"Shoppers Stop Limited Q3FY16 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Shoppers Stop Limited Q3FY16 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Govind Shrikhande –Managing Director, Shoppers Stop. Thank you, and over to you, sir.

Govind Shrikhande: Thanks. Good Afternoon, friends. Welcome to the Quarter Three Con-call of Shoppers Stop earnings.

I will straight away start on Page #3 on the Business Overview: We opened two department stores -- one at Jaipur, one in Delhi during the quarter, one M.A.C standalone store we opened in Hyderabad, one MotherCare shopping shop also we opened at Jaipur and the first HyperCity store in Noida also opened. In fact, we also followed it with one more store opening in Delhi in Q4 already in January. Loyalty program continues to grow well, we just crossed 40 lakh members and the contribution to sale is at 73%.

I am extremely proud to announce to you that we have been voted as a most respected company in retail for the fifth year in succession, we are now part of the top 50 most respected companies of India across all sectors. We also won two awards from National Energy Conservation, Government of India, Ministry of Power, and this again we have won for the third time in succession, both first and second rank.

Page #5, you can see the overview of all formats with department store at 76, Crossword at 50, HomeStop at 19 stores, MotherCare at two standalone doors, the Estee Lauder format of M.A.C clinic Bobbi Brown 74, HyperCity at 17, all put together 238 stores across 36 cities covering about 5.86 million square feet.

Page #6, you can see the addition between March 2015 to December 2015, not a large addition, just about 0.1 million and you can see the total group at 5.8 million.

Page #7, you can see the store photographs of ManUpasana at Jaipur, this is actually a relocation from our earlier stores which we shut down last quarter and this is the new one, almost like a standalone store unlike the earlier one which was a mall. At 39,982 square feet, the store has already taken up pretty well.

Page #8, we opened a store at Janakpuri, we have Shopper Stop on the ground floor and on the lower ground we have HyperCity which we opened in Q4 as I mentioned, this is a 36,000 square feet store. Q4 we are targeting to open two more stores in the department store format and for the next financial year we are targeting six store opening in the department store format.

Page #9, I am on sales growth, one of the best sales growth that we are seeing for some quarters in the past, 18.2% in the department store, all formats at 17.2% and in the like-to-like 17.4%. So we have not seen this kind of a like-to-like growth almost for about eight or nine quarters, one of the best like-to-like growths. And the best part about this growth is, volume growth is at 16%. I would say a number of factors came together to really deliver this kind of a blockbuster performance, number one, Pooja which moved from Q2 to Q3 has helped for sure and last year Pooja was part of Q2 and that is why you have seen Q2 results were slightly muted and here you are seeing it as a combination. Number two, last year Q3 was also slightly lower base at 1% LTL which definitely also helps you to really have a stronger growth.

We were also very well prepared during the quarter with a strong assortment and a good preparation in terms of the kind of scheme that we ran during the quarter. Every year we run a scheme which is called as 'Choose your Own Gift' which is only mean for our loyalty customers, this year we opened it up across all walk-in customers and as a result of combination of all these factors we have seen a very-very good like-to-like growth. And one of the most sterling performance during the quarter has been from east zone which had a 39% like-to-like growth.

Moving on to page #10, as you can see that customer entry continues to de-grow at 6.9%, ASP growth is still small at 1.5, volume growth at 15.9 and both transaction size and conversation ratio have gone up pretty well. Conversion has gone up by 11.7% and transaction size is up by 9.4% at Rs.2,941.

Page #11, Private Brand plus Exclusive Brand put together, the share has not gone up much, although you can see in exclusive brands our share has gone up, we in fact launched one more Exclusive Brand during the quarter Femina FLAUNT which is a collaborative effort between Shoppers Stop and Femina and the brand is focused specifically on ladies western wear in dresses as well as handbags and footwear, we believe this can be a good addition for the overall portfolio in the very high growth women's wear category. Merchandize bank model, again not much changed between last year to this year with bought out at 43%.

Page #12, you can see how apparel is growing much faster than non-apparel, this is driven by menswear as well as denim wear. In non-apparel, M.A.C and beauty continue to grow very well, both these are growing at more than 20% and even men's and denim are growing at more than 20% like-to-like. Shrinkage continues to be under control and even for the nine months' period we are at 0.32% versus last year at 0.31%.

Moving on to Page #14, when we look at the top-line, growth is at 17%, so sales has moved up from 858 crores to 1005 crores. Margin on sale has dropped by 70 basis points on account of the schemes that we ran from 35.1 to 33.4, but in spite of that because the top-line grew much faster, operating expenses are down by 230 basis points from 30.5 to 28.2 and as a result EBITDA is up by 33% from 53.7 crores to 71.4 crores. EBIT as a percentage has also shown a smart growth from 6.3% to 7.1% and both PBT and PAT have grown much higher, PAT has grown by 71% from 13.7 crores to 23.6 crores.

Before I move on to HyperCity, let me also give you one more update on the online part where our investments are increasing. We invested 20 crores during the year and as we promise during Diwali our new refreshed site is already up, it is a welcome change from the earlier visibility that we had of the site, it is much easier to navigate, a very good editorial content on it as well. Our new app, first time we are launching a app, will get launched in the next two weeks' time, once the app is launched or Phase I of our investment will get over, our Phase II investment is on the warehouse management system which we already started in December and that will get completed around October of this year and then we will kick start the Phase III which will complete our omni-channel journey by next year between May to June. We believe that with all this investment that is happening both on technology and infrastructure, our online share of sale which is currently at 1% will move towards 10% over a three-year period.

Moving on first to HyperCity and then I will come back on the consolidated and the balance sheet. For HyperCity the quarter was slightly muted with flat like-to-like growth, our sales per square feet growth was 1.7% post the downsizing that we saw. Fashion continues to grow, but slightly on a slower pace than what we saw earlier, it's share has gone up from 16.1 last year to 16.8. Food continues to be at 62% and GM 21%. Our gross margins remained flat, we were able to control our OPEX growth at 1.1%. We continue to make store operating profit at 7 crores and in fact 11 stores out of 17 are currently EBITDA positive. LTL store operating profit in fact has shown improvement over last year at 9.5 crores versus 9.2 last year. Company EBITDA is at 2.67 crores versus last year. On operating level, we had made 16 lakhs, the 1609 you are seeing because of the 15.9 crores of other income which was related to property. We opened in Noida Garden Galleria store which is a 47,000 square feet and you can see the photographs of this store on the next page. And as I mentioned earlier, we also launched Janakpuri, our second store in Delhi in Q4 in January. We are targeting two store openings a year in HyperCity going ahead.

Page #26, sales growth at 2.4%,like-to-like growth 0.8% negative and so that is why the sales per square feet actually has not risen.

Moving on to page #27, here again we are seeing a drop in entries, 13% like-to-like drop, but this is also related to reduction of sizes in two big stores. Conversion was up by 9%, transaction size was also up by 2.4% at 1193 and average selling price is actually down after a long period of time in this business. Volume also we have seen a positive trend of 0.5 especially in food where we had been struggling a little bit overall.

Going on, before I talk on the financial number, basically there are three big things that we are currently working on, one of our biggest impacts last year has been the food assortment, one related to FSSAI Indian regulation and FSSAI import regulation. So the Indian regulation related to Maggie and other ready foods which has now been sorted out. On imported Waitrose merchandize we could not import almost for six quarters. We have been able to sort out that issue and the first Waitrose container is on its way and should be in the store in the next two to three weeks' time. Our first new import container other than Waitrose is already in the store now. So we believe that our assortment chain that we are trying to build in food should really help us in getting back the growth again. Number two, in both fashion and food we are really realigning our stores to really make the presentations much stronger and tightening the overall assortment to get higher productivity and higher customer satisfaction. So we believe that starting Q1 of next year we should be coming back on track for good like-to-like growth and hence be able to come back on track for driving the company EBITDA positive and then PAT positive first for four quarters company EBITDA positive and over six to seven quarters PAT positive, that is the current outlook that we believe in.

And coming back on Page #28, sales growth at 2.1% from last year's 263 crores to 268. Margin on sale is flat from 51.6 crores to 51.7 crores. Store EBITDA as I mentioned is at 7.1 crores versus 9.2 last year and the gain on property option of 15.92 which is not available this year is resulting in (-)2.67 crores loss of company EBITDA this year versus last year what you are saying as a 16 crores profit. At a PAT level we are seeing a 20.8 crores loss versus last year's 5 lakhs profit which was related to the property income. But as I mentioned, a lot of action that we are currently working on related to store, related to assortment, related to service standard and we believe that we will come out of this trough that we are seeing, the slowdown that we are seeing in the HyperCity business starting Q1 of next financial year.

Now coming back on the consolidated results on Page #15. Sales are up by 13% from 1167 crores 1323, our margin on sale up by 31% from 31.9 to 31.3, margin basis points is down by 60 basis points. Operating profit EBITDA is up from 50.4 crores last year to 67.7 crores this year, a jump of 34% and PBT before other income is actually up from 4 crores to 17.7 crores, 339% jump. At PAT after considering the property option income and minority interest, it is slightly down from 14 to last year to 11.4 crores this year, as a percentage 0.9 versus last year at 1.2%.

So having said that, I will ask Sanjay to comment on the balance sheet on Page #16 and then we will be open for questions.

Sanjay Chakravarti: Thanks Govind. As you can see, our debt has increased over the last two quarters and that is essentially because we have had to infuse money into HyperCity because the cash flow planning that we had done on account of the options is running slightly late. Aside from that, however that has not really impacted debt equity by too much, it has debt equity by up to about 6 basis points. We expect to close debt in the business by not more than 20 crores to 30 crores more than the number that we are seeing as of now. Aside from that, almost all the numbers in the balance sheet are under control, we continue to be a working capital negative company as is obvious to you from the current ratio that is there on the top right hand corner. Coming to the cash flow, we have been able to generate 135 crores of operating cash in the business, our investments into the business continue as we see about 112 crores is what we have invested into the business. As Govind has said a number of times that we expect to open about seven or eight stores this year, we will probably end up opening three or four more than that, therefore the investment in the business continues, I just touched upon the fact that HyperCity we have infused funds of about 40 crores. So net net, we believe once again that we are on track of what we had said, the quarter has been very good and we believe that going forward we will be able to deliver, although there are a few challenges, but more of that later. Over to you, Govind.

Govind Shrikhande: Thanks. And before I open the question, a little comment on Q4. For the whole year we had targeted 8% to 9% like-to-like growth, if you look at the nine months' number we are on that number and we believe for the whole year also we should be able to close between 8% to 9% like-to-like growth. And outlook for the next year continues to be slightly soft, customers continuing to ask more value while whatever they are buying, whichever product they are buying, whichever category they are buying and we believe that if the budget brings out either the GST change or a better investment climate, definitely there can be more Acche Din than what we are seeing right now.

Back to you for question-and-answer session, Ekta.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Tanmay Sharma of Edelweiss. Please go ahead.

Abneesh Roy: Hi sir, this is Abneesh here, thanks for the opportunity. Sir my first question is on the to be launched app and first phase of your omni getting completed and you are also seeing the online retailers the way they are currently, almost every week there is some discounting happening. So in that context how important is this first phase and the app in this journey?

Govind Shrikhande: I would say the first phase is crucial because it is part of the three pronged strategy that we have that we believe clearly that as of now the online players are really trying to gain customers through large amount of discounting and a huge amount of advertising, now that is not a sustainable model. Whereas for the physical store, it is important that the consumers that we have, how can the same consumers seamlessly shop across formats, across channels, and that is what we are trying to achieve in the three phase investment that we are making. So the first phase investment we are basically making our fight superior than what it was last year, number two, by launching the app we are making the entire experience integrated, so they do not have to really go on normal website and then come into Shoppers Stop, through the app they can directly navigate there, and once they are on app I will be able to make their experience much stronger, better, because I will be able to control based on their past experiences, based on their past shopping habit. So we believe that yes this is definitely a most important step in terms of getting the site right and getting the experience right. The second phase which is the warehouse management system, that we are implementing that will actually help us in moving towards the omni-channel where we should be able to view and see all stock availability across the chain, across all warehouses and in the last leg even partner stocks, so that would be the phase II execution. And phase III would be the master data management which would really mean that order management we can track better and then all orders can be controlled, viewed together along with stock and also we can view what customer shopping habit is. So all put together, one view of customer, one view of stock and one view of order, that is the objective that we are trying to achieve. And yes, phase I getting executed well and we will know by April whether that is working right or not and we should be able to take it really head-on.

Abneesh Roy: Sir on the online, has the market share loss or any other loss lessened because of the fatigue, what is your sense? And has the level of discounting on brands reduced versus what these eCom sites were offering earlier, has that reduced and is that positive for you or is that negative effect that it has remained at the same level?

Govind Shrikhande: No, I think there is always some factor which is fancy to really double check what is new on online and with the kind of advertising that they are still doing. People do go back and check the various sites, I am still not seeing any fatigue right now because if you look at the number ramp up in terms of site visits and number of pages visited, it is still increasing across all the three big sites, number one. Number two, their sales numbers are also ramping up pretty well. So I am still not seeing any fatigue of any kind, yes definitely the physical guys are trying to do a better job by offering fresher merchandize, in fact some of the key elements that we are doing right now bringing lot of digital experience in the store, so for example the magic mirror experiment that we are doing right now or the mobile cost that we are launching right now definitely makes the whole experience of shopping much superior than what you would have earlier. But I think this fight is not yet over, I would say that this is a long-term one and we have to ensure as a physical store that we bring in the advantage of the physical store along with combination of the digital advantages within the store and outside.

Moderator: Thank you. Our next question is from the line of Avi Mehta of IIFL. Please go ahead.

Avi Mehta: Sir if you look at nine months' data, this kind of takes care of all the quarterly aberrations, but nine months we were at 5% last year and this year we are about 9% SS growth.

Govind Shrikhande: Sorry, can you repeat.

Avi Mehta: Sir, I am just taking the data of excess growth and I am taking nine months FY16 versus nine months FY15, now on nine months FY15 we were roughly at around 5% and this year we are close to 9%. So would you not say that there is some sense of recovery, how would you look at this and in that sense is there an upside risk to the 8% or 9% number?

Govind Shrikhande: I think upside has never any risk, it is always an advantage if you ask me. In terms of recovery, I would not say that there is a recovery, I think the bigger thing has been that we knew last year's Q3 was muted, we knew last year's Q3 had a lot of hammering by the online guys and both terms of advertising and discounting and we were expecting similar things to happen this year. So we decided to be a little more nimble, a little more responsive to that kind of offer and that is why this year we changed the scheme. So last four years we have been running this scheme called CYOG which is Chose Your Own Gift successfully, but only for the loyalty program customers. This year we concluded that it is better to open it up and be ready for the onslaught of online and that is why you are seeing such a large growth. Yes, there is a factor of Pooja, Diwali coming together, but I would say this has been a sort of tactical or a strategic response from us which has helped us to really get that growth going. Overall, I would still say that the consumer sentiment is soft, you need to push the customer to really come and shop more and more.

Avi Mehta: So if you are saying it is more to do with the strategic response and you are all said and done the season continues, January also had this 26 Jan kind of sale, etc that is going on. Does that mean that, I am just trying to understand the consumer behavior, how should we look at the behavior now, are you able to gauge what is happening to her, can you kind of share that insight if you could sir.

Govind Shrikhande: Really speaking, we are not seeing any dramatic change vis-à-vis last year's sentiments, because just I mentioned that if I knock off the 5% or 6% movement of sale between Q2 to Q3, this Q2 was subdued because of Pooja moving. So if I move back that number to Q2, Q2 would have read like 7%, 8% LTL and Q3 would have read about 11% LTL rather than the 18%, that is the way to really read it. So between Q2, Q3 we have not really seen a big change, but yes I can still say that there are certain zones that are performing far better than others, so east continues to be performing very well for us, almost for last three years plus, followed by north and then followed by west and south.

Avi Mehta: The sir secondly on the property option, could you guys help us understand what is happening over there because you alluded to some cash flow mismatch happening, can you kind of give us clarity on how should we look at this going forward?

Govind Shrikhande: Difficult to give overall clarity on that, because property is a business that is always running delayed as you know and we know about it any case when we are entering a property for a store. So typically this property we are supposed to get ready in the coming financial year, currently looks like that delayed by another two years or so and as a result the income is not getting generated. It is not that the property is not coming up but the properties are running delayed because of whatever change in design, etc.

Avi Mehta: And sir, 19 property auction is what you had, can you just run us through how much have you sold?

Govind Shrikhande: 11 are still left Avi.

Avi Mehta: And the 8 were sold at net value of?

Govind Shrikhande: 125 crores of profit approximately.

Avi Mehta: And sorry, I have missed the HyperCity comment, you said four quarters to achieve EBIT positive or EBITDA positive?

Govind Shrikhande: Company EBITDA positive.

Avi Mehta: And what about Shopper Stop sir, would you be able to share any guidance on that as well?

Govind Shrikhande: So Shopper Stop, if you recollect we had said that we are targeting to hit a 8% EBITDA over 24 to 30 months period, so we are still on the same track because we should end this year at about 6.3 kind of number and so next year should be another big jump and then next to next year we should be able to hit that. So 24 to 30 months is I believe we should be able to come back to 8% plus EBITDA.

Moderator: Thank you. Our next question is a follow-up from the line of Tanmay Sharma of Edelweiss. Please go ahead.

Abneesh Roy: Sir, one or two follow-ups. In HyperCity what is the long-term way forward? Why I am asking this is, same store growth is negative and then I see all these Big Baskets of the world offering so many discount, so where do you see this business because obviously you are aiming for the profitability but I see gross margins flattish YoY, so if you can take us through the garment part of the business and the non-foods and foods that ratio, in terms of target where are you?

Govind Shrikhande: So the three things Abneesh if you recollect what we had targeted, one was rightsizing the store, so we are almost at the fag-end of the rightsizing of store, I would say one or two store rightsizing should get completed over the next two quarters or so. So we are almost there 80%, 85% already achieved. Second was rightsizing of the merchandize assortment and in which we were pushing fashion to move up from at that point of time to 8 to 22 over a three-year period, we have already reached 16, I believe that over the next 24 months' period we should be able to hit that (+22) kind of a number in fashion. Number three is right kind of cost at overall level. So that part I think we have almost achieved, and if you look at constantly, our like-to-like OPEX cost growth is flat or negative if you take any of the last five or six quarters. But I think the biggest challenge has been that we have missed out on the top-line growth and the top-line growth not coming through has really impacted the overall bottom-line that you are seeing right now. So all the effort that we have made last two quarters or three quarters, we looked at various kinds of strategies that each of the other players have adopted and our conclusion has been this that we should stick to our positioning rather than trying to follow anybody else, because customers are coming to HyperCity not only for value, which is not discounting, but also for experience, and because we are lost out on some of these experiential merchandize and assortment, we have gone back to the drawing board and are working towards getting it back. And as I mentioned already that Waitrose merchandize is coming back on track, within the next two to three weeks it will be in the floor, we are working on other import assortments as well which is already on the floor right now in this month. And various other actions we are taking in terms of the depth of the merchandize versus width of the merchandize and all those actions are being completed in Q4 itself. So I believe that we are back on track really where our promise was which is big store big saving along with experience. It is not only about saving but it is also about experience and that is something that we believe should take us back on track and start hitting the company EBITDA positive and then move towards the PAT positive or an eight quarter period.

Abneesh Roy: Sir, fashion you said you are 16% this year, what was it last year and why GM has not improved if it has gone up, why GM is still at 22.7% for both quarters, this year and last year?

Govind Shrikhande: No, so GM we have not actually dropped, we wanted fashion to grow slightly higher than what you are seeing right now, so it was 16.1 last year, it is at 16.8, we should have been at about 18% by now but we have not been able to achieve it this quarter.

Abneesh Roy: And that is because of the discounts by other retailers?

Govind Shrikhande: Not really, I would say it is more to do with our own assortment mix and pricing.

Abneesh Roy: But sir, because FMCG inflation is actually negative this year because most companies are operating with negative price increase YoY, that is also impacting you, right?

Govind Shrikhande: That is right, because when you are losing, see the challenge is if price increase are not coming through you are not able to get any sales growth unless you drive more volume. And if you look at this quarter our volume growth is only 0.5% and we have actually got a negative price growth, so we are down in price by about 1%. But let us say typically on an average if you look at our ASP growth has been between 4% to 5% every year and that would help you in trying to drive your top-line for sure.

Abneesh Roy: And have you tied up with players like Patanjali, because Reliance and both Big Bazaar have tied up.

Govind Shrikhande: Actually, some of these words that are being used are very loose, there is nothing called tied-up, everybody retails Patanjali including us, so I really do not know what are they saying about tied-up. So we have Patanjali into our stores and yes Patanjali is the fastest growing brand within our chain for FMCG product for sure.

Abneesh Roy: But are you having full supply of most of their products?

Govind Shrikhande: Yes, no issue.

Abneesh Roy: Sir my last question is on departmental, you have controlled cost quite well, so is there any one-off and can the salary cost go up because this quarter we are seeing because of the bonus act some of the other retailers have seen some issue, so your salary cost seems to be EBIT muted, so could there be some risk that it goes up in the coming quarters?

Sanjay Chakravarti: No, not really Abneesh, in fact whatever provisioning we had to take we have already taken it in.

Moderator: Thank you. Our next question is from the line of Abhishek Raganathan of Ambit Capital. Please go ahead.

Abhishek Raganathan: The drop in gross margin what is it attributed?

Govind Shrikhande: No, are you asking what is the reason for drop in gross margin in Shoppers Stop?

Abhishek Raganathan: Yes.

Govind Shrikhande: So as I mentioned to you earlier, we rant the scheme called chose your own gift which was opened up to all customers and that is the impact that we have taken here.

Abhishek Raganathan: So this would be entirely attributable to that?

Govind Shrikhande: Absolutely.

Abhishek Raganathan: The second thing is that how is the Snapdeal micro-site doing and what is the traffic like there?

Govind Shrikhande: Snapdeal micro-site actually became live only in December Abhishek and still we have not pushed it hard because we are still working on some part of the logistics there. Again, there my belief is we will start pushing traction only from March end.

Abhishek Raganathan: And any particular reason why you want to wait till March, or you want to get the entire backend or even the warehouse management….

Govind Shrikhande: Basically get the back end right is what we are working on right now, because the requirement of Snapdeal is slightly different than the way we operate today and that is why we are working on the overall infrastructure in such a way that customers should not have any big issues there.

Abhishek Raganathan: Do you envisage any additional spending on the P&L through, because once you get the app on you have the more promotions to make customers aware of the app and so on?

Govind Shrikhande: No, so once we launch the app there is a full-fledged marketing program that we have planned which will start executing again between March and April to drive adoption of it, but it is not really trying to drive too much of discounting, so we will do at stores as well as online both. And in the long-term because the costs of buying through app by customer is much lower, I think it is better to make the adoption of the app on the customer's handset or tablet easier, that is the objective in the short-term.

Abhishek Raganathan: And when you are saying cost, can you elaborate when you are saying cost is lower?

Govind Shrikhande: So when customer comes to my site through any web channel whether Google or any Advert, there is a cost to that of navigation which is anywhere between Rs.300 to Rs.500. The minute the customer comes to my app, that cost is already not there.

Abhishek Raganathan: And lastly on HyperCity, just to take earlier question ahead, do you see a threat of ecommerce more on that segment or on Shoppers Stop, how would you guys pitch the entire ecommerce play on impact of these?

Govind Shrikhande: No, so the overall ecommerce play globally also is currently in the hard goods and fashion for sure, so it started with books and music and mobile and electronics, come to now fashion as far as all the international markets are concerned, even today, even in the advance markets the HyperLocal is not a really big play, even Amazon is just trialing it out in two or three cities as of now and in India HyperLocal as a trend has picked up in the last 18 months and I would say there are specific cities and specific catchments if you look at it like Bangalore Whitefield is one big catchment, Jayanagar is another big catchment where we are seeing a lot of traction. But I think we still are clear that the model is still not established whether for the online normal or whether online HyperLocal, the model is much more difficult for HyperLocal than apparel where at least the margin spread is much higher, in HyperLocal any case the margin spread is much-much lower. So I would say yes the competition is growing across both of these formats whether the department store side or the HyperLocal side, but we have to consider both of them as key competition and we are working on really meeting it head on.

Abhishek Raganathan: Just coming back to the number, you said that you opened the Chose Your Own Gift to our non-First Citizen customers, but the share of First Citizen customers has remained almost the same, so would you mean that it has just been an overall jump on the customer base, how do you read this number? It is 73%, last year it was 72%, so it is almost in fact…

Govind Shrikhande: Yes, it has dropped by 1.5% over the last year same quarter, typically during quarter three it actually increases because of the scheme, because it used to be only for the First Citizen. So if you look back the previous year it would have moved from 70 to 72 or 73, this year it has come down.

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

Kunal Bhatia: Sir, I had a question, you mentioned about that you would be getting to the 8% kind of EBITDA margins within the next 24, 30 months.

Govind Shrikhande: In the department store.

Kunal Bhatia: Yes, in the departmental stores. So earlier we had some benefit or we were expecting some benefit to come from the GST on the rental part.

Govind Shrikhande: Currently not considered Kunal, we do not know.

Kunal Bhatia: So my question was in relation to that, how are you expecting, meaning what factors are you taking into account to reach to that levels of EBITDA margins?

Govind Shrikhande: Basically if you look at it Kunal, what is happening is our investment mode in a department store where we have almost doubled the number of stores that investment is coming off in fact from the next year onwards, so that is one factor. And if I look at my like-to-like stores currently which are let us say more than five years, we are already running at 11% plus EBITDA which actually comes down straight away to that 8% plus at company level. So we believe that traction is very much on, what we really need to maintain is if I am able to deliver a double-digit LTL growth on the top-line, maintain my cost growth below 6% to 7% level and have a constant growth in margin of about 30 to 50 basis points we should be able to hit this number at the current traction itself. And no GST benefit considered at all and no negative impact also considered because as of now we still do not know whether fashion would be in the merit list or whether the overall GST would be in the neutral rate of 18. So as of now we have not assumed neither positive nor negative impact.

Kunal Bhatia: And sir secondly, you also mentioned that next year FY17 you are a bit cautious on growth, so what kind of same store sales growth for the departmental store do you see for the next year?

Govind Shrikhande: We are still targeting a 8% to 9% LTL growth Kunal.

Kunal Bhatia: Sir and lastly, I just missed out your comment, so hypothetically you did mention that you may be going in for recycling of two more stores, so which and how much square footage would that be?

Govind Shrikhande: Looks like about 40,000 overall.

Kunal Bhatia: And we are targeting to complete that by?

Govind Shrikhande: By Q2 end we should be through with that, or even earlier.

Moderator: Thank you. Our next question is from the line of Amit Kumar from Invesco. Please go ahead.

Amit Kumar: See, just to begin with, I just want to get a sense, the investments that we are making on the online site, of course there is a CAPEX element to that, but there will be some bit of OPEX also I presume once we launch the app and once we start marketing both the website as well as the app, the OPEX will also sort of come into the picture. So what is the kind of fixed cost that we are looking at right now as Phase I sort of operationalizes, and once Phase II and Phase III are also done what is the kind of fixed cost structure or rather the breakeven sort of cost structure that we are looking at in this?

Govind Shrikhande: So the operating cost in this business, basically there are two operating costs fundamentally, one is related directly the kind of business that we generate which is related to parcels, couriers, packaging etc. And the second is the fixed cost of the infrastructure that you create which is your team, the digital investments that are there, the warehousing capabilities that you create, those are the fixed ones apart from the CAPEX that you invest on which is both on the software and hardware part. So if you ask me, yes this business should breakeven in a four year period from today, that is our belief as of now because we are not getting into a discounting war in this business at all because we want to maintain the sanctity of prices between the offline and the online stores. And yes, there would be offers running, there would be certain steps to be taken in terms of marketing the app as well as driving the app adoption faster. But the advantage is we have in the physical stores we are already getting let's say about 1.5 lakh plus customers every day. So I can pick up bit by bit and push that adoption much faster than anybody else by trying to advertise much heavily and our normal advertising that we already do will combine the advantages of that advertising along with online and really drive the adoption. So that is the current plan that we have.

Amit Kumar: Just going back to the original question, so the fixed cost that you essentially talked about in terms of team, in terms of the difficult infrastructure, how much would that be next year in the first sort of year of operation and once Phase III is also done how do you really expect that to scale up?

Govind Shrikhande: Amit, I do not have it offline here, we can take it separately.

Amit Kumar: The second question was, we have just gotten over just about as far as the fourth quarter end of season sale as well, how was the time period, how has the discounting been at the industry level, at your level, if you could give some color on that. And just excuse me, I am relatively new to this segment, so I think December 28th is when you opened the EOSS for your loyalty customers, how does that typically happen in 4Q?

Govind Shrikhande: So what is really happening is, over the last three to four or in fact five years if I look back, five years ago the discount sale used to start around Valentines period, then it moved to 26 January, then it moved to 10th of January and then last year it was 1st of January, this year some of my colleagues in the industry have started it even before Christmas. So the sale period has been actually is getting preponed over and over again and I think this has been a strong reaction fundamentally to fight the online war as well. So while we can blame each other in terms of industry, partners and industry colleagues, there is definitely a challenge because customers continue to get discounting every day with large amount of advertising being thrown in. So this has been a slight reaction from I would say the overall physical store industry against the online industry and I think both would suffer in the long-term according to me, because then the customers will find sale always going on and they might choose whichever channel, whichever price at which they want to buy. As far as the current sale is concerned, other than Delhi and NCR where we are seeing a big impact because of the odd-even formula of the government which thank god it has got over around 15, but it did have an impact in the first 15 days of sale. After that, I think it started recovering well now, but I would still say it is slow.

Amit Kumar: Just a follow-on into that, so given the fact that you had three, four days of sale period also getting captured in this particular quarter, did that also have an impact on your gross margins?

Govind Shrikhande: On gross margins, no, actually the total contribution of that sale is not so very high to really change the matrix because this is a big quarter for us in any case because of the Pooja and Diwali.

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

Kunal Bhatia: Yes, I just had a follow-up. So just wanted to know in case of your departmental stores how many of them were at the above levels of EBITDA mark?

Govind Shrikhande: Sorry, how many of them?

Kunal Bhatia: Are in the range of 11% EBITDA margins mark?

Govind Shrikhande: I do not have the number readily, but my last understanding is there are more than 45 stores above five years which is into that bracket.

Moderator: Thank you. Our next question is from the line of Amit Kumar from Invesco. Please go ahead.

Amit Kumar: Just one small clarification, you seem to have opened one HyperCity store during this quarter, when we look at the store count as given in your presentation it is 17 for both 2Q as well as 3Q, so has something closed down, have some stores closed down as well, I just want to get that clarified.

Govind Shrikhande: Yes, so there used to be an express format that we were running at Inorbit Malad which we shut down last quarter, so that is why you are not seeing the number change. It was an experimental store that we are running for about six months.

Amit Kumar: Just a small follow-up on that, was it due to the performance of the format, so what happened in that?

Govind Shrikhande: So fundamentally this space was available only for a given timeframe from the mall before they were changing tenants, so this was not supposed to be a permanent place in any case, number one. Number two, it was also a small trial for us to really look at a 5000 to 6000 square feet format and really understand how it performs or does not perform. Our conclusion is, yes this kind of format can perform but then it should be in a standalone location in a thick catchment rather than inside a mall.

Moderator: Thank you. Our next question is from the line of Prashant Kutty of Emkay Global. Please go ahead.

Prashant Kutty: Sorry, I just came in a little late in the call, if you can help us understand as to what is the reason for the drop in the private brand mix and what is our target, because I think that is one of the factors towards margin expansion as well.

Govind Shrikhande: Basically the private brand currently is in the 17% share, the target is to take it to about 22% over the next 24 months' period.

Prashant Kutty: Any reason as to why was it lower in the quarter, we have actually seen that declining in the last few quarters.

Govind Shrikhande: It has been flat for almost one year Prashant, and I think we are going through a full reinvestment cycle in each one of these brands and then working around strategy of categories that we will operate in each one of them and you will start seeing real action happening in the next financial year.

Prashant Kutty: Sorry, I just wanted to have a clarification over here, typically always with the retail format whenever our SSG expand it actually drives a lot of leverage, but typically if I look at this particular quarter, yes I do understand that we should look at this quarter and previous quarter together. If I look it from that angle, we are somewhere about close to 9% kind of SSG number.

Govind Shrikhande: Yes, that is right, cumulatively we are on 9%, yes.

Prashant Kutty: But in same quarter if I maybe look at our margin structure, do you believe that we could have maybe gone a little higher on that side as well given the fact that our SSG numbers are about 9%?

Govind Shrikhande: I did not get the question, are you saying that SSG number at 9%...

Prashant Kutty: SSG number at 9%, should it not be ideally be giving a higher margin is what I am trying to understand.

Govind Shrikhande: So SSG number and 9% combined with a margin on sales growth would have helped us to drive a much higher EBITDA growth. So if you look on page 19 of presentation, for the nine months' period what really happened is our margin on sale has actually dropped from 34.1 to 33.6, a 50 basis points drop. So even if we had maintained that margin our EBITDA growth which is currently at 20% would have been much-much higher. So you are right in what you are stating, that if I am able to hold a like-to-like growth at 9% or 8% to 9% plus and hold on to margin and grow it, definitely the overall EBITDA growth is much better which is what we are seeing.

Prashant Kutty: And sir lastly if I also ask you with regard to the discounting period, you do highlight that we keep continuously preponing our discounting seasons, obviously in line with maybe again the online players. When do you see that actually somewhere normalizing, because obviously as compared to the previous year 2015 that the discounting has become a little more rationale as per online is concerned, correct me if I am wrong over here, but when do we see this actually normalizing, any sense on that?

Govind Shrikhande: I think till the time the PE investors do not get any rationalization in terms of investing online this irrational behavior I think will continue, because if you are going to have 700 crores of sale and 800 crores of loss, what rationality it is I am not able to figure out. So it is a challenge for sure, but as I mentioned we are working on various things within the store to really ensure that there is a far superior experience in the store whether it is a magic mirror or the mobile pause or the kind of assortment or the kind of vision merchandising or new exciting launches. I think that is what we are working on and I am sure over the next four quarters to six quarters we should be able to really take a bold step ahead in trying to beat this problem.

Moderator: Thank you. As there are no further questions from the participants, I now hand the floor back to Mr. Govind Shrikhande for closing comments. Over to you, sir.

Govind Shrikhande: Thank you friends for joining on the con-call and we will see you again or talk to you again at the quarter four end con-call. All the best and keep on shopping, please try our new app when it is getting launched around Feb end and also try our online site and do visit all our stores across all formats, Shoppers Stop, HyperCity, Crossword, and HomeStop. Thank you.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Shopper Stop that concludes this conference. Thank you for joining us and you may now disconnect your line.