



“Shoppers Stop Limited Q1 FY19 Earnings Conference Call”

July 30, 2018



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STOP LIMITED**



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Moderator: Ladies and gentlemen good day and welcome to the Shoppers Stop Limited Q1 FY19 Earnings Conference Call. We have with us on the call today Mr. Rajiv Suri – Customer Care Associate, Managing Director and CEO, Shoppers Stop Limited and Mr. Karunakaran M – Customer Care Associate & Chief Financial Officer, Shoppers Stop Limited.

As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rajiv Suri. Thank you and over to you sir.

Rajiv Suri: Good afternoon everyone and welcome to the key financial highlights of Quarter 1, 2018-19 for Shoppers Stop Limited.

I will go through the presentation and we will explain couple of key performance indicators as we go along. The sales growth for Shoppers Stop has been at 1.2% and all formats at 1.4%. The like-for-like sales growth has been at (-1%). As you may have recalled last year in June 2017 we had a big impact on the pre-GST sales and the footfalls were very high and customers moved their shopping into the first quarter. June for us last year was (+39%) and in fact the last 10 days was close to 60%. We had anticipated a muted top-line for Quarter 1 and in that sense had focused our attention to more operational efficiencies and cost management. Our EBITDA as a consequence improved by 36% to 43 crores from 32 crores and our PAT increased from a negative of 3.5 crores to a positive of 18.9 crores. Our sales per square foot on chargeable area is 2336 this year.

On our operational indicators due to the high footfall mainly impacted in June of last year where we saw a significant increase in sales, we had a decline in our footfall. All the operational parameters however remained strong. Our conversion ratio is up 5%, our transaction size is up 5%. In addition to these two operational parameters the average selling price is up 3%, the growth being slightly offset by a decrease in volume of 4%.

Going to the merchandised mix:

Our private brand merchandise mix is at 10.2% and the exclusive at 3.7%. This shows a slight decline on last year as we continue to work on our private brands business. We are working and investing more in our private brands in two areas in order to get back on track with the private brands business. The two places where we are making investments is in leadership and management team plus an infrastructure to allow them to get results quickly. We have recently hired head of design and head of sourcing, both are new in the company hired in Quarter 1 and we are looking for a president to lead the private brands business, search is going on for that. We believe that if we were to have a senior dedicated management team on private brands we should be able to quickly regain a loss to ground on that. In addition we are giving them the tools and building infrastructure for them to operate the business and improve the designs and the

quality of our business. We are setting up a design studio; we are setting up sampling unit and a testing lab. We should have this up and running in 3 to 4 months and this will significantly help us improve our full price checkouts and reduce our time to the shop floor from design, designing to the shop floor.

Our revenue mix in Quarter 1 between apparel and non-apparel shifted a bit more towards non-apparel. This is mainly on the back of better performance in the beauty, luggage, watches and home, also women handbags and that sort of tilted it more towards non-apparel business. In the apparel business we are having some decline in men's and to be more specific in men's formal wear and that I think is going to be an industry wide trend as consumers continue to dress down a little bit.

In regards to our shrinkage – we are pretty much same as last year which is at 0.24% and I think this is a very good numbers in terms of the industry averages.

If we move on to the financial summary for Quarter 1 2018 and 19, our retail sales are up by 1%, margin on sales is up by 2%, also with the increase from our gross margin percentage from 32.6 to 32.7. Costs are down as a consequence our operating profit is up from 32 to 44 crores. On our PBT level from a negative of (-6) crores we are positive of 15 crores and we had one exceptional item of (-11) crores in positive item which make the PBT at 26 crores. Our PAT, total comprehensive income is at 19 crores against the loss of 3 crores last year. As a consequence of that our percentage of income on the PAT level is 1.9 versus a negative of last year.

I will skip through the consolidated financials as there is not much deviation in that and can answer any questions at the end of this. From a balance sheet point of view, Karuna will explain in detail.

Karunakaran M:

Thanks Rajiv. On the balance sheet point of view like as you can observe, we are almost becoming close to zero debt company. If you see the loan 111 crores but if you compare the investments what we have made in the mutual funds it's at about 97 crores. So, our net borrowing is at about 14 crores and the second item is if you see there is a significant increase in both stock & trade and trade creditors just because we have shifted from SOR to OR, there is an increase of around about 661 crores because of that. So it neutralizes there is an increase in assets as well as increase in liability. Other than that overall there is a net reduction in working capital primarily due to the creditors. Overall it's a very healthy balance sheet.

Moderator:

Thank you very much. We will now begin the question and answer session. We have the first question from the line of Avneesh Roy from Edelweiss. Please go ahead.

Avneesh Roy:

My first question is on the revenue mix, there is a 190 bps change in the revenue mix. Is it only because apparel because of the GST event had more benefit because I understand even home,

leather, watches, jewelry, electronics would also have seen the same sales season, so could you take us through what is the reason for such a sharp swing?

Rajiv Suri: So you are talking about the revenue mix mainly?

Avneesh Roy: Yes, so non-apparel gaining by 190 bps.

Rajiv Suri: Main reason is I think due to beauty and also that we have increased our share not only from a like-for-like basis, if you see our non-apparel business on a like-for-like basis grew 6% versus the decline in the apparel business, so I think that's the main reason why the mix changed and that's fairly due to performance. And a lot being done out of beauty, luggage, watches and home and also we opened two new beauty stores in this quarter which also added to the beauty business. But I think that is mainly due to like-for-like performance.

Avneesh Roy: Would you expect for the full-year also some mix improvement towards non-apparel because you are doing some proactive work in the beauty and luggage, are those higher margins and that's why they should help the margin profile also?

Rajiv Suri: I think for this season the men's wear formal have not done well and that's one of the reasons perhaps why the mix also changed. In terms of our growth in women's ethnic wear we still had good growth. So I would expect in beauty our growth is going to be more because besides a like-for-like growth we are also opening between 10 to 12 new beauty stores which means that if we were opening 5 department stores and 10 to 12 beauty stores, the beauty business would accelerate a little bit faster than the rest of the business.

Avneesh Roy: In terms of the menswear which you called out had slower growth, is it largely because of base or is it because you are now having your own private label at a more attractive entry price point, is it also because of that?

Rajiv Suri: I think the one of the reasons in my view is the men's formal business and the way people are dressing today. So recently even Shoppers as a company we promoted a 'denim to work' campaign and at that point of time we did a big move to see how people dress at the workplace. And I think that whilst that may have helped us increase our denim business overall it may have impacted the formal business. But also as a customer and also people nowadays are wearing less and less formal clothes, so I think it's more of an industry trend rather than a specific trend to us.

Avneesh Roy: Second question was in terms of the LTL sales growth in Q1 I think Q4 we were given the guidance for FY19 at 7.5%. So you do you think you can still achieve that and we were given the guidance of 5% price and 2.5% volume?

Rajiv Suri: We had also mentioned that our Quarter 1 would be muted and we would pick up the pace in Quarter 2 onwards. And currently I think from Quarter 2 onwards until the end of the year we should be in that region.

- Avneesh Roy:** Lastly in terms of the LTL sales growth when I see the breakup between more than five years and less than five years I was surprised both are very similar. Normally we do see more divergence. This then hardly 80 bps is the divergence between the two time periods of five years and less than five years, why we are seeing this less divergence?
- Rajiv Suri:** Mainly if you see the stores, its 1.5 and 1.7 so always 0.8 is also double if you look at it in that view. But I think that in terms of the stores over five years as you know we have been modernizing our stores over the period of year and that is one reason why it should start to get better. If you remember even the last year we had refurbished five-stores and as such the impact of any external factors is maybe declining now.
- Moderator:** Next question is from Avi Mehta from India Infoline. Please go ahead.
- Avi Mehta:** Just wanted to understand 2-3 things, one on the SSS growth. Now I am just kind of taking back to the commentary that we had indicated that we expect the pickup in the second quarter onwards on the back of the renovations, headwinds going away and the pickup in the private-label portfolio especially the new strategy on the private-label kind of playing out. Is that still on track or do you expect the pickup more in third quarter?
- Rajiv Suri:** I will answer this in separate parts. As regards the private-label, all these investments which we are making are still in process. From the leadership team to people have joined us very recently, the third we are still in search for her. Infrastructure we still have to get up and running. We are about to finalize the location but we still have to buy the machines and everything else. So in my opinions we will see some impact on the private brands in Spring Summer 19 and this will start to see a traction around then. But the big season for us would be around autumn winter 19 where we would see all the different factors coming into play. As regards the improvement in the top line or a like-for-like sales from Quarter 2 onwards, we are starting to see traction in July and that should continue.
- Avi Mehta:** Essentially when you say traction you mean because if you have kind of aim for 7.5 for the year and you did highlight 1Q will be weak, you are essentially arguing for an 8%-9% odd for the remaining months, is that what you are saying?
- Rajiv Suri:** As of now a bit maybe early to say how all the quarters will....also all the four quarters will pan out but I think from Quarter 2 what we are seeing traction we are in line with that number.
- Avi Mehta:** I just wanted to understand on the initiatives, what exactly happened for the reason for the QOQ reduction in the employee cost? What has driven that especially because you were highlighted towards investments but your headline number seems to suggest some restructuring over there just if you could explain that?
- Karunakaran M:** Which **page** you are referring Avi?

- Avi Mehta:** If I look at the fourth quarter employee cost in absolute basis versus the first quarter there is an actual reduction that I see. 82 crores is the number of the employee cost in 4Q FY18 which has become 75 crores in the first quarter, so I was actually referring to that decline.
- Karunakaran M:** Avi normally we don't compare cost sequentially, to be compared with last year. So there are number of cost I'm sure you understand and we incur in a particular quarter, so normally we don't compare Q4 with Q1.
- Avi Mehta:** Because these are employee cost, these are more fixed in nature is what I would have assumed but if there is any reasons for the variation on a quarterly basis it would be helpful to understand why would that be.
- Rajiv Suri:** Normally in Quarter 4 we have a end of season sale and as a consequence you will see our costs are going to be high and you will see that cycle happening two times in year, so you will see the second cycle happening in Quarter 2 when we have end of season sale, costs will be higher than Quarter 1. So typically, it's a cycle that whenever you have all end of season sale you end up hiring more temporary staff, so there is more incentives and that sort of increase is the absolute cost.
- Avi Mehta:** What would be the margin guidance, would you retain that margin guidance for FY 19 that you had indicated about 100 bps expansion or would you believe that investments would be required and hence that margin guidance might need to be decreased?
- Rajiv Suri:** I think we are close to that and we are expecting the same guidance at roughly 6% versus about 5 last year.
- Moderator:** Next question is from Varun Singh from Antique Stock Broking. Please go ahead.
- Varun Singh:** Just wanted to understand what's our plan on refurbishment, so how frequently and maybe per square feet cost guidance?
- Rajiv Suri:** We are refurbishing about 5 to 6 stores this year and roughly about 1000 to 1200 per square feet will be the cost of the refurbishment per store.
- Varun Singh:** We talk about reducing lead times like from designing to shop floor; maybe can you give us some number on that.
- Rajiv Suri:** Typically right now it's taking us between 5 to 6 months as a turnaround and once our infrastructure is ready and the team is in place so I would say from beginning of 2019 we should be able to cut that to half.
- Moderator:** Next question is from Harit Kapoor from IDFC Securities. Please go ahead.

- Harit Kapoor:** Just one question was on the discounting side; you had indicated in the past that you will look at experimenting with cutting the sales season a little bit if possible to see what kind of results it gives and you were to start with this time around. So just wanted to know what your understanding has been or your experiences been this time around?
- Rajiv Suri:** At the current moment we are going to probably run the sale for about 7 weeks and that's our plan for this sale. But we will have to make a final call of that in the end of this week, so that's our current plan. We did on the last sale of season reduce it by about 10 days and we do this gift voucher scheme which was last year we ran it for 6 weeks, this year we ran for just about 4 weeks. So for first one we had already done-take an action on the first one which this end of season we are also going to be looking at what we are doing and obviously what the competition also is doing.
- Harit Kapoor:** But this time around there is not been apart from the gift vouchers part you've cut down on but day as such you will maintain, is that right way to look at it?
- Rajiv Suri:** In the gift vouchers we have cut down the number of days also and for the sale we are still to make a call and we are seeing how the competition goes because even though we may be selling a lot of new merchandise now and we are already selling quite a lot of new merchandise. We just have to be cognizant on what the competition is doing especially where we have many locations which are very close to each other.
- Moderator:** Next question is from Kunal Bhatia from Dalal & Broacha. Please go ahead.
- Kunal Bhatia:** Just wanted to know on operational level how was the like-for-like EBITDA growth and if you could also share the margins.
- Rajiv Suri:** We don't share the like-for-like EBITDA growth and margins usually.
- Kunal Bhatia:** But if you could qualitatively share if we saw any improvement and how much was it. I'm not asking you for an exact number per se but how much was the improvement at least if you could share that.
- Rajiv Suri:** So the like-for-like growth would be in the region of around 17% on the EBITDA.
- Kunal Bhatia:** Second question was in regards to our targets in terms of our private and exclusive brand reaching towards 25% level, so when do we envisage that?
- Rajiv Suri:** I think what we are looking for right now is an improvement on the current performance and we would like to get that to be double where it is today in the next three years and that's what we are targeting for right now.
- Kunal Bhatia:** Double of you mean on the turnover side?

- Rajiv Suri:** On the turnover side, yes.
- Kunal Bhatia:** And in that case any plans in terms of the store opening over the next 2 to 3 year period.
- Rajiv Suri:** If you look at our recent past we have been opening around 5 to 6 department stores a month and about 10 to 12 beauty stores last year as well as this year. We are expecting that trend to continue.
- Kunal Bhatia:** 5 to 6 a year that's what you're looking for?
- Rajiv Suri:** Yes.
- Moderator:** Next question is from Sakshata Pise from Crescita Investments. Please go ahead.
- Sakshata Pise:** Can I know your CAPEX plan?
- Rajiv Suri:** The CAPEX plan for this financial year is 120 crores which is split over opening the new department stores, the new beauty stores as well as renovation of our existing stores. We are taking 5 stores for refurbishment as we indicated earlier and we are also investing in the information and technology base.
- Sakshata Pise:** Out of these 120 crores, how much will be loan?
- Rajiv Suri:** There will be no loan, it's all internally funded.
- Sakshata Pise:** As you have a tie-up with Amazon how it will be helpful for the sales growth?
- Rajiv Suri:** The Amazon and we have a quite a wide relationship with them. At the moment we have a full catalog now about 80% on the Amazon website and all the fulfillment centers are now are ready and up and going. We also have with Amazon started to see a kiosk in our stores in Bangalore and in Bombay and we are hoping to drive that further on in the coming quarters which also brings traction on sale. As regards our omni-channel business of which Amazon is part of our sales currently are at about 1.5% of our sales which quarter to quarter grew by about 46% to 50%. and we have now click and collect from about 43 stores and 68% of our online sales are dispatched directly from our stores which makes us India's probably only truly omni-company.
- Moderator:** The next question is from the line of Neerav Savai from JM Financial. Please go ahead.
- Neerav Savai:** My question is on this beauty business, majorly MAC and Estee Lauder, we have got 104 stores. Can you just help us out with the total revenue which comes out of that and the margin profile in that business?
- Rajiv Suri:** We don't share individual department wise or brand wise data in terms of sales and margins. But we can inform you that our total beauty business is roughly around 10% of our business.



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Neerav Savai: But not exact numbers but if you can just highlight that margins are better than the Shoppers Stop's Department business or it is lower than that.

Rajiv Suri: Yes it is better.

Neerav Savai: Second thing is related to the Amazon business. We are saying that we sell our entire inventory over there in the Amazon business, so is it only private labels or other brands also you sell through Amazon?

Rajiv Suri: 80% of our catalog what we sell in the stores is on that, so includes everything else up to 80%. There are some brands which are still not online but for the main it's online.

Neerav Savai: So it is not only private labels but other brands also can be sold on Amazon?

Rajiv Suri: Yes.

Moderator: Next question is from Rahul Agarwal from VEC Investments. Please go ahead.

Rahul Agarwal: Just a clarification on you mentioned 20% of sales should come through private label and exclusive labels three years out. Does that include exclusive brands or is it only for private label target?

Rajiv Suri: I didn't give an indication of 20%, what I gave was that whatever our sales are they would be double.

Rahul Agarwal: That's 10% now, right?

Rajiv Suri: Yes its 10% now. But also the rest of the business is going to grow, so basically this would include exclusive level and includes the private brands. And what we are looking as double the value of sales not the mix. The mix would be a percentage of whatever the total business at that time.

Rahul Agarwal: Twice in terms of absolute value and this includes exclusive brands as well?

Rajiv Suri: Yes.

Rahul Agarwal: On the gross margin side, so if I assume a 2X absolute value for private label exclusive contributions how does that look on a consol basis, three years out or two years out kind of timeframe or March 19, March 20 kind of exit, any planning in terms of that?

Rajiv Suri: At the moment we don't have a forward planning in that detail to give a breakup between what would be the total impact of that to our gross margin percentage.

- Rahul Agarwal:** But this 32%-33% essentially goes up as the share increases will that be same, or the mix has to change for that to happen?
- Rajiv Suri:** It will increase then it should make an impact of 70 basis points.
- Moderator:** Next question is from Varun Singh from Antique Stock Broking. Please go ahead.
- Varun Singh:** Just wanted to understand like our inventory can you give us some sense on what percentage of our total inventory will be on SOR basis and also like total number of stores that we have in the format of shop 'n' shop arrangement?
- Rajiv Suri:** Right now 95% of our inventory is OR and 5% is roughly the balance, so that's the majority of the inventory. What was your second question, sorry I missed that?
- Varun Singh:** Shop 'n' shop stores so that will be how much of the total number of stores that we have?
- Rajiv Suri:** When you say shop 'n' shop you mean some particular brand?
- Varun Singh:** I mean how much of our inventory will be shop 'n' shop?
- Rajiv Suri:** We look at the inventory as a total which also includes the shop 'n' shop so that will be the 95%.
- Varun Singh:** Are we doing any major thing on product assortment side like to improving product assortment that you are keeping in stores?
- Rajiv Suri:** What we have is that we are moving from doing a city wide assortment to a store wise assortment because we believe that each individual store even within one city should have a different product mix. So for example in Bombay what we offer in our store in Vashi versus what we offer in Juhu should be quite different based on the consumer profile. So what we are working on today is a catchment wise or store wise assortment per store.
- Varun Singh:** Just wanted to understand like if I compare Shoppers Stop with the competition like Lifestyle, so Lifestyle is doing almost double-digit like-to-like sales growth, 15% to 20% since last 4 to 5 years. But like Shoppers Stop it is struggling with a low single-digit like-to-like sales growth of 5% to 6% to 7%. So what maybe the broader reason that we are not able to grow when we are catering to similar kind of customers?
- Rajiv Suri:** We would not like to comment on what the competition is doing and how you arrived at those numbers and whether they were group numbers or individual brand numbers. And I think that our performance in terms of our financial strength, our balance sheet as well as the plans which we have we think that our guidance for 2019 would be met.
- Moderator:** Next question is from Shalini Gupta from Quantum Securities. Please go ahead.

Shalini Gupta: Roughly you touched upon it but if you could please just discuss a little more about what are your plans for the footfalls falling continuously because if you have to reach the target of 7% or 7.5% same-store-sales growth I would think that footfalls would be an important part of this strategy, so if you could just please talk about it?

Rajiv Suri: As regard the Quarter 1 footfall impact, so it is mainly due to very high base from last year like we explained that in June last year we had a 39% like-for-like sale which meant there was a lot of footfall in our stores and that has had an impact on this year's comparison. However, I think that the footfall reduction is a sort of industry-wide trend as people moved towards online and off-line. And if we look at our own performance, the operational parameters of conversion are getting stronger each share in each quarter and we are up by 5%. Our transaction size is also improving and also what we are looking for is that our average selling price is increasing marginally. So I think a combination of these three operational KPIs are having an impact onto the performance and negating that off the customer entry. On the other hand, what we are doing is we are focusing on our e-commerce business where we want to be a truly omni-company and we are pushing and getting sales online. To give you an example, our increase in customers on our e-comm side is up by 26% to 13.9 million visitors and by introducing omni-play and we are doing click and collect in 43 stores which will help us with the footfalls when customer by online and come to the stores to pickup and also that the fact that we are delivering from our stores increases our presence in the local market. So I think that going forward we going to need to see the company as a whole and how we can continuously innovate, to keep the customers and increase the footfalls. The other thing of course is retention and we are doing a lot of work on customer experience and on personalization, our personal shopper program is the best in the industry now and 12% of our sales come from the personal shopper program which is encouraging repeat purchases. The ticket size is roughly 3x, our normal ticket size. We have now introduced the personal shopper at home service in 2 cities, in Bombay and in Bangalore and we are finding good traction for that and our ticket size there is 5x. So we are doing a lot of initiatives on a bricks and mortar as well as omni-space in order to negate any impact on the footfall.

Shalini Gupta: What kind of a figure, what kind of a decline in footfalls would you be comfortable with generally speaking?

Rajiv Suri: In the ideal world we would prefer no decline and then we will get a very high sales digit if all the other things worked well. I think that with the whole mix in the way the online and off-line business is going on, we will continue to have some decline, but it is hard to say what that number would-be.

Shalini Gupta: We have been seeing an increase in average selling price for the last several quarters, so this is because of the mix change I mean that you are selling more of beauty and watches and jewelry kind of thing, high-value items?

- Rajiv Suri:** I think one is that beauty and watches both these items have a higher price points. So that would have some impact on it, also the mix within the watches, the smart watches are going up in sales which have let's say 3x or 4x the price of a normal watch and perhaps little bit of inflation is causing that.
- Moderator:** Next question is from the line of Jessica Doshi from Sharekhan. Please go ahead.
- Jessica Doshi:** In your press release you have mentioned that due to the accounting standard of 115, there is an impact on your revenue. So could you please make me understand what is kind of an impact and how will it be going ahead?
- Karunakaran M:** Accounting standard 115 that has been implemented from 20th March 2018 also talks about how should we account the consignment sales, so in the place where we have the sale or return method we can't take the selling price at the price what we sell rather we should take the difference. So we have implemented AS 115 from Q1 2018. That the net impact 50 crores vis-à-vis last year and on your second question what is the way forward? I mean any accounting standard is legally mandatory so even for the next three quarters we will follow AS115 and as long as AS115 is applicable we will continue to follow that.
- Jessica Doshi:** This impact of 50 crores as compared to the last Quarter 1 FY18, so similar impact would be expected going ahead also in quarters ahead?
- Karunakaran M:** Yes we do expect so similar impact for the next three quarters. No, there will not be any impact on the bottom line because we still account the differences as a net operating income, so there will not be any impact on either on the bottom line in absolute amounts.
- Jessica Doshi:** My second question was as of the June balance sheet that you have given in the presentation the debt has increased to 111 crores from 87 crores during FY18 end. So what can be the reason for the same because the company is targeting to be debt-free by the end of FY 19, so just wanted to confirm on that?
- Karunakaran M:** If you see the entire balance sheet the investments have also gone up from 325 to 430, so we have invested 97 crores in mutual funds. What also happens is when we are operating in a working capital cycle, the last few days normally particularly doing the EOSS, we did borrow from the banks as an overdraft, so these are temporary ups and downs. But if you see the net borrowing this is last quarter to this quarter, the net borrowings for this quarter has come down to just 14 crores. That's what Rajiv also has said at the time of presentation. So that 111 you have to reduce the investments what we have made in the mutual funds, they were still around about 97 crores.
- Jessica Doshi:** There was the demand disruption in Kolkata and Mumbai stores because of Metro construction and renovation, just wanted to know what is the status of those stores because that's quite a

chunk of our revenue which comes from these stores, so an update on the Kolkata and Mumbai store.

Rajiv Suri: The Bombay still continues very much with no change and in Kolkata it's over now and I think the sales have picked up again, so we won't see that in called Kolkata.

Jessica Doshi: And in Bombay any guideline or any timeline if you could give like from where you can see a pickup and normalization.

Rajiv Suri: It's hard to say when this construction work and the Metro work would be over. We will be happy.

Moderator: The next question is from the line of Avi Mehta from India Infoline. Please go ahead.

Avi Mehta: Just to clarifications, one was just a sense on demand environment; given while the headline number is 1% kind of a decline as you rightly pointed out it's because of the base. Would you argue the demand environment is seeing an improvement in the urban centers or how would it if you kind of share your thoughts on that please?

Rajiv Suri: As an industry in retail there is besides the growth in GDP with the demonetization, GST, etc., there is a shift from unorganized to organize retail as well as middle-class family is having higher disposable income and therefore more aspiration to buy a brands and buy merchandise from organize retail. So, I think it's combination of these 3 or 4 things which are perhaps increasing the demand and I feel that this is going to continue in the coming sort of year or so.

Avi Mehta: So you are arguing that those headwinds are more behind us and hence you are seeing some signs of improvement in demand environment, would that be a fair understanding?

Rajiv Suri: I think that would be a fair understanding within the industry though there still is a lot of impact between the online players and the offline players because while the industry moves from unorganized to organized also the online players are taking more market share as well is being aggressive in the pricing and from our side we are doing much more consumer and customer centric and consumer experience driven.

Avi Mehta: So on the competitive environment's point of view I understand you highlighted the online is seeing a continued pressure, how is the off-line channel behaving because the earlier quarters there was a comment about even the off-line becoming very aggressive in terms of discounting some of the peers, so is that is something which is continuing?

Rajiv Suri: Yes that is continuing and I think that it even continues outside the normal EOSS periods which I think is going to become a daily strategy where some of our competitors who are discounting now if they are not at the end of the season sale then they're discounting every weekend and I think that is going to be something we have to live with.

- Avi Mehta:** On the balance sheet I mean I'm just trying to understand, clearly your cash flow says that there is almost 100 crores investment that has been made which you highlighted is largely into mutual funds. So was this more a timing that you had initially gone to the mutual, you are already invested in this mutual funds during the quarter, so was this treasury related call and hence the other income essentially which you booked is more one-off, how should I read this?
- Karunakaran M:** It is treasury call, you are right Avi.
- Avi Mehta:** So when I look at the other income of almost 7 crores, would that be the run rate that should assume or would the fourth quarter run rate of about a crore give more ideal run rate or should it be in between the two, just a specific on that?
- Karunakaran M:** The other income also includes tax refund Avi, almost on about 3 crores. So you can't assume that the run rate, please do understand, the income what we derive from mutual fund it also depends on so many other factors. One what is the investments we make and second what is the interest rate or what is the amount they are offering. By and large it should normally follow but it also depends on so many other surrounding factors how much they can offer.
- Avi Mehta:** There is a clear improvement in the performance of that function, so that's why I was just trying to kind of get myself on understanding that's why I just wanted to clarify.
- Moderator:** The next question is from Rahul Agarwal from VEC Investments. Please go ahead.
- Rahul Agarwal:** Rajiv wanted to know one thing, so the home business which essentially has 13 stores now, any thoughts independently as in what share does it derive from the overall business, is it profitable at EBITDA level independently? Any strategy there for next 2 to 3 years, how do you look at that business separately?
- Rajiv Suri:** So the business per se is breakeven business and it's roughly 4.5% of our business. And as we are still working on the strategy in terms of how much we accelerate that business for the time being, what we have done is we are trying to improve the mix of home within our department stores where we have home as a sort of separate area and we are working on rationalizing that space right now.
- Rahul Agarwal:** Every Shoppers Stop department stores will have a Home-Stop, is it like how does it work not like in terms of store but an area?
- Rajiv Suri:** If we have department stores where one of the floors has its own entrance and there is a Home-Stop logo and entrance that's a basically a Home-Stop store. But if we have it just as a department like we have kids department, home Department, woman's department then that's really not counted as of Home-Stop. That's just another department inside our department store.
- Rahul Agarwal:** So essentially right now it's not taking much of a time, that part of the business?

Rajiv Suri: No right now it's not.

Rahul Agarwal: Just in terms of the excitement level for this business do you see this business as a sustainable independent business 5 to 10 years like in India in the market wherein what people shop and how are they shopping, just as a trend, would you agree or disagree on this?

Rajiv Suri: I think that the home market is getting stronger and I think with the amount of construction and people living on their own and moving out and living on their own I think there is going to be a big change also with more competitors coming, it will open up again the market in this. In my view having home as part of the department store mix is going to be an asset in the future.

Moderator: The next question is Tushar Sarda from Athena Investment. Please go ahead.

Tushar Sarda: I think there is a competition from online website on the apparel business, so I wanted to know what are the metrics on which you compete and what would be a good template to look at because you have some additional cost in terms of stores whereas they give discounts, so on what parameters should we compare this business and how do you compete?

Rajiv Suri: There are two or three areas, one is we have our own e-commerce business and for us having an omni-channel business and having an e-commerce business is sort of is a key to what we do. We can't do anything what the online players are doing, what we try to do is we differentiate our merchandise as much as possible and we are working towards differentiation. And also, I think that the brands themselves are putting pressure to make sure there is price parity for the consumer because in the end this is a consumer who will suffer so if there is a new merchandise the brands are also trying to enforce price parity for the consumers. Now the strategies may differ between online and off-line but the experience which we can offer in the off-line space cannot be managed by the online players and therefore there is a branding so there is a big amount of online business coming to our stores from our e-commerce business where if you look at it a 43 stores are now offering click and collect and people are coming into our stores to buy. Also, our e-commerce business itself is growing quite well and we have grown 41% and are increased in the visitor is now at 13.9 million by 26%.

Tushar Sarda: There is the online business and there is the physical store's business and eventually over the years the trend is that the physical store shifts to online. We don't know the rate at which it will shift but substantial shift will happen. So, on what metrics you compare these two businesses and how do you compete, do you think that Shoppers Stop ultimately would want to migrate to online format in maybe next 10-20 years where the online dominates?

Rajiv Suri: As a trend world over it is all fusion into one. So there is no online, no off-line, the customer nowadays is not shopping in one channel. They are shopping in one place wherever they want to shop whether it's online or off-line, there is no more separation in that, so customer can see the product online and decide to buy off-line. I think with the market size which we have and



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what has been the trend in the West there is going to be place for both and we really don't see that Shoppers Stop would be only an off-line company or only an online company.

Moderator: Thank you very much. That was the last question in queue. As there are no further questions I would like to hand the conference back to Mr. Rajiv Suri for closing comments.

Rajiv Suri: Thank you for attending our quarterly call and for your support. Thank you very much and speak to you in next quarter.

Moderator: Thank you very much. On behalf of Shoppers Stop Limited that concludes this conference. Thank you for joining us ladies and gentlemen, you may now disconnect your lines.