"Spencer's Retail Q1 FY-21 Earnings Conference Call"

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MODERATOR: **MR. MANOJ MENON – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the Spencer's Retail Limited Q1 FY21 Earnings Conference Call hosted by ICICI Securities 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 assistance during the 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. Manoj Menon from ICICI Securities. Thank you and over to you sir.

Manoj Menon: Good afternoon or good evening depending on where you're dialing from. It's an absolute pleasure to host the results conference call of Spencer's Retail Limited. The company is represented today by Mr. Devendra Chawla – Managing Director and CEO, Mr. Tanmay Kumar – CFO and Mr. B.L. Chandak – Executive Director, RPSG Group. Now over to the management for their opening remarks and then goes that we will have the interactive session. Over to you sir.

Devendra Chawla: Thank you very much and welcome everyone. I am Devendra Chawla, Managing Director for the Company and I'm just going to take you through the earnings call post which we can have a Q&A. So, at Spencer's we offer experiential shopping experience to customers through our varied assortment and we aim to make Spencer's a preferred retailer and we are undertaking our journey as a true omni-channel retailer. In the pandemic we have had a massive digital transformation and a lot of our business now comes through our omni-channel route.

Spencer's reported a standalone turnover of 439 crores and a gross margin of 19.1% for the quarter ended June 30th, 2020. At Spencer's, we operate 158 stores with the trading area of 13.4 lakh square feet and currently we operate the 73 large format stores and 85 small format stores. We are primarily in East, South and North. As Nature's Basket we are across the country including Mumbai, so overall, we are in 42 cities, 40 cities for Spencer's and 3 cities for Nature's Basket. Nature's Basket predominantly being in Mumbai but also has 8 stores in Bangalore and 2 in Pune.

Our results reflect the impact of lockdown, limited operational hours and restrictions on the selling of higher margin nonessential items such as apparel, general merchandise and other nonfood items which were not allowed to sell. The loss of business hours was partly offset by the e-commerce business or the omni-channel business which grew around five times. We have coined a term, we call it 'out of store' business which compromises of our e-commerce business, a large RWA program where we reached out to societies, Residential Welfare Association and served our consumers where they were and also through various delivery methods and telephone delivery also being one of them. The 'out of store' business has now roughly in the pandemic time constituted between 15% and 20%. At a business level we have transformed our working capital cycle and it now operates a negative working capital which is resultant of our operational and supply chain efficiency.

We are happy that we were able to operate and the 90% of our store's operation from day one of the lockdown on March 23rd and throughout the pandemic we have been able to have 90% plus stores serving our consumers in our country. We treated the pandemic as an opportunity which helped our business growth, propelled by the essential commodities and responded with agility to treat our stores as hubs and we felt if consumers can't come to us we will reach out to consumers and thus the 'out of store' program. This includes initiatives such as hyper local customer connect, e-commerce, phone delivery. We also pioneered the chatbot in the country and we could take orders on a chatbot through WhatsApp and quickly we tied up with partners creating store as a platform and we partnered with Uber, Rapido, Swiggy, many third parties to create an ecosystem because when our staff was less we could partner with third-parties to ensure that we could make multiple times delivery to our consumers then pre-pandemic. These initiatives, we believe, have been instrumental for our resilient performance as compared to peers in the industry as far as growth rate or degrowth is concerned.

During '19-20 we completed the acquisition of Nature's Basket. This gave us entry into Mumbai and the Western part of the country, I mentioned Bangalore and Pune. Nature's Basket comes with a strong private brand portfolio, attractive, intrinsic profitability and a complimentary business model to our Spencer's business model. Since the takeover of Nature's Basket Ltd., we have effectively managed the cost structure of NBL and reduced business losses by the closure of few loss-making stores. We got sourcing benefits and the integration with supply-chain management, IT, our teams and by leveraging Spencer's presence, opening NBL stores along with our private brands. We have achieved significant cost savings which are resultant of the effective integration with Spencer's.

Nature's Basket reported a standalone turnover of 108 crores and a gross margin of 26.2% for the quarter ended June 30th, 2020. As I mentioned Nature's Basket operates 31 stores across Mumbai, Pune and Bangalore with a total trading area of 84,000 square feet and Nature's Basket Limited has reported positive EBITDA within one year of acquisition due to successful integration efforts and has witnessed significant growth given the pandemic time of April-May-June, the sales growth has been to the tune of 25% which was actually during very challenging times of the pandemic which goes on to show that we were able to win the trust of our consumers.

I'm also happy to inform that the operating cost structure of the Nature's Basket has improved considerably and the company reached the desired negative working capital position. Recently we concluded our rights issue which was oversubscribed and we gathered or collected 79.48 crores. This would help us to achieve our liquidity position and repay debts.

I will just make a statement on our future plan, a generic one without much numbers. We are focusing on becoming a true omni-channel player. We would be driving growth via various 'out of store' initiatives, including multiple tie-ups. We shall be pushing sales of higher-margin categories, now that non-essentials have opened, for example apparel and general merchandise which are very high margin which in the first quarter the sales were lesser because of not being allowed to sell and we have also re-launched our own private brand and we are focusing on increasing its share because they give us much more margin.

We perceive gifting as a large business for the coming festive and Diwali. It is a large business for us in Nature's Basket and even Spencer's and become a retailer of choice for local festivals and our festival initiatives over the last one-year has given us very good growth. So that is the summation I had on the business outlook and at this point I'm very happy to open the floor for any questions if there any. Thank you very much.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Pratiksha Daftari from Aequitas.

Pratiksha Daftari: In your annual report, you've mentioned that the unit economics of your online delivery has improved and now that we have come like your out of store business is 15% to 20% of the total business. If you could share some highlights on how the unit economics of this business work and how as compared with the other business?

Devendra Chawla: There are two components when it comes to omni-channel - e-commerce and an out of store business. One, during the pandemic what's happened is since consumers were coming out lesser to reduce the risk of the virus the average bill value which is a key metrics in retail has gone up. So, the basket value has gone up from before, even for e-commerce and even for the stores. So, this gives you efficiency because if you are delivering one order of a larger value, the cost of delivering the order is the same, also the marketing cost on digital is lower than the pre-pandemic marketing costs. There are three components to the omni-channel cost, one is customer acquisition cost, one is the digital marketing cost or you may call it a coupon code or incentive when you give to the consumer and third is the logistics cost. So, all these three got optimized and on top of that, the order value went up significantly. So, the rupee gross margin from the online order became high and these costs went down and thus at an order level, the business in unit economics, is positive right now if I may say.

Pratiksha Daftari: And how many deliveries do we do on an average now and how does it compare to the early lockdown phase?

Devendra Chawla: So, as I mentioned as the pure omni-channel or e-commerce through our app or through website, the number has exceeded five times and that continues even right now. If you add other initiatives to it which is RWA program or even through telephone deliveries or if I may classify the whole thing as out of store or delivery business that is between 15% and 20%.

Pratiksha Daftari: No, as a number of deliveries if you could tell me like how many deliveries per store or per day something like that?

Devendra Chawla: So, I can tell you on a month level, the number of deliveries while I will not be able to give the exact number but they far exceed more than 1 lakh per month only on e-commerce itself.

Pratiksha Daftari: And also, Nature's Basket whatever cost savings we had to see in terms of synergies or integration, can we assume that they are all factored in or do we expect more synergies to step in because of integration?

Devendra Chawla: So by and large the integration efficiencies have been factored in but some bit of savings which we are achieving because of rental negotiation in Bangalore will continue to come in subsequent quarters as well both on Nature's Basket as well as Spencer's. But purely on account of integration I think by and large 80%-90% is behind us.

Pratiksha Daftari: For Nature's Basket, I think of the dominant business is in Bombay, so Bombay the lockdown was far extended as compared to other places. So, do we see that this kind of numbers are sustainable going ahead or do we think that it will normalize?

Devendra Chawla: I will answer it like this, that all small stores, and this is true for Nature's Basket, Spencer's, for retail industry as a whole, small stores benefited because footfalls at the malls were down but people were still comfortable going down to a store which is walking distance or very close to your place on high street. So, Nature's Basket are all small stores and got the benefit of this phenomena and if you see Spencer's also and divide the stores into very large stores and malls or small stores, the small stores also grew in Spencer's in the pandemic time even though overall the numbers look negative if you divide into large stores and malls and small stores, small store actually grew. It is the large store and malls which were negative and that is also generally what we have been hearing around that other smaller stores have grown. So that benefit has come and of course continues to come though as the world opens and goes out and as more and more traffic goes back to mall or as we return to normal of course the growth rate of Q1 were higher and may come down in the subsequent quarter.

Pratiksha Daftari: Private brands I think contribute about 14% of revenues in FY20 and since that is going higher margin and you also mentioned about relaunching some private brands. So, do we have a milestone that we target that this is the contribution we want to take to in near future for both Spencer's as well as Nature's Basket?

Devendra Chawla: Absolutely, so as you rightly said last year our private brand mix in Spencer's was around 12.5%, it stands at 14%, at Nature's Basket the mix is around 9% and at both the companies we have a target—I would not like to share the target—but absolutely we are chasing a target to grow the mix because we make higher margin, also the higher margin product of Nature's Basket as integration the benefit of some of the higher-margin gourmet product can come to some of the stores of Spencer's overall increase in the margin on the food side which is underway as we speak.

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

Manoj Menon: I have a few questions but I will just ask one this time. This one question is actually on the Spencer's side of it, if you could talk about consumer behavior on the personal care category and the other perceived discretionary categories outside of food?

Devendra Chawla: In the beginning, the mix of commodities or essential was very high but as April-May passed by and if you see May-June-July and without getting into numbers of these, post the first quarter, discretionary is coming back to some extent. If you see fashion was by and large shut in April-May. In the last month of the quarter has come back to 40%-45% of the business. Obviously, it might recover a lot more as we speak right now. Personal care given the people were at home if you divide it, the DIY category has started going up and a lot of new launches like epilators, shavers, machine shavers, manicure-pedicure sets which are high value, a lot of shaving products with electrical combine, their sales have gone up. In the beginning things like eye-care, lip-care, personal care did go down for the first 2-3 months but is now recovering very quickly. So as far as groceries are concerned including high-value FMCG, I would say by and large business is back as we speak. The challenge continues to remain on the non-food side unfortunately which is very high margin for us which is on fashion and general merchandise which is also recovering. Obviously, it's far better than Q1 right now, far better and while I can't comment on V shape, W shape of the recovery the conversations we have but definitely the businesses recovering very quickly at an overall level. And on the electronic side if I may add, there is a lot of new items like we never used to sell earlier, like oximeters or even new range of microwaves or even the television panels just before the IPL, I think sales of that have even more than last year same time.

Moderator: The next question is from VP Rajesh from Banyan Capital.

V.P. Rajesh: Just wanted to get a sense of your revenue from apparels, not in Q1 but if you can just direction we give an idea let's say last year, what was the percentage contribution from apparel, groceries and the general trade items that are higher margin?

Devendra Chawla: So roughly if you see the mix we have, pure grocery roughly constitutes 70%. We are also a seller of liquor or alcohol which constitutes roughly 9% to 10% and the rest of 20% is what we call pure non-food, out of which 9% to 10% is general merchandise which has got the utensils, household goods, 6% would be fashion—this is I'm giving you last year's full year average number without going into Q1 or pandemic numbers because they have gone down this time—and the other 4% to 5% would be what we call electronics and electrical. It would be like 70-30, 70 is grocery and 30 if you take alcohol as a non-food or not exactly grocery then the mix is 70-30 for the last financial year. Obviously, this has got impacted and the 70 has become larger and the non-food side in Q1 took a hit because two months we weren't allowed to operate fashion and general merchandise and even alcohol for the large part of the quarter.

V.P. Rajesh: And what would be the gross margins of the groceries and the other market for last year?

Devendra Chawla: So, the non-food if I take apparel and general merchandise, the margins come to around 30% to 33% and the grocery side if you take would be around 18%, so our blended average comes to between 20% and 21%.

V.P. Rajesh: Sorry 32 is for liquor non-food, fashion and electronics?

Devendra Chawla: No, 32% is only for general merchandise and apparel, electronics and electrical it would be roughly around 15%-16% and liquor is lesser and on the food side 70% which is the grocery side, it varies 18% to 19%.

V.P. Rajesh: And then you were talking about, you were putting Nature's Basket products, so how are you thinking about it because I would think that the Nature's Basket's customer profile is very different from a Spencer's customer profile?

Devendra Chawla: Allow me to explain, some of the gourmet items or international products which Nature's Basket source in and some of our stores which are in the up-market catchments in Calcutta or in Gurgaon or in NOIDA, the consumers in these cities of Spencer's can consume those products but the supply chain exist by and large only for gourmet products currently in the country and a lot of those items do not end up reaching because distributors of those brands or importers if I may call, don't set up distribution hub in many parts of the countries because it becomes unviable. But since we have already a chain Spencer's and we do sell a lot of food, we believe a portion of Nature's Basket assortment, a small part but with very high margin can be sold at Spencer's stores. Now Nature's Basket is also a leader in India in gifting. When it comes to gifting during the festival the gifting mix is very high and we believe this is a very big untapped opportunity in India. There is no gifting brand or per se I mean no app or a website, barring one or two. But gifting is becoming very large where people give gift hampers, sometimes the cheese, wines, couple of gourmet foods. I think Spencer's can big time capitalize on that and as we speak we are working on bringing a part of that assortment, high margin from Nature's Basket because for us we don't have to incur any cost, we already have warehouses, we already have stores, we already have the teams. So, without incurring any cost we can just increase sales and thus improve our gross margin, weighted average, food margin by bringing those items including the private label of Nature's Basket.

V.P. Rajesh: And then what will be your percentage of your private label business as the total overall revenue?

Devendra Chawla: So, as I mentioned it at Spencer's it is 14%, it used to be 12.5% last year, 14% this year and at Nature's Basket the mix of private brand is around 9%.

V.P. Rajesh: Do you have a target in mind to take it through?

Devendra Chawla: Absolutely and I was answering in the previous one that I would not like to give the target but absolutely this is something we are furiously working on and we want to increase it because this gives us much-much more margins than other national brands. This is the sure shot way to increase the margins.

Moderator: The next question is from the line of Pratiksha Daftari from Aequitas.

Pratiksha Daftari: If you could just tell us a little about the rental negotiations that are going on and what kind of arrangements are we seeking with our store owners and what kind of savings can we expect?

Devendra Chawla: The conversations with the landlords for both Spencer's and Nature's Basket happened in April-May-June, by and large 80%-90% is done and various models emerged through savings and I will just give a sense of it. With some landlords, we have arrived as a solution that they will give us either a rental waiver or a percentage of rent reduction in April-May, some gave us in April-May-June a percentage of rentals and some landlords gave a portion in Q1 and then some in Q2-Q3 and they all signed and agreed. So, let me put it this way, a large portion of the rental advantage or savings have come in Q1 but it is not as if 100% has come, some bit of it will flow through in the balance three quarters as well.

Pratiksha Daftari: So what kind of waivers have we been able to get like 10%-15% if you could quantify?

Devendra Chawla: If I have to go on Q1 numbers as a percentage of rental of Q1, obviously they are large, they will be much more than 10%-20% at both the companies if I take on the Q1 level. If I take on a year level, I would not like to give a number but let me put it this way, in Q1 the number is much more than 10%-20% as a percentage of rental itself, the savings.

Pratiksha Daftari: And also, if you could tell like what kind of same-store-sales growth—I know that this is not going to be a normal first half at least—but from FY19 to FY20 we saw deterioration in same store sales growth, so if you could tell us what are the plans on that front and what kind of trajectory you want to see there and how are we planning to…

Devendra Chawla: Allow me to explain, allow me to give a context. Divide the stores into two, for the last financial full year, the stores which were what we call same-store or which we track same-store growth, their per square feet sale has gone up. But we added a lot of new stores and just to give you a sense roughly, our mature stores roughly do Rs. 1500 per square feet plus. It is the new stores which used to start at a lower square feet and for example if you open 25% of new stores then the weighted average per square feet comes down and thus the EBITDA comes down. But if I only take the last year store, actually we have grown those stores. Will you divide the business in Q2 and you will realize that it's not as if the business has gone down or sales have gone down per square feet, sales of existing stores have continued to move up by some percentage points. In fact, I'm happy to report that all the new stores we have opened last year, normally they used to take roughly 5 years to breakeven. We are going to shorten that time if I may say between 3 to 4 years. So even the new stores are opening on day one at a much high per square feet sales than ever before. So, the average of these two is what pulls down the average per square feet and results into EBITDA. But if I take only the previous stores last year when we had reported our first profitability then the stores are continuing to grow. But we've opened a large number of stores, very large number of stores in a year, so roughly 20%-25% of the business or the mix came from new stores which pulled down the EBIT per square feet. And if I may add, Nature's Basket was not there, we acquired Nature's Basket from July 1, so we can't do an apple to apple, April-May-June comparison, so let's try to do it sequentially. So, if you take Q4 2020, even the last quarter of the year, put together as a consolidated both the companies was 640 crores and in Q1 in the pandemic we have done 547 crores. So even if you see, we're negative by only 15% in the pandemic, despite that this has the 25- 30% Spencer's as the mix of non-food & alcohol which by and large was not allowed to run throughout the quarter including alcohol. To my mind I think if you see sequentially it gives an idea of the direction we are taking.

Pratiksha Daftari: What kind of expansion plans or number of stores or retail area plan we have for this year, like to cut down increase marginally?

Devendra Chawla: We had planned pre-pandemic that we would be adding around a 1.5 to 2 lakh square feet every year. Last year we did meet more or less that target. Now because of the pandemic of course you can't have people going out, so that has slowed down. But absolutely we will be opening new stores, as we speak we are opening new stores in this month and in the balance of the year we will be opening new stores. The number I am not able to give you because it is all a function of the pandemic, the city and what we are able to arrange people, landlord being able to complete his work and hand over the store to us. So, there are multiple delays at various partners' end but the plans to open new stores remain. We have opened a new store of Nature's Basket in Kolkata on Park Street, so from three cities we have gone to four cities and I may say that we also have plans to expand Nature's Basket in NCR. Hopefully in this financial year itself should be able to open. So, we will take Nature's Basket when we acquired last year from three cities to five cities and in Spencer's also we should be able to open couple of stores in this year.

Pratiksha Daftari: If you could, from expectation on the festive season this side I mean on the gifting front that the opportunity that you see and apart from that how the consumption you expect to play out in this festive season?

Devendra Chawla: So, on that account I will say that we did make an attempt on Rakshabandhan, which just went by a last month, and we said let's test the result of advertisement or discounts and see what is the elasticity of demand and well the results weren't very encouraging as far as Rakshabandhan, of course we grew but not where we thought we should. Then we also had what we call the big days of the 15th August sale and by and large the industry was quiet but we did make a large attempt. We grew in double-digit but that was far less of than what we used to grow earlier in normal years. So definitely this gives us a view that demand is still subdued, it is more uniform, the spikes have gone out within the month. Whether it is Saturday-Sunday, the weekend skew used to be very high, people would work for 5 days and shop a lot on weekends, given they are at home or they have lot more time, the skew in the week has gone. So, Saturday-Sunday are no more that high as it used to be. Now when it comes to the coming festive, we've started seeing green shoots in apparel, in general merchandise, in footfalls itself if I may say, the footfalls are far more than in Q1. Our footfalls are back at 75% to pre-pandemic level and 75% footfall does not mean that 75% of business is happening because people are coming lesser and buying more than earlier. So, if it is 75% people are coming but if they were buying 1, now it's like 1.1-1.2. So, the sales per trip is much higher. So, to my mind, if we reach 80%-85% of the footfalls I think we are back completely in business because people are buying a lot more than earlier. That will make up for footfalls into average bill value is equal to sale. We are also seeing green shoots in B2B which is institutional gifting. So, we believe a lot of gifting, lot of corporates used to buy gift and give to their employees and for both Spencer's and Nature's Basket it's a large business. I think a lot of it is moving into coupons or e-coupon where companies would be gifting their people rather than a physical gift and given it to them in offices because a lot of people may not come in office or even deliver it to their home, e-vouchers and that business I think we should be able to capture which is again large for us. And then you can get an e-voucher and redeem it online on Nature's Basket or even Spencer's and you could buy a gift or a gift hamper or a basket or even any product and then it could be delivered. So, the B2B one, institution is seeing green shoots, unfortunately the B2C the consumers buying gifting and giving it to people is down over last year even now because there are not as many people going to other people's home for dinner and at occasions or festivals or some function and thus they normally go with the gift and that part is definitely down. I have a sense—now again this is my personal belief, that gifting could come back but it could just be immediately before Diwali, it will not be like couple of weeks before Diwali but just couple of days before. So, let's see, so I think we are very-very cautiously optimism and we've reduced our inventory, we are in good negative working capital, so we don't want to increase our inventory being too optimistic and thus sitting with inventory later. So, I think a lot of just-in-time or delaying decision-making till the last moment till you know you can make some forecast.

Moderator: The next question is from the line of Mr. Resham Jain from DSP Investment Managers.

Resham Jain: Just one question on the overall rental; so, from the future expansion plan and with your commentary around rental negotiations happening, are you seeing that the new expansion is happening at a lower rental and hence the breakeven level of sales for you also will be much lower than what it was previously? If you can just comment on the overall economics which is new dynamics around rental?

Devendra Chawla: My answer to that is partly yes because I think there is benefit right now if you go out and sign up new stores, then negotiations to some extent are easier or better for the retailer or for the tenant if I may say. So that benefit definitely can come and maybe for the next couple of months also that may continue depending on how many stores you sign because right now probably it is a little bit towards the tenant side. So, if I may say without giving out numbers, even the new stores which we have not opened were to open in the balance of the year and which we will open we have also been able to negotiate lower rentals for those stores also. So, we have re-negotiated our lease terms, even for the new stores which were to open. I won't say for all of them but definitely for many of them. So there breakeven become so much better for us because the OPEX will go down. In fact let me add to it when it comes to OPEX, not just rental is a large part of the OPEX, we have also learned in the pandemic that sometimes when you are forced to assess how many people it takes to run a store, there are various models retail uses, one of them being if you have—let's say—for example a 10,000 or 50,000 square feet store, there are rough models in the world and in India within grocery, fashion depending on who you are that for every 200 square feet or 250 or 150 square feet you should have one person in the store. I think the pandemic has forced to relook at all of them and even on that front we have been able to attain efficiencies and I don't see us going back to adding that kind of cost even post-pandemic. So, pandemic has forced us to become leaner, meaner and I don't see those costs going back. I think we should be able to run business with much better OPEX going forward, little lesser number of people in the store with the little lower rental. Also part of the mix of the business is also coming from out of stores, so to that extent if let's say 95% of the business used to come from the store and it is now it 80%-85% because you are able to do though RWA program, through phone delivery, through your app, through chatbot, I think you could optimize a lot of cost at the store end and those benefits will continue to come I think for all subsequent quarters.

Resham Jain: Very interesting. Just one theoretical question around my first question. So, with this rental and other OPEX coming down, earlier your breakeven level of sales and this will depend on location also, so it's a very theoretical question. So earlier at 100 your breakeven level of sales used to come, now with this optimization around cost and all, is there any rough number which you can think about that your breakeven number of sales will come down by 10%?

Devendra Chawla: I get your question, basically operating cost at a store level or OPEX is actually down by a decent percentage. The moment fashion, non-food or general merchandise recover and I'm happy to report that general merchandise which is large part of non-food is it over to the tune of 70%-80% as we speak, it is fashion which is still not recovered is at around 50%. I think even if in 3-6 months this part achieves, so even if we were to do the same per square feet sale of last year and earn the same margin, thanks to this lower OPEX I think our breakeven would come down by certain percentage points absolutely. That is in fact the whole plan for us that we will continue to keep our costs down for the coming quarters, in fact even for the coming year we have done the modeling and we have done 2-3 scenarios and all look favorable one being pessimistic, one being optimistic and one being in the middle. So, in all three the operating cost at the store level is coming down in all three. So that definitely the spread the gap between income through margin which is RGM, rupee gross margin minus OPEX if I may say will continue to expand absolutely. In fact, I may like to add that going forward as a retailer because we do have large stores; we plan to increase the non-food mix a lot more, so at store EBITDA level we are also looking at EBITDA expansion. Now that one is hard to answer, it may not happen in a quarter or two, given the pandemic it's very difficult to put a number to when exactly consumers will be back as normal. But definitely one can answer over the next 2 to 3 years; the margin profile for company should significantly change even the higher mix of non-food.

Resham Jain: Just one last question, given that you have smaller format stores and also larger format store, going forward what kind of size you feel is right or the optimized size for your bigger expansion?

Devendra Chawla: So, you see in the pandemic it has come out very differently. Ideally size of 10,000, till 35,000-40,000 is the right model, anything above 8000 to 10,000 going to 40,000 with 30%-40% mix of non-food would give a margin model of 25% for those kinds of stores if you are able to take the food mix up. So that is ideally the sweet spot, however in pandemic the reverse has happened because large stores are in mall and people didn't come to the mall, so the footfalls in mall were 20%-30% lower than in the small stores. So small stores though have very less gross margins because it's only food business, practically no non-food, however, square feet sale has gone up in pandemic and even their SSG in the first quarter was in double digits which earlier it used to be lesser than double digit, it used to be low growth, single-digit but has gone to a high or double-digit. I think that will change slowly and we will revert back eventually to the older model of large stores doing much higher margin and small stores being low margin but high throughput. So, if you ask me if you remove the pandemic as a company as a model, stores between 8000 to 30,000 make sense. However, I may add, cities where we are like Kolkata where we have many stores and one warehouse, there it makes sense to even take small stores or even in UP or even in NCR, in these 3-4 cities even if we take small stores like 3000 square feet they are profitable because we have operating leverage in these cities. There is hardly any investment except at store level to be made. In fact, for the next 2 to 3 lakh square feet which we add, I don't see any cost going up at HO level or very minimum even at the regional level, so I think our cost structure will by and large remain the same when we add another 2 to 3 lakh square feet sale. So it will all be at the store level.

Moderator: The next question is from the line of Ramkrishnan V from Equity Intelligence.

Ramkrishnan V: I just wanted to understand that this Nature's Basket what is the area they cover as in the past they used to have 70% to 80% of imported stuff, so what has changed? How you're going to stress this asset?

Devendra Chawla: In terms of mix if I may say Mr. Ram it's not that a lot has changed. I think the way the stores are run; the efficiency of our Spencer's Retail who understands retail I think those efficiencies and SOPs and the way you work with the consumers and marketing I think that part has changed in Nature's Basket. I won't go to the extent for the sake of it say that the mix has changed by and large. It has not. It is remaining the same what it is and the international food 80%-90% is too high, roughly it's to the tune of 40% to 50% because the large part of fresh, bakery, delicatessen and on that to work on freshness and to be able to get more consumers to the store and have an outreach program I think that has helped us at Nature's Basket to continue to be SSG positive as well as get benefit of cost efficiencies through integration. We have not lost sales, we have grown sales in the quarter at the same time our costs are lower because of the integration. So, I think these two have resulted in the Nature's Basket as a company becoming EBITDA positive for the first time and we continue to, I maintain that there is scope for margins to go up in Nature's have basket and we are working on it. I exactly can't go into the details but I believe our margin we have reported at 26.2%, there is scope for improvement now. That needs some structural changes. It may not happen like in a month or two but I think over a period of 4 to 6 quarter's the margin profile should change in Nature's Basket as well.

Ramkrishnan V: This online delivery is going to continue with this so much of issues, so to cover area one store may be covering to be it a radius or something like that in the Nature's Basket because I live in Mahim, so your Nature's Basket you have Worli, so they don't deliver to our side. Do you have plans to increase the coverage as how you're going to do?

Devendra Chawla: I will check, I think we do serve Mahim-Prabhadevi area. Let me check.

Ramkrishnan V: Just I wanted to know the coverage how you are going to increase the coverage?

Devendra Chawla: So basically, for Nature's Basket or even for Spencer's you define it as a hyper local and you take a number of families or households or number of homes you can serve and then you do backward math and decide how many people you need to hire for delivery and thus how many in-stores for picking. Now in Bombay, because being very dense and there being RWAs and buildings and societies, within 2 km or even sometimes in 1-1.5 km you can get a couple of thousand homes which you want to serve. But at Spencer's depending on which city you are, you may have to go as far as 4 km or even 4.5 km, so that is the way you decide economics of how to serve. We are able to cover by and large most of South Mumbai and I am surprised if at Mahim we are not able to but I will definitely get back to you. We would not like to lose you as a consumer.

If you say on the e-commerce side I may add, e-commerce also went up couple of times in Nature's Basket as well. I am seeing it as more and more people are coming out. The footfalls in stores are increasing with every passing day Nature's Basket as well as Spencer's. So, number of bills in September per day are more than August, August were more than July and so on more than the previous months. So both can't continue to grow because a lot of people were making choice to buy on e-commerce and not come to the store, many of them are now coming to the store. So, I think we will achieve a balance between e-commerce sales and typical off-line retail over the next 2 to 3 months. But obviously you are right; the e-commerce numbers for both the companies even post pandemic will continue to be much more then pre-pandemic.

Ramkrishnan V: One more thing I just wanted to ask whether DMart, they have a hub and spoke model like ready DMart with the small shops like the 100 square feet area where they deliver you pick up points, so do you have any plans to do kind of a thing?

Devendra Chawla: I absolutely understand the DMart model but I would not like to comment on any other company. But I can tell you that in the world and in many places in India people have tried this what we call 'click and pick' that you go online on an app, you make a basket of 10-15 SKUs, you place the order and then you choose a slot where they don't come and deliver you, where you go to the store or you are doing some other work while on your way back home, you stop at the store and pick up the bag, you can pay there the order, you could have already paid online on your app through various methods. Unfortunately, many people have tried in India and it does not work. As we speak, in Spencer's we have been doing a pilot for it in two cities from the last 6 months and the learning the Indian consumer still wants to be served at the door. So, I think the pandemic maybe a little wrong time to try this because very clearly consumers are saying, if I am coming to the store I will shop or I don't want to come, I want to be safe at my house and you deliver to me. So, it's a very clear view right now. So this middle path that I will use omni-channel or digital buying but pick it up physically at the store location I think that part in the pandemic is not working. We have also tried but with very-very limited success, in fact I would say the Indian consumer is not for it right now. I would say post pandemic we would give it another shot. But it is very developed in the US, in Europe and in the US, very large. But it also depends and there is no traffic and its very different dynamics also there. Even India I think it's going to turn out to be very different.

Ramkrishnan V: You have the tie up with Flipkart, in Hyderabad you are testing that. So, is that you are expending that tie up?

Devendra Chawla: Absolutely, so Flipkart approached us and they agreed to do a combi-tie-up so that there is no conflict that people who are shopping at our app in the same city at same place and we had done a combi of grocery and done as a pilot. I think it's still there in Hyderabad and I think depending on the results on how unit economics for both we will see we want to extend it to other cities or not. But that was only a pilot. At that point of time none of these companies were able to do non-essential, so practically they had lot of idle capacity or manpower. I think the things have pretty much changed now recently.

Moderator: The next question is from Krishnan VS from India Advisory.

Krishnan VS: Just wanted to get an understanding in terms of what the general or permanent changes has COVID brought about for Spencer's Retail and what does it mean for us from a revenues and margins perspective? If you can also provide some numbers around it.

Devendra Chawla: I think in a way I have spoken of it in the last half an hour but let me say it again. So what pandemic has done is, suppose first have to look at our operational cost, so we have become leaner-meaner and I see a bit of it remaining permanent even if business comes back to 100%

of pre-pandemic level I don't see those cost structures at store level or regional going back to the previous time. So, to that extent we get efficiencies. Also, we have learned that the margins took a knock-off 100 to 150 basis points, only on account of non-food not selling because as I said even in the first quarter 80%-90% or 80% grocery sales were happening. So, this is also made us propel our private brand program to earn more margin. It has also forced us and we have relooked that actually the throughput as efficiencies of food can be acquired or can be generated through slightly lesser square feet area also with in-store and thus allowing us to bring more non-food in the rest of the space which we can free up. So I think in the pandemic or let me put it this way pre-pandemic the mix of non-food which we were planning I believe now post pandemic we would be planning even a higher mix of non-food in our stores, cost structures permanently at OPEX minus rental because next year rental agreements will kick in and in some of them or many of them there is an escalation clause whatever 5%-8% depending on the agreement. While that cost will go up I believe on the cost structure side there is a saving. So attempt is higher margin we will plan in the future than before and lesser cost than before. Higher private brand makes than we had planned before and also to expand gifting which earlier was in by and large in Mumbai but to take it national.

Krishnan VS: My second and last query, I think you've again covered it a bit is around same-store sales growth and also gross sales plus EBITDA margin, what do you think will be the key drivers for enhancement of the three factors for next 2-3 years?

Devendra Chawla: Again, I will say the biggest thing which we need to do is to grow our non-food mix. I think that itself will be a biggest task for us to grow our margins. So, we are optimizing store size. I think we have discovered which best store size worked for us as far as per square feet sale go. If you see even last year at a per square feet level, we have grown same-store sales growth of course to a much—the numbers weren't very large in a single low digit—but they have grown. But I think if we continue to grow per square feet sale and reduce our cost and improve our margin and then comes in the higher mix of omni-channel. Now remember in omni-channel we can divide it into two parts, one is phone delivery which by and large is done with our staff and is highly profitable because our staff is already paid and there is a very minimal cost for a bike or petrol to be paid to cover that cost. So that is very-very profitable, far profitable than done by a third party. The other omni-channel still uses the model like other companies do where the unit economics have become better but I would not say we are completely there. There I think on our app if you see we are working on, currently our app only serves food. But in the pandemic, we have also decided to add non-food general merchandise and in couple of time we will also be taking our whole assortment of the store online including apparel. So, I think our margin profile and thus the EBITDA at store level should really move up given that and I am not even depending on very high SSG growth rates. Let's say the SSG growth rates continue to be low as long as my margin improvement is there because of non-food and my cost structures are better I think EBITDA will improve and that is the plan.

Moderator: The next question is from the line of Mr. Dipesh Parwal, who is an Individual Investor.

Dipesh Parwal: The first one a very basic one, when can we expect Spencer as in consolidated entity to be a profitable one and a cash flow generating?

Devendra Chawla: That's a difficult one because that's a forward-looking guidance and I would refrain from giving it and of course the pandemic has forced us to relook. So definitely I can only answer that at Nature's Basket we have become EBITDA positive and I see things only improving from here on. At Spencer's couple of quarters depending on the effect of pandemic and the way non-food recovers, a lot of answers lie there. So, I really can't put a date or which quarter or when exactly we will be PAT positive as a consolidate company but I can tell you the strategy on both the companies and current numbers.

Dipesh Parwal: That I already got a feel of. And another one is, will this Jio emerging as the biggest player in the retail space right now with mergers of Future Group and other mergers. So how as a group we see at it as an opportunity or a threat like how do you see this big merger coming up of Jio Retail and what are the opportunities and threat for Spencer's as a group?

Devendra Chawla: Actually, when you are a food retailer I think you anyway grow up in the country with millions of Kirana who are because of their own cost structures and their delivery cost being low, highly efficient. So, I think in terms of if you see groceries group of retail I think there is already enough competition or in a manner of speaking you don't have to worry about more players coming in. True penetration of Modern retail grocery is only 5% to 6% in India and that will grow. Now I believe no one player can take all, so there will be space for everyone and depending on it all comes down to who serves the consumer, who has the right customer value proposition and who can delight the consumer's in the end.

Also, please remember there's a different set of customers and India can take many different formats and while it all looks like supermarket and modern trade, actually there is a slight difference in each store type and thus the customer type. So, we believe the kind of experience we give in our store and we have our own niche in the way we serve like for example, we are one of the rare retailers who do liquor alcohol. We are one of the rare ones who do fish and meat and we deliver right now in two and three hours in many cities and that is really gaining traction. In fact, that has surprised us the growth rate of that it's become a large part of our business, frankly I would say we would be by percentage mix the highest fish and meat selling retailer on the grocery side. So, when you see the assortment of what we sell, I think we have our own niche and even Nature's Basket is gourmet retail and that customer is very discerning and looking for global products. So, I think you have to find your own niche and serve the customer very well there and I think that is the task we have set out, so why worry about who's doing what else I think as long as we focus on our consumers and serve them well I think we should be in good state.

Dipesh Parwal: And the last one is, we recently had our rights issue. I was just curious did the promoter group participated in the rights issue?

Devendra Chawla: Absolutely and they subscribed to 100% of their portion in fact the rights issue got over subscribed and currently we're a negative working capital company and we picked up roughly 80 crores, so are well positioned and even at debt level of around 200 crores on a turnover of last year's approx. 2700 crores I think our debt-equity is also very comfortable, so absolutely comfortable on those levels.

Dipesh Parwal: I think net debt-equity should be zero or negative for us right after the rights issue?

Tanmay Kumar: Yes, our debt proprietary rights issue was close to about 186 odd crores only. Post rights issue where we have distributed 79 odd crores, clearly it reduces.

Moderator: The next question is from the line of Akhilesh Kumar from Adpro Technologies.

Akhilesh Kumar: I just have couple of questions. First question is again related to the last question on the debt side. Actually, I'm seeing for last 4-5 quarters our interest cost is little on higher side, even though we have turnover of around 200 crores odd. What might be the reason because we don't have much working capital requirements as well?

Devendra Chawla: While I will let a part of it be answered by Tanmay. I would say that earlier before we acquired Nature's Basket we had money in the bank and then the enterprise value which we bought, Nature's Basket, let's say 300 crores. So, what we had in the bank we used so that used to give us some income earlier in the previous quarters approx. That 200 crores have gone in acquiring Nature's Basket & we've taken roughly 100 crores Nature's Basket debt and further we took 100 crores. If you take this change of interest income & debt interest and add to it, the new store openings which in the beginning takes 3 years to break even. Only these two to a large extent will answer difference between last year's profitability and current numbers or last to last years and last year if I may say. Let's keep the pandemic aside. Tanmay can you add on this?

Tanmay Kumar: So absolutely when you're referring to our interest line in our company's figures please note it not only has interest on borrowings but there is also an accounting impact of Ind-AS 116 of leases. So, there is close to about 14 crores which gets reflected at CFS levels in the quarterly numbers as interest you might therefore be looking at a slightly higher numbers as ratio to the debt which is probably what you were asking. But overall, we're very comfortable with the interest that we generate we have to pay out from the cash interest on the 186 crores of borrowings that we have.

Akhilesh Kumar: Okay that's reason I am not aware of. And last thing on treasury point, since pandemic as you mentioned that we have learnt the benefits of the omni-channel of distribution and serving the customers in the radius of 2 to 4 kilometers. My question is why we are not trying to grow that channel and reach for greater area and like say our fixed cost is limited compared to Big Basket; we already have a store, warehouses in the city. Why can't we cover by just employing more man power and covering larger area? We will have better unit cost than those third party Grofers or Big Basket?

Devendra Chawla: Absolutely and that is the exact plan we have. That's why we've coined this new term called out of store. We don't have to put warehouses in cities and carry inventory or inventory carrying cost or higher items to be able to create a hub. Our existing stores are the hubs so I don't need to invest any cost. It is the same inventory in my store from which the consumers come to the store they buy and from the same inventory I'm able to serve the consumers on an omni-channel or a phone or an RWA. So, neither are my inventory levels going up in fact our inventory is even down. So, you can in a way say from a lower single digit omni-channel company pre-pandemic we are high double digit omni-channel company with further reducing inventory as a company. So, we've reduced inventory as if in a manner of speaking let's say we were a physical retailer company and we've added 20% of online business or 15% and there is no cost for that 15% barring that manpower. Now we've not added manpower at our store as you rightly said. Some bit of it is through our own manpower we are optimizing it, stretching it. And the spillover from whatever is our manpower currently we are working with third parties as I mentioned. Because we need to learn that one has more and more footfalls are growing back in the store. To give you an example and I will give you real numbers this is pertaining to the first quarter and I can give, people don't know that even in the pandemic of April-May-June when the lockdown was, the number of bills in the store used to be 55%-60% of pre-pandemic. So more than half people were always coming and buying at the store. While we all feel everybody was work from home and that hardly anybody was going out, they were buying a lot more than earlier. The business generated by this 55% was more than 55% of consumers coming pre-pandemic. Now we need to just learn that the more people were not coming out, the more online was growing and more with every passing day people have started coming out, the online growth has come down but online is still large for us. I can safely tell you even now our online sales are 4-5 times than pre-pandemic even now. So, we need to just find that balance that and then invest our cost that how much we need people in the store and how much to deliver and then we can work out how much to give to third parties because third party deliveries are slightly costlier because they have to cover their cost and for me it's the same person in my store who could just go 1 km and deliver. So absolutely we are totally working on it and I don't see us reverting back to pre-pandemic level at all. I see us always having even post pandemic, even 6-9 months or a year from now, our out of store sale will be in double digit which used to be a very low single digit till January, February this year itself.

Akhilesh Kumar: That makes sense actually there's on your legacy of the Spencer's like say the early mover advantage I don't see that we lost out last two decades almost. So right now, like online groceries delivery, they are even without pandemic they have been growing phenomenally let's say even metro cities like Bangalore. I can see Grofers and Big Basket; they have captured almost 50% of the household. So why can't we compete with them? We can let's say margins might be little lower side but our cost and we can serve much more consumers and they will be loyal because our quality is good.

Devendra Chawla: We can and we are. The only difference being that unit economics I don't want to take names all those companies make a massive loss. As you rightly said what we have is a very strong brand Spencer's and Nature's Basket and I think in times like these most important things to customer is protection and trust which we have earned. If you see social media or anywhere, all consumers have praised and liked the way we've managed our contactless delivery at homes or even when they have come to the store, the hygiene standards and whatever we have done. So, I think on the trust side we have earned it and the brand anywhere from the last 1-2 decades we have earned it. Now if I replicate the other e-commerce model which you have said, they are highly loss-making. Now I being a listed company I don't want to go that route and continue to add losses. But I totally take your point sir, we will do it in a profitable manner and I'm very happy to report that pre-pandemic our unit economics, we are far better right now than the pre-pandemic unit economics of an online delivery. At an order level we make money now, at an order level if not at a business level. Pre-pandemic even at the order level we were not making money. So, we may not have grown 100 times in e-commerce because that may come at a very big cost but we have grown it as I mentioned 4 to 5 times and the unit economics have bettered. So, we are in much better shape even as a physical store with the cost structure, even the online side as a cost structure unit economics and I completely agree with you. With the brand we have we need to leverage it in a hyper local area. People know the brand; they trust the brand and all our endeavor and efforts would be that in the hyper local 2 to 3 km we make as many deliveries. We are doing many programs because it's an analyst call, I don't want it to be the business side initiative. But we have many programs which are serving us so well like each store now is personalized connected to couple of thousand consumers. See what the pandemic has done is, people in essentials like I think they have got lot of goodwill because they have been able to serve the consumers or right now it sounds pretty normal but I remember end of March or beginning April it was not simple, the fear was at a peak and the number of people who've appreciated that we have been able to serve them at their doorstep and the numbers were very large. I think if we can continue that connect with the consumer and which we are through personalized messaging, through personalized offers we are using data. We are also using very new analytics because we have 90% of customers' phone numbers, so whether you shop at our stores or whether you buy online we are able to do a single view of the customer SVOC, so I'm able to stitch the journey. That if you come to my store what all you bought, when and when you buy online what all you buy and through analytics and data I am able to personalize offers and send you. So absolutely we are moving in that direction, only we need to be profitable and we need to go back into profitability quickly, so I may not invest some crazy number in customer acquisition cost when with some other companies do and again that's a matter of their own decision and I would not like to comment on their strategy.

Akhilesh Kumar: I'm based in Bangalore, earlier you used to have two stores here and they were very good but now you have closed one and only one store is operating in Bangalore, I think that maybe loss-making. What is the point keeping only one store in the city, either you can close down entirely or leave the city or maybe you can have more stores here?

Devendra Chawla: With acquisition of Nature's Basket that part is put to rest and we have 8 stores of Nature's Basket and one Spencer. So, since we are the same company and Spencer's holds Nature's Basket as a subsidiary we are able to optimize for our operation of regional or manpower and so please see it as 9 stores versus 1 store because with Nature's Basket is the 9 nine stores operational in one city. And we will absolutely be expanding in those cities opening more stores.

Akhilesh Kumar: I hope the analyst call will continue for next quarter as well, right?

Devendra Chawla: Yes sir, we do it time to time. I remember I think last July-August I had come down to Mumbai for two full days and met a lot of analysts with Mr. Chandak and absolutely from time to time we are very-very happy to answer our investors' questions.

Moderator: The next question is from the line Deepak Mehta, who he is and Individual Investor.

Deepak Mehta: My question is on a private label, so what is the traction we are seeing in the private label where we have higher margins?

Devendra Chawla: So, on private brands I mentioned that at Spencer's put together of all categories, our mix is 14% and of course they make a lot more margin than other brands which we sell. And this did come up before also that we want to take this mix higher. We have targets internally, for competitive reasons we just don't want to announce it. Even in Nature's Basket the margins in private brands are much-much more than other brands which we sell and one of the ways in grocery retail to make money is to increase the mix of private brand. So of course, there are even in our fashion we have a 2Bme which is growing, even on the food side. I can just give the number but I can tell you that even now as we speak the mix of private brand is increasing in our overall business. To make you comfortable it used to be 12.5% in Spencer's last year, we are at 14% right now and continuing to improve the mix of private brand even as we speak.

Deepak Mehta: My next question is around the competition, if we see Reliance Retail is gaining traction from some big investors. Is there any possibility if we are in talk for this kind of strategic investment from foreign companies such as DMart because Damani ji has some stake in our company, so if you can throw some light on this?

Devendra Chawla: There is no such proposal in front of the Board and beyond that I cannot comment on this because there is no such proposal.

Deepak Mehta: My last question is about the online sales, in next 3 to 5 years how much these online sales will be the percentage of total sales and what is the margin, how much it is higher from the retail sales or what is the scenario in the margin?

Devendra Chawla: I think there is always an opportunity in the crisis and if you see we are—if I may say since you said competition and I would take names but among listed companies if you go and see probably we will be the—least negative company which have reported numbers. Even if you see on a quarter-on-quarter January-February-March or we take April-May-June over Jan-Feb-March sequentially because last quarter Nature's Basket was not with us, I think we are (-15%) which probably would be the least of all the retailers at least which I have studied including some of the unlisted ones which we keep picking up in the market. Now what has happened is in online what I believe it is the best thing to happen, we have been omni-channels from anyway from couple of years, so for us we are not like running around the digital transformation now since pandemic has come and a whole world wants to go digital, suddenly digital is the way to go. We have had an app for couple of years and a part of our business was always omni-channel. Now that part was too small, so we have taken an advantage and as I said as we speak also our e-commerce business is five times, if I take out of store it is even much more than five times than pre-pandemic. So delivery business now is even more than five times than the delivery business to the pandemic. The average bill value right now of online is much more than it used to be pre-pandemic which allows us to make unit economics profitable. So, I have said this and I will tell you that there are three costs whether it be any company e-commerce platform or even omni-channel retailer, one is customer acquisition cost, the one-time cost to acquire a customer which is very high which we have brought down to even less than half. I can't give the number because of competitive reasons. The second cost is maintaining that customer continues to buy in you with the world loosely call coupon or a discount, for us that has also come down. Third is the cost of digital marketing to connect with you on social media Instagram, Facebook or other ways. But that we have also brought that down pre-pandemic. All these costs are down and bill value is up, for example if the bill value was 500 earlier and your margin is 20% per order you are making Rs. 100 and you have to reduce all these three costs, customer acquisition cost, digital marketing cost and your logistics costs and then arrive by the unit economics positive or negative. Now the bill value from 500 if I may say and again these are not exact numbers but let me say ballpark has gone to 900 to 1000, let's say double, so from making Rs. 100 which is 20% margin you are making Rs. 200 and these costs have gone down, so our unit economics at an order level are positive. So now at a business level of course we have to attain a certain size to make omni-channel standalone business as profitable on which one is going on. But I clearly see that since we were always omni-channel and the pandemic hit we could accelerate and pick up and we didn't drop it. I do believe a lot of companies had to actually set it up and make a start. At least we were lucky that we already had it and we could pick it up from day one. Secondly 90% of our stores were running from day one, even from 23rd of March. So, we could convert them overnight into hubs and start delivering. I remember in UP they didn't even allow stores to run in the first two months, in fact the first three months April-May-June, Lucknow they didn't even allow a single store to run for nearly three months but we could do home delivery. So actually, we became an e-commerce company because the store became a hub, no consumers can walk into the store but we could serve them. So whatever business we did in the city and that's not a small city for us was 100% if I may say delivery business through telephone, RWA or e-commerce. So, I think all these learnings I believe in the next 2 to 3 years our e-commerce mix will continue to be high because we want to be an omni-channel company and that is the future. The world is not going to go back completely the way it used to be. It will go back. I personally believe once the vaccine comes or herd immunity or depending on what solution the world finds. My personal belief is that people will want to go out, attend weddings, people will go out to eat at restaurants and will want to go out to the pubs and thus the traffic at malls eventually will come back but not 100% because some of it will be digital and to that extent we are very-very ready to capture that.

Deepak Mehta: So, this online sales and demand is coming from the app only, Spencer's app only?

Devendra Chawla: Whenever I say omni-channel it is 99% from the app, 1% we have an apparel website called 2Bme, you can even buy apparel from it and we could deliver it. As we speak we are integrating even that into our app. So right now, it will be 99% on app, 1% there and in a month or two it will be 100% on the app. So that's when I say omni-channel, when I say out of store it is the omni-channel plus telephone delivery plus RWA where we go to the full society or Resident Welfare Association and we capture a full sell through a combined order or putting up a store in the cooperative housing society.

Deepak Mehta: So, I have one feedback, so I am using Spencer app also and I have been visiting the store. The app inter-fleet can be improved and online support and hygiene and all the support in the storage is great, so thank you so much and have a great time ahead. Thank you.

Devendra Chawla: Thank you for your feedback and absolutely we are working right now in improving our customer experience and we have revamping UIUX. Please give us a month, month-and-half and given number of orders or the number of traffic went up like 20-30 times, we realized that yeah, we need to improve it far more than what it is and many-many thanks for your feedback. We are absolutely working on making it better.

Moderator: We have the last question from the line of Vismaya Agarwal from ICICI Securities.

Vismaya Agarwal: I have one more conceptual question on the industry actually. So basically, how do you see the relationship, in fact I should actually put it, the balance of power shifting between the retailers and the brands? And the reason I asked this is because of all the consolidation happening in modern trade, the expansion of e-comm that's definitely you have been talking about it and that's out there and also private labels growing. So, any changes in the relationships or how do you see that happening going ahead?

Devendra Chawla: This question and allow me to answer it not as a Spencer's CEO but more as a retail professional because I have been in FMCG industry before and then in retail also for many years. This question has always come and somehow, I find it a very hard one to answer because I don't see versus that FMCG companies or suppliers versus retailers. I will tell you we have to divide the question into commodities and value-added products. Each channel brings its own advantages. If you can sell a very expensive hair color or a top-end shampoo or some of the products like gourmet food, then you to that extent any brand will want to work with you and the conversation is always better. So, the whole margin profile which people keep speaking is all you have to divide it into the categories like commodities and value add and on both sides I don't see any challenge because if a brand needs to grow and even brands or companies needs to grow their margin profile and also the more value added products they add their gross margins is higher the more their profitability grows and then they absolutely partner with us. So, most modern retail I may say and including Spencer's and, in many cases, since I said we sell some categories which some others don't, we are retailer of choice for brands to partner. If you see our margin profile, none of the grocery retailers you will see a margin of 20%-21%. If you see our margin profile and compare it to others, of course then the cost structure is different. I don't want to go into it, some rental cost or maybe you bought the property. But I will tell you that these are not issues, I have always found there is no struggle between suppliers and retailers. I think it's one as an ecosystem. Especially in pandemic you will be surprised everybody kept aside who you are and right now it's all an ecosystem. When we would have thought that Uber would be making deliveries for us? So, let me go back on 23rd March the day of lockdown and the whole public transport shuts, so there were no buses of local trains plying. Now store staff and we have 6000 of them, not a small number. They wouldn't find transport to come to the stores, some of them had bikes so they could share. But then we had to arrange for transport and a lot of people didn't even report to the stores. So, attendance in the beginning couple of weeks was down and the number of orders online had gone up by 10 times in those weeks. So, imagine your staff attendance goes to half and your orders go 10 times. So, you have a 20 times gap between capacity available to deliver your infrastructure and the number of orders which you have. So, we actually partnered with Uber and many companies and I have given you Uber example. We had hundreds of cars on day one, we did an agreement while from work from home. We spoke to the Asia Pacific Head of Uber and we got hundreds of cars the next day and look at the unit economics actually versus the bikes which can make, if you gave a grocery order you can get two orders on a bike typically and a bike can come back to the store and to the home 6-7 times in a day within 8 hours working shift. So, we could deliver depending on the size of the order, 10 to 14 orders in a day, now a car can do 40 or 35 because we could put bags in the dickey and the back seat and the front seat and we trained. So, the first day our staff went with the Uber driver to train them how to make contactless delivery, to have a mask and how do you know how distance to be when you ring the bell and where to leave the bag. From second day the Uber guys were doing the delivery and we could do 1000. So, to my mind actually I find the whole industry coming together and things which would have never happened before have happened. So, I don't see this power shift between players. I think it's actually quite mutual and if as a retailer you can add value to the brands they launch. I will tell you the higher packs of detergent—I don't want to take the brand name, the higher the size of detergent pack—of the biggest mass brand in India and I am sure you can guess which company it is, maximum sale comes from modern trade while modern trade overall would contribute 6% to 10% this pack for that company, more than 50% sales come from modern trade. So, there is no power thing I mean companies make packs for you which they know may not sell it other channel, you can sell that and that then the margin profile is far better. So I think it's a mix of many things to make sure that the average margins is good for you as a model and I think from brand side I can tell you since I have been on the brand side, you also manage each channel depending on the strength of the channel, what the channel brings on the table whether you only sell commodities and small packs then you have a different margin profile. If we can sell premium and high-value pack then you have a different margin profile because a lot of what we sell and other sell other channel I will not say modern trade is frankly non-conflict being and thus there is no challenge with the brand.

Vismay Agarwal: That's actually very helpful. It's a great understanding. Thank you so much for that

Devendra Chawla: Thank you so much.

Moderator: Thank you very much. That was the last question in queue. I would now like to hand the conference back to Mr. Manoj Menon for closing comments.

Vismay Agarwal: I think his line has dropped. This is Vismaya here again. So, I would like to thank the team at Spencer's Retail and all the participants for taking time out for this call. Thank you so much and have a good weekend.

Devendra Chawla: Thanks everyone at ICICI Securities for planning this and thank you everyone for joining. Thank you so much.

Moderator: Thank you very much. On behalf of ICICI Securities Limited that concludes the conference. Thank you for joining us, ladies and gentlemen you may now disconnect your lines.