



**“Shoppers Stop Limited Q2 FY 2017 Post Earnings  
Conference Call”**

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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Shoppers Stop Limited Q2 FY 2017 Post Earnings Conference Call. As a reminder, all participants' line will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Sanjay Chakravarti -- Chief Financial Officer, Shoppers Stop Limited. Thank you and over to you, sir!

**Sanjay Chakravarti:** Thank you, Karuna. Good evening, ladies and gentlemen and welcome to the Q2 FY 2017 call for Shoppers Stop Limited.

Unfortunately, Govind has not been able to join us in this quarter because of certain personal commitments. So, I have with me here Mr. Salil Nair-- who is the Chief Executive Officer of Shoppers Stop; and Mr. Ramesh Menon -- who is the Chief Executive Officer of HyperCITY.

I will quickly run you through the presentation which is available on our website and was uploaded last week and then we can open the session to question-and-answers.

I am starting from Slide #3. We have opened one more departmental store during the quarter which is in Bangalore (Bengaluru) which increases the penetration of the chain into that city. We have opened one Bobbi Brown standalone store. We have opened one more Mothercare Shopping Shop store and one HyperCITY in Orion Mall which is really the same mall where Shoppers Stop has been opened.

Our loyalty program continues to grow steadily, currently at more than 4.4 million members and a contribution of 73%.

Slide #4, shows you the foot print of the entire group across the country and the number of stores that we have in each of the format.

Slide #5, gives you the total square footage of the group.

Slide #6, gives you some of the pictures of the new stores that we have opened in Brigade Orion, it is a 46,000 square feet store opened on 18th of September. It is trading pretty well, very much up to the expectations that we expect from that store. Those of you who are familiar with Bangalore (Bengaluru) it is one of the leading malls in Bangalore (Bengaluru), it is one of the most popular malls in Bangalore (Bengaluru), and in keeping with the expectation that we have from the store it started trading well.

Having said that, when we come back to the quarter which is on slide seven, it has been a pretty muted quarter for us and in fact not just us, it has been a pretty muted quarter for the industry as a whole overall with a like-to-like growth of just about 2% and a chain level growth of 8% with the company level growth of roughly around 7.7%.

Custom entry has also been under pressure for sometime now as most of you are aware our like-to-like customer entry has de grown at about 6%. Overall custom entry has grown by 4.6%. Conversion ratio up by 1% and LTL stores conversion has been up by 3%. Transaction size and average selling price are both up. However, the LTL volume is lower by 3% which has really resulted between a combinations of the LTL volume, de-growth, and the ASP growth, it has really resulted in 2% like-to-like growth in the company.

In the merchandize mix we have our private brand lower than last year at 12.2% but that is expected given that it is an end of season sale quarter and brands do sell better in an EOSS quarter.

The pie charts below give you the trading model mix that we have in the company as of now.

The apparel and non-apparel mix currently stands at 65 to 35 which is more or less in keeping with what we had last year. The category wise/division wise sales are also 35%, 22%, 8% and 35% for men's, ladies, children's and non-apparel respectively.

Our shrinkage has also more or less held on a Y-o-Y basis quarter two to quarter two last year at about 0.5% also on a Y-T-D also it is more or else held steady Y-o-Y at 0.37% to 0.36%.

I come to Slide #12, which gives you the financial of the standalone listed company. Margin on sales at cash basis has grown by about 8% but lower as a percentage of sales by about 10 basis points. As we saw in the earlier slides, the growth in retail sales has been about 8%. The operating margin EBITDA has de-grown by 17% and that is essentially on account of the muted like-to-like growth that we have seen. Typically in the business at about 5% to 5.5% like-to-like growth we can pretty much hold EBITDA margins when a like-to-like growth trends to slip below 5% that is when it starts impacting the bottom-line and that is what we are seeing out there on slide 12 which is the P&L of the company.

I will come to consolidated once we have run through the HyperCITY numbers. When you see the balance sheet, I am on slide 16, of the standalone company more or less most of the key ratios are on track and the key ratios are not showing too much of variance when compared to where we were on March 31st, 2016 and overall the balance sheet is on a healthy track.

Our debt has expanded slightly. Most of you will remember that we had started this year in the listed company at a debt level of roughly around Rs. 580 crores which is now at Rs. 615 crores and this is essentially on account of the further support that we have given to the HyperCITY as a 51% sub.

I will move to the HyperCITY section now:

HyperCITY has actually been able to show a reasonably good sequential growth. Most of you might recall that we had closed the first quarter in the business at a negative 0.5% like-to-like which is now converted into a 3.4% like-to-like and this is essentially on account of all the steps

that we have been taking and all these steps have actually started delivering the results that we wanted to kind of see and these are what are now showing up purely. The reason why I bring up the sequentially basis is because in the last two quarters or three quarters barring this quarter when we have seen a lot of pressure on the business and that pressure seems to be diminishing now because of the steps that we have taken.

So, fashion share has been up, which is a good thing from 15.04% to 16.01%. Overall, sales growth has been at around 15%, the net margin is up by 100 basis points. The growth in operating expenses is essentially on account of new stores.

And if I were to look at the other parameters, and here I bring it to slide number 24, where you will see that the customer entry is up 6.6% which is primarily driven by the Orion Mall opening in Bangalore (Bengaluru); like-to-like stores however the customer entry continues to be under pressure in this business too while all the other parameters has shown a growth. One of the good things which most of you will see is that in this business the volume in any retail business where volume plays a very-very large part in the health of the business and the health of the throughput this business has seen a 2.07% growth in the quarter as far as volumes in concern in the like-to-like stores which is a very good thing.

I come to Slide #25, which are the Q2 financials of HyperCITY. Like I was saying, a 15% growth in retail sales, net margins have grown by 100 basis points and overall, store EBITDA has come back to the positive which was not the case in the last quarter. You will also see that the overall negative company EBITDA has dropped, the loss dropped from the earlier Rs. 4.07 crores from the earlier to Rs. 57 lakhs and this is essentially on account of the one property auction traction that we have had in this quarter. We expect to have few more in the coming two quarters. However, that is expected and not a certainty.

I now take you back to Slide # 13, in the consolidated financial. The consolidated financials is really essentially, finance is really combination of the way the Shoppers Stop business has performed and the HyperCITY business has performed and it is no reflective of more or less what the Shoppers Stop P&L is showing. So, you will see a margin drop of 10 basis points. We are seeing an operating profit drop of almost 10% and a 70 basis points drop and accordingly the drop in PBT and in PAT.

So, having that, I think that is all I want to say on the Presentation. Since most of you look onto the presentation over the last couple of days. I think we throw the line open for question-and-answer.

**Moderator:**

Thank you very much, sir. Ladies and gentlemen, we will now begin the Question-and-Answer Session. First question is from the line of Avi Mehta from IIFL. Please go ahead.

- Avi Mehta:** Sanjay, just wanted to understand in the first quarter we had indicated a margin guidance for FY 2017 of about 7% are we changing that given the performance in EBITDA for the first two quarters?
- Sanjay Chakravarti:** When we have said 7% actually we have meant that the departmental store will delivery around 7% at the company we will be more in the neighborhood of about 6 to 6.5%.
- Avi Mehta:** 6 to 6.5%, so, are sticking to that or would we...
- Sanjay Chakravarti:** Yes, as of now we do not believe there is a reason to pull that down, as of now we believe that we should be able to deliver at that level.
- Avi Mehta:** Okay. Then on the sale growth front, if I see the distance in the sales growth and the SSS growth, it suggests the new store performance has been actually very healthy, could you kind of help understand what has driven this improvement?
- Sanjay Chakravarti:** Sure, which is essentially the reason there Avi is that in the less than 5 year group of stores, we have performed well which is really why you see the gap between the 2.2% and the 8%.
- Avi Mehta:** Okay. And is there anything that you have done specially or is there more geography we use to earn, is there anything if you could kind of help us understand this?
- Sanjay Chakravarti:** I think the best thing that we have done is that by learning from some of the stores that we have opened for year before last those learning's we have incorporated in the stores that we have opened in the last 12 months and so therefore, our property selection has been better and which is why the store that we have opened in the last four quarters - five quarters have actually performed far better than the stores that we had opened earlier to that.
- Avi Mehta:** Okay. So, it is more a learning process that has kind of helped us.
- Sanjay Chakravarti:** Yes, the stores opened in the immediate past have performed far better than those opened earlier to that.
- Avi Mehta:** Okay. And the FY 2017 SSS growth guidance if you could share and even for HyperCITY second-half given what we have seen till date in the third quarter?
- Sanjay Chakravarti:** We believe that the departmental store business I will stick to that, will be able to deliver a 6% to 7% in H2. The Hyper Market business we believe we will be able to deliver a double-digit growth.
- Avi Mehta:** So, 8% to 9% somewhere in that?
- Sanjay Chakravarti:** Early double-digit.

**Avi Mehta:** Okay, early double-digit.

**Moderator:** Thank you. We have the next question from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

**Kunal Bhatia:** Sir, I just, so, now we are already through two quarters so, what would be your guidance for the full year in terms of like-to-like sales growth and do we stick with the same target in terms of number of store openings?

**Sanjay Chakravarti:** See, with 2% and like I said the quarter two was significantly disappointing at 2% so, we had always believed that we will be able to close the year at 7% to 8% like-to-like. We believe H2 will deliver 6% to 7% so, it will really be a combination between the Y-T-D like-to-like of about 3.5% and let us say a 6.5% to 7% of H2. So, I would peg it at around 5%-5.5%.

**Kunal Bhatia:** Okay sir, and how about in terms of number of store openings?

**Sanjay Chakravarti:** We expect to open two more stores by end of March?

**Kunal Bhatia:** Pardon, sir.

**Sanjay Chakravarti:** We expect to open two more stores by the end of March.

**Kunal Bhatia:** Two more, okay. And sir, any closures in...

**Sanjay Chakravarti:** None as of now, we believe as of now we do not see any, one might be closed but we are looking at that.

**Moderator:** Thank you. We have follow-up question from the line of Avi Mehta from IIFL. Please go ahead.

**Avi Mehta:** Sanjay, if you can just help us understand the, how the 2.2% has there a variance in terms of regions or across months?

**Sanjay Chakravarti:** Sorry, I could not get your question, has there been a?

**Avi Mehta:** Variance in the SSS growth across month?

**Sanjay Chakravarti:** Yes, it has been, you see when we started the end of season sale in July it was very good in fact, we almost hit a double-digit like-to-like. What has really pulled us down is the second half of August and September. They have those 45 days to 50 days which has been really-bad within the industry.

**Avi Mehta:** And how has been October because I am surprise by the expectation of 6% to 7%, has there been a pick-up or no that is not yet kind of seen through?

- Sanjay Chakravarti:** Actually, there has been a very decent pick-up in October but the bellwether for the quarter will really be November because remember all your festivities of your Diwali Pooja in the east is over by 31st October. All that November has is wedding days and while wedding days do give an impetus to the business we believe that the impetus can never be as much as a festive season so which is why we are saying that it will be around 6% to 7%.
- Avi Mehta:** Okay. And in terms of the online peer discounting has that kind of seen in the moderation because while this October has been a good, has seen very aggressive discounting you are saying it is quite healthy fair enough to, could you kind of help us understand what do you mean by healthy?
- Sanjay Chakravarti:** The October like-to-like growth?
- Avi Mehta:** Yes.
- Sanjay Chakravarti:** The October like-to-like growth is late single-digit too early double-digit. Sorry, this is comparable from pre-Diwali to pre-Diwali; if you just look at date-on-date it is far-far higher.
- Avi Mehta:** So, festive-to-festive is late single-digit early double-digits?
- Sanjay Chakravarti:** Yes.
- Avi Mehta:** Okay. And anything on the omni-channel and lastly on the...
- Sanjay Chakravarti:** The omni-channel plan is on track; we have already invested up to Rs. 35 crores to Rs. 40 crores and we believe we should be able to have a go live date by Q2 next year.
- Avi Mehta:** Okay. And GST?
- Sanjay Chakravarti:** What about GST?
- Avi Mehta:** Any color you might have because.
- Sanjay Chakravarti:** We always believe that GST would be good for the business, will be good for the country; will be good for the overall economy. I think the rates which have come out are a very positive sign. 12% on apparel, 18% on non-apparel and some part of apparel comes in the 5% bucket, we do not know yet; the categorization has not yet been made public. But overall, I think whatever little has come in the public domain on the structuring of the regulation I believe it is a positive.
- Moderator:** Thank you. We have the next question from the line of Neha Bothra from Axis Capital. Please go ahead.
- Neha Bothra:** Sir, you just mentioned that there is a possibility of shutting one HyperCITY may be so, which would be the location...

**Sanjay Chakravarti:** Not HyperCITY, Shoppers Stop.

**Neha Bothra:** Okay. So, which would be the location and also on your debt part, if you can please throw some light?

**Sanjay Chakravarti:** I will not be able to put in the public domain which store it is Neha, till we have taken a decision, okay but we believe one store we will shut. As far as the debt part is concerned, do you want the debt levels going forward or what exactly...

**Neha Bothra:** Yes, right debt levels going forward.

**Sanjay Chakravarti:** I believe that we will be closing debt at similar levels because Hyper will need a little more support in the next six months as you are aware we are looking at raising funds in that business but we believe it will take another 6 months before we can bring in funds, which is why I believe that debt levels will be at the same levels or might expand by another Rs. 10 crores - Rs. 20 crores by the end of 31st March.

**Neha Bothra:** Sir, which would be the rate that you would be looking at for raising funds and...

**Sanjay Chakravarti:** We will look at funds coming directly in to the HyperCITY balance sheet.

**Neha Bothra:** Okay. And that would be through like debt equity how you plan to do that.

**Sanjay Chakravarti:** Equity.

**Neha Bothra:** And like would it be a sale of stake or something like that?

**Sanjay Chakravarti:** It is something we are open to all groups, we are open to all paths, and we are speaking but it is still very early days' honestly, it is very-very early days but we are very clear that the money has to come into the balance sheet of HyperCITY.

**Neha Bothra:** Okay. And how much do you plan to raise like...

**Sanjay Chakravarti:** Initially we are targeting Rs. 150 crores to Rs. 200 crores.

**Neha Bothra:** Rs. 150 crores to Rs. 200 crores. And by when you would be doing this...

**Sanjay Chakravarti:** We would like to close it by 31st March but hopefully that will be done, but let us see.

**Moderator:** Thank you. Next question is from the line of Deepanshu Madan from Locus Investment. Please go ahead.

**Deepanshu Madan:** My first question is on your sales concentration among your stores which are greater than five years versus less than five years, could you please share a number?



- Sanjay Chakravarti:** Are you talking about the sales growth?
- Deepanshu Madan:** No, I am talking about absolute sales concentration so how much the great than five years contribute to your sales...
- Sanjay Chakravarti:** It will roughly be around 60%-40%, 60% will be in greater than five year, 40% lesser than five years.
- Deepanshu Madan:** Okay. And just one, so, I think you mentioned that there are 12 stores to 15 stores that are not in the like to like comparison, are those stores substantial in terms of contribution or they would be like around 10%-12%?
- Sanjay Chakravarti:** Top-line?
- Deepanshu Madan:** Yes.
- Sanjay Chakravarti:** On the top-line it is roughly 15%, one-five.
- Deepanshu Madan:** 15%, thank you. And my second question is on e-commerce, I just wanted to understand that two questions basically on this. One is that, Diwali last year was in November and this year was in October and what has been the impact of e-commerce on sales given that most of the shopping at least on that on the festive front should have happened probably a month prior or close to that and the second thing is that your base would have been higher in third quarter last year whereas it should have been lower in the second quarter so that the 2% growth has that really been impacted by e-commerce, what has been the impact of e-commerce and what do you think has happened in terms of volume de-growth that you mentioned?
- Sanjay Chakravarti:** See honestly speaking one quarter and I have said this before, the one quarter when e-commerce really hit us was really the quarter Q3 of 2014 which is when the retail industry overall and ourselves also we delivered a 1% like-to-like. But since then the overall impact of e-com has not really been much in the business, I think the categories that the e-com has really been able to influence has really been electronics, appliances and mobile phones. We do not sell any of these. I mean we sell a little of appliances in home stop and we also have appliances in HyperCITY but then they comprise very little and very small proportion of the business in both formats. So, no, I do not think we have really been impacted by e-com per say and even if there has been some impact which I suppose there will, it would not be material impact at least the numbers do not show it and our customers when we speak to them that not what comes.
- Deepanshu Madan:** So, in that context then how should we think about the 2.2% like-to-like growth I mean the reason I am asking is because you already mentioned that...
- Sanjay Chakravarti:** So, that is exactly what I said earlier, the 2.2% really it can be it is symptomatic of two parts of the quarter. The first part of the quarter end of season sale the first 30 days did extremely well, right, in fact, did well enough to take us to almost a high single-digit like-to-like but after the

end of season sale ended which was really mid-August till end September, September in fact was extremely bad for us. Except in the east zone when Pooja was setting in all the other zones in the country under performed as far as September concerned that has what really lead to the 2.2%.

**Deepanshu Madan:** So then essence what you are saying is that when the discounting was on, the sales did really well, they were 9%-10%, 8%-9% and when discounting went away they led down, so, actually going back to the same point that discounting actually wherever is available the consumer is looking for discounting and that is impacting us.

**Sanjay Chakravarti:** Now, how do you explain the ltl growth in October when the entire business was on full price.

**Deepanshu Madan:** Okay. So, in October you are saying the trends has been in high single-digits?

**Sanjay Chakravarti:** Absolutely, it just turned on a dime.

**Deepanshu Madan:** And by the way, you also mentioned that you are comparing festive season to festive season so.

**Sanjay Chakravarti:** Absolutely if I compare date-on-date it is upwards of 20%.

**Deepanshu Madan:** October this year to November last year that is what you are comparing?

**Sanjay Chakravarti:** Absolutely, correct.

**Deepanshu Madan:** Festive meaning when Diwali was around that period, are you comparing that?

**Sanjay Chakravarti:** Yes.

**Deepanshu Madan:** That is how you are comparing it?

**Sanjay Chakravarti:** Yes.

**Deepanshu Madan:** And my last question is that you mentioned that you are looking and hoping for a 5.5% to 6% like-to-like growth in H2 and in the festivity is....

**Sanjay Chakravarti:** Let me just correct that number for you, it is 6% to 7% in H2 and probably around 5.5% for the year.

**Deepanshu Madan:** Okay, got it. Thanks for the correction. So, then the 7% I mean just again the way you explain for how we look at 2.2%. Can you explain how should we look at 7% and what is the driver that is going to impact, is going to propel the growth and what is the offering that we have within the system the wedding season would drive 7%? How are you thinking about and what is the thought behind 7% is what I would be eager to know?

**Sanjay Chakravarti:** It is like this, October is already at a 7% to 8% like I told you, in fact in this case it is far higher because we are looking at date-on-date. December typically tends to mirror the performance of October but we believe November will be a bit of drag on the overall quarter. So, we should be able to close Q3 at that 6% to 7% which I mentioned. We have quite a few things planned for the Autumn Winter end of season sale in Q4. The learning that we have had in the Spring summer which is the July-August end of season sale we believe that once we put those learnings into place for the Autumn Winter end of season sale which is in Q4 once again we believe 6% to 7% is a realistic and achieve like-to-like growth.

**Moderator:** Thank you. Next question is from the line of Alok Shah from Edelweiss Securities. Please go ahead.

**Tanmay Sharma:** Hi, sir, this is Tanmay. Sir, my question is on SSG, if you see the store which are more than five years they have seen 0.5% SSG, is there a possibility that fast fashion players like H&M has entered in to a bigger market first of all to start with metros, you might have lost share to them as well because your less than five years stores which I presume would largely be in non-metros Tier-I, Tier-II cities are growing at least at a better pace. So, you think you have lost share to them?

**Sanjay Chakravarti:** If you look at the numbers, that we have had in the last four years quarter-on-quarter that is when the impetus in our expansion has been you will see that consistently the lesser than five year stores have delivered higher like-to-like growth then the greater than five year stores and this is a normal phenomenon because whenever you open a new store in an existing market or in a new market in the second year when the store becomes like-to-like it is coming on lower base, it is new store, so it will automatically it delivers better performance number one. Number two, as far as H&M and Zara and fast fashion players are concerned I do not think that anyone can deny that yes, there will be a certain overlap of customers that have happened but I do not think we have been impacted because we believe that when these players come in they only make the retail offering stronger and they bring in further customer entry. So, it really helps in the both ways that they bring in more customer entry so, as long as Shoppers Stop has a better offering and the right offering then we get advantage of that customer entry. So, I do not think as management we believe that there has been an impact from them. The impact really if at all it has been we believe it has been positive and we have seen that happening for example when H&M opened its first store in MGF Saket in Delhi, we actually saw our stores performance also going up. So, we do not believe that there has been effectively market loss because of this, we do not believe that.

**Tanmay Sharma:** See, H&M is actually a complete private label sort of stores. So, I think our private label should be close to 17%-18%. So, what is your plan in terms of inching up this private label because we have a to have a right to when which H&M might have in terms of brand. So, what try to win do you think Shoppers Stop is doing in terms of increasing its private label that way?

- Sanjay Chakravarti:** But number one our private brand is currently at 13% one-three, we plan is to take that business to about 25% in the next three years and you are right, actually the competition that we have with the H&Ms and the Zaras of the world is really on the private brand business side. And we are doing we already started taking a lot of steps in fact from the last one year we have taken a lot of steps towards product and team and leadership in that whole business and I think you, will start seeing the impact of all these steps in the quarters coming forward. But like you said, I mean the current 12% to 13% the aspiration, the ambition is to take it to a 25% share in the next three years.
- Tanmay Sharma:** Okay, sir. And sir, how has been the performance of Patanjali in HyperCITY, the growth rate continues to be very robust for that?
- Sanjay Chakravarti:** Patanjali is a very small part of our merchandise so, I mean, growth is in keeping with the growth of the rest of the business.
- Tanmay Sharma:** Okay. And sir, just a small one sir, do you think the current advisory by the Chief Minister of Delhi on pollution not to go out of homes unless it is necessary, can have a drag on footfalls as well in a significant manner?
- Sanjay Chakravarti:** Actually yesterday actually our footfalls were better, okay, so, we do not know. I mean, let us see what happens over the next four days or five days then we will get to know but Yes, there could always be a negative impact.
- Moderator:** Thank you. We have follow-up question from the line of Avi Mehta from IIFL. Please go ahead.
- Avi Mehta:** Sanjay, just wanted to understand two statements that you said, you highlighted that 6% to 7% SSS growth you are expecting in the second-half and you have said for the full year you are looking at a 6.5% kind of EBITDA margin?
- Sanjay Chakravarti:** No, 5%-5.5%.
- Avi Mehta:** No, 5%-5.5% is for the full year SSS growth. EBITDA margin you are saying 6.5%-odd, right?
- Sanjay Chakravarti:** About 6% to 6.5%, yes.
- Avi Mehta:** Yes, 6% to 6.5%. If I look at the first-half, you have seen almost a 70-bps decline or so roughly and what I am trying to kind of correlate is that you highlighted that (+5%) is what you need the margins to kind of expand. In that scenario either your SSS growth number am I missing something?
- Sanjay Chakravarti:** I know what you are trying to ask but you have to keep in mind that Q3 is our most profitable quarter because it is full priced quarter. So, the flow through gross margins into your operating margin line is that much more higher. That is why I am saying that the 4% that you see as of the end of H1 is we believe that 200 basis points more is well achievable in H2. And also the fact

we believe and we are strongly planning for a far more successful end of season sale in Q4 than we saw in Q2 will also help because typically when our end of season sale is successful it also proves to be a very profitable period for us.

**Avi Mehta:** Okay. But 6.5% is for the entire year is what you are saying?

**Sanjay Chakravarti:** Yes, 6% to 6.5%.

**Avi Mehta:** 6% to 6.5%, okay.

**Moderator:** Thank you. Next question is from the line of Deepa Puthur from Quantum Asset Management. Please go ahead.

**Deepa Puthur:** Sanjay, beyond 2017 how many store additions are we planning for all formats Shoppers, Specialty, and HyperCITY?

**Sanjay Chakravarti:** We believe Shoppers will be a run rate of roughly around three stores to four stores a year, Hyper like I said we will make it opportunistic, we will see how the business performs and we believe that the businesses is going to start throwing out cash from next year so, depending on what kind of cash comes in, what kind of capital we can raise, we will decide on what kind of expansion we want to do in that business. As far as Specialty is concerned because our footplate is far smaller seven stores to eight stores in the Estee Lauder Group should well be possible.

**Deepa Puthur:** Okay. And HyperCITY will we continue to add small format stores or there will be mix of large and small format?

**Sanjay Chakravarti:** No, we are pretty confident and pretty sure that the right size now for the HyperCITY format is 30,000 square feet to 40,000 square and unless there is a very good opportunity like for example Orion was we believed a very good opportunity, we will open 30,000 square feet to 40,000 square feet formats.

**Deepa Puthur:** Okay. And with these 30,000 square feet to 40,000 square feet, when do we breakeven?

**Sanjay Chakravarti:** We expect to breakeven at an EBITDA level next year and at a pre-tax profit level by year after.

**Deepa Puthur:** And in this year, how many more options sales are we expecting?

**Sanjay Chakravarti:** Tough to say Deepa, tough to say, but fingers crossed for one or two more.

**Deepa Puthur:** Okay. And roughly, the option sale that happen this quarter it was roughly around that 35,000 per square feet - 36,000 per square feet?

**Sanjay Chakravarti:** +40.

- Deepa Puthur:** And we entered around 10,000, is that right?
- Sanjay Chakravarti:** Correct.
- Deepa Puthur:** Okay. And just a bookkeeping question, what is the tax rate that we should be assuming for Shoppers standalone?
- Sanjay Chakravarti:** Roughly around 38% to 39%
- Deepa Puthur:** Okay. And with this GST whatever you spoke a few minutes back, what kind of quantum of margin addition should we assume?
- Sanjay Chakravarti:** Too early Deepa, too early. I think we need significant clarity on what is the categories are, what are the category wise rates only then we will be able to kind of really put our figure on that but I do not see it being margin dilutive.
- Moderator:** Thank you. We have follow-up question from the line of Deepanshu Madan from Locus Investments. Please go ahead.
- Deepanshu Madan:** Sir, one question on your on Shoppers Stop so, just wanted some color on the like-to-like volume de-growth of 3.1% that you have mentioned, could you throw some light on the categories or the top one category or two categories that has contributed to this decline?
- Sanjay Chakravarti:** The two largest declining categories have been the Mothercare business and the jewellery business so, these two categories have actually kind of dragged us down on the volumes.
- Deepanshu Madan:** Okay. And my next question is on this thing that you had mentioned the H2 growth so, I just wanted to know I do not think we have this year but how much is winter wear as a percentage of sales for us?
- Sanjay Chakravarti:** Actually about 12% to 15% not more than that.
- Deepanshu Madan:** This is of the entire sales right?
- Sanjay Chakravarti:** Entire year sales.
- Deepanshu Madan:** Okay. And your point on Mothercare and jewellery, so, jewellery I can understand probably is very more discretionary than Mothercare so, could you explain what do you think would be the reason for decline in Mothercare and how much is Mothercare today as a percentage of total sales for you?
- Sanjay Chakravarti:** So, I think Mothercare what we were doing is we were going through a kind of transition where we will be sourcing from DLF entirely and not from Mothercare UK so, that transition itself caused a bit of supply chain problems. Second of all, I think the discounting that happened in

other Mothercare outlets, not operated by us, was significantly deeper than we did. So that has kind of impacted the Mothercare and Mothercare is almost 50% of our kids category so that effectively means almost 5% - 6% of our sales.

**Deepanshu Madan:** Got it. So, when you source from DLF instead of Mothercare UK that both on the costing for you and the fact that now you will be able to follow any sort of seasonal things that DLF does not tandem and hence this now the un-seasonality sort of parts will go out that is what the change will be?

**Sanjay Chakravarti:** Correct. Plus the margins will be underwritten. Effectively the margin that we are going to have with DLF will be underwritten respective of the discounts that DLF or we might do.

**Moderator:** Thank you. Next question is from the line of Abhishek Ranganathan from Ambit Capital. Please go ahead.

**Abhishek Ranganathan:** Couple of questions from my side, one is the gross margin decline which we have seen, would it actually indicate that largely that the quantum of full price sales during the quarter have been lower than what it has been last year and second is on addition of brand as such as Aéropostale which have been added in Shoppers Stop, is that a little more color on strategy of adding exclusive brands and does it fit under the heading of or a classification of exclusive brand?

**Sanjay Chakravarti:** Number one, yes, there has been higher schemes that we have run in the first quarter, I am assuming you are talking about the H1 number of 30 basis points Abhishek.

**Abhishek Ranganathan:** I am talking of 2Q.

**Sanjay Chakravarti:** 2Q 10 basis points is essentially on account of discounts that we have run and plus yourself was extended by about week, right. On Aéropostale it is not exclusive on paper but as of today it is exclusive to departmental stores with us.

**Abhishek Ranganathan:** Okay, exclusive to departmental stores which means apart from that it could be online elsewhere, etc.

**Sanjay Chakravarti:** It could be online elsewhere they also run standalone stores.

**Abhishek Ranganathan:** So, on the exclusive brand front, where are we, I know you have invested in a team and you have also...

**Sanjay Chakravarti:** That is on private brand.

**Abhishek Ranganathan:** Private brands, Yes, on the private brands and exclusive brands both where are in terms of in our journey and where would be say about one and half years - two years from now?

- Sanjay Chakravarti:** So, I think both the plans are on track, we expect to the private brands we expect to hit 25% in like I said next two years - three years in fact the three years. Exclusive brands the current 3%-3.5% expected to be about 10% in the similar period.
- Abhishek Ranganathan:** Private brand is quite a large jump and is there a pipeline which you have which would be coming through in the next say four quarters or five quarter which you have visibility on?
- Sanjay Chakravarti:** No, I think the growth that you see will really be through throughput. So, I think the one thing where that business suffered was the account of sales per square feet being significantly lower than what the rest of the business was delivering that is what we are now trying to correct through product, through visual merchandising and through customer communication. And even as that starts kicking in and remember the effect is actually going to start the new range has really come in, the new team has delivered the new range now that is in October. So, the impact of the change is really going to start showing up from this quarter onwards.
- Abhishek Ranganathan:** Okay. And the brands would be largely the same but you would not be adding any more brands?
- Sanjay Chakravarti:** Product is undergoing a significant change, the visual merchandizing is undergoing a significant change, the communication is undergoing a significant change and the in-store fixturing is undergoing a significant change.
- Moderator:** Thank you. Next question is from the line of Mehul Desai from IDFC. Please go ahead.
- Harit:** Yes, hi, Sanjay, Harit here from IDFC. So, just a couple of questions from my end, first thing I just want to check with you after the several quarters you have seen the non-apparel growth being a little better than apparel as the share is obviously higher in this quarter. If you could just give us sense of which segments have done well because you said jewellery has not been good, so what has really made up for that?
- Sanjay Chakravarti:** Beauty, cosmetics.
- Harit:** Cosmetics. So, overall non-apparel growth has been largely led by cosmetics, right ?
- Sanjay Chakravarti:** Yes.
- Harit:** Okay. The second thing was on HyperCITY with the launch of more stores obviously the initial impact does show a little bit on the profitability part. So, just wanted to get your sense on what are the targets now from a breakeven or a EBITDA positive perspective, we are still sticking to our earlier beginning of the year targets and how are we place there?
- Sanjay Chakravarti:** Okay. Number one, the new stores actually have not contributed to profitability, it is the like-to-like stores which have contributed to profitability and the efforts that we have taken in those stores to improve customer experience and product because new stores will take about 18 months to 24 month to breakeven, all right. Second of all, the target now, we believe that we should be



EBITDA breakeven at a company level next year and as you are aware are trying to bring in fund as and when we bring in fund into the company we should turn PBT positive.

- Harit:** Okay. What is the thought process of the fund part?
- Sanjay Chakravarti:** The target is to bring in funds by the end of March 31<sup>st</sup>, we are trying our best to do that but let us see how it pans out finally.
- Harit:** Okay. And we are open to all options – strategic and financial?
- Sanjay Chakravarti:** That is correct.
- Harit:** Understood. And in this one last thing on Shoppers Stop on standalone part, so, we are still pretty confident of the 6% to 7% LTL growth even getting into the fact that last year the base is quite high for the second-half of the year especially because Q3 was so good so, we do not see issues regarding our ....
- Sanjay Chakravarti:** No, not really. See, because like I said at the beginning of the call, when I do a Diwali-to-Diwali comparative we still see 8% to 9% like-to-like. So, we believe a 6% to 7% is doable.
- Harit:** I miss expansion targets for this year and next two years for Shoppers and HyperCITY if you could reiterate that please?
- Sanjay Chakravarti:** Two more stores expected by the end of Shoppers Stop, no new stores in HyperCITY till the end of the year. HyperCITY depending on how the business start delivering cash which is expected to do in the next year, how much cash we raise we will look at expansion that is the way we are looking at it.
- Moderator:** Thank you. We have follow-up question from the line of Deepa Puthur from Quantum Asset Management. Please go ahead.
- Deepa Puthur:** Yes, Sanjay, few quarters back you had said that consciously company is trying to reduce the number of discount days. So, have we actually done that?
- Sanjay Chakravarti:** Not till last quarter, we would like to do it from the quarter coming forward but you would appreciate that it is a function of a lot of external factors which we do not have control over but the idea is to definitely actively look at bringing it down.
- Deepa Puthur:** So, roughly how much would the discounts sales contribute to the overall sales?
- Sanjay Chakravarti:** Roughly around 23% to 24% considering both the seasons that is both the end of season sale.
- Deepa Puthur:** Okay. Last year you had tied-up with Desigual how is that partnership and how is the performance of that format?

- Sanjay Chakravarti:** Desigual is a brand which is almost bridge-to-luxury so, its price points are higher. Doing well, I cannot say it is doing badly but definitely not at the level that certain other exclusive brands are doing which is essentially because of the price points that Desigual has.
- Deepa Puthur:** So, is this comparable to Zara?
- Sanjay Chakravarti:** No it is not, it is above Zara.
- Deepa Puthur:** And are they profitable currently?
- Sanjay Chakravarti:** In the sense?
- Deepa Puthur:** I mean are they breaking even these stores?
- Sanjay Chakravarti:** Yes, they deliver gross margin, we do not have stores, they are all shop in shops.
- Deepa Puthur:** Okay, I thought they are exclusive store.
- Sanjay Chakravarti:** No, they are all shop in shops.
- Deepa Puthur:** Okay. So, you will be opening only shop in shops stores in future too?
- Sanjay Chakravarti:** Correct.
- Moderator:** Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand over the conference back to Mr. Sanjay Chakravarti for his closing comments. Over to you, sir!
- Sanjay Chakravarti:** Thank you, ladies and gentlemen for coming onto the Q2 call. We expect to have a good Q3 and hopefully the entire industry and the rest of the country will have a good Q3, I look forward to welcoming all of you in the Q3 con-call. Thank you and good bye for now.
- Moderator:** Thank you very much, sir. Ladies and gentlemen, on behalf of Shoppers Stop Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.