“Shoppers Stop Limited Q1 FY17 Post Earnings Conference Call”

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

Moderator: Ladies and Gentlemen, Good Day and Welcome to Shoppers Stop Limited Q1 FY-'17 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 now hand the conference over to Mr. Govind Shrikhande -- Customer Care Associate and Managing Director, Shoppers Stop. Thank you and over to you sir.

Govind Shrikhande: Thanks, Aman. Good Afternoon, Friends. Welcome to the Q1 Concall of Shoppers Stop Limited.

I am straightaway on Page #3 on the "Business Overview". First as usual we will cover the Shoppers Stop Limited story and then we will go into the HyperCITY story. So first on Shoppers Stop new stores, four departments stores we opened; one in Goa, one in Noida, one in Panvel and Pune. In Noida, this is the second store, we already have a store in Garden Galleria and this is now Logix. We opened two M.A.C. stores standalone; one in Noida and one in Mumbai Airport. We also opened one Clinique standalone door at Mumbai Airport. We also opened two HyperCITY stores; one in Mumbai which is Panvel and the second one at Noida.

Loyalty Programs continues to grow well, in fact, this quarter we have seen the share go up by almost 200 basis points typically, First Citizen totaling 4.2 million contribute about 74% of share this time around we are seeing 77% share.

Page #4 you can see the total spread across India with 6.1 mn.sq.ft. covering 37 Cities and 246 Stores.

Page #5: You can see the addition on square feet, again totaling up to 6.1 million.

On Page #6, 7, 8 and 9 you can see the photographs of the new stores. Whenever you have the time do visit them and all these stores have a new design concepts in it, much more cleaner footprint, much more cleaner navigation across all these stores and you will also notice that the store sizes are much more tighter except one store which is 58,000 in Logix Noida which was booked long time ago, all the stores on the region of 30,000 and below.

Moving on to Page #10, Financial Highlights: Top line growth in Department Store at 10.6%, all formats at 9.8%. like-to-like growth at 5.5%. Significant to note here is volume growth has been at 5.7% which really means that average selling price has been flat or even going down slightly during the quarter. Stores greater than 5-years running at 3%. Stores lesser than 5-years running double-digit at 11.2%. Again here two more comments; East continues to grow at double-digit, it is a very significant part of our sales mix and we have very strong stores in the Eastern region, they have continued to do very well; West grew at about 7.5%. Other two zones had a slightly lower performance especially north where again we saw this odd-even driving and parking issue coming up in the month of May, which impacted sales in both Delhi and

NCR. We also renovated four stores during the quarter which had an impact on their like-to-like growth and lack of marriages also had an impact on the like-to-like growth overall.

Page #11: You can see that the customer entries up by 8% at overall level, but at like-to-like level down by 5.2% also impacted by the renovation of those stores. Conversion is up both on the new stores as well as like-to-like, you can see actually double-digit at 13.6%. Transaction size is down fundamentally because average selling price is also down, and as I mentioned earlier volume is up by 5.7%.

The good news is the Private Plus Exclusive Brands put together have gone up by 60 basis points during the quarter at 18.1 and the best performing brand here has been "Wrogn" Virat Kohli's Bat is Striking Gold on the Cricket Field as well as in the Stores.

Merchandising buying model has not changed much, bought out 44.2 Vs 45.1 in this quarter.

In terms of category mix, Apparel continues to grow faster than Non-Apparel driven by Denim, again driven by Wrogn here. Women's Ethnic has come back very strongly and in the Non-Apparel category Beauty is growing well. The categories that are continuing to de-grow one is Home and second is Jewellery and in Home fundamentally because we had done some resizing of our stores in the Home category and that is why there is an impact, we should get back the good Home growth coming back from Q3 onwards.

In the overall sales number, although you do not see the sales growth of eCom, eCom has grown by more than 28% during the quarter. We have launched our new app both on android as well as on iOS and is showing a very good traction of downloading and we believe that quarter-on-quarter this growth should keep on doubling. Shrinkage very much under control at 0.21% for last year as well as this year.

Coming to Page #15 for the Financial Summary: Top line growing at 10% from Rs.785 crores to Rs.861 crores. Margin has grown by 8% from 34.6 to 34.2, drop of about 40 basis points, this is on account of the sale that we started three days early, this time normally sales starts around 1st week of July, this time we started on the month end of June. Operating expense were up by 13% from 32.2% to 33.1%, as a result you are seeing a slight drop in EBITDA from Rs.33.6 crores to Rs.26.2 crores from 4.3% EBITDA as a percentage to sale to 3%.

Next line that needs more explanation is on depreciation which was last year at Rs.20.7 crores has gone up by Rs.17 crores to Rs.37.2 crores, jump of 80%, and acceleration of about 180 basis points. Now, this is on account of four new stores that we have opened as well as acceleration of depreciation of stores that we are planning to shut down during Q2 and Q3 and even Q4 and this is a one-time impact of the store closures and fundamentally this depreciation allows us to ensure that our depreciation is in line with the store closure timeline and in Q2 and Q3 depreciation will come down. As a result, the PBT before exceptional item this year is at Rs.(-21.8) crores Vs last year at Rs.(+3.2) crores. Last year we also had an exceptional item of Rs.23.81 crores as a result PBT of last year was Rs.20.5 crores is compared to Rs.21.9 crores this year, and as we have not made any profit the tax has been reduced by Rs.8.47 crores, as a result PAT from Rs.22.1 crores is comparable to Rs.13.4 crores this year.

As far as the current outlook is concerned, we believe that the next three quarters are having great promise on account of multiple positive things that are happening -- one big positive event that is currently happening is the monsoon, although a number of people are getting stuck on the road, I believe it does help in terms of curtailing the water shortage that is coming up in big cities, and at the same time helps productivity of crop, which in turn helps you to reduce price inflation which definitely helps you to sell better. So that is Part-2. Part-3 definitely is the whole 9-month period now is full of festive events right from Ganpati that starts off in the next month, moving on to Puja, Diwali, Dussehra, then Christmas and the New Year. So that again leads to more consumption. Then there is big marriage season coming up in October-November. Yes, the big news from Delhi on the Pay Commission rise which will also boost consumption. So we believe that the next three quarters does hold great promise in terms of consumption I think if we get our all our actions right in terms of getting the assortment in the store and doing the right kind of marketing, we should be able to achieve our annual targets, and we also believe that what we stated last time in the Q4 concall that we will be able to increase our EBITDA by 100 basis points from 6% to 7% we still believe that we are on target of that objective irrespective of what has happened in Q1.

Before I come to the consolidated, I will first go into Hyper and then I will come back on the explanation. Page# 20, you can see that the like-to-like sales growth has been flat, but the good news is Fashion mix is up by almost 90 basis points from 16.4 to 17.3, and as a result the gross margin is also up from 22.6 to 23.3, 70 basis points again.

So good news on front of both the share as well as margin. OPEX growth on like-to-like level is at 5.8%, but at overall level the operating cost have gone up because we opened two stores during the quarter and then there are two more stores which have not yet completed full one year. So there are four stores that are impacting overall profitability, as a result you can see that the store operating profit is at Rs.2.8 crores Vs Rs.9.4 crores last year and when you look at like-to-like store operating profit you can see the comparison Rs.8 crores Vs Rs.9.44 crores, not too much difference there, but at company EBITDA level we are running at (-9) versus last year (-50) on account of all the new additions that have really happened. At PAT level we are running at Rs.(-25) crores versus last year at Rs.14.1 crores.

The good news here again is if you look at the next pages where you will find the photograph of Panvel Store which is the 31,000 sq.ft. Format brand new and there is a Noida Store that we launched at 60,000 sq.ft. Panvel from day-1 if you recollect we had mentioned in the last concall has been doing very well. The best part about this store is it is a tight size store and lot of localized offering has been made in this store which we believe is working for that customer and leading to very high sales per square feet as well as throughput.

On #23 you can see further photographs and then on 24, 25, 26 you can see the photographs of Noida, this store has also come out pretty well and we believe holds tremendous potential in the long run.

Moving on to #27, overall sales grew by 6.6 stores at a LTL level running at (-0.5) and greater than 5-years running at (-0.8) and there has been some impact due to closure of our Vashi store for almost 2-weeks which had an impact on this and we believe without that impact we would have been running actually positive. But overall it is still flat.

Moving on to Page #28: Customer entry up by 2%, LTL level (-6.6%), convergence ratio up by 8% at overall at 8.7 at LTL level. As I mentioned earlier ASP is down by 0.1 and that is the reason you will also see transaction size is down by 3.6 and at LTL level down by 2.6. Again, the good news is like-to-like volume is up by 0.3%.

Moving on to Page #29: Sales up by 6.7%, we have already seen that, margin on sale up by 60 basis points at 9.3% from 21.2% last year to 21.8%. Store EBITDA we already looked at it Rs.2.8 crores Vs Rs.9.4 crores, and as I mentioned the negative impacts of the four stores that has opened which are less than 12-months is what is impacting here, and as a result the numbers look tough than what they were last year around.

But let me tell you two or three quick actions that we are currently taking: #1: We believe that assortment will lead to drive in sales and growth. As I had mentioned last time international food has already started coming back into the stores, and this quarter we believe that we have hit already 5% share of international food, it will only keep on growing with Waitrose and other international food coming in.

#2: Key action that we had taken is towards localization of food assortment in the various stores and this includes meat, fish including bakery and already a few stores are showing that good traction and I am confident that by second half of the year we will back on 8 to 9% like-to-like growth driven by the food assortment.

#3: We are already beta testing our app of HyperCITY and we will open it up by Q2 for consumers to go ahead and order and we believe that this again should help us to really aid our growth in the cities where we are already present and will also help us to really get more basket share from the customers. So those are the actions plans that we have made for the balance period within HyperCITY and I believe that the assortment changes that we are making, the changes that we are making at the backend will lead this business back to like-to-like growth coming back in action in second half. We have already taken enough actions from the cost side and I think directly the sales action should help us to move towards the profitability. Our current target is to hit EBITDA company level profitability by Q4, that is the current target and we believe that we should be able to hit that.

Now coming back to the Consolidated Numbers for Q1 on Page #16: Top line going up by 9% from 1,060 to 1,151. If you look at EBITDA is down from Rs.28 crores last year to Rs.14

crores again because of large number of new stores that have come in across both these formats, and as a result at a PAT level from Rs.(-5.99) crores last year at PAT we are at Rs.26.6 crores this year.

So that is all I wanted to say and I would now open up the Forum any Q&A.

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

Abneesh Roy: Sir, my first question is on the current impact of the slowdown in promotions by Online Retailers. So, last three-four months we have seen a marked step-down in terms of that. So, is Shoppers Stop benefiting in the Departmental Stores because of this? If not, when do you see positive impact of that happening? Second is of course, Jabong and Myntra are now owned by the same Online retailer. So, is that now a bigger problem, we were expecting consolidation but now same player has acquired two large brands there?

Govind Shrikhande: Let me take the second question first; we do believe that consolidation in eCom was on the card for a long period of time and I still believe that further consolidation is likely to happen with only two big players from the international market ruling the Indian market. That is what it looks like as of now. But, yes, I think Myntra and Jabong coming together is a much more substantial competition than the individual players. That is for sure. So it is a much bigger competition without doubt. #1, coming back to your question "Is discounting by Online players down?" in fact we have not actually seen them going down, may be the advertising clutter or advertising noise was lesser, but even now if you look at it some of the players are still talking about Aap Ki Dukan and this is actually completely against the rules and regulations that Indian government has formulated and I think we will have to still take it up. So my belief is we have not really seen much change in traction and yes, the overall consumer sentiments have been soft. So I cannot really comment whether we should have gained or not from this slowdown, I have actually not seen much of a slowdown.

Abneesh Roy: So you are saying things could get worse because of Jabong and Myntra coming together eventually?

Govind Shrikhande: So my belief is, yes, if you can see even now there are multiple schemes that have been announced by each of these players that are in the market, and I believe that for the festive period all of them are really trying to push the needle further, because from whatever tracks that we know of, even Online Sales have slowed down from Q4 last year to the Q1 this year.

Abneesh Roy: Sir, without advertisement, sales does not really happen much. So if they are not advertising anyway the Aap Ki Dukan ad which you mentioned again does not really talk about discount. So one is what is the problem with that ad? Second is if discounting is not being posted in the ads, then of course the negative impact is far lower. So you should have gained that scenario. I agree sentiments are weak. But still why physical retailers are not gaining because those aggressive discounting is not being advertised?

Govind Shrikhande: There is discounting advertising. I can pull at least 20 ads, Abneesh, which actually show the discounting, last to last week, every week there is a discounting advertising, the television advertising may not talk so much about discounting, but there is discounting all the time. Specifically, the objection on Aap Ki Dukan is this being a market place, no market place can actually be stating that it is a retail store. That is completely against the law. That is the point that I was trying to make which is what the Indian government has come back with that market place cannot say that it is a retail store. So deem that aside, we can pull out number of ads which talk about discounting, but really speaking I think the market has been slow in Q1 at overall level.

Abneesh Roy: Coming to Physical Retailers, you said sale season started one week earlier. So here is some level of discipline coming here, no one is making much money, so last three-four years this is the problem, but every year we see discipline does not really inch up. So what is the problem?

Govind Shrikhande: I think we are proving that Indians are very indisciplined lot at overall level because us I mentioned earlier Indian government has come out with rules on Online Retail, everything, but nobody is there to discipline them, nobody is there to execute those rules. I think same challenge with the Physical Store guys also that all of us know what we are doing in terms of discounting, but I do not think all of us are coming together to really ensure that we reduce discounting to that level. So this is I think ongoing phenomena, #1; #2 is I think the whole world rules have changed. I think if you ask me now, I was completely against discounting 4-years back, but I think it looks like now that it is a new normal that there will be discounting, there will be schemes and you have to live with those and then really still ensure that you can make money out of it. We believe that, yes, we know how to make money in spite of the schemes and discounts and we will be back on track in Q2.

Abneesh Roy: Coming to this quarter, you have opened lot of stores in both formats; one is Logix Noida, what is the way forward because it is a much larger store and it is a second store in Noida. So when you have been rationalizing stores, so here was there a possibility that although you had signed a deal much earlier, was there a possibility that you could shorten it… and eventually you might need to shorten it, right, that huge space which you have…size of the mall, it is double of your others…?

Govind Shrikhande: We have actually reduced the size of both Shoppers and Hyper by almost 25% from the original size. So looking at the market we still believe the catchment is pretty large. As you know Noida is if I am not mistaken second biggest growing catchment in India after Gurgaon, in fact, it might overtake Gurgaon as a total population. So the depth of the catchment is very-very strong and we believe over the next 2 to 3-years it can be one of the best stores in India in terms of density of catchment and the throughput that we can achieve there.

Abneesh Roy: This 58,000 size is after the 25% cut, right?

Govind Shrikhande: That is right.

Abneesh Roy: But it is still more than double of your other stores?

Govind Shrikhande: So typically Shoppers Stop we always open around 45,000 to 50,000, so this was booked at almost 75,000 and Hyper was booked around 80,000, so when we looked at it because this project has been running delay, we actually cut down the size in both the formats, but I believe the potential in this market is there.

Abneesh Roy: Depreciation has gone up and you said some closures in Q2, Q3 and Q4. So if you could elaborate that part?

Govind Shrikhande: So we have one store in Mulund, if you recollect we had discussed in the last two con calls that what are the likely stores for closures, so Mulund is one store closure that we have planned, and in fact in Mulund we have already booked a property which is bang opposite that but we still do not know, when is it likely to come, but we have decided to go ahead and shut the store in Q2. Same thing in Delhi, there is an area called Rajouri where we have a very large store, where again we have booked a property which is smaller than the current property right adjacent to it. That property is likely to open in Q4, but we have decided to take the accelerated depreciation and take the hit right now.

Abneesh Roy: These closures are because these properties are not really working, right?

Govind Shrikhande: So if you are aware is like almost a standalone mall is shut down and there is no future for that particular mall, so that is why it is shutting down. Same thing in Rajouri, that particular location does not have much future. So we are shifting to another location which will have a integrated food court along with other store.

Abneesh Roy: GST could be negative on the sector. So how do you see this playing out – will the rates be much higher than based on your current understanding and will the industry suffer too much because of the sharp price hike which will be required, so will you suffer in big time in terms of volume?

Govind Shrikhande: No, so there are three levels of understanding of, Abneesh, on GST today; one level of understanding which has been there for a long period of time is once GST comes in we get a set off on the service tax part, which is almost 100 basis points gain but the other part is what could be the rates of GSTs for various categories and that is a twister that as of now nobody really has any answer on. But whatever we know of which is a third point is that if it is a revenue neutral rate running at about 14%-odd, there is neither gain nor any loss, which really means that no retail prices have to go up. But whatever we are keeping on hearing right now the rate seems to be discussed is at 18%. At 18% what one is really talking about is the price growth of about 4% to 5% which to my mind is not really a earth shattering number because 3% to 4% price rise has always been on the cards every year. So if you ask me I am not able to see too much negative there, in fact, we believe that it will stream line the entire supply chain for the entire industry because today the time that we waste on **(checknakas)** 23:37, Octroi all kinds of road permits is huge and too much bureaucracy is going in it. Any rate below 14% will be beneficial for the industry especially in the Retail industry that we operate which is a mix of Fashion and Non-Apparel where the rates again are going to be very different than each other, and anything above 18% which is most unlikely because I think currently the debate is 18% and below. So up to 18% I do not see much of a challenge, it will definitely be a long-term beneficial. Yes, there could be short-term challenges because when the date of cut off happens similar to what we see in excise that there are goods with old rate, there are goods with new rate, and there is momentum in the pipeline as well. So there could be a short-term challenge of about a quarter or so but I see clearly that this is the best step forward for the industry, best step forward for the consumer, and best step forward for the country as a whole.

Abneesh Roy: One follow-up; normal year you do take 3, 4% price hike. This year if 18% is the rate you will have to take 4% plus do you think more the industry can take for covering your normal inflation or you think there could be margin compression coming because you will take only the GST mandated hike, you will not take your own inflation hike, would there be margin compression because of that?

Govind Shrikhande: I do not think anyone is today looking at any margin compression, I think everyone will look forward to push the margin further and further. So 4% driven by GST and another 2% driven by cost, I do not see a problem.

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

Avi Mehta: I just wanted to understand, you have maintained your guidance of EBITDA margin expansion by 100 bps in this year despite this 1Q performance. Could you kind of elaborate what is giving you the confidence to achieve that?

Govind Shrikhande: So Avi, two parts; one part I did not talk to you here right now, one of the things is when you look at the whole year, our Q1 is 20% and balance 9-months is 80%, and if I go exactly where that number we will be able to hit the number that I have targeted about, #1; #2 as I mentioned to you earlier the 9-months period has got lot of potential in it, there is a festive period sitting there, good monsoon sitting there, the pay commission sitting there, the marriage season sitting there. So all these are potential opportunities for a retailer to take charge of and make the best use of it which typically Q1 if you look at last 3-years track record of ours is the slowest and is the lowest number contributor. So based on the track record and based on the confidence that we have on our hand about things that are unfolding ahead of us, that is where the confidence of 100 bps going up is there.

Avi Mehta: So promotions you do not think that should be a big issue now going forward, because we have kind of been able to get through that hurdle of Online?

Govind Shrikhande: Correct.

Avi Mehta: If you could just highlight QoQ there is an increase in the debt level. Is it because because of the store additions or is there anything that we do, is there any one-off over there?

Govind Shrikhande: So here Avi, we are still holding the same outlook that the target that we have for the 9-months of EBITDA growth will also be accompanied by free cash flow by the end of the year and the debt increase that you are seeing slightly is basically because we have opened so many stores in Q1, from Q2 Q3 you are actually seeing only one store each. So the number of store openings will fall and cash flow generation from Q2 onwards is actually much higher, both Q2 Q3 if you look at our cash flows generated are very high, so by Q3 and it will be clear how we are heading towards the free cash flow.

Avi Mehta: Could you share with us what will be the HyperCITY SSS growth ex-Vashi store closure?

Govind Shrikhande: About 1.5%.

Avi Mehta: So then was there anything else in HyperCITY which kind of weighted on this because I would have thought that HyperCITY would be a little higher ex-Vashi?

Govind Shrikhande: No, as I mentioned, we have undertaken a whole host of actions there in getting the assortment right, in getting the backend right, and I believe that by Q2 end, all these actions will start seeing fruition and that is why second half I am saying we are maintaining that we will come back to 8 to 9% LTL growth or above.

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

Kunal Bhatia: So just one clarification; you mentioned that there will be two store closures in Shoppers Stop; one at Mulund and one at Delhi. The place which you have seen adjacent when do we see the opening for the same?

Govind Shrikhande: So Q4 is what we are seeing for Rajouri. Mulund we do not know, the current plan is the mall is likely to open in the coming year, it has been there for last 3-years.

Kunal Bhatia: So what kind of additional number of stores can we expect for FY'17 in terms of Shoppers Stop?

Govind Shrikhande: Department Stores we are have targeted six store openings, we already opened four, another two to open, Hyper we had targeted three, we already opened two, and Specialty we had targeted to open five, we already opened three, so you can see one store addition in Hyper, two store addition in Department Store and another two store addition in Specialty over the 9-month period.

Kunal Bhatia: Any store closure planned in case of Hyper?

Govind Shrikhande: We are looking at one store as of now, but nothing that I can commit to you right now, Kunal.

Kunal Bhatia: You mentioned that in case of Hyper, we are again targeting a same-store sales growth of around 8% and that would be by what timeframe?

Govind Shrikhande: Second half we should be able to hit it.

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

A Ranganathan: A few questions from my side: One is on the advancement of the sale. What impact it would have had on your margins for this quarter considering the sale did not exist in the previous year's base?

Govind Shrikhande: So you can see the drop is about 40 basis points, so I would completely ascribe the entire thing to the sales.

A Ranganathan: In terms of LTL?

Govind Shrikhande: LTL at least 2.5%... half of the LTL growth.

A Ranganathan: That means the first week of the sale is quite material in terms of contribution, is it?

Govind Shrikhande: Yes, typically our first week is actually not for the public, it is only for the First Citizen, it is the preview actually. The three days of June-end we actually did only a preview, it was not actually a sale, but for us the preview is very big.

A Ranganathan: On the impact of the emerging markets places various we have seen one from the Aditya Birla Fashion and we are seeing some from Arvind, one from the Tatas, the number of marketplaces which have increased, Online has actually a lot in over a period of time. Where do you envisage Shoppers Stop in terms of as a marketplace amongst, it is getting if I may say a bit congested and we see with Lifestyle also having an offline/Online presence, how do you see this space and what would be the Shoppers Stop's positioning in this space?

Govind Shrikhande: No, Abhishek, we are not a market place for sure, but we can be part of a market place, that is why we are on either Snapdeal or Amazon or Flipkart, #1; #2 is our entire play is about Omni Channel and in fact whether it is the Tatas or the Birlas or Reliance, all of them have multiple place including a Omni Channel play and a market place play. So they have taken a call of doing both. Globally actually market places are only one or two dominant market places in every country. So I do not know where Indian market places are heading for and how they will perform, but I think each one of them has taken a flanking strategy of Omni plus market play and we believe that we are on the track of Omni and we have made significant investment in that road and by next June we will be completely Omni Channel as far as Department Store is concerned, and as I mentioned we have also done a Beta testing of our HyperCITY app and in a year period we should be there completely also as far as Hyper is concerned on Omni Channel part. So, we believe having a Omni Channel play of your brand is more significant from the customer point of view. With the kind of traction that we have with our loyalty program across each of the individual verticals, it helps that loyal customer to shop with us whether in the physical world or Online world and that will complete the entire picture of Omni Channel. So as of now we will continue to play the Omni place rather than a market place.

A Ranganathan: The point is from a customer's perspective, he or she may not envisage it as a marketplace. The point being that the availability of a product just multiply so many times with so many market place or of a brand. So from a customer perspective, what I wanted to get a sense was it, in terms of your offering the number of brands which you offer which maybe other market places also offer, but what Shoppers Stop stand for in such a place, you may not be a pure market player, but end of the day you have a huge chunk on third-party brands which it makes you an offline market place I may call that?

Govind Shrikhande: So I think we have to keep on working on the USP of our brand both in the physical world as well as the Online world. If you look at the physical world definitely Non-apparel is one key category where we differentiate ourselves with everybody with the kind of Beauty offering that we have or the Non-Apparel offering that we have, and added to that when I add up the Exclusive Brands and the Private Brands, so these will not be available anywhere else, so you have to come to my site or my Physical Store. I think we have to keep on working. Each one of the size is going to work on similar lines according to me and each one will create a USP for themselves because if every brand is available on every market place then all market places will look alike which is not the point that anyone is trying to drive and I am sure over a period of time each one of us is going to learn that USP which will keep on sharpening.

A Ranganathan: On brand churns, till what time you can take a call as to when do you want to churn the brand out and get a new brand in, how long would you be willing to play with that considering that you still have a lot of consignment or SOR stock, till what point are you willing to play with the brand in terms of performance and how do you decide at what point of time you want to churn the brand, reduce the space or give it to something else some other brands? If I am not mistaken, I think the number of brands you carry in the store also would have increased over the last couple of years.

Govind Shrikhande: Yes, that is right. So fundamentally there are two ways to look at it; one is what is your trading format, so outright trading format call on churning is faster than consignment or SOR because typically in consignment or SOR the stock does not belong to me. When the brand is willing to give me, the stock willing to give me people, I am that much more flexible to really try it out for one more season, but typically whether it is outright or consignment and SOR I would not try out anything beyond two to three-seasons. So within three seasons the brand should be either growing or it should be out.

A Ranganathan: In the Format, I mean how many more brands can you technically add, be it Indian, Foreign or anything of that sort?

Govind Shrikhande: So within the Physical Store, there will always be a limitation as to number to brands that you can take in any category based on allocation of space, based on the square feet that you have. So typically any addition beyond a certain point requires more space and if you do not have more space, you cannot take space from one category into the other, for example classical is a Jewelry at one point of time was a big category for us, it has been shrinking. So we have been able to take out space from there and give it to Beauty or to Watches which are the growing category. So that is the way we keep on playing between categories or between brands, and that play still continues. So then you always have about 10% 15% flexibility to play within brands and play within categories, but after a point of time it is stuck, then the only addition that you can really do is you take them on Online.

A Ranganathan: But I am asking from a perspective as to how many more can you add at this point in time let us say whatever is available in the market in terms of international brands, lot of international brands have come? Basic premise of asking this question is that given the choice of better terms of trade with an SOR and consignment and better sales density what is it that you would go for or opt for between the brands?

Govind Shrikhande: Basically, the choice is clearly on NMROF what is the net margin per square feet that is getting delivered, whether it is a bought out or non-bought out, that does not matter, trading format may not matter because it Is a question because of only working capital involvement, but really speaking if I get a better NMROF I think that is where we are. Typically between 5% to 8% churn every year of brands does happen, so 5% to 8% brands will move out, 5% to 8% new brands will come in, but as I said finally you can only have availability up to 105-108%, beyond that then the store will start looking like a warehouse and you cannot really have infinite capacity within the store of keeping on adding. So you have to keep on ensuring that the right assortment is there in any category. So having 1,000 brands in Watches does not make any sense because then how does the consumer look at it. It is exactly the problem that the Online guys have that so many options but how does the consumer look at it. So if you believe that there are 30 Watch brands that are important for customer, yes, you need to carry them and maybe there are another three or four emerging can you bring them in.

A Ranganathan: Since you mentioned about this is that the concept store and the new size, would you be envisaging a lot more store which get renovated with the new concept and new designs and all incrementally most of the new stores will be in the region of say 30-35,000 sq.ft.?

Govind Shrikhande: So new stores that we are looking currently all the properties that are in the 40,000 sq.ft. typically and those 40000 sq.ft. typically would be within existing city is the second or the third store. In new cities typically we would like to have the first store at least of 40,000 sq.ft. That is what the model is all about, but again there are always exceptions about what is the mall size, what is the location, what is the depth of the catchment, based on that we are really tweaking the model, but the current experience is showing that 30-40,000 sq.ft. model will be more profitable at a faster rate than 40-50,000 sq.ft. Yes, renovation, we continue to look at based on the new design and yes, the stores will be much more cleaner, much more transparent and much more visible than what they are earlier.

A Ranganathan: Would you envisage a large number of properties would come for renovation in next two-three years?

Govind Shrikhande: So typically, 5-8% of the stores go for renovation every year. So that track will continue.

A Ranganathan: Over and above that for the new concept because if you feel this concept works you want to accelerate it across and push it across more stores?

Govind Shrikhande: Depends on how we see the catchment. If we believe that the potential to take more money in that store is higher, yes, we can go ahead with the faster renovation as well.

Moderator: Thank you. The next question is from the line of Manish Poddar from Religare Capital Markets. Please go ahead.

Manish Poddar: Can you explain actually the difference in accounting under the new accounting standards for the consignment else or SOR basis, what would be the previous accounting and how are they accounted now?

Management: There is no change in accounting for a retailer.

Manish Poddar: Just a clarity; this gross margin which has contracted YoY, is it primarily because of end of season sale or is there anything else other than that because private brands as a whole the salience has increased?

Govind Shrikhande: End of season sale.

Manish Poddar: Just wanted to take a thought, I understand Shoppers Stop given the positioning which it has, generally operates around 30, 35,000 sq.ft. stores, what do you think so about the stores opening by competitive brands, somewhere in the bracket of about 10,000 to 15,000 sq.ft., are these stores, the return dynamics and the operating metrics much more profitable compared to us or what are the thoughts with regard to store size?

Govind Shrikhande: Store size typically is dictated by the kind of format that we have. So the kind of brands that you are talking about are mainly Apparel, Lifestyle brands, they generally do not have much of a Non-Apparel collection. I do not know the brand names that you are talking about and I would avoid taking competition brand names here. But whatever we know of as of now, all the brands that are opening, 8,000-12,000 sq.ft., are all Fashion and Apparel dominated brands and very little of Non-Apparel, whereas if you look at our stores, 40% of our Collection is Non-Apparel, which also take substantial amount of space, but yes, I do agree that Fashion, Apparel margins are higher and definitely you can make better productivity out of it in a smaller store for sure. But in the Format, it is different, it is not a full-fledged department store.

Moderator: Thank you. The next question is from the line of Nikhil Garg from BNP Paribas. Please go ahead.

Nikhil Garg: Sir, this is a follow-up question people have been asking this question. So how do you see competition and where do you see positioning of Shoppers Stop with some of these new Department Stores which are coming up, I do not want to name because you also do not want to name, new Department Stores as well as all these international brands which are coming into the market and the Fast Fashion stores which you would have had?

Govind Shrikhande: I think globally the same trend I what we have seen for the Department Stores that fundamentally there are three changes that are happening around the customer and around the formats. So, one of the big things as far as Formats are concerned is Specialty Retail and Fast Fashion has been one big trend across the world and that is now just coming into India as well, #1; #2 is value fashion is also coming into globally which again we are starting to see in India as well; and #3 with customers getting less time at overall level and more money spending options as far as the wallet is concerned, they are looking at multiple priorities and the multiple priorities start right from shopping Online, spending on travel, spending on multiple categories. So these are the three big challenges that are clearly emerging not only in India but across the world. That is where the Department Stores are refocusing on their customers and saying that what is it that they can create extra special which is related to experience, which is related to assortment, which is related to Omni Channel experience and that is what we are exactly working on. So as far as the special categories are concerned, Beauty is one category where we have concentrated well and have grown that category pretty well. We are also focusing on the other Non-Apparel categories which most of the other players are not focusing on and growing them. #3 is trying to drive our Exclusive brands and private brands at a higher pace. #4 is making a seamless journey towards Omni Channel, ensuring that our large loyalty customer base were able to not only handle but take them across channels and across formats as well in the long run. So that is the strategy that we are working on and we have taken steps till now in the last 18-months period – one on the Omni Channel bit, second on the private brand bit and Exclusive brand as well and over the next 18-months period you will see further drive to really extend not only growth but also the speed and depth of action in each one of these.

Nikhil Garg: So, are you saying that on Apparel side, you would be facing more competition so you would want to grow Non-Apparel and when you talk about say Exclusive brands…

Govind Shrikhande: Apparel, just to clarify, the direction is to grow more differentiated ranges.

Nikhil Garg: I did not get it, when you talk about say differentiated ranges, how would it be different…exclusive brands like you have to then invest in branding and stuff like that, right, which…?

Govind Shrikhande: Exclusive brand is Wrogn, Desigual, RS BY Rocky Star and Femina Flaunt. So these are not belonging to us, but these brands are not available anywhere else other than our stores and our

Online and that is why they give us edge on one hand. Private brand is the brand that we own and that is where again the differential can play and we can actually compete maybe head on with one or two brands or maybe up and above below one or two brands... this I am talking only on the Apparel side. Non-Apparel is very clear. The assortment that you have in Beauty is not available anywhere else.

Nikhil Garg: I totally understand. Say Non-Apparel side, when you talk about the repositioning the whole Department Store concept, so where I am coming from is say look at some of these value fashion zone which is big and probably the customer the kind of money which you would like to spend in say Shoppers Stop would be similar per unit value, which is fine. So there the competition would be heating up, but there if you go into these Exclusive brands, then it is good. But ultimately you would be facing a lot of pressure from all these guys like H&M and all such brands. So, is there a customer segment also which you would say that which would come to more mainly Shoppers Stop and not go to these places?

Govind Shrikhande: Yes, sure, if you look at all the young brands that are coming in, they are targeting the 18 to 25 as the core and 25 to 35 as the primary and secondary. Our core has always been 35 to 45. So we must not only retain that core, but also create appeal for the 25 to 35 which is our secondary there.

Moderator: Thank you. The next question is from the line of Samip Kasbekar from Emkay Global. Please go ahead.

Samip Kasbekar: The average selling price was little lower year-on-year. Is this largely a function of mix?

Govind Shrikhande: Largely a mix of discounting. Not really big price increases that happened. Because what really happened in the Department Store side is actually the excise has gone up before the year started, but the pre-excise cleared goods they are already available to all the retailers. So that is why you are not seeing any impact of that and on top of that there is discounting that started early.

Samip Kasbekar: If we look at the last 8-quarters, our Private Label share has gone down while our Exclusive label have gone up. So any thought on this, is this a part of our strategy as such?

Govind Shrikhande: The strategy is to also grow the Private Brands and you will start seeing it growing in second half of this year.

Samip Kasbekar: We still maintain 8% SSG guidance for the full year or have we upped this?

Govind Shrikhande: Yes, we are maintaining that.

Moderator: Thank you. Ladies and Gentlemen, as there are no further questions from the participants, I now hand the conference over to Mr. Govind Shrikhande for closing comments. Thank you and over to you sir.

Govind Shrikhande: Thank you, friends for joining on the Q1 call. Although the Q1 results are soft, we are pretty confident of the balance 9-month period and we believe that the track for 8% to 9% LTL growth is very much on in the Department Stores category for the balance 3-quarters and in HyperCITY with all the steps that we are taking we should be back on track in second half of the year with 8% to 9% LTL growth. So that is all from my side. Thank you very much. All the best.

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