

SHOPPERS STOP

“Shoppers Stop Q4-FY20 Earnings Conference Call”

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SHOPPERS STOP



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Moderator: Ladies and gentlemen good day and welcome to the Shoppers Stop Limited Analyst 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 '*' then '0' on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Rajiv Suri – Managing Director and Chief Executive Officer, Shoppers Stop. Thank you and over to you sir.

Rajiv Suri: Thank you. Good morning and welcome everyone. Thank you for joining us at the Shoppers Stop Earnings for the Quarter 4. Kindly note that the quarterly results, press release and investor presentation are available on our website. I hope you had a chance to browse through the highlights of the performance.

Before I take you through the Quarter 4 performance, I believe we should highlight the importance steps taken during the COVID-19 pandemic. We had to close all our 293 stores from mid-March and had intimated the stock exchange accordingly. Once the lockdown was announced we were concerned about the safety of our employees and customers. We immediately formed the crisis group with the leadership team to ensure the safety and hygiene of our employees. We verified with each and every employee through our subgroups whether they were safe and healthy. I'm very happy to say that no one was impacted with COVID in Shoppers Stop except one employee in our subsidiary who has also now fully recovered. We facilitated remote working from home and arranged training for majority of the service office employees. We also have two regular calls every day, one in the morning and one in the evening with our leadership team to take stock of the safety measures adopted. We have circa 7500 employees and circa 15,000 employees from our brand and they are our biggest strength. We have been in communication with them at regular intervals during town-halls and meetings held directly by me. We also engage the employees on social media including virtual yoga and meditation classes. We also held training for all our employees using digital apps. In addition we held digital training for our CXOs and other key employees in the organization. Omni channel is our biggest focus area though during the lockdown even this was impacted due to closure of DC stores and couriers. We immediately added PPE kits sourced by our private brand stream as essential merchandise on our website and were able to commence business once the lockdown was partially lifted and after that we were able to commence our e-commerce business immediately. We also actively engaged our First Citizen customers using social media and conducted beauty classes, book reading sessions and another gamification. Our Personal Shoppers actively kept in touch with our First Citizens to keep them engaged, ask about their health, making 25,000 personal calls per week, keeping the brand on top of mind. We actively engaged with our vendors and other partners, landlords on a continuous basis to evolve strategies during COVID and post-COVID. We also believe that we need to face this crisis situation together and help each other deal equitably.

Managing liquidity has been a very important focus for us. We ensure the following liquidity measures; we had actively negotiating with our landlords on rental arrangements during

lockdown and post lockdown. We are negotiating no rentals during lockdown period and variable rentals post lockdown period. We only believe that rent can be linear to our revenue. We have been reasonably successful in negotiating this in most stores. The company is proactively taking actions and is in the process of optimizing employment cost with an annualized saving of 20% to 25% last year. We had already been evaluating our course for FY21 and have implemented zero base budgeting, set up a CPO and begun staff optimization with the help of a leading consultant in Quarter 3 and Quarter 4 last year. So even before the COVID impact, we had planned to reduce 50 to 60 crores in this financial year. We have a strong base and the science to understand and implement cost reduction. Post COVID we have further reviewed all the overhead costs in detail and have put a robust plan in place to reduce all discretionary spend significantly included but not limited to travel, marketing, visual merchandising, training etc.

As you observe from our income statement for the full year our costs had increased by a mere 4.5% and this is after opening 38 new stores including 11 large department stores. We deferred most of our capital expenditure such as planned store openings, renovations and technology upgrades until the situation normalizes. All the committed cost which are largely spent we will invest, we will also invest on any attractive business opportunity should they arise. The CAPEX plan will reduce from 212 crores in FY20 to circa 50 crores in this financial year. We plan on liquidating excess inventory sitting in the system owing to lockdown including private brands and we will convert inventory to cash of approximately 60 crores. We have put an aggressive plan to potentially close vulnerable stores which were marginally profitable in the normal course. However in the changed situation with reduced business these stores may become loss making. We will negotiate these with the developers to decide whether to continue to operate these stores or if they should be closed.

The company has availed an additional credit facility of Rs.75 crores in the month of May and has sufficient liquidity to operate the business. We are approaching other banks for an additional facility of Rs. 75 crores which we are confident is quite possible to arrange. With this additional liquidity we believe that we can sustain a stable business and invest as required. You are aware that for the last six quarters we have been debt free.

I will now discuss the Quarter 4 performance of the company; let me start with the positive beginning. We had a strong start for the quarter and if COVID impact had not been there the normalized revenue for the quarter would have grown by 8.8%. However due to COVID the impact was severe, sales impact was Rs.216 crores with a consequent EBITDA impact of Rs.76 crores which completely had flown down to the EBITDA even though we have saved cost on an LTL basis versus last year. The actual revenue for the company was Rs.916 crores which declined 16% due to sales declined in March of 55%. As you are aware retail companies have a higher fixed cost as compared to variable. We were unable to correct these costs in such a short period within the month of March to offset the sudden lockdown and as such our EBITDA was Rs. (16 Crs) versus last year of Rs. 64 Crs The company added 14 stores during the quarter of which 3 are department stores and the rest are 11 beauty and airport stores. Our new department

stores in Quarter 4 includes Sarath City in Hyderabad, IP Sigr Mall in Varanasi and Highlight Mall in Calicut. These are all new designed stores offering our customers a wonderful shopping experience with the widest range of digital luxury brands.

During the quarter we have accounted the following one-off costs; as I mentioned previously we do have a few vulnerable stores where we are negotiating lease rentals, purely on a conservative basis. We have accounted Rs. 20 crores as accelerated depreciation for immovable assets in this financial year for these stores. The accumulated GAAP losses of our 100% subsidiary Crossword is Rs .46.78 crores as at March 31st, 2020 which has substantially eroded its network. Whereas Crossword Book Store Limited continues to take steps to revamp its operations including customer proposition, store rightsizing and brand positioning. The gestation period to achieve the desired level of turnaround is taking longer than previously estimated. Through our business valuation the company has recognized impairment of Rs.20 crores with respect to its equity investment of Rs.35 crores at close.

We have formed a team to evaluate business post-COVID and before next quarter results we will have a future action plan in place. Effective 1st January 2020 the company has reviewed the estimated economic useful life office property an equipment based on the evaluation conducted by an independent valuer. As a result of this the company has decided to take the depreciation charge for the current quarter ending 31st March, 2020, the impact of the quarter is Rs. 30.75 crores. Due to COVID-19 impact, the company has written-off stocks of Rs.11.3 crores. The provision has been higher due to lower sales in March and purely as a conservative measure the company has written off some of the inventory on that which can be sold in FY21.

For the full-year the revenue was Rs.4,385 crores, declining 1% and EBITDA was Rs.183 crores, declining 31% largely been impacted by the Q4 COVID impact. For the fiscal year we have added 11 department stores and 27 beauty and airport stores taking the footprint 293 stores. Our entire CAPEX of Rs.212 crores was from internal accruals. We remained debt-free as at March 2020.

A quick update on our strategic pillars; on our First Citizen pillar the company has implemented Gravity which is the online loyalty engine to analyze in depth our customer buying behavior. During the quarter the company added 140,000 loyalty customers ending with a high base of 7 million. During the year we added nearly 1 million new First Citizen customers. We have enrolled approximately 3500 Black Card of customers for Quarter 4 and for the full-year we have circa 17,000 Black Card members. They had purchases our 3X of the First Citizen purchases. The First Citizen purchases contribute to circa 80% of our revenues and grew by 5% during the year.

Our Personal Shoppers Service continues to grow from strength to strength. On customer affinity to this service the Personal Shoppers contributed to 13% of our revenue for the quarter and 15% for the full-year. The Personal Shopper sales also grew by 15% over last year. Our Personal Shoppers are now actively engaged with our First Citizen customers with online shopping also.

On beauty, which is our third pillar; our beauty business continue to remain strong and the beauty mix has increased to 18% of our total revenue. We renovated the beauty section in 2 stores in the last quarter and 16 stores during the year. We also added a beauty multi-brand premium store Arcelia at the Hyderabad airport.

On technology upgradation; we have implemented SAP S4/HANA and a new loyalty engine Gravity as on June 1st. I am proud to say the entire rollout with the cooperation of TCS has been implemented working from home. This technology advancement will help us analyze in-depth customer shopping behavior and in real-time visibility of the business operations to enhance the customer experience. The company has also digitized store operations and processes and eliminated maintenance of manual registers including customer facing processes besides other processes for operational efficiencies.

I will give a quick overview on Quarter 1 FY21 and the early trends of our stores opening; the company has reopened approximately 50 department stores, 7 home-shop stores, 19 beauty stores and 3 airports until yesterday and the businesses around 45% of last year's base. Few of the early trends are as follows; beauty, children's wear, inner wear and home categories are showing better performance. Luggage, footwear, handbags, sunglasses and formalwear categories are showing a higher decline and our airport stores are clocking very low sales due to lower flights and lower traffic. We reiterate that our customers' and employees' safety remains of utmost importance to us. Our stores across all formats follow a stringent safety process that includes mandated the registration of all employees and customers with the Arogya Setu app following guidelines from the Government of India. The complete details of safety measures being taken are also available in our investor day. Once again thank you, stay safe and we are now open to questions.

Moderator: Thank you very much sir. Ladies and gentleman, we will now begin the question and answer session. We have a first question from the line of Avi Mehta from IIFL.

Avi Mehta: Just wanted to understand, you highlighted towards inventory liquidation, could you kind of share what exactly do you have in mind and how will this be carried out?

Rajiv Suri: Due to the lockdown we had got inventory which had been bought for the season and therefore as we lost Rs.216 crores of topline we have some of that inventory still in the ecosystem and we are taking action towards it, one is that we had put it on our e-commerce portal, secondly that we will liquidate it through Amazon and we believe that during the course of the year by rectifying our future open to buy. We will streamline this inventory and therefore be able to convert stocks to cash.

Avi Mehta: Would this be at a lower margin by any chance or margins would not be impacted?

Rajiv Suri: For the year we are not giving any guidance of margins but I think our focus, and for most retailers the focus, is going to be on conserving liquidity and that will remain I would say what priority.

- Avi Mehta:** I meant this inventory liquidation; would it be at a discounted price or is it just realigning our existing inventory that you are doing?
- Rajiv Suri:** It will be a combination of realigning our OTBs for Autumn-Winter'20 which will be cut drastically and there will be some partial discounting also whenever the end of season sales starts later this season.
- Avi Mehta:** You highlighted that the CAPEX number is going to be instead of 210 crores around 50 crores approximately this year.
- Rajiv Suri:** Yes.
- Avi Mehta:** Is this linked to stores or technology, if you could help us kind of give any guidance on store additions that you have planned or how?
- Rajiv Suri:** We are working on the committed stores and it will be a combination of possibly between 4 to 5 stores and we have one or two renovations which were ongoing but we had people were on the floor when the work was going on, we have to complete that because it was already on the way. And thirdly we will do some investment in technology although most of the investment has been done in the last financial year there we did launch SAP S/4HANA as well as our new loyalty APAC with company called Loyalty Juggernaut and the technology is called Gravity. We did also last year's spend investment on mPOS which is mobile POS and we upgraded the whole chain on Oracle Xstore to improve the speed and experience of check-outs. So most of our tech investments are done and in this year we are going to focus more on data and using data to enable our schemes to connect better with the customers.
- Avi Mehta:** The Omni channel bit, now as you said we have installed mPOS in like almost about 60-65 stores, almost 80 stores have pick-order and collect, how is the plan for that, is it going to be more in partnership with Amazon or are you going to invest more in our existing shoppersstop.com, any color on that? That's all from my side.
- Rajiv Suri:** We have both the plans, I mean in our omni-channel business as I have mentioned we are using also our Personal Shoppers to enable the First Citizen, so we have aggressive plans to move lot of our First Citizens online. We believe that the company and the customer will both benefit from that and we are finding good traction so far in that. So we will focus on our dot-com business with Amazon as soon as we are over this black-out period of SAP from 1st of June, so we will be out of it from this week onwards. We will start to ramp up our business with them. We have aggressive rollout of all the four DCs and a large number of stores and we are also going through a process of refurbishing some of our stores because we believe that in the future large proportion of sales are going to come from shipped from store, so we are going to be taking back some of the retail space to repurpose the back to enable us to have hyper local deliveries in 47 cities through our chain of 293 stores.

- Avi Mehta:** I didn't quite understand, so you're essentially saying that it will be omni-channel share is still around 1.5%-2% only or has that changed?
- Rajiv Suri:** At the moment its about 1.9% and I think that the ambition and the aspiration is to be a much higher number but we don't want to give guidance to that because also there is a lot of times when we found that sometime you can do delivery, sometime you can't do deliveries as you have seen in the month of April-May, there has been a lot of lockdown. But we have a big emphasis on omni-channel and we think that we will grow that significantly during this year.
- Moderator:** We have next question from the line of Abneesh Roy from Edelweiss Financial Services.
- Abneesh Roy:** My first question is, how do you change your positioning of the bridge to luxury because sentiments have changed drastically in the last 4 months, job losses, salary cuts etc., so you change the bridge to luxury positioning and your focus on the beauty business because lot of the customers will continue to work from home, so will you wait for normalcy so not do much here or there is something proactive we can do?
- Rajiv Suri:** What we are doing Abneesh is that two or three things, one is that we have already realigned our pricing in the private brands to recognize that there could be a change in consumer behavior and now 70% of our private brand range is below Rs. 1000. So we have already done that action. Secondly for our omni-channel business we are taking an aggressive stand to add new brands which of course in stores you can't add so many new brands because the space is limited. During the lockdown period we have added about 60 new brands and we are also making sure that these brands are targeted to digital natives and people buying online and therefore the positioning will be as such. On the beauty business we still believe that there is merit to continue investing in that. What we have seen the early reaction from customers during the lockdown even is that there are certain categories like fragrance and skin which are in high demand and so we think that it's prudent to continue our investments in beauty.
- Abneesh Roy:** Second question is in terms of stores in the airport, last quarter also you opened a beauty store in the airport. So airport store if you see historically have never made money and you have shut some and what is the reason for opening and secondly in terms of Crossword also you have done multiple changes in terms of strategy last 4-5 years but clearly customer has moved on, so would you like to stay in these kinds of business and you also mentioned that although cash flow liquidity will be focused you will also be open to some attractive opportunities. So are you also interested in the M&A if attractive and if you could elaborate on that?
- Rajiv Suri:** I will answer your questions on this, so as regards to Crossword, I think that the customer we had found in the last 6 to 8 months, our strategy had been to focus on the kids and the children business and we had found good response from the customers because the Indian consumer and parents still like the kids to read. The impact of COVID has been quite strong and the business therefore has been impacted more seriously than the others and our team is pooling together a plan to review what actions which may include again closures of some stores and a big push on omni-channel for books. So I think there is going to be a plan and when we have a next call we

should be able to give you better information on that. When we talk about business opportunities we don't want to make any comment on what we are planning on what we are open to. I think for the time being what we are looking at is any good real estate opportunities that might come up during the course of the year, especially if landlords have malls constructed and they would be looking for new tenant. So that was in the context of the new business opportunities. What was your third question?

Abneesh Roy:

Airport stores.

Rajiv Suri:

On airport I don't know from where you have this information that it's not profitable. The sales densities at the airports pre-COVID were the highest by any circumstances and anywhere in the country, one. Two, the brands give differential margin at the airports and the airports business has been profitable. So I don't know from where you get that this has not been profitable, so it has been profitable. Internal tourism has been strong and the business has been quite robust and that is the reason we opened stores when the airports are being privatized and are being upgraded and therefore will showcase Shoppers Stop as a brand. So we think that we did the right at that point of time. No one expected COVID and what would happen now but as the industry would recover the sales would go up and in the meantime we have spoken to the airport operators in terms of our cost structures and we have had very good feedback from them and they have adjusted the cost structures to deal with the situation today.

Abneesh Roy:

Last question on the rentals, you mentioned good success has been achieved. So my question was in the malls have you got success because other operators are saying in the malls discussion is still on, so could you clarify on that?

Rajiv Suri:

We have about 90 to 100 landlords for our chain and for the majority we have had very positive response and for the ones where we don't have positive response we have not opened our stores. So the stores which we have quoted as open we have had the response that we wanted.

Moderator:

We have next question from the line of Gaurav Jogani from Axis Capital.

Gaurav Jogani:

My first question is with regards to the sharp fall in the gross margin during the quarter of around 400 bps YOY, so is it because of the mix change and less of the beauty sales that has impacted the margins?

Karunakaran M:

So can I answer the question Gaurav

Gaurav Jogani:

Yes.

Karunakaran M:

Gaurav, see the margins if you see our non-GAAP statements, the gross margins have reduced by 260 basis points. Three or four reasons Gaurav, one we had a DV promotion sometime in February-March that comes to almost 70 basis points. We also have one-off gains last year, particularly at the GST that's how about another 70 basis points, under absorption of costs because my cost remains fixed in the month of March and that's another 30 basis points. Rajiv

spoke about the stock write-off also, the additional write-off what we took in Quarter 4. That's earned about another 40 basis points, so these are the three or four components of the margin reduction primarily came in the month of March Gaurav.

Gaurav Jogani: My next question is with regards to the depreciation expenses that we have taken but most of the accounts the depreciation pre Ind-AS 116 shows 114 crores whereas the non-GAAP presentation that you have given it shows 97 or 98 odd crores. So there is a difference of around 15 to 16 odd crores there, so what is that with regards to?

Karunakaran M: Again Gaurav the depreciation, there are two depreciations, one the depreciation of the fixed assets. I'm talking about the non-GAAP one, we have the depreciation plus on the RTU asset also we have the depreciation on the post IndAS-116. That's the reason we always refer the non-GAAP depreciation. If you refer the non-GAAP depreciation last year was Rs 45 crores, this year is Rs.97 crores, again Rajiv covered in his speech, there are two one-time impacts. One, we took off Rs.20 crores additional rather accelerated depreciation for the loss-making stores this year itself, second one because of the change in life of the assets, two ones, the electrical installation and lease-rental improvements, we took another higher amount of Rs.30 crores. So that's the reason there is difference between last year and this year and if you're comparing GAAP versus non-GAAP, the difference is primarily because of the depreciation on RTU asset which is post AS-116 implementation.

Gaurav Jogani: I'm just referring to the non-GAAP only, so as you mentioned that 97 crores odd it was there versus 47 crores but if you refer to your notes to accounts where you have mentioned it is showing 114 crores odd in the notes to accounts for the non-GAAP, pre Ind-AS on the comparable numbers. And accordingly the other expenses other line item I think is over-stated in your non-GAAP thing whereas in the other expenses it is shorter by 15-16 crores odd, so is that the difference there?

Karunakaran M: I will just see these numbers I mean I could not decipher these numbers. I will come back to you before the call end Gaurav. You give me a minute, I will come back.

Gaurav Jogani: Sure. And with regards to the depreciation only, so this accelerated depreciation now is it the rate that we need to take going ahead for the future years as well or is it just a one time?

Rajiv Suri: No, the one-time impact is Rs.31 crores for this quarter. Way forward it will be Rs.10 crores per quarter, so Rs.40 crores per annum that will be the addition depreciation because of the change in life of the assets.

Gaurav Jogani: What's the recovery rate—I missed that after reopening of the stores—how has been the traction there and is it all the stores are operational on daily basis or are they operating on few days like alternate days, how is the performance there?

Rajiv Suri: Most of the stores which we have are operating on a daily basis but single shifts. So right now the stores are closing around 8 o'clock in the evening. In some states and it's different by each

state, so for example in Punjab this last weekend the stores were closed on Saturday and Sunday because they wanted as per the state guidelines and the business is roughly around 55% to 60%. We are finding that in non-metros and Tier II cities the impact is little bit less than the metro cities.

Moderator: We have next question from the line of Ankit Kedia from PhillipCapital.

Ankit Kedia: Just wanted to understand the cost cutting initiatives we have taken across the line items, if you can just share that.

Karunakaran M: Ankit as Rajiv said in the beginning of the speech, two things we did last year, one, we implemented zero-based budgeting and we also implemented the staff optimization sometime by Q2 of last year. So that should give us a benefit of Rs.50 to Rs.60 crores during the year. That's one. Second, for the year we analyzed each and every cost, be it staff, be it electricity, be it lease-rental, be it any other operating expenses and stuff cost. Since we have already implemented zero-base budgeting and we have the science with us what we did was if the business has come down like we have our own internal estimates like for example last of the business was close to Rs.4600 crores and this year if it comes to say 50% or 60% what are the costs we will have and how do we reduce the cost? So that's what we did Ankit, I mean as we have done last year already we have the science behind it and we also know what are the costs we can reduce, what are the costs we can't reduce it and we are implementing. We are in the process of implementing it. In fact again Rajiv covered in the speech, we have already started staff optimization last week and by this weekend that should get closed. That's one. Second on the lease rentals again Rajiv covered, for April and May most of the leasers have given rent-free during the last period and even after that we are negotiating either variably rental or a dividend reduction in the rental. So similarly on electricity cost we have already implemented artificial intelligence last year, we are working on that and all the other administrative and the operating expenses we are working on all the discretionary expenses we are completely controlled at the head office and then we are limiting the expenses. Last but not the least Ankit, last year we worked on two shifts, this year we will work on only one shift at the stores. Does it answer your question Ankit?

Ankit Kedia: Sure, if you can just quantify some of them that would be more helpful. So if our revenue drop would be 20%, the cost saving would be 10% or it will be in line with the revenue drop?

Karunakaran M: Ankit this is evolving I mean there is no way we can say that what will be the revenue drop, what will be the cost drop. As I said we are working like be it the landlord, be it any other expenditure we are working on even some of the contracts what we have, we are renegotiating the contracts. So it evolves Ankit, so cost drop will be obviously slightly lower than the sales drop I mean if that gives an answer to your question but by and large its bit difficult to quantify right now. Probably a month from now or some time later we can again touch back.

- Ankit Kedia:** My second question is on the new stores, saw in the opening remarks alluded 4 to 5 new stores could be opened. How many stores are we looking to close if the mall owners or the landlords are not agreeing to our terms?
- Rajiv Suri:** We have made a list of vulnerable stores. In our opinion this could be somewhere between 10 and 12 stores. At the moment it could be that in the current situation the landlords will be flexible and we may not need to close any or it could be that the landlords are not flexible and we can go and close several of these stores. So that is why we were being conservative and took some accelerated depreciation. Within have a number in mind because we don't know the outcome of the negotiations but we thought it was prudent to take the action well in advance knowing that due to go COVID there will be some disruption.
- Moderator:** We have next question from the line of Shirish Pardeshi from Centrum Broking.
- Shirish Pardeshi:** I have two questions; the first question is that we have 31 airport stores, so would you be able to quantify what kind of revenue and seasonality these 31 stores have?
- Rajiv Suri:** Are you asking what is the percentage of sales of these 31 stores?
- Shirish Pardeshi:** Yes.
- Rajiv Suri:** So these 31 stores would be around 5% or even less than 5% of our sales, probably around 3% to 4%.
- Shirish Pardeshi:** And what is the seasonality in these stores we anticipate or we have seen in last 1 year?
- Rajiv Suri:** The airport stores work on a similar cycle as within the country and of course what happens there is the category purchases are more towards travelers and gifting therefore you would find that beauty, fragrances and such items are selling quite high as is casual wear and travel.
- Shirish Pardeshi:** My last question is on the inventory write-off what we have taken in Q4, is there any impact which can flow down in Q1 also?
- Karunakaran M:** No.
- Rajiv Suri:** You mean in terms of reversal or you mean in terms of additional?
- Shirish Pardeshi:** No, what I heard in the opening remarks that we have enough inventory, I mean absolute inventory which you are trying to look out of this estimate; in fact that it got overflow or come in Q1 FY21 also?
- Rajiv Suri:** No there won't be an impact on that side.
- Moderator:** We have next question from the line of Varun Singh from IDBI Capital.

- Varun Singh:** Can you please share what percentage of our inventory is currently sale as SOR?
- Karunakaran M:** So, we have both OR and SOR and we also have something called Modified OR. So if I combine both SOR and Modified OR it will be between 60% to 65% and OR would be 30% to 35%.
- Varun Singh:** And secondly are we getting benefited because of our tie-up with Amazon and if yes what percentage of roughly, if you can share the revenue share that we would be getting from that platform?
- Rajiv Suri:** As I mentioned in my opening remarks, the tie-up with Amazon remains very strong. But during the COVID period everything was closed, our stores were closed, our DCs were closed and so were the couriers, so therefore there were no deliveries. We do have plans to roll out our stores on EDI as well as our 4 DCs on EDI with Amazon. We will begin that sometime towards the second half of June or the last part of June, mainly because even though the e-commerce operations are open we just launched our new tech platform and we are going through some integration and technology blackout. But we do have our aggressive plans with them. We don't give guidance of the breakup between our dot-com and Amazon business.
- Varun Singh:** Is there not a channel conflict between Amazon and us because we have own website and Amazon is again a website, we are also retailing third party brand, our major chunk and Amazon is also doing same?
- Rajiv Suri:** We think that there is enough customer base in India to cater to our dot-com site, Amazon as well as the other peer, online players and other retailers so we really feel there is no impact. We are trying to be hyper-local through our deliveries and we really believe that there is a customer for both Amazon and for us.
- Moderator:** We have next question from the line of Yash Gokhru from Kotak Mahindra Bank.
- Yash Gokhru:** Just wanted to ask what were the cash levels at 31st March?
- Karunakaran M:** What do you mean by the cash levels, the investments are higher than debt, are you talking about that?
- Yash Gokhru:** No, liquid investments and cash at bank.
- Karunakaran M:** That's around about Rs.170 crores odd.
- Yash Gokhru:** One more question, as you mentioned all of our stores were closed from mid-March, so going ahead what amount of sales do you expect to breakeven?
- Rajiv Suri:** It's difficult to say because we don't know by store how much the sales are going to be and also at the moment the discussions with the landlords is quite fluid and it will depend case to case, depending on the deal with the landlord on rent because as you know in retail one of the big

fixed cost is rental and therefore we can't give a clear idea on what the chain would look like in this case.

Moderator: We have next question from the line of Riken Gopani from Infina Finance.

Riken Gopani: I just had one question, so could you just help us understand for the stores which are open right now, what are the early trends that you are seeing in terms of footfalls and what sort of demand are we seeing if yes wherever it is open? And also if you can give geographical trend towards the Tier II doing better or so, difference on that will be helpful?

Rajiv Suri: What we are finding is that the customer and the consumer behavior during the lockdown is that they are quite hesitant in the beginning to come out and the shopping is more mission-based shopping which means they know what they want to buy. The priority for the shopping is essentials, so they are focusing on buying essentials so home products, innerwear, children's wear and beauty these are the main categories that are doing well. So footfall is down roughly around 70% however the transaction values are higher and the conversions are also higher and therefore the sales decline is not the same as the footfall decline. So that's really the reaction of the customers. We have one of our stores which has been open for longer which is in Garuda in Bangalore which is a Home-Stop store and as you know that the high streets opened before the malls did, so therefore we have a bit more of experience there because the rest of our chain whatever is open is opened only a week ago on June 8th before that everything was shut and in the store in Garuda, we started at sales of (-75%) but as time given we are now at roughly (-20%), so if you see the customer reaction over a period of time starts to improve and now we are hoping that same would apply in the malls but I think it's too early to really comment on that.

Riken Gopani: We do understand that there is a potential that travel may take quite a long time to recover so any ballpark as to what is our dependence on demand related to travel and seasonality around that and the impact there and also the positive side there that people are not travelling internationally, how could it influence more sales better and any initiatives that we are thinking towards that?

Rajiv Suri: The travel business has been important for us from a brand point of view where visibility of Shoppers Stop is in a very lovely setting as well as it's in a nice area with the lot of eyeballs and relevant customers. From a risk point of view the sales being less than 5% of our total turnover is not that material. The Airport Authorities and the Private Operators have been flexible, understanding that if there is no footfall, we can't afford to pay the rents as per the deals and have been quite accommodating to settle that. As regards future is very hard for us to predict today, everything is as you know you will get to know by the government on terms of how many flights are allowed as well as how the impact of COVID would be. So we have to depend on the government to decide this and we have to follow strictly what the government is doing in this case for both safety of our staff as well as the customers.

Moderator: We have next question from the line of Ankit Kedia from PhillipCapital.

- Ankit Kedia:** Your presentation, you alluded that you want to do a transition from a brick and mortar retailer towards through omni-channel organization. Now just wanted to know while in your opening remarks you did say some steps like as a hyper-local delivery, warehousing at the store level, converting Xstore (POS) machines, online availability of the brand, higher brands. How much time frame would that take not from the revenue but strengthening the back end for us to show to the customer and what kind of a revenue trajectory while you don't want to give targets but do you think the organization can do to bear through omni retailer and will the CAPEX be much lower going forward because the store opening would obviously be lower if want to get through omni-retailer?
- Rajiv Suri:** I think that one of the big changes which we have been waiting for and that is why we took this call, that the we will launch SAP S4/HANA during the lockdown which was quite an ambitious thing to do from work from home; was to arrive at a situation where we have one view of the customer. So now we have the technology of the data all in one source, we launched the Loyalty app for our First Citizens and we are relaunching our First Citizen program by the end of this month. We truly believe that given the fact that we now have the technology because we could not do it, we upgraded our hybrids so with the right technology, with right republishing the stores we really think we are in a good position to rapidly multi-fold increase our omni-channel members.
- Ankit Kedia:** Will that include that structurally we will not open as many stores which we used to open both for beauty and for departmental store?
- Rajiv Suri:** I think that it's very early to see how the customer is going to react and we would be very cautious not to invest in new stores in the near future and we should wait for how the customer is reacting, how the market is coming back. I think we will know a lot once the festive season comes in October-November and we will make a call that time.
- Ankit Kedia:** One thing on the EOSS, typically by 22nd-23rd EOSS starts in June. What are you hearing from the brands on the ground on EOSS?
- Rajiv Suri:** At the moment because a lot of the merchandize which has been in the stores has not seen any light of the day in terms of sale-throughs, check-outs, exposures to customers. There is quite a likelihood that that the EOSS will be delayed. We also think from a safety point of view for customers and our employees not to have an EOSS now because due to social distancing etc. it may create some problems and therefore our recommendation has been to delay the EOSS into July and then take a call depending on how this crisis pans out with the customers and their safety.
- Moderator:** We have next question from the line of Avi Mehta from IIFL.
- Avi Mehta:** First was a clarification, you indicated that we are almost at around 50%-60% of our levels earlier. For this is this understanding correct that if the sales stores did 100 last year, they are now at 50-60, is that how you are seeing it?

- Rajiv Suri:** It's early days, it's been only one week so it's early days and you are right for the stores that are opened they are roughly 55%-60% below last year.
- Avi Mehta:** This fixed cost that you said that we have a high fixed cost in nature. In that case would it be fair to expect you in the near term to look to maintain margins or what would be the focus be, unfortunately there is an evolving situation I understand but I just wanted.
- Rajiv Suri:** The two big line items in the P&L so to say of a store is the rent and the staff cost. We made a mention in my opening remarks on actions we are taking with regards to realigning some of those costs as regards staff as well as you due to the nature of the business should have been single shift we don't really need the same number of staff and thirdly the other big fixed cost is our rental and that will depend on case to case. So as you see if our stores are open today, they are open because we are not going to be paying rent for the closing period. So therefore we should see that there will be some alignment of cost but it's very hard to predict today what the sales decline would be and because things are still evolving with relating to efficiency and optimization on one hand, the rentals on the other hand we will have to wait and watch. I think that we will know, we should give it at least a month-month and a half before we really try to make a stag at what the outlook would look like but I think that the festive season, the end of season sale towards sometime in July followed by the festive season would then give us a better indication on this.
- Moderator:** We have the last question from the line of Jay Gandhi from HDFC Securities.
- Jay Gandhi:** Just one question I had, actually this is from the inventory fungibility point of view. If I have to look at the mix of inventory, how much of it will be Apparel, Non-Apparel and within Apparel how much profit would be perhaps Formal?
- Rajiv Suri:** Our sales are roughly 65% for Apparel and 35% for Non-Apparel and our Formal categories if you look at it in the Apparel there are three categories Men, Women and Kid's so Kid's is all casual and in Men's we would say about 35% to 40% is Formal and in Women it's a mix, it's smaller in the Formal maybe around 10% to 15% because Women's Wear generally tends to be much more wider.
- Jay Gandhi:** So I'm just trying to understand that in the event of the higher skew in Formal overall as a percentage of total inventory held, could that perhaps be a deterrent in terms of converting it into cash versus if you had a higher number of Casuals?
- Rajiv Suri:** All the Formal Wear in Men is SOR merchandize so I don't think that's going to have any impact on our liquidity or our cash.
- Jay Gandhi:** Secondly I just wanted to ask you, so you mentioned you have opened 50 odd stores; have all of them moved to a revenue share or is it a mix?

- Rajiv Suri:** We don't want to talk about what exactly our rental deals are but in generally speaking during the lockdown period we are not paying rent and post the lockdown periods we are having a special arrangement with the landlords whether it's variable or a substantial reduction in rent one of the two.
- Jay Gandhi:** Right, I'm just asking from the point of view of is the cash equivalent is around 100 crores odd right, if I'm not wrong something around that? I'm just trying to understand how much of these 100 crores can see us through of how many months in the event of ...?
- Rajiv Suri:** We have done an estimate and in terms of our liquidity and we have sufficient reserves last to beyond one year.
- Moderator:** Thank you very much sir. Ladies and gentlemen that was the last question. I now like to hand the conference over to Mr. Suri for closing comments. Sir over to you.
- Rajiv Suri:** I would like to say thank you to everybody for being with us today. Wish you all to be safe and your families to be safe and thank you for attending.
- Moderator:** Thank you very much sir. Ladies and gentlemen on behalf of Shoppers Stop Limited that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.