Operator: Ladies and gentlemen, good day and welcome to the Vishal Mega Mart Ltd. earnings conference call. As a reminder, all participant lines will remain in listen-only mode, and there will be an opportunity for you to ask questions after the management's opening remarks. Should you need assistance during the conference call, please signal the operator by pressing star and then zero on your touchtone telephone. Please note that this conference is being recorded. I will now hand the conference over to Ms. Shikha Puri from Strategic Growth Advisors. Thank you and over to you.

Shikha Puri: Thank you. Good afternoon, everyone, and thank you for joining us on Vishal Mega Mart Ltd. Q2 FY27 and H1 FY27 earnings conference call. We have with us Mr. Gunender Kapoor, Founder, MD and CEO, and Mr. Amit Gupta, CFO. I hope everyone got an opportunity to go through our financial results and investor presentation uploaded on the company's website and the stock exchanges.

We will begin the call with opening remarks from the management, followed by the question-and-answer session. Before we start, I would like to point out that some statements made on today's call may be forward-looking in nature, and the disclaimer to this effect has been included in the earnings presentation shared with you earlier. I would now like to invite Mr. Gunender Kapoor, Founder, MD and CEO, to give his opening remarks. Thank you and over to you, sir.

Gunender Kapoor – Founder, MD & CEO: Thank you very much, and a very good evening, ladies and gentlemen. A very warm welcome to this call. I will briefly take you through the Q2 FY27 and H1 FY27 results and some of the highlights, and then we will open the call for questions.

Starting with the Q2 FY27 highlights, we delivered another strong quarter, with revenue from operations growing by 14% to 3,399 crores. Same-store sales growth stood at 5.5%. The festivals this year have shifted from Q2 to Q3. This has had an impact of 3%-4% on our same-store sales growth. Adjusting for that, our same-store sales growth in Q2 has been around 9%.

Because of the shift in festivals, the first 9 months will provide a more meaningful comparison of festive performance versus last year. I am happy to report that we have had a strong start to the festival season. The festival season is now panning out in Q3, and this has reinforced our confidence in the demand momentum as we approach Diwali and the wedding season for this year.

Operating EBITDA for Q2 FY27 was 262 crores, which was a growth of 3.7% over last year and a margin of 7.7% versus 8.5% last year. Operating EBITDA growth was achieved despite lower fixed-cost absorption during the quarter due to the shift in festive buying to Q3 FY27.

Profit after tax adjusted for ESOP charges was 172 crores, which is a 6.4% growth over last year, with a PAT margin of 5.1% versus 5.4% last year, impacted again by operating deleverage due to the shift in festivals. Our performance was supported by the strength of our own-brand offerings, our customer-first approach, and very disciplined execution.

On the macro front, demand conditions remain steady despite renewed inflationary pressure across key raw-material categories and a somewhat uneven monsoon. Our differentiated merchandise, compelling price positioning, and deep understanding of customer needs continue to resonate with our shoppers, reinforcing the resilience of our business.

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I will quickly shift to the first-half results and highlights for this year. Revenue from operations grew by 16.4% to 7,126 crores. Same-store sales growth stood at 7.7%. The shift in festivals has had an impact of 1.5%-2% on same-store sales growth. Adjusting for that, same-store sales growth for the first half will be about 9.5%.

Operating EBITDA for the first half was 649 crores, which is a growth of 12.5% over last year and a margin of 9.1% versus 9.4% last year. Again, the margin was impacted by operating deleverage arising from the shift in festive buying from the first half to the second half of the year.

Profit after tax adjusted for ESOP charges grew by 15.8% to 437 crores, with a margin of 6.1% versus 6.4% last year. This again was impacted by operating deleverage arising from the shift in festivals.

We continue to advance our store expansion strategy, adding 26 gross new stores during the quarter and 53 new stores during the first half of the year. This takes the total store count to 844 as of September 26, and we now have a presence in 582 cities across the country.

In Q2, we launched the first pilot store of De-Moza & Co, a new apparel format catering to young, affluent urban consumers with a very distinct brand proposition offering effortless fashion. Our trading area stood at 1.41 crore square feet. Our private brands contributed 74% to revenue in H1 FY27. Our quick commerce expanded to 781 stores across 532 cities in the country, and registered users on quick commerce crossed 1.5 crore people across the country.

Looking ahead, we remain focused on capturing growth opportunities while staying very agile in an evolving geopolitical and inflationary environment. By strengthening our merchandise offering, enhancing supply-chain efficiency, and maintaining disciplined cost management, we aim to continue delivering compelling customer value and sustainable, profitable growth.

With this, I would request the moderator to open the floor for questions. Thank you very much.

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question.

Ladies and gentlemen, we will wait for a moment while the question queue assembles. Participants, please note that you should restrict yourself to two questions per participant and rejoin the question queue for follow-up questions. We take the first question from the line of Percy from IIFL. Please go ahead.

Percy – IIFL: Hi, am I audible?

Gunender Kapoor – Founder, MD & CEO: Yes, please.

Percy – IIFL: Yes, sir. Just one clarification. When we say about a 3%-4% impact of the festive season, does that mean that this gets transferred into Q3? So, basically, this 14%-15% kind of growth becomes 21%-22% because 3%-4% gets transferred from one quarter to the other? Is that the correct understanding?

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Gunender Kapoor – Founder, MD & CEO: No, Percy. It means more that we have had to report approximately 5.5% same-store sales growth. This would look like 9% if we were to adjust for these festivals.

What happened this year, unlike last year, is that three key festivals—Durga Puja, Dussehra, and Navratri—fell this year in October, whereas last year they were, for example, on October 2, when the revenue was recorded in September. So they shifted from late September last year to October this year.

Therefore, if the season had not shifted under normal circumstances, you would have achieved 9% SSSG. If you have achieved, let us say, 5.5% this quarter, then to achieve a 9% average for Q2 and Q3, Q3 will have to be a sort of 12%–13% SSSG to get to that 9% average.

Exactly, Percy. Our goal is to achieve double-digit growth for the full year. So you are absolutely right: Q3 will have to be higher than 10%, as you rightly said, for the first 9 months to look like double-digit growth.

Percy – IIFL: Understood. Secondly, on gross margin, we have not seen much of an impact yet, perhaps because you have still held prices with the vendors. Going into Q3, I am sure that the vendors will ask for a price hike given that inflation has become persistent. What kind of gross-margin impact do we see going ahead in Q3 and Q4?

Gunender Kapoor – Founder, MD & CEO: No, Percy. We have accounted for all that, and we would be able to maintain our gross margins on account of cost re-engineering across the board. I must also say that not all the vendors are charging higher prices now. Therefore, we do not see any further material impact going into Q3 and Q4 of the year.

Percy – IIFL: So, even if crude remains at 100 for the rest of the fiscal year, we still believe that we would be able to roughly hold year-on-year margins in Q3 and Q4 at the gross-margin level?

Gunender Kapoor – Founder, MD & CEO: That's right.

Percy – IIFL: Got it. That is all for now. I will come back to the queue if I have any further questions. Thanks and all the best.

Gunender Kapoor – Founder, MD & CEO: Thanks, Percy.

Operator: Thank you. We take the next question from the line of Nihal Mahesh Jha from HSBC. Please go ahead.

Nihal Mahesh Jha – HSBC: Yes, hi. Good evening. Am I audible?

Gunender Kapoor – Founder, MD & CEO: Yes, please.

Nihal Mahesh Jha – HSBC: Yes, good evening, GK and Amit. Two questions. The first one is on the results. If I look at employee cost, there was an increase of just around 10 crores versus Q1. Is it fair to understand that this is mainly related to ESOP expenses, or is it also the impact of minimum wages? Could you call that out?

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Gunender Kapoor – Founder, MD & CEO: Nihal, the minimum-wage increase happened in Q1, so there is no incremental impact on account of that. The increase in employee cost versus last quarter is on account of two things. One is the incremental ESOP cost, and the second is the number of new stores that we have opened in the current quarter.

Nihal Mahesh Jha – HSBC: Got it, that is very clear. The second question was regarding your opening remarks, where you mentioned that the festive season had started well. I wanted to understand the discussion around El Niño and perhaps some impact on rural spending. Are you seeing any initial signs of moderation? I just wanted to double-check that with you.

Management: No, not quite. We are not seeing any moderation in terms of consumer and customer demand. As I mentioned, the festive season for this year has started now. We experienced some part of that with Pooja in the East, which fell on October 20, Dussehra in the South, which also fell on October 20, and the Navratri festival. So, we have not seen any moderation as such.

Nihal Mahesh Jha – HSBC: Very clear. Just one quick final point. You highlighted in the analyst meet the smaller-format stores that you have started piloting in Haryana and UP. Do you have any specific targets for the number of stores that you want to open this year?

Management: Firstly, let me tell you that I am happy to report that we now have 18 such stores. We have added two stores in Q2, both in UP and Haryana. So, as we stand today, we have 18 small-format stores.

I may use this opportunity once again to clarify that these small-format stores are relevant only for UP and Haryana at the moment because, in all the other states, we still have significant opportunity to open a large number of normal-format stores, our 18,000-square-foot stores.

As I had mentioned earlier, once the opportunity for the 18,000-square-foot or large-format stores starts diminishing in a state, only then will we open small-format stores. Otherwise, our first priority is to maximize the number of large-format stores in every state in India.

We are making good progress. If I were to look at the national opportunity, there would be an opportunity to open upwards of 3,000 such stores across the entire country in all the states.

Nihal Mahesh Jha – HSBC: Very clear. Thank you so much, and I wish you all the best.

Management: Thank you very much.

Operator: Thank you. We take the next question from the line of Harit Kapoor from Investec. Please go ahead.

Harit Kapoor – Investec: Good evening. The first question was on pricing. Could you indicate the broad level of weighted-average pricing increase that you would have taken to pass on this level of inflation in Q2 as well as early Q3? This is in the context of the fact that most of the pricing increases you take, at least initially, do not come at the low or bottom price point, in order to hold the bottom price point. I wanted to get a sense of the level of pricing and whether, after the festive season, you would assume there would be a requirement for another round, assuming you do not want to touch pricing during the festive season.

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Management: You are absolutely right. We had said this earlier: at the opening price points, we are not taking any price increases because our opening-price-point customers are the most vulnerable among all our customers to inflationary pressures.

At the mid-price points, there have been very few price increases. All our price increases have largely been on the higher price points. We do not see any need to take further price increases at this stage, and there is absolutely no plan to tinker with pricing even beyond the festive season.

Harit Kapoor – Investec: Got it. The second point is whether we are seeing any regional differences in terms of growth outcomes on a like-for-like basis. This is in the context of the fact that rainfall has been challenging in certain parts of the country, and perhaps demand trends are a little different from one region to another. Do you have any qualitative or quantitative thoughts on your growth? Are you seeing any regional differences? That is my second and last question. Thank you.

Management: Harit, I would say that we have not seen any demand challenge anywhere. It has been quite even across the country.

I must acknowledge that rainfall has been somewhat uneven across the different states in India, and therefore there is very temporary disruption for a couple of days when it rains heavily, for example in the Northeast during certain months. That does impact revenue, but it is a very temporary, one- or two-day phenomenon. Fundamental demand is quite consistent across the country.

Harit Kapoor – Investec: Got it. Thank you. I wish you all the best.

Management: Thank you very much.

Operator: Thank you. We take the next question from the line of Vidisha Sheth from Ambit Capital. Please go ahead.

Vidisha Sheth – Ambit Capital: Hi. A couple of questions have been answered, but I have two from my side. The first is on rentals. The growth in rentals in the first half was quite subdued versus the retail-area addition. One aspect could be the addition of stores in smaller {? town clusters ?}, but is there any element of rental renegotiation for existing stores that is being undertaken?

Management: No, there is no significant element of rental renegotiation. Your observation is absolutely correct. It demonstrates the fact that a large number of new stores have opened in Tier 2 and Tier 3 towns.

Vidisha Sheth – Ambit Capital: So, we can expect a similar difference between the growth in rentals and the growth in retail area addition going forward?

Management: Absolutely.

Vidisha Sheth – Ambit Capital: The second question was on inventory. What would have led to the improvement in inventory levels, considering that ideally there would have been some stock build-up before the festive season, especially when I compare H1 with H1?

Management: No, Vidisha, there is no material change. It is simply the impact of the shift in festivals from Q2 to Q3. Otherwise, there is no change compared to last year.

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Vidisha Sheth – Ambit Capital: Amit, my point was that ideally, if I calculate the inventory days, it would be approximately 65 in the base period versus 59-60 in the current first half of FY27. Is there no particular reason why we have seen lower inventory?

Amit Gupta – CFO: Last year, by the end of September, the inventory build-up had already happened, but this year there is a three-week shift in the festival season, so that build-up has shifted slightly.

Vidisha Sheth – Ambit Capital: Got it.

Amit Gupta – CFO: That would be the reason.

Vidisha Sheth – Ambit Capital: All right. And the last question, if I may: it has been just one month for Belong and Co. Do you have any initial feedback that you would like to share?

Management: The initial feedback I can share with you is some qualitative, anecdotal feedback that I have from the store. People are loving the merchandise. It is very early days, but our conversion of footfall into store purchases is north of 50%, so it is very encouraging.

Although it has been only a month, we have seen customers coming back to the store to buy more products. We are therefore very encouraged. We knew that our merchandise is very contemporary, very fashionable, and very relevant for the youth across the country, but we are gaining more and more confidence around that.

Vidisha Sheth – Ambit Capital: Got it. That was helpful. Thank you.

Operator: Thank you. We take the next question from the line of Prerna Jhunjhunwala from DAM Capital Advisors. Please go ahead.

Prerna Jhunjhunwala – DAM Capital Advisors: Thank you for the opportunity. My first question is on gross margins. This quarter, the share of apparel and GM was higher. Largely, this could be on account of the shift of the festive season to Q3, while that may come back and be unfavorable in Q3 going forward, largely because of GM and FMCG purchases during the festive season.

Could there be a further decline in gross margins going forward due to the shift in the festive season temporarily impacting our margins? Is that possible?

Management: No, not at all, Prerna. It is, in fact, the other way around. The two festivals that I mentioned—Pooja in the East and Dussehra in the South—are both essentially clothing festivals. People buy a lot of clothes. During Pooja, clothing purchases increase very significantly.

Since the festival fell in the third quarter, we are going to see a significantly higher bias towards apparel in Q3 versus Q2. Diwali, which is essentially a general-merchandise and FMCG festival, is going to be in Q3 this year, and it was also in Q3 last year. Amit, do you want to add anything?

Amit Gupta – CFO: Absolutely right. Vidisha, what you see is a 30 bps drop—or, Prerna, you see a 30 bps drop—compared to last year on gross margin. Out of that, 20 bps is on account of the shift in apparel business from Q2 to Q3.

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Prerna Jhunjhunwala – DAM Capital Advisors: This quarter, we actually saw an improvement in the apparel mix on a year-on-year basis. What could be the reasons for this? This is a follow-up on that point.

Amit Gupta – CFO: I am not too sure where you are looking at it, but as we explained earlier, in Q2, because of the shift in the festival season, the apparel mix is actually lower compared to last year.

That is the shift in the apparel business. The right way to look at it is that a large part of the business has shifted from Q2 to Q3, and most of that is apparel.

Prerna Jhunjhunwala – DAM Capital Advisors: Understood. The second question is on Belong and Co, the Belong format. I wanted to understand your plans here. How many store openings can we see for this format this year? What would be your store-opening target for the year as a whole for small-format stores, Belong and Co, and Vishal Mega Mart?

Management: Prerna, at this stage, we are still learning about Belong and Co. We have opened the pilot store. Our future plans will depend entirely on the experience we gain from the few stores that we will open this year for Belong and Co.

We are on a learning curve. I am sure there is a lot for us to learn before we start rolling out this format. I will come back to you at a future date on the Belong and Co question.

For the large-format and small-format stores, we are quite confident in our guidance of opening more than 100 stores this year.

Prerna Jhunjhunwala – DAM Capital Advisors: In this, will there be increased openings of small-format stores, or should we assume a smaller number for this format?

Management: The number will continue to be lower than that of large-format stores because, as I mentioned, small-format stores are relevant at this stage only for UP and Haryana, whereas large-format stores are being opened in all parts of the country. Specifically, we are expanding into states such as Kerala at a fast pace. Therefore, I think the number will be more biased towards large-format stores.

Prerna Jhunjhunwala – DAM Capital Advisors: Understood. Thank you and all the best.

Management: Thank you.

Operator: Thank you. Participants who wish to ask a question, please press star and one. We take the next question from the line of Rahul Agarwal from Ikigai Asset. Please go ahead.

Rahul Agarwal – Ikigai Asset: Hi, good evening. Just a clarification. First, on new-store additions, how should we think about them over the next 2-3 years? I understand that the absolute target is more than 100 stores this year. Should we think about it on a percentage basis, with retail area growing at least 13%-14% every year, or should we work with 100-100 store additions per year? This is more of a medium-term question.

Second, on margins, I think we discussed this in the past, but from a 2-3-year perspective, most of the investment will go into growth and, consequently, we should not expect very high operating

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leverage over the next 2–3 years. Should margins therefore remain broadly steady when we compare them with the previous years, from FY23 through FY25 and FY26? I would appreciate clarification on these two questions. Thank you.

Management: Thank you very much. On new stores, our endeavour would be to open more than 100 stores every year, and every year we would target beating the previous store-opening count.

At this stage, I would urge you to look at the absolute number of stores, but that number will keep accelerating every year compared with the previous year. Our endeavour, of course, is to open as many stores as possible that are profitable and viable in the particular year.

We have a clearly identified universe of 2,000 large-format stores that we can open. At this stage, we are at approximately 850 stores. Therefore, there is significant whitespace and runway for growth.

As you know, we are quite profitable and have significant cash on our balance sheet, so we will maximize the number of store openings, both for large-format stores and for small-format stores in UP and Haryana.

I would urge you to think about it in that fashion. I can assure you that we will open more stores every year compared with the previous year. The number would be 100-plus, then the next year we would try to make it 100-plus-plus, and in the following year 100-plus-plus-plus.

I hope that is a satisfactory response, but that is the way we are approaching it. We are determined that the new stores should not be diluted in any way. They should be as profitable as our existing stores, and we should not waste capital by opening a large number of new stores and then shutting them.

Rahul Agarwal – Ikigai Asset: Got it. And on margins, DK?

Management: On margins, we have been benefiting from operating leverage consistently across the board. Our endeavour would not be to improve our gross margin because we have said publicly several times that whatever operating leverage we generate on gross margins, we would reinvest that money every quarter into improving the quality of our products.

We have been doing that every quarter for quite a few years now, and that is what creates a virtuous cycle of growth for us.

On EBITDA margin, generally speaking, we would see an improvement every year because our growth would be double-digit, whereas our cost inflation at the store level would be 6%–7%. That would probably improve our EBITDA margin by 30 bps every year.

Rahul Agarwal – Ikigai Asset: Got it. Thank you so much, and festive greetings to both of you. Thank you and all the best.

Management: Thank you very much. We really appreciate that.

Operator: Thank you. We take the next question from the line of Vaibhav Munjal from Haitong Securities India. Please go ahead.

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Vaibhav Munjal – Haitong Securities India: Hi, thanks for the opportunity. Congratulations on a good set of numbers, DK and Amit. My first question was on our store-addition strategy. We added 26 stores in this quarter, of which I believe approximately 23 stores were in new cities. The majority of the store additions were again in southern markets.

I wanted to get more clarity on how we are looking at adding more stores. Are we planning to penetrate deeper into existing markets, or will the focus remain on entering new cities going forward? How much focus remains on the South as a market, and particularly which states are we planning to expand our footprint in? That is my first question.

Management: I can give you a quick breakdown of our new stores. We opened 26 new stores in Q2, of which 15 were in South India, as you rightly mentioned. Six of these were in Kerala, where, as you know, we are expanding rapidly, and we now have a count of 35 stores. However, our ambition is much bigger than this.

Of the 26 stores, another five opened in North India, where we opened one large-format store in UP, one in Haryana, one in Rajasthan, and one in Himachal. Four were in East India and two were in West India.

This trend of expanding at full tilt will continue. Any new state where we are expanding rapidly will see the highest number of store openings in any given quarter. At the same time, we will continue opening stores in all parts of the country.

I may also mention that, as I said earlier in response to another question, 24 of these 26 stores were in Tier 2 and Tier 3 cities. We added 23 new cities across the country. I would say that this trend will continue. If we enter a new state, there will be somewhat disproportionate focus on that state, but we will continue to strengthen our performance in every part of the country every quarter.

Vaibhav Munjal – Haitong Securities India: Understood, sir. As a follow-up on this, are there any plans to enter larger Tier 1 markets in the future?

Management: Yes, of course. As you know, we are conducting a large pilot in Maharashtra and Gujarat. As part of that process, we have opened stores in Ahmedabad, Baroda, Surat, and Pune. We are also looking at Kolhapur, Sangli, and Shirdi. Yes, of course, when we enter a new state, we will open stores across the board.

Vaibhav Munjal – Haitong Securities India: Perfect. My second question was on margins. You mentioned that you have reworked your price architecture to protect gross margins during the inflationary environment. Does this imply that next year, when inflation normalizes, we could start seeing a benefit on the gross-margin front, which ideally could be passed on to consumers to generate better value? Would that help us improve EBITDA margins through better same-store sales growth? Is that the correct way to look at it?

Management: I will clarify that we have not significantly altered anything. What I said is that we have not taken any price increase at the opening price points. As you know, opening price points are our lowest price points, and typically our customers who buy at the opening price points are the relatively less affluent among our customers.

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Despite inflationary pressure, we have not taken any price increase there at all, across all our businesses. At the mid-price points, we have taken very few price changes. All the price changes are directed towards the higher price points, where our customers are relatively more affluent.

This is to ensure that we protect the most vulnerable sections of our customers from the impact of inflation. As you know, 75% of our revenue is through our private brands. Therefore, we have the ability to protect our least-affluent customers from the impact of inflation.

Firstly, I hope you are right that we will see inflationary headwinds somewhat diminish in the next year. If that were to happen, we would reinvest that money either into further improving the quality of what we are selling or into passing it on to our customers, especially at the opening-price-point level.

We would not want to inflate our gross margin. Our EBITDA margin will increase through operating leverage, where our growth and same-store sales growth are higher than cost inflation.

Vaibhav Munjal – Haitong Securities India: Understood, sir. That is perfectly clear. Thank you so much and all the best.

Management: Thank you very much.

Operator: Thank you. We take the next question from the line of Jignanshu Gaur from Bernstein Research. Please go ahead.

Jignanshu Gaur – Bernstein Research: Hi DK, hi Amit. Just two quick questions. I know we have touched upon store additions and area additions with quite a few people, so I wanted to look at this from a different angle.

Over the last 3 years, our area addition has trailed our store additions. For example, last year our store addition was more than 14%, whereas area addition in percentage terms was only 9.8%. The reason seems to go beyond the addition of just small-format stores. It appears that the overall size of our larger or normal stores is also reducing.

Is this the right reading? Should we see this trend stabilize at some point, or do we expect retail-area addition to trail store addition? What do you prioritize: retail-area addition or store addition? That is my first question.

Management: Firstly, our retail-area addition and store addition are deliberate decisions. Let me give you a few examples.

When we entered Kerala, we almost doubled the number of new stores we would open compared with our original estimates because we discovered that Kerala is not made up of disaggregated large cities with distances of 50-100 kilometers between them. It is an almost contiguous state, where there is no gap between one city and another. Therefore, the population is spread throughout the state of Kerala.

We decided to double the number of stores so that we are always close to everyone, while reducing the size of the stores. This was a deliberate decision, and we are very happy about it because we

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are likely to be the most differentiated and convenient shopping option for the majority of people in that state, much more than anyone else we are aware of.

Secondly, we entered into a large pilot in Gujarat and Maharashtra. What we know about Gujarat and Maharashtra is that minimum wages in these states are the highest, electricity unit costs are the highest, and rental costs are the highest in the country.

They are the highest for a reason: these are very affluent states compared with the other states in India. Therefore, our hypothesis is that, from a smaller area, we can generate more revenue because people are more affluent and more densely concentrated in an area. Thus, we can make the P&L as profitable for ourselves as it is in any other part of the country.

That is our hypothesis. I am of the view that it is too early for us to reach any conclusion, but we are encouraged by what we see so far. Again, it is because of that hypothesis that we are opening somewhat smaller stores in Gujarat and Maharashtra.

Lastly, as I mentioned earlier, 24 of the 26 new stores that we opened this quarter are in Tier 2 and Tier 3 cities. Because of their lower populations, these cities are viable for a certain area. Therefore, the stores opened in these places would, by definition, be smaller in size.

It will all depend on where we are opening the stores. We are keen to open 18,000-square-foot stores where they are viable. Equally, if there are locations in more expensive states—where, in a 15,000-square-foot store, we can generate the revenue of an 18,000-square-foot store with a higher cost structure—we would do that.

Jignanshu Gaur – Bernstein Research: If I were to push this further, given the guidance of 100-plus stores and increasing that every year by a little, do you have any guidance for area addition, or do you focus on stores?

Management: I will primarily focus on stores. I am absolutely clear that the area of the store would be determined backwards from the catchment and the city where we are opening the store because it is our belief that we must have stores that are 100% viable and profitable.

Jignanshu Gaur – Bernstein Research: Fantastic. That is excellent. Thank you so much, DK, for the detailed explanation.

Changing tack, my second question is on Belong and Co. I want to understand your perspective on what use case for a user we are trying to solve with this. It may also be helpful to understand what you consider to be the core competition for that brand and how you want to position it for consumers. If you could shed some light on that, it would be helpful.

Management: I can definitely shed some light on the people we are going to serve with Belong and Co and on our differentiation. Who we are competing with will become somewhat obvious from our response.

Gunender Kapoor – Founder, MD & CEO: We are finding that there is a segment of young customers, largely metro-based at this moment, who are more affluent than the average customers in the country. This segment is becoming larger, and these customers are seeking more aspirational

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offerings and greater fashionability in merchandise.

The aspirational content of the benefit is also extremely important to them. We want to participate in every significant opportunity that the clothing market offers. That is why we launched this pilot store.

It is more urban and more metro-centric, caters to more affluent customers and higher price points, and has significantly higher fashionability compared with even international standards.

Those are the customers we serve, and we see these customers all around us in all our metro cities and large towns. You could argue that there are brands in metros and large-town India with store counts of 20-30 that serve these customers.

I suppose that would be the kind of competition we are envisaging. However, the larger goal is to ensure that every significant opportunity that is emerging in the country and can become very significant in the future is explored, and that we are positioned ahead of schedule to participate in that opportunity in a big way.

Jignanshu Gaur – Bernstein Research: That is very helpful, {? GK ?}. Thank you again. I wish you and the team all the best for the festivities.

Gunender Kapoor – Founder, MD & CEO: Thank you very much. Likewise, I wish you and your family all the best.

Operator: Thank you. We take the next question from the line of Devanshu Bansal from Emkay Global. Please go ahead.

Devanshu Bansal – Emkay Global: Hi, sir. Good evening, and thanks for the opportunity. GK, you mentioned that you are not seeing any moderation in consumer demand. I wanted to check how the consumer is responding to inflation, given that inflation is real. Are you seeing any noticeable shift towards either private labels, or perhaps consumers purchasing more staples and fewer discretionary products? Could you provide any insight to help us understand this?

Gunender Kapoor – Founder, MD & CEO: That is a great question, and I must clarify what I said. I am not making a generic comment that our customers, generally speaking, will not be impacted by inflation. Everyone will be impacted by inflation.

However, if you look at what we have done with our pricing, we are cushioning our customers from the impact of inflation through our pricing. For our customers at the opening price points, there is no price increase, so there is no inflation. At the mid-price points, there is no inflation because we have not taken price changes there. It is only at the higher price points that we have adjusted our pricing, again in a thoughtful manner.

Therefore, what I believe is that our customers will not need to adjust their spending because of raw-material inflationary pressures, because through our products and private brands, to the extent possible, we are cushioning them.

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However, I am not suggesting that there is no price elasticity of demand. Inevitably, there is price elasticity of demand, and it is also visible in our numbers for this quarter.

For example, in Q2, almost all our growth came through market-share gains and not through our existing customers buying more. I had mentioned on earlier calls that we have three forces driving same-store sales growth. One is market-share gain, the second is our existing customers buying more, and the third is premiumization.

In Q2, as we had expected and explained earlier, during these inflationary times our same-store sales growth would largely come from market-share gain, and that is exactly what happened in Q2 as well.

Devanshu Bansal – Emkay Global: Got it, sir. Very helpful. Secondly, GK, you mentioned that there is operating deleverage in the business because of the festive shift. However, employee expense is up around 25% if we exclude ESOP costs, and even after adjusting for the festive shift, top-line growth would have been closer to {? 18 or 20% ?}. I believe there is some gap between top-line growth and the increase in employee expense. Going forward, do you expect this to continue, or are there levers that can help you manage this in the next few quarters?

Gunender Kapoor – Founder, MD & CEO: Devanshu, as you would have heard us say earlier, there was a significant increase in minimum wages this year, and that is reflected in the numbers as we speak. We have not seen any further increase in minimum wages in Q2. Therefore, compared with last year, we will see elevated employee costs this year.

However, as we have also said earlier, we examine each and every line item in detail, ensure that all available levers are deployed, and make sure that the impact is minimized.

Devanshu Bansal – Emkay Global: Got it. Just a small follow-up: at what level of SSSG do you feel that we can manage this higher employee expense? Does 10% need to be 12% to help protect margins?

Gunender Kapoor – Founder, MD & CEO: Anywhere between {? 8-10 ?} is good enough to offset this impact. This quarter, employee cost appears elevated because of the impact of new-store additions, increasing minimum wages, and the shift in revenue from Q2 to Q3.

As we move into subsequent quarters, the percentages will look all right.

Devanshu Bansal – Emkay Global: Got it. Just the last question from my end: cash reserves are quite high, and for us they are even higher than the current capital invested in the business. The store-opening target we are sharing can easily be funded by the internal accruals we are generating. Could you share some medium- to long-term growth avenues that could help consume this large cash balance?

Gunender Kapoor – Founder, MD & CEO: I will respond to that in two parts. Firstly, and upfront, I must state that our board is looking at the cash reserves on our balance sheet to determine the best way to deal with them, while ensuring that the business is never starved of cash for growth or for exploring capability and capacity improvements.

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I can provide some insight into the deployment plan. Firstly, we are going to open more stores every year compared with earlier years. Secondly, you heard us speak about the small pilot that we launched with a new format. Depending on the response and our learnings, we would deploy further capacity expansion there.

Thirdly, we have commissioned a fully automated, very large warehouse in North India. We plan to commission similar warehouses in East India next, then in South India, and finally in the western part of the country.

Further, I am very happy to report that our quick-commerce initiative is making good progress. We are currently operating at a world-class standard in terms of delays and fill rate. Therefore, we have decided to invest aggressively in advertising and digital media, and that has already started in Delhi. It will be extended to all parts of the country very soon.

We have several opportunities to continue investing very productively in the business, and there are several opportunities available to us. Having said that, our board is currently engaged with this entire issue of the cash we have on the balance sheet. When there is a conclusion, we will be happy to come back to you and report it.

Devanshu Bansal – Emkay Global: Thank you so much, GK. That is very insightful. Thank you so much.

Gunender Kapoor – Founder, MD & CEO: Thank you.

Operator: Thank you. We take the next question from the line of Utkarsh Bhopani from Anand Rathi Shares and Stock Brokers. Please go ahead.

Utkarsh Bhopani – Anand Rathi Shares and Stock Brokers: Hi GK, good evening, sir. I need one clarification regarding your pricing strategy. If we assume that inflationary pressure continues to persist over the coming quarters, is it fair to understand that we plan to continue not taking any price increase in lower-price-point products, partially taking price increases at the middle price points, and fully passing them on at the higher price points? Also, what proportion of our revenue comes from the lower, middle, and premium price points, if you can guide us?

Gunender Kapoor – Founder, MD & CEO: As I mentioned, at the current level of inflation, we do not see any reason to take further price increases in the future. Whatever we have done has been done, and that is sufficient.

About {? 18-20% ?} of our revenue would come from the opening price points. About {? 24-25% ?} of our revenue comes from the highest price points, and the balance lies in the middle, at about {? 50% ?}.

Utkarsh Bhopani – Anand Rathi Shares and Stock Brokers: If inflationary pressure persists, are we open to taking price increases across all price points? Is that a fair understanding?

Gunender Kapoor – Founder, MD & CEO: No, that is not a fair understanding at all. I am absolutely committed to protecting our opening price points. I am further saying that, at the current level of inflation, our business does not need any further pricing increase. Whatever had to be done has

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been done.

I want to maintain a stable pricing environment and not expose our customers to volatility in terms of our pricing.

Utkarsh Bhopani – Anand Rathi Shares and Stock Brokers: With this pricing strategy, do you expect gross margin to remain stable on a year-on-year basis in the second half?

Gunender Kapoor – Founder, MD & CEO: Yes, please.

Utkarsh Bhopani – Anand Rathi Shares and Stock Brokers: Thank you very much, sir.

Gunender Kapoor – Founder, MD & CEO: Thank you.

Operator: Thank you. Ladies and gentlemen, we will take that as the last question and conclude the question-and-answer session. I now hand the conference over to the management for closing comments.

Gunender Kapoor – Founder, MD & CEO: Firstly, thank you very much for your presence in this meeting and for your questions. I really appreciate the couple of hours that you have chosen to invest with us.

It is indeed very inspiring and encouraging for us. I always feel energized after our meetings because I find your support and positivity energizing for me and all my colleagues in the business.

I look forward to catching up with all of you, either one-on-one, at the next investor conference, or elsewhere. Until then, goodbye, take care, and all the very best. I look forward to the next opportunity.

Operator: Thank you, sir. On behalf of Vishal Mega Mart Ltd., that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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