

SHOPPERS STOP

START SOMETHING NEW

“Shoppers Stop Limited Q3FY15 Earnings Conference Call “

February 2, 2015

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MANAGEMENT: **MR. GOVIND SHRIKHANDE – CUSTOMER CARE
ASSOCIATE & MANAGING DIRECTOR, SHOPPERS STOP
LIMITED**

Moderator: Ladies and Gentlemen, Good Day, and Welcome to the Shoppers Stop Limited Quarter ended 31st December 2014 Earnings Conference Call. 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 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. Govind Shrikhande – Customer Care Associate and Managing Director at Shoppers Stop. Thank you and over to you, sir.

Govind Shrikhande: Thank you. Good Afternoon, friends.

We are on Page #3 of our quarterly presentation. New stores, we opened 1 department stores Bangalore, 1 Bobbi Brown's standalone store in Delhi and 1 shop in shop in Vizag. We also opened a Crossword store in Bangalore and 1 franchisee store in Nagaland during the quarter. First Citizen Program continues to grow well at more than 3.6 million members and contributing 72% of our sales.

Moving on to Page #4 – We got 2 awards on Super Brand and second was on 100 Most Valuable Brands.

Page #5, We can see expansion across India. So across all formats we have now 234 stores covering more than 5.7 million square feet in 34 cities.

Page #6 – We can see the total net addition for the quarter as well as December 31st, the total numbers adding up to that same 5.7 million square feet that we looked at.

Page #7 – Are the photographs of our store in Bangalore which is 56,000 square feet opened on 2nd October and it is part of Forum Mall.

Coming to the Key Financial Highlights for the quarter:

Overall sales growth in the Department Store was at 5.8% at limited level, it was 7.1%. The like-to-like growth was soft during the quarter at 1% approximately, two reasons, one is Pooja last year's versus this year there has been a shift, last year Pooja came in quarter three and this year it came in quarter two and that's why we saw quarter two sales like-to-like growth up by 11%, I believe about 3% of that can be accounted in account of Pooja, so that was one impact. Second big impact that we saw was basically the online drive wherein we saw all the online players going into huge amount of discounting and large amount of advertising. We actually tracked the kind of advertising spend of all the major players, it turns out to be almost about 300 crores

approximately was our spend and if you add up all the physical store guys advertising during this quarter, maybe it was less than 30 crores. So definitely a big disruption on hand and I will talk later as soon as I complete the number on how do you want to tackle this part. But the other part is, while department store saw a like-to-like slowdown we continue to see a very good growth in the other format in the like-to-like so Hypercity when I will talk about it later on is 9% like-to-like growth and almost 20% sales per square feet growth. Same thing for Crossword, after a long period of time we are also seeing a good like-to-like growth there of 9% and HomeStop of home format has also done pretty well at a 7% like-to-like growth. So slightly a mix bag in terms of like-to-like growth.

Next page on Page #9 – You can see the change in customer entry, conversion, transaction size as well as ASP. After a long period of time we have seen a volume de-growth of 1%. For the last four or five quarters we have seen continuously the growth came in at 50% through volume, 50% through ASP but at a lower level of like-to-like growth we are actually seeing a de-growth in volume. I am sure we will be able to catch up on that during the current quarter but I see this as more of a one off situation than anything else. Overall, you can also see that average selling price growth has also come down and it running only at about 2%. Earlier if you look at our averages per year we are running at about 5% to 7% ASP growth during the year, this quarter definitely is much lower. But the lower entry has been compensated through higher conversions and the higher ticket size which has also grown by 2%.

Moving on to Page #10 – We saw a 10 basis points growth in our private label share, it is now at 15.6% and as I have been mentioning earlier about target for the next two year it should take to 19% and 22% in the next two financial year. Merchandize buying model bought out has come down further and is currently at about 42% almost similar at last year levels.

When you look at category wise sales, apparel continues to grow faster and non-apparel has seen a drop. Fundamentally we are having three big categories that have been growing very well for us over the last five or six quarters, one of them has been ladies western, even in this quarter we saw more than 19% like-to-like growth in this category. Second is beauty in which MAC Clinique have recorded more than 20% like-to-like growth, even kids wear has grown by 9% like-to-like. The category that is still dropping continuously is fine jewelry which has de-grown by 25% and that is what is impacting the non-apparel de-growth. So in reality, the online drive has actually not impacted so much of the ladies fashion, some amount of men's fashion has definitely taken a hit and that's the category that we need to really work upon.

In terms of divisional mix we can see that menswear contribution has dropped slightly from 33.7% to 33.2% whereas women's wear has gone up from 19.4% to 20.5% and kids wear has also gone up from 8.6% to 9.2%.

Page #12 – Shrinkage, very much under control and in fact lower than the earlier quarter for the same quarter last year.

Moving on to Page #13 – Top line sales are up by 7% from 813 crores to 871 crores. Margin on sale were up by 10 basis points from 35% to 35.1% in terms of value from a 280 crores to 301 crores. Our operating cost went up by about 50 basis points and higher than the sales growth at 9%, as a result you can see operating profit or EBITDA flat as compared to last year from 52.6 crores to 53.5 crores but as a percentage it has actually dropped from 6.6% to 6.2%. As you are aware this year Companies Law has changed depreciation act and that's why the depreciation has gone up and we are seeing an impact in depreciation of almost 43% and that's why it has gone up from almost 14 crores to 20 crores and that's why you are seeing impact on PBT as well as PAT and both have a drop from by 21%. So PAT from last year's 17 crores we are at about 13.77 crores which is from a 2.2% last year to 1.6%.

Before I take on consolidated I will take you through the Hypercity numbers and then come back. So let's go straight to the page number #21. Good quarter for Hypercity to report back again like-to-like sales growth at 8.7% excluding CDIT and as I mentioned earlier like-to-like sales per square feet at a 19.7%, very healthy growth and it really proves that all the reduction in size that we have been trying to do is helping our productivity for sure. Fashion, again scoring very well, it has grown by more than 34% this quarter and now at a share of 16.1% and it has also helped us to really ramp up our margins by 120 basis points. While all the good work is on as far as productivity is concerned, the good work in reduction of OPEX also continues and OPEX has actually de-grown by 2.5%. So store operating profit which was only 1.8 crores last year same quarter is at 9.2 crores and I am very happy to report that for the second consecutive quarter Hypercity has reported company EBITDA positive at 16 lakhs versus last year's 11.13 crores loss, so it is a 11 crores swing vis-à-vis last year. We also recorded a first ever company PAT breakeven at 5 lakhs after considering the property option profit.

Moving on to Page #22 – as I mentioned earlier already store sales overall grown by 6% without CDIT running at about 9%, greater than 5 years running at more than 4% and less than 5 years running at 13%. Sales per square feet has also gone up from 1793 to 2147.

Moving on to Page #23 – This business has seen an entry growth so it is up by 3%, conversion is slightly lower but ASP is up by 8% and the transaction size is also up by 5%. We have a volume de-growth of 2% still in this business.

Moving on to financial on Page #24:

You can see there retail sales up from 247 crores to 263 crores. Margin on sale is up from last year 19.8% to 21.2% from a value of 45 crores to 51 crores. You can also see that operating expenses as a percentage has dropped from 21.7% to 19.9% and even in terms of value from 49.6% last year to 48.52%. As a result store EBITDA which I mentioned earlier has moved up from 1.8 crores to 9.2 crores and we are at a healthy store EBITDA level of 3.8 crores, our objective definitely is to make a 6% to 7% EBITDA post 24 months from today and at a store EBITDA profit from there to company EBITDA profit we are now at 16 crores considering the 15.92 on the property income, excluding that we would have made 16 lakhs of profit vis-à-vis last year's 11 crores loss. So at a bottom line level, at a PAT we are at 5 lakhs versus -25 crores in the last year.

Now, before I hand over the mike back, let me talk on two or three big elements that we are currently working on:

One of the big elements that we see clearly is the online sales and the kind of disruption that the online space is bringing to the entire retail field, so two or three issues that we are really taking up is one is a strategy in play to really take online head on, so three pronged strategy that we are currently working on is in this quarter we will also have some of our private label start selling on market places, so this is the starting point for getting online in a bigger way. Number two is we already finalized the stack for investment in terms of infrastructure and IT and we will start executing this investment starting March end and we believe it will take us about three quarters for this execution to start giving us result for an improved online performance and from the fifth quarter onwards you will start seeing working towards the Omni-channel play. So over a six to eight quarters you will see us ramping up first marketplace then online play and then Omni-channel play, because we believe in the long-term overall if you look at globally between 8% to 10% of sales of the major retail players is coming out of online and it is not only online it is online Omni-channel and multichannel play that is taking place. So physical stores are still not going away and we still believe that even in the most advanced countries like US the share of online still is 8% and our target is can we hit a 10% share over the next three to four year period which is our stated objective and we will take it up from there higher and higher level. So that is the part of the strategy

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that we are trying to unravel. Number two strategy is also how we can leverage some of these disruption practices across our businesses.

So I think I would have mentioned this in one or two of the analyst con calls earlier or in analyst conferences, so one of the big issues that happened again during this quarter was the launch of a book called Half Girlfriend. Now we did not know that some of the governments are going to take it very seriously like Maharashtra the Half Girlfriend terminology but we definitely took the advertising very seriously and decided that to really ramp up the availability of Half Girlfriend across all our formats might help us and I am very happy to inform you that Half Girlfriend has now turned out to be the highest ever book sell across Crossword entire history till now We have sold more than 62,000 books of Half Girlfriend, I do not know the merit of the book but definitely in each of our format we have sold more than 22,000 each across Crossword, across Hyper and across Shoppers Stop and in our earlier avatar we would have only sold maybe 25,000 books only in Crossword. So by leveraging our entire format we have been to do this. So we believe there is enough potential for us and our brand to really multiply this factor of trying to unravel or unbundle the power of each brand and accessibility of each brand and take it to the next level. So that is the kind of strategy that we would like to adopt in really take it as, and I am also happy to report to you that two of our formats have also turned around better this quarter so for example

I am happy to report that HomeStop has now turned PAT positive and it is now tracking at a EBITDA level similar to Shoppers Stop and we believe just like Shoppers Stop it is tracking on a 6% EBITDA today and moving towards the 8% over the next 24 to 30 months I believe HomeStop will also be tracking towards that kind of a number over the next 24 to 30 month period. So a good turn around as a format and customers have liked the format well and are making money.

Crossword which has also been under struggle because of the kind of struggles that the book industry has gone through, I am very happy to report that this quarter it has turned EBITDA positive and I am sure that we will be able to make this format PAT positive in the next financial year with the kind of strategies that we adopted. For example, if you remember I had mentioned that a toy is a big category that we are trying to drive in the Crossword book business. Toys in this quarter has gone up in like-to-like basis by 40% and after a long period of time, thanks to the success of the various books that have been launched in this quarter, we have seen books business also growing like-to-like by 4%. Books still continues to be the majority of Crossword business at more than 60% share but toys now is almost accounting for 13% of the business.

So it is a good turnaround again in these two formats. So I still believe that overall in the long-term direction that Indian government is taking is although there is a lot of talk on 'Acche Din', on the ground level we still have not really seen any impact of 'Acche Din' when the consumer is concerned, but we do believe that with the kind of policies that they are adopting and the push that they are giving for investment on infrastructure, investment in manufacturing and the kind of budget that is being talked about, we believe that second half of this financial year, the next financial year should be very-very good and with the sentiments coming back we also believe that consumers will have more money in their hands and if they have more money in their hands definitely there will be more spending power and that should definitely help the entire retail industry. We also believe that milestone announcement on GST would also help the retail industry because as all of you know that GST is likely to help the service tax on rent issue that the entire retail industry is facing whereas we can get a set of almost 90 basis points to 100 basis points against the current 140 basis points impact that we see because of rentals.

So with these two pointers I would hand over the mike back for any question answers.

Moderator: Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Sir, first on the demand front, we have seen a very sudden drop in demand, you highlighted that part of it could be to do with Pooja effect...

Govind Shrikhande: Shift of the season, yes.

Avi Mehta: Yes. But what exactly even despite that, even if I kind of adjust that you are still looking at a 3% kind of...

Govind Shrikhande: Yes, about 4% would have been the number.

Avi Mehta: Yes, 3%-4% kind of number. So what exactly in your view is driving this moderation and how do you see things kind of progressing going forward?

Govind Shrikhande: No, as I did mention that we are actually not seeing it panning out across various category, so that is why I mentioned that within various formats that we have we have not seen that kind of an impact let's say in the book store business, we are just seeing a like-to-like of 9%, we have not seen that kind of an impact Hypercity division, the food and grocery which generally does not take too many swing where we are seeing

a 9% like-to-like growth. In HomeStop again as I mentioned we are running at 7% like-to-like growth. So yes there is definitely an impact and as I mentioned there are two categories that we clearly see that the online players are gunning for, one definitely is the menswear category where we have seen definitely some amount of softness and yes the non-apparel category as well, whether it sun glasses or watches which are much easier to shop because of discounting because there is no size constraint in it.

Avi Mehta:

Okay. So sir if I were to kind of be a little more specific, could you just give us some color on how the January period has been and also could you take this online bit a little more, is it globally the way globally what industry would contribute the largest share I mean would you have any other data point that you could share?

Govind Shrikhande:

So globally online actually does not play the way it is being played in India, so currently I think last quarter also I had mentioned this that the Indian government runs NREGA whereas PE funds run Snapdeal, Flipkart, etc. So all these guys can be funded by foreign dollars but Indian retailer cannot bring any investment anywhere and all the online players currently if you ask them on their P&L, none of them is willing to talk about their P&L, none of them are looking at their P&L because they are getting funded between 2 billion to 4 billion based on the valuation that is there. So it is a uneven battle of disruption and I think we will have to live with it, we cannot complain about it but we will have to really act on it based on our own strength of the model until we add on within our own strength how do I make the experience as a store better, how do I add more exclusive product in the store and how do I make my online better than anything else that is available. So I think it is a challenge model in that sense and globally nobody runs and operates, even Alibaba which is a 250 billion whatever market cap today, it does not operate in this kind of a discounting model, it is a market place that allows people to come and sell and retail at full price as far as possible, in India we are actually discounting it too much. So coming back to how does January look, January looking quite okay, January has come back to a 6% to 7% like-to-like growth, and we believe this quarter we should get back to a 6% to 7% like-to-like growth. So we believe that a 7%-8% like-to-like growth is what we had targeted for the year, cumulatively we are still running at 6%, we believe yes this Q4 also we should be running at 6% to 7% like-to-like growth. So action I think is very important in terms of how we create more exclusivity and how do we really compete well in terms of both experience and exclusivity.

Avi Mehta:

Okay, fair enough sir. Sir one last thing on this tour addition, we haven't added anything.

Govind Shrikhande: Sorry, I think I forgot to add that up. So we had targeted to open 6 stores during the year in the department store format and about 2 stores in Hypercity and about 4 in the specialty format. We already opened 6 stores in Department Store, there are 2 or 3 stores under fit out right now, they might open in Q4 or they might move to Q1 of next year. So as of now it looks like there are 6 to 7 store openings in next year for Department Store, there are at least 3 store openings for Hypercity in the next year and minimum of 4 specialty stores in the next year.

Avi Mehta: So 6 to 7 next year, 3 in Hyper and 4 specialty, right sir?

Govind Shrikhande: Correct.

Avi Mehta: And this year you are saying it is probably we are ending with 6 only?

Govind Shrikhande: That's right, that's what it looks like right now.

Moderator: Thank you. We have the next question from the line of Abhishek Ranganathan from PhillipCapital India Private Limited, please go ahead.

Abhishek Ranganathan: Sir few questions, one is breaking down the sales on online, a bit more intrigued to know the impact of E-commerce particularly the first 10 days of Diwali when in the previous call you mentioned that 10 days prior to Diwali was quite an impact because of the huge advertising and discounts. How would you space it out if I would just break the quarter into three parts, one is October month, November month and December considering that this was sandwiched with online discounts in October as well as the Google Shopping Festival in December in which you also participated. How would you see the impact, which has been the biggest contribution apart from the demand in terms of taking away some kind of demand or the huge discounts and advertisement taking away some amount of footfalls?

Govind Shrikhande: So October was lackluster, so I think somebody mentioned yesterday that it was a non-sparkle Diwali this time so definitely October was the biggest hit, November was okay, December was definitely better, December we actually saw like-to-like growth is coming back in that month. So Diwali definitely was spark less.

Abhishek Ranganathan: Okay. If I recollect in Diwali that point of time I guess you were looking at like-to-like growth of about 6%, 7%, 8% during Diwali so that's what we did, right?

Govind Shrikhande: Yes, we didn't do that.

Abhishek Ranganathan: We didn't do that, okay. So what would be the number the like-to-like for Diwali?

Govind Shrikhande: Zero to minus.

Abhishek Ranganathan: Okay. So basically first time it has been the down turn?

Govind Shrikhande: The Diwali impact, correct.

Abhishek Ranganathan: And how was the response for our participation in the Great Online Shopping Festival?

Govind Shrikhande: No, as such as not really, I would say it was satisfactory, it was better than last year for sure. But as I mentioned that we are still working on our investments on our online infrastructure and IT itself which is still taking time.

Abhishek Ranganathan: Right sir. Can you just elaborate on that, what is the amount like and in what all aspects are we going to make the investments?

Govind Shrikhande: Sure. So basically when I look at online play and Omni-channel play, there are two different things about it, so when you are a pure player everything is under your control, the stock is under your control, the customer is under your control. The minute you talk about Omni-channel you are talking of two different channels and then you need visibility of stock which is one key element, you need visibility on the same customer which is the second element, and third you require is visibility of order. So order management piece is the biggest IT investment that is required and second is the customer management and the stock management. So in the Omni-channel investment what we are talking about is the IT investment and infrastructure investment totaling about 25 crores over the next 15 or 18 month period which will help us to really navigate this whole journey of moving from online player to an Omni-channel player.

Abhishek Ranganathan: Okay. And this is the investment you would be for next three quarters?

Govind Shrikhande: Next three to four quarters at least.

Abhishek Ranganathan: And then we will roll out the platform in a new avatar or a different avatar from what it is now, possibly towards end of FY16?

Govind Shrikhande: No, before that. As I mentioned by December our current online platform should have stabilized and from Jan onwards we will start working towards the Omni-channel connectivity.

Abhishek Ranganathan: So yes, I mean that is when we will go full throttle on that in the fourth quarter?

Govind Shrikhande: Yes.

Abhishek Ranganathan: Okay. And then I have this question on the transaction side and if I actually just breakup the composition of like-to-like growth for this year, what is quite intriguing is that the like-to-like customer growth was negative but has been negative for some amount of time and conversion also has been positive. The impact of a flattish transaction growth and a negative volume growth, it would be right to say that these two have been the biggest contributor to the tepid like-to-like growth?

Govind Shrikhande: So typically if you look at and track the previous quarters, when we are at 11% like-to-like growth, about 5.5% came from price growth and 5.5% came from volume. So it has been almost 50-50. On an average it has been 60-40, 60% coming out of price and 40% coming out of volume. So when the price is not growing by 5% to 6%, definitely there is the pressure on volume in reality, volume should go up better than that. But because of the lower entry we are definitely seeing a pressure on the volume growth.

Abhishek Ranganathan: Lower entry as in?

Govind Shrikhande: Customer entry. So you have dropped the customer entry on like-to-like basis with almost 7%. So in order to maintain the same sale your conversion should go up by the same percentage in the first place and to grow it you need the combination of volume plus value to take it higher. So if you look at those two boxes they are actually nullified between 6.6 drop and 6.3 up and the price increase is only 1.9 but volume is down by 1.1 that's why you are getting 0.8, that is the simple equation. So typically we always look at a price growth between 4% to 5% and a volume growth of 2% to 3% to take us through 7%, 8%.

Abhishek Ranganathan: And the price growth hasn't come because we really did not manage to sell the higher value items during this quarter, is it the only way of looking at it?

Govind Shrikhande: No, not really. I think not many price increases have happened during the quarter, number one. So it is not that I am left with higher price product in stock which is a problem for me. Fundamentally it is also to do with the fine jewelry category not performing which is on the highest side category.

Abhishek Ranganathan: Okay. And would there be now some seasonality because last year also fine jewelry would have been there so basically fine jewelry would have actually de-grown very significantly this quarter again?

Govind Shrikhande: Yes, so it has de-grown by 25% as I mentioned and we have seen a continuous drop in fine jewelry so at a point of time the share of fine jewelry in the business was pretty high, it has now come down.

Abhishek Ranganathan: Sure. And the gross margin decline despite the fact that we have an increased share in apparel, how do we explain that actually?

Govind Shrikhande: Margin on sale is actually up Abhishek from 35 to 35.1.

Abhishek Ranganathan: If I just take off the excise, rather the VAT and the consignment goods?

Govind Shrikhande: You are talking about the clause 41?

Abhishek Ranganathan: No, I am just saying that if I just take a total turnover add the revenue from consignment merchandise and take off the cost for that as well then I end up with a gross profit of about 296 crores.

Govind Shrikhande: Actually you don't have to because we didn't give you a direct margin here, this margin that you see of 35 has gone to 35.1 is a real margin, and it is not a calculated margin.

Management: See there is grouping there Abhishek which I do not think, that is not the right way to look at it, you should look at the presentation where we have shown the margin where it has gone up by 10 basis points.

Abhishek Ranganathan: Okay. But that would be largely attributable only to apparel or we would have expected more out of it?

Govind Shrikhande: Only to apparel.

Abhishek Ranganathan: Okay. And the reduction in electricity and other expenses quarter-on-quarter?

Govind Shrikhande: Power is not actually down this quarter much although units have gone down by I think about 3% or so but unit rates have gone up again in this quarter by more than double-digits. Ultimately we have seen a big taking there.

Management: See Abhishek, you are looking at sequential quarters, am I correct?

Abhishek Ranganathan: Yes, sequential quarters.

Management: So it is not the right way to look at it. Look, the Q2 was summer, Q3 becomes winter, automatically you will see a consumption drop, please don't see it sequentially.

Abhishek Ranganathan: Fair enough. And the property options we have realized about nearly 40 crores YTD including I mean the loss rather than profit, we have to realize more. So how much more of cash is to be realized apart from the profits here?

Govind Shrikhande: The cash we expect about 15% of cash has come in, we expect 85% to come in over a period of time as per schedule and the option agreement.

Abhishek Ranganathan: Okay. So basically we are about that and 15% of cash would translate about 40 crores, is that the right number of 40 crores?

Management: No, 40 crores is the entire growth system of your profit being booked because it is a sale agreement.

Abhishek Ranganathan: Okay. You have booked the entire profit on the transaction?

Management: Absolutely.

Abhishek Ranganathan: So 15% of this has come in?

Management: Exactly.

Abhishek Ranganathan: Okay. And I am asking how much more un-booked profit and subsequent realization of cash is left?

Management: Again, tough to say because this is market driven entirely.

Abhishek Ranganathan: At today's market value?

Management: At today's market value, like we have said our total profit expected from this option agreement is about 150 to 180 crores.

Abhishek Ranganathan: Of which 40 we have got?

Management: That is correct.

- Moderator:** Thank you. We have the next question from the line of Riken Gopani from Infina Finance. Please go ahead.
- Riken Gopani:** Two three questions from my side. Firstly, I would like to understand as we have seen that the impact is more in case of Mens as a category, any pointers that you would like to highlight whether brands are discounting more online or what are the factors why Mens... and why I am asking this is that it is a more simpler not requiring much cataloging, so it is not ease of activity which is why this could have got shifted online. So what would be the factors according to you where Mens would have seen a larger impact in terms of the E-commerce business?
- Govind Shrikhande:** Riken, tough to say that but we know clearly that a lot many brands are available on online today specially in the Mens category and in Mens category because the sizing is also pretty more standardized than the Womens or the Kids category so it is easier to shop for sure. And yes, discounting definitely makes it much more attractive. But let me also state one more fact here that most of the merchandize that is available on discount is generally not the current season merchandize, so there is a miss somewhere in the minds of the consumers but becsaue of the heavy advertising of the brand name and the discount, a lot of consumers fall prey to that saying, okay, is it current or not current it does not matter to them. So there is definitely a big challenge there and also a lot of brands are realizing that their brands getting discounted permanently is also a big problem for creating their own value. So there is going to be some amount of give and take now onwards where brands will start working on more disciplined on online, but as I mentioned till the time they are getting funded in a way which is completely disproportionate there is bound to be a disruption that will continue.
- Riken Gopani:** Okay. And the brands that do business with you, are they already on a path where they have ensured that they would not in a way cut down on discounting to the online platform or are there anything that will change from here on or will you also get a similar discount for your online platform?
- Govind Shrikhande:** No, so some clients are already putting restriction saying that beyond a 5-10% discount if the online site does it they will pull off the brand and there are a number of brands currently in the watch category and apparel category where the current season merchandize if you are giving excessive discount they want to pull it off and I think that is the kind of discipline that we expect everybody to have and that should led to healthier practices.

- Riken Gopani:** Okay. Another question is, you touched upon this point about the non-apparel side of the business also getting impacted by online and discounting, is it also to do with the fact that there are multiple offerings available there and are you therefore seeing impact on brands which were selling through you getting impacted given the fact that there are more number of brands available now, I mean are the brands itself getting weaker because of that?
- Govind Shrikhande:** No, I would say today the whole online business is not as large for the entire market to get weaken for sure but yes there could be one or two brands or few brands which would get impacted especially in specific categories, but there are specific categories where there is no impact at all like beauty for example, there is no impact at all either in our sales or the brand sales across the market. So I think the way we play it is very-very important and that is where I think the retailers will have to really align their objectives and start looking at what is exclusive to me, what is available only in my store, what additional experience or service element can I add which the online player cannot give.
- Riken Gopani:** Okay. Would you consider watches or fine jewelry as a category where brands would get impacted or are getting impacted by more number of brands getting offered?
- Govind Shrikhande:** I think wherever there is a larger assortment and discounting, customers do get attracted but I think it is also a question of what is their shopping experience and post buying experience. So it is tough to say how it will really pan out in the long-term but wherever there is a assortment offer definitely customers will look for it whether physical store or online.
- Riken Gopani:** Okay. And just one last point, trying to understand this two ways, one is, in the quarter gone by you also had an impact whereby box office collections have been quite strong YoY, generally we do have some impact where footfalls for multiplexes go up, so is it that weak and also we keep saying that the overall equity market sentiment also does help, so in that light. And secondly, in this quarter you would have the World Cup coming through, in the light of both these events how do you see the environment?
- Govind Shrikhande:** Riken, frankly I do not have any number currently of the whole box office collection but my understanding is other than PK almost every film flopped. So you had Happy New Year that happened in Q2 end, nearing Q2 end, so Happy New Year and PK in between these two films actually most of the films have lost money. So I don't know the total collection that has been done but whenever there is big box office movie and you get more big box office movies definitely entries increase and when entries

increase obviously we get better shopping, so we haven't actually seen it in the Shopper Stop phenomena. Yes, cricket definitely helps sometimes for sure and anything that we can do to keep the customers active within the store through various activations or brands or the retail store itself should definitely help. But IPL definitely over a period of time its impact has reduced for sure, so in the first three years we saw a huge impact, the last two years the impact has reduced.

Moderator: Thank you. Next question is from the line of Arit Kapoor from IDFC. Please go ahead.

Arit Kapoor: Just wanted to understand did inflation actually coming off, is there a scenario where our overall like-to-like growth will be more a function of a volume growth in FY16 rather than half price-half volume?

Govind Shrikhande: I would still say it would be half price half volume, because again if you see across different categories it is slightly different. So for example in HomeStop we have seen a (+5%) ASP growth, in Hyper we have actually seen a (+9%) ASP growth. So it is dependent on category, so whichever category you look at there is a different impact happening. So food fresh we have not seen prices going down still, maybe Q1 of next year we are expecting prices to be slightly softer but we are definitely not expecting them to be a (-1%) kind of a thing, we could be in a 2% to 3% price growth kind. So we still expect the combination of ASP and volume to drive better even in Q1 and Q2 of next year.

Arit Kapoor: So for next year you think given this half price-half volume making up your 7-8% kind of a volume LTL growth will sustain right?

Govind Shrikhande: That is the objective, now ultimately what does the consumer buy is finely up to them.

Arit Kapoor: Understood. On the private label front, you said from March end you will be also going online through the marketplace so I just wanted to understand if there could be a driver to take this number up above 19% in FY16, can that help to take it up above 19% or does your 19% target factor this thing as well?

Govind Shrikhande: Currently the 19% does factor it but our belief in that is that experimenting with the private label on one part is how will the market sees the pricing of it and we definitely are not looking at huge discounting. So how does it happen we really do not know as of now, so it is a trial and error right now but we decided it's better to do the trial rather than not do any error so the trial and error actually will help us to understand how will it pan out but yes, if online play grows well the 19% can go up.

- Arit Kapoor:** And sir just one housekeeping question, just wanted to understand in the departmental store standalone there was the staff cost has just barely grown so anything exceptional in the base which is a little high or should I look at it more sequentially because even sequentially there has been a slight drop. So could you just explain that?
- Govind Shrikhande:** Nothing much, we have not really done anything different there, I think it is growing at a slower pace because this quarter we added just one store to the total count, number one and we have not really done any major change in the headquarter.
- Arit Kapoor:** And any reading from the January sales season, I mean you are pretty much through it almost one month is through, so any more reading into and vis-à-vis any other winter sales season what would have been online impact or how this would have gone in terms of scenario, demand, etc.?
- Govind Shrikhande:** No, so one big thing that is happening now is earlier the sale calendar used to be starting on 15th August for the summer sale and around 16th January to January end for the winter sale. Now the new norm that has been created is that the summer sale is starting in July itself, so 45 days earlier, accordingly the winter sale has also moved by almost three weeks now to 1st of January or 31st of December, give and take it as 1st of January. So that is the new norm, so at a point of time if I go back let's say 10 years ago, we used to do about 34 days of sale annually, now we are almost on a 65 to 75 days of sale annually. So the contribution of sale has actually increased dramatically from a 14-15% to almost 26%. Although during the discount sale you see everything discount but we still sell almost 20-30% of merchandize at full price because on the new launches continue at full price so that is why we are still seeing a contribution of about 24% to 26% of pure discounted merchandize. So the change really is there is a new norm that has been created off sale dates, number one, and larger amount of discounting also not really competition between players within the physical world but also now the online world, so it is being a more complex and more competitive in terms of that new norm and I think we will have to live with the new norm and then really understand how do we really play it better and better to really have more attractive merchandize during the new launches as well as exclusive merchandizes that can bring the customer back to your store or to your site.
- Arit Kapoor:** Understood sir. My one last question was that on the online Omni-channel play, I understand that you have kind of taken your time as to setting the model completely right, what would be according to you the single largest challenge in getting this model right, is it customer experience, is it the back end or what would that one biggest challenge be to get the seamless model right and up and running?

- Govind Shrikhande:** I think I won't say that is one, there are two. One is the platform itself where we have struggled to get the platform right, and second is as I was mentioning order management system which is a very technology focused, both of them are very technology focused issues and we have a current running platform which is based on one technology, I don't want to name the technology provider but that we want to change to another technology which will help us to really navigate and resolve both these problems, so one on the platform itself and second is the order management system.
- Arit Kapoor:** Understood. So our website experience etc online experience will also change next year?
- Govind Shrikhande:** Yes.
- Moderator:** Thank you. We have the next question from the line of Kunal Bhatia from Dalal & Broacha Stock Broking. Please go ahead.
- Kunal Bhatia:** Sir my first question was on, sir our own merchandize, how has been the like-to-like sales on the same?
- Govind Shrikhande:** We have actually grown higher than the store chain growth, we have actually added 10 basis points share in private label, it has actually gone up by about 7% like-to-like against 1%.
- Kunal Bhatia:** Okay. Sir then how was it in the last quarter?
- Govind Shrikhande:** Last quarter was actually flat, first half again we had grown by about 20 basis points.
- Kunal Bhatia:** And this quarter we have grown 7% like-to-like?
- Govind Shrikhande:** That's right.
- Kunal Bhatia:** Okay. Sir then secondly, you did mention some comment on the benefit which we would get from introduction of GST, could you elaborate on that a bit more?
- Govind Shrikhande:** Yes. So I think the whole industry knows that there is a service tax on rent that we pay to the government, so typically rent is one of our biggest cost and if you look at all our numbers rent constitutes about 11% of our overall sale and we pay on that a service tax and then a surcharge on the service tax. So both put together is about 140 basis points of our cost today. Our belief and understanding from everyone in the Ministry

as of now is once GST comes in we will get a set off against this service tax that we are paying and the current understanding on the set off is anywhere between 90 to 110 basis points out of the 140 basis points. So if you look at our annual number of service tax it comes to about 70 crores odd, so let's say if I get 90% of that set off you are seeing straight away addition of 63%.

Moderator: Thank you. We have the next question from the line of Tejas Sheth from Emkay Global Financial Services. Please go ahead.

Tejas Sheth: Sir, just wanted to understand that would it fair to assume that in the short-term we will be competing with E-commerce channels only during the sales season?

Govind Shrikhande: I don't think the customer is looking that way, the customer is looking at everybody simultaneously so I think we will have to think in terms of how the customer wants to shop and then place ourselves there. So this online-offline is only in our mind, the customer is thinking wherever they want to shop, wherever they are, and whichever instrument they want to use can they shop, I think you should be ready to serve them.

Tejas Sheth: But I think the price point would be the biggest thing in the decision making, right?

Govind Shrikhande: No, so that's where we will have to look at what are the customers, so for example there are going to be movie goers who are going to go and watch the movie in the first week and there are going to be movie goers who are not going to watch the movie in the theater but watch it at home when it is getting released because these days even the best blockbusters are coming to your home within 8 to 12 weeks. So it is a question of what is the choice by the individual customer and we definitely want the customer who is wanting to pay and buy full price more and more in the store.

Tejas Sheth: Okay. Sir just another thing, if you have thought on this, are the customers buying online brands which are available at a discount or are they buying brands online which are not more or less available in brick-and-mortar because there are lot of brands which are launched online but are not available in brick-and-mortar?

Govind Shrikhande: I am not sure the contribution of these exclusive brands today is anything significant because these are low cost brands, we don't have the numbers but a lot of people tomm about this exclusivity I am not sure whether those brands are actually selling.

Tejas Sheth: Okay. And sir you also talked about that a lot of brands are now putting restrictions on discounting, can you put kind of a number to it, is it most brands doing that or it is only some brands?

- Govind Shrikhande:** No. If you ask me out of almost (+400) brands that we retail today about 40 to 50, 10% of the brands have come back on these various issues.
- Tejas Sheth:** Okay. But that is still 90% of the brands who are not...
- Govind Shrikhande:** Who have not realized but they are going to realize over a period according to them.
- Tejas Sheth:** Okay. And any other thought on giving the floor space more to the brands who are providing less discounts to the E-commerce, is there any thought process on that or is too short-term to really put forward?
- Govind Shrikhande:** Too short-term as of now, I think as I mentioned that we believe that this disruption of online discounting may continue forever, we do not know that. But if it has to continue forever then I do not know what is the P&L model finally that will emerge. But assuming that there is some disruption happening, one can definitely try and play in such a way that more and more exclusive brands are in your store and more and more brands that do not discount too much are in your store, that definitely is a long-term drive and especially if you look at it the whole private label and exclusive brand is in the same direction.
- Tejas Sheth:** Okay. And are you looking at providing some space perennially to discount brands to combat E-commerce sale?
- Govind Shrikhande:** No, not really.
- Tejas Sheth:** Let's say a floor?
- Govind Shrikhande:** The best way to tackle that is look at the price points that are being retailed on online, and if you believe that there is a large gap on the entry price points, can you launch some entry price points within your formats.
- Moderator:** Thank you. Next question is from the line of Sunny Agarwal from Aditya Birla Money. Please go ahead.
- Sunny Agarwal:** Sir my question pertains to Hypercity, post downsizing of the stores what are the levers which we are looking to expand the margin over the period of 18 to 24 months?
- Govind Shrikhande:** The biggest lever is increasing the share of fashion Sunny, if you have looked at it our fashion share has gone up from 6% to 16% this quarter, our target for next year is 19% and if you look at the gap between margin of fashion versus margin of food, it is

almost 20% at gross level. So as you keep on increasing the fashion share you will get that coming to the bottom line, so that is the key element in terms of driving the gross margin. Yes, obviously there is other category which is general merchandize but again we believe there is scope for improvement in gross margin which again we believe that over the next 24 to 36 months maybe there is a 20-30 basis points margin growth that is feasible including the continuous evolution of the category itself that how much of packaged food can you sell, how much of fresh and vegetable can you sell but the margin impact cannot be as high as FMCG where there is a MRP led regime and where you can actually see the discounting very-very clearly.

Sunny Agarwal: And sir my second question is with regards to Shoppers Stop, I believe that right now we are selling private labels only in apparel category, so any plans to enter into non-apparel private labels?

Govind Shrikhande: No, so we do have private label in non-apparel category especially in Home, Footwear, Deodorants, etc., but it is still very small contributor, majority of the sale is still coming out of apparel. So we believe yes we can expand the non-apparel share as well much higher.

Moderator: Thank you. We have the next question from the line of Abhishek Ranganathan from PhillipCapital India Private Limited, please go ahead.

Abhishek Ranganathan: Sir, a few follow-up questions. One is on your online market strategy is that you mentioned some trial and error but do you have any number in mind as to how many SKUs or what kind of products you want to put and what kind of turnover do you envisage to begin with?

Govind Shrikhande: That will give you the number of our budget Abhishek.

Abhishek Ranganathan: Yes, I mean I just want to get a sense of that, okay let me flip the question. The question is that, are the private label offering in your store what proportion would you be happy to start up with putting online?

Govind Shrikhande: So currently as you know our private label contributes almost 16% of our sale at overall level. So if I can get at least about 20% of their sale moving on online, that would be the first objective.

Abhishek Ranganathan: Okay. So it is about 3.5% of sales?

Govind Shrikhande: Yes.

Abhishek Ranganathan: Okay. And how is the growth in like-to-like be?

Govind Shrikhande: Currently looking at around 6% to 7% Abhishek, but we still have to complete it, another 15 days still to go.

Abhishek Ranganathan: 15 days?

Govind Shrikhande: Yes, yes.

Abhishek Ranganathan: And how is the EBITDA margin, like-to-like EBITDA margin for Shoppers Stop?

Govind Shrikhande: At more than 10.5% Abhishek, we are still running at that number.

Abhishek Ranganathan: And vis-à-vis what number was it the earlier quarter, I mean the third quarter of last year?

Govind Shrikhande: It has not actually changed because the like-to-like growth has not really taken place so we are still at a similar number.

Abhishek Ranganathan: Right. Because if you just see our margins would have got aided by HomeStop and Crossword is obviously subsidiary but the thing is that we would have actually had our margin accretion because of HomeStop's profitability and if Shoppers Stop's margin remained... that means have the corporate cost gone up?

Govind Shrikhande: No, so at EBITDA level you will see this ring from HomeStop much higher, at a PAT level it is still smaller because total sale of HomeShop is still very low.

Abhishek Ranganathan: Right. So EBITDA margin perspective I am talking for the standalone entity, how do I read it?

Govind Shrikhande: You cannot read it from the statements that we have given?

Management: No, Abhishek are you talking about the entire entity or it is just like-to-like?

Abhishek Ranganathan: No, I am talking of standalone, our margins are about 6.6% and it was 6.9% last year so I how do I read...

Govind Shrikhande: 6.6 last year versus 6.2 now.

Abhishek Ranganathan: I am sorry, you had a 30-35 basis points erosion in EBITDA margins as I see?

- Govind Shrikhande:** Correct, so 6.6 last year has gone to 6.2 this year.
- Abhishek Ranganathan:** Right. So that is what I am asking, is it led by largely the corporate cost is what I mean to say because if we held up margins with Shoppers Stop and we have improved margins at HomeStop.
- Govind Shrikhande:** No, holding on margins basically you are seeing two changes Abhishek, one is your top line has gone up by 7% but your expenses have gone up by 9% and your gross margin has only improved by 10 basis points that is why you are seeing a 40 basis points drop at EBITDA which is what we will also see at a overall level.
- Abhishek Ranganathan:** Correct. And just one last question, last quarter you mentioned that beauty supplies were affected by the regulation, are we started getting them back on stream now?
- Govind Shrikhande:** So in the MAC Clinique, Estee Lauder format, yes, they are back on track but in other formats, other brands there are still some struggle and I would say by Q4 end that improvement would happen complete.
- Abhishek Ranganathan:** Okay. But has the issue been sorted out in principle as such?
- Govind Shrikhande:** No, the principle is a new registration law which is taking anywhere between 6 months to 9 months for brands to register themselves. So there was a huge backlog that had been created, so some of the backlogs I would say has got nullified now and I would still say that there is some backlog yet to get completed which should be over by Q4 but as you complete one backlog there is a new backlog that is further being created.
- Abhishek Ranganathan:** Right. And last question on Hypercity is that, how many of our stores are breaking even now?
- Govind Shrikhande:** More than 10 at a breakeven now out of the 15.
- Abhishek Ranganathan:** Okay. So basically when do we see the entire pack of the existing stores additions apart breaking even?
- Govind Shrikhande:** So target is next year for sure, because next year we are targeting EBIT positive and in case one of the stores we see that they seem to be turning around then we will take a call on them whether to continue or shut.
- Abhishek Ranganathan:** Do we envisage any space changes in Shoppers Stop as such or opening more title stores going ahead because of the Omni-channel which will opt in a very near future?

- Govind Shrikhande:** No, so anyway we have tightened the store space across now in both Shoppes as well as department store in Hypercity as well, so we are opening tightened stores for sure.
- Moderator:** Thank you. We have the next question from the line of Avi Mehta from IIFL. Please go ahead.
- Avi Mehta:** Sir two bookkeeping questions, one is the demand in the third quarter. The bookkeeping was, wanted to understand the debt levels as of the end of this, how do you envisage that moving going forward? And on the demand front I wanted to understand the specific that has hurt Shoppers in terms of breakup versus regions which may not be reflected in the other departmental stores or is this an industry level phenomena because the other players have not shown that kind of weakness so I just wanted to check is there any specific that is hurting us maybe store closures or anything of that sort?
- Govind Shrikhande:** No, actually we have not closed any store in the department store format, but yes there is definitely a wide fluctuation of demand between the various zones and North and West continue to grow well, East is where we are seeing an impact but as I mentioned East impact is coming primarily out of the Pooja movement and South continues to be weak for us as far as zones are concerned. And as far as debt is concerned, currently debt is at a level of 673 crores at a total level but at the standalone level we are at a 0.58 which is pretty comfortable and we believe that second half of next year onwards the debt would start falling.
- Avi Mehta:** And second is on this margin question that was being asked, so I think what the caller was trying to understand is if the margins were flat on same store sales the impact...
- Govind Shrikhande:** Actually it is slightly lower than that, so as I mentioned earlier 40 basis points drop that we see is also the drop that we see in the like-to-like stores.
- Moderator:** Thank you. We have the next question from the line of Amit Kumar from Espirito Santo. Please go ahead.
- Amit Kumar:** You were planning to launch two Hypercity stores in Noida this fiscal, is that still on track for fourth quarter or does that get pushed to next year?
- Govind Shrikhande:** Basically one of them is almost fitted out and the other fit out is running delayed. So looks like one might open in Q1 and the other is likely to open either in Q3 or Q4 next year.

- Amit Kumar:** I am sorry, why is it getting delayed by so much, I mean there seems to be a gap of almost 9 to 12 months. If you were expecting it to open this year and now you are saying it is going to open in second half of next year, so what is the reason for the delay?
- Govind Shrikhande:** I wish I had some magic to make things to happen over here. Typically, properties what we book we book about four years ahead of the property and there are always issues in terms of permissions and government regulation which the landlord has to fulfill and then only you can open a store. So there is a no delay from our side for the property to get delayed, the delay is typically from the landlord or the owner of the mall where any delay in construction impacts its opening basically.
- Amit Kumar:** Okay. So just to sort of complete the discussion, one store in fourth quarter in Hypercity and probably three stores next year?
- Govind Shrikhande:** No, as I said 1 we are targeting to open Q3-Q4 is looking like opening in Q1 of next year and the other one that we were targeting for Q4 this year is looking like Q3 of next year.
- Amit Kumar:** Okay. So actually this year you will not have any Hypercity store launch?
- Govind Shrikhande:** That's what it looks like right now.
- Moderator:** Thank you. We have the next question from the line of Manish Poddar from Motilal Oswal. Please go ahead.
- Manish Poddar:** I just wanted to understand the approach by the other retailers to the E-commerce play? Sir in the initial remarks you mentioned that the ad spend done by the entire industry versus E-commerce, have you done any study comparing the approach by the other players to the E-commerce play?
- Govind Shrikhande:** So what we have tracked is what the public information is available on ad spends by the brands and the formats. So we know really what is the spend by the online players and we also know what is the spend by the physical retailers. Currently we don't have any understanding on what individual brands or retailer strategy for online is, I think some of them have spelt it out but I am not able to still see any impact as of now.
- Manish Poddar:** Okay. And how much of the investments which were looking let's say for the next two years as is mentioned on the IT front?

- Govind Shrikhande:** About 25 crores.
- Manish Poddar:** So other than that, let's say if we pump in 25 crores and the retailers or the online players who keep in getting funding how much investments do you envisage over the next two years?
- Govind Shrikhande:** No, so the online players are mainly getting funding for discounting which is if I am not mistaken about 2 billion of that has gone in during this financial year. I expect again maybe another 1 billion to 2 billion continuing.
- Manish Poddar:** So would we increase our ad spend materially or how do we like?
- Govind Shrikhande:** 25 crores is not advertising spend, the 25 crores is creating investment on infrastructure in IT.
- Moderator:** Thank you. The next question from the line of Kunal Bhatia from Dalal & Broacha Stock Broking. Please go ahead.
- Kunal Bhatia:** Yes, most of my questions have been answered, just wanted to have one question sir. Fine jewelry you mentioned that was down 25%, what is the contribution of fine jewelry in sales?
- Govind Shrikhande:** It is now lower than 3% Kunal, it used to running at about 8-8.5% about three years back.
- Moderator:** Thank you. As there are no further questions from the participants, I now hand the floor back to Mr. Govind Shrikhande for his closing comments. Over to you, sir.
- Govind Shrikhande:** Thank you friends for joining in this con call. I am sure all of you must be waiting for the budget that is coming up on 28th of this month and let's wish each other all the best for having a great budget representation by the Finance Minister. Thank you again for joining us and we will again reconnect after the Q4. Thank you.
- Moderator:** Thank you very much, sir. Ladies and Gentlemen, on behalf of Shoppers Stop Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.