"Shoppers Stop Limited Q1 FY 2018 Post Earnings Conference Call"

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MANAGEMENT: **MR. GOVIND SHRIKHANDE -- CUSTOMER CARE ASSOCIATE AND MANAGING DIRECTOR, SHOPPERS STOP LIMITED**
MR. SANJAY CHAKRAVARTI -- CUSTOMER CARE ASSOCIATE AND CHIEF FINANCIAL OFFICER, SHOPPERS STOP LIMITED
MR. RAMESH MENON -- CHIEF EXECUTIVE OFFICER, HYPERCITY RETAIL (INDIA) LIMITED

Moderator: Good Day, Ladies and Gentlemen, and Welcome to the Shoppers Stop Limited Q1 FY 2018 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. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Govind Shrikhande -- Customer Care Associate and Managing Director, Shoppers Stop. Thank you and over to you, sir!

Govind Shrikhande: Thank you, Mallika. Good Afternoon, friends. Welcome to the conference call of Quarter One. The quarter has begun well at an overall level in both the Shoppers Stop business and HyperCity business and I will take you through some of the highlights and also give you additional comments wherever required.

I am now on Page #3 of business overview.

We opened one Bobbi Brown store in Chennai during the quarter. There was no department store that we opened during the quarter. We have taken an impact of closure of one store in this quarter in Chennai in the Department Store business. The loyalty program continues to grow strong and now at 4.8 million members contributing 77% of sales. Our social median on Facebook also continues to grow very well, we have crossed now 10 million fans on Facebook.

We won an award from Economic Times for Excellence in Supply Chain and Logistic.

On Page #4, you can see the spread of stores across India. As of now 80 stores in the Department Store business; 50 in the Crossword business which are directly operated; another 45 odd which are operated by franchisees; 16 stores under the HomeStop banner; the Beauty business under the M.A.C, Clinique, Estee Lauder, Bobbi Brown, has 82 doors including shopping shops. HyperCity has 19 doors after the closure of Pune Pacific store in Pune. At a total level 247 stores are in 5.8 million square feet in 38 cities.

Page #5, you can see the additions and deletions at a total level with Shoppers Stop Department Store at 3.8 million; specialties at 3.2 million; Crossword at about 100,000 square feet; HyperCity at 1.3 million and JV companies 2,21,000; all put together 5.8 million.

Page #6 now. We had a very good like-to-like growth this quarter at 19.8%; total sales growth was also 19.8% because the number of new stores added versus stores closed during the quarter have canceled their impact against each other. At an overall level, we saw a 20% like-to-like growth. So greater than five years growing at 14.9% stores less than five year are growing at 30.7% at a sales per square feet, the growth is from 1970 to 2394.

When I look at the overall sales during April and May, we are already running at the double-digit growth and even in June before the preponement of sales we are running at 12% like-to-like growth. So, sale has given a additional impact of about 8% during the last week of June that is where you are seeing this 19.8% overall sales growth. Across India we saw a very good growth in the central area and the north area and as well as east area. West and south have been slower, although both are at double-digit like-to-like growth.

Page #7, in operational indicators, we can see a customer entry drop at like-to-like of about 3.3%. Overall level, it is up 2.7% with 109 lakh entries. Conversion is up by 12% at overall level and like-to-like level is at 13.9%. Transaction size is up by 8% at total level and about 8.5% on like-to-like. Average selling price has grown slower at 3.6% and volume growth is at 16.2% one of the highest that we have seen again supported by the sale preponement of sale by about 5 days.

When I look at private and exclusive brand mix, it has taken a drop in this quarter, primarily also driven because of sale wherein brands get more prefer treatment in terms of buying, although volumes in private brands have grown at a much higher value, the value has come down because of large amount of discounting. No big change between the consignment last year to this year, consignments were at 53 versus this year at 59, 6% change there and in bought out it has actually gone down from 45 to 39. So, that is a 6% between both these trading format concessions has remained almost similar.

When I look at category wise apparel has gone up by 100 basis points and that is primarily driven by women's western wear which has been growing at 28% like-to-like, same thing for denim which is also growing at 28%. We have seen a dip in home and mother care which has gone negative. Non-apparel, if you look at the categories, the big category that continues to grow well for us I beauty and watches and in apparel kids saw a small dip primarily driven through Mother Care's drop.

Next Page on #10 you can see the shrinkage 0.21 last year versus 0.24 in the current year not a significant change.

Moving on to financial summary of quarter one on Page #11. You can see that our top-line has grown up by 20% is at Rs. 1,034 crores versus Rs. 861 crores last year. Margin on sale is also up by 14% margin. Margin on sale's as percentage has dropped by about 160 basis points due to early sale and lower share of private brand. But we have compensated that through lowering our operating expenses which had gone up only 12% and operating expenses as a percentage has gone down from 33.1 to 30.8, so it is a 230 basis-points efficiency that you can see there. As a result of EBITDA, it is up from Rs. 26.3 crores to Rs. 32 crores, a 22% jump. In depreciation as I mentioned earlier, we have shut one store and we have taken impairment for that, as a result you are seeing PBT at minus Rs. 6.15 crores and at PAT minus Rs. 3.7 crores. But both these numbers are at a growth of 72% or improvement of 72% vis-à-vis last year wherein PBT last year was Rs. 22 crores improved this year to 6.1 and PAT has improved from a 13.56 minus to 3.7.

I will come back to consolidated and other numbers once I am done with HyperCity. But before that, just for the outlook, we are going to open 5 stores in the coming three quarters, across India. We are seeing a big jump in online growth during the quarter. It has gone up by 70% and all our steps for omni channel including OMS, WMS, MTM, ESB, are in place now and we believe by September, October, we should be able to start omni channel across India. We already done some trials across the few stores already.

GST the hottest topic going around in India right now, we are seeing some impacts of that. In June, we are seeing some impact of that because of preponement of sale we are seeing a positive growth in sale. But come July we are seeing that there is large amount of delays in supplies with everybody, trying to get their system in place, their supply chain in place, so we saw almost two weeks of supply famine across all our categories, across all our formats, and that definitely will have some impact in the month of July.

Going ahead we still believe that the for the whole year we have maintained like-to-like growth of 8% target, we are still on the same as far as the Department Store is concerned, and we believe that with Q2 and Q3 signaling the festive season period with Ganpati, 15th August, Puja in east and Dussehra across India and then Diwali followed by Christmas and new year. Q2 and Q3 should be pretty good for the retail business per se. At an overall level. A lot of people are asking whether GST is impacting pricing again, there is multiple impacts at different categories, so in the food category I believe a lot of products are coming at a 0%. So, definitely food should not have any inflation going ahead. We believe that in apparel and non-apparel there are certain categories wherein the duty is up from 8% to 12% and from 18% to 28. But as of now, none of the brands are willing to increase prices. So, I believe the current MRP will continue at least till Q3 and then brand should be able to take a call on what to do with the pricing.

As far as the private brands are concerned, we do see an advantage for product that are priced below Rs. 1,000 especially in Hyper and even in Shoppers Stop and we would pass on the benefit that the government is giving in GST through reduced pricing and higher discounting.

So, moving on to HyperCity number's first and then I will come back to the other numbers. Page #16. Like-to-like sales were at 2.4%, this growth is lower than we would have expected and what we are targeting but fundamentally there were number of changes that happened in HyperCity business here. Number one, we reduced 30,000 square feet in Big Thane store, we now hand it over to Shoppers Stop and Shoppers Stop will start operations by September. Another 12,000 to 14,000 square feet was given in Manjeera, Hyderabad that again has been already handed and another retailer started operating there.

Two malls are undergoing big changes right now. One in Amritsar wherein the mall itself is reorganizing itself that has had its impact. Vashi and Malad have been impacted by either road condition or the new rules of the government about liquor, etc. So, without these impacts we should have been at least 6% plus like-to-like growth what we are seeing right now is only 2.4% growth.

Fashion mix continues at a 16.8%, lower than last year but holding on to the share right now. Gross margin is up by about 20 basis points at 23.7 basis points. Like-to-like OPEX growth has slowed down 3.4%. Net weeks cover is at 2.2. Store operating profit, we can see that it has gone up from Rs. 2.2 crores last year to Rs. 6.9 crores, this in line with our expectation and company EBITDA has also improved from a Rs. (-9) crores last year to a Rs. (-6.2) this quarter.

PAT is similar level of last year fundamentally because of the write off that we have taken in this quarter for closure or Pune Pacific store. There have been some experiments that we have been doing in this format and one of the biggest experience that we believe can change the whole methodology of opening smaller stores, is the opening of smart store that we have launched in Infosys campus at Cyberabad, it is 1,800 square feet store. Fully smart, self-checkout mechanism and caters to the campus people every day and they can also do a click and collect for the larger offer that is available on bigger stores. So, total retail space right now at 1.3 million square feet.

Moving on to next Page #17, total sales**.** our total growth at 8% and like-to-like growth at 2.4% which I explained that it should have been logically at about 6% plus but we got impacted because of some external conditions there.

Page #18, customer entry, up by 2.2% at overall level LTL it is down by 3.6%. Conversion is up by 7.9% at total and LTL level at 6.9% running at 52.5%. Transaction size is slightly down by 2.1% and even at like-to-like it is down by about 0.9%. ASP is up mainly driven by food at 7.7 at like-to-like stores it is up by 8.2%. Food share during the quarter was about 63% approximately, general merchant is at 21% and fashion at about 17%.

Perishables grew very well, in fact perishable footwear and home needs were all double-digit growth vis-à-vis 2.4% like-to-like growth that you see.

I am now on Page #19, sales up by 8.3% from a Rs. 271 crores to Rs. 294 crores. Gross margin up by about 40 basis points from 23.3% to 23.7%. Whereas margin on sale is up from 21.8% to 22%, 20 basis points up. And as I explained earlier the store EBITDA is up from a Rs. 2.2 crores last year versus Rs. 6.9 crores this year, which is 160 basis points jump as well. And at a company EBIT level from a minus Rs. 8 crores, we are at minus Rs. 6.2 crores, this is again a 130 basis points improvement over last year.

I have already explained to you the impacts that are likely to happen. Because of GST we believe in Hyper the food business definitely should get help with lower inflation.

So, this brings me back to the consolidated numbers. We are on Page #12, our total sales at Rs. 1, 171 versus Rs. 1,373 this year, jump of 18% margin on sales is also up from Rs. 346 crores to Rs. 399 crores. But as a percentage it is down by 70 basis points to 30.5% to 29.8%. At EBITDA level Rs. 20 crores of last year has become 27.8%, it is up by 38% and EBITDA as a percentage is also up from 1.8% to 2.1%, 30 basis points jump.

Both PBT and PAT still running at a loss and at a total comprehensive income level from a minus Rs. 26.64 crores last year we are at Rs. 17.91 crores, this year.

As I made the comment earlier, we believe that Q2 - Q3 are good quarters to have basically because of festive season kick-starting. Q3 always is our biggest quarter and we are confident in the both the businesses that we will continue to have a 8% plus like-to-like growth, working on operating cost and resizing as well in both the businesses and that should definitely help us to come back on track as far as overall profitability is concerned.

Thank you and I now open the forum for questions. I have with me, Mr. Sanjay Chakravarti; Vijay Jain; and Ramesh Menon, to answer any of your queries.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We have the first question from the line of Avi Mehta from India Infoline. Please go ahead.

Avi Mehta: Just on the SSS growth, adjusted for the preponement of End of Season Sale, you highlighted that it was close to 12%, 8% impact. Has that still sustained post End of Season Sale especially we have heard about weakness and consumer sentiment across few players coming in July.

Govind Shrikhande: No, so as I said that the preponement of sale impacted the June month or the overall quarter about 8%. So, we are running at 12% earlier it became 19.8. July has been weak very clearly. But yes, it is also because of preponement on one hand and the GST impact on the other hand where supplies have been impacted almost by 15 days to 18 days across all categories.

Avi Mehta: Okay, across all category you said. Okay, fair enough.

Govind Shrikhande: Including all formats in fact. Both Shoppers and HyperCity in both the places we have seen it.

Avi Mehta: Okay, sir. And sir, in terms of the GST impacted you highlighted in terms of how would I see, is it expected to be beneficial, how does Anti-Profiteering work for you I am a little confuse on that one. I understand for private label in Shoppers Stop but otherwise there were a lot of taxes that were kind of hurting you, they kind of get on, you get credit for that and especially Service Tax, etc., how does it work in the current system. Do you get those credits, how hard is the Anti-Profiteering work, I mean for retail it is a little more complex if you could that will be helpful sir.

Govind Shrikhande: Avi, I do not think we will be able to answer to you on the Anti-Profiteering because there are two parts to it, we do not hold MRP, we have no control on MRP, on almost 86% of the range that we retail in Shoppers and more than 80% of the range that we retail in Hyper and there we are all waiting for brands to take a call and decision on pricing. Some of the FMCG players already decided on price reduction that have to follow. So, my understand is HUL, Dabur, Nestle, all of them have announced their pricing and it is all coming into play. And our job basically is to pass on those price benefits to the customer, that is part one. Part two is, as I mentioned if we are getting benefit on the private brand side, our current conclusion is we will rework on the pricing or pass on discounts to the customer to ensure that the profitability is not impacted but at the same time the sales go up.

Avi Mehta: Okay. And sir, lastly, on the square feet, it is a data question, could you share the gross additions that have happened in this quarter in Shoppers because I see square feet having gone up, stores not any kid of clarification you could give here across both**.**

Govind Shrikhande: store. In fact, what happened is last year we had shut down two stores.

Sanjay Chakravarti: we have stores in which we had CCDs operating, those CCD areas have been removed and the area has into the retail area. That is the addition you you see and it is not too big.

Avi Mehta: Correct. It is just a conversion of other store coming into your store**.**

Sanjay Chakravarti: From a concession to operating area.

Avi Mehta: Okay. And no closures right, sir in this 4Q to 1Q?

Sanjay Chakravarti: No, not between Q4 and Q1.

Moderator: Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is private label is down 150 bps which I understand will be partly because of the sale season. But structurally I wanted to understand because we are seeing much higher focus on the value fashion. So, if you see Trent is ruling out Zudio, Max is getting expanded by Lifestyle, FBB heavy advertising by future group. So, in that context would not the consumer go to these which are getting advertise rather than your private labels which are not really advertise that much from a relative perspective.

Govind Shrikhande: So, I think Abneesh you are right in that. That the private brand proposition itself, we have to really relook at and we always played the private brand not for value but for design and differentiation and I think, this year you will see a change in the kind of proposition of each of these brands. So, I am not expecting any major change in share of private banks during this year. But we will relook at entire proposition and positioning. And I think, the new GST does help you of relooking at pricing as well. Because below Rs. 1,000 above Rs. 1,000 segregations especially in kids wear area as well as women's wear area should help us to really change that proposition. So, we are relooking at the proposition very new.

Abneesh Roy: No, so, just by say offering more value now, so you said till now focus has been on differentiation, do you think standalone store without that you can really address this because customer profile might be different, so in your non-private label the customer is coming for a separate reason. So, in spite of say launching value fashion say later, will you still be able to attract because clearly, competitive, so do you have plans long-term to do standalone value?

Govind Shrikhande: Long-term is at least three years away Abneesh. I think we have to get our act right first.

Abneesh Roy: Okay. Similarly, sir in Hyper market also your fashion is down, so here what was the reason you told that the other segments are growing faster, so that might have contributed. But fashion mix is down by 50 bps, here also is the reason same that other players are in the value are advertising much heavier?

Govind Shrikhande: No, so here, I do not see a challenge, it is one quarter blip because if you look at our last 9 quarter or 10 quarter every quarter we have been able to improve fashion share and growing faster than food. This quarter we were focusing on food and perishable in a very-very big way and that definitely has helped. Plus on top of that the two biggest stores where there is some disruption that has happened which is Malad and Vashi where the share was very high, those disruptions have also impacted at an overall chain level. So, I believe it is one quarter, may be two quarter blip.

Abneesh Roy: Sir, in Q1 we have seen strong recovery in most fashion retail. Even in April - May, so June month obviously there was a reason but April - May also have been strong. And July is not the right month to look at because of so many reasons. So, my question is in spite of recovery if you see last two years your overall square feet is absolutely flat in terms of the departmental. 4.2 million square feet for the last two years, you have added store but then you rationalize the size etc., and you closed some stores also.

Govind Shrikhande: We have shut down stores as well, correct.

Abneesh Roy: So, my question is sir, if recovery is now happening and other retailers have expanded, so is not this a problem that when recovery is happening, you have not really expanded at least in terms of square feet you have not expanded.

Govind Shrikhande: So, I think the recovery is coming on now Abneesh and we are adding five stores in the quarter two, quarter three, quarter four, and we also have opening plans or fine plans of another 10 stores for the next two financial years as well. And that is one part. Part two is I think we have to really milk the existing stores for a higher sales per square which will also drive a profitability. So, I think the rationalization track that we have taken over the last 18 months will play out by the Q3, Q4 of this year and then you will start see expansion coming into play.

Abneesh Roy: Sir, in previous con-call you had said heavy advertising will start from Q1 FY 2018, so please update on that, what is the plan for the full year in terms of the advertising budget and similarly new launch Rheson, how has that done?

Govind Shrikhande: Sure. So, I think I missed out briefing all of you on three big actions that we have already taken. Thanks, Abneesh for reminding me. So, we started this year with two things, one was taking on a thematic call bring back romance to retail and under that umbrella, we actually done three big activities, one of them has launched our television campaign both in Calcutta and Bangalore so east and south. And both have got phenomenal feedback especially east. We have seen in spite of one of our biggest store, almost half closure we are seeing a double-digit like-to-like growth there. Number two, we launched Rheson, the high state brand created by Sonam and Rhea Kapoor. We have launched it in 12 stores, now into 20 stores. By the end of the year we will be in more than 80 stores. What we have seen there is on an average any new brand sell throughs are anywhere 55% to 65% in the first season. In case of Rheson, in many of the lines we have seen a 90% sell out. So, there are a lot of items in the line which have been 100% sold out and we are now booking orders for that. Although it is not a niche brand, so we believe that the kind of pricing it has which is right from Rs. 399 and average pricing going right up to Rs. 1,800 to Rs. 2,200 will be very well acceptable. It will also bring in a younger audience into the store which is what we have seen. And we launch it with a big bang activity. And activation happening within the mall, within stores as well as a press launch is really taken off pretty well. Number three, big activity that we did was DOTY which is Designer of the Year award and this really encourages design students across fashion school across India and more than 800 students participated in this event and we ultimately got 8 winners of this contest and their designs will be now part of a private brand in the quarter three of this year in the festive season and this is something that we use to do earlier, so it will become part of our entire calendar now. And again, this will bring in younger audience into the store as well as fresh approach to design as well. So, these are the activities which we believe have done well for us in April and May and really given us a boost. So, our brand campaign on television will be back again in the month of August end and September as we hit the peak festive season.

Abneesh Roy: Sir, coming to the other strategic initiatives you are doing currently smart, the small box format of hyper. So, in Indian obviously that has been a key challenge for every company, the small box format in grocery, so here if you could tell us what is the scalable plan here, what is different here, how are the dynamics, is it just testing waters or already you are confident that there is model which works because we have not seen any player really crack this in a sustainable and profitable manner till now.

Govind Shrikhande: Sure. So, I think we started off looking at it as a test. We believe already in more than 30 days' time that it is a scalable model, number one. Number two, parallelly, we have been already running for almost last 4 to 5 months self-checkout model in one of our biggest stores and in fact, it is now available across multiple stores and contributing in one of the biggest stores almost 8% of our sales. So, really speaking we are mixing technology along with customer convenience. Number two, if you look all around India, there are large amount of IT complexes and business office complexes which require some kind of shopping which is there for the daily need. So, we believe that this kind of model which works on lower cost but self-checkout model, least amount of people and daily needs being catered for the daily walk -in. Because the biggest challenge in any other small store is high rentals and unpredictable walk-in number that are there. So, you might be able to get a store in high traffic but the rentals are very-very high. Whereas here the rentals are much-much lower because it is part of the package for the IT company to try and help their customers which is their own employee to shop easily and take on the merchandize. So, I believe right now, it is too early for me to say that how many stores can we take it on. But we believe it is definitely a very-very scalable model and we are very already committed to roll out at least four more stores in the next two quarters.

Abneesh Roy: But sir, footfalls must be an issue because these customers anyway will be shopping somewhere else currently further monthly needs. So, and footfalls will be essentially captive, so what about that issue?

Govind Shrikhande: So, footfall being captive is the advantage Abneesh because you instead of going for shopping after your work, when you are leaving for home you are picking up your daily requirement and going home. So, if you look at the big box model, the biggest challenge in the big box model is customers come to us for the big box model for the monthly shopping and fortnightly topping. They do not come to us for the daily shopping. Its head-on that problem.

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

Avi Mehta: Sir, you highlighted that you have maintained the target SSS growth at 8%, with the 1Q being that strong is that being a little conservative and if yes, why?

Govind Shrikhande: No, so, Avi if you look at it in our overall quarter, quarter one is the lowest quarter in terms of overall contribution. Q3 is always the biggest contributor and what is happening this year is the Q2 - Q3 versus last year versus this year is changing slightly because last year Diwali was in November, this year it is coming in October, as a result Pooja is also moving into August - September, so there are slight changes on the ground for a base comparison level.

Avi Mehta: So, if that happens, I mean if I hear this correctly. You are saying it moves to October, so actually Q3 benefits and Q2 might actually be an issue in terms of base.

Govind Shrikhande: That is right.

Avi Mehta: okay. And sir, in terms of depreciation last quarter I thought was the sudden change in the useful life if I would see what has been this change and what has driven this change, what is the number that we should take going forward?

Govind Shrikhande: What are you comparing Avi, you are comparing last year's Q1?

Avi Mehta: No, 4Q versus because last year store closure was there 4Q to 1Q is what I was comparing but I see the notes that you have written there has been a significant addition because of change in useful life. Now, what has happened over there and what is the steady state I should use?

Sanjay Chakravarti: Basically that note and the gap that you see is the impairment in the value of investment in Chennai store that we have taken which is the Rs. 4.5 crores that you see.

Avi Mehta: Okay. And that is the one-off that I should kind of take in the…

Govind Shrikhande: Correct

Avi Mehta: So, adjusting for that is the run rate that I should assume going forward.

Govind Shrikhande: Correct.

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

Atul Mehra: Sir, just a more longer-term question, in terms for the pure Department Store format. How do we look at profitability here in terms of may be return ratios or capital efficiency may be from a 3-years to 5 years' perspective?

Govind Shrikhande: So, if you look at a 3-year perspective, we should be back at a 8.5% to 9% EBITDA level. And We should be back at a 25% ROCE level, which is what we were doing just about four years back. before we expanded in a big way and with our opening cycle going slightly slower, our productivity cycle going much higher and our drive towards higher profitability also taking on the next level. So, in the standalone business you should expect as I mentioned within three years' time 8.5% to 9% EBITDA and a (+25%) ROCE.

Atul Mehra: What will be the drivers for this, margin is going up to 8.5%, I mean asset turn was largely what you are factoring in is similar but what will be the drivers for margin?

Govind Shrikhande: So, one of the biggest driver would be the new stores that we opened in the last five years, all of them for the third-year start contributing to the bottom-line that is a big change and you will start seeing it from quarter two onwards itself in the way they will start contributing. Number two, the like-to-like growth if you look at it has been slightly subdued over the last 24 months. We believe an 8% to 10% like-to-like growth is very feasible for us to keep on driving that again is a second booster. Margin I am not able to currently see much of a big driving change at gross margin level. But definitely operating cost being under control along with a like-to-like growth that gives me slightly broader margin flow through and definitely the new store opening wider in terms of profitability, all three will drive the EBITDA profitability.

Atul Mehra: The gross margins you are saying would be largely similar. Even the mix in terms of private label versus in terms of third-party would be same?

Govind Shrikhande: So, currently I am assuming that from the next year we should at least a 200 basis points jump in private brand share which would help us also in some amount of margin. But not a big change, I would say a 30 bps a margin change year-on-year.

Atul Mehra: Right. And sir, in terms of your loyalty customers, so while you give out the data that 77% of your sales come from loyalty customers about 5 million people. So, how will that be further in terms of if you were to drill down that even further, it will be like out of those 5 million only a handful of in terms of only say top 20% would be like majority of the sale that will be the rule?

Govind Shrikhande: Not really, these are much more broad-base program and if you look at it may be 60% contributing 80% kind of a number.

Atul Mehra: Okay. So, more broad-base in that sense.

Govind Shrikhande: Yes.

Atul Mehra: Right. And in terms of HyperCity any plans in terms of any financial transaction or in terms of what are the longer-term plans here for HyperCity?

Govind Shrikhande: So, if you recollect we have said that there are three things that we are keeping our focus on during this financial year, keep on improving our store EBITDA profitability start hitting a company EBITDA profitability during this year and then start chasing pack profitability in the next year. And to really chase the pack profitability, we are also looking forward to having some infusion of funds, as of now we have not seen any change there. But we believe by Q3 once we have started this traction that we have shown in quarter one bending up further by Q3 this traction will build up further. We should be able to comment back on the infusion of funds. But we still on the track the company EBITDA positive and this financial year and PAT positive in the next financial year.

Atul Mehra: Would you look at an external investor in the business for HyperCity?

Govind Shrikhande: That is right.

Moderator: Thank you. The next question is from the line of Mahaveer Jain from Aditya Birla Money. Please go ahead.

Mahaveer Jain: I just wanted to know is there any input tax credit arising out of GST?

Sanjay Chakravarti: Yes, whatever it is like whatever is the input GST get set-off against output GST that is the principle on which it runs right?

Mahaveer Jain: I mean to say like Service Tax which was not earlier allowed as input tax credit, right?

Sanjay Chakravarti: Yes, so that is subsuming into GST.

Mahaveer Jain: Yes. So, will that be allowed now?

Sanjay Chakravarti: Yes, it will.

Mahaveer Jain: Yes, so what is the quantum of benefit we are looking at?

Sanjay Chakravarti: In the year of transition we do not see any benefit accruing to the balance sheet.

Mahaveer Jain: Okay. And going forward?

Sanjay Chakravarti: Going forward, we will have to see. We will have to see Mahaveer, we will have to do our calculation, it depends on pricing, it depends on margin negotiation.

Mahaveer Jain: Right. Sir, any ball-park figure and what amount of Service Tax do we pay annually?

Govind Shrikhande: It is roughly around 1.6% to 1.7% of sales.

Mahaveer Jain: All right.

Moderator: Thank you. Next question is from the line of Mehul Desai from IDFC. Please go ahead.

Harit: Hi, sir. This is Harit here from IDFC. Sir, just once again on the GST part, I understand that the private label benefit that you get in terms of lower tax you will pass on in terms of discounting which makes sense. On the Service Tax on the lease rental, your lease rentals are 8% to 10% of sales and you do have a Service Tax to pay on that. Is there any benefit which accurse since it can now be offset and if any, are you going to retain some of that pass it on, how does that part of the GST tax structure work?

Sanjay Chakravarti: So, it is the same thing Harit, like I mentioned in the earlier thing we do not see any benefit coming on in the year of transition.

Harit: Okay, perfect. On the HyperCity front, so you said that you would probably got a 6% to 7% adjusted if we did not have these one-off, so is that the target for the full year also to…

Govind Shrikhande: Yes, we are targeting 8% to 10% like-to-like growth.

Harit: No, on HyperCity as well?

Govind Shrikhande: On HyperCity as well that is what I mentioned in both the businesses.

Harit: In both the businesses, okay.

Moderator: Thank you. Next question is from the line of Avi Mehta from India Infoline. Please go ahead.

Avi Mehta: Sir, just a clarification, your 8.5 percentage is the guidance, if you could just clarify just share again the guidance that you have from margins because it is a 100 bps for this is that still on or is that changing? EBITDA margin expansion guidance.

Govind Shrikhande: Avi, I did not get this. Because 8.5% I said I was up specifically three-year plan, it was a three-year plan that was asked that how do you see the Department Store business over a three-year plan, so three year I said the EBITDA would be in the 8.5% to 9.5% in the standalone and ROC of 25%. And it was for not for this year, it was three-year guidance.

Avi Mehta: Okay, then sorry, it is my mistake. So, would we take 100 bps for this year how is the kind of guidance would you be able to share any guidance on that?

Govind Shrikhande: Roughly, that is the target that is how every year if you move up by 100 bps is where you will end up at 8.5% number.

Avi Mehta: So, we see kind of a targeting similar kind of increase 5.3% was what we were at…

Govind Shrikhande: That is right.

Avi Mehta: Okay, that does not change, right?

Govind Shrikhande: That does not change.

Avi Mehta: And sir, secondly, there has been talks with some of the brands indicating that under GST we will go back to modern retailers and discuss with them to reduce the margin that we share with them. Is that something that is across the broad or this is a very one-off if that at all is happening?

Govind Shrikhande: I am not sure which retailers are talking like this? Which brands are talking like this really but I do not think this is a right kind of talk. This is not the right forum if you ask me to discuss something like this because I think it is about brand and retail partnerships and I think we have to work on the partnerships more stronger than really looking at who is making money or not making money at a given point of time. I think all the time you have to look at it whether both are making money. So, I would leave that discussion out of this forum.

Avi Mehta: No, actually sir, the reason was that the indication was how much price increase would they take and they said that we will disuses with retailer and try to absorb the benefit partly within collaboration with them that is where it kind of came up not otherwise in terms of the pricing that is why I asked.

Govind Shrikhande: So, as of now we have not agreed on any discussion of margin reduction at all because we do not see margin reduction feasibility at all and I think that is the stand that we have taken.

Avi Mehta: And sir, lastly, you have been working a lot on these operating costs whether it is at store level restructuring and employee additions trying to bring more man power, but in terms of if I were to see last year also you saw 60 bps kind of benefit coming in. Do you see that a majority of it is yet to come or do you think that the run rate is more or less similar to what we saw, if you could kind of give us a sense on the timing because we have done a lot of investments I am just trying to kind of understand when we would we see those benefits starting to accrue?

Govind Shrikhande: No, so the multiple investments that have happened over the last 24 months, one of them definitely the biggest investments in the standalone businesses coming in the whole omni area and those returns, so Rs. 60 crores has been invested over the last three years' period. But the returns will actually start off only in the next financial year, this year we will see omni coming into play as of the second-half of the year and will start growing much faster. As I motioned it is growing at 70% right now. Our target for second-half is at least (+100%) and that should start giving us a return for sure. Number two, all the new store investments and the resizing that we are doing both in Shoppes as well as Hyper will again start paying us back from the second-half of this year and that should again help us. And new stores that have completed three years will again start paying back. So, a lot of these areas should start paying back from the second-half of this year.

Avi Mehta: Okay. And would it be fair that at the start of that cycle is that how I should see this because logically that is how it would have been behaving you have seen almost 3 years of low store additions. So, it is fair to expect that the benefit should start accruing as we move forward and should get a higher pace than what we saw last year.

Govind Shrikhande: Absolutely, right from second-half absolutely, right.

Moderator: Thank you. The next question is from the line of Manish Poddar from Renaissance Investment Managers. Please go ahead.

Manish Poddar: Have you mentioned sales growth in this quarter excluding End of Season Sale, if you could get a like-to-like sales growth or what would that number be?

Govind Shrikhande: So, I have mentioned that April and May we are already running at a double-digit growth and before the sale was prepone, we are already running again at about 12%. So, I would say it was about 7% - 8% additional jump that we saw for the quarter because of preponement of sale.

Manish Poddar: So, despite clocking a double-digit growth in April and May, our EBITDA margins have been largely flat.

Govind Shrikhande: Yes.

Manish Poddar: So, how confident are you the of this 100-basis points expansion because despite clocking good numbers in the 1Q and you are saying that Q2 plus Q3 will be different because of base adjustment how confident are you of this margin expansion?

Govind Shrikhande: Manish the difference is the Q2, Q3, Q4 base is much-much higher in terms of total sales and total contribution to the bottom-line and if I look at our last whatever few years Q3 is the highest contributor because the total top-line because of the festive periods have come in there is much-much higher. So, although we are not seeing dramatic change in gross margin level, cost remaining same and top-line growing directly flows in to the bottom-line.

Manish Poddar: And would it be fair to say that let us say in the month of July now you have seen that revival back in double-digit growth?

Govind Shrikhande: No, so in fact I commented that July because of supply challenges because of GST implementation has been definitely a much slower month and we expected that because whatever preponement of sale has happened in June you cannot get that much of additional sale. So, we believe that Q2 will be slower than Q1.

Manish Poddar: Okay. And just one basic thing, the Service Tax on rent, are we supposed to pass it out to the consumer through the private label discounts or how is that supposed to be dealt with because a lot of retailers are saying that we will just passed out and we do to want to come in the radar of the government and any scheme of things. So, what is our stance on this?

Govind Shrikhande: So, our comment was very clear that the benefit of MRP does not come to us, right because we are an 80% branded player as far as Department Store is concerned and in Hyper also similar kind of share of brands. So, there we do not decide the MRP. The MRP decision, the GST decision completely lies with the brand. So, only differential is in private brand which is 12% we have some play because of the change of GST from either 5% or 8%, 8% to going to 12% or 12% becoming 5% which is the differential the way you look at it. There we will pass on the benefit to the customer either by re-pricing or by giving additional discount and that is about 12% in Shoppers and about 15% in Hyper so far private label pay is concerned.

Manish Poddar: If I look at it let us say then 160 basis points - 170 basis points Service Tax paid as a percentage of sales, only 15% of that let us say cumulative level gets passed out to the consumer, we get a straight 130 basis points - 140 basis points depending on the timing of the realization directly in the EBITDA margin then why are we saying then our EBITDA margin guidance expansion only 100 basis points why not higher?

Govind Shrikhande: See, I do not want to comment on that Manish because there are multiple other things playing there. That is on transit inventory that we are carrying which is cutting across brands, cutting across private label as well, where there is only 40% of credit that you will get for this financial year.

Manish Poddar: So, I believe then the inventories largely with us then so what sort of inventory adjustment loss would you see in Q2 because unlike the other players which are there in the scheme of things which provided to you let us say Aditya Birla will supply to you, but for you, you will have a stock of the inventory at house right now. So, what sort of inventory adjustment would you see in Q2?

SanjayChakravarti: Manish, I think it is best that we take it offline because this is a protracted discussion, and you can call me anytime and I will explain how it is going to work. It is not supposed to happen over one quarter, it will happen over minimum two quarters. So, may be if we have a conversation offline I will be able to explain you.

Moderator: Thank you. We have the next question from the line of Abhishek Rangnathan from Ambit Capital. Please go ahead.

Abhishek Rangnathan: So, despite having such a strong top-line and strong like-for-like even before the EOSS, we have seen a gross margin decline which is quite steep. Would all of that be attributable to EOSS or was it also we had some promotion doing prior to that?

Govind Shrikhande: No, so we had a combination of private brands being discounted faster as well as the sale impact both.

Abhishek Rangnathan: But all of it is EOSS?

Govind Shrikhande: No, all of that is not EOSS. So, April - May also had some promotions happening which did impact the margin.

Abhishek Rangnathan: Okay. And second is on the GST credit, transitory, I just wanted to check because the brands are saying that they have to take a hit possibly on the…

Govind Shrikhande: I think Abhishek and all everyone who is listening to this call, this is not a forum to discuss between brands and retailers. I think it is a wrong stand from brands. We have never come and told you what brands are doing or not doing. So, I do not think this is call, that I want to address this issue between brands and retailers.

Abhishek Rangnathan: No, actually my question was not pertaining to that, I was trying to get a sense of the quantum?

Govind Shrikhande: That quantum is coming because somebody is giving you feeler about what it is all about. I would rather prefer to take it offline to take that discussion on.

Abhishek Rangnathan: Sure. The second thing is, on future pricing of the products, now considering that the differential between the products below Rs. 1,000 and above Rs. 1,000 the GST rates are a bit different. There are two aspects here, I think somebody has asked earlier that how does it play in terms the sub-1000 pricing and does it mean that you will see a lot more businesses investing in the sub-1000 category and therefore indirectly competing with you (a)? And (b) what does it also mean for brands in terms of pricing, does it mean that the Rs. 1,000 to Rs. 1,300 to Rs. 1,300 price point actually gets vacated and then it becomes the entire ASP actually shifts for a player like Shoppers Stop on the higher side?

Govind Shrikhande: No, so we actually do not play in that category at all because the sub-1000 category is more value Abhishek and if you look at for example the men's denim is currently running at Rs. 1,800 to Rs. 2,200. So, there is no way anybody can price it below Rs. 1,000 today. Same thing if you look at average shirt prices in our store is Rs. 1,500 to Rs. 1,600. Again, there is no way anybody can do it. So, basically what is going to happen is there is going to be a treatment between category. So, for example kids wear as a category definitely can get some advantage and especially that is where people can play a little bit in terms of Rs. 50 or Rs. 100 up and down versus Rs. 100. But I do not think anybody can change their positioning just because the VAT or GST exchange from 5% to 12% or 12% to 5%, you are going to go and play still in the same positioning, right?

Abhishek Rangnathan: Yes, my question was rather than ASP, how does the ASP behave for you particularly for Shoppers Stop? Does it actually take it up in that case?

Govind Shrikhande: So, logically that is a call that the brands will really take, right because I am 88% branded player.

Moderator: Thank you. Ladies and gentlemen, this was the last question. I would now like to hand over the conference back to Mr. Govind Shrikhande for closing comments.

Govind Shrikhande: Thank you, friends for joining on this call. I am sure, with the festive season coming in all of you would be looking forward to more festive delights. All the best for the 15^{th} August that is coming up, the Janmashtami and the Rakhi that is also coming up, and then Ganesh Chaturthi, all leading towards Diwali and we will again talk to you at the end of Quarter two. Thank you for joining us once again.

Moderator: Thank you very much, members of the management. 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.