To,

Listing Manager
The National Stock Exchange of India Ltd.,
Exchange Plaza, Plot No: C/1, G Block,
Bandra Kurla Complex- Bandra(E),
Mumbai - 400 051
Symbol: EMIL
Series: EQ
ISIN: INE02YR01019

The Secretary
BSE Limited
PJ Towers
Dalal Streets
Mumbai- 400001

Scrip Code: 543626

Dear Sir/ Madam,

Subject: <u>Disclosure of transcript of Earnings Conference Call for First Quarter ended 30th June 2023 held on 11th August 2023.</u>

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we hereby inform you that the transcript of the earnings conference call held on 11th August 2023 to discuss the Un-audited Financial Results for the First Quarter ended 30th June 2023. The same is available on the website of the Company at.
https://investors.electronicsmartindia.com/earning-call-transcripts-and-investors-presentation
We request you to take this information on record.

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

RAJIV KUMAR
Digitally signed by RAJIV KUMAR
Date: 2023.08.17 18:26:58 +05'30'

Rajiv Kumar
Company Secretary and Compliance Officer

Date: 17th August 2023
Place: Hyderabad

"Electronics Mart India Limited Q1 FY '24 Earnings Conference Call"

August 11, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on August 11, 2023, will prevail.

MANAGEMENT:

1. MR. KARAN BAJAJ – CEO, ELECTRONICS MART INDIA LIMITED
2. MR. PREMCHAND DEVARAKONDA – CFO, ELECTRONICS MART INDIA LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Electronics Mart India Limited Q1 FY '24 Earnings Conference call.

This conference call may contain forward-looking statements about the Company, which are based on the beliefs, opinions, and expectations of the Company as on the date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Karan Bajaj – CEO, Electronics Mart India Limited. Thank you, and over to you, Mr. Bajaj.

Karan Bajaj: Thank you, Michelle. Good evening, and a very warm welcome to everybody present on the call. Along with me, I have Mr. Premchand Devarakonda – Chief Financial Officer and Strategic Growth Advisors, our Investor Relationship Advisors. We have uploaded our "Results and Investor Presentation" for the quarter ended on the Stock Exchange and Company's website. Hope everyone had a chance to go through the same.

The future for the electronic consumer durable business in India looks very promising. The growth of this industry can be attributed to several factors including increasing purchasing power of middle class and growing penetration of the Internet and smartphones.

Other aspects like financial options and easy availing financing for purchase of consumer durables is expected to support the growth of the consumer durable industry.

Our company is currently associated with more than 100 plus electronic brands with over 6,000 SKUs and has a long-standing relationship of more than 15 years with few brands which operate in product categories such as large appliances, mobile phones, and smaller appliances.

We started the year with a very strong performance with a 20% growth in the top line at Rs. 1,689 crores. EBITDA and PAT has grown substantially by 34% to 130 crores and 48% to 60 crores respectively. Our margins have also grown and the EBITDA margin stands at 7.7% and PAT margin stands at 3.6%, which were higher than the previous quarters.

In Q1 FY '24, we have opened six new stores. Currently, we operate 133 stores, 119 of which are MBOs and 14 are EBOs. Out of 133 stores, 111 stores are leased by the company, 11 are fully owned and 11 are partly owned and partly leased by the company today.

As on date, we are present in 46 cities across four states. Mobile phone has been the fastest growing segment with rising contribution to overall revenue by around 37% in the first quarter of FY '24.

Large appliances are the highest contributing segment in terms of revenue. Large appliance contributes to around 49% to the total revenue today. We have established relationships with the large brands in this space.

Our interest lies in delivering a unique customer experience and fostering engagements. We offer an all-inclusive shopping encounter in a pleasing environment with the practical store arrangement enhancing checkout efficiencies. We have implemented intelligent marketing to ensure our registered customers stay updated on new schemes and offers that we keep on coming up with.

EMIL recognizes the benefits of consumer financing as it allows it to increase the average selling price without significantly impacting volumes. To streamline the financing process, EMIL had invested in integrating the systems with financing companies to reduce payment realization time. The company offers consumer financing options through credit card, debit cards, paper financing and EMI as well to select fintech companies and NBFC. By providing these options, the company aims to make its products more accessible and affordable to a broader range of customers.

The company steadily focuses on planning and sourcing our vendor management logistics, quality control, replace control, replacement and refurbishment. We have improved our working capital base to 46 days from our historic number. Moreover, the company aims to enhance its operational efficiencies and supply chain management. EMIL is well positioned to leverage the favorable conditions and continue delivering innovative and quality products to customers.

With this, I request Mr. Premchand Devarakonda, our CFO to update you on the financial performance of this current quarter Q1 of '24. Thank you all.

Premchand Devarakonda: Thank you, Karan. Good evening and a warm welcome to all the participants.

Now, I would like to present the financial overview of the first quarter ended 30th June 2023. Our revenue for Q1 FY '24 stood at 1,689 crores as against 1,408 crores in Q1 FY '23 with a growth of 20% year-on-year.

EBITDA for the quarter stood at 130 crores as against 97 crores, with a growth of 37% year-on-year. The EBITDA margin for Q1 FY '24 stood at 7.7% as against 6.9% in Q1 FY '23, showing an improvement of 80 bps.

PAT for the quarter stood at 60 crores as against 41 crores and had a growth of 48% year-on-year. PAT margin stood at 3.6% as against 2.9% in Q1 FY '23 with an improvement of around 68 bps.

ROCE and ROE on an annualized basis for Q1 FY '24 stood at 28.2% and 19.4%, respectively. The working capital days for Q1 FY '24 stood at 46 days. The gross debt to equity as of 30th June 2023 was 0.2x, and net debt to equity was 0.1x, and our net debt to EBITDA stood at 0.3x.

Our cash flow from operations for the quarter stood at 129 crores, has shown an improvement of 34% year-on-year. For Q1 FY '24, the same store growth rate stood at 13.6%. During the quarter, around 49% of our revenue came from large appliances, 37% from mobile, and 13% from small appliances, IT, and others.

On that note, I open the floor for question and answers. Thank you.

Moderator: Thank you very much, sir. We will now begin the question-and-answer session. We will take the first question from the line of Manoj Gori from Equirus Securities. Please go ahead.

Manoj Gori: Sir, my first question would be while we saw comparatively higher growth coming from the mobile phone this quarter which was roughly around 48% and roughly around 12% from large appliances. So, can you throw some light like what led to margin improvement? So, was it because there has been improvement in Delhi NCR store metrics or probably anything else that you can highlight?

Karan Bajaj: Hi, Manoj. Thank you for the question. Yes, so what happens on a broader level is that there was an improvement across our existing categories like large appliances as well, especially the Q1 which had a great improvement in air conditioner sales as well. The air conditioner sales went up by 30% on Q1 FY '24 versus Q1 FY '23 and if you see, bifurcate the large appliance category, 30% growth came in from air conditioners, which contributes to one of the highest gross margins in the whole category. So, I think that was one reason, main reason for us that there was an improvement in the margins.

Number two, most importantly, is that the fixed cost that we have that was there, they were in line with what our expectations for a certain turnover was. So, whenever we add up a growth coming in from the existing stores or the threshold crosses up, it directly adds up to the profitability of the company on an overall level.

Now apart from that, extended warranty insurance business is what contributed to around 4 odd crores into the bottom line at the PBT level is majorly because we started doing insurance now. We started a few quarters back and then started showing us results. So, there have been improvement across high profitable categories like extended warranty, air conditioners, and definitely, there was a growth coming in the mobile and IT category as well.

So, overall, it was a great product mix that gave us this number with a lot of control over our cashback offers, our NBFCs cost, and all. We try to renegotiate offers there as well. So, it was a blend of everything, all the efforts put in to make sure that we increase our margins and our EBITDA levels.

And definitely, to answer your second part of the question on the Delhi operations, Q1 last year we just did a soft launch for one of the stores at Preet Vihar, whereas this year we were operating with 13 plus stores in that region. So, definitely we saw around the 75-crore top line contribution coming in Delhi, and Delhi I could say very confidently that it is on the path of breaking even very soon.

So, there are some costs that are incurred there because we are operating at larger place there today because it's spread across Haryana, it's spread across Delhi city and UP in Noida and Ghaziabad. So, there are little more efficiencies to come into place. There is more productivity to get better in the coming times. So, we are on the path of doing that. So, once we achieve that, I am pretty sure you will see a much better result coming in from that region as well.

Manoj Gori: Sir, just to continue on the Delhi NCR market, you said probably we are nearing towards a break even. So, probably like the initial timeline that you had set for yourself to achieve break even, are we likely to achieve it relatively faster?

Karan Bajaj: So, sir, I would like to stick on the initial estimates given of 18 to 24 months that we would be achieving that number. So, definitely the operational break even would be coming a little more sooner than that, but when we look at a break even, you look at everything else. So, we are on track on doing that, and this is irrespective to the summer thing being real bad there because it was pouring throughout the summer, and we could not definitely sell air conditioners and cooling products, the theater air conditioners and air coolers both.

So, once very soon once things get better there with the numbers that we performed without contribution coming in from the cooling product, we are pretty sure that in the next coming few quarters, we will be able to reach that goal.

Manoj Gori: Sir, lastly on the demand front, can you throw some light, like how do you reach the overall demand? Obviously, South did relatively better this year as compared to the other geographies. But with normalcy in demand environment probably any revival you have seen in Delhi NCR based on your feedback? And probably, if it normalizes, this should trigger further margin improvement at gross level. Is that understanding correct?

Karan Bajaj: That's definitely yes. So, whenever there is an improvement in productivity, the gross margin levels and the EBITDA levels both go up, but there is always a threshold that we can't exceed because the market acts that way. There are seasonality factors. There are trends in the market which influence a lot of these things together.

So, on a whole, we would be tending on a similar line and our expectation on the numbers would be very similar to what we have projected and definitely our efforts are going to be to make sure that we definitely cross them, increase the productivity, increase the EBITDA margins or negotiate better with the vendors.

It is a mix of everything again, as I told you, but now we see the trends being positive, especially across all categories. We don't see a downtrend towards any of the product categories that we are dealing with, LED premium products, televisions, air conditioners, mobile phones, IT products.

I think there is a huge demand coming in, and once we establish more stores, once we grow in the clusters that we usually grow in with the pipelines so that we have in the Delhi NCR region, Telangana upcountry market, Andhra upcountry market, once we finish that few most was coming up before Diwali, a few most was coming up before summer next year. So, once we grow those stores up, I am pretty sure that we will definitely see better traction coming in.

Moderator: Thank you. We will take the next question from the line of Nikunj Gala from Sundaram AMC. Please go ahead.

Nikunj Gala: Sir, first question is on Delhi market. Sir, I think last year in the month of August when we started our operation in Delhi, just want to understand how those stores KPIs are working, whether your expectation in terms of consumer demand or offtake which you had anticipated, it's going as per your estimation or some kind of a behavior which you can help us to understand that better that how is KPIs in those markets where you started one year ago are tracking?

Karan Bajaj: Yes, Delhi has been a very different market that we entered now from our historical market that we have been present in. And I would see Delhi very differently in the regions that we operate. There is North Delhi very different as a product categorization, price demand or customer preferences are very different in Delhi itself. Gurgaon is different than Faridabad to North Delhi to South Delhi to East Delhi to West Delhi.

We see that the learning has been really good. We were able to adapt, make some changes on the floor very immediately. So, that is what is needed in retail. You can't take up a lot more time to grasp what a customer needs, what is going-on on the floor there. We need to keep on changing. You can't be stuck to one idea or ideology that you do back home is going to be the same idea or success mantra there in that market.

It has to be localized and that is what we have been adapting to and that has been working for us. And it will be too early for us to say that we have established ourselves and we become really big but we are on a trend path to reach a break even. We are on a path to achieve a 25 crore to 30 crore benchmark for each store that we projected for.

And so, 13 stores today operational there in that region and all those are on far and performing that. Few of them might be a little lower than 10%, 15%. than our expectation, but we are on track to fix that problem as well to make sure that the productivity of those stores also improve and an overall blended average number becomes what we expect there in the coming times.

Nikunj Gala: Yeah, that's an encouraging comments. As per earlier expectation of some categories we might have anticipated will do well, but when you actually enter the market, the scenario can be very much different, right?

Karan Bajaj: Yeah, very true.

Nikunj Gala: And just secondly the kind of the consumer discretionary across the categories we have seen the weakness in the demand, in your Southern market, I understand you are slightly on the premium side of cohorts, but are you seeing some kind of a weakness in the consumer behavior in terms of down trading or any sort of behavior you can help us with?

Karan Bajaj: So, I would not say that they would be that we have experienced, not us, but the market overall has not also experienced such a downtrend. Firstly, is because if I talk about, yes, we have a little more leeway than the market because we sell a lot more of premium, but at the same time our tier 2, tier 3 cities have also started performing really well. So, we have seen growth coming in from those regions as well where we would anticipate that there would be a little slow down, but, in fact, the growth has been excellent in that territory as well.

So, overall, through affordability, through NBFCs to the offers that we keep on running, EMI, credit card, debit card EMIs, cashback, and all of that, I think it's worked really well, and we didn't see a down trending demand. The only negative that we saw quarter was a little slow down on the cooling product category because of the range across territories that we were operating in, but by the end of May, first week of June, it started picking up again, and that is what we could deliver a higher growth in that category during that quarter.

Nikunj Gala: And my second last question is on the competition. Have you observed any increase in the competitive intensity of late both from organized and unorganized players?

Karan Bajaj: Our competition has always been a part of the show every day. There is something or other that keep coming up through either a mom-and-pop store or through large LFR or modern-day retailer. So, it is part and parcel of the game and you just need to counter it because the end of the day we are all selling the same product. You just need to differentiate how you sell it and what offers you provide your store with to compete against them. So, that is where the whole game is that you have to be alert and make sure that you are countering every offer that comes your way.

Nikunj Gala: And just lastly the expansion plan which we had earlier for FY '24 and '25, they are on track as per our current estimates.

Karan Bajaj: Yeah. They are on track. We have opened six stores in Q1. As we talk also, we have opened a few more stores, which were getting ready. So, the plan of opening the suggested number of stores, we would definitely be touching them because we have negotiated for a few of the stores in Andhra and Telangana, even in the Delhi NCR region. Today, our focus mainly is going to be to make sure that to cover up territories where we are not present and then deeply expand into the existing territories as well.

Moderator: Thank you. We will take the next question from the line of Bajrang Bafna from Sunidhi Securities. Please go ahead.

Bajrang Bafna: Sir, just on the Delhi side, if you could just guide us? I think we have opened 13 stores which were up and running last quarter in Delhi. So, what is the break-even point that you are looking at cumulatively put together those 13 stores in Delhi? And what is our experience? I think Q1 is relatively better because of the seasonality factor due to a big summer, but going by the trend, we are already done away with half of this quarter. So, what is the sense on on Delhi side and your experience if you could share so far and the expansion plan especially in Delhi, that will be really helpful, sir?

Karan Bajaj: Sir, as initially projected, whenever we do a store predominantly in the existing geography, we would look at a much sooner break even than the new geography like Delhi NCR that we have entered, but the benchmark of every store that we calculate to break even, the range is between Rs. 25 crores to Rs. 30 crore.

We try to project a store at Rs. 25 crores to Rs. 30 crore in the first 12 to 14 months of operation and then for it to settle break even at 18 to 24 months because it being a newer geography, so we are on path of doing that. So, to add a 25-crore average per store 13 store operational, we would look at a cumulative number of around 300 plus crores for year one coming in from that region.

The 14th of August this year we celebrate our first anniversary where last year we opened eight stores on the 14th of August. So, the stores are performing really, the first 8 stores out of the 13 that we open up. we signed up a few more stores that are getting ready which are yet to launch in that territory.

By Diwali, we plan to add up another 3 to 4 stores in that region. And by next summer, we plan to add up another 3 stores. So, total of 6 stores in the pipeline for that region. The idea is to reach around the store count of 23 to 25 stores by the next financial year. So, that is on track, sir.

Definitely, yes, it is a very high demanding market in terms of the pricing there in terms of real estate. So, we have to make sure that we negotiate correctly for a longer lease or if you are buying out a property or whatever the plan is. So, we have to make sure that it fits into our budget. The area fits in. The property is really nice, a clear title property. So, all of those things take up a lot of time and we are on track on that number.

We are quite confident that once we establish ourselves by next year further down with more number of stores because currently, we are not even present in the largest markets where a competition prevails in those markets like Lajpat Nagar, Janakpuri, Pitampura, Rohini, Gurgaon Sector 29 so a lot of these markets we are not even prevalent today. So, once we establish stores in those markets which are coming up in the next six months we know that the brand is going to definitely reciprocate to those markets and help us grow better in that market.

Bajrang Bafna: Sir, have you achieved this 200-crore kind of those eight stores which you opened last year? What is the cumulative number? Just a ballpark number if you could just guide?

Karan Bajaj: 20 crores to 25 crores, that I told you, that is on track for these stores, sir.

Bajrang Bafna: Those eight stores that you opened last year?

Karan Bajaj: Eight stores, the first lot we opened on the 14th August '22 are on track of delivering that number, sir.

Bajrang Bafna: And sir, in the Delhi side, since it is a new cluster for you, what is that probably the top line number that you are looking at which could take care of your entire logistics cost, their warehousing cost that you are building up there just from a broader the margin perspective that you normally enjoying in the southern region? So, what is that magic number that you believe that will take care of your the overall fixed cost that that you are going to incur?

Karan Bajaj: So, sir, if I look at that number, it might defer quarter-to-quarter because Q1 would be little heavy on the cooling products where the margins are going to be higher versus Q2, Q3, Q4. But if I look at the total annual number, annualized number on that cluster, it would be upwards of Rs. 300 crore where we will be quite comfortable or not burning too much money what we did initially last year because we are setting up stores and all. It was a new market. We had to spend a lot of advertising and all and marketing, but 300 crore, 320 crores, around that number is where we will be quite comfortable, sir.

Bajrang Bafna: And sir, on the southern side since we are half the quarter, so are we still guiding that, we said that 20% is something that we will be comfortable to grow with? So, that growth guidance remains intact and the margin you guided will be closer to that 7% mark. So, we stay by those numbers which we have guided in this quarter?

Karan Bajaj: Yes, sir.

Moderator: Thank you. We will take the next question from the line of Nirav Vasa from Anand Rathi. Please go ahead.

Nirav Vasa: Would it be possible for you to share some data on the growth prospects that we have delivered across our Andhra and Telangana region?

Karan Bajaj: Yes, sir. If I give you a number from 25 stores, last year in Q1 we have added four stores in that cluster in the Andhra region to make it a 29-store count today where the revenue has gone up by 47%. So, this is a huge SSG as well because the stores were new in the tier two and tier three cities as we have mentioned in the previous call. So, those stores have also established and started delivering our the number of targets that we usually had for our existing stores.

47% was the growth coming in from the Andhra cluster. Delhi so definitely we didn't have a base last year. So, the contribution of around 75 crores came in from Delhi stores in this quarter. And Telangana, Hyderabad city stores were up by 11%. So, these are a lot of these stores, almost 95% of the stores here are mature stores which are over five years. So, you could see that these stores also performed really well, and we could deliver 11% growth in this existing mature store category as well. Around 25% growth came in from the Telangana upcountry market, sir, where we added up 3 stores from 17 Q1 '23 to 20 stores in Q1 '24 where the revenue was up by 25%.

These are again clusters where we had a lot of mature stores, which are about three to five years old. So, you saw a good demand coming in from the existing markets. We were able to increase productivity per square foot there. We would improve our bill sizes and ASPs went up across category. So, I think it was a good sign that tier two and tier three cities also started adapting to high-end products, higher ASPs for categories like mobile phone, televisions, air conditioners, refrigerators, all put together.

Nirav Vasa: So, the other question is specifically pertaining to panels. So, as we are, you must be aware that World Cup is expected to be hosted in India in the forthcoming months. So, I just wanted to check, are you forcing an exponential demand for high-end panels considering these kind of sporting events? And historically, whenever India whenever, there was a Cricket World Cup, was there any statistical evidence wherein we reported an exponential increase in demand for panels?

Karan Bajaj: Yes, sir. Actually, it is a good point that you raised. I think cricket is a religion in India. So, whenever there is an event like this, especially at that scale, we would definitely see an increase in not only high-end televisions, but also the sound bars and a little bit of audio category, the whole of home entertainment on a whole gets a rise. So, we have already seen the trend post-COVID where big screen or big size television increase a lot. So, today, if I give you a breakup, only 6% of our contribution comes in from 43 and below category. The rest of it is all 55 and above category only for us. So, 55 inch and above category.

So, today, we strongly believe that that is growing and with the new technology coming in with OLED and 8K and all, I think the viewing experience is enhanced and people want to experience that in a big screen in their houses.

Nirav Vasa: Sir, the other question that I would like to ask is pertaining to the premium inbuilt appliances. So, what we are seeing right now is that all the leading brands which are there in the kitchen industry as well as in the FMCG industry, are all rushing to get into the premium inbuilt category. So, I believe, we also have one store format which is catering to the high premium appliances. So, just wanted to understand what's the kind of growth prospects that we see in this category? And how can we add? Are we in the process of adding new channel partners among this?

Karan Bajaj: Sir, built-in as a category is very new to us as well and to the market. On a whole, we have a specialized store format called Kitchen Stories. What we do is we have learned a lot of input because kitchen appliance built-in category is not like an off-the-shelf for the category where customers come and pick up something and go. It has to do with back and forth withdrawing what the kitchen sizes are, what the cavities are made in kitchen because everything was built in. So, the cut of the product has to be fitting in properly in the kitchen wardrobe or the kitchen design.

There is a lot of back and forth in this category. Definitely as it is a growing and an accepted category, people are ready to spend money. When they are making a built-in appliance category, they are ready to spend money to put in a microwave or to put in a built-in off chimney and an oven. So, we have experimented and we have got good results on that, but the brands that we deal with are the same brand that we will continue want to deal with Bosch, Siemens, Gaggenau, ASKO, BORA, Miele, Liebherr. These are a few brands that we deal with and we want to continue dealing with these brands only because they are masters in their product category. And these product categories need a specialized technology that customers want. That is where we see demand growing for these categories. At the same time, it is not going to be at the quantum of what we would do for a freestanding appliance category.

Nirav Vasa: My final question will be pertaining to our Delhi foray. As I understand, our Delhi foray seems to be quite on track. Would it be possible for you to tell me what is the final count of stores that we intend to have across the Delhi cluster, maybe by the end of FY25 and after which we would be looking at a newer cluster? Any finalization on the newer growth cluster or something like that would be really helpful.

Karan Bajaj: Sir, as we had initially projected, we would be crossing the count very comfortably 25 stores in that cluster. The biggest advantage with Delhi NCR is that we are not catering to one single location. We will be catering to the extension from the Haryana side of Gurugram, Faridabad, Greater Gurugram, Manesar; that belt up till the whole of Karnal-Ambala belt up till the GT Karnal Road till Chandigarh. So, that is a huge opportunity available for us. On the other side, it is Noida, Greater Noida extension, Meerut. On the UP side, you have that belt also available with you. And then Delhi Central, North Delhi, South Delhi, East Delhi, and West Delhi where we had marked down 20-24 locations, out of which we are still only operating at 10-12 locations where we need to expand, where the newest stores are already getting made like Daryaganj, Janakpuri, Pitampura, Rohini, and Lajpat Nagar. These are a few pockets left in the existing market in Delhi. Once we cover up all these areas in and around Delhi, I think there is a huge potential for us to grow to at least a 30-35 store count in the next couple of years.

Moderator: We will take the next question from the line of Prisha Kansara from Molecule Ventures. Please go ahead.

Prisha Kansara: Sir, I missed that number which you gave for the contribution which came from Delhi NCR stores. Could you just repeat that?

Karan Bajaj: The number is Rs. 74.4 crores for the Q1, came in from Delhi stores; 13 stores are operational in that region.

Prisha Kansara: None of the stores is currently at the breakeven level, correct?

Karan Bajaj: Not at this quarter, but by the end of this financial year, we will definitely be crossing the breakeven number.

Prisha Kansara: What would be the advertisement cost for this quarter?

Karan Bajaj: The advertising cost for this quarter will stand around Rs. 12.5 crores approximately.

Prisha Kansara: But is that excluding the sales promotion expense?

Karan Bajaj: Sales promotion is something else. Sales promotion is not marketing, but it is directly linked to your NBFC cost and all the other costs that we incur while selling on the floor.

Prisha Kansara: What would be that number?

Karan Bajaj: That is Rs. 43.8 crores compared to Rs. 35.3 crores in Q1 FY23.

Prisha Kansara: How much of this would be for Delhi NCR?

Karan Bajaj: If I give you a calculation, it would be around approximately Rs. 2.8 crores for that region in Delhi NCR.

Prisha Kansara: Inclusive of the sales promotion expense?

Karan Bajaj: I am talking about sales promotion. Advertising and promotion together for that region would be around Rs. 3.7 crores approximately for Delhi NCR.

Prisha Kansara: Sir, you mentioned the growth rate which came from the AC segment. Was it 30%?

Karan Bajaj: The overall growth that came in from the large appliance category…. The large appliance contributes to televisions, refrigerators, washing machines, and air conditioners on a whole. The whole category went up by 11.59% whereas if you actually break it down to each category, air conditioners grew by 30% in that category. So, if I give you an absolute number, the total is 11.59% in the large appliances category. But if I break it down to individual number, 30% was the growth that we saw in the air conditioner business during that quarter. And this is after the slowdown where April-May it was pouring and Delhi didn't perform as well because Delhi it was raining throughout the quarter. June month turned the game around where it started performing really well.

Prisha Kansara: That was my follow-up question also. In the last con-call, you had mentioned about this slowdown and it was especially related to the south geography. How was the situation in Q1? And also, if you could guide us about the current situation, that would be helpful.

Karan Bajaj: When we had a call after the March quarter, we were discussing that the weather was not supporting and we were seeing a little slowdown because of the weather across the region that we were operating in. But June outperformed our expectations. June did really well, especially on air conditioners whereas you could see a little slowdown on the air cooler business because it didn't pick up that well. There is always a seasonality that changes a lot during the summer quarter, but by the end of June, we saw a huge growth coming in. Especially, if I compare June to June month on a whole, the growth was very high. It was almost as high as 80% to 85% for air conditioner business June on June in a single month. So, overall business grew by 30% and that was a great help. And July also if you see, the trends are in path with what we would expect for this quarter also going forward, especially in that category. Definitely this is not the quarter for summer, but we would see a little reflection of spillover coming in from that quarter into this quarter.

Prisha Kansara: And, sir, my last question is regarding the gross margin. We saw an improvement in our gross margins in this quarter. Can we take this level of gross margin as a sustainable level?

Karan Bajaj: It can be a sustainable level going forward as well, but there will definitely be an improvement in gross margins because there would be a product differentiation where a quarter might be heavy on higher gross margin product categories like appliances, refrigerators, or air conditioners versus another quarter where the summer is not equal to the Q1. So, there would be different gross margin levels coming through, but it would be in line with what we delivered in the past. It would be in line with what we delivered in Q1. So, there will not be a drastic change coming in the business until and unless there is a seasonality or a special occasion like Diwali-Dussehra period where you would see an improvement or growth in the large appliances or television business where they contribute to higher gross margins.

Prisha Kansara: Leaving QoQ gross margin aside, but I am talking about the yearly run rate. Can we maintain this 15% kind of gross margins on an annual basis?

Karan Bajaj: I would just suggest to you that it would be in line with what we are doing right now, and at the same time, probably there might be a change of a few basis points plus or minus but not much on that. It will be in line with what we are performing at now because we are trying to negotiate better with our vendors because the scale is going up, our operations are getting more efficient, our NBFC costs are coming down at the other side where we are negotiating with the NBFC which is the biggest cost to us, and we are trying to improve our productivity also. All of this put together would give you that number. So, we are definitely in line with going forward also at the same track.

Moderator: We will take the next question from the line of Drashti from Thinqwise. Please go ahead.

Drashti: I wanted to know if it's okay to share, what's the consumer product on finance for this quarter versus last quarter? What's the proportion of sales that happened on finance?

Karan Bajaj: Ma'am, on an average, we do around 55% through NBFCs. It might differ from NBFC to NBFC. We deal with a lot of NBFCs like Bajaj Finserv, IDFC, TVS Finance, now ICICI, then you have credit card & debit card penetration as well through HDFC, SBI cards, ICICI cards. That mix more or less remains at 55% of the total business, but internally it might go 5% here and there with different NBFCs and cards. But the overall business contribution to us comes at 55% from NBFCs, ma'am, or credit card & debit card EMIs.

Drashti: Specifically, I asked this question because you were seeing tier-2 and tier-3 city growth also doing very well and it's also because of consumer finance penetrating in those cities, etc. Whether that has increased or it has been stable at 55%?

Karan Bajaj: If I give you a breakup there, initially, if I compare it to 5 years back or 3 years back, definitely, yes. We had less number of stores. At the same time, there were only Bajaj Finserv or one or two other players there operating out of the region. Definitely, if I give you a split, the metros like Delhi and Hyderabad would contribute to a much higher number on debit card or credit card EMIs versus paper financing is much stronger there. If I give you a split on that, it would be 75% of paper financing in my Hyderabad store versus 25% of EMIs through credit card and debit card, whereas it will be 95% in the tier-2 and tier-3 cities with paper financing and 5% only through credit card and debit card EMIs on the machines over there.

Drashti: And my second question would be, what impact do you see because of the ban on imports of the IT products for your kind of a business?

Karan Bajaj: Anyways, we usually have branded stocks lying with us. So, that is no problem. The brand's manufacturers and vendors also have a lot of stock available with them. It was definitely a temporary scare that was out there in the market that there would be a shortage of stocks and all. But then, the bigger brands, they're all aligned themselves and everything is compliant. So, for them, it is going to be no problem in securing stocks. And same thing with us; we will not have any issues in securing stocks going forward as well.

Drashti: So, you don't see any impact now?

Karan Bajaj: Not really.

Drashti: And my last question would be, have we resorted to any discounts in the June quarter for AC specifically because suddenly we saw growth well for ACs, to clear up?

Karan Bajaj: In our business, if there is a direct discount, you would see that in the reduction in the profits as well. But now the numbers are out there for you to compare it to other previous quarters and get your understanding on. The discount was not done if I tell you there because June anyways is a part of the summer period that we operate in. So, we didn't see any degrowth or any desperate measures to be taken in any of the quarters, not now, but even the COVID year for that matter. We were heavy on stock in the air conditioners. We never discounted drastically to liquidate our stocks because these are all stocks that are negotiated well with vendors. They all make sure that they protect you. So, there is never a discounting that helps us grow the business and it's always temporary and we don't usually want to get into that practice because it is not a healthy practice for us and even for the staff on the floor to get into the whole discounting process.

Moderator: The next question is from the line of Naitik Mohata from Sequent Investments. Please go ahead.

Naitik Mohata: Most of my questions have been answered, just one question regarding the inventory days. I think that inventory days have gone down by 20, from 60 days to 40 days during the quarter. Could you just throw some light on what has facilitated that and do we see this number being sustainable in the future?

Karan Bajaj: If I compare the number of days, definitely we have gone down. It is majorly a comparison from the last year quarter, majorly because of the cooling product category. You could see the decrease in inventory majorly happened in the cooling product category which was refrigerators, air conditioners, and air coolers. Because it was pouring out here, we made sure that we don't carry that many air conditioners and air coolers that we usually would do during the summer period because the peak sales of summer actually didn't set in through the March, April, and May period. That is why you would see a reduction in inventory. The only other quarter that inventory goes up in our calendar is during the Diwali-Dussehra quarter, i.e., Q3. Again, you would see a higher number coming and setting in during that quarter and then eventually reducing by the end of Q3 and then entering of Q4. For 2 quarters, you have to maintain inventory at a higher level. And then, this year, it was strictly because of the weather that we had to control inventory and make sure that it is in line with the sellout that we do. Because the sellouts were lower during that initial period of the quarter beginning, we had to reduce our inventory and that is how it trended down to by the end of June.

Moderator: The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.

Tushar Sarda: I have two questions; they are related. I just wanted to understand your margins because I thought the Delhi store opening would have dragged the margins a bit. If you can give details on the operating expenses at Delhi – salary and the fixed cost? And is there a drag on the margins because of the Delhi store? Because, they would have just probably reached about breakeven level or below breakeven level.

Karan Bajaj: Tushar sir, Delhi on a whole if you see, it just contributed Rs. 74.4 crores or Rs. 75 crores odd roughly in that total quarter of Rs. 1,600+ crores. If I just give you a breakup, definitely, yes, there were other costs involved. The breakeven level was a little higher number for that region, but then there was not a significant impact if I say that even if they would have improved to Rs. 100 crores to Rs. 125 crores sellout if the ACs would have performed that if the rain would not come into play. There was a very nominal number of change that would have happened or dragged the margins down a few crores here and there. Not much of a major impact because the contribution itself is quite low. But the margins are in line because we performed. Whatever we sold there were in line with what we were selling in our existing markets. There was never a discounting done or never a difference in the vendor margins that we got from our OEMs. That way it was in line with that.

Tushar Sarda: That I understand. Therefore, your gross margins would be lower because your sales are lower. But the fixed expenses you are already incurring. Right?

Karan Bajaj: Yes, sir. Tushar sir, if I give you the exact number, the overall operational cost there, it was an approximate burn of around Rs. 3.5 crores in that region, sir.

Tushar Sarda: That's it? You have 13 stores, right?

Karan Bajaj: Thirteen stores. And 1 store that is operational is the 14th store which is the LG exclusive store in Gurugram.

Tushar Sarda: Only Rs. 3.5 crores for 13 stores for the quarter?

Karan Bajaj: Yes, sir.

Moderator: We will take the next question from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: I have only 1 question around your EBITDA margin. I think in the previous call as well, we were of the view that 6.5% to 7% would be a benchmark EBITDA margin that we generally look at in our business. But now with this better product mix and higher AC sales this quarter, our EBITDA margin has gone up to 7.7%. I just wanted to understand our benchmark margin, are we moving it to 7% to 8% or 6.5% to 7% would be the benchmark margin we would be doing?

Karan Bajaj: I would like to stick to the older number only. It will be in line with that. Definitely, as enhancement is going on – as I told you like we have added up extended warranty, insurance business that has started doing very well, audio business picked up, AC did quite well, and mobile productivity increased. We have started negotiating better with our vendors with bigger brands like Xiaomi, Vivo, & Oppo. There also, we saw a little improvement coming in. So, all quarters put together from NBFC to credit cards to Amazon Pay, we renegotiated better with them, better terms. At an overall level if I look at that number, we will stick to that 6.7% to 7% kind of range. That we are quite comfortable delivering. I don't want to overcommit that. But definitely, yes, this quarter outperformed the previous quarters for us also.

Deepak Poddar: I missed your last line, sir. What will outperform?

Karan Bajaj: I said yes, it definitely crossed our expectations also because there was an improvement everywhere, especially the straightaway contribution coming from the EW business which was around Rs. 4 crores to the bottom line. So, overall put together, there was an improvement in the EBITDA margin for Q1. But to be fair, we would stick to the 6.7% to 7% EBITDA in the coming quarters as well.

Deepak Poddar: I missed that Rs. 4 crores thing. What was that contribution?

Karan Bajaj: extended warranty. We started the insurance business with OnsiteGo and OneAssist EW warranties with the banks and all that we started giving out on our secondary products like mobile phones, televisions, and large appliances. So, that product category also grew for us. We did around Rs. 12 odd crores in the first quarter as the revenue from that business which contributed to around Rs. 4 crores at the PBT level.

Deepak Poddar: Do we capitalize or amortize over the years or we just book as a revenue in this year itself?

Karan Bajaj: This is done through a third-party vendor. So, what we realize is our profits only. We don't take care of the insurance from our end. We only facilitate the product on our floor. We only book the percentage revenue to it. We don't capitalize on it like an insurance company because we are only selling and servicing the product from their end on the floor through the liabilities of the insurance companies like OnsiteGo and OneAssist and all.

Moderator: Ladies and gentlemen, as that was the last question, I would now like to hand the conference over to the management for closing comments. Over to you.

Karan Bajaj: I would like to thank you all for joining into the call. I hope that we are able to answer all your questions. For any further queries, you may get in touch with us or SGA and we will be happy to address all your questions and queries. Thank you once again for having faith and confidence in us. Thank you very much.

Moderator: Thank you members of the management. Ladies and gentlemen, on behalf of Electronics Mart India Limited, that concludes this conference call. We thank you for joining us and you may now disconnect your lines.