

SHOPPERS STOP

“Shoppers Stop Limited Q2 FY 2019 Earnings Conference
Call”

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SHOPPERS STOP



**MANAGEMENT: MR. RAJIV SURI -- CUSTOMER CARE ASSOCIATE,
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Moderator: Good Day, Ladies and Gentlemen, and Welcome to the Q2 FY 2019 Earnings Conference Call of Shoppers Stop Limited. As a reminder, all participant lines will be in the listen-only mode. And there be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rajiv Suri -- Customer Care Associate, Managing Director and Chief Executive Officer, Shoppers Stop. Thank you and over to you, Sir.

Rajiv Suri: Thank you and Good Afternoon. Welcome to Shoppers Stop Earnings Call for Quarter 2. The Quarterly Presentation has already been updated and I hope, you have had a chance to look at it. So, we will not be going through the Presentation page-by-page. What I will be doing is a summary of our performance and then we can open up for questions.

Our sales have grown by 7.4% in quarter 2 versus last year and versus the performance of 1.2% in quarter 1 this year. The gross margin increased by 50 basis points to 33.5%. The omni-channel business grew by 96% touching roughly 2% of our sales.

The private brands were 10.3% mix which is highest in the last 4 quarters. Our customer entry at +1% is the highest in the last 12 quarters. The Personal Shoppers percentage of growth is now at 13% contribution to the total business which was 10.5% last year. Our EBITDA consequently grew by 5% on last year.

Giving a bit more context to the business, as we all know the festive season dates are not comparable and therefore, the month of September was weaker than planned due to the shift of the festive season. However, if we were to look at the two main season one is Pujo in East our like-to-like sales there were 19% which was an excellent performance. Diwali first four weeks like-to-like sales are also double-digit, so the performance continues showing a positive consumer sentiment towards Shoppers Stop and all the activities we have been doing to increase the customer experience in our stores.

We have planned to open 3 new stores in the second-half of this year and 10 beauty stores also in the second-half of this year.

This sort of captures an overview of our performance and I will be happy to answer any questions. I am accompanied with Mr. Karuna, who is our Chief Financial Officer here.

Karunakaran M.: We are opening it for the questions from the team.

Moderator: Thank you very much. We will now begin the Question-and-Answer Session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

- Abneesh Roy:** My question is on the design studios and the testing labs. In Q1 you had said in three months this will be up and running to aid the private labels, so has that started?
- Rajiv Suri:** So, we will be opening them in January. We were actually going to look for space outside and we had studied a location nearby the office. But we were not comfortable with that and we wanted to create the space within the office, so we are doing some reshuffling here and space has been allocated and I would say our initial plan was to have it open running by December, so I think we probably have it run up and running by January, in the meantime we have already placed orders for the equipment, etc. and there is a lead time for that delivery. So, we are very much on track as planned maybe a few days late. Team is in place the dedicated management team is in place, we have one more person to join us and we are hoping that person will join us in this quarter.
- Abneesh Roy:** And sir, in terms of sale season normally there was a 7 weeks of sale season during this time. So, in Q1, there was 1 week and in Q2 6 weeks. In the competition, we are hearing that it has reduced by around 2 weeks from last year. In your case has any dip happened and if not why, what was the reason for that?
- Rajiv Suri:** So, as regards, let us call it the DV offers or any markdown activity during the season. Last year we had 51 days of markdown activity during the Diwali season and this year is 36 days. So, we have reduced it quite a lot. What we did was, we focus more on newness and wardrobe refresh which hit campaign, we played also on TV. And the idea was to inform the consumer and the customers of all the new things we are doing and during the festive period, how they can dress up when they come to Shoppers Stop and get new things rather than get a discount and buy whole things during this time of the year.
- Abneesh Roy:** Sir, you said in Pujo there was 19% like-to-like growth. So, is the customer now shopping more during the festivals and shopping less in rest of the time because in overall business this kind of growth we are not seeing. Is that a trend you are seeing even in Diwali that it is mostly received for the festive season?
- Rajiv Suri:** So, I think that during the festive season, the customers are looking for something new and I think one is getting more and more important is also they are looking for experiences and if we are able to market to them and communicate to them well I think that they are shopping more during the festive period than before. If you look also at our personal shopper program 13% has been the highest since we started. It is another indication of how well the customer are receiving this.
- Abneesh Roy:** And sir, last time you had mentioned, you have done a lot of leadership hires, so if you could update across the different businesses, different departments, what are the overall level of hires which have happened? Any more hires left and any initial thing which you point out which has improved because of all this?

- Rajiv Suri:** I think that the private brand's team is where we had focused our discussion on, we had hired a head of design who is very much now in the driving seat and is helping us with the quality of our collection. The head of sourcing has joined and is helping us improve our sourcing techniques and reduce the time to market. So, I think these were the two main discussions we had as you know we also have a new Chief Marketing Officer and she joined us also about 2 months or 3 months ago. So, I think the team is very much in place and we are continuing to invest in the private brand.
- Abneesh Roy:** And sir, lastly, in Q1 there was a substantial decline in men's formal so has that continued in Q2 and when do you see recovery happening here?
- Rajiv Suri:** See, I think the men's formal is more of a market trend and even though it was declining in quarter one, we have sort of made an effort in quarter two. It grew by 2% so which is let us say better than a negative number. But I would say that the trend of that consumer and the sentiment of consumer and how people are dressing today is changing. So, I think this is a problem that is going to stay with us and unless the trends change I think we are not expecting a very high increase in the men's formal. But this should be ideally set-off by men's wear in general in casual and denim going forward.
- Abneesh Roy:** But sir, when I see Madura's number which is essentially formal wear, I am seeing reasonable recovery last 2 to 3 quarters including this quarter. So, why should there be a disconnect, is it that non-Madura there is a different story, could you take us through that?
- Rajiv Suri:** So, I think that if you look at our sales also from negative, we have gone to a positive, so there has been some improvement still. And in our case the BTL brands are trending to take market share and are getting stronger if you look at our bridge to luxury brands for men, they have grown 15% in quarter two. So, as you see when the consumer comes to us, they have a choice of many things and they seem to be trending more towards these two luxury brands. Maybe they are finding the other brands are unavailable elsewhere and they come to us.
- Moderator:** Thank you. The next question is from the line of Avi Mehta from Indiainfoline. Please go ahead.
- Avi Mehta:** Sir, just wanted to understand on the SSS growth guidance, if you could kind of share what is the updated guidance for FY 2019 or does it remain the same? And could you kind of give some color on how the festive sales have been performing?
- Rajiv Suri:** So, the festive season, as I have said, we have had quite a good run for Pujo as well as Diwali so far is going well. We have I think just under 2 weeks left to complete the Diwali also and if we continue to keep the same pace as what we are keeping, now we should have a really good Diwali also. As regards of future guidance, we are expecting better growth in Q3 and I think we should be somewhere in the region of about 7.5%, mainly due to shift in the way the festive season has worked and in quarter four, we are looking at roughly about 5% to 6% growth.

- Avi Mehta:** Okay, sir. Okay. So 7.5% when you say it essentially is because of the timing of the festive season. The 4Q pick-you to 5 to 6 that is essentially is that because of the base or is there something else that is contributing?
- Rajiv Suri:** So, I think sir, what we are looking at is basically at this moment, we are not a 100% sure when the End of Season Sales are going to starting, so that is why we want to take a conservative view on quarter four because if the sale starts a bit earlier in December it will have an impact on quarter four. If they start later in December than quarter four will better.
- Avi Mehta:** Okay. So, you are saying from a timing point of view that could be the only, is that the fair understanding, right, sir?
- Rajiv Suri:** Yes.
- Avi Mehta:** But for the full year you are essentially arguing for a sub-5% SSS growth.
- Rajiv Suri:** So, we are looking at roughly in the region of 5%, yes.
- Avi Mehta:** Okay, is. Okay. Sir, secondly, on the EBITDA margin, if I look at the first-half EBITDA margin expansion, you have kind of been at almost about 50 bps - 60 bps odd. Would you still maintain your guidance of 100 bps for the year?
- Rajiv Suri:** I think we are maintaining our guidance from it, yes.
- Avi Mehta:** So, what exactly happened in the EBITDA margin expansion kind of which moderated to 20 bps? Was it just the festive season timing or how exactly I mean why would it change?
- Rajiv Suri:** We have made some investments in omni-channel business which had an impact on the 200 bps and I think that is not going to be repeated going forward unless we really want to see, if you see our growth is 96% so we made some investments in omni-channel and we have to see how that plays out because it is an important space to continue to focus on.
- Avi Mehta:** So, could you share the extent of the investment made in terms of bps, if it is possible, sir?
- Karunakaran M.:** Okay. Listen to Avi, Karuna here. Let me tell you that last year Q1 and Q2 were reasonably good last quarters as compared to Q3 and Q4 if you have noticed that. Q1 we had this pre-GST sale and Q2 we also had the season, all those coming. Whereas this year, the Q3 and Q4, Q3 because we have season completely, Dussehra falling in October and Diwali falling in November, so the volumes are expected to be high. So, once the volumes are high, the fixed cost remains the same and obviously the margin as compared to Q3 would be definitely better versus last year. That is the reason when you see the EBITDA margins have grown only by 60 basis points for the first two quarters, we do expect a reasonable good improvement in Q3 and Q4.

So, we believe for the full year, we should not expect a 100 basis points higher EBITDA margins as compared to the last year.

Avi Mehta: No, Karuna, because the reason why I was asking is because for the first-half it is only about 50 bps - 60 bps and if you are guiding for 100 bps it essentially argues that you have to see close to (+120) kind of bps margin expansion. So, I just wanted to kind of just understand the drivers for it that is what I was asking. While I understand for the third quarter I was just kind of cover it with given the SSS group guidance for fourth quarter, the ability to kind of drive that, that is where I was trying to get more color.

Rajiv Suri: So, I think the other thing that is probably going to kick-in if you see our private bank's contribution and that should help us with the margin. So, to give you a context in Pujo, we were at 14% from company average if you see now we have last quarter, quarter one we have got 10.2; last quarter 10.3. So we are seeing a little bit of spark there and we believe that trend continues, it should help us drop that to the bottom.

Avi Mehta: Okay, that helps explain that sir. And lastly, a bookkeeping question, sir, there has been a restatement in the share of exclusive brands, what was the reason for that, sir?

Rajiv Suri: So, we have arrangements with various brands which last a certain period of time and then half of that they become non-exclusive. So, in this case 2 of the brands which is Wrogn and Imara the agreement for the exclusivity was over and therefore, they became non-exclusive, in order to give comparable numbers, we have done that.

Moderator: Thank you. The next question is from the line of Varun Singh from Antique Stock Broking. Please go ahead.

Varun Singh: Sir, just wanted to understand that in product development, so like what are the timelines like are we doing, is there any focus towards kid's segment also both in private label and on overall company basis?

Rajiv Suri: So, we do have private brands in kid's wear, we have Stop; and we have in ethnic also, kid's ethnic and we are going to focus our growth on all of the private brands. At the moment what we have is our strategy is still playing out. Our belief is that in the kid's space there is more room to grow with private brands because of the nature of the product and the time that it has consumed there is fast churned. So, kids grow up, you discard them. So, I think that in our sort of next 12 months to 24 months period, we will see a little bit more emphasis on kid's wear along for our private brands.

Varun Singh: Sure. And sir, by when are we expecting the new team to deliver on the product and what is our private label guidance accordingly?

- Rajiv Suri:** The private brand's team is more or less in place there is one senior hire which is expected to join us in quarter three and say by the time we put together the studio and the sampling unit and all the other investments which we are making, it is going to be probably sometime around January. I would say that Spring-Summer 2019 we should see a good growth, a double-digit growth. But our big season is going to Autumn-Winter 2019 where we should see substantial growth.
- Varun Singh:** And consequently, how much we are targeting private label revenue, sir?
- Rajiv Suri:** So, we will have to come back to you with that number but for the year at the year we should end at 10.8% - 10.9% somewhere around that.
- Moderator:** Thank you. The next question is from the line of Nirav Savai from JM Financial. Please go ahead.
- Nirav Savai:** My question is regarding the new store expansion. We have been targeting three stores in the second-half, any particular reason why compared to a competitors, we have been slightly more on the conservative side in terms of total expansion.
- Rajiv Suri:** So, we had planned our growth of roughly 5 stores for this year and we have them signed and allocation are there and I think one of the malls got delayed. So, there is really no reason why we would slow down the growth, I think we have been opening around 5 stores to 6 stores every year. See, what we are doing is? We are doing 2 things, as you know we are the pioneer in the market, so our chain of stores is also the oldest in the market by that fact. And we are investing our money in 2 areas, we continue to do make investments to upgrade our stores and that is where we are emphasizing some of our investments and then we continue to open stores. So, we are doing a combination of both these things in order to invest and we are continuing to open more beauty stores.
- Nirav Savai:** Second thing, I wanted to know about your beauty brands, there are a lot of brands which there is ESTEE LAUDER, and CLINIQUE and M.A.C and all which are also sold online. So, is it rooted only through Shoppers Stop because what I understand is that in India we have got exclusive rights for selling, is it only offline or also online?
- Rajiv Suri:** So, our beauty business as you know it has 2 components. One is our own department store business in terms of beauty and then we also have our standalone stores and we are online. So, I think that our growth is coming across all the formats and we do not have exclusivity for the brands online I mean there are other retailers also may be selling it. But I think that what is important is that we are by far hold a dominant position in the offline market space for the whole beauty market segment.
- Nirav Savai:** Okay. So, this ESTEE LAUDER brands are only offline exclusively sold by Shoppers Stop, is it the right way to look at it?

- Rajiv Suri:** No, the standalone stores and the EBOs as we call them are exclusively with us, yes.
- Nirav Savai:** Okay. And this small format stores which you all are planning to open would any of them be in FY 2019 or you only see that coming in small format mean something about 18,000 square feet - 20,000 square feet kind of store.
- Rajiv Suri:** So, these compact stores, we are aiming to open second-half of next year so Autumn-Winter 2019 onwards.
- Nirav Savai:** Okay. So, as of now there are three stores which will come in the second-half which will be large format stores?
- Rajiv Suri:** Yes.
- Moderator:** Thank you. The next question is from the line of Abhijeet Sinha from Pi Square Investments. Please go ahead.
- Abhijeet Sinha:** Sorry, for the late question. But I just wanted to understand the Crossword number of stores why they were not included in our total number of stores in the financial update that we have given not in the Presentation, sir?
- Rajiv Suri:** Yes, 83 stores we have right now. I mean 42 we own and 41 through the franchise. We will cut it next time and we will include in the Presentation, there is no specific reason.
- Abhijeet Sinha:** Okay, sure. So, they are 203 plus 84, right?
- Rajiv Suri:** Yes,
- Abhijeet Sinha:** Would we count it as 84 or 42 from outside because the rest is the franchise, sir?
- Rajiv Suri:** Yes, 42 is from outside 41 is a franchise, you are right.
- Moderator:** Thank you. The next question is from the line of Karan Desai from L&T Mutual Fund. Please go ahead.
- Karan Desai:** Sir, wanted to get an update about the Amazon deal, when will be our entire products be available on the website and....
- Rajiv Suri:** So, we currently have about 80% of our product which is listed online and I think that now what we are doing is we are moving focus on higher sell-through of these products and we believe that we are going to bring more focus to what is on the platform rather than try to get to a 100% because I think that the tail end of the inventory is not adding any value on the business. So, we will focus on the big categories rather than on everything.



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- Karan Desai:** And currently, which are the categories which are showing better traction?
- Rajiv Suri:** So, normally, we do not give guidance on our sales and our association with Amazon, but I think that sort of reflects more or less what our performance is offline.
- Karan Desai:** Okay. And sir, going forward will it help in growing our private labels through Amazon platform?
- Rajiv Suri:** So, Amazon does have all our private brands on their site and I think, in our strategy, we are focusing for them to also try to promote it more.
- Moderator:** Thank you. As there are no further questions from participants, I now hand the conference over to Mr. Rajiv Suri for closing comments.
- Rajiv Suri:** Thank you for attending the Shoppers Stop Quarterly Call. Wishing you a great Festive Season and Happy Diwali. Thank you very much.
- Moderator:** Thank you. On behalf of Shoppers Stop Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.