

'We have not seen any hit on our margins'

Launched in 2007, Aditya Birla Retail, part of Aditya Birla Group, plans to be a \$4.5-billion company by 2013. The growth will be driven by opening new stores, launching private labels and creating higher efficiencies. In an interview with Raghavendra Kamath, Chief Executive of Aditya Birla Retail Thomas Varghese says that all the retailers are struggling in the industry at different degrees moving up the learning curve. Excerpts:

In India, while some retail chains are still struggling to survive, Aditya Birla Retail (ABRL) has moved quickly. How has your business model done so far?

We are all struggling and it is only a question of degree. Because retail is a tough job. It's all about learning up the learning curve. We walked into the business without any domain knowledge other than the knowledge we got through our Trinethra acquisition. We don't have a JV with any international retailer.

So, do you think your solo act in retail has worked?

I would not want to pass any judgement at this point on what

works and what does not work. I think it's a long journey. I think at ABRL, we are trying to see whether we are doing the right thing and building the business so that we have a rock-solid foundation. As long as we are confident of doing that, I think we are on the right track. We have adopted the best practices and located the right stores. We do the catchment study, the way it should be done. We will not open dummy stores. We have opened and everyone has opened. Because there was a time everyone focused on numbers. Increase to 1,000 stores—everyone went to town saying we will open 1,000 stores or 2,000 stores. Actually,

now we are seeing the reality. Most of them are now on sale. It's a tough call.

Is it the decline in sales that has hurt the retail industry or increasing real estate costs that have made ventures unviable?

My personal view is that it is much to do with sales decline. It's got a lot to do with business model. How did you execute your business model. For a simple example, my business model says my rent to revenue ratio should not be more than 4 per cent. This means at Rs 1,000 a square feet of revenues, which is good business by any standards, rent should not be more than Rs 40 a square feet. If I pay a rent of Rs 150 or Rs 200 a square feet in cities such as Mumbai, I have to do a business of Rs 5,000 a square feet to make your store break even. You can not do a business of Rs 5,000 a square foot, nobody can do.



Fitch ratings said retailers are seeing decline in margins due to slowing sales, and offers and discounts have squeezed their margins further. What kind of hit have you taken?

We have not seen any hit on our margins either at hypermar-

kets or at supermarkets nor have we seen any significant decline in our volumes. Food business is completely intact and we have grown our revenues.

Why aren't you launching discount offers and promotions as aggressively as other retailers?

In that case, your store only sells when there is a discount, other days stores are empty and there is no sale in the store. You can't be doing such events every second day. After some time, your employees get fatigued and then your customer get fatigued after some time. Nowhere in the world you create demand by events. As the customers mature in the modern trade, they always look for something better. They get jaded with just anything average.

Almost all the retailers have tied up with foreign retailers. Why have you not tied up with anyone, so far?

We are not averse to it. But there should be value. Players available today in our view does not add up any value. That's our position as of today. Anything can happen tomorrow, given the pace of developments taking place nowadays.

In 2007, the Birla group talked about Rs 9,000 crore investment. Will you continue with that given the market conditions and when most of the retailers are going slow?

Our plans are more or less in line with our business plans for five years. Just to give you an overview, we want to be \$4.5-billion (Rs 20,000 crore) company by 2013. I am telling this because you asked me a specific question. I would say what is really important is how we are planning to move ahead and how we are going to build it up over time. These numbers just give you a milestone, where you need to move.