SHOPPERS STOP

"Shoppers Stop Limited Q1 FY20 Earnings Conference Call"

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SHOPPERS STOP

CHORUS CALL®

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Moderator: Good morning ladies and gentlemen, welcome to the Q1 FY20 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 the 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 Leena. Good morning and welcome everyone. Thank you for joining us at today's earnings conference call for Quarter 1. I hope you have had a chance to go through our annual report for 2018-19 which reflects our journey towards transformation. Whilst the task of transforming Shoppers Stop is still before us, the initial steps we had implemented in 18-19 to reenergize our brand are showing promising early signs of results. An e-copy of the report is uploaded on our website. Please download your copy. In case you have any queries please contact us at our email ID investor@shoppersstop.com. Please note that Quarter 1 FY-20 results, press release and investor presentation have been mailed across to you earlier and these are also available on our website. I hope you have had an opportunity to browse through the highlights of the performance.

Last year has been a pivotal year at Shoppers Stop and has made the company embark on positive growth and results by bringing focus on our First Citizen customers and shopping experience. The company has strengthened and progressed quarter-to-quarter which is reflective in our performance. We continue to invest in our First Citizen and customers and customer experiences in our stores. These remain at the heart of our strategy as a customer centric company.

Shoppers Stop posted like-for-like sales growth of 5.2% and Revenue from Operations stood at Rs. 1,100 crores for the quarter. Sales grew across all channels, our Beauty brands grew 8.9%, our Private brands grew by 6.8% and Omni by 28%. The gross margins increased by 80 bps to 33.5% and are driven by a better mix of sales from higher-margin categories. Our non-GAAP EBITDA margins increased by 50 bps to 4.6%. In the investor presentation we have given both GAAP and non-GAAP results including the reconciliation from GAAP to non-GAAP financials.

During this quarter the company added 1 department store at Guwahati, 4 M.A.C. stores and a new luxury multi-brand beauty store concept Arcelia at the GVK Mall Hyderabad. The total footprint stands at 83 department stores across 40 cities and 120 Beauty stores endorsed in India. One of the country's longest-running and most coveted loyalty program 'First Citizen' turns 25 years and today our 6.3 million members contributing to 82% of our sales revenue in Quarter 1. Our Personal Shoppers service contributed 17% of our sales and grew by 50%, the number of transactions through Personal Shoppers also increased by the same percentage. The company strengthened its strategy to differentiate the product portfolio through exclusive and private brand backed by a fully equipped design studio at our service office. Private brands grew by 6.8% and contributed to our sales mix of 12.2% in the quarter. We have opened the state of art design studio, sampling unit and testing labs in May 2019 and will start to see impact of this on the collections in the coming months. We have built our leadership in Beauty over the last two decades with the mix of Premium and masstige brands. I'm pleased to inform you in a quest to redefine Beauty shopping and build the Luxury market in India we have launched Arcelia a new retail concept at the GVK Mall in Hyderabad in June. We aim to inspire and change the consumption behavior of Beauty by Indian women and help them make an informed choice by raising the experiential quotient of in-store luxury brands in skincare, color, cosmetics and fragrances. Beauty's overall contribution stood at 15.9% lower revenues and it grew by 8.9%.

The company's Omni business grew by 28% in Quarter 1, 14.6 million visits were observed to our website and mobile application during the period. The customers can now click and collect from 50 stores and we can ship from 51 stores. We are servicing 25,000 pin codes now. Shoppers Stop journey towards digital transformation for speed and higher agility moved a step closer with the ongoing implementation of SAP. The company is focused on investing in technology, innovative in new retail formats, renovating and upgrading existing stores and expanding our footprint to enrich the shopping experience for our customers.

On our GAAP results we are impacted by IndAS 116. The details of IndAS 116 and reconciliation has already been posted on our website. Our company continues to be debt free and have negative working capital. This positions us well to invest in our future growth. I have shared the key highlights for Quarter 1 FY20. I'm happy to take your questions now. Thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Alok Shah from Edelweiss Securities. Please go ahead.

Abneesh Roy: Good morning this is Abneesh here. My first question is on Arcelia. You have launched this Premium store for an exciting new niche brand, so my question is what is the thought process behind this? It's a 3500 sq ft. So how much is the Capex per store and what would be a 3 year plan on this in terms of store opening? Would you first look at this first store and then give a number? How does it compare with Sephora and Nykaa? What is the product gap which you are fulfilling for the customer by this?

Rajiv Suri: To answer your questions in parts, reinvestment has been in the region of 4 Cr for this store. It is a luxury store aimed at the top flight customer. The brands which we have and the shopping environment is luxurious compared to other peers in the market. We are aiming for a top line of Rs. 12 crores from this location and brands we are carrying are anchored by the Estée Lauder group of brands, Dior and we have launched niche fragrances Amouage, Tom Ford amongst others. As regards the future rollout program we are going to do this for about 5 to 6 months and test this concept. We will do two locations, maybe another one location in the coming 6 to 8 months and then based on the output in the results of these we will decide our future rollout strategy.

Abneesh Roy: And could your existing smaller beauty stores also get consolidated, so this one store could it consolidate the smaller store, is that possible?

Rajiv Suri: At the moment there is no intention to consolidate our existing chain of our smaller stores. However if an opportunity comes after we get over this testing period of this concept we may consider opening multi-brand stores in other areas.

Abneesh Roy: My second question is on the new store experience which you have put in Vasant Kunj, so what is different here again? Do you plan to take this to more stores in FY20 and 21 itself because it seems that this is again at the slightly more premium end?

Rajiv Suri: This has been designed by a company out of Dusseldorf in Germany which specializes in department stores. The reason for the launch of this concept was to bring to India a global department store touch and feel to the market but tied the younger consumer to our brand and use it as a template for future rollout of our stores so that we get a more modern aesthetic. And what we have seen in the little time that it has been launched that is performing at double-digit growth, especially in some departments which we were hoping for improvement in sales. For example, Beauty is doing very strongly as well as handbags.

Abneesh Roy: You said you have seen good gross margin expansion this quarter. You said in your opening remarks largely led by premiumisation but has the raw material also softened for you on a YOY basis?

Rajiv Suri: We had a better mix due to some of the brands which have been outperforming our like-for-like sales and these are mainly related to women's wear and our private brands which has increased. At the same time some of the prices where I think there has been some decrease as you mentioned has been mainly in the Denims area.

Abneesh Roy: And that will continue for the balance as in at least 1 or 2 quarters, the lower raw material?

Rajiv Suri: I think that we have seen that from quarter to quarter and it depends on how our vendors as well as our brands are doing the sourcing, so we can't comment on that for coming quarters.

Abneesh Roy: Last question again on Beauty, you said male grooming has seen a 6X jump I think in terms of distribution. So how much is male grooming currently out of the Beauty business and when you say 6X jump what does it mean? See distribution itself is not enough in terms of product and overall off-take are you seeing the commensurate benefit?

Rajiv Suri: Male grooming is something new which we are trying to get into. We believe there is a huge market for it. Getting this big growth has been a combination of positioning it actually in the men's section rather than just only in the Beauty section and I think that is one of the reasons why the sales have grown. At the moment we are not giving guidance in terms of what is the mix and I think when we get to a certain level we will be able to disclose that. So we are still in a good place in the growth area and we believe that this is going to hold us in a good state in the coming months.

Abneesh Roy: How many Beauty stores have male grooming products currently?

Rajiv Suri: In the chain should be at about 20 odd stores where we have male grooming and once we feel that we know the right mix of brands and the positioning within the department stores then we will start to expand this.

Moderator: The next question is from the line of Avi Mehta from IIFL.

Avi Mehta: Just wanted to post on the SSS growth, you have witnessed very healthy SSS growth given the environment. How should we look at it given signs of demand weakness which have been highlighted by consumer companies? Do you see any risk to your guidance or would you maintain your guidance of mid to high single-digit SSS growth?

Rajiv Suri: I think based on the current macroeconomic outlook, we are looking at a like-for-like sales at sort of mid-single-digit for our business and overall sales of mid to high single-digit.

Avi Mehta: The second bit is on the margin side, now you have seen close to about 50 bps expansion in the first quarter and you had targeted about 80 to 100 bps in FY20, is this more of a timing thing or how should I look at it, should I still kind of stick with the guidance that you had shared earlier of 80 to 100 bps margin expansion?

Karunakaran M: If you have seen last year also our Q1 the EBITDA expanded only by 40 basis points (Q1 and Q2). The EBITDA expansion significantly higher last year only in Q3 and Q4 because our volumes are higher in Q3 and Q4 and that's why we give the operational efficiency. That's one part Avi and the same will happen this year also. Second one, we are also working on number of others cost reduction initiatives, so some of the benefits will come in Q3 and Q4. So, overall as I said during the previous call also we expect the EBITDA margins to improve by 80 basis points for the full-year. We are meeting that.

Avi Mehta: Lastly just two more questions Karuna, we had private-label sales growth rate what Rajiv said in the start was about 8.6%, was that right? I'm not sure if I heard it correct. Was that correct?

Rajiv Suri: It was the other way round 6.8%

Avi Mehta: So in that sense then is the expectation that this growth will pick up towards the second-half because we are hoping for a double digit growth in that segment in this year.

Rajiv Suri: So our Chief Creative Officer joined us, his first collection is coming out in Autumn-Winter'19, so I think that we are hoping to see that improvement in sales in Autumn-Winter '19. We are also launching the four new brands in Autumn-Winter '19. One is French Connection which we now have exclusive for department stores, Jones New York which is a licensed brand which we are launching on a license basis. Back to Earth which is a ladies Indian wear brand which we are designing and launching ourselves and we have signed another celebrity brand which we will announce in the coming weeks. So we believe with the combination of better collections and launching of four new brands. We are also working on relaunching Rheson and another brand servicing the new born segment in kids called Carrot. So you believe that we are on track for this and subject to no big shocks in the macroeconomic area we think that the private brands growth should start to show signs of improvement in Autumn-Winter 19 and I would say from January/February 1st being summer 20 further enhancement.

Avi Mehta: Lastly the sales to Amazon had re-commenced in this quarter. I was just trying to kind of confirm we are still seeing a moderation in the subsidiary, so is it that the increase in the subsidiary because you had highlighted in Q4 that it is being routed through the subsidiary, all sales done to Amazon. I am just trying to kind of see the consolidated financial minus standalone; the difference is still actually declining on a YOY basis why is that happening? Is that because of Crossword or what am I missing?

Rajiv Suri: The Amazon we picked it up towards the last month of the last quarter. So we were still busy with uploading and getting back online, so we should start to see traction for that in this quarter and I think that's probably the reason for the variation. But we are now very much online and also with Amazon we have a strategic partnership which provides us to an opportunity to fortify our presence for the customers. We are also working with them on and continue to work with them on Amazon Pay at Shoppers Stop with special and differentiated benefits for the Prime customers. And in addition to purely online sales which we are re-listing and are going to be driving back towards we are also working with them on the Amazon device kiosks which we have 10 and we are continuing to look for more and we are jointly developing a roadmap for other services to bring experiences that have traditionally been available for online customers for fashion.

Moderator: The next question is from the line of Shalini Gupta from Quantum Securities.

Shalini Gupta: Last quarter you had said that you set up two new department stores which will come on board probably somewhere in the beginning of this quarter. But the number of department stores remains at 83, so have you shut down some?

Rajiv Suri: We have closed one.

Karunakaran M: Shalini we opened one in Guwahati. We closed one in Mangalore, so the second one what we thought we would open in Bhubaneswar because of the government clearances it got delayed; probably we should open any time during this quarter. So those are the two stores what we said we will open in last quarter, one we have already opened, our Bhubaneswar should open and the time now.

Rajiv Suri: Our store in Bhubaneswar is completely ready. We're just waiting for the mall owners to get the clearances to open the mall.

Shalini Gupta: For this year over and above this you will be opening five stores, right?

Rajiv Suri: Yes we are going to open three stores in Quarter 2. One at Bhubaneswar and then two more, so we will have three in Quarter 2. We will also be opening 13 Beauty stores in Quarter 2, so by the first half of this year we would have had about 22 new stores of which there will be 4 department stores and the rest of the Beauty and for the rest of the year we continue with our guidance that we will open around 6 to 8 department stores.

Shalini Gupta: Couple of questions on the result like if you could just say how your footfalls have been and how your average selling price has been during the quarter.

Rajiv Suri: Our footfall was down by about 4.7% for the quarter. Our conversion has been up by 7%, our cash-memo size has been up by 3.5%, our quantity has gone up by 5% and the ASP has been flat.

Shalini Gupta: In the presentation you said that operating lease expenses will be replaced by depreciation and interest expense, could you just explain this?

Karunakaran M: So Shalini this is AS 116, the Accounting Standard the Indian IndAS 116. What used to happen till last year is every lease expense we would have expensed as a lease expense. Now because IndAS 116 has come in right now we have changed the methodology and then we have given the entire details in the website. If you have seen that it's a pretty long statement. All we have to do is the lease there we have to measure in terms of the present value of the lease payments and then we have to also measure the right to use effect and the difference is taken one-time adjustment in the reserves and we have to calculate the interest and depreciation on the assets under liability.

Shalini Gupta: I have read that but I'm still not clear why interest is going up. Depreciation I understand but why the interest is going up?

Karunakaran M: Because there is RTU, right to use liability. On the liability we have to calculate the interest. This is a notional interest. This is not an actual interest. Your interest is going up, depreciation is going up, and interest you are saying is not in actual expense that is going up. So do you get to set it off somewhere or no?

Karunakaran M: Let me put it in the simple way Shalini. Previously what we used to account as an expense as a lease rental expense today we are accounting a combination of depreciation and lease rental. In the initial years the boat will be higher and as we taper it off the both will come down over a period of time. So if you take a 10 year lease period, the 10 year lease payments and the depreciation and interest will remain the same.

Shalini Gupta: Basically with respect to sales there has not been any change because that you can't account for sales made to consignees and sales on which you can do a sales return. So that was there last year also, so why do we see the difference in this quarter sales?

Karunakaran M: Shalini again we have given the explanatory statement. As you rightly said sales made to consignees or commissioners and sales on outright or return all basis we can't use it in the sale as per the iGAAP. But there are differences in the GST also. That's the reason there is always a different between iGAAP and non-GAAP results. And we have also mentioned why we are taking the non-GAAP results. The non-GAAP income statement is a like-to-like comparison and if you see that the sales have grown by 4.9% and the LTL is 5.2%. There are number of reasons for example compared to last year some of the vendors who may opted for seller outright basis, so then for those vendors we would account only the net income.

Moderator: The next question is from the line of Kaustubh Pawaskar from Sharekhan.

Kaustubh Pawaskar: Just one question on the depreciation front. In the presentation there is one line that we had accelerated the depreciation by Rs. 10.9 crores on some of the assets in line with the primary lease period even though the life of the asset is higher than the primary lease period. Can you just explain me this part because this is something over and above Ind AS 116 adjustment?

Karunakaran M: This happened because of Ind AS 116 adjustment. There are two assets, the electrical installations and **leasehold** improvements that have more than 10 years of life.Because what happened in Ind AS 116, we have taken the primary please period as the period for valuating both the right to use assets and right to use liability and because of which we have to depreciate though the life of the asset is more than 8 years and we have the right to extend beyond 8 years. We have taken the accelerated depreciation for these assets.

Kaustubh Pawaskar: So this Rs.10.9 crores I guess it is going to be continued. On comparable basis your depreciation cost is about Rs. 30 crores odd.

Karunakaran M: It is Rs. 41 crores higher, you are right.

Kaustubh Pawaskar: Rs. 10.9 crores is higher so I think this Rs. 40 crores kind of a comparable rate we need to consider over the next three quarters. Over and above that the reason that would be there in terms of Ind AS 116. Is it the right understanding?

Karunakaran M: Yes it’s right and we have also mentioned that in our investor presentation slide.

Moderator: The next question is from the line of Anand Shah from Axis Capital.

Anand Shah: Just following up on that sales question that one of the participants asked; the difference between the gross and net sales. Is there any difference in the mix of vendors? Why the GAAP has actually sort of increased because now it is likely comparable actually your net sales have grown 1% and non-GAAP has grown 5%-6%?

Karunakaran M: You are right. Since last year’s financial results some of the vendors have gone on sale on outright basis plus there are some GST changes and that’s the reason there is a different between the non-GAAP sales growths versus Indian Accounting standard, iGAAP sales growth.

Anand Shah: But this eventually should merge, there hardly shouldn’t be any difference to that extent.

Karunakaran M: If there is no change in the vendor mix and if there is no change in the tax rates, yes, it should ideally be the same.

Anand Shah: But tax rates would be now similar, right Q1 to Q1 on 19 and 20?

Karunakaran M: No, there are some changes.

Anand Shah: Which taxes are these?

Karunakaran M: There are some changes in the Beauty.

Anand Shah: Otherwise if there is no change in vendor mix then the both gross and net?

Karunakaran M: Absolutely both should be the same.

Anand Shah: On the accelerated depreciation also that the other participant asked that we adjusted for this year, from next year again what should be the depreciation level?

Karunakaran M: There'll be some impact Anand. Normally we don't comment on the mix. Definitely there will be some impact but not to the extent of what we have in this year.

Anand Shah: This 30 that is going to be Rs.40 crores as a base level for quarterly run rate that should continue now at 40 plus the store expansion led whatever is there or that comes down to 30 and then the store expansion.

Karunakaran M: Let me clarify, 40 is only for FY20. It will not happen next year because I have already accelerated the depreciation for this year.

Anand Shah: So next year we start again starts from 30 plus whatever the store expansion led additional that you have.

Karunakaran M: I didn't understand your question. What do you mean by that?

Anand Shah: I mean this year quarterly run rate is 40 because of the 10 additional depreciation. Your actual depreciation is 30 and you have taken because of….?

Rajiv Suri: That's right, you're talking about Rs. 30 crores.

Anand Shah: FY21 one should start from the Rs. 30-32 crores run rate and the additional store expansion whatever you have.

Karunakaran M: Absolutely right.

Anand Shah: The accelerated Rs. 11 crores is there in the base is done that should not be considered for 21 because that's the one-off.

Rajiv Suri: It will not be there.

Anand Shah: Lastly on the SSSG can you share a bit of color on how it has progressed let's say over a month-on-month and how it has been in general across the geographies when it has been more or less same or so?

Rajiv Suri: Can you repeat the question?

Karunakaran M: Your first few lines few words we could not hear you.

Anand Shah: On SSSG I just wanted to know month on month progression in terms of months of April,May and June have things weakened, existing quarter in terms of progression of SSSG especially versus geographies has been a uniform growth across your geographies or one of the other part sort of delivered higher or something else has been weaker?

Rajiv Suri: I think that if you were to look at the number East is doing probably the better part of the SSG growth followed by North and then I think we are having challenges in south and West. So if you were to say East and North then West then South in that sequence. In terms of our monthly like-for-like growth we have that cumulative numbers which we have given you and we have in terms of April was soft, May was quite strong I think in line with the market slightly heavy to the market and June has also been slightly soft.

Anand Shah: Just lastly on this EOSS side, we have seen that most of the retailers have preponed the EOSS and you may have seen per delta because of this. Does this likely to have any impact in Q2 because we would have preponed to Q1 as industry also?

Rajiv Suri: We can't comment exactly now on future Q2 forecast but there may be a marginal impact on that.

Anand Shah: But EOSS last year was predominantly in Q2 and this time it has been in Q1, is that assessment right?

Rajiv Suri: No, in both the years we started in June. I think it was about few days apart.

Anand Shah: Any guidance on your Private-label and Beauty, both have grown from mid to high single-digit. I guess the aspiration was to grow at double-digit I mean you highlighted some initiatives, yes. But should one expect 10% to 15% growth in these?

Rajiv Suri: In Private brands we have given this sort of guidance, and we are looking for a double digit growth in Private brand business by the end of the year.

Anand Shah: And in Beauty also perhaps?

Rajiv Suri: So in Beauty we are looking at a growth which will be probably higher than our company growth but somewhere in between the overall growth and Beauty and Private brand.

Moderator: The next question is from the line of Kunal Shah from IIFL.

Kunal Shah: Just to get a clarification that Rs. 11 crores accelerated depreciation will be there only in this quarter or it will be there in all quarters in FY20?

Karunakaran M: The annual accelerated depreciation is Rs. 41 crores and we have taken one fourth in this quarter, it's around about Rs. 10.9 crores.

Kunal Shah: My other question is on the other income, so if you see it has fallen off quite sharply YOY, so what is the reason for that?

Karunakaran M: No.

Kunal Shah: If you see other income this year has been around Rs. 2 crores this quarter versus almost 7 crores odd in the base quarter. I'm talking about the standalone numbers.

Rajiv Suri: No, you're talking about the GAAP numbers. GAAP numbers what happens is somehow the income goes below the line. In the non-GAAP the other income has gone up from Rs 13.9 crores to Rs. 15.5 crores.

Kunal Shah: Any guidance on the tax rate? The tax rate has been quite low this quarter if I adjust for the depreciation one-off, any guidance that you can give for the full-year? Is there any impact of IndAS on the taxes as such?

Karunakaran M: No, first of all to answer, there is no impact of tax on IndAS because IndAS you know pretty well. Its GAAP rate arithmetic, it's not a tax rate arithmetic. Second for the tax rates, always we were hovering between 35%-36%. I don't expect to come anything lower than that not it will be higher than that. It will be between 33% to 36%.

Moderator: The next question is from the line of Neeraj Mansinghka from Goldman Sachs.

Neeraj Mansinghka: Can you give a color on the category breakup of your growth rate like the Men's Wear, Women's Wear and Kids wear?

Rajiv Suri: In terms of our growth the ladies, Indian wear grew by 9%, Ladies Western wear also grew by 9% and Beauty grew by roughly around similar percentage. So these were our top performing Men's Casual and Men's Jeans was around 6% to 7%. In terms of the mix itself the brands grew by around 5% and Beauty grew by around 8% to 9%.

Neeraj Mansinghka: But most of the numbers you have said is higher than 6% to 9%, your revenue growth is around 5, so I am not able to get that.

Rajiv Suri: Men's Formal has declined I think that's the one area and it has been declining for quite a while now and Kids Wear has declined in the Quarter 1 and we are reworking our Kids department in Autumn-Winter '19 and the decline has come mainly from toys and the reason for that is we have been relaying our stores to make a bigger and better toys department. We are opened 4 Hamleys stores within our department stores and planned to open 16 more in Autumn-Winter '19. During the last quarter what we were doing was creating space for these so it has some temporary impact for the quarter but I think we will make all that up once these 20 Hamleys stores get going.

Neeraj Mansinghka: How has average revenue growth over the last 3-4 quarters been for Beauty ?

Rajiv Suri: Beauty has been growing in the region of 8% to 9% and if we add the new stores also then it is growing at around 10% to 11%.

Neeraj Mansinghka: The like-to-like would be 8% to 9%?

Rajiv Suri: Yes the like-to-like is roughly around 8% and the total growth is 11%.

Moderator: The next question is from the line of Dhwanil Desai from Turtle Capital.

Dhwanil Desai: My question is that if I go to your presentation, we are doing 2-3 very interesting things, one is Arcelia, another is the Vasant Kunj kind of a store which is more kind of contemporary. What is the idea here, are we wanting to target more youth-oriented customer segment or are we trying to go back to project footfall territory? Is there a link to whatever all different things that we are doing, if you can highlight on that?

Rajiv Suri: What we are doing is 2 or 3 things. Firstly, we are keeping the First Citizen customer in our mind. We have done the research with them and we got feedback on what they would like to see from us and it's mainly around the shopping experience and our product. Therefore on the shopping experience we have looked at two things; one is a new concept store or the Store Of The Future which we opened in Vasant Kunj and the second our Personal Shopper service and how we can engage the customers better and as you will see we had a significant improvement in our Personal Shoppers service by about 50%. But what is really important is the product right and what we are doing is that we are working on the feedback from our customers and the big changes which we are going to do in Autumn-Winter '19 is that we are going to exit 25 non-performing brands and this is a major change for us from our past which we have not done. We are consolidating 20 brands and we are adding 12 brands. So this is in the branded business. These big changes plus in our Kids' department like we said we are adding 20 Hamleys stores. We are relaying the stores by category rather than by brand and we are also re-zoning our top 20 stores in Autumn-Winter '19 in order to service the customer better. So combination of focusing on the First Citizen customer based on Personal Shoppers service, In-store in environment and product is what we are working on. And in addition as you see we accelerated our expansion in the first half to have 22 new stores between the department stores and Beauty

Dhwanil Desai: Basically for the end result that we want to see increased footfalls or higher ticket sizes? How would we measure that whatever step that we are taking is going in the right direction?

Rajiv Suri: We would measure it by like-to-like sales because the combination of footfall, volume and the quantity we sell in the end it all ends up that like-to-like sales.

Dhwanil Desai: My second question is on Arcelia, so I'm sure that brand before we launched the store you would have some kind of rough estimation of what kind of economics work for Arcelia kind of a store. So is it fair to assume that in Arcelia store as it matures and as we scale up the gross margins and EBITDA margins can be better than what we are doing in the departmental stores? Is that a fair assumption?

Rajiv Suri: I would say in principle yes but I think it's a bit early for us to really button-down any numbers but in principle that should be the idea.

Moderator: The next question is from the line of Manish Poddar from Reliance AIF.

Manish Poddar: Can you actually probably share how many of your stores are under revenue share broadly because I think those will not get impacted by IndAS?

Karunakaran M: We can't share that information, that's something private.

Manish Poddar: Just any thoughts on Arcelia because I believe you used to run this format 6-7 years back and now we are again coming up with this format and how is it going to be different from generally the ground floor which is there at Shoppers Stop?

Rajiv Suri: This format which we have carried is completely-completely different. We used to have this about maybe 10 years ago and at that time we were ahead of the market, ahead of time both from a consumer point of view as well as the market point of view and also the size and scale of what was planned at that time was 3 times the size. What we have done is we have retained the trademark as we own the trademark and we have launched it in the new avatar now. We believe that the Indian consumer is ready for these brands, is shopping abroad for most of these brands and therefore we believe that there is an opportunity to provide the customers this experience in the new form of Arcelia.

Manish Poddar: Would this section also be zoned out from Shoppers Stop as you have earlier mentioned or and how is the Private label play appear?

Rajiv Suri: So this is a standalone store. It's not within Shoppers Stop and we will observe how the business goes for 3 to 6 months before deciding on the future expansion.

Manish Poddar: Just wanted to get your thought on this small format stores we wanted to launch under Shoppers, what is happening at that front?

Rajiv Suri: If you see what we are doing is we are opening stores and the last 2 or 3 stores which we have opened in Tier 2 cities and what we are doing is we are not really calling them small format stores. We are getting the right size for the market and therefore they tend to be a bit smaller so we are not really differentiating that this is a big format or a small format. I think what we are doing is we are adapting the size to the size of the market and the stores broadly have the same offerings.

Moderator: The next question is from the line of Aliasgar Shakir from Motilal Oswal Securities.

Aliasgar Shakir: Just first follow up on this smaller format stores that you discussed. Should this accelerate your pace of store addition by any means apart from the guidance that we have about 5 store addition on an annual basis or you think it is the part of the same guidance?

Rajiv Suri: We would tend to have more stores than the typical three to four or five stores we used to open and by first half we would have already opened four stores and we have more in the pipeline. Whilst we may have stores signed, we are quite cautious about how we say how many we will open and the main reason is that the experience that the malls don't open. So we may have stores like Bhubaneswar which is completely ready but the mall is not opening and then we feel that we got the guidance wrong. We are sticking with our guidance of 6 to 8 stores and if the malls open on time for the leases, we have signed which will be a little bit ahead of that.

Aliasgar Shakir: So the smaller stores also allow you to move away from our current strategy of opening the stores in mall or we will stick to that?

Rajiv Suri: It will be a combination because even in the Tier 2-Tier 3 cities there are shopping centers there and there are shopping centers under construction. So we will have to see location to location; city to city what is the best opportunity. But we tend to find that our stores perform better in malls and that would be our first preference, if that opportunity is there.

Aliasgar Shakir: My second question is on your footfalls, if I look at the overall basis like you discussed that your key focus area is your SSSG and I think in the given market situation you have done a fairly decent SSSG which is largely driven by increased ticket size, customer ticket size; but given that we have seen a continuous fall in footfalls for some time. Is that worrisome and how do you see that trending forward? Are we doing something to correct that, what is the outlook around there?

Rajiv Suri: I think that declining footfall is affecting the whole industry, so everyone should be worried about it and if you're not worried about it then it's probably not the right thing. But I think that some of the things that impacted the footfall in the first quarter were to do with cricket and other things but I think that in the main we have to focus on the KPIs of our stores to increase conversion, increase our sales to First Citizen customers, and increase our transaction size. So there is still a lot we should and can do with the existing base and that's what really important is that if the footfall is going to decline how can we sell more to the existing customers, how can we get more volumes? So I think there are many things retailers can do and should be doing in this direction. If you see even with a decline of 5% in footfall and like-for-like sales are up by 5%. So there are some actions we have been taking to improve that.

Aliasgar Shakir: Like you mentioned that Q1 was more related to the events in this quarter, do you see this reversing trend or you think there is more structural issues and this footfall will continue to fall?

Rajiv Suri: In the current macroeconomic environment it's hard to predict how the consumers are going to react in the coming months. I think that we will be in line with the market typically better than our direct peers in our performance.

Moderator: The next question is from the line of Ankit Kedia from Phillip Capital.

Ankit Kedia: In one of the questions you replied that in South you are facing some challenges while East and North are doing well. A lot of improvements new stores are coming in the East and in the North, you are doing innovative things for the customer experience. What initiatives are we taking in the West and South to meet the challenges either from competition or low customer footfall?

Rajiv Suri: In the West we are doing a lot of work on store renovations. We believe that our stores need to be improved so we are working for example we are doing a major renovation in our store in Juhu. We are also trying to see how we can increase our market share not in the metro cities but in other cities in the West, so we believe that should bear us some fruits. For South we are having a customer entry challenge, in Bangalore specifically we believe that the market is now over penetrated by the number of department stores as well as other retailers. So we are working on our First Citizen customer base in both these areas to see how we can leverage our First Citizen strength. We are also looking at increasing our Personal Shopper staff strength in these particular areas as we believe that the Personal Shopper with transaction sales of 2X-2.5 X would help us in this region.

Ankit Kedia: My next question is Omni, given that we have started with Amazon what was the contribution of Omni for this quarter while what we targeting for the next 2 to 3 years for the Omni?

Rajiv Suri: Omni is about 1.53% of sales and it is growing at double-digit in the coming time is what we are aiming for in the next 2 to 3 quarters.

Ankit Kedia: You said that for the Premium cosmetics, Arcelia people travel abroad to bring it from there. We only have one store in Hyderabad. Wouldn't Omni make logical sense for the Premium brand or the feel of the product is important given the customer is educated enough to buy such Premium products from abroad?

Rajiv Suri: Omni is always the answer and we really believe that Omni and especially in Beauty ones you have tried our product it's easier to repeat it. But in this case because of the niche products we are carrying we believe that the touch and feel is going to be crucial to the size and success of the business. We are working on our content strategy for Omni

Ankit Kedia: Can you share the breakup between Private-label and Exclusives?

Rajiv Suri: We are now giving guidance of our Exclusive brands as a total and we are not internally differentiating between private and Exclusive anymore.

Moderator: The next question is from the line of Rahul Agarwal from VEC Investments.

Rahul Agarwal: One question to Rajiv was essentially, last 12 months we have gone through lot of changes into leadership as well as products, how to sell, where to sell, what kind of formats, stuff like that. So firstly, to understand has that been completed largely or in terms of the next 12 months do we have any gaps which were still fulfilling and want to complete? If you could highlight under what is the gap there if any across Shoppers Stop's all businesses?

Rajiv Suri: Without giving any guidance on what all this means we are in place with our people strategy, we are in place with our product strategy as you may have heard. The massive amount of changes that we are doing in our product assortment, in Autumn-Winter '19 and this is only a start. We will continue to do more as we go along but I think what is really important today and what is going to be helping us going forward is going to be the enablers. So our people strategy is in place, our strategic pillars which is our First Citizen program, Personal Shoppers, our Private brands and Beauty are more or less in place. The big project which we have undertaken is SAP. We have started the process of implementation that will be completed towards the end of this year or the beginning of next year. I believe that this is going to continue to take attention from us for this. The Hybris upgrade for our Omni will be up and running by end of August. I would say focus on technology is still there, it needs to be completed and it's ongoing let's call it. Our work with Amazon is ongoing in terms of our digital influence and Omni business and we remain debt free so it's important that we remain debt free and we do our expansion and growth from our own capital. We want to test these new store concepts because we believe that there is merit in providing a new customer experience, so Vasant Kunj which we have just opened. Another new concept which we will be opening in Quarter 2 with designs by our designers based out of London. We have launched in the Innovation Hub to improve our in-store experience, so some things will progress, some things completed.

Rahul Agarwal: On the store openings for Shoppers Stop department stores one thing is obviously we have learnt a lot in terms of how we plan to open a store in what geography, size and stuff like that from whatever we have opened over the last 5 years and there is lot of changes with the environment it seems because lot of Omni things happening, lot of other new formats getting launched, categories being different from e-com perspective. So overall what kind of learning are you applying to your new stores, so let's say could you give some sense essentially for the next 24 months, how do you shortlist a geography? If you have planned your leases for this year even, whatever is the balance, how is that different versus what we were thinking earlier? So some learning if you could share might be helpful.

Rajiv Suri: We can do this off-line but in principle we find that our mall stores are working better than our standalone stores and therefore our preference for mall stores. We believe if you want fast and quick success if you enter a new city and open your first store and have the first mover advantage that gives you instant positive impact. We have done that repeatedly. Ranchi as a great example, Guwahati as a second example, Siliguri as another example and that's how we are going to focus our expansion. But a lot is also dependent on the availability of real estate.

Rahul Agarwal: Could you share some kind of cities where we are going to see in Shoppers Stop over the next 12 months?

Rajiv Suri: We can't share our forward guidance in terms of where we are going to open for the reasons, I hope you will understand.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Rajiv Suri for his closing comments.

Rajiv Suri: Thank you for attending our earnings call today and we hope that the information we have provided you during this call has been adequate. We will be happy to be in touch off-line should there be any further specific questions. Thank you once again.

Moderator: Thank you. Ladies and gentlemen on behalf of Shoppers Stop Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines. Thank you