the entire -- if you acquired a property, you put it entirely into building, nothing like that. Splitting it between land and building.

Niladri Deb: You cannot do that because building enjoys depreciation. So, tax authorities will object. So, value we pay for a built-up property is inclusive of the land which comes with the property.

Binoy Jariwala: Okay. Thank you so much. That's all from my side. Thank you for taking my question. Thank you so much.

Moderator: Thank you very much. Ladies and gentlemen, that concludes this conference. Thank you for joining us and you may now disconnect your lines.