



“Shoppers Stop Limited Q1FY16 Earnings Conference Call

August 3, 2015



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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Shoppers Stop Limited Q1FY16 Earnings Conference Call. As a reminder, all participants' 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 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: Thank You. Good Afternoon, Friends. Welcome to the Q1 Result Presentation of Shoppers Stop Limited. I will straightaway start with Page #3 with the Business Overview. We opened two stores -- one at Bangalore in Meenakshi Mall and one at Mangalore Airport and we also shut one small store in the Delhi Airport.

Our Loyalty Program continues to grow well and now has 3.8 million members, contributing more than 72% share of sales.

We got two big awards -- One is from Economic Times for Excellence in Supply Chain and Logistics Award and Crossword Bookstores also won Retailer Bookstore in the Year.

On Page #4, you can see all over India we are now at 234 Stores with 73 Stores in the Department Store format, 50 in Crossword Store format which are own run stores, 19 in HomeStop, 2 in Mothercare standalone Doors, 73 M.A.C. Clinique, Estee Lauder and Bobbi Brown Stores plus Shop N Shop, 17 Stores in Hypercity. So as of now we cover 34 cities with more than 5.7 mn sq.ft.

Moving to Page #5 you can see that in the Department Stores we are currently occupying 3.8 million, Specialty Stores we are at about 3.5 lakh sq. ft., Crossword 1 lakh sq. ft. Hypercity at 1.2 million sq. ft. and JV companies at 2.2 million sq. ft. which builds up to the 5.7 million sq. ft. of total space.

Page #6 you can see the Mangalore Airport Store, when you are flying in and out of this store you will see this 2500 sq.ft. store. Page #7 you can see the Bangalore Royal Meenakshi Mall Store. If you recollect we had a full size store of 50,000 sq.ft. of Hypercity in this mall. Hypercity gave us one floor which is now being operationalized by Shoppers Stop and Hypercity continues to operate on the lower ground floor of this store. Effectively, it is reduced to 28000 sq.ft. of Hypercity.

We launched Desigual one of the most fashionable Spanish brands in the world. This brand is doing very well across the world. It is a premium priced brand targeted mainly for women's Clothing and Handbags and we believe this can really generate a high level of footfall for the higher end customer.

Going to Page #9 you can see our sales growth, top line has grown by 15.5% for the quarter in the Department Store format, across all formats 15.7%. We have seen a very strong growth in

like-to-like at 12.7% and the most notable fact is after a long period of time, stores greater than 5-years are contributing higher level of sales growth than stores less than 5-years. So stores greater than 5-years have contributed 13.3% like-to-like growth driven mainly through renovation. Our top-4 Stores underwent renovation during the last 1-year and especially during last year same quarter the renovation was in its peak and that is why you are seeing such a big upside. Stores less than 5-years are running at 11.6% like-to-like growth. As a result, overall sales per square feet has also grown from 1703 last year to 1858 for the first quarter.

Going on to Page #10 in Operational Indicators, two big factors if you look at bottom like-to-like volume growth is 10.6%. Again, very strong growth driven on the back of lot of activation for the First Citizen and various categories as we will talk on later, and our convergent has also gone up pretty well; it has gone up by 8%. So the 12% like-to-like growth is actually delivered by 10% of volume and only 2% of ASP which I would say is a very strong growth.

Page #11: You can see the growth in private brands plus exclusive brand put together. We have grown by about 10 basis points. The exclusive brand growth is driven by Wrogn which is Virat Kohli's brand we believe this work will continue. We also launched one more brand during this quarter -- RS by Rocky Star -- and we believe that will further enhance the entire share of exclusive brands as well.

In terms of merchandise buying model, bought our versus last year and this quarter not too much of change. I would say the bought out has actually gone up slightly vis-à-vis last year because of a change I would say more of the exclusive brands and private brands.

On Page #12 you can see Apparel continues its growth very well from a 61.6 share, it is up at 62.6, up by 100 basis points, this is primarily driven by Women's Western Wear, Denim. And in the Non-Apparel Categories we have seen continual growth in Beauty as well as M.A.C. and Home. The category that continues to still degrow is Jewelry. In Fashion you can continue to see that Mens, Ladies, both the categories have grown well and overall Non-Apparel has seen a slight drop. Shrinkage very much under control and in fact from 0.23 of last year we are at 0.21 during this year.

Coming to the Financial Summary of Shoppers Stop Limited: We have seen a top line growth of 16% from Rs.690 crores to Rs.799 crores. Margin on sale has gone up by 12% from Rs.241 crores to Rs.272 crores, although we have lost marginal sale as a percentage when you at it, it has dropped by about 100 basis points on the back of lot of activations that we have done from 35.6 to 34.6. We were able to control operational expense growth which has gone up only by 14%, but in terms of percentages it has actually dropped by 70 basis points from 32.8 to 32.1. As a result, we have been able to drive the EBITDA growth by 12% from Rs.30.9 crores to Rs.34.5 crores and our PBT before exceptional item is up from Rs.1.2 crores last year to Rs.4 crores, 220% growth and a 30 basis points jump as a percentage. You will notice that we have made a provision for exceptional item which is diminution of value in our investment in the joint venture. Our joint venture Nuance which operates duty free airport business in Mumbai airport

and Bangalore airport. Based on the current cash flows and profitability that we see for the future, we have reassessed the value of this business and taken this impairment. There is a one-time impairment in the business and we continue to look at all businesses all the time and we believe that to the best of our knowledge this is a one-time impairment that needed to be provided and that is why we have taken it. As a result you are seeing a loss in both PBT line and PAT line, but let me tell you that overall operating results continue to be strong and growing well and we are still working on the track if you recollect that EBITDA percentage of 8% over the next 4 to 8-quarters is something that we are still tracking on and we believe we are on the right track for that.

Before I come to consolidated, let me first take you to the Hypercity results and then I will come back on the consolidated. On Page #17 like-to-like sales growth is at 1.9% but fundamentally because of the size reduction and downsizing, we are seeing sales per sq.ft. growth of 7.6% which is pretty good. Fashion continues to grow well and has seen a more than 12% jump during the quarter and it is now at 16.4% mix versus 14.9%. Margin on sale is also up by 40 basis points and like-to-like OPEX has actually degrown by 0.8%. As a result, store operating profit which was last year at Rs.7.8 crores is up to Rs.9.5 crores and company EBITDA profitability is Rs.(+12) lakh positive versus Rs.(-162) last year same quarter and this is a third quarter of EBITDA profit in the last 4 quarters as far as Hypercity is concerned. PAT is at Rs.(-16) crores minus versus Rs.18.4 crores last year, so almost a 30% jump. We also launched a new store in Pune, Inorbit Mall 25,000 sq.ft. and ramping up pretty well, and you can see the photograph of the Pune Inorbit Store on Page #21, it is a tight model of 25,000 sq.ft. and going ahead we will be on this 25,000 to 40,000 sq.ft. model across all cities.

Page #23 you can see again the same numbers that I talked about, overall growth at 3%, like-to-like at 2% and like-to-like sales per sq.ft. up by 7% from 2044 to 2215.

Page #24 we have seen degrowth in customer entry while at the same time we are seeing average selling price going up in this business by 8% which is much higher than what we saw in the Department Store category, as a result, we are also seeing volume impact negative of (-6%) but overall transaction size is up at 8% at Rs.1158 versus Rs.1066 last year.

Coming to Page #25 on the Financial Numbers: As I mentioned earlier, sales up by 3.4%; gross margin is up from 22.2 last year to 22.6, 40 basis points up; overall store EBITDA up by 22% from 7.7 to 9.5, and company EBITDA is from Rs.(-2.3) crores is at Rs.(+12) lakh positive this year, a jump of almost 105%. There is some regrouping at this level, whereas earlier we talked about 162, the property auction 75 lakhs of commission paid has been regrouped here and that is why you are seeing a slightly different figure here than the earlier comment. At an overall level we believe that we are tracking well on the EBIT objective that we had taken for this business and we believe we are about 4 to 6 quarters away towards that.

Coming back to Consolidated Numbers on Page #15: Sales up by 12% from Rs.986 crores to Rs.1109 crores; margin on sale is up by 11% from Rs.314 crores to Rs.349 crores; EBITDA is

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up from Rs.27.9 crores to Rs.32.9 crores almost Rs.33 crores, jump of 18%; PBT and PAT both are up by 30% from Rs.(-18) crores PBT we are now at Rs.(-13) crores and PAT from (-10) crores we are at Rs.(-7) crores loss. Overall, I would say good strong performance in the Department Store side, steady performance on the Hypercity side and we believe going ahead there are 2 or 3 big changes that are happening in the market, one of the big things that is happening right now is reduction in the sale period. Overall, you may recollect that I had made a comment that as an industry we have decided to reduce the sale period from about 8-weeks in the previous two seasons sales to about 6-weeks, we are currently on the same track. In fact we started our sale one week later this year instead of first week of July in the second week of July and our current plan is to close at around 15th of August which would mean effectively the sale period would be two weeks lesser. #2, this year we are also seeing there is a change of festival dates. Pooja which came in last year Q2 is moving to Q3. As a result, Q2 sales growth would be slightly muted, but Q3 which would have Pooja, Diwali and Christmas should be pretty strong, and we believe that Q2, Q3 put together, we should be above 8% like-to-like growth, and we are still tracking towards the overall 8% like-to-like growth for the whole year.

#3 I also wanted to give an update on our omni-channel movement. We had said that we are executing the omni-channel in three phases – Phase-1 will be (like an active) 12:37 by Diwali which is basically our online would be far superior in terms of accessibility as well as assortment as well as customer experience in terms of digital as well as appearance. Phase-2 would be our preparation for becoming multi channel. The work will start in Q3 of this year and will get executed by Q1 end of next financial year and the third phase which is omni-channel the work will start in Q4 of this financial year and will get completed by Q4 of next financial year. So 2016 will be multi-channel, 2017 will be omni-channel and all the software, hardware, infrastructure, manpower requirements this is required we are already working on that and I clearly see the traction happening starting Q3 of this year for our entire Online business. As we mentioned, we are planning to invest Rs.60 crores over a 3-year period; Rs.20 crores each year, this year, next year and next to next year, taking our share of online from a current 1% to 10% over the next 3-years. We believe the long-term of Online business will be steady and for customers it will be all about assortment and experience. Although currently we do believe that there is some amount of disruption happening because of large amount of discounting that big players are doing, we believe it will get aligned over a period of time and overall, the industry will mature. We also will continue to invest in our private brands and you will see lot of action in Q3 and Q4 this year as well as in exclusive brands. So, we have already launched Desigual as I mentioned during this year. We have launched Wrogn during the year. We have already launched Rocky SS brand called Rocky Star and there are 2 more brands lined up now between Q3 and Q4. So, a lot of emphasis is being done on private brand and exclusive brands to really ensure that exclusivity of products and assortment is maintained, at the same time margins are driven higher; and #3 of our strategy is really to leverage our First Citizen program and Social Media base. Our Facebook fan page now has crossed 7 million. Between the 3.8 million of First Citizen and 7 million of Facebook we believe there is a good traction that is likely to happen over the next 24 months period. And we are working on analytics to really drive momentum out of these basis and we believe we will be in a place to really take the share up not only at the

retail store level but because of a good online play, we will also be able to get a better impact in the physical stores as well. We believe omni-channel is not the investment only for Online but it will have its own impact across the entire channel.

With those words I would give it back for questions that you would have in mind.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We have first question from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Sir, I had two questions; One, on the gross margin at Shoppers Stop, I wanted to understand, you highlighted that activations were the reason for gross margin kind of declining on a YoY basis. How do you see this trend progressing – is it activations only for First Citizen or was there something else that was one-off in this quarter, could you please throw some light?

Govind Shrikhande: There was one one-off hit definitely for this quarter, but overall we do see that margins will pan up better across the next 3-quarters.

Avi Mehta: So what would drive that expansion or what should drive that...?

Govind Shrikhande: Share of Private Brands and Exclusive Brands keeps on increasing because this quarter we have only seen a growth of 10 basis points whereas we have gone ahead and invested in all these brands, their promotion and their advertising and launch, you have not yet seen the result, but Q3, Q4 onwards we should be able to see the results as well.

Avi Mehta: Sir, this Exclusive Brand would be consignment or would it be not consignment in nature?

Govind Shrikhande: It is based on brand-to-brand. Desigual is a bought out whereas Wrogn is on a consignment.

Avi Mehta: The second question was on Hypercity. Wanted to understand, if you see the gross margin profile, we track it for the last 5-quarters or so, we realize that the expansion that we had seen in the initial years or initial quarters, that has now come off very sharply almost about 30 bps or so. So, I wanted to understand how do you see this going forward and why?

Govind Shrikhande: So basically, it is related primarily one is on the share of fashion. So if you look at the share of fashion when it moved from 5 to 9, 9 to 15 you clearly saw a big impact change. This year you are seeing it going up from 15% to 16.5%, so the impact you are not yet able to see so much. But the objective is to take it to 19% in the financial year and then to about 22%. Overall, definitely, we will see over the next 24-months period the margin impact much higher than what you are seeing right now in Q1.

Avi Mehta: But would it be then fair to kind of assume and understand that the expansion would not be similar to what we saw 4QFY14 to 4QFY14, those kinds of 100 bps plus, that would be...?

- Govind Shrikhande:** This quarter you should see something similar, it would not happen in one quarter but over 8-quarters you should see that. In this quarter the growth is not so very high; it is 15 going to 16.5. So that is why you are not able to see that big impact, but by the end of the year if you are able to hit 18% kind of a number which is what we plan in Q4 we would be able to see that number.
- Avi Mehta:** So you are saying that would mean a backended kind of higher margin expansion?
- Govind Shrikhande:** Yes.
- Avi Mehta:** But in such an environment, even if I kind of build that something like 120, 300 bps kind of expansion, you are reaching 25% EBITDA gross margin, just kind of putting a number, but even for this year EBITDA wise how would you achieve EBIT break-even because the numbers do not stack up that level then?
- Govind Shrikhande:** As of now if you look at it we are hitting EBITDA positive, now really to hit EBIT positive you have to further inject in terms of the throughput first of all for the depreciation.
- Avi Mehta:** When you say lower the depreciation, so you have already...?
- Govind Shrikhande:** If you look at this quarter, the depreciation is running at Rs.6 crores. When I get EBIT I have to cover the Rs.6 crores first and that is something is related to two things -- One is driving the top line better and therefore driving the bottom line also higher. So that is the objective that we have taken for this let us say in the next 4-5 quarters.
- Avi Mehta:** In that case, if I were to understand that throughput argument a little detail, you are currently at Rs.240-250-odd crores, that would mean that the growth rate start inching up in the second quarter, third quarter, even if you were to maintain that run rate?
- Govind Shrikhande:** Just to paraphrase that number we are at 7% sales per sq.ft. number right now. It needs to go double digit.
- Avi Mehta:** So what do you think can drive, that is what I am trying to get?
- Govind Shrikhande:** Lot of activations have to be done at the store level including assortment, including pricing, including promotions for the customer and that is something that we are looking at very seriously and our target definitely is that the big season actually starts right now... 15th August is a big season definitely but post that it is the Ganesh, then the Pooja, and the Diwali. So Q3 definitely would be a key barometer for us to really see how much can we inch up.
- Avi Mehta:** The underlying demand is supporting that kind of ...?
- Govind Shrikhande:** Underlying demand is soft in Q1 but we believe it should pick up in Q3.

- Moderator:** Thank you. The next question is from the line of Tanmay Sharma from Edelweiss. Please go ahead.
- Abneesh:** My first question is in terms of Q1, you saw 12.7% LTL in Departmental, but you are saying Q2, Q3 around 8%. So, why you are taking a dip?
- Govind Shrikhande:** As I explained, last year Q2 for us was very big at 11% and Q3 was less than 1%.
- Abneesh:** No, so I am taking both into account – Q2 plus Q3, you are saying 8%?
- Govind Shrikhande:** Both combined last year we are actually less than 6%, if you combine both of them may be we are at 5% to be precise. We are saying combined we should be higher fundamentally because of two factors as I mentioned and I thought I will give you a heads up on that primarily because we have decided to reduce the sale period which really means that the growth will be much more toned down vis-à-vis the high growth rate of last year but we also believe that the growth story of consumer, the sentiment positive that is changing right now should help us to really hit a higher growth rate in Q3. So combined I believe we will be higher than last year for sure, but definitely (+8%) is the target.
- Abneesh:** Reduction in sale period by two weeks from 8 to 6. One, you are saying the sales growth will become low because of this. I understand the margins will improve. So on an overall basis, sales down, but margins better, are we at a better growth number at EBIT front by doing this or is it more a case of disciplining the customer?
- Govind Shrikhande:** Everything is that, that is the ultimate aim.
- Sanjay Chakravarti:** I think the way you need to see it is that full price sales will deliver 10% higher margins as a percentage of sales. That is what will cover the operating margin growth.
- Abneesh:** EBIT growth in 6-weeks versus EBIT growth in 8-weeks scenario, EBIT growth will happen, but versus the two scenarios, is 6-weeks more a case of disciplining the industry currently or in the first year itself, EBIT growth will be higher?
- Sanjay Chakravarti:** The 2 quarters combined, not just in Q2 or in 6-weeks.
- Abneesh:** Private labels target is 22% in three years, down 80 bps, any one-off in this?
- Govind Shrikhande:** There has been some movement between our rationalization of various private brands. We had a portfolio of 11 private brands. We have now started cleaning them up. We are now down to 7 and over the next 2-quarters we will further clean it up and then it starts getting momentum.
- Abneesh:** Four brands are no more there?
- Govind Shrikhande:** No more there in the store itself.

- Abneesh:** This 7 brands where it can go?
- Govind Shrikhande:** We believe we need to really build the momentum on the 7 rather than having 11 to play on and we believe 7-portfolio is a big enough portfolio. Along with that we are also going to have about 6 private exclusive brands.
- Abneesh:** Do your private label sell on other eCom sites? Why I am asking this is if you see Titan, Titan's jewelry is available on their own site and is also available on some of the other websites.
- Govind Shrikhande:** Our private brands are already available in a small way in all the marketplaces today.
- Abneesh:** Coming to movie, has those really helped because Q1 was bumper and July also is extremely good, would you say that has helped significantly?
- Govind Shrikhande:** Big movies do help because they bring in the entire family to the mall and once they are in the mall we are very much present there to really help them to shop. Bajrangi Bhaijaan definitely breaking all records helps and we are looking forward to all the big movies coming up now in the Q2, Q3.
- Abneesh:** Recently, there has been a news flow that many malls are not doing well in quite a few key cities. Is any of your property in such a mall wherein closure can happen in the next say 1 or 2-years?
- Govind Shrikhande:** There are two big malls; one we have already talked about last year which is Ansal Plaza, the first mall in Delhi, which is undergoing a big-big problem and almost everyone is shut and in fact we had also given you a heads up that we are likely to shut it in the coming year, and there are 1 or 2 other malls as well which are currently struggling, but I would not like to name them here. It is an ongoing phenomena because when a new good mall comes up obviously an old mall that does not ramp up its operation or quality or assortment is bound to suffer.
- Abneesh:** This one-time impairment, earlier you had mentioned that your Airport Stores do quite well...
- Govind Shrikhande:** That is a duty paid side... the domestic side.
- Abneesh:** So these are international ones?
- Govind Shrikhande:** Duty free joint venture.
- Abneesh:** Why will the customer behavior be different that in domestic he shops but internationally does not?
- Govind Shrikhande:** No, he shops but internationally it is a slightly different metrics of buy. On the domestic side we do not sell liquor or anything, we only sell Fashion, Clothing and Accessory which is our main line of business. On the international side if you look at it the mix is very skewed towards cigarettes and liquor.

- Abneesh:** In your stores, that is sold?
- Govind Shrikhande:** In Bangalore it is sold here, not in Mumbai because we do not have the rights for those products.
- Abneesh:** What is the issue there?
- Govind Shrikhande:** There are two things. If you look at it, when we launched this business we were looking at 5 to 6 Airport models. Unfortunately, the other airports are just not going in for the duty-free operation even now. We are waiting for the last 2 years for Chennai, Kolkata to announce tender but does not look like it is going to happen at all. So, you have a given cost of business meant to be taken for 6 stores, 7 stores operation. We are only operating 1.5 now for the last 3-years. So that is why it is sort of non-tenable in the current situation.
- Abneesh:** Jewelry has been a struggle for past many quarters. July I understand at least in the Gold part of the business will be good. In your context, when does base become favorable and July how has been the month for Jewelry?
- Govind Shrikhande:** We do not sell gold, Abneesh, we are only into the Fine Jewelry type, in fact, now, we have crunched the area in such a way that it should not matter after another 2-quarters.
- Abneesh:** iStop, any further detail you can share, how it is done?
- Govind Shrikhande:** iStop is growing well, in fact, we have expanded now to 5-Stores and we would see it expanding across India over the next 24-months period.
- Abneesh:** In Hypercity, Reliance is doing online for its hypermarket. So, what is our plan there? Noodles, what was the impact if you could quantify and did we do some proactively to overcome that if at all?
- Govind Shrikhande:** Noodles basically is less than 0.4% of overall sale in Hypercity, but what it has done actually to the whole food business has been pretty bad. What really happened was post the FSSAI campaign and in fact even now there are going ahead, picking up samples of various products across the industry across various stores. #2 various new launches have been put on hold by all FMCG and food guys because they want FSSAI clearances to happen. As a result, promotion in this business by big brands have actually stopped, and as a result, definitely, the customer traction is slower, consumption is also slightly lower in the food area. This has impacted the overall industry in a very negative way. We hope and we really are thinking that the whole industry will turn around, work around it and ensure that we beat this problem in the future and really take it head on.
- Abneesh:** Does any of your private label suffer because of this?
- Govind Shrikhande:** No. On the Online venture, currently, also we are operating along with Zopnow as a partner in Bangalore, in fact extended to 5 cities where Zopnow picks up the orders and delivers with

Hypercity working as a backend support. #2 as I mentioned earlier Phase-2 completion of Shoppers Stop, once that is done we will start operating or opening up individual sites for all our other formats including Hypercity, Home Stop, Crossword which will get them connected to the customers directly online.

Moderator: Thank you. The next question is from the line of Maulik Patel from Equirus Securities. Please go ahead.

Maulik Patel: A broader question; one is that how does the GST impact your business because 60% of the business is on Apparel side where there is an excise duty as of now, if you can help that? Second is on the consumer sentiments. Have you seen that it is really on a structural uptrend because what we have witnessed over the last 4-5-years particularly urban consumption, where there is a one good year and then the bad year in terms of the urban consumption, if you can highlight that, that would be great?

Govind Shrikhande: Let me first take on the GST part; GST has actually two parts to it -- One is related to service tax on rent where we clearly see an advantage of a set up, and if you look at our numbers currently our service tax impact is about 140 basis points and we believe that it will get nullified to almost 90%, so almost 100 to 120 basis points of gain is likely to happen once GST comes in. As far as the GST rates are concerned, I do not know who knows the final rates right now, because various rates are being talked about right from zero rate, special rate of 8 or 12 to 16 to up to 20 and categorically, we have heard that 27 is not going to happen and it is likely highest would be 20. When you look at these numbers as of now when you look at a comparison, let us say the average rate in Fashion is let us say 12% and currently, if you look at it all duties put together on Fashion including no excise duty but there is VAT, there is surcharge, there are various kinds of octroi and entry taxes all that comes to about 6%. So there is a (-6%) negative likely impact. When you take Non-Apparel which is currently at a VAT of 12% plus excise plus other duties which is running at (+26%) there could be a gain at 18% of 8%. So weighted average if you ask me as a retail industry could be neutral, but as of now it is a guess because nobody has actually come up with any final number and yes, as an industry, various industries are talking to the government to have a rate neutral impact they see of GST so that the consumer pricing does not get impacted.

Maulik Patel: But let us talk about the Apparel side. If there is a (-6%) negative impact, do you think that it will impact the volume growth in probably the first year, have you seen that because you sell multiple products in different categories, does it really impact the volume?

Govind Shrikhande: At a 4 to 5% price increase it should not logically impact too much, anything above 8% starts impacting volume straightaway.

Maulik Patel: I think the trade is very much important to decide whether it is impacting?

- Govind Shrikhande:** Correct. #2, you asked about consumer sentiment. It is exactly like you cannot predict whether Bajrangi Bhaijaan will be a hit or Bombay Velvet will be a flop. It is exactly like that. We believe yes, the government needs to work harder on really creating a more positive sentiment than what exists today. Yes, it is talking a lot of test but I do not see them really working towards building it up as much as possible. Likely that the government will push harder after the GST logjam that is happening in the parliament on various steps and they should definitely help the entire consumer sentiment to run more positive from Q3 onwards.
- Moderator:** Thank you. The next question is from the line of Abhishek Ranganathan from Ambit Capital. Please go ahead.
- Abhishek Ranganathan:** Just a few questions: One, on the GST part. Could you just elaborate on the negative (-6%) which you mentioned on Apparel, I did not quite get that?
- Govind Shrikhande:** Fundamentally, if you look at it Apparel does not have excise duty today. So it is sort of 0% excise duty. There is no impact on excise duty. The current VAT is running at 4.2% and if I add to it all the taxes, whether the entry tax, octroi... there was octroi still continuing in various states between 2 to 4%. The overall incidence of tax is about let us say 6%. Our understanding is Apparel being daily need item it will come under the lowest rate at 12% and that is why I said difference between 6 and 12 is 6%. But this is still a calculation that we are expecting. We really do not know which way the wind is blowing.
- Abhishek Ranganathan:** In Non-Apparel, you said the duties are 25% and therefore you could ...?
- Govind Shrikhande:** There would be a positive gain versus the VAT of 12%.
- Abhishek Ranganathan:** This should be across all non-Apparel categories?
- Govind Shrikhande:** In certain categories, there is a much higher impact. If you take footwear or leather the excise duty itself is running about 20%.
- Abhishek Ranganathan:** One, on the like-to-like growth, I just wanted to understand better the like-to-like growth and the flow through to the margins. Now, we have seen that 13% like-to-like growth and you did mention that this was due to the renovation undertook in the four of the largest stores or four of the best stores we have. Because for the first time we have seen this huge jump in the like-to-like growth of stores which are over 5-years old. Is there any change in the base or was it also because did we also get a bump because we did have to exit some stores?
- Govind Shrikhande:** No-no, last year same quarter these stores were under renovation and this quarter if you look at last year Q1 we were less than 8% like-to-like growth and these stores were actually struggling if you look at those numbers of last year same quarter. So it has come on a lower base for sure because of the renovation, but post renovation, the stores are performing better.

- Abhishek Ranganathan:** What explains the huge jump of 10.6% volume growth? Is it not that these four stores have contributed a chunk of 10.6% like-to-like volume growth?
- Govind Shrikhande:** The volume growth has come about across because one of the key elements again you can see is that the average selling price has gone up only by 2%, again a different phenomena, average price increases that we have seen have been in the region of 5% to 7%, as a result the volume growth have been 2% to 4%.
- Abhishek Ranganathan:** You are saying that because ASP growth is lower...?
- Govind Shrikhande:** It helps volume growth as well.
- Abhishek Ranganathan:** Any particular categories this volume growth happened and obviously where we have seen any price changes or prices are being maintained which would have dealt to this?
- Govind Shrikhande:** Primarily, this is driven by all Apparel categories, all Fashion categories including Denim, including Ladies Western Wear, all of them have grown well. If you see on Page #12 you can see those category-by-category -- 80 basis point up in Mens, almost 50 basis points in Womens as well. So it is cutting across all Apparel categories. And we are also seeing good growth in Beauty, in MAC... in fact in MAC and Beauty prices, have gone up but in spite of that we have seen good overall sales growth, but we have not seen good volume growth there. In Home again, we have seen a good growth, but it is more combination of price increase there rather than volume.
- Abhishek Ranganathan:** And we would not be taking these MAC and Home Stop in the numbers given of 13%?
- Govind Shrikhande:** It is part of the overall number.
- Abhishek Ranganathan:** It is part of the like-to-like 13% reported because when you say Shoppers Stop Department Store...?
- Govind Shrikhande:** Yes, because if you look at, Estee Lauder business sits inside Shoppers Stop as standalone as well shopping. Shoppers Stop is part of the Department Store.
- Abhishek Ranganathan:** So the gross margins flow through would have been largely due to activations?
- Govind Shrikhande:** So, some part is due to activation and one part is due to one-off of last year gain in margin that we had.
- Abhishek Ranganathan:** What would that be for?
- Govind Shrikhande:** We had a traditional margin that we got last year which did not come through this year, not a big number, but just to put the exception in clarity.

- Abhishek Ranganathan:** This was one-off margin, in the sense that we have been...?
- Sanjay Chakravarti:** We negotiated better and got a one-off which did not happen this year.
- Abhishek Ranganathan:** It did not flow through during this quarter. It is expected to flow through in the remaining 9-months?
- Sanjay Chakravarti:** It was a one-off gain that we had.
- Abhishek Ranganathan:** So it is specific only to that quarter?
- Govind Shrikhande:** Yes.
- Abhishek Ranganathan:** On the Omni-Channel piece, I missed you there when you said that it will go live and active by Diwali and that is one milestone, and the second you said is that could you just share that for my benefit?
- Govind Shrikhande:** Just to re-explain, fundamentally, our strategy in Omni-Channel is a three-phase strategy – one is doing Online better in this financial year, so that our app and our site will be live between Diwali to Christmas and you will see a bigger assortment Online, today, our entire assortment if I take a store at 100, the Online assortment is less than 50, our target is to take it to 80. So that is one big piece. Second big piece is the entire navigation which is digitally-led including great looking photography, editorial content, curated merchandise and tips and style guide, all these will also get built up by Diwali. So, we believe our Online experience with the customer will be far superior than what you see right now.
- Abhishek Ranganathan:** You have better navigation and content?
- Govind Shrikhande:** Yes, so that would be Phase-I. Phase-II would be multi-channel which means you can go to the store, use the kiosk, order online if something is not available, at the same time view on online and maybe secure in the store for delivery where you can come and check it out. So that phase execution will start in Q3 this year and will get completed between Q1 and Q2 of next financial year. So that is a multi-channel part wherein we are putting investment in warehouse management system and other infrastructure. Phase-III would be Omni-Channel which would mean buy anywhere, pick up anywhere, return anywhere, so one way of customer, one way of order is the prime objective in trying to deliver Omni-Channel, for that the investment will start working in Q1 of next financial year and will get completed by Q3, Q4, so '17 will be fully Omni-Channel.
- Abhishek Ranganathan:** You mentioned last time on Hypercity that you had tie-up with the likes of Zopnow and maybe Grofers and you did mention they buy out the merchandise. What kind of growth you have seen, what categories you have seen people buying this and is there a strong preference for certain categories like Fresh for which maybe Hypercity is known as?

- Govind Shrikhande:** Zopnow is primarily focusing on the FMCG and Staples and first it was only operational in Bengaluru as a city and now it is expanded from Bengaluru for second to Hyderabad, from Hyderabad now it is expanded to Pune and Mumbai as well. It is growing and maybe (+100%) right now for us, but the possibility is much higher in reality.
- Abhishek Ranganathan:** Do you see this as a very big business as such,...has the potential of Hyper locals driving your business, they do not necessarily compete with you?
- Govind Shrikhande:** I believe that it can be a good collaborative strategy by the time we go online, We can continue to work along with them and even when we go online Hypercity, which is what we are planning to do in the second stage of our Omni-Channel journey of Shoppers Stop, we believe you can keep on tapping the customers through various channels.
- Moderator:** Thank you. The next question is from the line of Harit Kapoor from ICICI Securities. Please go ahead.
- Harit Kapoor:** Just wanted to check with you the four stores which you spoke about, if you would just strip that off or maybe add that back in the base, ex that, what would have been the like-to-like growth, I remember in Q1 last year you said ex that your growth would have been around 7-8%, what would have been the similar kind of a number, any ballpark range?
- Govind Shrikhande:** Against the 12.7%, I would knock about 3% out of that because these stores combined together the contribution is less than 7-8% of the four stores.
- Harit Kapoor:** Okay, you would knock off about 300 basis points. Just also wanted to check, in your presentation, you mentioned that there has been about a slight decline in customer entry, but in the base quarter we did not have these large stores. So, I just wanted to understand without having these large stores, you would have had the benefit of them in this quarter. So, how do you see this number kind of panning out?
- Govind Shrikhande:** These stores are operational, they were under renovation only. So they were not shut for anything. Also, there is only one store that we shut for about 7-days or so out of the four, a very small of window within if you look at it 12-weeks across 70-stores.
- Harit Kapoor:** On this Hypercity and Zopnow partnership, I just wanted to know when you sell to Zopnow at the EBITDA or at store EBITDA level, would this be more profitable or it would be at a similar profit line as compared to how you sell in Hypercity...?
- Govind Shrikhande:** Currently, it is at similar profitability. If I can sell more merchandise which is non-food, it can be slightly better, but currently it focuses on Food, which is slightly lower profitability any case.
- Moderator:** Thank you. The next question is from the line of Amit Kumar from Investec Capital. Please go ahead.

- Amit Kumar:** To begin with, you talked a little bit of activations that you did in this particular quarter which also drove this 12.7% SSG. Could you just talk about that a bit?
- Govind Shrikhande:** Basically, as I mentioned, 3.8 million customers now, we started the quarter at about 3.6 million customers and we do have certain schemes that we operate for First Citizen. So, this year the two big schemes that we operate at slightly for longer period – one was called as Magical Bonus Points – really meant that we deposited bonus points in the account of the First Citizen; if he came and shop, gets those points back, got a discount on that. So typically we used to do it for a weekend period. This year we extended almost for 10-days period. The second big thing that we do is a First Citizen Fiesta which is typically done again for a 2-week-end period, this time we extended it by one more week-end. So basically, we picked up our working ideas of the previous two-three years, fine tuned them a little better and extended it wherever required.
- Amit Kumar:** My second point is in terms of new store launches, especially in Shoppers Stop format, you talked about I think 6-stores for this year in the previous quarter. Does that guidance sort of still remain?
- Govind Shrikhande:** Yes, in fact, it would be slightly higher because we already opened 2-stores in Q1, we also opened the third store already in Q2 and there is a line of at least 4-stores that I can see right now. So, we would be 7-8-stores for the year for sure.
- Amit Kumar:** That is what my point was because when I look at your cash flow statement on Page-17, 1Q itself we have seen Rs.40 crores kind of investment... just about Rs10-12 crores a store, seems to indicate slightly higher store traction. Does this extend over a 2-3-year period or it will be just for this year specifically?
- Govind Shrikhande:** No, we had given a guidance that we are looking at 6-store opening every year for the next 3-years time. While the 6-store opening is a slightly lower level of store openings than the previous year, our focus on Online investment is taking a slightly higher level. But on a year-on-year basis, we are investing about Rs.20 crores per year again for the next 3-years on Online.
- Amit Kumar:** So, essentially 2-stores equivalent is what you will spend on...?
- Govind Shrikhande:** Correct.
- Moderator:** Thank you. The next question is from the line of Avi Mehta from IIFL. Please go ahead.
- Avi Mehta:** One clarification; I am still not clear on the gross margin bit at the standalone. You said that you did more activations and there was a one-off in negotiations. Would you be able to share adjusted for the one-off, how were the margins behaved?
- Sanjay Chakravarti:** That 1% degrowth would have been half, you would have seen at 0.5%.
- Avi Mehta:** That 0.5% is largely because of activations or is it because of mix?

- Sanjay Chakravarti:** Activations.
- Govind Shrikhande:** Actually, it is better with Apparel higher share.
- Avi Mehta:** Should we consume that same run rate to kind of continue because activation you said that the number of discounts were actually lower, so this 0.5% or something that you are doing more from Analytics point of view, is that... ?
- Govind Shrikhande:** Fundamentally, when you analyze, you will understand an offer works as an activation better. So, analytics and activation offer go hand-in-hand, that is where the 50-basis points impact.
- Avi Mehta:** From now on, would it be fair to kind of build in that kind of impact or what can offset or what would change this sir because you are saying 50 bps is the impact that you will see from activation, how...?
- Sanjay Chakravarti:** The way to look at it is by the end of 31st March we should be able to deliver 20-30 basis points growth in gross margins on an annual basis.
- Govind Shrikhande:** We are showing every year if you look at it; 20-30 basis points growth every year on gross margin, we should still be able to deliver that.
- Avi Mehta:** That will be a function of mix is what should help us as well as kind of intelligent assortment, etc., changing?
- Govind Shrikhande:** Mix and assortment, both.
- Moderator:** Thank you. The next question is from the line of Sanjay Singh from Axis Capital. Please go ahead.
- Sanjay Singh:** Just wanted to ask on the cash flow for standalone. Rs.36 crores is for what because store opening has been weak this quarter...Rs.40 crores of cash flow which has been gone away or...?
- Sanjay Chakravarti:** That is not the way to look at it, Sanjay. The way you have to look at it is whilst we have invested in two stores that have opened, the stores which are in the pipeline are also getting invested in, right, our fit out period is for two months
- Sanjay Singh:** But the full year, can you give some sense in terms of cash flow, how it would look like?
- Sanjay Chakravarti:** We expect to generate about Rs.180 crores of operating cash with Rs.130 crores of outflow on account of CAPEX.
- Sanjay Singh:** In terms of debt, you would have got this property benefit, but that would have gone for the CAPEX, right, because the debt is still almost similar levels as last quarter?

- Sanjay Chakravarti:** Which is essentially because there are two parts to that – the property options also need to be paid for. So, as of now, whatever money has come in from the auctions based on the construction progress, that money has actually gone towards paying off the options. So effectively, Hyper has not had to depend on any of the shareholders for that part. The benefit on a net cash flow will actually start accruing over the next 18-20 months, it has not started accruing as of now.
- Moderator:** Thank you. The next question is from the line of Vishal Gupta from India Infoline. Please go ahead.
- Vishal Gupta:** Can you just give us a sense how the performance of Shoppers Stop across geography, which geography has performed better?
- Govind Shrikhande:** East continues to perform very well, so East, North, West, all three are double-digit growth, South is slightly slower and I mentioned earlier that we are seeing slight slowdown in growth in Hyderabad and Bengaluru.
- Vishal Gupta:** That is due to competition or...?
- Govind Shrikhande:** No, I believe that the whole reorganization of Andhra, Telangana does seem to be having impact across the whole Hyderabad market as well as Vijayawada market, entire AP.
- Vishal Gupta:** Service tax impact you told, it would be 140 bps on the EBITDA margin. Of that, what kind of basis points?
- Govind Shrikhande:** What I explained was currently, the negative impact is 140-basis points, once GST comes in, we believe that there will be 90-95% subsuming of the tax, we believe that there could be a gain between 100-120 basis points.
- Vishal Gupta:** The margin ride by 120 basis points?
- Govind Shrikhande:** That is our current understanding.
- Moderator:** Thank you. The next question is from the line of Tanmay Sharma from Edelweiss. Please go ahead.
- Abneesh:** Abneesh here. One or two follow-ups; service tax was increased in this budget. What was the impact this time?
- Sanjay Chakravarti:** About Rs.80 lakhs.
- Abneesh:** No plan to pass that on?
- Govind Shrikhande:** We cannot pass on anything to customers ...

- Abneesh:** No, sir, by bringing higher price hikes, building in the model?
- Govind Shrikhande:** That is not our model, Abneesh, we operate on MRP.
- Sanjay Chakravarti:** Only brand owners can change MRP. As retailers we do not have control over MRP.
- Abneesh:** In Hyper market, your price hike was quite high. What happened there – 8% price hike?
- Govind Shrikhande:** That is again led by the FMCG, especially Food side where we are still seeing continuing inflation to some extent.
- Abneesh:** Why should Zopnow tie up with you in many cases for example, in FMCG branded products, Hypercity helps in the back-end, is that the reason because they can source it directly from the FMCG companies itself, right?
- Govind Shrikhande:** Fundamentally, it wants to operate like Online Search place and the back-end sourcing it does not have get into it, it does not have to manage buying merchandising, sourcing, logistics delivery, it just picks up from my store, so automatically I become in buying merchandising team.
- Moderator:** Thank you. We have last question from the line of Sunny Agarwal from Aditya Birla. Please go ahead.
- Sunny Agarwal:** Sir, store addition target for Hypercity this year?
- Govind Shrikhande:** We opened one store, we are still targeting two more stores during the financial year.
- Sunny Agarwal:** That will be around 30,000-35,000 sq.ft. right?
- Govind Shrikhande:** Yes to 40,000 sq.ft. because both properties were signed some time ago.
- Sunny Agarwal:** Any possibility of area reduction in some of our Hypercity Stores?
- Govind Shrikhande:** Nothing I can tell you right now, but that is an ongoing exercise.
- Moderator:** Thank you. As there are no further questions, I would now like to hand over the conference to Mr. Govind Shrikhande for his closing comments. Over to you, sir.
- Govind Shrikhande:** Thank you, Friends, for joining us on this con-call. In case you have any other questions later on, you can send them to Sanjay or to me. Thank you once again. All the best.
- Moderator:** Thank you very much, sir. Ladies and Gentlemen, on behalf of Shoppers Stop that concludes this conference call. Thank you for joining us. You may now disconnect your lines.