

# SHOPPERS STOP

## “Shoppers Stop Limited Q3 FY17 Post Earnings Conference Call”

**February 02, 2017**

SHOPPERS STOP



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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Shoppers Stop Limited Q3 FY17 Post-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. In case 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 would now like to hand the conference over to Mr. Govind Shrikhande – Customer Care Associate and Managing Director, Shoppers Stop. Thank you and over to you, sir.

**Govind Shrikhande:** Good Afternoon, Friends. Welcome to the Q3 Conference Call after a mild budget that was presented yesterday. We will first look at our business and then also give you some comments on the budget, our take on it.

I am on Page #3 of our Presentation – Business Overview: We opened 1 store at the Delhi Airport; we opened 2 MAC stores; one at Inorbit Mall, Malad and 1 at Delhi Airport; 1 Clinique Store at DLF Noida Mall; 1 Bobby Brown Store at Inorbit Mall, again standalone. We shut 2 stores during the quarter; 1 at Mulund, Nirmal Lifestyle Mall and another at Inorbit Pune. Both the malls actually have shut down and in fact at Inorbit Mall, both Shoppers and Hyper have shut down in this quarter. Loyalty Program continues to grow strong and in fact it has been one of the biggest strengths for us in the demonetization period, growing to 76% share and we also have been able to increase the membership now to 4.6 million members.

Page #4: You can see our presence across India to 49 stores across multiple formats and almost 6 mn.sq.ft. covering 37 cities.

Page #5: You can see the addition and reduction in size format-by-format. So Shoppers Store Department Store almost at a 4 mn.sq.ft. followed by Hyper at about 1.3 and the Specialty and all the formats contributing another 600,000 sq.ft.

Page #6: You can see our photographs of the Delhi Airport Store. Compact store of 3500 has started with and I believe it should continue to grow well because airport traffic has been growing in India to and fro.

Going to Page #7 -- The Quarterly Numbers: Sales growth of the Department Store for the quarter was 12.5%, all formats put together 11.6%, LTL growth was 6.4%, coming on the back of 4% volume growth and 2% ASP growth. Stores greater than 5-years at 2.5% LTL growth, stores less than 5-years at 14.8% LTL growth. Sales per sq.ft. up at 2510 Vs 2319.

Now, the key question really is how have we achieved this kind of LTL growth in spite of demonetization? So I will take two minutes here just to explain the issues related to demonetization. So this quarter in the last con-call we had mentioned that this is one of the big quarters because of Dussehra, Diwali, Christmas, New Year, all coming together and has planned almost a double digit growth across both the formats. October actually went up pretty well with more than 20% LTL growth in the Department Store but post-demonetization we saw almost (-20%) degrowth in the format. All the actions that we were able to take in the month of

December led to (+20%) growth in the month of December. So as a result, October-November-December combined we were flat, we were able to achieve 6.4% LTL growth. The underlying situation here is that our business is divided into credit and cash and if you look at our business we are at about 55-56% of credit, debit cards and the balance come sort of cash and post-demonetization as cash availability went down completely, in both the business we saw cash component in the month of November between 5% to 8% and balance was credit, debit cards and that as of now stands at about 75-25 between the credit versus cash, so cash has started coming back but still far away from the numbers that we saw earlier from 45-25. That is the kind of numbers. So we still believe that there is some compression of demand which was cashless and definitely it has some impact on the overall demand as well.

Moving on in terms of "Customer Entry", there was a degrowth of 5% on LTL basis, we did see conversion going up on LTL basis by 0.8%, transaction size went up by 10% on LTL, volume as I mentioned earlier went up by 4% and ASP went up by 2.2%.

In terms of "Mix", we saw a dip in private brand share by almost 200 basis points, that has impacted of margins by almost 40 basis points whereas exclusive brands grew from 3.4% to 4.1%, 70 basis points growth. No big change in the merchandize buying model. So bought out remaining in the 40% range. In terms of share of apparel/non-apparel, non-apparel has grown faster in this quarter vis-à-vis apparel category and the prime category driving this growth is personal accessories where we saw a number of new watch brands and new watch models being launched especially in the Smart Watch category between FOSSIL, Titan, Michael Kors, etc., and that has done pretty well. The second big category in non-apparel that has done well is Beauty. The third one is Leather. In the Apparel category, clearly, we saw good growth coming out of Women's Ethnic Wear which has done really well across the first three quarters of this year.

In terms of "Zones", we clearly saw that zone that was able to really spend the demonetization was south zone and the bigger impact actually came out of east and north. So south zone in spite of demonetization actually recorded a double digit LTL growth in this quarter which is pretty good and noteworthy.

Moving on to Page #12: Our top line grew by 12% and margin on sales by 10% and as I mentioned earlier we dropped margin by 40 basis points from 33.4 to 33. In spite of that, we were able to grow the EBITDA number by 2% from Rs.69.9 crores, almost Rs.70 crores to Rs.71.4 crores. Our PBT dropped by 15%, fundamentally because of the higher depreciation which I mentioned because of closure of two stores; Rs.8 crores increase in depreciation which has led to the PBT and PAT both dropping by 16%. But overall I would still say that it was a decent performance considering the demonetization impact across the industry.

In terms of "Consolidated", I will come back later, once we have covered Hypercity. I will straightaway go into the Hypercity performance on Page #19. Hypercity has been 9.5% LTL growth which is one of the highest in 8-quarters and in the month of December actually we saw more than 17.5% LTL growth which is also one of the highest LTL growth that we have seen.

Now, some of you might wonder whether it is because of demonetization. But let me remind you that Q1, Q2, we had said that we are investing a lot of effort, infrastructure and people around two categories of food, meat, and fresh and bakery which is really resulting in a good growth. On top of that, our Fashion continues to grow well; Fashion grew by more than 17% and is now at a share of about 17.9%. We saw the margin growth of 30 basis points, but our OPEX growth has been higher than our LTL growth and as a result you are not able to see the operating profit growth to that level. EBITDA at store level was Rs.5.5 crores Vs Rs.7 crores last year. Company EBITDA was at Rs.15.8 crores positive versus last year's Rs.3.2 crores. But this is on the back of almost Rs.25 crores income on property account. We believe that we have now hit a traction in the top line growth which will lead towards a LTL growth in double digit and we believe momentum of that kind along with 30-40 basis points growth in margin and controlling OPEX starting Q1 of next year should lead us towards hitting company EBITDA positive at operational level by Q4 of '17-18. That is the objective with which we are working and we believe we are confident on that track.

On Page #20, you can look at the number; the top line growth of 21.9% and LTL growth at 9.5%, between less than five years and more than five years because there is not too much of spread, you cannot see much of a difference here unlike Shoppers where we have stores which are more than 15-years old as well. Sales per sq.ft. is up from 2318 to 2541. In this business, as well if you can see on Page #21, we clearly saw degrowth in entry. So degrowth in entry was 4.4%. Conversion ratio was well managed and we converted lots of customers and 14.8% conversion jump you could see. Average selling price was up by 7.4% and volume was up by 2.2%, although the transaction size was almost flat at 0.9% negative. But overall as I mentioned earlier, 9.5% LTL growth.

On Page #22, we can see the Financial Numbers. Sales up by 22% from Rs.268 crores to Rs.328 crores. Margin on sale up by 23.7% from 20.8% last year to 21.1%, 30 basis points jump, Rs.51 crores to Rs.64 crores. Store EBITDA last year was Rs.7 crores, this year it is at Rs.5.5 crores and Company EBITDA as I mentioned earlier they were Rs.15.8 crores positive versus Rs.(-3.2) crores last year and at PAT level the big swing is that Rs.(-2.2) crores PAT versus Rs.(-19.55) crores last year.

Coming back to the Consolidated Numbers which are on Page #13. Because of the strong change that we could see in the Hypercity numbers, we are really seeing an uptick here. Overall sales up by 14%, margin on sale up by 9%, EBITDA up by 32% from Rs.62.5 crores to Rs.82.6 crores and PAT from Rs.11.06 crores last year to Rs.15.5 crores in this year, 40% jump. Going ahead, we are targeting to open four stores in the department store category in the next financial year, looking at two stores opening in Hypercity and about five stores in the Specialty Retail. Overall, we believe that the budget does not really have too much in store for organized retail although lot of points mentioned about Modern Retail including Model Shop Acts, APMC, FIPB abolition, Digitization and new FDI policy but I think we will have to wait and watch till the time we actually see the fine print. Overall, in terms of Modern Retail, we cannot see much of an announcement although I keep on looking at the numbers and announcement. Rural and farm definitely is like a Raees budget and looks like for the urban area they could have made it a little

more Kaabil budget. But definitely moving out of that, I see lot of fine print announcements. The fine print announcements are related to Model Shop Act, APMC, FIPB Abolition, and New FDI Policy. I think we will have to wait and watch what are the actual announcements in these areas which could be helpful for not only Digitization of India but also for the Modern Retail per se. Now, the biggest await right now is on the GST rate. They are not yet clear in terms of what rates would get applied in various categories and what could be the set off. So I think we have to really await those announcements before we can comment, but I am sure in the long run it is going to be beneficial for the country in terms of tax collection and modernization of entire retail will also get helped with that.

So with those comments, I would like to open the session for Q&A.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Avi from IIFL. Please go ahead.

**Avi:** The commentary that you gave is an exit rate which is quite healthy. Has that exit rate of in Shoppers (+20%) and even in Hyper of 17.5%. Is that kind of continuing or how would we see that?

**Govind Shrikhande:** No-no, December was a big recovery from the downside of November very clearly. Although the growth that we always talk about is a year-on-year growth, it is not a sequential growth of November to December. But December, mind you, was also a big marriage season as far as the Department Store is concerned and in Hyper as I mentioned to you, lot of effort that the team has taken. My estimate is almost 70-80% of the 17% growth came out of our effort and about 3-5% would have come because of the demonetization where some people moved into our format. But if you look at the quarterly number, entry actually has not really grown; we have been able to grow conversion and also the ticket size. So I think that is the advantage that we are seeing. In January we are seeing growth rate between 6-8% right now and that should continue for this quarter, we are still targeting in Hyper to really run at a double digit number for the next four quarters. In Department Store, we still are targeting 7-8% LTL growth and I think we will be on that number.

**Avi:** Second, then take it up from the guidance on margins for FY'17, 5-5.5% is what you had indicated for FY'17 for the entire year SSS growth guidance, do you see upside because of this performance because we are almost there in that but if you were kind of assuming an 8%-odd number there could be some upside?

**Govind Shrikhande:** Next year what we believe as I mentioned is in Hyper we are targeting a double-digit growth very clearly and in the Department Store we believe we should be able to hit 7-8% LTL growth in FY'18.

**Avi:** Margin for F'17?

- Govind Shrikhande:** What we missed out, if you recollect, we had actually given a guidance that by the year-end in the Department Store we should have hit 6-6.5% EBITDA. I think we will be able to meet that number in the next financial year.
- Avi:** Just understanding now what is the kind of SSS growth that we should kind of see or would help us kind of grow EBITDA, is it (+6%), 7%, 8%, if you could kind of give us a sense because if I remember you had indicated around 6%-odd number but clearly this quarter I understand the demand environment was also different. But just from steady state perspective, how should I see this?
- Govind Shrikhande:** So steady state we believe 8% in the Department Store and double-digit in Hyper should really keep on helping us in driving the higher EBITDA number. Mind you as I mentioned earlier in Hyper we have gone ahead and invested lot of things in this year especially Q2, Q3 and Q4. So next year it will become LTL, so operating cost growth will normalize next year. So with the double-digit LTL growth and 30 to 50 basis points margin growth in Hyper, we should clearly see the traction towards company-EBITDA positive by Q4.
- Moderator:** Thank you. The next question is from the line of Amit Kumar from Investec Capital. Please go ahead.
- Amit Kumar:** Just a quick one on the eCommerce side of business. I think you relaunched the business in a couple of quarters back. Because you had demonetization also in this particular quarter, probably could have hit that piece. Just wanted to understand what is the contribution of eCom to your overall sales?
- Govind Shrikhande:** So even now it is under 1% contribution and we had mentioned that over a three year period we want to take it to 10% share especially not only coming directly online but also influenced by online into the physical store, because we clearly believe that lot of customers now are researching online and then getting into the store and that I think a big impact that we are already seeing. #2, this quarter, although online business generally has got hit everywhere, we have still seen growth above 30% in this business as far as we are concerned. So as I was explaining, we launched our new modified app in the Q1 and we have been driving downloads of the app and now we have crossed a million downloads by December end and we believe that the app sitting on the phone actually is able to track multiple things and help the customers including setting of home store, connecting their online and offline buying and also tracking their online/offline behavior. Further ahead, between Q4 and Q1 of next year we are investing on three more technologies – One is the Master Data Management, second is (ESB) which is Enterprise Service Bus and we are also completing our warehouse management system, which is already completed and there is (OMS) which is Order Management System. So by June to September we had said that we will be fully omni-channel. We are very much on track of that. Once that omni-channel matter is settled, I think our traction on this business will grow dramatically.

- Amit Kumar:** Just a quick follow up on that; you sort of said that eCommerce contribution to sale is less than 1% but your strategy is bigger, you want to also look at how much the app and the website sort of influence in-store purchases also. Would you have some sort of track on that?
- Govind Shrikhande:** As of now, we are seeing that apps downloaded are generating about 20% of online sale which is a pretty good number.
- Amit Kumar:** Second was that, eCommerce initiative, just given the fact that the sales contribution is so low and you would be investing in the business, there will be a drag on your EBITDA margin I presume. Could you give us a broad sort of sense of how much that impact would be in terms of basis points, how much of impact on your sort of department stores operating margins would the eCommerce bid be right now?
- Govind Shrikhande:** It is there but it is not really that big and will continue for another two years till the time we cross about Rs.200 crores number.
- Amit Kumar:** 10, 15, 20 basis points, just a broad sort of sense here?
- Govind Shrikhande:** Less than 10 basis points at overall.
- Amit Kumar:** Department stores number standalone, when we see your overall EBITDA delivery this time around 1, of course has been a little bit of pressure from a gross margin perspective, but the other expenses have also gone up, inflation has been ahead of sales, that is also dragging down the EBITDA margin. Could you give us your broad sense of what is happening there?
- Govind Shrikhande:** If you go to Page #12, what you will see is the drag is coming out of fundamentally margin where we lost 40 basis points versus last year and I had explained earlier that we lost 200 basis points on private brand side which is what is dragging this margin. So if you look at the drop in EBITDA number it is 60 basis points, 40 basis points is actually coming out of this line and also the other retail operating income has also not grown this year which is what the contribution is. So in reality, we have been able to manage operating expenses quite well but these two lines have impacted the EBITDA number and the new store openings, yes.
- Amit Kumar:** The other way that I am also sort of looking at is that compared too much in December your Department Store area was just about more or less constant, about 4.3 mn.sq.ft. but correspondingly, operating expenses have gone up in double digits, that is why I was looking to understand this basically.
- Govind Shrikhande:** No, last year to this year we have already opened six stores.
- Amit Kumar:** But you closed a couple down also, right?
- Govind Shrikhande:** Two we shut down in this quarter but net-net if you look at it the addition is four stores and typically new stores take anywhere between 24-30-months time to start paying back and contributing, otherwise they are definitely a drag.

- Amit Kumar:** So there is a net addition of four stores plus whatever inflation that you see on the nominal operating expense side?
- Govind Shrikhande:** Yes.
- Amit Kumar:** In this particular quarter I think again the sales sort of started just right at the end of this quarter. Could you just quantify how many sale days were there in this particular quarter versus 3Q of FY'16?
- Govind Shrikhande:** The last year also the sale started on 27th, this year the sale started on 26<sup>th</sup>, one day earlier, not too much of a difference. Last year the sale lasted right up to February end, this year we plan to shut it by Valentine's Day, so by 15<sup>th</sup> Feb the sale should be over, curtail it by 15-days at overall level this year.
- Moderator:** Thank you. The next question is from the line of Sanjay Singh from Axis Capital. Please go ahead.
- Sanjay Singh:** If I look at the standalone numbers, on the rent it is up almost 20% YoY and even if we take four stores it is just about 5-6%. So have the rental increase been too high or is this something else, what is it exactly?
- Management:** No-no, Sanjay, four stores is only the new stores, you have to look at it from the perspective of non-LTL, so LTL for the quarter has grown by roughly around 5% but the non-LTL base which is less than one year is what is impacted me for Q3. There are seven stores which have not yet completed one year but are operational in Q3 which we had opened in the previous FY.
- Sanjay Singh:** But on LTL basis, what will be the rental increases?
- Management:** About 5-7% max.
- Sanjay Singh:** Govind, I understand the circumstances have been quite difficult but we had planned the journey of margin expansion to 7-8% by FY'17, we still not be able to do that...?
- Govind Shrikhande:** I think we are running one year behind on that, Sanjay.
- Sanjay Singh:** Even if today FY'17 you will probably end at slightly above 5% if you are taking 7-8%, it is a pretty big jump you are talking about, because there is nothing materially neither from LTL growth perspective or economy we do not see anything dramatic happening nor the cost structure can be beyond the point control, only thing which can improve is the gross margins which discounting, etc., also seems to be continuing, the margin is lower, but nothing very dramatic, so what do you see which can bring up the margins of 7-8%; you are talking about almost 200 bps improvement?
- Govind Shrikhande:** 7-8% is a two-year journey, let me clarify; in the beginning of this call, we said that next year we will hit 6.5% EBITDA which if you look at the current year number it is almost like 100 plus



basis points jump. Now how do we navigate that 100 basis points jump? I think we clearly see the levers that are there in our hand right now, one of them is coming out of gross margin if you see this quarter, we actually dropped by 30 basis points, we have to go back to that number and actually grow it by another 20 basis points. So that is 30 to 40 basis points jump in margin itself, #1. How it is going to happen? One of the factors which I mentioned is this quarter we have not been able to deliver on our private brand share and we have done a lot of work around that and that should drive because of share and the higher gross margin, 20 basis points out of that and brand negotiation should give me another 20 basis points. So that is the 40 basis points that we believe will come on the margin side. On operating expenses, we actually gone ahead and looked at a number of stores, for example, the two stores that we shut actually were loss making stores and those stores EBITDA, the negative that was getting pulled down will come back on track and there are another six stores which we identified where we are redoing either the size or the rental or the MG, that will also bring down my operating cost which will be lower than what we see this year. So operating cost growth coming lower than the LTL growth, margins in LTL growth going up by 30-40 basis points and other cost control is what will deliver me that 100 basis points change.

**Sanjay Singh:** You are saying next year if you have 6-8% LTL growth, you should be able to deliver 100 bps margin expansion?

**Govind Shrikhande:** Absolutely, that is the plan. We believe Sanjay that next year will be equally difficult in terms of the demand scenario because the GST impact nobody clearly knows what could happen. So rather than planning a very high LTL growth if we can plan LTL growth which is deliverable and along with that work on cost and margin levers, it is possible for us to deliver 100 basis points jump.

**Sanjay Singh:** Now, one thing which is probably a more structural thought is last many years, footfall per store has been coming off?

**Govind Shrikhande:** Last two years we had a clear track, LTL is dropping.

**Sanjay Singh:** One or two years here and there but if I look at FY10 average and today, it is in a different zone. So it is not cannibalization per se. Earlier I used to think that maybe Tier-2 towns have lower footfalls, etc., But clearly it is not like over a period of time that would have probably taken care of. So how exactly do you see... is the number some mistake or where is the issue?

**Govind Shrikhande:** Different trends, Sanjay; one trend definitely is the digitization of the country and number of customers going and using mobile and using internet is increasing and lot of customers are also using internet to preselect merchandize, research the merchandize and then get into the stores. So whether they are shopping online or not it is a different matter, but they are researching a lot. If you look at the ...

**Sanjay Singh:** But that is not the case if I look at Phoenix numbers... Phoenix footfall numbers are not falling off?

- Govind Shrikhande:** I have not yet come to that level. So first, I was explaining what is the customer doing. #2 is what is happening at a mall-by-mall level and catchment-by-catchment level. So if you look at High Street Phoenix, which is Lower Parel, there is no competition for it anywhere even then 5 Kms basis. So the customer has no option, whereas now I go back to Noida where we have a store in GIP and DLF mall of Noida is open right next door which is 1.5 mn.sq.ft. and that is impacting my traffic by 25%. Now, I cannot do anything about it because any new mall does create that kind of demand and over a period of time it settles down, same thing for example when I look at Inorbit Mall, Malad right now, there is a lot of work that is going around for metro and the whole road is blocked and the mall is under renovation. So we are seeing almost 20% drop in entry even here. But if I take Inorbit Mall Cyberabad, it is still growing at a double digit LTL growth. So it is not a one single theory that is fitting in the LTL customer entry drop, there are two things that are happening; good malls continue to drive traffic but good malls which gets a brand new competition does get hit for a timeframe and then it starts recovering. So Viviana Mall, Thane for example, it continues to grow for the last three years in entry and sales are also growing very well, there is no problem. But as I mentioned, Noida, there are other stores that we have in places like Indore or Lucknow where we were the single biggest department store, now we have both of our competitors that have opened in the last quarter. So we are seeing some pressure there in entry. But our understanding is that entry pressure pitters out over a one quarter, two quarters period and our focus on conversion, our focus on First Citizen which is growing pretty well for us should help us to really come back on track.
- Moderator:** Thank you. The next question is from the line of Sumit Kazbekar from SBI Global. Please go ahead.
- Sumit Kazbekar:** Just want to understand the impact of the two stores closures on the depreciation number for the quarter in the standalone?
- Govind Shrikhande:** It is Rs.8 crores impact.
- Management:** I do not know if you were there on the last call in Q2 we had already taken the impact from Mulund. So in this quarter the impact is only for Pune which is roughly around Rs.3.8 crores.
- Moderator:** Thank you. The next question is from the line of Harid Kapoor from IDFC Securities. Please go ahead.
- Harid Kapoor:** Just on the Hyper Store OPEX, you said that this year is a more exceptional in terms of the work that you have done in the Hyper Store OPEX. What is the kind of growth that you are expecting on store OPEX for next year if you are assuming that there will be basis points gain on cost here?
- Govind Shrikhande:** So fundamentally we are saying double digit top line growth and lower single digit growth in OPEX for LTL basis.
- Harid Kapoor:** What is the exceptional thing, the additional thing which you have done which has resulted in the OPEX increase at such a pace over last two-three quarters?

- Govind Shrikhande:** Basically, we have undertaken two big things here; one is we have strengthened the team and brought in experts in each area, for example, for a bakery we have got a bakery expert, for meat and fresh we have got a meat and fresh expert, same thing for fruits and vegetables. So we have strengthened the team on one hand and also strengthened the infrastructure in the stores, for example, the cooling equipment, the refrigerating equipment, all those have also been upgraded and some amount of renovation that has also been done at the store plus supply chain and lot of support services for check out and billing.
- Harid Kapoor:** So it is largely with more on the employee cost front as well as some of the...?
- Govind Shrikhande:** Yes, the biggest is employee cost.
- Harid Kapoor:** That should kind of even out as we go forward?
- Govind Shrikhande:** Correct.
- Harid Kapoor:** Next thing was on the gross margin. So you did quite elaborately how next year will pan out. But on the private label front, I know the exclusive is doing well, still the share is going up. On the private label strategy, anything that we need to do in terms of brand addition there or shake up the brand as in, what is the thought process going forward because the weakness of the private brand has been a recent phenomenon.
- Govind Shrikhande:** So, what we had done here was we had actually redone the logos of each brand, we had redone the assortment of each brand, we had redone the presentation of each of these brands and including visuals of each of the brand. The biggest challenge that we have had in this quarter is we have been hit by either deliveries or quality and that has really taken away lot of effort that was made in terms of planning, that never reached the store. We could not really recover out of no delivery or quality issues and some assortment issues and that is why we have seen a big hit in this quarter. We are correcting that in Q4 but I see improvement only happening from Q1 of next year.
- Harid Kapoor:** Which are the maybe two or three brands where we expect this thing to drive?
- Govind Shrikhande:** Stop n Live are two of our biggest brands, they contribute almost 70% of the entire private brand sale and that is where maximum amount of work has actually happened, and apart from that Kashish and Hot Curry, which are Women's Ethnic Wear brand which also should do well in the next year.
- Harid Kapoor:** On the sales front, you said that the sale will be reduced in season by about 12-13-days. Does that also have gross margin impact for Q4 or it will just be that anyway the lag end of the sale season is not very strong, so what we have....?
- Govind Shrikhande:** May not have too much of an impact, because what is happening for the last two-three sale is this flat 50% off number or number of days on which it is happening is actually getting extended

unnecessarily. So that is hurting the gross margin level. So although we will curtail the number of days as I mentioned, the flat 50% definitely does hurt.

**Harid Kapoor:** Your view on maybe couple of quarters or even the festive season, I am sure you are tracking the online discounting also, so how have you seen that kind of pan out maybe this festive versus last festive?

**Govind Shrikhande:** Unfortunately, the whole online world talks only of GMV numbers which is very difficult to understand, but if you really look at the numbers that have come out in multiple places that in reality the online has not really grown in the last one year in spite of spending about Rs.800 crores on advertising. This festive period we have come up with one or the other big day every week between Diwali to December. They have claimed big numbers, but we still are not seeing that level of traction, #1; #2, we still believe that the model of unit cost profitability is not yet established, so they are losing money 1x of sale or 3x of sale depending upon which level of sale they have been able to achieve. So I think there is definitely a slowdown in terms of aggression. That should happen now if realistic numbers and realistic valuations are to be taken up. I believe '17-18 although could be a little more competitive as well because there is an imminent entry of another Chinese player as big as Amazon which is going to come into India. So I believe the fight is going to be a little more intensified in next financial year but I believe that also customers have still not moved on completely to online and their share is still very-very small. The physical store experience, the assortment, the service standard, I think those are very important elements that we are working on and that should continue to help our growth for sure.

**Harid Kapoor:** Last thing was on the store closures. Two store closures you have done, I know you took a hit on Q2 and Q3 and you also spoke about six stores that you are going to relook at in terms of negotiations, etc., But any of these six stores do you think would be up for absolute closure going forward?

**Govind Shrikhande:** So one of them is actually we are shutting a store and opening a store right next door to that property and because of which my space is getting halved and my rent is coming one-third. There are one or two other stores which we are still working on. Whether I will give away 30% space or whether I will shut? I think that call we will take in Q4. But we clearly believe that there is a big upside in terms of cost reduction between 25-35 basis points reduction in operating cost which will definitely happen in the coming financial year.

**Harid Kapoor:** The revenue contribution of these two stores which you shut down, what would that be to?

**Management:** Very small, below Rs.45-50 crores.

**Moderator:** Thank you. The next question is from the line of Chirag Siddwah from ICICI Securities. Please go ahead.

- Chirag Siddwahi:** Sir, just wanted to know as you had mentioned earlier that your end-of-season sale was not much preponed this December. So exactly what were the various initiatives which you undertook to tackle this demonetization? We got this growth of 20% in the month of December.
- Govind Shrikhande:** Three big actions we took and all fundamentally related to our First Citizen. So we do have huge database around that. The action that we really look out is what can we offer to these customers which is spending related because it is a big wedding season, so we targeted customers with that. #2, we also tied up with Recharge which is a wallet which we have tie up with because we know that there is a challenge for customers on cash sides, so what offers can we run for Recharge, what offers could we run on Citibank and offers we could give them on Axis and Yes Bank. So we actually run multiple offers through the credit card companies and wallet companies. So that was second. Third, also we looked at what is the database which have not shopped for a year or more and how can we get them back. So these three initiatives put together we could clearly see a jump back and that is how the December numbers we are able to record 20% growth.
- Moderator:** Thank you. The next question is from the line of Abhishek Ranganathan from Ambit Capital. Please go ahead.
- A Ranganathan:** A couple from my side here; one is just wanted to get a sense of the assortment mix because the gross margins have fallen. Is that our non-app contribution increased significantly during the quarter, what would that be attributable to because non-apps also bought out was lower, so what would be the reason why we saw the significant spike in the share of non-apparels?
- Govind Shrikhande:** No, the spike is only 80 basis points in non-apparel. If you look at the number, non-apparel last year is 35.1, this year is 35.9, so it is 80 basis points jump. That would have some impact on gross margin because non-apparel typically is a lower margin. Now why was it driven higher? I had mentioned earlier that we saw very many launches happening this quarter in many of the non-apparel categories. One of the biggest categories where new launches happened was Watches where the FOSSIL group launched multiple smart watches across all their brands including FOSSIL, Michael Kors, etc., and even Titan relaunched new models against smart. So Watches continue to have a double digit growth. We also are continuing to seeing Beauty growing in double digit. So these two categories drove the non-apparel growth more than the apparel categories per se. The margin drop I had mentioned that if you look at the earlier number, we lost 200 basis points share on private brand and as you know private brands contribute a much higher margin and that has led to the 40 basis points margin drop.
- A Ranganathan:** Private brand margin drop would be or rather a share drop would be attributable to the fact that end of season sale started in December, so preference to buy a brand over a private brand?
- Govind Shrikhande:** That is one reason but typically I would say that we have had some challenges in terms of deliveries and quality in private brand, that impacted availability and some assortment issues as well.

- A Ranganathan:** Sir, what is your size now of the Black Card Program and is it upsizing now sufficient to justify discounts which are offer on the Black Card?
- Govind Shrikhande:** Abhishek, we actually did announce Black Card officially ever and in fact Black Card program we had discontinued because our experience on the Black Card was that the sales were going very well but the cost was growing at double the speed.
- A Ranganathan:** When did we discontinue this because then we should get some amount of meaningful contribution and some margin should kick in from there?
- Govind Shrikhande:** Basically not margin, cost will get reversed. Meaningfully that it will have some big impact but fundamentally we believe that we will rework on the program and come back on the program but as of now Black Card is discontinued two months back.
- A Ranganathan:** Just wanted to get a sense of category wise if you would have seen the throughput across your chain and over the last say 3-4-years, I think someone asked the question about lower footfalls were conversion, end of the day it all translates into the sales density. Is there a dispersion? Have the dispersion increased across categories over the last three-four years?
- Govind Shrikhande:** If I have to look at let us say a five year which is a slightly longer period, so what we have seen is if I look at a 10-year period, apparel, non-apparel used to be in the region of 70:30, that moved to 60:40. But then from 60:40 what we have seen is it keeps on swinging between 65:35, 64:36, 62:38 based on what categories perform. So just to give you a number, three years back, fine jewelry used to be almost 4-5% contribution, fine jewelry no more is that bigger contributor, so as a result non-apparel goes down. But then Beauty has been growing and Beauty is up by almost 200 basis points. So that brings in the non-apparel chain. So it is more related to what assortment I am able to add in that category and that really drives the overall share. But I think in the last three years if I just remember off hand, we are in the region of 65:35, 62:38 kind of a number. We have not really moved beyond that in apparel, non-apparel.
- A Ranganathan:** I am asking the sales density across categories, let us say men, women, if you can just break it down further and then non-apps, sales density within these categories or major categories, how have we changed which categories have grown, which have not grown and over a period of time which we possibly addressed or you will have to address going ahead in average 45,000 stores...?
- Govind Shrikhande:** If I give you an overall ranking which is in ascending order, the least productive category is always Home, followed by Kids, followed by basically Women's Ethnic Wear and then comes at the top Women's Western Wear, Men's Casual Wear and then Non-Apparel. We keep on working around how do we really keep on growing the throughput of each category. But there is a role for each category so you will also find that in many stores we actually do not have home any more. The reason for that is exactly this the productivity is leased. So depending upon where we see assortment getting filled in within the mall by another home player, we would not carry home as a category and leave without that as well. Kids we believe is a good category and its

productivity has actually been growing in the last three years. But significant growth still has to happen and we are working towards that along with brands as to what density can we really create at a store stocking level so that the productivity can go up. Women's Western has been growing very-very well for the last three-four years, same case for Men's Casual Wear and Denim. These are high density categories and therefore high productivity as well. Women's Ethnic is always a challenge because it is an important category in the mix but because the way the product is hunk, you can never get density in it because you have to show face off for the merchandise and that is one category where we still are working on methods of really driving productivity.

**A Ranganathan:** Is there any scope to basically shrink our overall space with the same number of stores to basically maximize productivity, prune categories which are not like you mentioned Home, what is the scope we have there across our network? Is there a plan and a timeline to it?

**Govind Shrikhande:** Just to give you a back number, five years back we were targeting stores at 55,000 sq.ft. average, then we started looking at 48,000-50,000, today we are looking at two levels – 30,000 and 40,000. So opening new stores we are actually looking at only these two kinds of sizes, very clear. Now going back to a earlier store and reduction of size, I actually mentioned earlier that we are looking at five stores where we are looking at anywhere between 10% to 20% size reduction and that brings in my operating cost lower for those stores without losing any productivity, my sale remains the same but my space goes down so all my costs fall, something like that we are doing in the coming year for about five stores.

**A Ranganathan:** Beyond those five stores, obviously, it is also a function of what flexibility you have with the property and the landlord, but so basically my question is that beyond those five, is not the flexibility which is the issue or it is just that you believe the productivity is okay there?

**Govind Shrikhande:** Nobody should be happy with any productivity, we have to be always unhappy with productivity. So we believe that, yes, there has to be some work related to assortment before we take really any call on that because what we are also seeing is that when you have opened a store ten years ago, there was a certain level of competition there, today, there is a new level of competition there. So you need to really go back and understand what is the new level of competition and what is the new level of catchment redefinition that has happened, so can you up the assortment or what should you do within the assortment in terms of changes of category. So just to again give you one more number, Women's Western Wear, today is at a level which is a very high level of contribution, six-seven years back it was half of this contribution. Now it cannot happen unless I take away space of another category and give it there. The emerging categories for example today are let us say sports. So the way we see it is if we are able to get the support from brands we will increase allocation or space there and will cut down in spaces where the current productivity is low. So this is the allocation of assortment based on customer requirement and that is something that cannot happen overnight, we typically look at a season to two seasons before we are able to really understand and estimate that yes, this is the trend that is moving now and let us allocate more space. That is the ongoing exercise, Abhishek.

- Moderator:** Thank you. The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.
- Kunal Bhatia:** Sir, just wanted to know in case of Hypercity, we saw the average selling price in the stores grew by 7.3%. What was the reason behind the same?
- Govind Shrikhande:** Mainly driven by Fashion because Fashion has grown by about actually higher than that 7% growth and food has grown at about 5% ASP. Just to give the correct number, 6% ASP growth in Fashion and 17% growth in sales. That has actually pushed the average selling price up whereas food price growth is below 5%.
- Kunal Bhatia:** Sir, for the next year, as you mentioned, EBITDA level of 7-8% kind of levels, what kind of store expansion are we looking at in the next coming year?
- Govind Shrikhande:** So four stores openings in the Department Stores is what we are targeting and about five in Specialty which is the MAC, Estee Lauder, Clinique, Bobbi Brown format and two in the Hypercity format.
- Moderator:** Thank you. The next question is from the line of Mayur Gathani from Ohm Portfolio Management. Please go ahead.
- Mayur Gathani:** You said the EBITDA margins for FY'18 could be in the range of 6.5 and FY'19 we could go up to 7 to 8, is that we are running one year late on this?
- Govind Shrikhande:** Above 7, correct.
- Mayur Gathani:** Second sir, like two stores shutdown and then five or six of them are under observation, this is the first time that you have taken this kind of a step, you are looking at Shoppers Stop, so usually been Hyper in the last two years that we have done that, your organized stores there, any...?
- Govind Shrikhande:** In our entire history of 25-years till date we shut only three stores before this and in fact two of those stores shutting actually was relocation. So really speaking we have not shut or close at this bigger level. But what really happened is these two stores have been shut because the malls have been shut. So we tried our best to continue but if the mall itself is shutting, you have no option but to shut it. We are also looking ahead that, yes, if a store cannot be turned around, I think it is better to take a call and shut it. So that is the call for the coming financial year.
- Mayur Gathani:** But I thought the stores were shutting because they were loss-making?
- Govind Shrikhande:** No, they were also loss-making, for example, just to give you the number, Mulund used to be among all top EBITDA store at one point of time but then last three years the mall has degenerated the interest of the mall owner to run the mall completely went away and we were the last men standing in the mall but it used to be a very-very profitable store for us.
- Mayur Gathani:** So in that case there is no closure cost that hit because of these stores?



- Govind Shrikhande:** No, if there is no lock in, there is no issue there which is the case as far as Mulund is concerned, the only closure cost would be whatever is your WDV city in that store, that is the hit that you get a impairment.
- Mayur Gathani:** For the coming quarter, you are looking at reorganizing or changing something or the other on the five or six stores?
- Govind Shrikhande:** Yes.
- Mayur Gathani:** So do we have any other stores in mind beyond these five or six which you have been working for some time I assume?
- Govind Shrikhande:** We have been saying that the bottom 5% of stores we have to always keep on looking at as to what should we do about the productivity, about the assortment, and fundamentally the whole model is when we open a store, we open with a 20% ROC in five years time. Now, if the stores is not able to really reach anywhere there over 2.5-3-years period, because that is the time it requires in terms of stabilization, I think one has to really look at it seriously and say, okay, where is it heading and what should we do now?
- Mayur Gathani:** Coming to the private label you said, two brands that have a very big stock and the one other was?
- Govind Shrikhande:** Life.
- Mayur Gathani:** These contributed approximately 70% ?
- Govind Shrikhande:** That is right.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to the management for the closing comments.
- Govind Shrikhande:** Thank you, friends for joining on the Q3 con-call. Let us meet again at the end of the financial year on the Q4 con-call and I am sure by that time you would have more clarity on the GST and maybe the fine print of budget would also be out. Thank you once again.
- Moderator:** Thank you. Ladies and gentlemen, with that we conclude today's conference. Thank you for joining us. You may now disconnect your lines.