"Investor Call of Future Retail Limited"

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Moderator: Ladies and gentlemen good day and welcome to the Investor Call of Future Retail 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 conference call, please signal for an operator by pressing '*'followed by'0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Reenah Joseph. Thank you and over to you.

Reenah Joseph: Good evening everyone. Welcome to the investor call of Future Retail Limited. Today we have with us the management of Future Retail represented by Mr. Kishore Biyani– Chairman and Managing Director, Mr. Sanjay Jain – CFO, Future Group and Mr. C.P. Toshniwal—CFO, Future Retail Limited. I now hand over the call to Mr. Biyani for his remarks. Thank you and over to you Sir.

Kishore Biyani: Good evening. I want to start by saying that in June last year we started an event called 'Reborn' at the Group level and we thought about how the Group should be reorganized and how the Group should be reborn looking at the opportunities of the consumption market going ahead. We set ourselves an objective of building the Group on four pillars. First pillar is to expand our small store network, second is to build Omni-channel capabilities in the organization, third is to look at how we can use the database to sell more to the same customer and the last is to build an overall FMCG business at the Group level. It's been a year and we have seen the listing of our company Future Retail Limited as a pure retail company with a very strong presence in close to 244 cities of India. Our company is significantly driven by technology and is focused on generating positive cash flows and giving superior return on capital employed to our stakeholders. We have also integrated the two retail businesses, retail front end operations of Walmart Bharti previously owned by erstwhile Bharti Retail and erstwhile Future Retail Limited, to form the new pure play retail entity which is now called Future Retail Limited. This consolidation has assisted us in actively pursuing a small store strategy which will help us to build our food distribution business.

Currently, we run close to 230 Big Bazaars and 330 small format stores under the brand Easyday. We also run Home Town, Ezone and Foodhall in this company.

We have inducted new Board of Directors at FRL; Mr. Rajan Mittal from the Bharti family has joined us along with Ms. Gagan Singh who used to be the CEO of Benetton and the co-CEO of JLL,a real estate company. Ms. Singh is a Chartered Accountant by Profession. Mr. Shailendra Bhandari, who was the CEO and MD of ING Vyasa Bank and Mr. Ravi Dhariwal who has served at Bennett Coleman, Pepsi and Hindustan Lever have also joined our Board of Directors. We now have a new board with fresh thinking and we're looking forward to capture the consumption business in the country through the formats which we have already created.

With our vision 2021 in mind, we see Big Bazaar stores increasing up to around 325 to 350 stores—in addition to this we also have a larger vision of opening smaller format stores. These stores require a strong logistic network which we have built. With this network, we can reduce the distribution cost by opening more stores around it. We have an ambition to open around 3,000 such stores primarily in rest of the country other than the southern part of India.

Big Bazaar as a brand still continues to maintain its popularity and still emerges as among the top 3 to 5 brands in the service sector in the country. We have also been able to build a very strong brand called fbb which was originally called Fashion at Big Bazaar. It has around 55 independent stores and we have plans to take it up to around 150 to 200 independent stores over a period of next 3 to 5 years. fbb has done well for us and we continue to see a lot of traction on the fashion side of business which has substantially increased over the last couple of years.

Data and loyalty are also emerging as a bigger play for us. We have close to 26 million loyal customers across our various loyalty programs. We are now using big data analytics and technology to see how we can sell more to the same consumer which will probably help us in reducing our customer acquisition cost. We are also working towards premiumization by selling more premium products in a store because we believe that modern trade is always going to be little bit more expensive to operate than the kirana stores. We also have to sell differentiated products. Over a period of last 12 to 18 months, we have done substantial premiumization on our general merchandize range. If you look at our stores and look at our general merchandise from home, fashion, crockery, cutlery to home utensils, I think we have premiumized to a significant extent. This is also true for our offerings in toys, stationary, and luggage. I think this is an ongoing process. We have also been working on how we can make customer visit our stores more often. We have launched the program called Big Bazaar Profit Club wherein you pay Rs. 10,000 and shop for Rs.1,000 every month for a year. We have been able to enroll around 375,000 members in this program and these members are spending more than Rs. 35,000 with us and are coming to our stores more than 12 times a year. I believe this loyalty program alone has a potential to take membership up to a million people which may result in a business of around Rs. 4,000 crores by them coming into our stores for 12 times. We have entered into various partnerships with digital payment partners like Paytm, MobiKwik. We are also in the process of creating a joint card with EMI options along with Bajaj Finance, wherein a customer can buy on credit and pay in five equal installments.

As a pure play retail company, our endeavor now is to grow what we have created and work towards generating a return on capital employed of more than 20% very soon. In the first quarter we came close to generating return on capital employed close to 16%. We expect this to increase as time goes by. Also, our intention is on how can we increase the velocity of our business and how can we convert our stocks into cash? We have prepared a lot of data around this. Earlier, we were looking at weekly reports and weekly performances; now we have changed it into 24 hours. The velocity of doing business is something which we have started tracking. We believe there are considerable benefits of increasing the velocity; it will help us to increase business without increasing the size of our balance sheet. We feel confident that with the kind of velocity which we are trying to build upon, we have potential to bring down the stock from 78 days of sales to 60-70 days of sales probably in this year and we can improve it further as the time goes by. We think small stores format acquired from Bharti Retail has settled down. The larger Easy Day stores were converted into Big Bazaar, which have also settled down. We believe the opportunity of opening small stores and operating at a low cost and getting foothold on the FMCG business will also help us to make that business profitable. This can add to return on capital employed which we are looking forward to.

So with this, I look forward to the interaction with you and answering any question along with my team. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Dinesh Goel from SSG Capital. Please proceed.

Dinesh Goel: I would like to begin by first congratulating the management of the Future Group for delivering the merger in a very timely manner. It is good to see that you have delivered on the promises that you made around same time last year when this was announced. There is clearly shareholder value that is resulting out of it in terms of share prices. My question is more pertaining to actually what you plan to do from here on. You have outlined your plan for the business and where you see the growth opportunity. But if you go back to the financials like how do you see the next step for this company, you will clearly have a very good return on capital employed and return on equity which is already reflected in the first quarter and presumably because this is a lean quarter the successive quarters will be better. Technically this company should be generating a lot of free cash over the quarter as you go. How do you see plans for that, will the company pursue like a M&A policy or can we look to receive dividend. What is your thought process around that and if you can provide any guidance?

Kishore Biyani: I think this company can generate significant cash flow. For us there would be opportunities which can be inorganic because for organic growth the capital won't be required as we will be leasing out the assets. We have to pay for the lease rental deposits and the working capital. If we are able to work smartly on increasing the velocity of sales out of our existing stock, we believe there is lot of juice still left. The speed at which we can operate today, the delivery time for our truck is maybe 3 to 7 days; we have to see how we can bring it down to 48 hours. I think this will help us to look at business from a different speed point of view. If we can increase the business without increasing the balance sheet size or without increasing the capital required, we should have lot of free cash flows and for which the board probably will have to make a dividend policy on the same. We think there can be an opportunity to build an interesting dividend policy in this company.

Dinesh Goel: Will you be guiding the investors over that next quarter, two quarters because you had a PAT of 70 crores this quarter and even if you just annualize that is 280 crores. Probably the full year is much higher than that and that may be a substantial amount of money for the company and potentially a big dividend for the shareholder.

Kishore Biyani: We have a working capital limit in this company; the usage varies from Rs 900 crores to Rs 1500-1600 crores depending on the season. On an average let's suppose we have a debt of around 1100 crores or so. I think the company would first like itself to be a debt-free. I think that's a policy decision which will have to be taken. But surely the capital is not required to grow and open new stores for us.

Dinesh Goel: Your tax expense for the quarter was nil because you have tax losses from the merger and demerger exercise. This can be expected like in how much time your tax will go back to the 30% statutory tax rate like how long will you enjoy this benefit? Is it one or two quarters only or is it going to be a little bit longer?

Kishore Biyani: It is a very interesting point. We believe if we retain the profit, looking at the profit of this quarter, we can sustain this for the next 3 to 4 years. We have significant losses to be adjusted because of the merger exercise.

Moderator: Thank you. The next question is from the line of Nillai Shah from Morgan Stanley. Please proceed.

Nilai Shah: My first question is on the free cash flow for the quarter. How much was it for this quarter?

Kishore Biyani: We don't have substantial free cash flow because there was some increase in working capital this quarter.

Nilai Shah: The second question is that the profit if you look at the run rate on the EBITDA is slightly lower than what you were delivering over the last few quarters despite pretty strong store addition. So is the Easyday business loss making at this point in time at the EBITDA level?

Kishore Biyani: Yes the Easyday business is still negative at (-) 3.5% to 4% for the small store business. The large store business has become Big Bazaar and has turned profitable.

Nillai Shah: This small store business when can we expect that will it ever reach the EBITDA levels of Big Bazaar?

Kishore Biyani: The overall gross margin in the small store business is around 18%-19%, so you cannot reach the EBITDA levels of Big Bazaar. Big Bazaar has a higher proportion of non-food which has higher margins. Big Bazaar store levels EBITDAs are in excess of (+) 12%. The margins are not enough in small store business to get to that kind of EBITDA levels. In a much evolved state EBITDA is expected to be around 5% to 6% in small store business.

Nillai Shah: The next 2-3 years where do you envisage these margins to go?

Kishore Biyani: With the 3,000 stores in operation and with lot of emphasis on the FMCG which we are also building up, I believe this can become a very interesting model. We believe to take margins from 18%-19% to 22%-23% is possible. Your supply chain cost in this business is around

3.5% to 3.75%. I believe with size and scale you can bring down the supply chain cost to close to less than 2% so that's another big savings. So we see these two deltas coming up in the next 2 to 3 years.

Nilai Shah: But this alone will add up to 500-600 basis points.

Kishore Biyani: That's what this business is all about.

Nilai Shah: What are your CAPEX requirements for the group entity which will obviously be for Future Retail in many ways? So what will be the CAPEX requirement, still about Rs. 300 to 400 crores?

Kishore Biyani: I think around Rs. 300 to 400 crores based on the 28-29 stores which will come up this year.

Nilai Shah: That will have to be funded by asset sales in the enterprise business?

Kishore Biyani: Yes, so we have assets like equity stakes in Centrum, FLF, Future Consumer Enterprise and we also have stakes in insurance companies.

Nilai Shah: When will the first leg of the divestments take off?

Kishore Biyani: We, recently, divested our stake in Future Supply Chain business for close to Rs.185cr; we have made some divestment in terms of some shares in Centrum. We expect probably in the coming quarter some more divestments to come up.

Nilai Shah: How will you ensure for the benefit of investors and shareholders an arm’s length transaction between the lease rentals that Future Retail will pay to the enterprise business?

Kishore Biyani: We have entered into a contractual agreement for the operating lease rental business. The lease arrangement is also at an arm’s length basis as the Board of Directors of both the companies has ratified these agreements. The lease rentals vary depending on the age of the asset, with higher lease for newer assets as compared to older assets. We expect the lease rentals also to reduce once the age of asset increases. Lease payments vary depending on the class of the asset and age of the asset.

Nilay Shah: How do we possibly build that into our forecast?

Kishore Biyani: The lease ranges from 5% to 13% depending on the asset and the age of the asset. So zero to one year of an asset is highest and after five years the prices come down on the lease rental.

Nilay Shah: Just because the depreciation charge will keep coming down for Future Enterprises?

Kishore Biyani: Yes.

Nilay Shah: On this inventory you mentioned it is 78 days of sales currently. You said you envisaged that going to 60 to 70 by the end of this fiscal year itself?

Kishore Biyani: Right.

Moderator: Thank you. The next question is from the line of Kaushik Poddar from KB Capital Markets. Please proceed.

Kaushik Poddar: Kishore what is the differentiating factor as far as your small stores business is concerned because this is the first time I'm hearing you giving so much emphasis on the small stores. So if you can elaborate on the strategy you should be following in order to differentiate your small stores from other small stores.

Kishore Biyani: In the small store business, there are very few players. If you look at the competitive landscape there is More, there is Reliance Fresh, there are some regional players and Spencer's is present in some parts of India. We believe there is an opportunity to build a small store business because Easyday had a well institutionalized business on the small stores side. They perfected a prototype of 1600 sq ft and 2400 sq ft and we prototyped at 800 sq ft. So we now have three prototypes 800, 1600, 2400 sq ft stores. We believe that hypermarket is meant for large-size purchases which is a fortnightly purchase or a monthly purchase on the food cycle and a neighborhood store normally does the top-up. We believe since we want to retain and maintain the leadership position in our retail business, small store strategy becomes important because with large stores it will be difficult to expand beyond a point. If you look at our large store strategy, we already have 230 stores and we are not talking more than 350 stores. So it will be an addition of around 25 stores a year. You will not get properties more than that so ultimately one has to move into a small store strategy and in a fashion format fbb which we are growing into.

Kaushik Poddar: What is the overall composite margin you are looking at three years down the line?

Kishore Biyani: I think it will again vary on the amount of food business. If you look at our nonfood business currently it is in excess of 50% which is very rare for anybody else to do. As we increase our food business the margins composition will change but then our fashion business is also going to increase because of the independent fbb stores. I believe that will offset the increase of our food business as well. We also want our fashion business to grow substantially. Our target is whether we can do Rs 10,000 Crore fashion business by 2021.

Kaushik Poddar: What about the overall turnover by 2021?

Kishore Biyani: Once we have around 350 stores of Big Bazaar and 150 stores of fbb and 3,000 small stores we are aiming at a top line in excess of Rs 40,000 Crores.

Moderator: Thank you. The next question is from the line of Bhavesh Divecha from L&T Mutual Fund. Please proceed.

Bhavesh Divecha: The impact of Ind AS, it might have on both companies Future retail and Future Enterprises as well as in terms of margins, how do we look at margins panning out forward because Q1 we thought that overall our EBITDA margins were weaker as compared to previous quarter, so if you can just give some idea on that.

Kishore Biyani: On the margins I have already answered the question that the Easyday business has come in and the lease rental is also included in our rentals. So if you look at our EBITDA number it will also be marginally lower because of the food business of Easyday coming into our business.

Bhavesh Divecha: What was the lease in Q1?

Kishore Biyani: Our lease rentals in the first quarter were around Rs 145-148 crores.

Bhavesh Divecha: But still if we adjust for that it will still be of 5.5% kind of…

Kishore Biyani: No it will be around 6.7%.

Bhavesh Divecha: Which is still a lower rate because you are saying Bharti Retail came into play?

Kishore Biyani: Easyday business, yes.

Bhavesh Divecha: Also regarding the impact of IndAS if any on the company?

Management: The impact of IndAS is not much and this first quarter result is prepared according to IndAS. So from here onwards we will be reporting accounts on IndAS basis only.

Bhavesh Divecha: That is on the P&L but in terms of balance sheet are we expecting any impact?

Kishore Biyani: Nothing substantial.

Moderator: Thank you. The next question is from the line of Tanmay Sharma from Edelweiss. Please proceed.

Tanmay Sharma: In terms of M&A we are hearing also now that More might get acquired. So could you elaborate, does it make sense because clearly there will be duplication and any way there is still lot of change is going on, online retail is also a potent threat, so if you could elaborate on that part.

Kishore Biyani: Firstly on the online side of business let me answer that food and fashion are not a large component of online business, especially food. I think as a Group we do more business on fashion than the entire online companies put together. Secondly, we won't like to comment on any market speculation and media story on acquisition or a merger of any other competitive business at the moment.

Tanmay Sharma: My second question is I see marked increase in the ads of Big Bazaar. But any plans to also offer it online because now you have Big Basket or the Reliance Smart etc. which I think lot of consumers find lot of convenience and definitely a lot of consumers using in the bigger cities, so any plans on that?

Kishore Biyani: We have experimented with many formats to look at the online channel. We still believe you cannot make money in online business because the cost of doing business is very high. In fact we have dropped a lot of initiations which we had done to go online, especially on the food side of business. It's a difficult category and cost of home delivery on every transaction is more than Rs. 65 and the minimum order size is not more than Rs. 450-500. I think the cost of doing business online currently will not help us increase our return on capital employed in this Company. At the same time, we are working a lot on the digital side of business by creating Omni-channel capabilities. You can order from your home and pick up from the store. You can order something from the store and we will deliver it to your house. So there are multiple things which we are doing to use technology to do our business. But doing pure online is something which we are currently refraining from. We believe if the market conditions improve and the customer is willing to pay more for delivery then we might still look at it. We have that capabilities to do that but we are currently not engaging in it.

Tanmay Sharma: Lastly on the fashion part of the business; you have fashion in multiple entities. We are seeing a single brand retailer set up their own shops now because FDI 100% is allowed. We are also seeing now online players setting of physical stores, so do you see this as a threat or this is one of the passing fads, already online is seeing lot of churn, so what's your view on that as a risk?

Kishore Biyani: I somehow believe lot of people read a lot of newspapers. I have not seen a single online brand store yet in this country.

Tanmay Sharma: That's a plan.

Kishore Biyani: Planning and actually doing business are two different things. The biggest fear of the retailer is to open the store and the customer doesn't come in.

Tanmay Sharma: Flipkart now has got the two largest online fashion portals, so is this is a bigger problem or you think that because these are being unviable they have been sold off so this doesn't really solve the profitability issue for these companies?

Kishore Biyani: We are concentrating on our business. Just to give you some statistics; even in US after 20 years of online business physical retail is still 92%. Retailers will still operate physical retail and we have decided to be a physical retailer. Compare us to a physical retailer rather than compare us to online retailer.

Tanmay Sharma: Because for the consumer both compete, so I'm asking from the consumer point of view.

Kishore Biyani: Let the consumer decide where they want to shop at.

Moderator: Thank you. The next question is from the line of Mayur Gathani from OM Portfolio. Please proceed.

Mayur Gathani: You said currently on Easyday we are at 300 stores, right?

Kishore Biyani: 330, yes.

Mayur Gathani: And we want to expand this to 3,000 stores over the next 3-4 years time?

Kishore Biyani: 5 years, by 2021.

Mayur Gathani: This CAPEX plus the 25 stores Big Bazaar CAPEX all depends on how Future Enterprises monetizes it assets, right?

Kishore Biyani: Yes or we can do operating lease from anywhere else also. We are also open to entering into operating leases with other players. I think we have created a model of operating lease right now.

Mayur Gathani: So that is not completely dependent on Future Enterprise my point was that only.

Kishore Biyani: Yes.

Mayur Gathani: With negative Easyday margin at 3% to 4% when do we see this coming to a breakeven level at a certain scale?

Kishore Biyani: I expect in the last quarter we should be very close to becoming positive or we should be positive. If we get the productivity which we are looking forward to I think we should be positive.

Mayur Gathani: One thing you mentioned was the supply chain cost 3% to 4% bringing down to 2%. There was one more thing that you mentioned how can the margins improve on the food side?

Kishore Biyani: The margins will increase based on the strategy of the Group in the Food & FMCG side of the business.

Mayur Gathani: Any specific reasons why we are looking at even 800 when we have 2400 and 1600 or where do we intend to grow more on which size or it's going to be all three?

Kishore Biyani: It depends on the availability of the properties since we have a larger ambition so we are working on three prototypes right now.

Mayur Gathani: And this primarily will be North to South?

Kishore Biyani: We are not looking at South at the moment because currently all of our distribution centers are based in the northern part of India. Right now, in the first year, our focus will be on the northern part of India. This model works on the building up a distribution center first and then opening up the stores. So we have just opened a distribution center in Jammu, we have also opened distribution centers in Dehradun, Haridwar. So, wherever we open a distribution center, we will open 100 stores there first.

Moderator: Thank you. The next question is from the line of Rahul Agarwal from VEC Investments. Please proceed.

Rahul Agarwal: The question was really to understand for the 1Q reported results. Does it give a true picture of the retail operations as in terms of April, May and June? Does it have only Easyday and all our Future Retail's front-end business purely starting from 1st April of 2016 and coming to 30th June?

Kishore Biyani: Absolutely, yes.

Rahul Agarwal: So we can consider as a steady-state operation obviously given.

Kishore Biyani: Absolutely.

Rahul Agarwal: That should continue for fiscal 17-18-19, right?

Kishore Biyani: Absolutely.

Rahul Agarwal: In terms of the Easyday operations just wanted to know how do you track it as of now and post the merger it's been almost 12 months, do you really see the same-store sales growth? What kind of actual top-line contribution did Easyday have in this quarter? How did you reach to 330 stores because I don't think it was the number when you actually bought it, it was about 200 total?

Kishore Biyani: I think we opened 60 stores and we added up other KBs Fair Price stores which we had in our system.

Rahul Agarwal: And the Easyday contribution in this quarter was about how much?

Kishore Biyani: Easyday contribution was close to Rs 400 crores.

Rahul Agarwal: On that you said it's about 3.5% to 4% negative on EBITDA, is that right?

Kishore Biyani: Yes.

Rahul Agarwal: Just wanted to clarify the store leases will still continue to be signed in this entity, right FRL?

Kishore Biyani: Future Retail holds all the leases of every store.

Rahul Agarwal: So that stays into Future Retail Limited?

Kishore Biyani: That will always stay here.

Moderator: Thank you. The next question is from the line of Chetan Wadia from JHP Securities. Please proceed.

Chetan Wadia: Just to continue that question, what kind of ratios are you currently working on in terms of debt EBITDA and EBITDA to interest if we assume that the operations on the financial front are stabilized?

Management: We have a capital of Rs 3,200 crores and our weighted debt for a year would be around Rs 1,100 crores so the debt to EBITDA is very comfortable.

Chetan Wadia: Is it the debt EBITDA level you would like to work on when you open new stores in the years ahead?

Kishore Biyani: This Company is not incurring any debt to open new stores. We are working on the operating lease model as we said.

Chetan Wadia: The gap between the gross margins and the EBITDA is large right now. What are the operating level efficiency that you are currently working on which will help improve the margins and what are the internal targets?

Kishore Biyani: There are three areas where we can improve our margins. One is the increasing margins by changing the product mix as well as earning higher margins on the products which we sell. Second, by reducing costs and the third is by increasing productivity which will also increase the margins as fixed cost remain the same. We are working on all the three parameters. Reducing cost has always been challenging. Increasing margins is again a function of various strategies. I think we have worked well on strategies of premiumization and increasing the share of nonfood items which deliver much better margins.

Chetan Wadia: Just upon this online part, I just want to ask one more question. Amazon is hugely committed to the India operations and it is making rapid inroads for the market per se, so what challenges do the global giants like Amazon pose for the brick and mortar retail and how is the company poised to counter this?

Kishore Biyani: I personally believe online business is running on negative margins of 20% right now. That data and statistics can be verified by you all people. Somehow they should be worried about us rather than we being worried about them.

Chetan Wadia: Can you throw some kind of guidance that the revenue or the margins that you are currently looking forward to by end of FY17 or maybe 18 perhaps?

Kishore Biyani: I think it's a journey to be very honest and the objective of every organization is to keep on increasing the margins, reducing the cost and increasing the productivity. We have our internal benchmarks. But there are certain things which are beyond our control, the minimum wages in Delhi increased disproportionately last week. There is lot of events happening around us which increases the cost of doing business.

Chetan Wadia: Of the total turnover for the quarter how much does private label contribute?

Kishore Biyani: In fashion, our own brands account for nearly 95% of our business. In general merchandise we have touched nearly 65%-70% and our ambition in the food at the Group level is to have a significant share by 2021.

Moderator: Thank you. The next question is from the line of Rishabh Chudgar from Enam Holdings. Please proceed.

Rishabh Chudgar: Just a quick question regarding the interest rate which in the quarter seems to be pretty high. So are there any one offs which are sitting in this interest rate and what would be the potential interest expense going forward?

Kishore Biyani: Our interest rate is around 11.5% and in addition to this some interest provided on the OCD given to the Mittal's.

Rishabh Chudgar: Would it be possible to give us split of that?

Kishore Biyani: Rs 3 crores is the interest on the OCD.

Rishabh Chudgar: Going forward how would you see your incremental working capital to sales ratio?

Kishore Biyani: This will be the most interesting part of our business. We feel good about the system which we are building, the velocity of sales which we are tracking. If we generate higher velocity in sales I don't think we will require more working capital to achieve the target. I believe as an ambition we want to do more than Rs 25,000 to 30,000 crores of business with the same amount of stock level.

Rishabh Chudgar: Could you tell us the current working capital which is there in this quarter?

Kishore Biyani: On sales basis we have stocks of around 78 days and on a forecasted basis of turnover for this year we would like to bring it down to 60-70 days.

Rishabh Chudgar: Another question regarding the Easyday business since you are saying that you will see a turnaround of this business going forward. What is the potential ROCE this business can generate over a longer period of time?

Kishore Biyani: ROCE of this business will be in single-digit to start with and we expect it to reach to high-teens by 2020.

Moderator: Thank you. The next question is from the line of Dinesh Goel from SSG Capital. Please proceed.

Dinesh Goel: Mr. Biyani I have one more question. You mentioned the interest rate on your debt on an average is around 11.5% to 12%. Do you see that as coming down in the next year or so given that the general direction of rates in the country has been lower?

Kishore Biyani: We have to go with the macroeconomic trends out here. If the economy and inflation and the RBI policy gets the interest rate down definitely we will benefit. Secondly, we should also be benefited with the strengthening of our balance sheet. I think we should be working harder towards bringing our interest and borrowing costs down.

Dinesh Goel: And on the private-label side you mentioned that in the food business there is a focus to grow it higher. Is that the reason why you see the gross margin of the small store business going from 18-19 to 22-23 or as the private-label business increases that will go even further?

Kishore Biyani: We look at it not as private-labels, these are brands in their own right. That's why we have a separate company, we have separate marketing budgets. We have advertising budget of more than 200 crores to build these brands. There is a whole exercise going on to launch new products and multiple things are happening. But, since we don't have any intermediation, the retail Company earns higher share of margins and that will help us increase our margins in this business.

Moderator: Thank you. The next question is from the line of Avi Mehta from IIFL. Please proceed.

Avi Mehta: By FY21 what are number of stores that you are targeting and the revenues?

Kishore Biyani: We are looking at around 350 stores by 2021 from currently to 230 stores of Big Bazaar. We are looking at more than 150 fbb stores and 3,000 small stores. If we are able to open these number of stores our revenue should be in excess of Rs 40,000 crores.

Avi Mehta: On the margin front how we should be look at things?

Kishore Biyani: Margins will be a play of multiple factors and we won't like to give an absolute guidance on that. But we are working towards increasing our fashion business and non-food business, also increasing our food business. So that will be a journey which we have to undertake.

Avi Mehta: It will be more of a play as you said of productivity improvement and gross margin improvement, will those be the levers that you will be trying to play?

Kishore Biyani: Absolutely. I think it will be more about sweating our assets and getting more out of the same.

Avi Mehta: Currently in this quarter we have revenues of around Rs 4,000 crores, it should logically remain at least there if not improve from a current level, right?

Kishore Biyani: The second half is always around 55% to 60% of our business.

Avi Mehta: So it should be better only from here?

Kishore Biyani: Yes. Secondly, in the second half, more number of new stores is opened. In a sense, we are aiming at growth of more than 20% over the last year, currently we are at close to 15%.

Avi Mehta: The margin should not come under stress as the focus comes more on small stores?

Kishore Biyani: We are opening 100 small stores; but we are going to open 10 fbbs also.

Avi Mehta: That should help counter the impact.

Kishore Biyani: That's the strategic approach which we have.

Moderator: Thank you. The next question is from the line of Ashwin Balasubramaniam from HSBC. Please proceed.

Ashwin Balasubramaniam: In terms of private labels, so this would be manufactured or sourced in Future Enterprises, is it?

Kishore Biyani: Future Consumer Enterprise is our FMCG Company. They have set up 40 manufacturing plants and lot of joint ventures to build a portfolio of Food and FMCG production brands.

Ashwin Balasubramaniam: What will be the proportion of Easyday stores which will be currently breaking even?

Kishore Biyani: There are 70 stores which make money out of the 330 stores.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Kishore Biyani for closing comments. Over to you Sir.

Kishore Biyani: Thanks for participating in this conference call. We wish to engage with you every quarter to talk about the developments at Future Retail. We believe, the new company has been reborn in a new avatar and we will work towards giving you superior results. As our customer, we are keen to have you all to shop at our stores and we would love to serve you better because I believe the best thing to look at in the retail business is to visit stores and see how we perform there. We specially request you to visit one of our new formats, which is called the Big Bazaar Gen Next store. We have already opened three of these stores while three more are in the pipeline which will be opening in Mumbai. Big Bazaar Gen Next stores operate on margins which are unheard of and once you go to that store you will feel what we believe is the future of Big Bazaar. Thank you.

Moderator: Thank you very much Mr. Biyani. Ladies and gentleman that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.