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July 30, 2024

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

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

Dear Sir/Madam,

Sub: Transcripts of the Q1 (FY24-25) Post Results Earnings Conference Call

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the Q1 (FY24-25) Post Results Earnings Conference Call held with Analysts on Thursday, July 25, 2024 at 11:00 A.M. (IST).

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

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

Thanking you.

Yours faithfully,
For Spencer's Retail Limited

SANDEEP KUMAR BANKA
Digitally signed by SANDEEP KUMAR BANKA
Date: 2024.07.30 18:21:46 +05'30'

Sandeep Kumar Banka
Chief Financial Officer

Encl: As above

"Spencer's Retail Limited Q1 FY25 Post Results Earnings Conference Call"

July 25, 2024

MANAGEMENT:	**MR. ANUJ SINGH – CEO & MD, SPENCER'S RETAIL LIMITED**
	MR. SAKET SAH – GROUP HEAD (IR AND ESG), RPSG GROUP
	MR. SANDEEP BANKA - CFO, SPENCER'S RETAIL LIMITED
	MR. PANKAJ KEDIA – VP (IR), RPSG GROUP
	MR. HARSHIL GATHANI – CHIEF MANAGER, SPENCER'S RETAIL LIMITED
MODERATORS:	**MR. AKHIL PAREKH – BATLIVALA & KARANI SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Spencer's Retail Limited Q1 FY25 Post Results Earning Conference Call hosted by Batlivala & Karani Securities India Private Limited.

As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need any 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. Akhil Parekh from Batlivala & Karani Securities India Private Limited. Thank you and over to you, sir.

Akhil Parekh: Thank you. On behalf of B&K Securities, I welcome you all to Spencer's Retail 1Q FY25 Conference Call.

From the Management Team, we have Mr. Anuj Singh - CEO and MD; Mr. Saket Sah - Group Head, IR and ESG; Mr. Sandeep Banka - CFO; Mr. Pankaj Kedia - VP IR and Mr. Harshil Gathani - Chief Manager.

Without taking much time, I will hand over the call to Mr. Anuj Singh. Sir, over to you for your Opening Remarks post which will open the floor for Q&A session.

Anuj Singh: Thank you so much, Akhil, and good morning, everyone. Welcome to Spencer's Quarter 1 FY24-25 Earnings Call.

What I would like to do today is basically talk about three things:

1. One talk about brief commentary on the Q1 Results. The Q1 Results were announced on Monday the 22nd, and I am sure you would have had time to glean through some of that.
2. I would like to spend some time talking about the decision which was taken and approved by the board on ramping down of our operations in a couple of clusters where we were operating earlier, and
3. Spend some time in terms of talking about how this decision impacts us from an operational level and helps us towards an accelerated turnaround achievement.

So, those are the three things which I will briefly talk about before I open it up for questions.

Starting up with the Q1 Results at a Consol level:

Quarter-on-quarter, it was flat sales at about 0.3% quarter-on-quarter growth, a slight decline over Q1 of last year. If you look at the percentage gross margins, there was a significant improvement, 90 basis point versus last quarter and about 100 basis points versus last year. This helps us achieve an absolute gross margin of Rs. 112 crores in Quarter 1 of this year, which is up by Rs. 5 crores versus last quarter and at the same level of what it was in last year Quarter 1.

The cost optimization efforts which we spoke about in our last call, which were initiated in the last quarter have started flowing through in Quarter 1. Therefore, you see a good improvement in our operating cost. Our operating costs are lower by Rs. 8 crores at Rs. 111 crores versus what they were in the last quarter, which is Quarter 4 of last year and they are about Rs. 5 crores lower than what they were in last year Quarter 1.

All of this has resulted in slightly higher EBITDA for us, Rs. 29 crores versus Rs. -8 crores reported in Quarter 4. This is the post IndAS EBITDA number. At a PBT level, we were at Rs. 43 crores loss in Quarter 1 versus Rs. 81 crores in the previous quarter and Rs. 61 crores in Quarter 1 of last year. So, that was a quick kind of a snapshot on Quarter 1 at the consol level.

If we look at the two distinct businesses, Natures Basket, we had a good growth, a growth of 4% quarter-on-quarter and an 8% growth compared to last year Quarter 1. This was driven by good performance and addition of new stores. The margins were up 98 basis points Y-on-Y as far as Natures Basket is concerned. The EBITDA was Rs. 23 crores versus last year Rs. 6 crores. This was of course held with onetime exceptional other income which was recorded. PBT was Rs. +6 crores versus last year where it was Rs. -12 crores for the quarter.

As far as the Spencer's is concerned, we had a flat topline versus Quarter 4, but we had a good improvement in our gross margin despite no significant change in the mix between food and non-food, which means that in our core categories, food, FMCG, staples, we did deliver better margins. Our gross margins were up 120 basis points quarter-on-quarter.

Our operating expenditure was down by Rs. 10 crores versus last quarter versus Rs. 12 crores versus the same quarter last year. This is on account of planned operating efficiencies driven at both the store level and the optimization which we did at the corporate office. The EBITDA which is again the post IndAS EBITDA was Rs. (+8) crores for this quarter versus Rs. -8 crores in the previous quarter and the Re. 1 crore which was there in the last year, Quarter 1. So, that was the commentary as far as the consolidated and the Spencer's and Natures Basket results were concerned for Q1.

In Summary:

Quarter marked by realizing efficiency and cost optimization, which was initiated across Spencer's that is flowing through, a quarter marked by improvement in gross margins across both formats and a quarter where NBV saw growth, so overall improvement at the EBITDA level as well as at the PBT level, but still miles to go to where our journey is.

Moving on to the second point, which is related to the decision which was taken and approved by the board to exit from two of our operating territories which is NCR and AP and Telangana, I just want to start by saying that look, while these stores, we have about 49 stores accounting for close to 22% of the business and therefore, it was a very well thought through and considered decision. However, the point to note is that these 49 stores accounted for close to Rs. 56 crores of losses at a regional EBITDA level and they obviously are at what a drag when we look at it in comparison with the other clusters. Also in these stores, in these territories, we had lower growth, we had higher competitive intensity and there was a fragmented presence. These 49 stores were across 18 cities. So, an exit from these does impact the topline, but what it does is it significantly reduces the drag on the store level EBITDA. We estimate looking at the numbers that just without contextualizing this, without these 49 stores, our store EBITDA would double from the current level. So, I think it is a significant impact which has and while the top line is something which does get impacted in the short term, it does help us to significantly improve our EBITDA. What it also allows us to do is it allows us to focus in the two geographies, which are East and UP, where there is a sizable consumption opportunity, roughly 25 crores of population reside in this geographical area and in both these areas, our brand presence is quite strong. The brand recognition is strong. Our competitive performance is strong and our operational performance, whether it comes to things like sales per square feet, the margin, our operating costs, our store EBITDA, they are markedly better than what we were experiencing in the other two. So, focusing on these two territories makes a lot of sense for us.

As far as the trading area is concerned, it does come down from the 1.3 million square feet trading area we have today to 800,000, but we are very committed and we see enough and more opportunities in these two geographies, which is East and UP to add on trade assets. We have a pipeline and we are very confident that over the next 12 to 18 months, we will be able to add at the rate of 100,000 square feet per year to bring back our total trading area to close to 1 million square feet in 24 months. So, that is a bit in terms of the rationale in terms of why we are looking at existing or why we are proposing an exit from these two clusters. Like I said, it is something which allows us to consolidate, to focus and double down in our operating territory. What it also does is it allows us to further simplify and optimize our distribution and support structures. We have done a lot of work in the last quarter in terms of optimizing. At this level of operation now, we believe that there is further streamlining and simplification of our support structure. We expect close to 20% reduction in overhead costs on top of what we have already done.

Just to contextualize, last year we had our operating costs, which is a combination of distribution costs, infrastructure as well as support. We were at about 8% to our turnover. Today, we are with this round of further optimization, we will get to a level of close to 6.3% which is I would say a respectable number as far as the overhead cost as the contribution to total sales would be. We are confident that by doing this we will achieve the EBITDA which is again the pre-IndAS EBITDA level breakeven in a much more accelerated manner than what was earlier given as guidance. If you recollect we said our endeavor is to, in the next 12 to 18 months, move to an EBITDA breakeven positive level and we believe by doing this, by focusing on these two geographies, by streamlining our corporate costs and other operating costs, we will be able to achieve consistent level of EBITDA, pre-IndAS EBITDA breakeven positivity as early as the next 6 months and we believe that this significant operating turnaround where we are talking about a swing of roughly Rs. 100 crores EBITDA improvement will provide us options for capital raise enabling recapitalization of our balance sheet. So, tough decision, the decision allows us to focus and still consolidate and expand on those geographies, streamline our operating structures and significantly accelerate our journey towards getting to EBITDA breakeven in 6 to 9 months.

So, that was the brief commentary which I had and now I would like to take a pause and open it up for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. Ladies and gentlemen, the first question is from the line of Akhil Parekh. Please go ahead, sir.

Akhil Parekh: My first question is on the store expansion for Spencer's. In the last call, I think what we guided for is 10% of store expansion in FY25 I think we have opened around 3 odd stores on Q-on-Q basis. First if you can give some color like which are the some of the geographies which we are targeting are they within the East and UP? And second is do we still maintain this guidance of 10% plus of store expansion for this year or can we even accelerate for those things?

Anuj Singh: So, Akhil, I think the guidance which we have given on addition of stores still continues in the sense that we would be focusing on the geographies of East and UP to add. Even in the last quarter the three stores which we opened were Barabanki in Eastern UP, which is on the outskirts of Lucknow, Bhadohi which is outside of Banaras, and we opened Sevoke Road in Siliguri. So, we see opportunities, we have open three stores in the East as far as Spencer's was concerned and we have a pipeline of more stores in Calcutta, in Bengal and in East UP where we will open it up. So, clearly the guidance continues in terms of we are looking at measured and focused opening of new stores in the geography of East and East UP and UP when it comes to Spencer's. The numbers as the percentage will change, but I think in terms of absolute numbers, we are looking at adding 8 to 10 stores in a 12 month period on a year-on-year basis focused on East and Uttar Pradesh.

Akhil Parekh: And you had also guided for SSG of 5% to 6% first, if you can give some color on SSG number for 1Q and will you think this 5% to 6% SSG growth is feasible for this?

Anuj Singh: So, I think like I mentioned the clusters where we are exiting from were lower growth clusters as compared to the clusters where we are going to remain. So, both in East and in UP, we continue to experience relatively better growth than the other two clusters and therefore we would continue our guidance of mid-single digit SSSG in the geographies of East and UP, where we will continue to operate from Quarter 3 onward with obviously a better level of profitability at a store level and at the regional level.

Akhil Parekh: My other question was how did we perform on SSG level in first quarter?

Anuj Singh: So, like I said on SSSG, we are not breaking up by clusters, but like I said, we have had better performance in terms of growth, in East and UP as compared to South and NCR, the regions where we are exiting from and it varies from region to region, but overall, we are at the level of mid-single digit SSSG growth in East and UP in Quarter 1.

Akhil Parekh: Second, the gross margin plan for Spencer's format, do you think this 19% plus of gross margin is sustainable for remainder of 3 quarters for this year?

Anuj Singh: So, I think look that is where we have a unique kind of a portfolio. Our breadth of categories from FMCG, fresh, staples, general merchandise and apparel does give us a good portfolio presence to drive this. We strongly believe 19.5% is a sustainable level of margin given the fact that we are not positioned as a value discounter. We are a format where we are positioned on having a wide assortment and a very good store experience. So, we believe that the 19.5% gross margin is absolutely sustainable. And in fact, if you look at the construct of how we would want to drive the P&L for the business, I think a 19.5% gross margin allows us to have an operating cost structure of 13% at the store level, which is between rent and store OPEX, so that you made around 6.5% as far as your store EBITDA is concerned and you have 6% as your overhead cost is referred to. So, that is how we get to a kind of a breakeven level and we are confident that 19.5% is a sustainable level of gross margins. We have done that in the past, so we have no reason to doubt that we can continue doing this.

Akhil Parekh: Sir, just one clarity, you said operating margins can be at 6% if you operate at 19% to 19.5% of gross, is that correct?

Anuj Singh: No, I said overhead support, so I said 19.5% gross margins, 13% is your store operating costs, so you get about 6.5% store EBITDA and then you have 6% support overhead, so that you get to a breakeven. That is the broad math.

Moderator: Thank you. The next question is from the line of Bharat Gupta from Fair Value Capital. Please go ahead.

Bharat Gupta: Couple of questions from my side. So, particularly if I look at the other income, so you have sold off your packaging on business to one of the group companies. So, can you provide some further colors like what was the reason behind the sale? And secondly is there any other offering which is there in hand where we can leverage our brand value?

Anuj Singh: So, I think what you are referring to is the assignment of trademark of the Gift Studio. I wouldn't call it the packaging arm. This was a business which was in the business of gifting, started a couple of years ago and the rationale for that was TGS was not core to the operating business of Spencer's and Natures Basket. It was incubated with the store presence and with the categories which were present at Spencer's and NBL. As the format and the proposition have gained traction, it is poised to grow and we believe that this growth will be beyond what are the categories which are stocked in the Natures Basket or Spencer's, so the categories which can go into gifting is much broader. The geographies could be much broader than where we operate. It could be pure, it could be a very high Omni channel mix in this, all of which means that this business is now ready to be scaled up, which would require capital, and we believe that is best done through assigning the trademark to another entity while we remain focused on doing what we have to do to turnaround the Spencer's business and to grow the Natures Basket business. So, in some senses, I think it was driven out of the need to fuel growth in TGS, which we cannot afford to do from the Spencer's and Natures Basket and focus on what we have to do and allowing the TGS proposition to expand beyond stores, geographies and the categories which are currently being serviced through our retail operations.

Bharat Gupta: Like other than the TGS, is there any other offering where we can leverage our brand value currently?

Anuj Singh: No, I think we continue to operate in our core lines of businesses are Natures Basket, Spencer's. In Spencer's, we have Wholesale Bazaars and I think those are the core parts of it. So, we don't have any other lines of business which can be leveraged, monetized, etc., at the moment.

Bharat Gupta: And also in terms of the fundraise, like in terms of the capital allocations, have you finalized anything like in terms of a planning for reduction on the debt side, so like what is the structure like if we lease Rs. 300 odd crores which is our plan, so how we like to particularly utilize it?

Anuj Singh: So, at the moment, we haven't finalized the quantum or the timing of fundraise. As I mentioned, doing what we have, the decisions which we have been taking will allow us to get to a position of EBITDA breakeven and positive EBITDA level by Q3-Q4. And I think that is the right time where we will generate more options for us to look at ways, means and quantum of capital and we will definitely look at it at that point of time.

Bharat Gupta: So, the Rs. 100 odd crore improvement which we are targeting, so that we are targeting over the next one year if my understanding is correct?

Anuj Singh: Yes, it is on an annualized basis. And what you will see is the guidance by Quarter 4 exit, so Quarter 4, we endeavor to be EBITDA breakeven, pre-IndAS.

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

Rishikesh: Sir, when you say we are targeting this EBITDA breakeven by Q4, is that for both Natures Basket and the Spencer's?

Anuj Singh: Yes, it will be, I think the quantum of turnaround is far bigger in instances. So, that is what we are targeting and then obviously for Natures Basket also, so even at a consolidated level we will be.

Rishikesh: And post that, let us say going ahead in FY26 or FY27, what sort of EBITDA margins do we target at pre-IndAS level on consol basis?

Anuj Singh: Right now, we are sharply focused in terms of achieving this operational turnaround by Quarter 4. And I think once we do that, it will set the stage for us. Consistent delivery of that over a couple of quarters will give us confidence to look at where we can then build from this position and grow the business at the healthy level. I think I don't want to give too far out of guidance, I think for us as management what we want to set as a target and achieve is an EBITDA level breakeven at a post-IndAS level in Quarter 4. That is our immediate target and we would like to stick to that, achieve that and then we will talk about how do we go from there.

Moderator: Thank you. The next question is from the line of Akhil Parekh from Batlivala & Karani. Please go ahead, sir.

Akhil Parekh: Sir, my question is at the Spencer's level. From a financial modeling perspective, if I looked in the employee cost and the other expense overheads which are currently as roughly Rs. 35 crores per quarter and the other expenses are Rs. 55 crores per quarter, is there further scope of improvement from here on or should we assume this kind of run rate basically for FY25 and FY26?

Anuj Singh: So, I think on the Spencer's front, clearly both at an operating level, whether it be at the store level or at the corporate level, there has been a significant reduction as far as expenses are concerned, I think on Spencer's from a corporate office point of view, what this move of focusing on two clusters will do is help us simplify our support organization at the corporate office from where we were a year ago, I can't give you the exact numbers, but I will give you a sense of percentage, we are almost 35% lower in headcount and cost by the time we complete this exercise in Quarter 3. So, I think that is a significant one. I don't think that leaves us with too much more because cutting too much also then brings you closer to cutting some core capabilities and processes. So, we will not do that. I think that is a healthy enough level at which we can sustain like I told you if we can bring our overhead in the region of about 6%, I think that is if I may say, a job well done from where we are at the current level where it is close to 8.5%. So, I think that is the directional flow of what we are doing and mind you, this is moving from 8% to 6% on a reduced turnover. So, that would really show you the quantum of change which will happen.

Akhil Parekh: And this 34% lower headcount, they were largely at the corporate level or this includes the store level staffing?

Anuj Singh: So, this is largely at the corporate level and then related to the distributions and the regional offices which we had to support the larger footprint which will now become a bit smaller. So, it is at both level. I am not talking about the store level. Store level is a different exercise.

Akhil Parekh: I am saying any specific headers like where we have taken this reduction basically, is it on the ads and sales promotion side or maybe savings on free cost or any specific line items?

Anuj Singh: No, I think that is part of the ongoing stuff which we have done at the store level, so store staff optimization, housekeeping, security, some people, we have also been able to get some better rentals are coming through. So, I think it is a combination of all of that.

Akhil Parekh: Could you please highlight the current borrowing position, debt position for us?

Anuj Singh: The current debt position, yes. So, at Spencer's standalone, it is around Rs. 700 crores and at Natures Basket it is at least about Rs. 100 crores, at a consol level, about Rs. 800 crores.

Akhil Parekh: Of which, how much will be the long term and the working capital?

Management: So, term loan is Rs. 300 crores in Spencer's. Term loan in Natures Basket is Rs. 49 crores.

Akhil Parekh: And lastly on the Natures Basket side, the growth rate what we achieved this quarter, do we see that to continue like for the rest of the three quarters like we grew almost 8% on a Y-o-Y basis and 4% Q-on-Q basis. Should we anticipate that as we move closer to the festive, this growth rate can improve further and probably go into say low double digits?

Anuj Singh: So, I think, yes, what you have seen on Y-on-Y growth on Natures Basket is nearly for the fact that we had store openings last year in Quarter 3 and Quarter 4. We will continue to have store openings here as we are looking at a total number of 6 to 7 stores coming on board through the year. So, overall, we expect definitely high single digit growth continuing for Natures Basket to deliver.

Management: And Akhil, to your question the short term loan would be around to the tune of Rs. 400 Cr.

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

Rishikesh: Sir, what would be your pre-IndAS EBITDA margin for Spencer's and Natures Basket in Q1?

Anuj Singh: No, we told we normally don't, and we will not be able to comment on that.

Rishikesh: Also, sorry if I missed out that how many stores are we looking to close this year for Spencer's and Natures Basket?

Anuj Singh: No, there are no store closures for Natures Basket. The exit which I was talking about was a ramping down of operations in South, which is the state of AP and Telangana and NCR. This would be roughly precisely 49 stores, which constitute about Rs. 490 crores annualized turnover.

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