

SHOPPERS STOP

“Shoppers Stop Limited Q4 FY19 Earnings Conference
Call”

May 02, 2019

SHOPPERS STOP



**MANAGEMENT: MR. RAJIV SURI – CUSTOMER CARE ASSOCIATE,
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SHOPPERS STOP LIMITED
MR. KARUNAKARAN M. – CHIEF FINANCIAL OFFICER,
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Moderator: Good morning, ladies and gentlemen. Welcome to the Q4 FY19 Earnings Conference Call of Shoppers Stop Limited. 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 that this conference is being recorded. I now hand the conference over to Mr. Rajiv Suri – Customer Care Associate, Managing Director and Chief Executive Officer, Shoppers Stop Limited. Thank you, and over to you, sir.

Rajiv Suri: Thank you. Good morning and welcome to Shoppers Stop Limited Earnings Conference Call for the quarter and year ended r ended 31 March, 2019.

Please note that the results, press release and investor presentation have been mailed and you and also available on our corporate website I hope you had the opportunity to browse through the highlights of the performance.

Last year has been a pivotal year for Shoppers Stop which made the company embark on positive growth and results. In our journey towards transformation, we remain focused and are working towards strengthening our core strategic pillars: First Citizen customers, Personal Shoppers, Private Brands and Beauty.

During the year we have invested in strengthening our leadership team to drive our strategy into actions and achieve the sustainable growth. and the same has been reflected in our quarterly performance. I am pleased to share that based on the back of a robust growth last year we have delivered an overall growth of 6% year-to-date.

Revenue from operations stood at Rs. 4,428 crores. Shoppers Stop posted EBITDA growth of 20% in the full year. PBT excluding exceptional items is at Rs. 124 crores for the year, growing by 55%. During the year we have added 2 department format stores and 13 Beauty format stores , totaling to 83 department format stores and 115 Beauty format stores.

Our First Citizen member base has crossed 6 million. Private Brands has shown significant growth for the quarter has grown by grew by 9.7% and year to date has grown by 4.9% against last year it was minus 18%. Contribution to total sales stands @ 10.9% for the quarter.

Beauty contributed to 16.5% of total sales grew by 9.8% in Q4. For the year, sales contribution stood at 15.3% and grew by 8.6% with the leadership team now in place.

Personal shoppers service contributed to 15.6% of total sales, grew by 57% in Q4, and. Year-on-year contribution stood at 13.6% with a growth of 42%.

E-Com business, excluding Amazon, grew by 10% in Q4 and has grown by 44% for the whole year. During the year 71 million customers visits observed on our website and mobile application during the year.

We have shared the highlights of Q4 and FY19. I am happy to take your questions now. And I am joined here with our CFO – Karuna. Thank you.

Moderator: Thank you. Ladies & gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on the E-Commerce. Your full year growth has been much higher than the growth seen in Q4, so is that largely because of Amazon or are you seeing the consumer behavior change because of discounts coming down and overall regulations being also quite dynamic in Q4? And how do you see FY20 if Amazon comes back? And if Amazon doesn't come back how do you see the growth?

Rajiv Suri: Yes, Abneesh, growth for the year is higher than Q4, and that's mainly because in Q4, as per Press Note 2 released by government we have to delist our operations on Amazon,. Which has impacted our Q4 growth. If you were to look like-for-like for E-Com, business in Q4 did grow by 56% which is in line with our expectation and. As regards to Amazon o, we will be re-listing on Amazon in the next week or two, through our shoppersstop.com subsidiary. And we believe that once we restart that relationship there is a possibility to rebuild our total E-Com business, which is shoppersstop.com and the market place with Amazon.

Abneesh Roy: Sir, congrats on that relisting bit. But could you explain a bit more, on how are you able to now meet the regulation and in terms of relisting, is it very similar to what it was pre-February in terms of the overall flow of the website?

Rajiv Suri: So we are going to start the relisting shortly, or imminently, let's say. And we will continue to scale that up in time. We always have been compliant with the regulatory requirements and we continue to engage with Amazon to make sure our products are available. And we are going to continue to grow from where we left off and pursue multiple strategic opportunities with Amazon and will offer unique experiences and benefits to our consumers. And we are going to continue to invest in technology and scale our presence with it.

Abneesh Roy: Right. My second question is on the beauty business, you saw around 8%, 9% growth in Q4 and full year and now with the new team being there how do you see FY20? I am asking this because Nykaa remains quite aggressive, what is the plan to counter that? And in terms of adding new brands, any development, I know it takes time, but any development on that front?

Rajiv Suri: So, as we mentioned, our beauty business has continued to show good growth. Last year we had overall sales Rs. 679 crores in beauty a growth of 8.6%.. We are going to upgrade our presence in 15 of our top locations in the next 24 months by adding new brands which are not available in those stores today, also we are going to bring few International brands in our stores., we will retain our leadership position in the bricks and mortar in beauty.

Abneesh Roy: Sir, my third question is on the private brands, the mix was stable at 12.2% for the past three quarters, very stable 12.2%, this quarter it has dipped to 10.9%. So is that how seasonality will

be that for three quarters it is quite stable and in Q4 because of the promotions, etc, it comes down? Or is there any further development on the private label because E-Commerce didn't do well that's why this came down?

Rajiv Suri:

That's the customer behavior we found across the years and we are not seeing any major change in the trend, I think we need to look at the performance against last year instead of comparing on quarter on quarter basis. During the quarter Private Brand mix has gone up from 10.1% to 10.9%. Further end of season period where we find that brands are priced lower and therefore our mix is lower in the private brands on quarterly basis. Our Margins for Private Brands have gone up by about 150 basis points during the quarter. So overall, our profitability in private brands has gone up for that quarter. In fact, for the full year our margins have grown by 440 basis points. Also from a minus 18% like-for-like last year to positive of approximately 4% to 5% this year. So a combination sales growing from minus 15% last year to 5% this year with improvement in margin confirms that we are in right direction, to take it forward the Private Brand to a next level. And this also reflects that our strategy which we have put in place is starting to show some results now.

Abneesh Roy:

Sir, one clarification here, so end of season sale happens in Q2 also, that time we didn't see any dip, it was 12.2%, in Q4 we have seen this dip. So is there something more apart from end of season sale?

Rajiv Suri:

So, I think this has been a consumer trend which has been happening in Q4.

Abneesh Roy:

Because Q2 also sees that same thing, right, end of season sale.

Rajiv Suri:

Yes, so I think it is the consumer preference rather than anything else. So if you were to go back to last year you would find a similar trend. So while we have overall growth in private brands, the mix in Q4 due to the consumer reaction has been low.

Abneesh Roy:

And slower E-Commerce also would have impacted it, right?

Rajiv Suri:

Maybe to a certain extent.

Abneesh Roy:

And one clarification on the margins bit, you have also made your private labels more affordable, in spite of that a 400-bps gross margin expansion could you explain? Is it because of sourcing, largely?

Rajiv Suri:

No, I think it is better design and better full price check out that is giving us higher margins.

Abneesh Roy: And sir, last question on the competitive intensity bit. So when I compare your same store sales growth to say your key competitor, listed competitor Central, they have seen around 7.5% SSSG on a two year basis, so 6.5% came on a 1% base, in your case it is almost flat. So in spite of having omni, personal shoppers and loyalty, which is ahead of the competition and the peer set, what would explain this? Is it because of discounting the competition is able to grow faster?

- Rajiv Suri:** I think if you look at our trend over the last two to three years, our like-for-like sales have been in the region of about 2% to 3%. If you compare this year Q4 we have LTL growth of 3.7% versus last year same quarter it was decline by 4% so there is a improvement in the quarter , and year to date growth is 3.9% vs last year 2.1% which also shows some positive trend. And if you were to look t second half this year Like to Like growth is 6.5% versus last year it was decline by 1.3%. which shows that some of the strategy pieces which we are working on are starting to bear fruit. It is still early days in our strategy and for our leadership team, which is quirt recent. But I think if we start to see some positive sales, better profitability, some of our initiatives on either First Citizen customers or our Beauty business or our Private Brands, I think that the strategy is showing that the results are coming.
- Moderator:** Thank you. Our next question is from the line of Avi Mehta from IIFL. Please go ahead.
- Avi Mehta:** Sir, I just wanted to understand the Private label business a little more. What has been the growth in this quarter in the Private label business? I am sorry, I missed that.
- Rajiv Suri:** Our Private Brands growth in Q4 is about 10%. And if you see for the year it is around 5%, which has grown from minus 15% last year. So the swing is roughly 20%.
- Avi Mehta:** And if I recollect, you said right now that, just kind of reiterating, you are expecting the pickup of the investments and the investments kind of starting to pay back as we go forward. So the mid to high-teens growth that you have guided, that is something that we should start expecting from 1Q, how should I look at that, sir?
- Rajiv Suri:** So, if you look at what we discussed, about Private Brands business, we started making these investments a couple of quarters ago, the team also joined us about a quarter ago or maybe four months ago. So in Private Brands I believe that going forward we should look for double-digit growth. And in the next 12 to 18 months we should continue to see much higher growth compared to what we have had in the last year or two.
- Avi Mehta:** So for the next 12 to 18 months at least we should be able to drive double-digit sales growth, that's the expectation?
- Rajiv Suri:** So that's what we are expecting for our Private Brand business.
- Avi Mehta:** So, that along with the investments in Beauty, any guidance in FY20 same store growth rate?
- Rajiv Suri:** So, for FY20 we would like to hold our guidance on LTL sales to mid to high single-digits, and an overall growth of low double-digit.
- Avi Mehta:** Okay. And when I look at this quarter you have been able to deliver on your margin expectations, congratulations on that. How should I look at as we go forward for FY20, is there any guidance you would like to share there as well?

- Rajiv Suri:** So we are looking for a growth in gross margins of about 40 to 50 basis points, and on an EBITDA of 80 to 100 basis points as per our plans for this coming financial year.
- Avi Mehta:** And the 40 to 50 bps, I understand, from the private business, is that a fair expectation? What would be the returns of the divergence?
- Rajiv Suri:** So I would say that's a fair recognition that is primarily driven by Private Brand's growth which is probably going to outstrip the company growth.
- Avi Mehta:** So what I was saying is, 40 to 50 bps on gross margin and another 40 to 50 from cost control, is that what I should assume? And that was the only second question actually.
- Rajiv Suri:** The balance will come from operational efficiency during the course of the year.
- Avi Mehta:** Okay. And last point on the value format business, any update over there that you can share?
- Rajiv Suri:** So, at the moment we have no firm plans to get into the value market segment. And our focus is going to continue on improving our customer experience in our existing stores and upgrading and renovating some of our existing stores. We have worked, on let's call it a new store concept, designed by an international designer, which is going to be our go-to-market strategy in the coming months. We have launched this store concept in Ambiance Mall in Vasant Kunj about a couple of weeks ago, and we believe that our focus needs to be on improving our current business and not entering any new business for the time being.
- Avi Mehta:** And in that sense, any CAPEX guidance?
- Rajiv Suri:** So our CAPEX guidance for next year is between Rs. 140 crores to Rs. 150 crores. one third of which will spend on new stores openings, one third of that will on improving customer experience in existing stores, and rest will be on, IT and on other initiatives. In IT we have just started SAP implementation, about two or three weeks ago, so there is a big investment going on in technology space.
- Moderator:** Thank you. Our next question is from the line of Percy Panthaki from IIFL. Please go ahead.
- Percy Panthaki:** Sir, can you give us some idea of what will be the impact of the IndAS 116 implementation on your P&L and balance sheet?
- Karunakaran M.:** See, we are still working on IndAS 116. So right now we are unable to tell you how it will impact. We are still working on that, with our consultants.. So we have not concluded that, I mean, probably in a fortnight or a month from now we should be able to conclude and we can come back to you at that time.
- Percy Panthaki:** Okay, sir. And secondly, could you give us some guidance on your store openings planned for FY20? And also, what would be the tax rate for FY20?

- Rajiv Suri:** On the store openings, we are planning to open between six to seven department stores. In Q1 we will open three and the balance in the rest of the year, and 15 to 20 beauty stores. So a total of between 21 and 27 stores.
- Karunakaran M.:** On the tax rates, we will still be between 36% to 38%, I don't think there will be any change in the tax rates.
- Percy Panthaki:** Okay, sir. And finally, the same store sales growth trajectory has sort of come off this quarter, so any kind of analysis you have done as to what are the contributory factors to this from a macro standpoint as well as from a Shoppers Stop stand point, whether it is related to any particular geography or old stores versus new, etc, etc. And in context of all this knowledge how do you see FY20 in terms of SSSG?
- Rajiv Suri:** So, I think our growth, as we mentioned, our Private Brands have grown at about 9%, so that has helped us grow. Some other categories which have performed quite well for us is leather which is women handbags, shoes, etc, we grew about 14% in that. Watches business was very strong for us, about 10% and 11% for that. And of course, we anchor with beauty which is roughly 8% to 9%. So these are three main, let's call it, categories or departments where our growth has, including private brands, so four areas which has helped us with our growth.
- Percy Panthaki:** But sir, despite that SSSG is 3.7%, that means there are certain areas which have really sort of not fired. So any causation that you can attribute to those not sort of growing and any corrective measures that will help them grow going ahead?
- Rajiv Suri:** So, I think what we have done as a strategy is that we have tried to come out of sale earlier than the market in order to provide a better customer experience for our customers. That may have had some impact on the like-for-like sales, but we believe that that has been offset partially by improved margins in the month. And if you were to see the growth trajectory, if you were to see versus last year, for Q4 we were minus 4% and this year we are roughly just under 4%, so there has been a swing of 8%.
- Percy Panthaki:** Sure. So would you continue with this strategy of coming out of sale earlier than the competition?
- Rajiv Suri:** So, I cannot comment on that, I think we will have to take a call closer to the season on that based on our full price set, etc. But we really wish that a shorter sales period will give our customers a better shopping experience. And we will endeavor to do it but I think we will have to see how the market is behaving at that point of time.
- Moderator:** Thank you. Our next question is from the line of Shalini Gupta from Quantum Securities. Please go ahead.
- Shalini Gupta:** Just a couple of questions. Sir, employee expenses have gone up only 2%, I just wanted to check, if my understanding serves me right, existing employees have to get a raise of something like 5%

year-on-year, plus there has been some expansion. So why would employee expenses have gone up only 2%, if you could just please explain?

Rajiv Suri: So what we have done was, in order to improve our efficiencies in the stores we had put some of our recruitment on the board since December in order to improve the profitability of the business in the following quarter. And I think it is more of efficiency rather than any other reason why we would have had this lower growth in employee cost.

Shalini Gupta: Okay. And sir, so basically we have just had two large format stores and 15 beauty stores in this financial year, but depreciation has gone up by 70%. So if you could just tie this up?

Karunakaran M.: So, Shalini, the reasons for increase in depreciation is two or three things. In Q4 we closed we Ahmadabad store, that hit almost came to about Rs. 6 crores. We also shifted our store in Ambiance Mall in Vasant Kunj to a different location, that impact also came around about Rs. 5.5 crores. And what we also did is, there were some of the assets where the depreciation was slightly higher than the lease period, we took off that and we wrote it off within the lease period, that one time impact is around about Rs. 5.5 crores. So the total is around about Rs. 16 crores for the quarter. And if you see for full year what we also did is we want to improve the overall shopping experience for our consumers so we shifted from the original CDMA lighting to LED lighting, so that we took an impact of almost Rs. 11 crores. These are three or four large items where we felt that it is a one-off item and we took the impact during the year.

Shalini Gupta: So sir going forward what is the kind of depreciation figure we should expect? I mean, that for financial year 2019, will it continue for financial year 2020?

Karunakaran M.: See, right now if you see financial year 2019 it is around about Rs. 135 crores, so we expect to be Rs. 120 crores to Rs. 125 crores for FY20, that is the depreciation we would expect for the full year.

Rajiv Suri: But we will continuously evaluate stores performance and stores which under performing a don't helps in increasing customer experience or a store which loss making, we might review that during the course of the year which will have impact on depreciation

Shalini Gupta: Okay. And sir, like a couple of quarters back when we I had spoken to you, you had said that online is the way you will address the tier-III markets, which are really growing rapidly but don't have the purchasing power. But online itself is coming off, I mean, at that time online was growing at 100%, now it has come off to say 44%. So, let's take 55% assuming Amazon and all gets, our sales on Amazon come back to normal, so could you just explain why online sales are coming off? Is it that the tier-III towns are slowing down? If you could just give your views on this?

Rajiv Suri: So, if you look at our geographical spread now, till last year we were serving around 10,000 to 12,000 pin codes, and now we are serving about 25,000 pin codes. Also We have started click-and-collect service from 50 stores now to improve the customer experience. We are also

improving our efficiencies by delivering from stores, from 38 stores which will help us deliver the product faster. Our number of visitors from these markets have gone up and we currently have 71 million visitors and we have grown around 50%. We have got now about 5.5 million customer has downloaded our mobile app. So I think directionally we are moving in the right direction. But really what we are not doing is chasing sales only, we believe that the role of E-Com is more for a bricks-and-mortar retailer and omni channel experience or across channel rather than only E-Com. And we believe that we are able to have one single view of the company for the customer. I think that is really going to be our focus on how can we drive footfall from our E-Com side to our stores and vice-versa. And I think that's where the efforts is what we are taking. And if you look at click-and-collect, we were doing it from 17 stores, now it is 50 stores. So you can see also that it is improving the customer experience.

Shalini Gupta: Okay. And sir, if I understood it correctly, you have not really put a number to SSSG going forward in financial year 2020. So should we assume a little higher SSSG than, say financial year 2019, is that a correct assumption?

Rajiv Suri: So, the SSSG growth going forward will be in the range of mid to high single-digit versus a low single-digit this year.

Shalini Gupta: Okay. And sir, just a couple of other questions. Basically what I find is that quarter-after-quarter the people coming into your stores, the customer entry is still on a decline. So any thoughts on this whether this is a trend likely to continue, or what are your thoughts on this?

Rajiv Suri: So, if you see that how the trend has been, last year we had a decline of about 10%, this year it has improved from minus 10% to minus 5%, so there has been let's say an improvement in that sense. Last quarter was about 2.5%. So we are finding some improvement in our customer entry. I think customer entry is going to remain a challenge from bricks-and-mortar retailers in terms of the business. But we are working on our four pillars of strategy, and we believe that that is going to continuously help us improve our footfall. So, from minus 10% to minus 5%, so some improvement, although still negative, and last quarter indication of minus 2.5%, and we are going to focus on trying to get that flat and positive this year.

Moderator: Thank you. Our next question is from the line of Aejas Lakhani from Edelweiss AMC. Please go ahead.

Aejas Lakhani: I just want to check that what is our plan on the private label segment? Are we going to be in value segment or in the premium segment, what segment are we really positioning the private label business for?

Rajiv Suri: So, we have five Private brands and our Private brand, typically our biggest brand is STOP and is typically entry price point for an aspiring customer in our stores. But they all serve a different purpose, so STOP forms the base at the entry price point, LIFE is for a younger consumer, Kashish is for the Ethnic consumer, and Lisa is for a more, let's call it, category consumer for handbag, etc. So, I would say from a price point of view they are all different. We are introducing

more exclusive brands to our portfolio, we launched Kendal & Kylie handbags in India, and those were positioned more at the mid to upper price point. We have signed another brand from the U.S. which will be positioned in the upper market segment, which is Jones New York, which is more on the upper price point. And we are signing another three brands in winter which is all going to help us in positioning the Private brand. So, to summarize, yes, it is the entry price point, but in our journey for the future we are also going to introduce brands that will serve the customers and any white-spots in our product assortment.

Moderator: Thank you. Our next question is from the line of Saumya Kacholia from Lucky Investment Managers. Please go ahead.

Saumya Kacholia: Could you please tell me the sales amount for the brand STOP for Q4 and full year, if possible?

Rajiv Suri: We don't give guidance on our brand wise sales, for Private brands we always give a consolidated view on that.

Saumya Kacholia: But could you just give me a broad view, I mean, like an overview, how has the brand done?

Rajiv Suri: So, the brand STOP is a category business., it is largest in our portfolio of brands. it is an important category business for us. And it is the only brand which is cross category, like Ladies category which has Ethnic as well as western wear , it also has Mens category having formal and casual as well and Kids category and so on.. So, in that sense, from a category point of view it is our largest brand and it represents all the apparel categories.

Moderator: Thank you. Our next question is from the line of Gaurav Jugani from Axis Capital. Please go ahead.

Gaurav Jugani: Sir, as I understand that we have 83 Shoppers Stop at the end of FY19, and I believe that were the same 83 at the end of FY18 as well, so I understand that there have been two store closures. Sir, the new stores that have been opened, is their square footage lesser than what the earlier stores were? First question is that. And second, what is the average size of the beauty stores that we are looking to open, the 15-odd that we are looking to open going ahead?

Rajiv Suri: Yes we opened two new stores in Omaxe Noida and Nasik having smaller in size and we have two closures one at Ahmedabad CG Road and 2nd one Raipur Airport hence the total count remain the same. To answer to your 2nd question we are going to open in Beauty, stores they are typically between 500 and 700 square feet. they are normally with Estee Lauder Group (mix of M.A.C, Bobbi Brown and Clinique stores). So that is going to be our new stores. We are also opening six to seven department stores next year. .

Moderator: Thank you. Our next question is from the line of Harith Kapoor from Investec. Please go ahead.

Harith Kapoor: Just had two questions. Firstly on the concept store which you opened, what is the difference in that, is it just layout or is it also square footage?

- Rajiv Suri:** The store itself, I would say the idea behind the store was to provide a modern shopping environment for our customers. And therefore, we appointed an international designer for this. We believe that this represents the best in class shopping experience globally and the same experience we want to provide to our customers by bringing this concept to India would be a big change from our current concept. And it is adapting the customer experience to the expectations of the customers who have now become very aspirational and well aware of what is happening around the world. So therefore, we believe this is spot on in terms of tagging. The store itself is 60,000 square feet, a large store, and it carries all our categories, non-apparel as well as apparel.
- Harith Kapoor:** Understood, sir. Just one more question was on the omni plus E-Commerce bit, I probably missed that number, how much would have been growth in FY19 versus FY18? And as well as what is the contribution now for that piece in our overall sales versus FY18?
- Rajiv Suri:** So the growth is 44% over last year. And the mix currently is at 1.7%.
- Harith Kapoor:** And what was this mix number in FY18?
- Rajiv Suri:** 1.2%.
- Moderator:** Thank you. We will move on to the next question which is from the line of Nirav Savai from JM Financial. Please go ahead.
- Nirav Savai:** What I meant was that Crossword model has been constantly in loss for a very long time. And we see the consolidated numbers, I think the gap is about Rs. 14-odd crores of loss, I assume it is because of Crossword. What is our future strategy on this Crossword store? Just wanted to get some sense on that.
- Karunakaran M.:** See, Nirav, specifically on Crossword we took a one-time hit this year. Two things, one, on the inventory front we believe that we are carrying some equipment inventory for a longer period of time. And we completed the vendor reconciliation, plus we also did the lease period what we did in Shoppers Stop, say a combination of three. So we took a Rs. 10 crores one-time hit this year and that's the reason, if you see, the Crossword losses are higher. Otherwise, the normal EBITDA would have been still positive, probably a breakeven or slightly positive for Crossword. So, if you see a higher number this year is primarily because of the one-time hit what we had this year.
- Rajiv Suri:** So, I think from a strategy point of view Crossword, as you know the books business globally has been under pressure. So what we are doing is for Crossword is we are going to focus more on making that into, and we are going to test kids or more children focused concept where we believe that the online has not made a dent in. And the Indian parents are still very conscious about their children reading books and touch and feel of books rather than being more online. So we are going to test and increase the proportion of our children's books, and associated categories to kids, so stationery, toys, and we believe that in the current market situation we need to have some point of view. And our point of view is going to be that we would focus the stores on the kids categories and then we will see how that plays out. As a business itself, it is not really a

drain on our resources, except for the one off hits we have done this year. We are also going to be having more efficiencies in order to make sure that we don't repeat a loss next year. And we think that this business has potential and I think the world over this books business has come around a full circle, it went from being totally online to partially online to e-readers, and in the last sort of two to three months we are seeing even globally that the book stores are making some sort of a comeback. So that is really how we are looking at it for this particular year. Fix what we have, test new ideas based on what is happening around the market, and then we will take it from there.

Nirav Savai: Right. Also another question on 83 stores what you have currently as on FY19, any stores which you feel can be close to not breaking even or possibly can be a closure next year, or maybe in a watch list kind of thing?

Karunakaran M.: So, Nirav, we do evaluate stores individually, whether that particular store is making profit or not, and we take a call. So that's a call we take every year on a quarterly basis, so yes, if you are asking me a question whether there would be any stores that can be closed this year, i.e. 2019-2020, there can be, we are all evaluating each and every store. And if we believe that this store is not going to make positive EBITDA for the foreseeable future we will definitely don't have a choice except to close it down.

Nirav Savai: Okay. And also another question that you had highlighted previously about compact stores, 20,000 square feet kind of stores. Are we still considering that option or it would be only large format, 45,000 to 50,000 square feet stores?

Rajiv Suri: So for this financial year we are opening regular size stores. And really there is no difference between a compact store and what we do today, they are all Shoppers Stop stores. I think the word compact just shows that it is a little bit smaller store, but in the chain we already have stores which are around 20,000 – 25,000 square feet. So it is nothing different than what we were doing before. Perhaps, what is important to note is that if you were to open stores in tier-II or tier-III cities they may be smaller than our regular stores based on availability of either real-estate or the size of the market.

Moderator: Thank you. Ladies & gentlemen, we will be taking the last question. Our next question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Sir, just to clarifications I just wanted to check. One was the inventory bit, the restatement is because of change in accounting standard, change in the way sale and lease back or consignment report, is that correct in my understanding?

Karunakaran M.: Absolutely right, Avi. It is primarily because of AS-115. The increase in inventory is almost Rs. 650 crores to Rs. 660 crores is because of our AS-115. Second, because we also increased the private label business, we made a conscious decision to increase inventory, but that is very small. But large portion of increase is primarily because of AS-115.

- Avi Mehta:** Perfect. And the second bit was the square feet of the Nasik store, I mean, I didn't get that?
- Rajiv Suri:** We will send you a message about that.
- Avi Mehta:** Okay. And lastly, the margin expansion that you look at which is essentially, that doesn't get impacted because of this S to OR change, right, because that is primarily on gross basis, it is not on net basis, right?
- Karunakaran M.:** Yes, the margin expansion has nothing to do with our shifting from SR to OR.
- Avi Mehta:** That would not get impacted, right, because of the IndAS-115?
- Karunakaran M.:** No. Avi, Nasik is about 27,000 square feet.
- Moderator:** Thank you. Ladies & gentlemen, that was the last question. I now hand the conference over to the management for their closing comment.
- Rajiv Suri:** Thank you for attending the call today. And if there are any other questions, please email them to us, we will be happy to answer them. Thank you.
- Moderator:** Thank you. Ladies & gentlemen, on behalf of Shoppers Stop Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines. Thank you.