



“Shoppers Stop Limited Q4FY15 Earnings Conference Call”

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MANAGEMENT: **MR. GOVIND SHRIKHANDE – CUSTOMER CARE ASSOCIATE
& MANAGING DIRECTOR, SHOPPERS STOP LIMITED**
**MR. SALIL NAIR - CUSTOMER CARE ASSOCIATE & CHIEF
EXECUTIVE OFFICER, SHOPPERS STOP LIMITED**
**MR. SANJAY CHAKRAVARTI - CUSTOMER CARE ASSOCIATE
& CHIEF FINANCIAL OFFICER, SHOPPERS STOP LIMITED**
**MR. VIPIN BHANDARI - CUSTOMER CARE ASSOCIATE &
CHIEF EXECUTIVE OFFICER, HYPERCITY**

Moderator: Ladies and Gentlemen, Good Day, and Welcome to the Shoppers Stop Limited Quarter Ended 31st March 2015 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 now 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. Darryl. Good Afternoon, Friends. Welcome to Q4 Concall of Shoppers Stop Limited. This quarter definitely has been a good turnaround from a slightly disappointing Q3 across all formats. I will first take you through the presentation that is available on the site and then I will give you some comments as well in addition.

So Page #3, New Stores: We opened one Mac standalone store in Delhi, one M.A.C. standalone in Mumbai, and one M.A.C. Shop-in-Shop in Ramee Mall was closed, we also closed the Shoppers Stop Store in Ramee Mall in Chennai during the quarter, we opened the fourth Bobbi Brown Store in Mumbai and one Mothercare Shop standalone was also closed during the quarter, and one Crossword Store opened in Bangalore also during the quarter.

Continuing our growth in loyalty program, we are at a 3.7 million members now with a contribution of more than 72%. Lots of awards during the quarter... I am not going to take you through all of them but I would highlight only two big ones, which is, one is "Great Places to Work in Asia", across all Asian companies we were ranked 25th; and the second big one was "Bajaj Fair Business Practice Award" which again cut across industries and we are among the top five winners under this award. Other awards were under Loyalty as well as HR.

I am straight away going to Page #6 & #7; On Page #7 you see the launch of eyestop, our new concept of Shop-in-Shop where we are selling spectacles and lenses and frames under the eyestop format; we have opened two stores, they are doing pretty well, and our target is to roll it out across all Shoppers Stop Department Stores over the next 24 to 30-months period. This we believe will add a lot of loyalty to existing customers, because typically these kinds of spectacle lenses is something that Customer Shop in their own stores, and they generally do not keep on changing the store and the format. So we believe it will add a lot of stickiness and loyalty again back to the same customer.

Second is a brand that was launched was “Wrogn” although it is spelled as ‘Robin’, but it is actually verbalized as Wrogn, this brand comes from Virat Kohli, doing very well, launched in the month of March, and we believe it is going to be one of those best selling fashion brands especially targeted to youth and fast fashion and currently available in about 18-Stores, plan to expand it across India within the next two quarters.

You must have also read a newspaper article about Desigual which we have already launched last week in June, and it is also available exclusively on our online as well.

We also launched a new initiative in Mumbai along with Times of India, Mumbai Police and BM, called SSequalstreets, this is about people owning the street for a few hours specifically on Saturday and Sunday, this really been a big rage in Mumbai, where it is now running for more than five months or more, and really taken customers to a next level of happiness, where they are able to come and spend time along with their families to learn yoga, to do exercises, to learn new things, and streets become part of their extended playground. Very well covered currently by social media as well as others and we are also trying to help the police every week by distributing water and other things for them.

On Page #12, you can see our total presence across India, more than 5.7 mn sq.ft., cutting across 34 cities, and 232 stores. Page #13, you can see the breakdown, so we close last year at 3.9 million, this year we have closed at 4.2 million in the Shoppers Stop Store space, and at a chain level including all formats, we are at 5.7 mn sq. ft.

Page #14, coming to Key Financial Highlights: The Department Store grew by 8.5%, all formats grew by 9%, like-to-like growth in Department Stores was at 4%, this was in stark contrast to 1% like-to-like growth during Q3 which is generally supposed to be one of our biggest quarters because of Diwali and Christmas, it definitely was pretty disappointing vis-à-vis that we are seeing a decent comeback to like-to-like growth in Q4. And even Stores greater than 5 years have shown 3.3% growth and Stores less than 5 years has shown a 5.3% growth.

In terms of overall numbers, when I look at it, Metros still are slightly slow and Tier-2 Towns are continuing to grow at a double-digit growth. Looking at zonal distribution, North continues to grow very well, almost a double-digit number, and East continues to grow as well, West and South continue to be slightly slower than the chain.

In terms of "Customer Entry" we have seen like-to-like stores degrow by 4.1% whereas conversion continues to grow, grew by almost 7% on like-to-like basis, and transaction sizes up by 2%. Volume degrow by 1.7% during the quarter, whereas average selling price was up by almost 6% during the quarter.

We continue to see the traction of Apparel still continuing to grow higher. Private label maintained its share whereas our bought out share was slightly higher at 39.9 versus last year at 39.4, small increase there, but not really a big impact. As I was mentioning, on Page #17, you can see that the Apparel share continues to grow, and it is up by almost 60 basis points which has also helped us in our margin growth during the quarter and we are continuing to see three key categories growing in double-digit... in fact, Ladies Western has grown by more than 15%, M.A.C., Clinique, Estee Lauder, and all the Beauty brands also grown by more than 20% and Denim continues to grow double-digit as well. The key category that is still degrowing is a Non-Apparel which is Jewelry, and we believe it is time now to have a relook at it in terms of the size of the category and the way we are retailing it.

Shrinkage on Page #18: For the quarter, we are at 0.55, and for the year at overall level we are at 0.38, very much under our overall standard.

Coming to Page #19, the Key Highlights of the Financial Numbers: Sales up by 9%, margin on sales up by 16%, you will notice that the margin is up from 31.5% to 33.6%, almost 210 basis points up; operating expenses are up only by 13%, vis-à-vis last year, as a result the EBITDA is up by 34% from 4.5% last year to 5.6%, almost 110 basis points jump. Depreciation is up by almost 45% for the quarter, aided basically because of the change in Companies Act, and the closure of Store that happened in Chennai, but in spite of that we have seen PBT going up from Rs.13 crores to Rs.16 crores, 26% up, and PAT is up by 27% from Rs.8 crores to Rs.10.3 crores. So I would say pretty good performance in spite of a slightly slower market that we have seen across.

Before I come to consolidated, I will first take you through the Hypercity numbers, and I will come back again: So moving on to Page #27 on Hypercity numbers, like-to-like sales rose by 5.7%, very happy to note that like-to-like sales per square feet is now at one of the highest at 19%, this is on account of the rationalization of space that we had undertaken. Fashion continues to grow well; it has actually grown by 26%, and now contributing 14.6% share, our next year target is in the region of 18% to 19% Fashion share, and higher Fashion mix and higher like-to-like growth has also helped us in driving our margin up by 120 basis points. Our OPEX continues to be

controlled pretty well; it has grown only by 5%, and store operating profit from last year of almost Rs.2 crores is at Rs.5.3 crores and company EBITDA excluding property options from last year of Rs.(-14) crores is at Rs.(-6) crores, a big improvement vis-à-vis last year, although we missed the target of hitting operating company EBITDA-positive this time. PAT aided by the property option sale is at Rs.48 crores profit versus Rs.(-10) crores last year.

Moving on to Page #28: As I mentioned earlier, 6% like-to-like growth, but 19% sales per square feet growth and positive growth we are seeing in both greater than 5-year stores as well as less than 5-year stores.

Page #29: Here again we are seeing Customer Entry dipped by almost 3% in the like-to-like level and conversion ratio has also dropped slightly at (-3%), although overall we are at a 43.3% conversion rate which is pretty high, and looking at transaction size, it is up by 10%, aided by 7% growth in average selling price. This season definitely I must say that although the volume is still looking down at (-1%), this is one of the lowest volume drop that we have seen over the last four quarters, aided by growth in Food and Food continues to be at 65% share in this business.

Looking at the Quarterly Result in terms of Financial: Sales up by 7%, margin on sale is up by 13%, again, here we are seeing a margin growth from 20.1 to 21.4, 130 basis points jump. Store EBITDA what I already mentioned, up from Rs.2 crores to Rs.5.4 crores, and at a company EBITDA level, from Rs.(+10) crores last year to Rs.(+66.8) crores this year, this includes the property option profit and at a PAT level from a Rs.(-10) crores, we are at Rs.48.1 crores.

Before I talk further on other details, we are targeting to open four more stores in Hypercity format. We have also trialed a 6,000 square feet Express format in Hypercity Inorbit, Malad that does seem to be showing a good traction, and if that works well, definitely, there is scope for rolling out faster more number of Hypercity Express. We clearly are targeting EBIT-positive in this business in the coming financial year, and we believe next-to-next year it can be a PAT-positive business. So big turnaround for the whole year and when you look at the whole year's comparison and numbers, we can clearly see the changes that have happened.

Coming back to the consolidated numbers that I was wanting to talk about earlier, let me come back to Page #20 shows you that the sale is up by 15% from 1120 to 1285, margin on sale is up by 14% from about 29.8% to 31%; operating expenses still up

only by 12%, and as a result EBITDA has swung from Rs.48 crores to Rs.116 crores, a jump of 141%, and PAT is up from Rs.97 lakhs to Rs.34.7 crores.

So before I open the forum for questions, let me give you two-three key highlights that we are currently working on: One of the biggest areas for Shoppers Stop for the further expansion, one is definitely new Store opening, so we are targeting six Store openings in the coming financial year in the Department Store format. I already told you about Hypercity, we are targeting four Store openings is a specialty, we are looking at opening another six to seven stores as well. But the biggest change would come through our strategy of Omnichannel, and I had talked to you about our Omnichannel strategy earlier, but now it is actually fructifying and coming into execution.

We already recruited and we have on board a CEO for our Online business, Sachin Oswal, who comes from Infibeam background and has spent almost 15 years in the whole online space; #2, we have already signed on the whole stack for online business, both software and hardware, and this consists of hybrids from SAP #1, and we plan to invest about Rs.50 crores in this business over the next 24-months period, and the whole target is to really move from Online to Multichannel to Omnichannel over a 3-phase period within 2.5-years time, and at the end of 3-years, we believe we should be able to hit a 10% of our sales coming out of the Online business. We are clearly seeing huge potential there and we believe that investment in this business will directly lead us to that kind of growth and also help our customers to shop seamlessly between the Physical Store and the Online site as well as including “Click and Collect” as well as choosing in the Store through a Kiosk, etc. So large amount of investment and drive and direction is going into this.

#2 is our whole journey of making exclusive products available in the Store as well as Online. So as I mentioned earlier we already launched Wrogn, we also launched Desigual we are also revamping all of our private brands and we want to take the share of all the private brands to the current 16% share to more than 22% share in the next three years time. So a large amount of investments in terms of branding, infrastructure, quality, as well as communication is going right now into all the brands. Simultaneously, we are also looking at launching further new exclusive brands; one of them is going to be Rheson, which is designed by Sonam and Rhea Kapoor, which will come up in Q2, and then there are two more brands in other areas as well. So the entire purpose is how do I understand my customers better, how do I connect with them better, and how do I give them exclusive offers continuously whether it is Online or whether it is a Physical Store, and how do I really connect

them seamlessly through-and-through. That is the whole focus that we are going to spend time on in the next 24 to 36-months period. I believe that through this kind of action format across the Department Stores, we should be able to really deliver better results and better performance.

Two other good news is from the quarter which are not visible here: Home Stop has turned positive at PAT level, it has made PAT-positive money and it is running at EBITDA almost similar to the Department Store, and we believe it will also catch up at about 8% EBITDA over the next 24-months period. Shoppers Stop, the Department Store is tracking towards 8% EBITDA in the next 24-months time as well. Our subsidiaries, one of them Time Zone has also turned positive this financial year, and are happy to also state that Crossword has also made EBITDA-positive and is slated towards PAT-positive in the coming year. So it is a lot of work that has undergone in the last two quarters, we are seeing results out of all the hard work done by various formats in this quarter and we should be able to only scale up better in the coming year across all these formats. So thanks for the listening and now I welcome all the questions from all of you.

Moderator: Thank you very much. We will now begin the question-and answer-session. We have a question from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Sir, wanted to just understand, today and over the weekend, there has been recent consolidation moves; one from the Aditya Birla side and the other from Bharti retail and Future Retail. So how do you see this playing out and how are we placed in terms of the competitive environment

Govind Shrikhande So I think we had much more knowledge on the Pantaloons and Aditya Birla consolidation bit, and I would say that that is a great move as far as Birla Group is concerned, because Pantaloons looking at its debt would always had to challenge to really make money, whereas the Madura brands, which have been doing pretty well including in our chain is growing very, very well, and pretty solid in terms of both profitability and customer traction. It is a great move for Aditya Birla group to consolidate these two, financially, it makes tremendous prudence and tremendous sense. As far as Bharti and Future is concerned, we have only heard about it, and we have heard conjectures earlier, I think there has been an announcement today, have not really gone through the details of that, but there again I would say if there is a meeting point in terms of positives and advantages, that both the formats think through, can be brought to the table, it is again a good move to have consolidation rather than fighting individual battles. So I would say two years back we did say this

that consolidation should help the industry, not only in the Physical world, but also on the Online world, I believe consolidation will happen in the next six months to one year's time. So any consolidation which brings together advantages for two or three different players together and takes care of the negative, I think should be welcome.

Avi Mehta:

Would you be concerned about the competition, etc., any kind of concerns over there, do you see this as a move because of the increasing share of Online?

Govind Shrikhande

I do not think this is on account of Online at all, because as I mentioned that when the Pantaloons buyout happened, you are aware that there is Rs.1600 crores debt sitting on those books, with a turnover of only Rs.1600 crores. So I do not think any company can sustain that kind of sales with that kind of debt. So there it was up and running. When will it happen? That is the only question. In Bharti and Future, I think one party wants to exit, the other party wants to retain, that is my understanding as of now. So again it is a consolidation irrespective of the Online momentum is my understanding.

Avi Mehta:

Then coming specifically for us, you did highlight that from the third quarter there has been an improvement. I am just trying to understand how do you see SSS growth trend moving forward and where do you see if any impact, because you highlighted that in some sections you did see an impact of Online sales, the sales festivals, etc., that they are kind of carrying out, where do you see that kind of coming in? And the second part which I wanted to just get some color on is, on the Hypercity part, adjusted for our property sales, we still have EBIT loss for the year, and you are highlighting that by FY17 or so, we are targeting going PAT-positive, because we are at almost about if I may put a number around Rs.75 crores of PBIT loss, if I adjust for the Rs.88 crores or Rs.89 crores odd property auctions, so with that kind of loss and you are saying that we would be PAT-positive by say FY17, where do you see the levers coming in, because you are at Rs.38 crores interest cost, that could possibly come down, but that still does not move the needle a lot, so if you could kind of give clarity on that as well as the SSS growth part?

Govind Shrikhande

Let me first tackle that question upfront, if you really look at it on operating level, last year we were at Rs.47 crores EBITDA loss, this year we are at Rs.7 crores EBITDA loss, we have swung the needle by Rs.40 crores. So that is why the focus this year is EBIT, which is still earning before interest. Depreciation, we believe going ahead is going to keep on falling, because whatever closure decisions we had taken, whatever write-off decisions we had taken, and even the Companies Act

change that has happened this year, has pushed the depreciation higher level. We believe that we have missed the bus by about Rs.7 crores. Our target this year actually was to make it 0 to (+5) at the EBITDA level company, what you are seeing currently, (-7). We just missed the bus by whatever small number. We clearly believe that it is in our scope to really turn that needle on, and also cover our depreciation which will further fall in the coming year, which is the target for the coming year. So the swing next year if you ask me is about less than Rs.40 crores, which is very feasible. And then the second stage will happen, where you have to restructure investment in the business to bring down the interest, which is why we are seeing it is a 2-step process..

Avi Mehta: When you say, for example, the year last year to this year, you have seen a significant kind of moderation in terms of the operating ...

Govind Shrikhande Rs.40 crores change in the company EBITDA number.

Avi Mehta: ...and that has been driven through two kinds of levers, the biggest lever has been the company level operating costs, which obviously had a one-off in the base year as well.

Govind Shrikhande No, three things, Avi; one is definitely rationalize our space, which has direct impact on every angle, operating cost, people cost, stocking cost, everything, the second big lever is increasing share of Fashion, which is driving the margins up; the share of fashion if you look at it, within three years we have moved from a 5 to almost 15 now, and next year's target is to take it to between 18% and 19%. The more we can drive the Fashion share faster, the more the needle will move faster. So basically the three levers of rationalization of space, controlling operating costs, and driving margins through fashion is what is making this business move towards the company EBITDA-positive.

Avi Mehta: On SSS, I am just trying to understand how do you see growth going forward and you know for the last quarter you said online the sales festival had hurt specific categories. Would you see that category is actually under and how are you kind of targeting that, are you seeing a geographical tinge towards?

Govind Shrikhande So overall our outlook current year is we must target a 7 to 8% like-to-like growth and I think it requires a lot of action there and what we have seen in April, we are currently believing that, yes, what actions we have taken do seem to be working, whether launching of new brands, launching of exclusive brands, working at an

individual store level, renovation of stores, all those actions do seem to be working. I would say there is no hope about 7% to 8%, there is a lot of action to deliver 7 to 8%, that is very clear, #1, because consumer sentiments per se are not changing much in the market, they are what they are, they are better off than Q3 for sure in Q4 and we are also seeing definite momentum, help definitely in both April and May beginning through the holidays that came in right at the beginning of the month. So we are seeing definitely some traction there in the like-to-like growth. #2, as far as Online is concerned, when we actually analyze or x-rayed that business, so 5 billion is the current understanding that we have of the real sale, if against \$5 billion number, there is a \$1 billion of return, so you are left obviously with \$4, there is almost a billion dollar of discounting, you are left off with \$3, and there is \$0.5 billion of advertising, so you are left off with \$2.5. So on a \$5 billion add whatever 30% margin, you are actually losing \$1.5 billion money. Now you cannot fight this animal which is being compounded and flooded and supported because of valuation gain. The only answer that you can have is how do you really compete in the physical world, and also compete differentially by launching exclusive products and also ensuring that you move towards a seamless Omnichannel world. So we clearly believe that yes, this competition will continue for another 24-months time, by that time we would definitely be able to scale up by direct investment on the Online world whether through the infrastructure or whether through software or whether through people, and whether through the delivery system, and we should be able to scale up, because that is the way globally things have happened, globally Omnichannel has been the trend by which Department Stores have come back very strongly, and that is where the scaling up also has happened. So I think it is more of actions that we want to take rather than waiting for the market to turn around.

Avi Mehta:

So yes sir, but what my question was specifically directed and are there categories where are you seeing a larger head or there are geographies, if you could give any color over there on that?

Management:

We are not able to see it at a category level, because we clearly know that maximum amount of those \$5 billion, let us say only about a billion is on Fashion today, but we do not know the breakdown really in terms of where is it. So as of now, we have not really seen anything negative. In our categories, for example, the only negative category has been Jewelry, which has been degrowing for us for almost now 8.25 plus. And that is not really Online phenomena, it is an overall phenomena of the Fine Jewelry market.

Avi Mehta:

No geographical trend as well, right sir?

- Govind Shrikhande** No geographical trend, the only geographical trend which I told you is that Metros definitely are slowing in growth, whereas Tier-2 is double-digit growth right now.
- Moderator:** Thank you. Our next question is from the line of Tanmay Sharma from Edelweiss, please go ahead.
- Abneesh:** Abneesh here. My first question is on your new innovation this quarter; eyestop. Globally, is this prevalent in other retailers, where will the space come, essentially are you cutting down on Jewelry space?
- Govind Shrikhande** No, no, eyestop is an extension of our sunglasses area, Abneesh. So if you recollect, we have a very large Sunglass area selling all the branded Sunglasses. Now what really happens is, typically a person who is wearing a spectacle tends to buy it from an optician and he tends to visit the same optician again and again, #1; #2 is in the last 24 months we have also seen a new trend that people do not buy only one spectacle or a frame, they buy multiple, because for driving they want something, for traveling they want something else, and that really means consumption is increasing, and the price point in this category is pretty good, more than Rs.5,000 per frame. So believe that this category is a good extension for our Sunglass department, #1, and #2, it also adds loyalty to the same customer who is coming and buying Sunglasses from me, also can add on the spectacles in the same store, and again come back to me again and again. That is the whole idea. It does not take too much of space, it is only an extension of the current Sunglass department.
- Abneesh:** Are you giving eye testing for the spectacles?
- Govind Shrikhande** Completely, I would request all of you or all those who can visit our store in Malad or Andheri, this is one of a kind eye testing done on a Zeiss machine, completely imported from Germany; Zeiss some of you might know is the #1 lens maker in the world, and it is a completely automatic machine which actually gives you a print out of your eye's health. So it is that kind of advance machine, and very, very comfortable, very accurate in terms of giving you the right prescription, and we sell everything, right from the frame to the lens, and you get it delivered within three days.
- Abneesh:** You said in the next 30 months you want to take this to almost all the Departmental Stores. Now if you see competition on one hand, you have Lenskart, which is offering so many discounts, and on the other hand you have got branded players like

Titan Eye Plus. So taking these two into consideration how is your product really attractive to the end consumer?

Govind Shrikhande

Basically twofold; one is the experience that you get when you sit in front of a Zeiss machine, and you get the prescription, there is nothing to match it in fact as of now in India. So you have to experience it and then you will realize that this is the best, I would say prescription or recommendation that you can get, and when you come to the choice of frames, choice of lenses, again, you get a plethora of choices just like you get across your Fashion brands, and mind you, you can pick up frames right from Polo, Ralph Lauren to an entry level brand as well.

Abneesh:

Sir Online Retailing, you discussed a bit earlier, but will it be fair to say impact of Online on Physical Retailers is winning, because now if you see discount is being offered almost every week, so in Q3 it was like a sudden impact, but now it has become routine. So will it be fair to say that now you are getting lesser impacted and maybe for the next two years you said this issue will remain, but it will not be a major issue, are you highlighting like that?

Govind Shrikhande

As of now, I do not know, because even during Q4, just when we announced our sale all the Online guys also announced sale in a big way, and if you look at today you switch on the TV, you see nothing but Online market place is advertising, huge amount of advertising is still going on, but I would say the customers may be used to seeing these discountings and offers and taking it with a pinch of salt. And yes, those customers who want to really experience a product or a brand, will continue to visit the Stores and we are seeing customers back in the stores in the month of April and May definitely.

Abneesh:

Gap between more than five years and lesser, that gap is now quite low, so why is that happening, and can it now trend at the same number... Department?

Govind Shrikhande

Less than five should actually track slightly faster than that, and there are a number of stores that we had again taken up for renovation, which was shut for some period of time, and post the renovation we have seen both Bangalore coming back, Inorbit, Malad coming back, and there are two stores, that we have just completed renovation right now, you should see them full in action in the month of May and June. So we should see it going up.

Abneesh:

Why was Chennai closed? And any more closures in FY16?

- Govind Shrikhande** FY16, if you remember, we had mentioned that we are watching the bottom 10% of our Stores and out of that Ramee Chennai was one of those, there are three more stores still under watch, and we are evaluating action at least on two stores between Q1 and Q2.
- Abneesh:** And in that, are you exiting that City completely or that a small geography of that city completely, are you relocating or is it the exit?
- Govind Shrikhande** No, we are not exiting any city, we are only relocating in some cases, or exiting our given location.
- Abneesh:** Now coming to Departmental, you said, the Garments share you want to take to 18% to 19%. How feasible is it? And what is the long term average you are looking at garments share in Hypercity?
- Govind Shrikhande** It is very feasible, because if you look at our competition today, many of them are already at 35 to 40% share, and you do not actually compromise on food, which is your core, our food is still at 65% share. So the only crunching that you really do is on the general merchandize area, which we believe is very feasible.
- Abneesh:** Express format, what we have seen is, the small box format does not really work in India, for the Hypercity smaller box variant. In your case why you want to expand four more in that and what has been the experience till now?
- Govind Shrikhande** Abneesh, I think you mistook my communication, I said, four more in Hypercity we are opening, and we are trialing our Express format right now, we are not opening that all till the time we are satisfied, then it can be expanded, which might take us to more quarters.
- Abneesh:** You discussed the omni bit, you are saying 10% of your sales, which means almost Rs.400 crores of your sales will be targeting in three years. So will cannibalization also some impact and when do you see a positive impact in terms of numbers and in terms of margins, negative impact can be how much in first year and second year?
- Govind Shrikhande** We do not see it as cannibalization at all, because when you are talking of seamless and omni channel, basically it should only multiply the sale, and Online the way globally it is working, people can search for the product Online and then actually go and end up shopping in the store itself, or they can order Online and get it delivered to their home or wherever they want. So we do not see cannibalization at all. Maybe there is always a mindset that yes, it can cannibalize 5% or 10%, but overall we have

seen that globally it has only increased the overall sale. So that is one part of the story. Second part of the story is, yes, in the first three years, definitely, there will be some investment going into it, as I mentioned, we are investing almost Rs.50 crores on the whole software, execution and infrastructure that is being created for it. So definitely gross margins would very much be similar to the Online, but net margins would definitely be negative in the first two or three years, but looking at the contribution level it will not be really dramatically impacting the overall P&L.

Moderator: Thank you. Next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

Kunal Bhatia: One was, you did mention that in case of Hypercity, this year we have moved to (-7) crores loss. So do you see same kind of scope in the coming year, like moving from a (-7) to a Rs.(+40) crores range.

Govind Shrikhande That is the target number.

Kunal Bhatia: And sir, secondly, you did mention that in case of Shopper Stop, we could see an EBITDA to scale up to a 8% mark. So just wanted to understand a bit on what factors could lead to that improvement in margins?

Govind Shrikhande There are three correlations in the like-to-like growth, #1, that if you are able to hit a (+8%), anything above 5% which is the cost growth per year, directly starts contributing the margins. #2 is, gross margin improvements on private brand share, definitely in the coming year is likely to move up, almost 200 to 250 basis points. So that will again contribute. And overall I would say cost control, that we have been utilizing pretty well in the last 24-months. So all the three combined, we should see over the next 24 months period, this EBITDA margin going up to almost 250 basis points.

Kunal Bhatia: You did mention Jewelry currently is degrowing from last eight quarters. If you could just give us a breakup in the sense of how much does Jewelry contribute to the overall revenues currently, and what else apart from this you are going to do?

Govind Shrikhande Currently it is under 3% overall. And the whole idea then would be, like we mentioned, can I grow the eyestop business, which is adjacent to the Sunglasses or can I increase my Fashion Watches business, which gives me not only better margins, but also gives higher throughput.

- Moderator:** Thank you. The next question is from the line of Ishpreet Kaur from Karma Capital Advisors. Please go ahead.
- Ishpreet Kaur:** In terms of understanding the Omnichannel strategy better, would you be catering to only pin codes in the vicinity where we have our Stores, or do we have any plans for entering new cities, say Tier-2 or Tier-3?
- Govind Shrikhande** The whole idea would be through the Omnichannel to cover entire India. So when we start of in the first phase, trying to cater to cities where you are physically present, because there it is a maximum advantage, but phase-2 and phase-3, we will start seeing rolling it out, under the Omnichannel strategy across India, in fact even international.
- Ishpreet Kaur:** So, when is it that we could probably cater to the newer cities -- could it be like two years down the line, one year down the line?
- Govind Shrikhande** About 15-months down.
- Ishpreet Kaur:** For the Hypercity part of it, would you be open to tying up with any online player for the home delivery?
- Govind Shrikhande** We are already in tie-ups in different cities in different catchments.
- Ishpreet Kaur:** How does the model actually work in terms of sharing of revenue or ...?
- Govind Shrikhande** No, there is no sharing of revenue, we sell it to them.
- Ishpreet Kaur:** So it would be probably at a lower cost than what you sell at the Store?
- Govind Shrikhande** At a lower margin.
- Moderator:** The next question from the line of Abhishek Ranganathan from PhillipCapital. Please go ahead.
- Abhishek Ranganathan:** I just wanted to know a few things: one is on the like-to-like EBITDA for Shoppers, how have we done this quarter? And the second is, I believe you have a new CEO for the Online business, if you could just also elucidate what his road map would be, what his ideas are and what is the thought process for this particular business after he has come on board from what it was earlier?

- Govind Shrikhande** So let me first take the second question first, so Sachin Oswal has just joined us less than two months back and since he has been on board, first thing that we looked at is what are the various IT stacks that are used by the various global players, so basically there is an agency called Gartner, which actually classifies the top used stacks so they have a classification by which they have ranked three of the companies amongst that stack. So we actually evaluated all three of them, and we have finally selected Hybris, which is currently operated in India by stack, and that is the software stack that we are going ahead with. Along with the software stack, we are also utilizing one of the best system integrators partner, which is going to execute this whole system for us, and we are looking at executing it in three phases. So the first phase that we are looking at is, making our Online stronger, which will take us about nine months till about Diwali, second phase would be to make it multichannel, and the third phase would be Omnichannel. Each one of them is a step forward in terms of connecting the store and Online, and then the delivery system as well. So we believe over a 24-months period, we should be able to invest about Rs.50 crores in this business, and in three-years' time, we should be able to hit at least 10% of our sales through the Online model.
- Abhishek Ranganathan:** One is, basically once we get into the Hybris we will have a seamless thing, we do not need a middleware as in that case....?
- Govind Shrikhande** The middleware can be a long-term investment which we believe if it is required 18-months down the line, we are willing to look at it.
- Abhishek Ranganathan:** But then we do not need to necessarily migrate to SAP, the area around JDA?
- Govind Shrikhande** Do not need to migrate to SAP, we can work on our current ERP which is JDA, but the middleware buzz that you might require to really ensure that there is full seamless connectivity and transformation is still something that we have considered. But it is not required today, because our current base is pretty small.
- Abhishek Ranganathan:** So basically the backend currently will be taken over by JDA, Hybris would contribute to the frontend and then you will need a middleware as you go multichannel and Omnichannel?
- Govind Shrikhande** Yes, not only middleware, even WMS, which is the Warehouse Management System needs to be also added, but each one of them is a piece that can be added at a certain time rather than adding together because if you add all of them together the

complexity increases, so rather than that first start running, then enter into a sprint, then enter into marathon.

Abhishek Ranganathan: Among the stages which you just lined out right now, you said you want to make online stronger by third quarter of this year, and then multi-channel, and then Omnichannel, So when you mentioned make Online stronger, what does it mean as such -- you want to mean the experience of shopping Online better, the website, or put more skews Online, how would you describe this thing?

Govind Shrikhande Three key parameters; one is, the number of visitors to your site, #2 is assortment on site; so how many options, how many brands, etc., and third would be the overall experience on site; so how many pages are you visiting, how much time are you spending, what is the conversion that I am delivering. These are the three key parameters would be determining whether my Online is improving or not, and that should directly contribute to a higher growth in conversion, higher growth in sales.

Abhishek Ranganathan: When you said multi-channel, so again still not omni as such again?

Govind Shrikhande So from multichannel to Omnichannel, the next level basically is that you not only have Online, you not only have Physical Store, but within the Physical Store also you have kiosks which can capture the feedback or shortfalls, or you can actually order within the store, what is not available in that particular store, or the size that is not available in the store through Omnichannel.

Abhishek Ranganathan: Essentially the difference between by multi-channel and Omnichannel is that in multi channel you may not have one view of the inventory online yet, and omni you would have one view of the inventory, be it the store, be it the website, be it anywhere, or a mobile app, correct?

Govind Shrikhande Correct, so view of stock, one view of customer, both are very important, and then one view of order, that is really Omnichannel.

Abhishek Ranganathan: The other thing about the like-to-like EBITDA?

Govind Shrikhande The like-to-like EBITDA has also grown more than 20% in the quarter because as you see that if you get a good like-to-like growth and operating cost under control, it is actually up by 25% for the quarter.

Abhishek Ranganathan: In terms of the contribution of discounted sales and the length of discount, this quarter we would have at least 6 to 8 weeks of discounting?

- Govind Shrikhande** Last year we had 8 weeks, this year we actually had 1 week shorter than that. The other good news for everyone on the con call is that the entire Fashion industry and Retail industry has come together and is trying to rationalize the discount period, not only the dates, but also the discount extension. So very clearly we are targeting that the coming summer sale that is likely to happen in July will not extend beyond 21 days.
- Abhishek Ranganathan:** And would it also mean because of the contribution of USS to our entire top line would have been lower than last year?
- Govind Shrikhande** I would say not very significantly different.
- Moderator:** Thank you. We have a question from the line of Tanmay Sharma from Edelweiss. Please go ahead.
- Tanmay Sharma:** Home Stop you said profitability wise it is coming on track. So any expansion plans of that?
- Govind Shrikhande** It has made PAT-positive this year and its EBITDA is running now at about 5.5%. So we believe it will also come to a track of about 8% EBITDA over the next 24 months. We are targeting to open between one to two stores a year, I think it will take another two years for us to really expand it faster. That is the current track that we are keeping.
- Tanmay Sharma:** And Sir you said your Jewelry business, eight quarters of slowdown has been there, but you also said in opening remarks that you might cut on the space?
- Govind Shrikhande** That is what will lead to. So if the business not continues to grow, we already shrunk the space and given it to Watches and other categories, so if it does not turn around, which is looking unlikely as of now, we might want to further shrink it.
- Tanmay Sharma:** Hypercity, you said Foods is growing quite well. So if you could give more color there, which segments of food is growing faster -- have we done something proactively there, or it is on its own?
- Govind Shrikhande** Food continues to maintain share at 65%, and this is one of the quarters where we have not lost volume too much, because fundamentally what has happened is, in the previous year, we have seen inflation taking away the food volume growth, so this quarter only 1% volume degrowth that you are seeing is of the lowest volume degrowth, is what I commented.

- Moderator:** Thank you. Our next question is from the line of Sunny Agarwal from Aditya Birla Money. Please go ahead.
- Sunny Agarwal:** Sir, my question pertains to whether, are we planning to implement the same strategy of Online multichannel or probably Omnichannel for Hypercity in probably next two or three years?
- Govind Shrikhande** The whole strategy is first establish Shoppers Stop Department Store Online strategy, and in about 15-months to 18-months period, start connecting all our other formats also on the same Omnichannel platform with individual websites. So Shoppers Stop would be a different website, Hypercity would be a different website, Home Stop would be a different website, but first we would like to learn, understand, and consolidate the Shoppers Stop, and then we will connect on the same, I would say, infrastructure and software. So that is the way we are building it.
- Sunny Agarwal:** Right now Food contributes 65% in our Hypercity. How much within that is private label?
- Govind Shrikhande** Less than 10%.
- Sunny Agarwal:** Any target to aggressively increase that?
- Govind Shrikhande** Not too much there because I think the biggest contributor for private label can be in Fashion and General Merchandise. That is where our focus is.
- Moderator:** Thank you. The next question is from the line of Amit Kumar from Investec Capital. Please go ahead.
- Amit Kumar:** My first question pertains to gross margins in the Shoppers Stop standalone financial. So they seem to have increased quite healthy, just about 180-basis points. Could you just give us some color on what has really driven? From what I can see, in the last 10 to 12-quarters, this is by far the best performance?
- Govind Shrikhande** It is up by 210 basis points, contributed basically because of three areas; one is Apparel share going up, #1; #2, discount sale period reducing by about a week or so, and #3 is overall margin growth expansion that we have seen through negotiation.
- Amit Kumar:** As far as Apparel share, that has been going up for a while, and I think you also mentioned that contribution of discount sales this quarter versus previous quarter was not very different despite the fact that in terms of timelines it reduced by a week. I

just want to understand whether this kind of margin expansion, whatever renegotiations that you have done with brands, which are carried in Shoppers Stop, what is in that sense is a sustainable gross margin expansion potential for FY16?

Govind Shrikhande No, on an average, we have seen 30 to 40-basis points gross margin growth almost every year at a gross margin line. What we are also trying to drive in the coming year is increase the private brand share from a current under 16% to more than 19% in the coming year. That itself should contribute to more than 50, 70 points higher, so that is about 100 points, we can clearly see visible. Third, definitely would be some amount of renegotiation and reduction in share of sale during the coming financial year. We believe that next year's sale contribution should drop by about 15 to 18-days per se between the two discount periods.

Amit Kumar: So all in all, you will say clearly upwards of 100-basis points?

Govind Shrikhande Yes.

Amit Kumar: My second question pertains to Store expansion in Shoppers Stop. I think a couple of quarters back, management had sort of indicated that about 8 Stores annually, you seem to be indicating about 6 stores for next year. Is this only specific to next year or from a long-term period, what kind of annual store addition or overall store addition are we looking at?

Govind Shrikhande Right now, the number of Stores that we have under signed is about 20, Amit, out of which we can clearly see around 6 Stores opening in the coming year, maybe 1 or 2 can also come in.

Amit Kumar: Is this sort of a function of the fact that what sort of historic tie-ups that you have done with mall developers, or is there a conscious call of reducing the Physical Store expansion and focusing more Online/Omni Retail?

Govind Shrikhande No, I would say it is a reverse way that not many mall developers want to develop new malls now. So the supply today of mall business is getting limited, and that is why we are seeing a lesser number of Physical Store opening up now.

Moderator: Thank you. The next question is from the line of Manis Poddar from Motilal Oswal. Please go ahead.

Manis Poddar: Could you throw some light actually where do you see debt-to-equity ratio, let us say for the next year, the next to next year?

- Govind Shrikhande** Right now, we are at about 0.68, 625 is the total debt at consol level, we believe that Q3 Q4 onwards we should start seeing it coming down actually.
- Management:** We expect debt-equity to reduce by about 0.1 year-on-year.
- Manis Poddar:** You mentioned about Rs.50 crores of investment on the Online part in the next 24 months. That is only for the IT part, right?
- Govind Shrikhande** This is IT plus infrastructure, software, hardware, everything.
- Manis Poddar:** In addition to that, if we require to do ad spend, that will be another additional spend to that?
- Govind Shrikhande** No, ad spend is not actually considered as part of this, that will be anyway in part of the marketing.
- Manis Poddar:** Would that require substantial investment, let us say...?
- Govind Shrikhande** Not for the next one year, when we are still trying to get the Online game right, maybe in the next financial year, we might. Once we get our online act right in the Phase-1, then we look at upping the advertising spend in the coming year.
- Manis Poddar:** What is the status with regards to the property auctions and like how much amount is pending and what are we looking at?
- Management:** We have already sold 9 so far, 11 are pending.
- Moderator:** Thank you. The next question is from the line of Tanmay Sharma from Edelweiss. Please go ahead.
- Tanmay Sharma:** You spoke on the Online impact on the Departmental. Now in Mumbai kind of markets, we see all the Ekstop it has actually closed, but the other ones are Big Basket, Localbanya, I see a lot of my friends using that. So in Mumbai kind of market, what is the impact of Online Grocery?
- Govind Shrikhande** These are you catchment-by-catchment, so let us say in a Bangalore kind of a city, especially we have seen that Whitefield, which has got the double income families, which do not have much time, they are the ones who seem to be ordering it in a big way, and there definitely I would say the traction is high, yes, there are also individuals who believe that they can get great value out of online, they are also ordering online for sure.

- Tanmay Sharma:** Because you have this 10% off, etc., on your total bill?
- Govind Shrikhande** So the issue really speaking is, at the end of the day, how long can somebody sustain and we have an in-house example where a Gillette blade is ordered which is Rs.1500 something, getting a discount of Rs.200, I do not think there is margin also of Rs.200 in that business. So it is going to be a tough one really to pull off, but, yes, we are also looking at it in terms of how do we really align to some of these people, who are really doing this kind of delivery as a back-end format.
- Tanmay Sharma:** But there obviously as a retailer you do not have much of an option, right, because Omni there, may not apply beyond the Garments to an extent right?
- Govind Shrikhande** Omni can apply everywhere in the long run.
- Tanmay Sharma:** FMCG... what can you do in Omni?
- Govind Shrikhande** The same delivery.
- Tanmay Sharma:** No, but there is no value-add, right?
- Govind Shrikhande** Basically, the value-add is convenience, from the customer point of view, if there is convenience available for you not to visit a store, and you are getting what you wanted delivered at home and that too currently is being delivered at 10%, 20% discount, I think it is a great deal for the customer.
- Tanmay Sharma:** But currently, we are not thinking of that, right?
- Govind Shrikhande** Definitely not.
- Tanmay Sharma:** Concession is down a bit and bought out is up a bit. Anything trend which you can point out in this?
- Govind Shrikhande** Actually, concession for us is very small Abneesh, it has never been very big; it is less than 2%. So generally there is no big difference there. I think it is a question of only between bought out versus consignment, there is slight change in this quarter, nothing significant.
- Moderator:** Thank you. The next question is from the line of Abhishek Ranganathan from PhillipCapital. Please go ahead.

Abhishek Ranganathan: How are our private brands fairing on the marketplaces and the likes of Myntra and Jabong way of selling them now?

Govind Shrikhande Just about two months back, we have launched them, so I would say still another two months to go, but overall feedback is positive, but I think our current understanding is most of the people understand Shoppers Stop better than our individual brands.

Abhishek Ranganathan :Is it on track in terms of sales target which you looked at?

Govind Shrikhande I would say still they are behind what we thought was the target. If I start discounting it tomorrow, the sales can go through the roof, the challenge really is where the sites want us to discount and I am not willing to discount. So it is an experiment, we have to learn, understand from the experiment, and that really defines the long-term strategy.

Abhishek Ranganathan What are the terms of trade with them -- is it SOR, or it is completely bought out from their side, how is it working?

Govind Shrikhande It is different for different sites, Abhishek; some are on the outright, some are on SOR model similar to what we operate on.

Moderator: Thank you. We have a question from the line of Manan Patel from (Alder Capital) 60:28. Please go ahead.

Manan Patel: You mention that the players got together and they decided the discount period is going to get reduced. So are you talking about the Online players as well, or just Retail format?

Govind Shrikhande Physical Retail player.

Manan Patel: We see the volume has gone down, so you mention that discount period has also gone down. So does the discount period going down has an impact on the volumes.

Govind Shrikhande Obviously, it has an impact on volume as well, but I would not contribute or attribute that only to the discount sale period, because 7 days to 10 days reduction of discount sale will have a direct impact and bearing on the overall sale growth as well as on the volume, but I would say definitely a lot of more action is required to drive volume back again.

Moderator: As there are no further questions from the participants, I would now like to hand the floor back to Mr. Govind Shrikhande for his closing comments.

Govind Shrikhande: Thanks, Darryl. Thank you, everyone for joining us on the con call. I am sure you are happy with the positive results and turnaround that we have seen, strong comeback in our terms in terms of both Department Stores as well as Hypercity, as well as all other formats, I am sure the performance will keep on improving over the next few quarters as well. We will talk to you again in Q1 of this financial year.

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of Shoppers Stop Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.