"Shoppers Stop Limited Q4FY'16 Earnings Conference Call"

May 4, 2016

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Moderator: Ladies and Gentlemen, Good Day and Welcome to Shoppers Stop Limited Q4 FY-'16 Earnings Conference Call. As a reminder, all participant lines 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Govind Shrikhande -- Managing Director at Shoppers Stop. Thank you and over to you sir.

Govind Shrikhande: Thank you. Good Afternoon, Friends. Welcome to the Q4 Con-call of Shoppers Stop. I am on Page #3. We opened one Department Store at Banaswadi, which is Orion South Mall in Bangalore; we opened one MAC standalone store in Skyzone Phoenix, Mumbai; other than that one more additional store in the Phoenix Mall of Parel, we already have a store in Palladium, this is the additional store that we have opened; one HyperCITY Store opened in Janakpuri, Delhi taking our count of HyperCITY in Delhi to two we already have one in Noida in Garden Galleria, this is the second store, and we are planning for opening the 3rd Store in the Noida area which is coming up in the Logix Mall. So that will really complete the catchment stores within Delhi.

Loyalty Program continues its good progress; 4.1 million members now and 72% of the sales.

Moving on to Page #4 Number of Awards: I am not going to repeat any one of them, you can read them at your leisure, but the big one definitely is "Omni Channel Initiative of the Year" and for Crossword "Retailer of the Year – Leisure" in the Asia Retail Congress.

Moving on to Page #5: You can see the geographical spread across India and as of March '10 we were 5.8 mn sq.ft. across 36 cities and multiple formats out of that, in Department Stores we were 77, Crossword at 50, HomeStop at 18, Mothercare at two standalone doors, MAC Estee Lauder Clinique BOBBI BROWN, the Estee Lauder Specialty format at 75 doors, HyperCITY at 17 and total at 239 doors across India.

Page #6: You can see the total area format-by-format. So in Shoppers Stop at 3.9 million Specialty at 3,37,000, Crossword at approximately almost 1 lakh sq.ft., HyperCITY at 1.2 million and JV companies at 2.4 million totaling to 5.88 million. You can see the photograph of the Orion South Banaswadi, Bangalore Store photograph here, which we opened on 26th of March 43,000 sq.ft., there is a different design element that we have utilized here, you can see lot of open space, very few partitions and large family trial rooms is something that we have tried in this store, the first look and feel of the store has come out pretty well and all those who are in Bangalore or whenever you travel to Bangalore, please visit this store.

Q4 Results: If you recollect my concall on the Q3 Results we had mentioned that we believe Q4 would be slightly subdued and those words have come true; we are seeing 8% overall growth and 6% like-to-like growth. You may recollect that Q3 like-to-like growth in this format was 17%. We did mention to you that the sale had been preponed to December last week and it did have its own impact and even the odd-even formula that is being utilized in Delhi in the month of January has had its impact on the entire Delhi and the NCR region, but I am still okay with the 5.9% like-to-like growth, maybe we could have stretched another 2% or so.

Moving on to Page #9: The good part is we have seen good volume growth coming back again which has been the feature for the full year; we have seen 5.4% volume growth in the Department Store business although like-to-like entry there is degrowth and yes, some of the impact is on account of Delhi, but I think we have still been able to maintain 11 million entry for this quarter vis-à-vis last year, conversion has gone up, ASP growth is very small at 0.5% and the transaction size has also gone up. So I would say that the continuing feature that we currently see if you look at the whole year we have seen 8% like-to-like growth and out of that majority of it is driven by volume for a change against the ASP. In the coming year, again, we are targeting (+8%) growth, but majority I would believe that it is going to be 50:50 split between ASP and volume because there has been a new excise duty that has now come upon Apparel above Rs.1,000.

Moving on to Page #10: Between private brand and exclusive brand we have been able to grow the share by 30 basis points primarily driven by “Wrogn” which is Virat Kohli’s brand and Imara, they have done pretty well. In terms of bought out, it has gone up slightly by 1.8% vis-à-vis last year same quarter. When you look at the mix of merchandise Non-Apparel increased its share by 30 basis points, the prime driver has been Beauty which is one our biggest strength; Beauty has grown by 20% like-to-like growth -- one of the best ever that we have seen, MAC continues to grow very well on like-to-like, same case for Personal Accessories and Women’s Wear which was not growing very well earlier has Ethnic Women’s Wear has grown very well. We have seen a dip in Men’s Wear primarily on account of the sale movement that I mentioned to you for December last week and that is something that may be a cause of concern, but I believe it will come back strongly in this quarter as well.

Moving on to Page #12: Shrinkage very much under control and consistent throughout the year; we are at a 0.36% for the year and 0.48% for the quarter.

Looking at the Sales Numbers on Page #13: Sales up by 8% at Rs.988 crores, margin on sale up by 6% from Rs.307 crores to Rs.327 crores, as a percentage it has fallen from 33.6 to 33.1, 50 basis points jump primarily on account of sale being extended by almost one week because of what we did in December. Operating expenses were up by 8%, but as a percentage had remained constant at 29.5. Operating EBITDA is up by 2% from Rs.51 crores to Rs.52.3 crores. We have seen a marginal drop there in operating profit from 5.6% to 5.3% that has directly driven from the margin drop that we have seen. PBT is up by 5% from 16.5 to 17.4, PAT almost flat at Rs.10.3 crores last year to Rs.10.1 crores this year. So as I mentioned the slower Q4 has had its impact on the top line and LTL and that is why you are seeing a flat growth at LTL level, but I believe that the coming two quarters we should see a good revival on like-to-like growth as well, for the whole year last year we delivered 8%, we are targeting again an 8% like-to-like growth even for the coming year and we believe the various actions that we are taking to drive the share of private brands, exclusive brands would lead to margin growth between 40 to 50 basis points and for the next year we are targeting almost 6.4% of EBITDA at SSL level.

Before I get on to the Consolidated Numbers, I would like to first go into HyperCITY and then I will come back to consolidated numbers after I explain the HyperCITY issues. So moving on to Page #21, like-to-like sales growth has been about 2%, overall growth at 4% and like-to-like sales per sq.ft. growth has been at 4.8% post the downsizing of one store. Fashion Mix has remained almost constant vis-à-vis last year of 14.6, they are at 14.8, we were trying to drive it higher but we have not been able to achieve it in this quarter, otherwise in all the quarters we have been able to increase the Fashion growth. The good part of this quarter has been volume growth in Food has come back and overall volume growth is at 4%, which I will explain later as well. Gross margin is down because Fashion we have not been able to drive higher share and that is why it is down by 60 basis points. OPEX growth like-to-like level is 0.3, so pretty well controlled. If you look at the store operating profit it is (-1.4) versus 539 lakhs last year, which was positive and if you look at a like-to-like store operating profit 347 lakhs versus last year's 556 lakhs, so slightly lower than last year and company EBITDA at Rs.(-12.9) crores Vs Rs.6.4 crores. So there has been some amount of drop in I would say the performance of HyperCITY and I had mentioned to you last time the various steps that we want to take and I will elaborate on that once I have completed these numbers. If you look at the PAT number, these are non-comparable numbers because last year there was Rs.89 crores of profit booked on account of the property auction and that is why the numbers that you see are on the positive side vis-à-vis what you see here on the operating side. We opened Janakpuri store in this quarter and we shut down Jaipur store, which we believe was not performing very well, and at the end of the quarter we are at 1.3 mn sq.ft. with 17 Stores, you can see the photographs of Janakpuri Store. Compact store at 43,000 sq.ft. As we had mentioned earlier all the new stores that we are opening now are between 30,000 and 40,000 sq.ft. that is the new model covering all the categories.

Moving on to Page #25: At overall level 5% overall growth, 2.1% of like-to-like growth.

Page #26: You can again see that the customer entry, there has been a drop also accounted by because of the closure of the Jaipur store, but at a quarterly level if you look at it we have been able to maintain 4 million plus number for customer entry. Conversion has been up. If you look at average selling price after a long time we are seeing a drop in ASP which is definitely a good control and inflation that has happened in the market and in fact like-to-like stores if you see the degrowth has been 2.2%. But the best part has been the volume growth of 4% that has come back which is very good and we are seeing Food tractions coming back on like and that is very important for us whether it is 65% share of say Food driving higher definitely helps the overall basket size.

Moving on to Page #27: Just looking at the numbers sales up by 4% from Rs.218 crores to Rs.227 crores, margin on sale from Rs.43 crores last year to Rs.42.5 crores, drop of 1.3% on account of Food share being high, slightly higher level of shrinkage and Fashion not really contributing to the big growth. At a store EBITDA level against the Rs.5.3 crores profit last year we are at (-1.3) primarily on account of sales not growing faster than the operational cost growth and that is the result also you are seeing in the company EBITDA which is at (-12.9) versus 66.8, but that has a contribution of Rs.73 crores of property auction booking of profit, overall it was Rs.89

crores including the cost but here we are only showing you the profit on account of the property auction and that is why you can see Rs.(-35) crores Vs Rs.48 crores because Rs.48 crores includes the Rs.73 crores of property auction income.

So, I would say definitely the Q3 & Q4 have been big learnings for us in terms of how the market is behaving and where we are heading for. Q4 onwards we are starting the indication of the changes that we are trying to bring in especially we can see in the Food.

Fundamentally we are taking on three big action plans as far as HyperCITY is concerned; one of the biggest change that we have brought on about in the entire business is the team change; so Mr. Ramesh Menon has joined the team now from February, who is the CEO, we have a new marketing head, we have now a new HR Head and a COO who has been there for last 6-months. We believe that now the bench strength of HyperCITY is well and good and full now, #1

#2, we relooked at our positioning completely over the last 120-days looking at customer research, looking at customer feedback and internal feedback and we believe that we need to reposition this brand again to the same discovery and fresh position which it was famous for earlier rather than the discounting image that we were trying to portray in the last few quarters. So we believe that work is already on.

#3 I think we believe that HyperCITY customers come and look for great experience along with newness and great service; we are going back to those basics and working on those, and I strongly believe that we should be able to get the act right over the next 60-days to 90-days period so you should start seeing the results changing from Q2 onwards, we are targeting 8% like-to-like growth in this business vis-à-vis less than 2% like-to-like growth during the last year. So it is a big change that we are looking at and focusing on. I believe with the positioning change, assortment change which has already started coming in, I had mentioned that Waitrose **13:32** will start hitting the store, it is already available in the store starting March, the international assortment has also started hitting the store starting February and we are seeing a good traction on that as well.

Third big area that we are working on in HyperCITY is infusion of funds and we believe that over two quarters or three quarters we should be able to bring in infusion of funds in this business which will further pair down the debt of this business as well and give the funds to it to really drive harder for the coming year.

We are targeting three store openings in this business; one of them has already opened which is Panwel and the first initial indications have been very good based on the new metrics of merchandize that we are doing. In terms of overall positioning we are actually trying to look at the whole market into two kinds of formats -- one is in the Metro where you have cosmopolitan customer which is looking at experience and for them value is all about more service and more newness; and the second level which is smaller catchment, where customers are looking at lot of localization along with value for money. These are the two kinds of formats that we will be driving in the coming year and years to come and we believe we now have the right magic to really drive this business not only on the like-to-like growth level but also on the profitability side. So that's on the HyperCITY financials.

Let me first go back to the Consolidated Results and then also explain to you what we are also trying to do in the Shoppers Stop Business. So on the Consol Results, the sales is up by 7%, marginal sale is also up by 5% and operating profit or EBITDA is slightly down by 4% from 42.8 to 41.1. At PBT level from 8.7 last year we are at Rs.20 crores because of the change that we saw in Hyper and even at PAT after minority interest we are at Rs.(-9.9) crores Vs Rs.(+34.7) crores positive last year, and as I mentioned to you there is Rs.73.3 crores sitting in this line in the last year because of property auction. So that is the big twister that you see in the number. So on operating result wise, yes, we could have done better, but it is not as bad as you see there in the operating result number vis-à-vis the financial number.

In terms of Shoppers action plan, the big thing that we are really looking at in coming year, six store openings in the coming year, we already opened three stores in this month -- one in Goa, one in Logix Noida and the third one in Panvel. We are also focusing a lot as I mentioned on the whole Omni Channel journey. Our new website with Hybris execution was up and running from Diwali onwards last year. We have launched our iOS app and Android app in the month of March and we are already seeing a good traction of that and more than 1.5 lakhs downloads have already happened. We are targeting that at a first level how many of our 4.1 million First Citizen customer can we drive to really get that downloaded, I believe we should be able to end up at about at 2 million downloads over the next 12-month period right from our regular customers which is First Citizen which should again help. We have started execution of our WMS System and our first phase will get completed between July-August and fully completed WMS would be available by December. We also started executing our CRM and that should get completed between Q2 and Q3 and then kicks the last phase of our Omni Channel journey on Master Data Management and that we are targeting to complete between next year June to September. So 2017 by the end of first half we should be completely Omni Channel in a big way.

The other big initiative that we are also working in Hyper parallelly is to develop app for HyperCITY to start delivering locally in the City of Mumbai first and then in Bangalore, which should also help us in terms of Hyper local delivery pattern and I believe that a lot of customers who are looking at convenience would be very happy with this kind of a delivery mechanism that we are really creating

So looking ahead, as I mentioned, lot of action plans are in store and I believe the next year is going to be a big breakout year as far as Shoppers Stop is concerned because one more thing that I would like to definitely mention here is apart from the like-to-like growth and the EBITDA growth that we are targeting, we are also targeting free cash flow in the Shoppers Stop Limited space, that definitely should change the entire impact and with the change that is happening in HyperCITY where we are targeting to hit store EBITDA level and company EBITDA level by Q4 and infusion of fund, at overall level our debt will come down, free cash flows will start coming in, overall EBITDA will go up in the limited space as well as consolidated space. So I believe there is a strong plans to really make it a big bang year the coming financial year.

With these words, I would move on and open Session for any Questions-Answers.

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

Abneesh Roy: Sir, my first question is on the app. So if you see now Myntra is also kind of defocusing on that from a pure App, now they are also turning back to the Desktop. So, in your case, is it a case more a branding and necessary from a system perspective, so are you really targeting big portion of revenues from this App, Desktop is far more consumer-friendly, so do you see this more from a branding perspective or from a revenue perspective also from a two year horizon it will be substantial?

Govind Shrikhande: Two things, Abneesh. We are already on Desktop. So App is a direct connect for many customers who are loyal customers for us, so for example, if my First Citizen base as I mentioned is more than 4.1 million and they contribute 72% of sale and they want to continue shopping from the Physical Store to Online Store, it becomes easy for them to really have the App and continue. The big advantage of having the App on the Mobile and identifying the customer for us is a long term Omni Channel benefit. So I can actually track that customer shopping not only on the App and the store but through and through Omni Channel which really helps me to then ensure that I can actually send him new suggestions based on the way he is shopping there. So Desktop is going to be big but if you look at the other pattern in India, Mobile is becoming very-very big in India. If Mobile contribution on Online Shopping is currently let us say 40% is likely to rise to 60% in the long run. So you need to have the App for sure not only in terms of branding but direct access to customer and the long-term benefit of Omni Channel. So we are not seeing it as a standalone, it will be part of the entire suite of applications.

Abneesh Roy: Sir, within Mobile, consumer uses more App or more the normal Website itself?

Govind Shrikhande: So I do not really have a breakdown in that manner that how many are using on App and how many of them are using on Desktop but I think different companies have different percentages of that, but long-term whatever we know from the UK market and US market, loyal customers do tend to use the App more than the non-loyal customer.

Abneesh Roy: Sir, you said in your opening remarks, next two quarters will be good. So is it because the online players are currently undergoing huge struggle, I find discounts completely dry up in most cases, so is that a big reason for this rival because your sentiments are not being shared by other parts of the consumption?

Govind Shrikhande: I have basically two comments on the overall economy first and then that leads us to really believe that consumption should be okay. So if you look at last year and the coming year we actually do not see on the ground level too much of a change in terms of the GDP growth whether it is 7%, 7.5% we still see on the similar level. But there are two big announcements that matter to us and matters I think to the whole market -- one is definitely the prediction that normal monsoon is going to happen next year. It does have a big bearing on commodity cost especially on the HyperCITY side, where Food is a large component, if there is no inflation it helps us to sell better, or if there is a lower inflation, we can actually drive higher sale as well. On an overall level good monsoon has a great I would say stability in the mind of the consumer that things are fine because if you look at currently last 1-month and even I would say the next 30-days time lot of headlines are going to center around shortage of water. Every city that we look at there is a problem other than Mumbai which does seem to be having good supply, but most of the other cities do have a challenge in terms of water supply. So having a good monsoon will have a great mindset impact. Second belief that we also have is what the Central Government has announced in terms of increments through the Pay Commission route and we believe that that additional money that comes into the hand of the employees will definitely lead to more disposable income and would also lead to more spending at Retail. So we are actually not saying that we are over bullish for the next year, we are at the same level of like-to-like growth target for the coming year, but the working mechanism that we are looking at overall level in terms of cost control, margin growth and LTM growth, the combination is what we believe will lead to the change in the overall format.

Abneesh Roy: Men section did not do well in March quarter. Is it for entire industry it has been a big challenge because of shift of the sale season preponement?

Govind Shrikhande: Yes, it has been for the entire industry.

Abneesh Roy: Fashion… is it now plateauing at 15% for HyperCITY?

Govind Shrikhande: Right now plateauing but we are targeting to grow it back to 20% in the coming financial year, we believe that there were some corrections, the ranges that we needed to undertake and yes, we have continued to target it higher because it has a much higher contribution in terms of margin and without compromising on our assortment we are really looking at how do we really drive it better.

Abneesh Roy: On the customer entry, INOX or like-to-like footfall growth of 25% because this time some movies have done well in the March quarter. Shoppers Stop within your business has fed relatively better than HyperCITY flattish almost. But HyperCITY partly because of Jaipur 8% fall. Without Jaipur, HyperCITY how much is the customer entry fall?

Govind Shrikhande: It would be on the similar level Abneesh around (-3%) because what we have seen is one of our biggest store which is Malad had a big competition coming up in the last 4-months time and that is where we are seeing the maximum amount of footfall drop. If a big competition opens up you will see that impact between a one quarter to two quarter, it should start receding from Q2 onwards.

Abneesh Roy: Delhi… you have been saying this earlier calls also, so this essentially odd even rule, how big is Delhi as a portion of your national sales, does it really move the needle so much?

Govind Shrikhande: I cannot give you the number, but yes, it does move the needle both on entry and sales because if I look at the number of stores there about 9 Stores of them in Shoppers Stop alone Delhi and NCR put together because …

Abneesh Roy: Foods have done a good recovery, account understand the reasons behind that. Is it Patanjali, is it any specific thing you are doing, what is working there?

Govind Shrikhande: Patanjali is growing faster than the other food for sure but I think two challenges that we had looked at mainly in the fruits and vegetables were assortment pricing has been done better and even the FMCG supplies have been better.

Abneesh Roy: So you are saying it was a supply issue earlier not a demand recovery?

Govind Shrikhande: Not demand recovery per se. What happens in the FMCG sector is even if prices go down you cannot consume more rice or more tea. So even if there is 5% down volume actually does not go up because of price drop. That is the issue really in the disposable part whereas let us say Fashion if you are buying one T-shirt, you might buy two T-shirts but in Food in reality it does not change that way, in food what really happens is availability matters for sure, new products matter for sure and definitely right assortment matters for sure. As I had mentioned to you in the Q4 we have launched Waitrose, a small range and international food range as well. So that range correction also does help.

Abneesh Roy: Beauty has a very good 20% like-to-like growth. So what is happening there – is it because of your entire assortment it is working because industry is not seeing this kind of growth?

Govind Shrikhande: So I think we have a strong assortment in Beauty across both the entry points as well as mid points as well as the premium points and that does seem to be working very well because Makeup as a category if I look at over the last 4 to 5-years has almost jumped by 100% over the 4-year period which is very good and that is the first entry point for Cosmetic customers after you have taken on Makeup then the next movement for you is Skincare and we believe Skincare which is much more pricy will start also working… already it is working in certain level or in a certain store my belief is over next 2-3-years period even that penetration will start increasing and Perfume is still working well because we again have the largest assortment of brands within Perfumes as well. So if I look at our overall assortment in Beauty we carry more than 100 brands between these three categories.

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

Avi Mehta: First on Shoppers Stop. You indicated that next year you are expecting 8%-odd business growth. Please correct me is there a division in the earlier target towards the downward trajectory or no, there is no divisions?

Govind Shrikhande: We have always maintained the target of maintaining (+8%) like-to-like growth and that is what we delivered even last year, we are still on the same target. So we believe that whatever is the current market situation of '15-'16, '16-'17 is not really likely to see any dramatic change upward or downward as of now other than the two factors that I mentioned which is one is the monsoon and second is the central employees getting higher increments.

Avi Mehta: Sir on the margin side, you have indicated 40-50 bps expansion. I am just putting this in context with the 6-Stores addition that you are planning. I am trying to kind of understand what can drive or what are the levers which kind of give us the comfort on such a margin expansion?

Govind Shrikhande: Primarily two drivers, Avi, one is increasing the share of private plus exclusive brand which is currently running at just about 17% trying to drive it towards 20% which definitely is the biggest contributor to the margin growth.

Avi Mehta: So it is going to be largely a mix related thing…?

Govind Shrikhande: One is mix, then obviously there would be some cost controls that we are actively looking at, but primarily driven through the mix change.

Avi Mehta: But given that you are doing such a strong store addition, would this mix not get offset by the relative kind of …?

Management: Typically, if you look at our past track, we have added between 8-Stores to 10-Stores in a year on a base which is like looking like a 20% jump, this year we are adding 6-Stores on a base of 76, so it is really less than 10% addition, and when you are adding less than 10%, the cost drag typically is not that high and we are pretty confident that majority of these stores will actually start performing in year one itself.

Avi Mehta: 8% target when do you think that we can achieve that?

Govind Shrikhande: So if you recollect I had mentioned that we actually have looked at a correlation of GDP growth and the like-to-like performance. So whenever India has had about 8% GDP growth we have seen double-digit like-to-like growth in our stores. Although these current GDP growth numbers are like corrected GDP growth, we really do not know whether it is real 7% or real 6%, I believe that when there is real 7.5% to 8% GDP growth we should be able to really drive double-digit like-to-like growth.

Avi Mehta: I was talking about the margin target, sir, you had indicated 8% EBITDA margin target. By when do we expect that now or is there any change, 24-30 months is what you indicated at the end of the third quarter?

Govind Shrikhande: By FY'18 8% is what we are targeting.

Avi Mehta: If I look at the HyperCITY format, there has been an increase in the shrinkage and I was just trying to understand because that kind of weighed on margins and the store operating cost. So what has happened in these two line items sir, is this more a one-off thing in shrinkage and the second is the store operating cost because that is now going back to the FY'14 levels, is that the normal and was FY'15 one-off?

Govind Shrikhande: So let me first cover the shrinkage part; what we realized over the last 1-year is we moved one of the process which was delivery of FMCG items from the suppliers to first DC and now it is going direct to the store delivery. So when we have moved to direct store delivery, we did not have enough capability to handle the deliveries that were happening at the store and that led to a higher shrinkage level. So we have gone back and corrected the process. So our belief is this is a one-time correction and you would not see it again in the coming year. So we will be back to our normal shrinkage level which is 0.8 and below and that is what we believe will happen starting this year; 0.5 to 0.8 is the number if you really look at it, but yes we will be below 0.6 kind of a number for the coming year as far as shrinkage is concerned. As far as operational cost is concerned I think it is very much under control, if you look at we have actually given you the number at the beginning of our comments that like-to-like OPEX growth is really peaking at 0.3%, the growth that you see is because of three-store addition.

Avi Mehta: So sir we should see the similar it is in FY'18 that we should see this kind of moderating, right, but that would be a fair given the store additions that you are planning?

Govind Shrikhande: So what really happens, Avi, again is there are challenges when stores you launch and they do not take off in year-one, that will put a lot of pressure on your cost because the costs are committed and the top line is not really being reached. So what we have recently realized and what is happening right now as I was mentioning to you that the Panvel is a new expand that we have done, we clearly believe that in year-one itself will hit the numbers that we have targeted there because of the way the assortment has moved and because of the way the store has been designed. Now, we have to really crack this model of hitting numbers within the first 18-24-months, then I think we are right on the model. So that is our endeavor for sure.

Avi Mehta: HyperCITY target for EBITDA and PAT breakeven? If you could just share your debt expectations, because you had indicated FY'16 is probably the peak debt, that is sustained and how does that play?

Govind Shrikhande: 6% like-to-like growth in HyperCITY as well and as I mentioned we will hit company EBITDA-positive for the year; #2, current debt in the standalone is Rs.590 crores and as I mentioned it should go down because we will start generating free cash flow and as I mentioned Hyper which is currently at Rs.229 crores debt we are looking at raising funds…I cannot give you a quantified number as of now, but yes, we should be able to tell you between Q2 to Q3 this whole process should be over and definitely it will come down.

Avi Mehta: Company EBITDA you said for FY'17 or 4QFY'17?

Govind Shrikhande: EBIDTA for FY'16-17.

Moderator: Thank you. The next question is from the line of Dimple Sheth from SKS Capital. Please go ahead.

Dimple Sheth: Why the numbers are so subdued during this quarter?

Govind Shrikhande: I do not know whether you were there on the Q3 concall and I had mentioned that two things that happened; Q3 was like a blockbuster, 17% growth and we had also preponed our sale to last week of December. So typically, sales start in January. By one week of preponement, you actually capture some part of the sale in Q3. So that movement definitely impacts your Q4 growth and that we cited in our con-call in the Q3 results and that it would look subdued vis-à-vis the 17%.

Dimple Sheth: Then we are expecting a positive cash flows and improvement in margins in the first half of next year?

Govind Shrikhande: No, the free cash flow I am saying for the full year, because typically you know this business is very season-oriented and the biggest season comes between the Puja, Diwali and Christmas which are typically Q2, Q3.

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

Manish Poddar: Wanted to get a view on how the sales doing, can you slice it by regions or different tiers?

Govind Shrikhande: So in the Department Store business, we have our strength does lie in East which definitely grew 50% higher than the chain LTL growth, West which is again one of our strengths did not have the growth because as I mentioned the leaving week whereas West and South performed almost on the line of the overall LTL growth.

Manish Poddar: Have you been witnessing any movement from Department Stores to single band stores in the last two years or so?

Govind Shrikhande: Difficult to say that, Manish, but I would say that as newer competition comes up, so I would say we look at it in a four level competition in fact, one is the online competition, second is the Specialty Retail, so whether it is a Zara or H&M or the Specialty Fast Fashion Guys, third is the single brand stores and fourth obviously is the Department Store or multi brand. So in reality, the specialty is something new because Zara entered India just about four years back now, H&M has entered, Gap has entered. So there are specialty formats, numbers are growing, and yes, it is a choice for the consumer finally and that choice is not available inside the Department Store because these are standalone Specialty formats and more of them come I think there will be definitely a division of spending as far as customer is concerned and that is where you have to keep on strengthening our options, our categories.

Manish Poddar: Wanted to get a view on how many of both the Specialty and the Standalone formats…we would have done area analysis, how many of these stores would have Shoppers Stop have overlap in the 5 Kms kind of radius to our stores?

Govind Shrikhande: Basically currently the overlap is only two cities – one is Delhi and some part in Mumbai and some part in Bengaluru, not really a big overlap as of now, but pretty strong that all these Specialty formats are multiple stores.

Manish Poddar: So are we witnessing this Membership growth primarily in stores which are older than 3-years or these are primarily new stores which we are witnessing in the Membership growth, what is the inflection point for sales from an individual for a particular store?

Govind Shrikhande: No, look at the two mathematics here – one, let me explain the phenomena; phenomena really is that enrolment of new members actually happens more in newer stores because you are not present there. In older stores, yes, you tend to reach a certain level of number and the share can also reach much higher. So let us say currently we are at an average of 72 there are stores which would be more than 80% share. But really speaking, you compare it also with the number of walk-in versus the base. So if you look at the whole year, we are at 160 million kind of a number of walk-ins and my total member base is only 4.1 million. Even if I consider that the 4.1 million has three members more in the family, so let us say multiple of that 4, you are talking of 16 versus 160, so out of my total walk-in only 10% is the First Citizen customer. So I still have a long way to really go.

Manish Poddar: Can you help us how much is the salience in stores greater than 5-years and how much is the total sq.ft. under these stores because we refurbished a lot of stores in between?

Govind Shrikhande: I do not have readily but it would be more than 70%.

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

Sameep Kasbekar: Just wanted to know the sales traction in the month of April and what is our probably SSG for the first quarter given that we have a high base?

Govind Shrikhande: So last year Q1 was double digit like-to-like growth and this year looks around 7-8% like-to-like growth right now the whole quarter, that is the way the outlook looks like.

Prashant: Prashant here. Firstly, on the customer entry, if I look at the traction on the customer entry front, it is about last 8-10-quarters pretty much remain in the same level itself. Is it that there is no more let us say a big driver and let us say something like conversation or something like transaction size has become a bigger pie to look at if you were to give an explanation to that?

Govind Shrikhande: The number when you look at when 13 million customers are walking in, it is a large number because unlike Online side where you click and you can enter a site, here you have to make an effort of getting into a mall, park your car or whatever and then get in and get out. So typically customers are coming in not for window shopping but they are serious customers for shopping. As much as you can convert more and more of them, it does help you and yes, any ASP growth does drive the ticket size as well, but volume growth along with ASP growth is what we continue to really drive.

Prashant: But over here if we look at it, the customer entry one is to also factor in that you have also been having new store additions as well, so it is taking that into account as well that you are still seeing a flattish kind of a customer entry number for the last few quarters. That is why I was referring to this point, has this become of lesser relevance as compared to what you are talking about in terms of transaction size or maybe the conversion ratio?

Govind Shrikhande: Operational efficiency wise we will always try and focus more and more on the conversion in ticket size rather than trying to get more LTEs because getting more LTEs can be a costly proposition as well and obviously there are other factors that are also coming into play which really means that as many more customers are also trying to shop online because as of last count when you look at it, 300 million Indians are on internet, still less than 80 million are shopping Online, maybe the number is 60 million today. But 60 million is still a very large number across India and I believe yes, the shopping Online habit will only grow over the years and that is where our Omni Channel play or our Apps and our Desktop access would also help across all the brands.

Prashant: Secondly, if we look at the transaction size growth, because if I look at the same period Q3 and Q4 we had a negative transaction size growth, on that we have seen a growth of about 5-7%. Do you think that there could have been a little more scope for increase in that front as far as the transaction size is concerned because we have seen that 5% growth in this particular year on a back of negative base actually?

Govind Shrikhande: I have the Q3 numbers in front of me; showing volume growth of 15.9%, transaction size growth of 8.7%.

Prashant: This is with reference to Q3 FY'16. I was referring to Q4 FY'15, that is the last year same quarter where the transaction size number was 2583 which is a decline of 6%, against that we have seen an increase of 5%.

Govind Shrikhande: I will take it offline.

Prashant: Going forward, what could be an average kind of ASP growth that we could be looking at?

Govind Shrikhande: ASP has not really grown in the year, definitely the transaction size will have to keep on growing.

Prashant: You just said that my growth for the next year is concerned is 8%. So on that ASP would be driving about 4%, is it right?

Govind Shrikhande: We believe that it will be 50:50 in the coming year.

Prashant: If I look at the private label mix, it somewhere seems to be plateauing close to 13-13.5 kind of a level, in fact, if I look at it compared to the last year, it would have just come down by almost about 50-odd bps. So what is happening over there and anything which you are specifically looking at or is it that we are seeing more traction on the exclusive label mix front specifically?

Govind Shrikhande: So fundamentally if you look at we are now in fact showing you both the private brand and exclusive brand and as a composition between both of them this quarter the mix has gone up by 30 basis points. Now the target for the coming year to take this from a current number of about (+16%) to about 20% at overall composition level. So, we are driving both. Now, a number of things that we are doing here - we are picking up brand-by-brand level, looking at cleaning up the assortment, looking at cleaning up the whole presentation brand-by-brand. So every quarter we will pick up one brand and clean up, everything related to that, including assortment, including new launches and even presentation in the store. So over the four quarters you will see four out of our six key brands being completely revamped and I believe that should directly drive the whole share of private brand and exclusive brand.

Prashant: This target of 20% is for the next year?

Govind Shrikhande: Correct, ’16-17.

Prashant: After that you are still expecting that the margins would at best increase only by about 40 bps, is there a correlation because you typically keep talking about private label mix as it keeps increasing there is a bigger delta to as far as the margins are concerned?

Govind Shrikhande: So typically the contribution when you look at 5% extra contribution you should be able to see 50 bps kind of growth; so here we are saying 40 basis points growth vis-à-vis 4% growth.

Prashant: Any number on the Online front?

Govind Shrikhande: What we have said in our three-year strategy plan is that Online will contribute 10% over a three-year period and we are currently at 1% but the Omni Channel full execution will get completed between June to September next year which will be I would say the clear year number zero and from that point onwards we clearly see the drive on Online to be much-much bigger.

Moderator: Thank you. The next question is from the line of Pritesh Vora from Incedo. Please go ahead.

Pritesh Vora: You mentioned in the starting comment that year-on-year target is around 8% like-to-like growth, also you mentioned 6.4% of EBITDA, but in between one of the calls you mentioned you are targeting EBITDA to 8%?

Govind Shrikhande: That is 24-months later; there was a specific question on ’18 financial year, that is what we mentioned.

Moderator: Thank you. The next question is from the line of Chanchal Khandelwal from Birla Sun Life Mutual Fund. Please go ahead.

Chanchal Khandelwal: You said of the 4 million royalty consumer, so 72% sales happened from that, right, or footfall and this I assume that I multiply that by 4, this is 10% of your footfall, that means that the remaining conversion rate is really very poor, right. So why is it…what is a…?

Govind Shrikhande: If you open this presentation which shows conversion ratio of 28% at overall level, when you look at the number of customers who walk in, they always walk in as a group and typical group size, we either have let us say it is 3, so in reality our 28% means (+75%) conversion because customers do not walk in a single, they walk in as a group but make one ticket. I still believe there is scope for improvement -- that point I still buy.

Chanchal Khandelwal: Second point is on the average selling price. Is it the e-Commerce growth is creating deflationary kind of environment where average selling price we are not able to increase and it will be difficult for us to increase the average selling price going forward also?

Govind Shrikhande: This is on account of the whole discounting that the Online guys have been doing and the larger discount sale period that the industry is following. If I really look at it, I think the whole industry including the Online players will have to tighten the belt and reduce the discounting period because average selling price is actually still going up but because the discounting is going for a larger period and at a much deeper discounting level, you are not able to realize that increased price.

Chanchal Khandelwal: Would this trend not continue because somehow the other players will come and discount it because at the end what you realize is your ASP, right?

Govind Shrikhande: Absolutely right, we believe, yes, the new regulations that the government has brought on the B2B on B2C market places, if they are followed, definitely, the discounting phenomena should go down. So we should be better off in the coming financial year than last year if overall contours what the government is announced it should see a big change.

Chanchal Khandelwal: Last three months, have you seen any positive change to highlight in terms of discounting going low?

Govind Shrikhande: Not really, the only positive change that I would say is Beauty which actually have no discounting, has continued its growth of 20% like-to-like, it has no discounting because there are no players really there and although yes, a lot of online sites do sell multiple products, but I think customer still believes in coming to the stores, trying out the product and buying for it. So it is slightly counterintuitive to what we are seeing in the other categories which are more brand proven and which are available at multiple places.

Chanchal Khandelwal: I do not know whether this has been answered on the Omni Channel thing. So June to September next year you are talking about when we will be…?

Govind Shrikhande: Completely Omni Channel. We will continue to see growth quarter-on-quarter and we will keep on advising you how we see the traction and we should start seeing the clear traction from this quarter itself.

Chanchal Khandelwal: Has it been launched …?

Govind Shrikhande: Yes, the new website is already up since last November. Our new Apps have been launched both on Android and Apple, I would request you to try the App and give us the feedback as well. We are already seeing good downloading of the Apps as well; more than 1.5 lakhs downloads have actually happened till now in the less than 30-days time when it has been launched.

Chanchal Khandelwal: But will you have to fund this App download or give discount, will your other expenditure shoot up meanwhile?

Govind Shrikhande: No, we are actually trying to drive it through our First Citizen which I mentioned that, okay, we have a 4.1 million First Citizen, if I can get many more of them to download the App, which is the target for the whole year, can we get at least 2 million downloads, that directly drives usage and shopping.

Chanchal Khandelwal: If I look at the whole last financial year standalone business, you have controlled your employee cost and lease rentals but your other expenditure is still up 12-13% which is in line of top line growth?

Govind Shrikhande: If you actually look at it, operating expenses have come down by 50 basis points for the full financial year, from 29.9 to 29.4, so top line grew by 11, operating expenses grew by 9 and EBITDA grew actually by 15%.

Chanchal Khandelwal: I am dividing the operating expenditure in three parts…?

Sanjay Chakravarti : The year has grown by 11% which is on account of the new stores that have been added. On a like-to-like basis, the growth has been about 6-7%, so the additional 4% has really come out of the new store additions.

Moderator: Thank you. The next question is from the line of Amit Kumar from Investec Capital. Please go ahead.

Amit Kumar: Sir, just wanted to understand to begin with you sort of mentioned that in HyperCITY you look to raise funds. So what is the kind of action plan you are looking at here – will it be minority stake sale, majority, what are we really talking about here?

Govind Shrikhande: Cannot really spell out, but yes, minority, not majority for sure.

Amit Kumar: My second point was with respect to Airport JV that you have, some you bought and sold, some a little bit of stake in that, I just wanted to understand what is going on there?

Govind Shrikhande: I think what you would have seen is that in the Mumbai airport, there was a subsidiary of the main ones company, the subsidiary shareholding has changed to 95% with the international partner that is Dufry and 5% is with Shoppers Stop, that is the only change.

Govind Shrikhande: Just to clarify; Nuance which is a joint venture partner was bought over by Dufry as a company about 18-months ago. So maybe that is something that you are looking at.

Amit Kumar: But any sort of plan there that you want to sort of continue with that business, how do we sort of look at that JV, it is really small in the overall scheme of things, I do not know really how much of management focus or time is that taking up, but are we still happy with the state of affairs there?

Govind Shrikhande: No, clearly, we are not expanding, because this business unless and until you have 4 airports, 5 airports, it does not really make any sense. It is the core business for our partner but not the core business for us. So going ahead, you are right, we are not really going to spend too much time, energy on this. Currently, holding on, we will see over the next 2-3-quarters how to really take it ahead.

Amit Kumar: Just looking at a Slide #19, you had almost Rs.149-odd crores CAPEX in Shoppers Stop Limited along with deposit for stores. Just wanted to guess, how much of this CAPEX in Digital initiative of the company for this year?

Govind Shrikhande: About Rs.24 crores.

Amit Kumar: In terms of the exclusive brands which sort of continue to expand in terms of revenue share, which is about 30 basis points in this particular quarter as well. Are all the brands Wrogn, the tie up that you have with Femina, have all those brands sort of being launched across your stores or is there something which is a continuous sort of process and what is the state of that roll out, what can we expect during the course of FY'17?

Govind Shrikhande: Typically, to launch a brand across India takes anywhere between 24-30 months which is the process. So as of now if you look at Wrogn, Imara and Femina Flaunt, they are available in less than 20-stores today, there is expansion plan for this financial year, between 35-40 Stores for all the three, Wrogn may be expanded to many more, but to cover the 80-stores that we are currently having, it will take us another 18-24-months, but they will move to all the stores.

Amit Kumar: That is sort of playing into the fact that 17% which you sort of want to take to 20%...?

Govind Shrikhande: It will drive the share as well, correct.

Kunal Bhatia: This is Kunal Bhatia from Dalal & Broacha. Just wanted to understand one thing, in this quarter we saw most of the expenses, your rental and employee going up on a quarter-on-quarter basis. If you could give some explanation for the same?

Govind Shrikhande: Basically the growth is on account of new stores only, there is no other change there.

Kunal Bhatia: So basically for the new store that 44,000 Bengaluru store coming in now was also accounted in the current quarter?

Govind Shrikhande: No, there will be some stores which have not completed the full year which would have come in, in the previous year are also accounted, it is not one store which is making the difference, there would be about 4-stores sitting there less than 12-months old.

Moderator: Thank you. The next question is from the line of Harit from IDFC. Please go ahead.

Harit: This is Harit here from IDFC actually. Just had a few questions; just wanted to check firstly on the HyperCITY piece. So you had spoken about 8% LTL growth for Shoppers as well as for HyperCITY. Just wanted to understand, what is the mix that you are expecting of this 8% LTL for HyperCITY in terms of volume and realization?

Govind Shrikhande: As I mentioned in the Department Store it is 50:50. We expect a similar kind of a thing even in Hyper.

Harit: In an environment of deflation in Food and FMCG, would that be a little bit of challenge to achieve next year, how are you thinking of it, would it be more Fashion driven?

Govind Shrikhande: What we also believe is that kind of change that we are bringing in the international merchandise assortments or Waitrose will go up for the whole year, our international food will also go up for the whole year and some other initiatives that we are doing should help us. But I think we have to take it quarter-on-quarter how it looks because let us say a good monsoon can change the picture as far as ASP is concerned as well.

Harit: Waitrose tie up is an exclusive, is it?

Govind Shrikhande: That is right.

Harit: On HyperCITY, you spoke about funding that you are planning. The last year you have not seen any of the property auction part. Is there any visibility in FY'17… I know it is hard to guide but how are you seeing that piece?

Govind Shrikhande: Currently, we do not have any visibility in the coming financial year, we see it over 24-months period, Harit, but the good part is the more it is delayed, the profit can only go up.

Harit: On the Shoppers Stop, this 40-50 bps improvement, obviously, you are not factoring in that the discounting periods will change much and also possibly you are not factoring in the mature store mix will continue to improve, discounting is where possibility at a peak, how do you think of that as well as the fact…?

Govind Shrikhande: We believe that we have reached the peak of discounting. Nobody can actually discount any further because if you are doing flat 50% for almost 21-24-days out of the overall sale period, I do not think anybody has a capability to really drive it harder than that. So discounting has to come down for sure in the Physical Retail space. On the other side, as I was mentioning the new B2C regulations that have come in is they are actually executed, the Online discounting should fall. Because that is one of the drivers for the Physical Retail to really do higher level of discounting. If that evens has a subdued effect, definitely it will help. So you are right in the assumption that discounting will remain same or could be lower. My assumption is it should actually go lower in the coming financial year. #2, driver for the margin growth is yes, the drive in share of both private and exclusive brands and better control on cost.

Harit: On the store expansion part, you said 6 for the Shoppers Stop piece. HyperCITY would be how much?

Govind Shrikhande: Three.

Harit: The area addition would be what about 150,000-200,000 sq.ft.?

Govind Shrikhande: Shoppers average less than 40,000 sq.ft., and Hyper is about 35,000 sq.ft.

Harit: Would there be any rationalization of space for Hyper in FY'17?

Govind Shrikhande: Not currently visible.

Harit: So more or less it is in the base, right?

Govind Shrikhande: Yes.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor over to Mr. Govind Shrikhande for closing comments.

Govind Shrikhande: Thank you, friends for joining in the Q4 Con-call. Just to remind you that Q3 end I had mentioned that Q4 would have been a subdued quarter and we have seen that. So from Bajrangi Bhaijaan we are back to Fan**.** I believe next year we are again targeting Bajrangi Bhaijaan, not for the whole year, but definitely for the Q3, Q4. We are pretty confident that it is going to be a breakout year for the entire group both at the Shoppers Stop Limited level as well as HyperCITY and obviously that will have a big impact on the overall consol results. So as I mentioned a big change year for us and pretty confident on the steps that we are taking in both Hyper and Shoppers. All the best for all of you. Please download our app and start shopping immediately. Yes, the minute the HyperCITY app is up, we will also inform you, so you can stop shopping everywhere else other than HyperCITY physical store and the online store. Thank you and see you again for the Q1 Call.

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