



## **“Avenue Supermarts Limited - Analyst Meet”**

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**MANAGEMENT:**

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*\*Questions and responses have been suitably edited to convey appropriate context and meaning*

**Participant:** My first question is on the pricing proposition. You have maintained that very strongly. But when I see your competitors they have tie-up with different wallets. So, if you take that into account how is your pricing versus someone who has a tie-up. You have also started working on it but could you discuss any plans to ramp that up?

**Neville Noronha:** This is a conversation we have internally as well. It is not that we are not open to doing wallets if it is a bank or some other player. But what we have experienced is whenever we have tried; the outgo for the wallet company is substantial because the revenue we do is higher relative to other retailers. Second is, we do not participate in any wallets. With a lot of wallet companies, they expect the retailer to also put some money. We do not put any money because our single-minded focus is just giving great prices to consumers by operating at a very low margin. So, because of this, tie-ups with wallets get complicated. It is a market force kind of a situation and we do not spend more money on it. Having our own wallet – we are thinking about it, but again I have limited knowledge in this area. But unless you have something to offer like cash back, why will somebody come to my wallet? Hence we keep questioning, what will we do by bringing our wallet – the consumer will say he is giving me this offer, that one is giving that offer, what will you give me? So, why get into that kind of a psychological contract with the consumer, rather let us focus only on D-Mart Store with good products and great prices. So, that is the philosophy. But again, these are all conversations, markets change, things change and we may change as well. So, one thing you must take back is we are very stubborn but at the same time we are not blinded, we are observing what is happening in the market and today I said this but maybe six months later we might do something else. But broadly that is the stand today.

**Participant:** One follow-up on this is in terms of membership program again, most of your competitors have that. So, what is your thought process on that? Indian customers we all know is very value focused. So, do you have any thinking on that?

**Neville Noronha:** Basically, we do not have any more money to invest in a membership program. Besides it takes a lot of effort as well. So, because of that kind of a mindset, it is very difficult for us to get into these kinds of programs. You can look at it as our limitation, if we will try to do that we will lose money and there will be no outcome. So, rather stick to your strength. That is the thinking. This may or may not be right.

**Participant:** My second and last question is on SSSG. Good recovery here. My question is how much of this is volume? My sense is mostly it will be volume-led. So, in that my question is how much more is possible because you did mention that ultimately it will be inflation-led, etc., so could you discuss that? Last year you had said fresh was eased down and then you brought back fresh. So, what is the status on fresh as a percentage of your overall assortment? On SSSG, last year you worked on the price proposition and we did see EBITDA margin pressure and from here on of course the intensity will increase. We would see Reliance also enter eCommerce very soon. So, how much of that SSSG is still possible just by being the price warrior?

**Neville Noronha:** Very difficult to comment. You are pricing and what you do in the market is a function of multiple factors, competition being one. I cannot predict SSSG. It is a function of multiple levers that play into the whole ecosystem. One main differentiator that has come in is the price discounting that is happening in the last 1-1.5-years. That is a new thing because until then competition was not discounting as much as they have begun in the last 12 to 18-months. So, that is a new variable that is playing out. It is very tough to predict what will happen next year. All we can say is that we are a very low-cost operator. Relative to others, our cost of doing business is lower. So, when your cost of business is low in the industry - you can then make your own interpretation of what will happen to the business.

Fresh has never been our focus area, primarily because the size of our stores is very small, throughput is very high and there is a lot of crowd. Fresh needs a particular way of handling, management, flotation and refilling. It just does not fit into our model. We would have loved to do fresh but it is very tough. Especially when at every nook and corner, vendors sell fresh produce (vegetables and fruits); therefore we do not see much value. You have also been shoppers of fresh. If you build a very good rapport with the vendor on the street, and you are constantly buying from him/her, you will get far better quality and far cheaper price than the supermarket. At least that is what our research tells us. But again, I am saying all these things are as of now and markets change, environment changes, things change. What we can say is that we are constantly watching. If we see an opportunity, we will do something. Another example is, if you look at Europe, most of Europe is convenience, small store format and they all have fresh. But like I said, there is no

black and white answer, there is always context, there is always grey. So, depending on what opportunity arises, we will work on it.

**Participant:** This 17% SSSG price and volume what is the breakup?

**Neville Noronha:** We do not have specific data available on it, but you could probably factor in the inflation. You can be reasonably certain that, value could be 60-65% and 30-35% could be volume, but I do not have exact numbers because we have not done that analysis. But broadly we can tell you that in stores that we have opened recently, that is where volume is the larger driver than value. In the older stores it is value because the incremental new customers are lesser. However, we do get good number of new customers all the time in all the stores.

**Participant:** I did not see anything in the presentation on D-Mart Ready. If you could give a little bit of perspective on your experience with D-Mart Ready, how fast is it growing, how many new D-Mart Ready outlets are you planning to open? And also when you see customers out of your three segments of grocery, non-grocery and general merchandise, what are people buying more through D-Mart Ready just to get a perspective, a little bit on that?

**Neville Noronha:** D-Mart Ready is not much in the overall revenue that we have; it is just about Rs. 144 crores that we have done on ~Rs.20,000 crores of overall consolidated revenues. That is why we are not talking too much about it, besides we are still in an infancy stage. It is pointless to do any correlation with brick-and-mortar right now. All we can tell you is that we are primarily doing only FMCG in DMart Ready. It has a very small assortment. We do not have the entire assortment that is there at a D-Mart physical store. That is obviously again because of our conservative mindset. One primary aim for us was to ensure that technology is in place because technology is everything in this segment. The engagement with the consumer primarily runs on technology. We are focusing on ensuring that the technology is best-in-class and scalable. So, we took a lot of time, getting that in order and then we said we will do only one city. That is why we are doing only Mumbai because at the end of the day if you do it well in one city, you can do well in several other cities. We do not have any ambition to go to 20 cities, not really. We now have 196 D-Mart Ready Pick-up Points in Mumbai. They are typical 200-300 square feet stores. On a lighter note, one deep insight is that it is easier to open 200 square feet store compared to 30,000 square

feet store. That is why we have been able to open in two years what D-Mart (Physical Stores) took us 15-20 years to do. Another typical question asked is – everyone is doing home delivery but we are opening pick up points. We do home delivery as well but we charge for it. So, is it a better metric? Again, it is very difficult to comment right now. Today, it is not. There is rental cost, two or three people working there full time and basic electricity cost. So, those are the overhead costs that are running. But we feel that there could be promise there. So, we are holding onto it. Right now, if we look at the data, it is not working, but maybe next year I will be able to give you more information. This is still an experimentation stage. But if you ask me last year to this year, what do we feel? We feel good, we feel okay, as long as the loss is under control it is good to be in another channel. Like I said, if you describe what D-Mart stands for, and then you compare it with a lot of the others globally, it would be very unlikely that D-Mart would go into E-Commerce so early. But that also indicates our openness to new ideas. Our view is very clear that from a consumer standpoint it is exceptionally fascinating that you have machines, small device in your hand and you are just doing a few clicks and two days later or one day later or a few hours later the stuff comes to your home. That is a great win for the consumer and we understand that. The only conflict is we are a deep discounter, we are a value retailer. So, our view is that how do we ensure that the same proposition is delivered through a different channel and there we are not even saying that we should make money immediately and the EBITDA should be 8-9% positive, we are not talking about that, but is there still an opportunity at least to break even there. If not now, maybe five years later, seven years later or ten years later. And in that interim, how much money can we lose?

**Participant:**

Two questions. One, you clearly highlighted that you are not very happy with store additions that you did this year. But what seems to come about is largely got to do with the macro, the permissions rather than your internal issues. In that sense what gives you confidence of it kind of changing, was it that you spent a lot of energy in exploring new states or anything that you can give some clarity, any number you could share of what is the kind of store additions we should look at?

**Neville Noronha:**

I will not be able to share the exact numbers with you because we are not able to precisely say that we will open 'x' number of stores this year. All we are saying is that it will be better than what has been in the past. That much confidence we have that



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we will do better than what we have been doing in the past. In terms of what gives us confidence that we will get better - yes, team sizes have increased and there is a clear correlation. Every manager or every city or every state has a strike rate. For every 100 properties, somebody approaches, if you do the funneling, the eventual store opening will be a number. Then, you just have more number of competent people to convert that.

**Participant:** The reason why I asked is because there was a confidence last year as well but it did not play out. That is why I was just trying to...

**Neville Noronha:** Maybe I can say that if we had all regulatory permissions with us, we could have added more stores this year instead of 21. It is just that permissions did not come on time. That is the only thing. In fact, if you remember, some of the press statements said we are aspiring to have more stores and instead of that we opened only 21. We had a pipeline but permissions did not come but we are on it is all I can say.

**Participant:** The second bit towards the mid of the last year, you had started an experiment of extending the store open hours. If you could kind of just comment a) how the feedback has been and (b) is there a potential to expand this experiment across all the stores which essentially gives us a greater room to grow organically in addition to the size bit?

**Neville Noronha:** Good question. Yes, we tried that. It is a factor of turnover per square feet. So, primary target stores are the ones which are doing extremely high turnover per square feet and visually when we see that there is a lot of crowd. Also, we target stores where there is a certain subsection of customers who find the crowds not comfortable and would not mind stretching themselves by coming in very late so that the place is relatively less crowded. So, from that perspective, it is working, but we do not take a decision basis on this number only because otherwise your OPEX far exceeds your EBITDA because Air Conditioning is on, manpower, security etc. So, it is case-to-case, store-by-store decision-making that is done but yes, it is working for us in certain stores wherever we are extending the hours.

**Participant:** So, the upper limit which you had earlier thought on the store throughput kind of moves up, how do you look at it



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**Neville Noronha:** It is good. We started just around Diwali time. So, maybe you could make a note of this and ask me this question again next year. Then I will have 18-months data point to actually tell you, but if you ask me right now, based on the six-seven months data, it is encouraging, it is good.

**Participant:** If I may, just the new venture bit, last year you said we do not have anything to add. It has been a year since then. Is it cash-and-carry, is it something else, what is it?

**Neville Noronha:** Since we have formed a company, there is something going on in terms of our thinking on what we should be doing, but we are still at thinking stage and I do not believe that the cake has been baked reasonably well to offer it to all of you and tell you what we are doing. So, wait till it really happens.

**Participant:** The first question is, is there any increase or what is the proposition happening in the retail private label segment, what is the revenue contribution from there as of now, are we seeing any increase in that?

**Neville Noronha:** On private label, first and foremost, we do not consider staples – branded or packaged as private label. Also, we have a lot of store level SKUs on the non-FMCG side such as plastic, utensils, all the home products – we do not consider that also as private label. For us real private label is where there is arbitrage, which is in the FMCG sector where we believe that if there is any branded product which is operating at extremely high margin vis-à-vis the cost of manufacturing then that is an area which we consider as private label. Primarily FMCG – food and non-food. So, there we are extremely small. For us the brand name of D-Mart is very critical. We do not want any consumer complaint saying that this is a D-Mart product and the quality is not good. So, that is something that is important for us. Whenever we make an evaluation to introduce a private label product, we pay a lot of attention to the quality and typically ensure that there is an arbitrage, which means we can offer the product at a significantly lower discount to the main brand product. There is a lot of talk on private label. But private label is a 10-years or a 20-years story, it cannot be a one-two year's story, it takes time. Also, our view is that the gap or the opportunity for private label products may not be very large. If you look at financials, most of you also cover CPG companies, you may see - this company's Gross Margin is 30% or 40% on a particular product. However, it is not necessary that we will bring in a private label looking at this Gross Margin gap, as it may not work. The main issue is



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good quality vendors with long-term thinking and then the kind of revenue they will do with us and hence their level of commitment to remain consistent on the quality and formulation. They also need to think ahead to improve the formulation since every few years CPG companies keep improving the formulation as it is their bread and butter. Can we have the same level of focus on ensuring that the formulation is good, quality is good, all of that? It is a very difficult sector and for us margin is not everything, we are not really focusing just on margin. But we are working on our private label products, we have a team who works on it, we have a good number of brands which are there but extremely low single digit revenue to the company's revenue. However, we are looking at this opportunity.

**Participant:** We are not including that branded staples and all that because other players do...?

**Neville Noronha:** In Staples what value addition can you do? We are buying Chana Dal from the market and packing it in our brand and selling it to the consumer. At the most what we are doing is just cleaning it, but that's not branding. And it is a better way to disclose, right? There are certain brands that do not even have labels. So, my point is that it is more of a procurement skill. If somebody hires my procurement guy, whatever he is doing in D-Mart he will do the same with the competition as well. It is a skill set of the person or that team. So, that is not private label. Private label is broader – brand, image, consistency, long-term, some problem solving, things like that.

To your other question about competition, we unnecessarily worry and drum beat about competition. Market size is very large. In fact, why do we have to worry? My message even to my competitor is the same thing, "Why worry about each other?" The Pie is big and the pie itself is growing so much. So, there is nothing to worry about competition. If there is anything to worry about, it is about us. We should not get complacent; we should be constantly excited because this business is very tough and very boring. So, how you maintain the excitement and the focus in the business is the key.

On the first Saturday of the month if you are reading newspapers then you get scared – oh!

All the retailers are reducing prices, seems like everything is collapsing. But it is not like that, market is large, business is happening. If you see the next day store wise sales, it is first class. In fact, I was just talking to somebody, I went abroad, I went to





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two, three cities and we were generally discussing. We were walking on the road and there is a crowd, not crowded like Mumbai or India but there is crowd. The fascinating thing is when I actually went to Google and started typing population of those cities. When you see the names of cities on television or when you read, you have a mindset of a big city but the population is not as high, some have 5 lakhs population, some have 1 lakh population while a few others have 15 lakhs population and then look at our country. So, that is the main thing. Size is too big so I do not think we should worry about competition.

**Participant:**

Sir, I have a small question on the approach you have to the business which is exceptional, it has done very well and I see the reason you stay conservative, stick to the principles of how you do business. But having achieved so much, probably the rules that worked in the last decade which made you successful, probably need some bit of more risk-taking, I mean, the store expansion is relatively conservative, looking at cash and carry side of things, again conservative. Are you being too conservative about either expanding to other SKUs or expanding stores, why worry if some businesses do not succeed for some time, let it be, you have 150 stores let 10 not succeed, why not aggressively expand, why think so narrow, it is about SKUs, it is about not doing fresh, it is about not doing X, not doing Y, are you really limiting yourself?

**Neville Noronha:**

Good feedback. So, on fresh, it is not that we are not doing it. In a lot of these kind of things every two to three years we redo it. So, I will tell you about fresh – even in the first seven or eight stores we have done – in Thane and Malad. We are very data focused. It is all cause effect; it is not some preconceived notion in my mind or somebody else's mind that we don't want to do it. So, that is the point on things like fresh. On cash and carry it is just for certain restrictions my team puts on me, considering we are listed that I am not talking about it. There is no conservatism. In fact, we have formed a company, which is actually telling you something exactly the opposite of conservative or risk-averse. So, that is on the cash and carry business. On store expansion, the only thing I can tell you yes, we were extremely conservative because the entire leadership team all joined around 2004-2006. They have fed in our mind that we need to be conservative, we should have store level profitability, do not worry about store addition, do not worry about growth, everything will



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happen in due course. So, that has been the mindset of the entire organization but now you will see a slight change in attitude; like for example earlier we used to say we will purchase real estate but now we are saying we will also do long-term lease because we know, if we want to open more than 20 stores, only ownership will not work but at the same time nine years lease is a very short period for us. So, we are seeing long-term lease. Also, we are working hard on ensuring that our real estate teams are well bolstered and today we have a much larger team, we are working on a lot of deals. But point taken, however I will say that we are moving from extreme conservatism to controlled aggression.

**Participant:** As a well-wisher, my view is that market is changing, there is an opportunity cost of being conservative and there is an opportunity cost of not doing things. Given the business model is so scalable, let it be like on the front foot very highly seen as aggressively building business rather than ...

**Neville Noronha:** Sure, feedback taken, but I am saying look at data across the board, like D-Mart Ready, the fact that we have opened 196 pickup points, the fact that we lost Rs.50 crores. But it has to be within the framework. And like I said, that is the beauty of entrepreneurship. We have a view on certain things. To that extent we are stubborn; we are very clear about it. Business will not go anywhere. What will happen at the maximum is, it will be delayed for two to three years. This is not like the Technology Sector where if you get delayed by six months then it has an impact; someone else may come and take away that opportunity. I do not think anything will happen in brick-and-mortar. But like I said, could be proven wrong, but we are on the button, we are observing what is happening in the market, we will evolve, we will see, but feedback taken.

**Participant:** Second on private label. Some of the European retailers have done exceptional job of it and probably if my reading is correct somewhat similar model you want to have as well. Then private label again is only leverage or are you looking at more elaborate strategy on private label or still in 10, 20-years are we going a little bit more front-foot there as well?

**Neville Noronha:** Do you guys have data point on any country that has built a complete bouquet of private label in a three years or a five years' time frame and has done it very successfully in retail? That is what I keep asking my team: Is there any country where



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such a thing has happened? So why are we so impatient on private level? At the end of the day if you think about it: you are competing against HUL, P&G and other large consumer companies and they have much smarter managers, Ivy League. What legacy they have!

After every six months we are asked as to what are we doing in private level and what is the percentage of private label revenue to total revenues. It is very complicated. I hope you agree with me. Private label is not easy and you should look at Costco, ALDI and see how old those companies are. These are all 30, 40, 50-year old stories, they have built these things over a long period of time. We will not take 40-years but I am saying it will take time.

**Participant:**

My question is that I understand you mentioned that eCommerce is a possibility but the discount propositions we do not know how to deliver that through various platforms. What exactly is the competitive edge then because we believe in selling products that does not require selling, it is very basic, what will bring a consumer to a store and make him curious to look for anything that he wants to buy? Also, who is the target market and if you want to transition into like eCommerce later, if for example, by then you are planning to open stores that are going to take time, the pie of eCommerce will keep growing and there will be established players already, how do you plan to transition if you have to in future?

**Neville Noronha:**

What we are doing in E-Commerce in Mumbai is what we have always said – that is there an opportunity to service a larger ecosystem of consumers for broadly two reasons – one is somebody who is looking for convenience and second is some regions where we cannot reach such as South Mumbai. These are the two primary factors basis which we launched this model. Today we see this opportunity in large metros. And third obvious reason is the cost of real estate. From a cost perspective, the path to at least break even if not profitability, works out in this model, rather than buying Rs 60,000 or Rs.1 lakh per square feet property in South Mumbai worth three-digit crore rupees. Broadly that is how the eCommerce idea came in. We do not know what percentage of total revenues E-Commerce will be. We don't think that way and we do not even want to go in that direction. Because when I look at, for example: at Wai (Satara) - we have just opened a new store there so if you are going to Mahabaleshwar from the Panchgani side, please drop by, not that we are not doing well there. The question to ask is: what is the compelling reason for a Satara



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housewife to shop online? For her it is like a family outing when she goes to D-Mart. Why limit her from that? So, we do not see a value of eCommerce in those cities because of the model. Now if you are asking what is the target segment we look at? What we typically like is wherever we open, at least in the 3-5 Kms radius we want every household to come and shop with us. And typically anybody with monthly household income of Rs 50,000 or below, they love to shop with us. That is broadly what our insight tells us. But we like and hope that everybody in the 3 to 5 Kms radius comes and shops at our stores. That is our simple approach to the business.

**Participant:** First of all, I really appreciate your supply chain efficiencies. As you go into tier-2, tier-3 cities, what reverse logistics benefit you will have, could you leverage traditional retail along with D-Mart Ready for fresh as an opportunity?

**Neville Noronha:** India is a very efficient market for upcountry / interstate transport. So, generally most freight is one way. Why are they one way? Because the moment we unload the material the truck driver's supervisor calls him to unload the material and park the truck someplace else in the vicinity. So, to that extent reverse logistics does not make sense for interstate, all rates are one way. Where do you see value? Again, supply chain efficiency is in 50 Kms radius. If you have a good concentration of stores and if you have your own fleet and if you can push your truck to do more trips per day, that is where you get benefit of logistics which globally all retailers do. Why am I saying 50 Kms? That is because of traffic in India. Why abroad people can cover a radius of 200 or 300 Kms? Because it takes the same time to reach 200 Kms abroad vis-à-vis in India for 50 Kms essentially because of traffic. The efficiency lies in asset sweating.

**Participant:** What is your view on retailers or customers gaining power and this is keeping in mind your decline in gross contribution, what is your focus, are you gaining some power because of which you are able to put some pressure on established players in FMCG?

**Neville Noronha:** This all makes excellent headlines but we do not believe in it, we always believe in partnering, collaboration. This story about bargaining ability does not work. Market forces do it. In fact, respect is earned, not demanded. So, if your revenue is good, the ways of doing business is ethical, clean, above the line, you get respect, everything happens. We do not look at our sizeable turnover as a source of bargaining power. In



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fact, we believe in a very collaborative approach with all our vendors – big or small. We have only one simple principle – if the product is good and business is good, then we will bend our back to ensure that the vendor is comfortable. That is the philosophy.

**Participant:** Good afternoon, team. Just two questions. I do hear you have recently increased average store size from 30,000 sq ft to 50,000 sq. ft. Just wanted to check if you can share the change in footfall that has happened?

**Neville Noronha:** It is very unlikely in a format like grocery that if a customer has walked in, he walks out without shopping. It is like sub-1%, which means most people who walk in have bought something when they walk out. So, this is what you can infer. Another thing you can infer is - from this leg of 1 million square footage addition in the current year, came through an average store size which is significantly larger than the preceding years store size. Therefore, what could have happened to footfalls? So, broadly that is the way to look at it. A clearer answer is we do track footfalls, but all technology around footfall monitoring does not work in our stores. There is a reason for it. The way footfall counts are tracked is that there needs to be a gap between two successive bodies that walk in. That is not happening at our stores. It is too crowded especially on weekends. Therefore accurate count is not happening. It is a genuine problem. So, we track but when the data comes in it does not make any sense. Sometimes the bill cuts are more than footfalls. So, we have stopped monitoring it. That is why I could not give you a straight answer because of this reason. So, what we track is bills cut, that is a real number.

**Participant:** Just a follow up on that. When you have increased your store space– between FMCG, general merchandize and apparel, stocks for which segment have gone up?

**Neville Noronha:** Please refer Slide 5 of the Analyst Presentation. If you look at foods, this earns relatively low margin, so when ~15% is our gross margin, food is significantly lower than that but it also holds very low inventory. So, if you're typical inventory is 29-days, food holds much lesser inventory, rotation is fast. So, that is why the supply chain and related focus on food is very critical. Availability of stocks even with vendors is critical because the holding there is low. In Non-Foods, we make slightly better margins but FMCG as a whole is relatively lesser margin than the overall company gross margin but holds much lesser inventory number of days. Apparel and



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general merchandize carry significantly higher inventory but we are better than industry. We track the industry, and when I compare with any other retailer on pure apparel, we are better than them in terms of inventory holding, similarly with general merchandize. So, there the margins are very good but inventory holding is also higher.

**Participant:** So, is it fair to assume that general merchandize stocking has gone up in the store size which has gone up?

**Neville Noronha:** No, if you notice, 28.42% contribution got 28.29%, so it slightly reduced.

**Participant:** I got your point from the slide. What I am trying to say is that when your recent addition is 50,000 square feet in that which portion of your segment has gone up?

**Neville Noronha:** General Merchandise & Apparel does relatively better. We get more space, more elbow room, display is good and it happens more in the smaller towns, it is cheaper, the presentation of these high margin products has a direct correlation for better sales.

**Participant:** What are the transaction bills or services per week or maybe a month you can share in D-Mart Ready? You can probably give me a range from lower to the higher. I do not want the specific number. I am looking at the advantage which you have got from D-Mart Ready, how is it working?

**Neville Noronha:** I will give you more qualitative response. What we can tell you is that consumers who really know D-Mart and shop in D-Mart, they are relatively less demanding than a typical E-Commerce shopper. An E-Commerce shopper is very different from a typical D-Mart shopper. The E-Commerce shopper expects an extremely high level of service including monetary benefits for any lapse in service. We are struggling with that to be very honest. It is a challenge if a person is not familiar with DMart. That is very clearly coming out. That is why this is all still an experiment. Should we invest more in improving the experience but then that is against the grain of what we are – which is a very functional service, we do not want to do what others are trying to do. We want to stand for something little bit exceptional. So, can we create a positioning saying what we will do is that we will be extremely error free, which means if she has shopped for 15-items, 15-items should be billed and delivered. If her invoice says this



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is the price, then the real invoice also should be for that same price. So, basically the entire transaction has to be clean and neat. In fact, our philosophy is how we can minimize human interaction as much as possible. Work should be done in a way that she will pick the order from you and then she does not have to go to the call center or anybody else. So, we are talking of something like that. So, basically again bringing the same mindset of efficiency on the E-Commerce side. And if that means 20%-30% of the E-Commerce shoppers do not like this, so be it. I will not have 15,000 articles on my website at least as of now.

So, broadly that is what we can tell you. I cannot give you a range. Just a caveat, any numbers if we feel it makes sense from a disclosure standpoint; we will do it through regular disclosures. That is the only reason why I am not responding. So, please do not mind it. And eCommerce is still in its infancy. And I will assure you that next year I will give you more info basis whatever learnings we have.

**Participant:**

So, my question was regarding competition which we spoke about earlier. We have certain value proposition, hard discounting that we say, so we were X-percentage cheaper than the other retailers. So, last year when competition increased, were we able to maintain that value proposition?

**Neville Noronha:**

I would say yes, our value proposition to consumer continues to be there, but I can definitely say that the gap has reduced, that is for sure, everybody else is also discounting. But what we also see from data and whatever you observe internationally, there is a consumer affinity to a particular retailer or a brand. Beyond a point all these things settle, but if you are operating at very low cost, your price advantages always remain; you will always be cheaper than somebody else that is what historical data tells us. The fun is not in just cutting prices, the fun is you are cutting prices being the lowest cost operator and still eking out a profit. And that is possible only if your operating costs are very low. But to answer your question, the relative change in difference in discounting us versus others has reduced, for sure. But as I said earlier, the ~18% SSSG kind of validates that at least for this year it's been a good thing. But does that mean had it been 14% it is not good? Of course, it is still good, still nice.

**Participant:**

And the question would be this, we have the sales per square feet number, which is Rs 35,650 almost now. So, is there like an optimal limit to it? As in, doesn't the



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shopping experience or anything change? And also I thought when we are going to smaller cities; this number should ideally inch lower.

**Neville Noronha:** Yes. So, this is a basket, it's a blended average. What we can tell you is in Mumbai metro and other such cities we do much higher revenue than ~Rs 35,000 per square feet. So, for example, if I open a store in Mumbai metro, I open in Hyderabad, Bangalore, the revenue per square feet is significantly higher than ~Rs 35,000. But again, it depends from city to city. So, Rs 35,000 is good.

**Participant:** So, what would that be?

**Neville Noronha:** I cannot comment on that. If it's reached at peak level, then we expand our store timing. So, you asked about the limit, that's why I am saying. If you visit the stores you will figure roughly what happens, and you have so many other retailers, so you will get a number. It may not be 100% accurate, but it will be at 90% close.

**Participant:** In the last 12-18 months, like you said, discounting has increased but that primarily we see in FMCG which helps standard MRPs. What is happening to pricing in general merchandise and apparel? That's question number one. And secondly, in FMCG discounting that has gone up, how much has come from brands, for whichever reason, I mean scale you have, bargaining power, whatever you want to call it, but how much has funding incrementally come from that side?

**Neville Noronha:** Good question. If you look at the entire ecosystem of the business, approximately 72% is FMCG, 72% and 28% is Non-FMCG. Sometimes we get too focused on pricing but if you look at the FMCG brand MRP ecosystem, it will be approximately 50%, depending from retailer to retailer. Now all the analysis happens around that, Brand 'X' is giving this much discount, Brand 'Y' has this discount etc. The moat for every retailer, not only us, is that there is a reasonably large, almost 50% of revenue where nobody can compare one retailer to the other on pricing. Like a steel glass, what I sell versus what my competitor sells versus what someone else sells - its rim is different, finishing is different, thickness is different, and hence its pricing is different, and hence you can adjust 2%-3% margin. . This is one area which Mr. Damani used to handle in the initial phase, and he kind of built this whole thing. That is a fun side of the business, because that is very difficult to decipher. And I am saying that is the moat for every retailer. And that is where you bring in the differentiation. So, that's why in brick-&-mortar globally you see that there is no winner takes all or there is no





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dominant share. Walmart is there, but Costco is also there, Target is there, but Krogers is also there. While there will be one which is reasonably dominant, that doesn't allow others not to make money. To answer your question on discounting, all brands more or less invest the same amount of money in all retailers. Many a times it's in the news as well that procurement of D-Mart is very good, etc. There is nothing as such. I mean, they are all smart companies, at the end of the day they do their analysis, how much was invested in D-Mart, how much in other retailers, etc. So, they all invest more or less the same amount of money. With most of these companies the trading margins are fixed and we don't go back to negotiations every other year. Once a document is signed this closes the door. Everything else is invested in jointly promoting the business. I don't have the numbers because we haven't had those conversations with any of the manufacturers that – is your investment big with us? You could say it this way that that is also shown from our gross margin data - compared to last year we have invested our own margins into price cuts, that's how the gross margins have come down. Our investment has increased for sure. But our trading terms with manufactures have they changed in the last two years? No, more or less the same.

**Participant:**

So, in your D-Mart ready App you have a specific 50% off section, which usually also has a lot of FMCG brands available there. So, is there any restriction which comes on brands, because this also in some way targets the brand image that probably this is either not working that is the reason or something else.

And second, when you say the private labels, there should be a value proposition. What is the gap you expect to get in? So, suppose you have D-Mart Premia ghee, which is almost like 50% cheaper to probably anyone else in that segment. So, what is the gap which you expect to be there to get in kind of?

**Neville Noronha:**

On the first question about 50% discount. There is no compulsion from our side, everything is collaboration. So, there's a plethora of brands, plethora of companies, every month someone or the other enters to sell something or the other. So, we put those brands up, obviously after our due checks. Because of the size of the market, you will have an ecosystem of brands, categories who will discount at the rate of 50%. So, that's the response on this specific question.



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On private label, only if we see a significant price advantage then we enter those categories. And by the way, it's not straight line, like for example, for an item like ghee we don't look for 50% gap. Like we always say, till the time Amul is there no one else who can capture the market if you see Amul's cost of doing business. So, in the category of ghee even if I sell at a 10% discount, compared to main brands it is of great value, but it is difficult. It depends from category to category, brand to brand. There are certain categories in which the cost of manufacturing to the MRP is a multiple, it's not a percentage, its 3x-4x, so there the opportunities are good, there even if your product is just about equal to the brand still the traction is very good, because consumers see the value. But like I said for private label there is a lot of excitement within your community but our view is it will take time. And every subcategory is different, like in detergent powders, in fact I was chatting with somebody before the meeting, HUL and others, they themselves make very reasonable margin and it's not very high. Apart from margin the other thing is also consumers' psychology. When I give papad under private level of DMart, consumer will accept, but the moment I give him toothpaste and shampoo, he will think that how did DMart learn to make shampoo. So, we have to understand the psychology also that are you a credible manufacturer of shampoo, when you have P&G, when you have L'Oreal. And then I am eventually putting that private label product on my hair - there will be a problem if something goes wrong here. So, it's not very easy. And I am saying this also because I come from HUL, I spent eight years there. In fact, I started my career in market research, my first two years was in market research and you can't believe the kind of work we used to do. So, it's not easy.

**Participant:**

I have a couple of questions. So, the first one is that the CAPEX this year increased 45%, despite of the store increases being 21 versus 24 last year. So, is it that the cost of acquiring land has increased or has the maintenance CAPEX increased, how should we look at this?

**Neville Noronha:**

You can make your own interpretations. But when you look at the gross block, and you just do a simple math of number of stores divided by gross block, you get a fixed asset value. Now, you need to be a bit reasonable, whatever we have built we have built over a period of 15 years. So, the average investment in a property is not going to remain the same, it will increase. One thing I can broadly tell you is that property value will go up primarily because of inflationary impact on real-estate. No doubt, the last three years have been very good; real estate rates have reduced at a lot of



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places. But the average value we are investing in a property is going up. Second reason is, we are building relatively larger stores because we see headroom for a 10 year CAGR growth. And we believe that for the same effort, it is better to have one store relatively larger rather than thinking of opening another store in the same area. That will need more effort, and then purchasing the property at that higher price in the future, whereas with the current larger store you are getting all those benefits right now in a profitable business. So, that's one piece to the story. Second piece is, we are working on having more number of stores. So, that's the interpretation. But I hope I have responded to your question.

**Participant:** Yes, absolutely. And the second question is that, so D-Mart Ready has a minimum order value of purchase versus somebody like a Big Basket or a Grofers which have no minimum value of order. So, do you intend to reduce that value in order to pull the volumes?

**Neville Noronha:** No, not really. If you read about the other grocery E-Commerce players, what is the average value per bill?

**Participant:** Rs. 1,500 for Big Basket.

**Neville Noronha:** Correct, around Rs. 1,500. So, what do you think we should be, better than them or lower than them? What's the consensus? I only heard better, I didn't hear lower. So, if it is better, I am just saying for a moment, if it's better then why should we go below Rs. 1,000? Because the incremental revenue will come but the effort and the loss around it, and it's anyways marginal increase in overall revenue. So, we don't intend to reduce it. And again, we are not just a pure play online retailer, we don't have to play around, play to the galleries or valuation. So, it's better to service a good shopper than a fleeting shopper. At least as of now. Yes, if we believe, which we are struggling right now, by the way, if we believe our operating metrics are superb, our teams are good, we are doing a brilliant job. And then we look at that perspective that you are saying as a customer acquisition strategy, then yes, maybe in the future we may reduce the minimum order value. Because the effort involved, whether you pick three items, or 20 items, is the same from a corresponding cost perspective, why add that cost right now. So, that's the simple reason why we don't want to go with below Rs 1,000 as of now.



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**Participant:** My question was, in your initial remarks you mentioned that geography wise South has done quite well. While North, not so much. So, what's your experience in terms of... I understanding it's a cluster based approach, but from geography wise business mix and growth potential, acceptance of D-Mart brand, etc, how do you see this playing out?

**Neville Noronha:** It's just a matter of time, so we are not concerned about North. It is just playing out like how other states played out when we started in those states. So, to that extent, business is good, we just need to keep walking or maybe running, like someone said that we are probably too conservative. But there's no issue with North. We are very slow in new markets primarily because of real-estate, we don't want to get conned. And typically, it happens, when you go to a new state. The moment they know you are not a local; they will straight away double the price of real-estate. And we know of so many deals that have happened, a lot of companies have gone ahead and done deals at those rates. But they make mistake only once. Even with us, after finalizing the deal within one month we get to know that we have been conned. But till the time we don't do the deal we are unaware of it, its anxiety there that we have to close the deal at any cost. So, to that extent we are very conservative, unless we don't do double check, triple check whether price is right or not, we don't go ahead. So, that's the reason why we are very slow in new markets, because real-estate is the key in our business. When you are putting such a large amount of money, and the way we buy land and the way we construct our buildings, it is not as marketable as any other property. It is not very easy to sell if you want to exit. So, hence we are very slow there. So two things; consumer understanding and real-estate. And we do notice that North is also trending very similar to how we started in Gujarat or South or other states. I hope I have answered your question.

**Participant:** Continuing of the previous question on your CAPEX, if I see last three years your CAPEX per square feet has gone up quite significantly, maybe more than 50% odd I would say. So, and also you mentioned that we want to increase store addition pace. So, in that context if you can talk about what will be your intensity on lease based store addition, just around there if you can just give some color? More from lease point of view. I mean, how much more intensely you will try to add stores from lease point of view?



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**Neville Noronha:** I can't give you a specific number. But why are we saying leasing of properties vis-à-vis ownership? What is the advantage? It has more heads to the issue, right? For example, when I acquire on ownership basis it is my team, sitting centrally, looking for land, then constructing, everything is operating out of Mumbai. The moment I talk lease and I spread the word, what happens? Then local builders start popping up everywhere, everybody knows now that D-Mart leases as well, I am a builder, I can make the building, I have my other businesses, but my kids' annuity income can be rental from this property, things like that. So, it creates an enquiry in the market. So, we see that as an opportunity to accelerate growth, but at the same time we don't want to do nine years lease, because nine years is too short.

**Participant:** Also your CAPEX intensity goes up quite significantly, given that on a per square feet basis the CAPEX you have done is significantly higher in the last three, four years. So, my question was more from that point of view.

**Neville Noronha:** Fair point. So, CAPEX is higher because, while we keep talking...

**Participant:** I am sorry, if I can interrupt, also current year whatever addition in CAPEX, what would be the land part, if that's possible to comment?

**Neville Noronha:** CAPEX addition you can still see it from the balance sheet, from last year to this year. But you will get the entire details in the annual report.

**Participant:** Yes. Sorry, you were continuing on the CAPEX.

**Neville Noronha:** I keep saying lease, but the reason you are seeing these values large in CAPEX is because even now we proportionately buy more properties rather than lease them. That is because we are also realizing that if we say lease it's not that suddenly everything opens up. It builds inquiry for the future, because our property is very typical, it is not like a 2000-3000 square feet store that you can get in high street or even in a mall. Some or the other developer will have to construct. So, we are just trying to build the enquiry in the market and hence we are saying lease. But still today on the balance sheet a larger component is ownership.

**Participant:** And my second question on the price front, so you mentioned that the value you offered to the customer against your peer has gone down despite a lot of



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undercutting that we have done in FY19. Does that hint that we will have to do more undercutting in the coming days?

**Neville Noronha:** I don't know, it is case to case. Like I said, it is cause effect. If someone cuts the price, we also have to cut it but after a point in time there is equilibrium in the market, in some cities, stores we reach equilibrium. Then you will see what's happening – is your revenue going down? One thing I will assure you, we won't be expensive than the market. What we are seeing is that in spite of that the business still continues, that means then the play is beyond pricing, or the play is beyond just the FMCG comparable SKU matching. Consumers are looking for something more, like for example there are certain consumers who will say, if I want to buy garments then maybe D-Mart is not good, I will go to another retailer. And certain times you say, no, DMart's bed and bath is very good, so for bed and bath I will come here. And since I am coming to DMart I will also buy my FMCG goods. So, at the end of the day like I keep saying, there's market for everybody, everybody will do well.

**Participant:** Are you comfortable with the current price point, the value that you are offering, given that it's come down?

**Neville Noronha:** Yes. It is not an issue. We are clear that our pricing to consumer will be the lowest; we will fight for that as much as possible. We are principally clear about it, and it is also our mission statement. The easiest category to understand is branded FMCG. But there is still a large ecosystem of products which is beyond FMCG. And that's the fun element of the business. It is because of that segment that all of us do not need to run off the cliff, we don't need to all just cut prices, for everybody to lose money or have lesser margins.

**Participant:** You always mention the whole approval process and land identifying processes as the limiting factor to open stores. But retailers, some retailers, not all, also complain about the talent pool constraint. So, let's say if some of this constraint of yours, as we are facing today, if those are handled, talent pool is not a constraint for you to expand at aggressive rate than this?

**Neville Noronha:** When I started also I said culture. Culture is essentially people having the same mindset, the same training, the same passion, interest in the business, this is the

challenge. In fact, it's the number one challenge. Earlier I used to say people are a challenge, in fact biggest challenge is people, and real-estate is probably the second because we are very conservative. So, in the hierarchy of importance, we always said culture and people followed by real estate. Today I am probably reversing it a little, primarily because the amount of effort and energy we have put in, in building bench strength for the future has been a lot. So, today we are more confident that for whatever pipeline of stores we are opening, we have a bench strength of people which is actually like a reserve force. We have a separate team who is training them, and they are working on the job. So, if you ask me today, our internal readiness for growth is there, we have worked on it over the last 2-2.5 years. Now we are only dependent on the external factor, which is real estate. So, to that extent, that's why I am reversing the priority.

**Participant:** I have one question and one suggestion. Question is, what about your dividend policy? Till date there is nothing to pay off, it is because of the CAPEX every year or is there any policy for that?

**Niladri Deb:** The Company is still in growth phase. And we have been listed for two years, so our priority at this time is conservation of available money with us and invest the same in growth. And you are seeing growth. So, we believe that is a better deployment of funds, rather than paying back the shareholders. We think the money available with us is better invested in this growth trajectory that we are in.

**Participant:** A couple of questions. I might have missed this, but for the new stores that you have opened, could you give us a sense of their performance with regards to store level margins? I don't need actual numbers, but store level margins, payback periods, I mean, like how are they with regards to your current mature stores that you have?

**Neville Noronha:** Sorry, can you repeat the question?

**Participant:** The new stores that you have opened, if you can give a sense of store level margins and payback periods, as compared to the mature stores that you have in the ecosystem already? That would be useful.



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**Neville Noronha:** We haven't shut a single store, so far. And I have mentioned this before also, it's not that just because you want to keep the track record clean that we don't want to shut. All our stores are doing fine. Breakeven depends on amount of capital invested in absolute terms, and also the type of city you are in. There is no straight line. But so some stores breakeven in one year, some breakeven in two years, some can take a bit longer. But broadly what I can tell you is that whenever we open a store, a new store in an existing market, the rate of acceleration of revenue is significantly higher than when I opened another store five years or 10 years back in that same city. So, that's the insight I can give you, that new stores in same markets reach the absolute high revenue immediately, within three months, six months or one year. An 8-10 years old store versus a two year old store, the EBITDA level at the store level will be marginally different, because of the incremental revenue of the older store. See most of the costs after a particular threshold of revenue per store in our business is variable, that's why it is relatively low. So, after putting a threshold of revenue, EBITDAs are more or less the same. For every incremental turnover the cost is more or less the same. Obviously you get advantages, but they come in basis points. Broadly, if you are opening stores in the same region then you are safe from an ROI perspective.

**Participant:** And the second question, with regards to considering you spoke about culture, could you talk about the KPI metrics that you have for the senior management team as well as the store managers as well?

**Neville Noronha:** All I can tell you is, less is more, less is more not only in the business, but in everything. So, with our senior leadership team, we don't have very complicated KRAs. It is more about one to one trust. It's actually very uncomfortable when there was just one event out of so many things that an employee does which went bad, and then just using that as a reason to reduce his / her bonus. So to that extent we are a little bit unconventional, we are very objective, very critical in the way we evaluate performances. But I think the contexts and the whole environment I sense is very different, it is not very cut-throat, we try not to make it cut-throat. And for us what are more important factors are the intent, energy and the effort that we see in our leadership team. If you don't see that then we have a one on one conversation. It's more culture, it's not black and white, it's not that we have something exclusive in terms of KRAs vis-à-vis others and hence they are able to perform. I don't think so, it's more culture and it is more fluid.





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**Participant:** So, the question was more what is it linked to? In the sense, are you linked to more profit growth for senior manager, profit growth return, capital employed, and what is it linked to for store managers?

**Neville Noronha:** Can you please repeat the question?

**Participant:** What are the KPIs linked to? Like what exactly are the performance evaluators for senior managers as well as store managers?

**Neville Noronha:** Let's put it this way – we don't look at it like that, honestly. Every store, every city, every market behaves in a particular way, the outcomes will be the same, the inputs will be very different. Imagine a city where competitive context is extremely high vis-à-vis another city, obviously its EBITDA will be less; its revenue goals will be less, so why blame that manager? And if he still wants to perform at the same level as a virgin market, then he may start doing unwanted things. Or if I give him only a revenue target, then he will take a hit on the margins; if I will give him a target of margins then the revenue will take a hit; if I give target of both margin as well as revenue, then something else will take a hit. So, I think sometimes some things you just let go. What we do primarily is to always look at input metrics. I have always said this, we are more of an input metric company, we look at what's going on in this store, what's going on in this region, what are these guys really doing to make things happen? And if the effort, energy, direction and the thinking or the ethos of the business is in place, then outcomes could be anything. But we have a strong belief that if the inputs are appropriate, generally the outcomes will be the way it is expected for the business. And that's what you have seen over the last 15 years. We haven't changed anything in the way we are operating from a KRA perspective. But authenticity is the key to our business among our leadership team, and that is very important.

**Participant:** Thanks for the presentation. On the sales per square foot, the number of 35,000 which is reported here, do you maintain a mix of new store opening between top eight metros and non-metros? Because the assumption is, a store in Bhopal will do lesser per square foot than a store in Bombay. But still your same store sales growth has been growing very well. So, how do you maintain the mix? And in terms of operating profit you spoke that non-food and general merchandise is far better in tier-two, tier-three cities. So, my assumption is, operating profit would be, assume



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that the same store sales per square foot is lower in Bhopal, operating profit would be equally good if not better? Per square foot I am talking about, in a tier-two, tier-three cities.

**Neville Noronha:**

Very complicated question. We don't look at it like that. We have an internal IRR for a store or internal EBITDA understanding for a store. Now that number may not be common for all regions, all states, but we have a particular number. There are few people in the company who are keeping a watch on it, till the time that is not achieved. And then we keep working on it to understand what is working, what is not and what can be done better. And once that number is achieved, after that we set it free, we don't do too much analysis. We want the business to run properly, the local leadership team should run the store ethically, ensure that there is no major consumer dissatisfaction, and ensure that there are no issues or major problems. These are the things we pay more attention to once that threshold will be achieved. Retail is very complicated from a numbers point of view, the number of parameters and data points are many. I came from an MNC, for the first three years I also used to think I will do a lot of analysis but it doesn't work that way. That analysis is nice to see, it is nice to give you learning and knowledge about how the business is working. But not all or not most of the data can be used to drive something significantly different than what is already happening. In fact, our view is, set it free; let the customer decide what she wants, or where she wants to go on the shop floor, and use that insight to tweak our offerings. But I cannot answer your question because we don't even look at the data from that perspective. I will answer this question differently. Revenue per square feet as a metric was never used by us until the IPO. Most of you understand, at the end of the day how much did you invest and what were the returns, that is the key. In small towns real-estate is easier, permissions are easier and people are less demanding. So, small towns are better. But small town is also very tricky. If you make mistakes in a small town in terms of real-estate, it can go bad in terms of business and investment. In small towns land is cheap, but if you go wrong in the size, the overall investment, it can go bad. And how many small towns will you do, as at the end of the day it's a question of population density. So, if you do the numbering city by city, the opportunity is 10 lakh plus if you really want to accelerate. But then in big cities there is a challenge of real-estate.

**Participant:**

I have two questions and they are linked to some extent so I will put them together. Since obviously you would be evaluating different business models and different



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channels, as per your evaluation in the kind of product segments that you are, which business model is the lowest cost? Well run ecommerce platform or a well-run brick-&-mortar platform? That's question one. Linked to this, there are two consumer behaviors, there's convenience seeking, and there's value seeking, and you operate in the value seeking area. And I would expect ecommerce players mainly target convenience. But what happens if a ecommerce player with deep pockets wants to target convenience as well as value by funding losses for let's say, next five years, then what would be your response to that?

**Neville Noronha:** So, the e-commerce versus brick-&-mortar, you said which is more...

**Participant:** Which would be the low cost one, assuming both of them are well run, efficiently run...

**Neville Noronha:** From cost perspective?

**Participant:** Lowest cost of operations between these two business models.

**Neville Noronha:** That is not a straight line answer, but our assumption is that in grocery, brick-&-mortar has a cost advantage. And if you see global data, even though it is value; you are topping it up with the service. What is the service – sit at home and complete your shopping, which means there is some technology investment. Obviously, it spreads out over larger revenue, but still there is a cost on that. Second is, you are picking for her, whereas in a brick-&-mortar business, she is traveling to the store, she is taking a shopping trolley; she is essentially doing all the work herself, whereas in E-Commerce you are doing all the work for her. So, there's an added cost of that. Now, somebody will say in brick-&-mortar there is an establishment cost, rental cost etc. But if you do a trade-off, then brick-&-mortar cost arbitrage is better than E-Commerce. Because in E-Commerce after picking you are traveling to her home and that is also a cost that you add up. Therefore, E-commerce turns out to be more expensive. But this is only in food / grocery. When you talk about cell phones, it is reverse, you talk about books, it is again reverse. And that is what you are seeing, money is like water, where arbitrage is, it flows there. That's how you see a significant disruption in sub-sectors. Like in electronics, in mobile phone many things have happened. So, wherever that arbitrage tilts, the business will tilt towards that area. So, fortunately because we are in the grocery business we believe the arbitrage is better for brick-&-mortar. Grocery E-commerce will work probably better on a



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convenience positioning. Now why are we doing it? We are doing it because we are running an experiment, because I should not be caught off guard. If at all something changes in the market and the arbitrage is almost similar, or consumers are ready to pay more. So, if consumers make mental adjustment that I am ready to pay for this convenience, but am I getting D-Mart prices? And that is one of the reasons why we are charging for delivery. So, it's quite interesting. When she's doing an article to article comparison, she compares me with all the other ecommerce guys. That 3% is added later on, right? So, at least I have that point to say, 'hey, you know what, my pricing is same as a brick-&-mortar store, but I am going to charge you 3% because I will bring it to your home.' So, that's the way we are approaching it - broadly on these metrics and not by seeing financials of e commerce companies.

**Participant:** No, I was just asking your view, because it was more of a theoretical construct.

**Neville Noronha:** So, broadly this is the thing, so arbitrage is there.

**Participant:** And sir my second question, if a large player decides to lose money and give convenience and value both, then what would you do? Would you accept a lower sales growth but not cut prices beyond a point? Or would you say no, we would be okay operating at lower operating margins, but we cannot let go of the consumer opportunity?

**Neville Noronha:** As and when it happens you will see what we will do, that's all I can say.

**Participant:** Two questions. Firstly, in terms of stores, you mentioned that new stores are much larger. But do you have room to expand the size of existing stores or even the new stores that you put up, can you make them larger in the future? And second question is, we have noticed that some of your stores even within the city have dynamic pricing. So, the pricing can vary between two stores in the same city. Does that pricing get determined by the store manager or is it determined at the back end, how does the time dynamic work?

**Neville Noronha:** What was the first question?

**Participant:** So, when you put up a new store, does it have flexibility to increase the size in the future or even some of the existing stores?



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**Neville Noronha:** Yes, typically if you will see some of our stores, when we build them we build them for the future and we don't open the whole store. It also happens because we are not very sure, so we always start small, the store size will literally be smaller when we start and then once we see the revenues coming in, then we expand. So, we do that repeatedly. So, that's one thing. On the second part, what was the question?

**Participant:** Dynamic pricing.

**Neville Noronha:** Correct. So, it's very fluid. Like you said, we compete, we do benchmarking. The store manager is authorized to change the price so decision making is faster. It's primarily competitive context; otherwise most of the things are driven by a separate team who report centrally. But benchmarking, you have to give that leap of faith and trust, and let the store manager take a call. And it's all connected. The beauty about this business is, sometimes when you say brick-&-mortar; people tend to think that there is no technology involved and that technology is in online businesses only. We are also 99% technology, we cannot survive without it. We will know every minute, every second; we can go even to that level of data. At the end of the day everything gets consolidated at a single point, we have huge BI intelligence, which can draw out any report, till yesterday I know everything by store, by article, everything is visible quickly. So, we know if something goes wrong somewhere, we have alerts, we have people to monitor those things.

**Participant:** Question is like, like you have an external issues relating to the store expansion, but like there are things like increasing the store timing, like I have seen some of the stores time you have increased, which way you can increase the number of bills or revenue per store. What is the thought process on that?

**Neville Noronha:** Yes. Somebody asked that question, we have experimented with the extended store timings in certain stores. And these are quite early days; it has been around six-seven months since we have done it. And it takes time for the entire community in that area to know that we have extended times. But we are quite happy with the outcomes. It is complicated, there is additional infrastructure cost, everything else has to be running, especially the air conditioning, which is very expensive. But we are trying, but we do it only in very high throughput stores.

**Participant:** Second question, like Avenue Supermarkets gets listed almost 36 months are coming for the listing, and as per the SEBI guidelines the promoter has to bring down the



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stake to 75%. If you can just throw some light, when is this timeline coming and what is the status?

**Ramakant Baheti:** We have to dilute by March 2020. And if you have seen the outcome of the board meeting, we are proposing a QIP as well. So, let's see how we will do it.

**Participant:** Sir, can you share your thoughts on convenience store format like 7/11 in the Indian context? And have we considered coming up with such format in your market?

**Neville Noronha:** We will leave the convenience business for others; we are only going to focus on value, because value itself needs a lot of effort, energy and focus. And convenience is at completely other end of the spectrum. What is beautiful about the D-Mart Ready model is, you are in a way delivering convenience, but through our terms. While there is a convenience towards bringing it closer to home, but we are charging money for that. So, to that extent it is slightly inconvenient. But that is the only extent of convenience we will go to. But otherwise, on other businesses, I cannot comment.

**Participant:** Is there a potential for D-Mart Ready stores to become a little bigger in size and along with catering to the online orders they can also maybe have small local convenience store kind of business?

**Neville Noronha:** Have you seen any of our D-Mart Ready stores?

**Participant:** I have, but obviously they are pretty small in size.

**Neville Noronha:** We have some like what you say. So, we don't just have 200-300 square feet stores, we have slightly larger stores also where we do sell some stuff. So, do have a look.

**Participant:** My question is regarding the QIP that we are doing probably very soon to cut down stake, we will receive about Rs. 3,500 crores, so will that result in accelerated CAPEX for real-estate or how's that going to be invested? Because that's the only investment we have, that's broadly the amount of fixed assets we have right now on the balance sheet.

**Neville Noronha:** Yes, but that's a leading question. We have got an enabling resolution but we still have to take shareholder approval and you will know in due course about how we dilute, through a QIP or any other format.



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**Participant:** Sir, is there a case where we don't take all the money in the company? Because we have already taken for 2.5 crores shares, if I am not wrong, something like that?

**Neville Noronha:** Yes, this is up to 2.5 crore shares

**Participant:** So, we can decide it later?

**Neville Noronha:** Some in the company or OFS we can do.

**Participant:** Sir, you mentioned two, three things. First is that the incremental property is coming at a higher price, so your CAPEX is increasing per square feet. Second, you also mentioned that now you are open for taking stores on lease bases, which means going forward some rental expenses will come up in your P&L account. And thirdly, you mentioned that we would try to be the cheapest, we will be providing the products at the cheapest price. So, you will be maintaining the value proposition for our customers. So, in this backdrop where you see your margins fairing going ahead, because last year we have seen some pressure on margins. So, would you be in a position to maintain the margins of 4.5% to 5%, which in a recent interview to a media you mentioned that you will maintain. So, if you are going to maintain it, then how you are going to do it?

**Neville Noronha:** Markets are dynamic; I will not give you a firm commitment that margin will be an 'x' number. What we say is that we will run a very efficient business at very efficient costs, and we will compete well in the market. Other than that, very tough to give you a statement on margins. Broadly I can tell you 14-15% gross margin is a good gross margin, considering the kind of PAT, ROCE we are generating. I mean, if we will do more than that then we would be creating opportunity for somebody else to come and disrupt us. And our view is, let's not focus too much on margin, let's focus on growing the business, let's focus on all other metrics, margin is an outcome, it will come. But if I operate efficiently, if my turnover per square feet grows, if I grow in new markets and new markets also allow me to perform better, my mix improves, and those are things to look at.

**Participant:** But as investors can be rest assured that you will at least sustain your margins at current levels?

**Neville Noronha:** We cannot give any such assurance.



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**Participant:** Because they are already low, I mean at 4%-4.5% PAT margins.

**Neville Noronha:** The needs and wants that you have as an investor are the needs and wants that we also have as managers who run the business. But at the end of the day you have to be in touch with the market, you have to react to the market, you have to operate. And I can't give you all the answers over a long tenure time period like two sentences or three minutes, right. All we will say is that we will compete, we will play, we are efficiently running the business and we will stay relevant. And the best thing is that the market is large. And the one biggest concern everybody has is online. But I am not saying online will not or may not disrupt us, it can disrupt us. But the relative disruption is the lowest in food and grocery (F&G), which is a global phenomenon, you see across the globe, F&G is least affected by online. So, that's the only data point I will give you. And with F&G, it generally affects those people who have high gross margin, high overheads while we are low gross margin, low overheads. And if you look at certain retailers who are running businesses efficiently, they are doing fine, in spite of the higher penetration of online in those countries. So, whatever data that is visible for you, available for you, that same data will be available for us. So, that gives us confidence that we will stay relevant to the business. And our basic insights tell us we kind of internalized this part that F&G is one business where all five senses of a human is involved in the decision making in brick-&-mortar, which is not there in your phone. And all five gives more satisfaction to a shopper than any one being less, the touch, feel, smell, all of that. Which probably is not so relevant when you buy a phone or when you buy an appliance. So, that's the insight that we have on F&G, it's not like they won't shop, they will shop online but they would also want to come to the store to buy. There is a reason to come to the store also to buy. And that's why if you see in certain countries, retailers are investing more and more in their stores to make them look good; all of that is also happening at the other end. So, you have to look at it both ways. But like I said, market is large, F&G disruption is relatively lesser.

**Participant:** Two follow -ups, if I may. One, have you seen a very big divergence in the store that has been opened in a city wherein another retailer has already entered versus a city where you have entered the first time? And the context is, does that kind of weight down in your sales growth trajectory?

**Neville Noronha:** Not really, like I said, so far we haven't been adversely impacted in any city so far.





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**Participant:** Okay. So, whether there was any XYZ who has already been there, it doesn't make a difference?

**Neville Noronha:** What happens is, whenever a competition comes in any of our store, city where we already exist, during the first couple of months the run rate slows down, the rate of growth from whatever rate it was, it will stop or it will be flat, or it may even go negative. But it is single digit negative. And then it again recovers.

**Participant:** I was talking about reverse.

**Neville Noronha:** Where we come in?

**Participant:** Yes.

**Neville Noronha:** So, what happens to competition?

**Participant:** No, what happens when you enter a city where there was no one else, you would be probably having a store expectation of x revenues, does that expectation when you go into a store where someone else was existing, does that x take longer to reach, etc? I am just trying to understand.

**Neville Noronha:** That depends on who the retailer is. Suppose it's a very deep discounting retailer, then it takes us time. But we have done well there also. But if it is not a deep discount retailer, then we rapidly do well. It because of pricing differential and other such factors. But in a lot of places it is good to have competition, they also do business, we also do business, and decision making becomes easier for the consumer. So, whenever there is a reference point, actually we do better.

**Participant:** Exactly, that's why I was asking. But your experience has been that there is some minor divergence that does happen?

**Neville Noronha:** Obviously, it is competition; it will not be as rosy as when there is no competition.

**Participant:** Fair enough. The second follow-up, you have in your entire presentation, I mean, initially there was a very strong reference to culture. Obviously, you have increased in terms of number of stores, and the path is only going to be further and further. Now, what the checks and balances that you could do early on, obviously, they will not be easier, so how do you manage that? You said data is something that we use, but then



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you said loyalty is not what you want to get into, because that is too difficult for us. So, I am just trying to understand how do you manage in this context framework wherein you have minimum checks that you are trying to impose?

**Neville Noronha:** How do we manage?

**Participant:** Because you said input oriented, everything is input oriented, not output oriented. Then culture is even more difficult to measure, its output oriented, its not input oriented. So, if you could kind of just give us a sense.

**Neville Noronha:** I can answer it when I compare to the FMCG. The good thing about retail is, one of our senior leaders actually discovered this term, and it's a very fascinating term, comment he made many years back, he said, "Neville, the difference between other industries and retail is the gap between cause and effect is very short, and you get to know quickly". Like in CPG you bring a brand, you have some insight, a research, and then you launch it. And by the time you come to know two to three years have gone by, and then you don't even know what part of it worked, what part of it didn't work. The good thing about our industry is, whatever you do you'll get the results immediately. So, the time periods are shrunk. And that's why retail is all about focus; it's all about the small things. If you have the tenacity to look at every small thing, minutely and repetitively, you exactly know what works and what doesn't work. And you just build up that knowledge, keep building up that knowledge. And then you teach that to everybody in the system. And that is how you extrapolate the knowledge and try to build a culture around that, broadly.

**Participant:** You know you were a flat organization early on, how I see it. Does that not mean that the organization can no longer mean flat?

**Neville Noronha:** No, this means that you can be flat. See, if data is democratic, information is democratic, knowledge is democratic, then why do we need a hierarchy? In fact, that is one thing that is very dear to us that we want to keep this organization as flat as possible, we want people to be empowered as much as possible. In fact, we always say that HR will never be the command center; HR should be more of a trainer, more of a guide, more of a mentor. And we have a structure where every state, every region takes most of the decisions. So, then what do you do? If today I have 10 great leaders, I try to build capability for hundred great leaders who can operate independently; who have only been told about the value system, ethics, and then



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you run it the way you feel is best. I think that's the only scalable model, in any good business that's the only scalable model, you cannot control beyond a point. In fact, I already feel the stress that there are so many decisions that I was taking myself five years back, I can't take them now. If I take them now I will slow down the whole business. I am personally spending so much time to train, groom people that come to my table. That is the only way to scale up, or how will you scale up?

**Participant:**

I have a question on the procurement side, as you open up more stores you will end up going to newer territories, new markets, with India, so much of diverse culture you are probably having on the food habit side, you go in the north or in the south, in Gujarat, Telangana, how do you manage the procurement, especially the staples side, and also the demand that varies according to the festivals that we have across different part of the country? How do you manage this thing on the procurement?

**Neville Noronha:**

Kalniray, the calendar? You manage festivals with that. That's on a lighter note. In reality it is complicated. So, what you do is for foods primarily, anything local, cultural, we have local teams that manage it. And a lot of other items such as FMCG, general merchandise, apparel, those are centrally controlled. We always say its hybrid. But I again say it, it's trust, it's empowerment, its culture, we should have the right operating leaders in each state, each region who spend long tenures with us, that's one thing that is very critical. So, I should have the confidence - yes he knows the business and this person is good, he can do it. So, that's very critical. And that's why we also invest a lot of time in training for all these critical positions.

**Participant:**

But identifying the correct vendor for your low cost strategy in different parts of the country, that would take time and probably on a longer run if that vendor is sustainable enough, whether you can rely on that vendor for procuring your staples? From that point of view I just wanted to understand.

**Neville Noronha:**

Yes, you are right. So, I picked this insight from Zara, many years back, 12-13 years back. I loved it. What Zara said is that, we don't do anything like a contract, it is purely trust based. And second thing they said was that the vendor is at a loss if he looks at it from a short-term perspective. I don't need to do anything, if he knows what Zara is, and that this business is a repeat business, it's not like you setup a power plant, got a cheque of Rs. 200 crores then the story is over and you go to the next client, it's not like that. You are buying every month, every 15 days. So, if he



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values your business then why should I have 1,000 contractual points? If he doesn't understand me; it's his problem, not my problem. There are rules for us, I will keep this much margin, and will do the business my way. Even though we Indians typically have a lot of arranged marriages, but this is like a love affair, eventually the right people discover each other. Therefore, vendors who like our business, our style of working, they come on-board, those who don't like us they don't come, but that's how we run the business.

**Participant:** Sir, what's the refurbishment cost overall in metros and non-metros? And how often does it take place?

**Neville Noronha:** All I can say is, it's not material from a value perspective, and we typically look at different parts of refurbishment. But if you have read the data - take the real-estate side of it, so for us it is land acquisition and construction, for other retailer it is rental, so take that piece out. And you just talk about fittings, so depending on retailers it will be anything between Rs. 1200 to Rs. 2000 a square foot. So, all I can tell you is that it's well within our depreciation provisions, it's not like too much of money is needed, it's well under control. Typically, we change the air conditioning around seven-eight years after it's been installed, all other shop fittings they typically last eight-nine years. So, looking at our financial performance, I don't think that is anything material. In fact, sometimes we would do it earlier also or we augment air conditioning. So, air conditioning is also not an absolute; it's a function of heat load. For example, for the same 20,000 square feet of area, one store does Rs. 100 crores, another store does Rs. 150 crore, size of the square footage is same, but for Rs. 150 crore store we will need more air conditioning, because of heat load, things like that. But there's direct correlation between what we invest to what outcomes we get, but that is not material costs to worry about, I mean, it's under control.