

SHOPPERS STOP

**“Shoppers Stop Limited Q2 FY18 Post Results
Conference Call”**

October 27, 2017

SHOPPERS STOP



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Moderator: Good day, ladies and gentlemen and welcome to Shoppers Stop Limited Q2 FY18 Post Results Conference Call. As a reminder, all participants' 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 this conference call, you may signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Govind Shrikhande - Customer Care Associate and Managing Director, Shoppers Stop. Thank you and over to you, sir.

Govind Shrikhande: Thanks, Mallika. Good evening, friends. Welcome to the Quarter 2 call of Shoppers Stop earnings. Quarter 2 is narrative, was completely impacted by GST on both supply side as well as sale side and I will talk about it a little later on details of that.

So first on page 3, the new stores that we have opened, we open RQube mall in Delhi which is replacement of our Rajouri store which used to be operational earlier. We shut Shyamala Chennai, we tried a number of ways of turning around this store but we finally concluded that this does not work, so we have shut it. We opened 3 MAC standalone stores. One in Pavilion mall Pune, which is a new mall, we opened in Fun Republic mall where our existing Shoppers Stop is there. So we have added MAC additionally there and Seawood mall again a brand new mall in Navi Mumbai.

Our loyalty program continues to progress very well and has now crossed a milestone of 5 million members. Contribution is running at 76% this year. We won 2 awards, one for energy reduction and CSR excellence and second is Crossword won a HR Impact Award.

Moving on to page 4, we can see geographical spread across India of 80 stores of Shoppers Stop 53 Crossword own stores, 16 HomeStops, 85 the Estee Lauder format brand, HyperCity 19 altogether 243 stores, 38 cities and covering 5.8 million square feet. Page 5, you will see the breakup in terms of size, so Shoppers Stop is at about 3.8 million square feet. Our specialty at about 323,436, Crossword under 100,000, HyperCity at 1.3 million and joint venture companies at 1.9 lakhs, all put together at 5.8 million.

Page 6, our pictures of the R-Cube store, this come out very well of 57,000 square feet store has started off pretty well post the Pooja period. Coming to page 7, the key financial highlights for quarter 2 at overall sales, we saw (-6.5%) department store and (-5.8%) in all formats. On like-to-like basis, the Shoppers Stop department store showed a (-5.5%). Stores greater than 5 years at (-8.4%), stores less than 5 years at 1.7%. Now, we have to understand the quarter 2 along with the context of quarter 1. Quarter 1 if you recollect, we had declared 18% plus like-to-like growth and in which we are clearly mentioned that because of GST's eminent arrival in July, the entire industry decided to prepone the sale and that sale preponement of almost 8 to 9 days delivered almost 100 crores sales. So quarter 1, on a standalone basis without the sale would have been a 9% like-to-like which became 18%. So, if I actually take that 100 crores back in Q2, we would actually be running positive in quarter 2 on a comparative basis. But yes, there were also further challenges because of GST as new system integrations between multiple partners with rates changing etc. Although at retail level at cost level, we are completely ready. Brands were not

really ready with supplies. So July and August saw very weak supplies, as a result July was a double digit high negative, August was also a negative but started recovering. September has seen a very high double digit positive growth and just to add on to that, we have already seen the Pooja period which came in the last week of September and Diwali both are running at a like-to-like growth of 8% to 9%, clearly indicating that the market is already recovering back in the positive territory and in fact much higher as well. In quarter 2, we saw good growth even in spite of these negatives in our online business which grew by more than 38%. We also saw personal accessories and beauty building on to the business in spite of challenges of supply as well as the GST rates going up.

Moving on to page 8, the biggest impact although not directly connected of GST, you can clearly see on the entries. Entries were down by more than 17.5% on like-to-like level, although we were able to cover up some part of that through higher level of conversion which went up by 6.5%. SP was up by 4.9% at 1,122 and this lead to a higher transaction side at a like-to-like level of 6.4. But during the quarter, the volume was down by almost 10.4%. But if you look at H1 totally, the like-to-like growth is in the region back of 6% which is a clear indicator of how between quarter 1, quarter 2 the sales have actually moved.

Page 9, you can see that there is a drop in share of private brands, although exclusive brands have held on pretty well. So direction coming up right now is by Q4 end we would have corrected all our issues on private brand and you would definitely like to drive the share which is currently running at about 15% between private and exclusive do more than 18% in the next financial year and again moving back towards at 20 plus in 2019-2020. The merchandise buying model bought out is down from 40.5 to 38, not big difference in terms of really the trading condition. You can see that non apparel has performed better in quarter 2 and has taken a share of about 110 basis points more than last year. Accordingly, the apparel share is down by similar kind of basis points.

If you look at within the categories, Men's has dropped whereas Women have continued to grow and Children has seen slight drop whereas non apparel as I mentioned earlier is up by about 110 basis points. Shrinkage, they improved further in our operating parameter so you are seeing reduction in shrinkage by 0.24% for Q2 and even for the whole of H1, we have seen a drop of about 12 basis points. That brings us to the quarter 2 financial summary. As you can see that the retail sale is down by 6% and as I mentioned like-to-like level, it has already down by about 5.5. Margin on sale is down by 5%, although margin as a percentage is slightly up from 32.8 to 33, 20 basis points up. This is basically because of shorter sale period vis-à-vis last year same quarter. Other retail operating income is down whereas operating expenses we have been able to control very well. If you look at it, there is 9% down and 90 basis point reduction in operating expenses from 29.6 to 28.7. This is actually 50% explained by our efficiencies that we have bought in by reduction of expenses and there is another 45 basis point out of that which is because of service tax flow through.

As a result, our EBITDA is up from 4.7 to 5.4 which is 6% up. Our depreciation is slightly up, so PBT is up by 15% before exceptional item. We have taken exceptional item of 33.78 crores on account of diminishing of value of investment in HyperCity retail which is based on invested

amount of 357 crores versus realization of 323, the gap is what we have taken. This one-time impact based on the exit that we have planned on HyperCity and I will come and explain to you once I finish these 2 lines of PBT and PAT. So PBT post exceptional items is at 14.2 crores versus 16.98 positive last year. As a result, you can also see that PAT is also down to 21.8 negative versus 10.68. So at this juncture because we have had certain conversations with the few of you on the multiple exits that we are done and the plans we have got that we announced in Q2.

So, let me start with the first exit that we announced which is exit from NCIPL, the Nuance Group India Private Limited exit. This is operating the duty free business at airports. Originally, when we had planned this business, we had envisaged 6 to 8 airports coming up for duty free. As things stand, there are only 2 airports where we are actually managing this business. So we could not see much growth in this business plus we did not have much of management control on this business. So as a result, we have decided to exit this business with 6 crores coming back to us and handing over the business back to Nuance Dufry which is the international operator.

Second exit that we announced is about HyperCity. So, for 11 years we have been nurturing HyperCity as one of the most premium hypermarket business in India. Consumers like the model but the business model we have not been able to really turn to a EBITDA positive and PAT positive and we have been working on it for the last 3 years by resizing, getting the assortment completely changed more and more towards fashion, improving our margin and we have been able to deliver store EBITDA positive now for almost 2.5-3 years and we also see possibility of turning to EBITDA positive over the next 4 quarters. But we felt that it was important for us either to bring new funds into the company or tying with another partner. With the multi-brand FDI not changing in India, we did not have much option other than tying up with strategic local partners and that is what we have done. So we are selling the company to Future Retail Limited. The enterprise valuation is at about 911 crores and out of that 911 crores, the cash that is coming into us is what I explained to you about the impairment. At overall level, we will get not only that cash but also the inter-corporate deposits that we have given to HyperCity as loans, it will also come back to us. So by Q4 end, this whole transaction will get mature, Q3 would be a transition period and Q4 will be closure. So by Q4 end, this company will not be part of our console results and you will see 120 crores cash coming back in the Shoppers Stop.

There is one more announcement, in fact 2 big announcements that we have also made in this quarter, the tie-up with Amazon. So, Amazon tie-up is actually happening at 2 levels. The Amazon India tie-up is for Amazon.in, the site which I would say number one site in India as far as customers are concerned. This tie-up envisages that Amazon which gets more than 400 million customers will be served by our entire catalogue of 400 brands that we house inside our store and also on shoppersstop.com. The traffic really means that just to explain to you, we get 4 million customers on our site every month and we get approximately 4 million customers walking through our doors every month. Versus that, 400 million is a very big number. Even if we get 1% of those customers back to either our store or to our site, it changes the entire complex of the business. So it is a win-win situation for both of us, we can get our catalogue, our private brands exposed to such a large traffic. At the same time, we can also get into omni channel along

with Amazon. This commercial tie-up also envisages 2 more levels of tie-up. One is creating experience within the store, this will come up only by Q4 or Q1 of next year but there are lot of brands and products that Amazon retails in India that are not available for anybody in a physical store can those be showcased for customers who can touch and feel and at the same time, drive customers. Third part of this commercial tie-up is about running joint marketing across multiple marketing properties that both these companies have. So this is the part of the commercial tie-up.

Parallely, Amazon's investment arm which is Amazon NV which is the FPI registered company with SEBI has proposed to take 5% stake in Shoppers Stop. This 5% stake post all statutory approvals should come through by Q4 and we envisage about 180 crores coming through this route. So as I mentioned to you earlier, there is 120 crores coming in through the HyperCity exit, this 180 is out of the Amazon investment coming in. So, we believe that the entire profile of our balance sheet and P&L will completely change by Q4 end and by Q1 of next year we will see a completely new result out of this entire transaction that we have done.

So moving on from here, I will go straight away to the HyperCity numbers before I come back to the consol results and their explanation for you. So, I will go to page number 20. So HyperCity stores de-grew by 2%, at a like-to-like level they were almost flat and here again we saw a tremendous amount of pressure because of GST apply challenges and therefore sale challenges. So availability in HyperCity market is pretty weak during this quarter and that is why we saw this result, but if you look at stores that are less than 5 years continue to see very good growth. Especially North, there we saw very high double-digit growth. All the three stores in the North had a double-digit hike. The 2 cities that underperformed definitely were Mumbai and Bangalore even in HyperCity's case. Our sales per square feet actually grew because of reduction of space that we did.

On page 21, you can see that here again in this business the customer entry was down by about 3% and conversion went up by about 5.5%. Average selling price even in HyperCity was up by 5.4 whereas transaction size actually dropped because volume drop negative by 5.5.

Coming to page 22, on the financials you can see that the overall growth is running at minus 2%, margin drop fundamentally because of the challenge of GST and taxation changes and adjustment of inventory margin and that is why you are seeing a drop of almost 120 basis point in margin in HyperCity and store EBITDA, we are still able to deliver positive at 41 lakhs versus 145 of last year. At company EBITDA level, the losses are 13.5 versus 57 negative of last year but please remember that last year had property income of 10.3 Cr, so it is almost on the similar level of loss at company EBITDA level and similar the case also at a PAT level.

So business has held on in spite of the challenges of GST and we did multiple activations including farmers market, hyper budding chef, we launched a big Diwali campaign and during the Diwali period we have seen a decent like-to-like growth of about 5% in this business which also indicates that there is some strength coming back from consumer demand.

Now, I will go back to the consolidated results for the quarter which are on page 13. Sales down by 4%, margin down by 6%, operating expenses also down by 7%. As a result, EBIDTA is down by about 18% from 52.5 crores to 43 crores. PBT versus last year of 75 lakh negative is at 11.09 and primarily this on account of if you look at it depreciation and then there is obviously share and profit loss in JVs that you see later on. So at a PAT level, you can see that 18.5 is the minus figure for quarter 2 versus 8.8 for last year same quarter, primarily driven by the higher losses in HyperCity.

So with these comments, I would open the forum for any questions. As of now just to give you a comment on Q3-Q4, we have opened one more store in quarter 3. We are targeting to open 2 more stores by the end of Q4. We are also targeting to open another 10 stores in our beauty format. The whole focus going ahead is going to be really driving the department store number from 80 to 100 over the next 3 years period and also taking the beauty store count from 83 to about 115 odds. So 10 stores a year is the target there, 4 to 5 stores the target in the department store. We believe that the demand situation is definitely improved vis-à-vis quarter 2 and going ahead, the target definitely would be to really drive 8% like-to-like growth which we have already seen in the month of October. We believe the next 2 quarters we should be able to deliver that and we also believe that we are on the right track to deliver that 8% EBITDA number that we had promised you 3 years down the line, we should be able to hit it in 30 months' time now.

So, now back to Mallika.

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

Abneesh Roy: Sir, you said in GST brands were not ready so that impacted supply. So that would have impacted your private label business and even the brands of other companies?

Govind Shrikhande: Mainly, if you look it at Abneesh, our business is still almost 85% brand. Our private brands definitely we are able to pull in the stock but the challenge has been we have had some weakness in our private brand assortment and that is impacted and you can see clearly it is showing a declining share of business. But brands mainly if you look at it the first 15 days of July we hardly got any supply. So, we have had a big challenge.

Abneesh Roy: And private label at around 10.7% this is one of the lower numbers we have seen. So do you see this coming back to that 13%-14% number with GST that your suppliers getting your vendors now ready for GST, so you expect that to come back to 13% quickly or it will take some time?

Govind Shrikhande: No, it will come back from quarter one of next year. We are doing two things Abneesh, see because the GST now had changed in fashion, 2 levels of GST, one at 5%, another at 12%. We are actually relooking at pricing so that we can bring in lot of merchandise at 5% GST rather than everything at 12% GST. So, that cannot happen overnight because when the rates have announced, we actually work on almost a 5 month supply chain. So whatever we have, we have to live with whatever we can re-price is small that we could do. So, we are really looking up

forward that quarter one as soon as the sale is over, the merchandise that will start coming in from February would actually follow this new parameter of below 1,000 and above 1,000 being treated differently. So utilization would be better for us.

Abneesh Roy: So, will it be fair to say that your positioning at least in terms of pricing will be a bit lower versus earlier, will that be an endeavor so that you can meet the 1,000 threshold and lower taxation?

Govind Shrikhande: We would be more value focused on private brands ...

Abneesh Roy: So, sir my next question is on Amazon deal, so firstly congrats again on that deal. Sir, one big way Amazon is going to help you will be in terms of that 400 million footfalls which you mentioned on the site. Now your private labels have not worked in your stores. So, just because Amazon has so much footfalls that does not automatically mean that your private labels will work. So, obviously you are working on that pricing part which you mentioned will that be enough?

Govind Shrikhande: No, I think there are two parts, Abneesh. One is definitely pricing and second is the assortment and design. So I actually mentioned in my starting comment that we believe that it required a reset on both levels and we are completely working on the reset and that should get completed by Q4. So we clearly believe that what we are right now working on should work whether Amazon or in stores.

Abneesh Roy: Sir, in the past you have mentioned many times that sale season is something which you do not like and retailer should size away from there. If I see Trent is one player which really executes on that also. So if you see the sale season only does not deliver, So when do I see Shoppers Stop also doing that because clearly a very good quarter Q1 and then very tough quarter Q2 is there for you and many other retailers but Trent kind of stands out. So when do you see you also at least taking that step because I do not see any benefit of the current strategy at all because ultimately if you ...

Govind Shrikhande: No, current strategy it does not work. If you ask me we have to go back to the situation where sale season is curtailed, number one and post sales season the fresh merchandise should be in immediately which is both value and premium coming right at time. So I believe what we are working right now should start delivering us from quarter 1 of next year.

Abneesh Roy: My question was not just in terms of curtailment, is it possible that you do your sales season when others are not doing, is that a possibility? I understand your format is different with Trent because you have brands also and brands will have their own challenges, so in your case it is not possible at all right? Having very different sale seasons

Govind Shrikhande: Yes, because Trent is 85% to 90% private labels so they can work on their own calendar. We are 85% brand so we are forced to work along with the brand calendar.

Abneesh Roy: Yes, at least for the private label you do have that right? Your own calendar.

- Govind Shrikhande:** But then the private label needs to have their own pull in terms of both pricing and value which is what we are working on.
- Abneesh Roy:** One last one, Experience Center Amazon, when does it add value to you also more in terms of revenue, I understand there is footfall benefit etc., but any monetization you can do from this?
- Govind Shrikhande:** No , currently Amazon Experience Center is not a monetization tool Abneesh, it is an experience center, just for coming touch and feel product, basically. But the monetization will actually happen through the walk-ins getting converted very clearly. Because if somebody walks into the experience center to touch and feel any X,Y,Z product, as the retailer it is our job to ensure that we convert them into something else.
- Abneesh Roy:** And sir on GST, one follow-up was there. Are you seeing any kind of reverse shift happening? Everyone was saying shift will happen to organized players because of GST. Are you seeing any signs in your different segment, reverse shift happening?
- Govind Shrikhande:** I think the organized market in retail anyways very low as of now, so it will only keep on increasing but frankly on the ground level we have not really seen anything which indicates that the shift will happen faster towards organized retail. I think everybody is still coming to term in terms of getting the supply chain right, getting the taxation right because in certain categories the GST rate has gone up from 12% to 28%, now the category is going to be under attack according to me rather than seeing which sector organized or the unorganized will take it up there is a challenge.
- Abneesh Roy:** Which category? It will not be impacting you right? 28% **Govind Shrikhande:** In beauty for example, in beauty lot of products have moved from 12 and 18 to 28 now.
- Moderator:** The next question is from the line of Shalini Gupta from Quantum Securities. Please go ahead.
- Shalini Gupta:** Just a couple of questions. One would be on like if I heard you correctly, you are saying that you will be at 8% EBITDA margin in a few quarters from now, is that correct?
- Govind Shrikhande:** I mentioned, 2019-2020.
- Shalini Gupta:** Sir I was asking you that now HyperCity had a loss of 84 crores in financial year 2017 and you have a 51% stake, so roughly about 40 crores odd was the part of your losses.
- Govind Shrikhande:** Yes.
- Shalini Gupta:** So now, is it these 40 crores of losses we will get entirely wiped out from your books in the future?
- Govind Shrikhande:** In the next financial year once the company is sold out, the consolidated result will completely clean up and these 40 crores will also go out, you are right, that is what I mentioned both P&L will get cleaned up and balance sheet will also get cleaned up.

- Shalini Gupta:** And sir, where in the profit and loss account does this expense so to say of the HyperCity losses, where does it appear?
- Sanjay Chakravarti:** Shalini, this is Sanjay Chakravarti. Number one, in our consolidated results if you look at the IndAS consolidation standards, HyperCity being a 51% material subsidiary, the expenses and the sales of HyperCity are 100% consolidated into the P&L & 49% is considered as Minority interest credit. Hence it is the net of the two that reflects the loss in the consolidated results.
- Shalini Gupta:** And just a couple more sir, like what kind of long term growth, long term as in the next one year or so, what kind of growth are you looking at? Are you looking at 8% kind of growth?
- Sanjay Chakravarti:** We are looking at 8% like-to-like growth in the Shoppers Stop business. We should be able to deliver 10% to 11% overall growth.
- Moderator:** The next question is from the line of Rahul Jagwani from SKS Capital. Please go ahead.
- Rahul Jagwani:** Post Q4 once HyperCity and all the deal is done, so what kind of upside in PAT are you aiming for basically in like FY19-20?
- Govind Shrikhande:** As I mentioned that we will end up this year at about 6% plus EBITDA. We are expecting 100 basis point growth in the next 2 years individually. So we should hit 8% EBITDA in 2019-2020 at the bare minimum.
- Rahul Jagwani:** And one more thing is that do you think, I mean like this following up on the other question regarding this sales culture, do you think this was further increase with the tie-up with Amazon because that was the general strategy as right because they always discount. So do you think that will again further put pressure on probably create a hindrance or how do you see that?
- Govind Shrikhande:** Not really, so what we are doing about it is our site that goes on Amazon, the price control, everything is with us. So there is no discounting that will happen on Amazon.in which is not available in Shoppers. So number one is we will be controlling the pricing and discounting and it will be aligned to what will happen in our store or our.com, number one. Number 2, like I think Abneesh asked this specific question on the sale culture. I think the sale culture we have to accept that abnormal has actually become now new normal but we have to work along with it to ensure that we have much more exciting things happening in the store, new launches happening in the store, value created through private brand and new ranges bringing customer as well. So that is something that we are working on and we believe we do have lot of work that is happening right now that will start impacting and showing change from quarter 1 of next year.
- Moderator:** Thank you. Next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.
- Kunal Bhatia:** Sir, I just had one clarification in terms of the amount which we would be getting in case of the HyperCity. So you did mention 120 crores of cash, so I was just going through the previous

press release wherein we have mentioned for our 51% stake there is a component of cash which is around 79 crores and the remaining consideration we would be getting in terms of shares. So, is the understanding correct? The remaining amount that is 120 crores minus and approximately 80 crores is the deposit which we have?

Sanjay Chakravarti: The press release basically considered the balance sheet of HyperCity as on June. Between July to December is the period when we will run the business, which is what as Govind said, we believe that the transition/handover will happen in Q4. So we will be running the business till December. We believe there will be a net increase in debt of roughly around 20 crores to 23 crores. So, therefore what happens, the 79 crores of cash that we had given in the press release will come down by 51% of that much amount, alright. The remaining amount contributing to 120 crs is SSL's ICDs being paid back by Hypercity.

Kunal Bhatia: So, sir net-net we will be receiving the 79 crores?

Sanjay Chakravarti: No, net-net we will be receiving slightly lesser, we will be receiving about 68 crores because 22 crores of extra debt 51% of that goes away from the consideration. So, 79 minus 11 comes to 68 plus the 53 crores of ICD that will come back, so roughly around 122 crores of cash comes into the Shoppers Stop balance sheet.

Kunal Bhatia: And sir in regards to Amazon, the total consideration what we would be getting is 180 crores for the 5%?

Sanjay Chakravarti: That is right.

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

Avi Mehta: Just clarification in that deal, my understanding is you had about 95 crores of ICDs as on end of March?

Sanjay Chakravarti: Correct.

Avi Mehta: And this deal is about 80 crores which you say 160 crores which is getting reduced to about 120 crores because the additional debt is going to come in which you have to confirm the cash proceeds that you are going to get?

Govind Shrikhande: 93 crores was in March. HyperCity replaced ICDs with external loans to the extent of 40 crores which is why you will see that in this quarter the ICD is 53 crores.

Avi Mehta: And the reduction if you could just explain that one again, please?

Govind Shrikhande: Which reduction?

Avi Mehta: The reduction of some 79 crores to 68?

Sanjay Chakravarti: Between July to December there will be an increase in loans of about 22 crores and December loans will be taken over by FRL, so as your debt goes up the cash consideration comes down to that extent. So, 51% of 22 is 11 crores, so the cash consideration is 79 minus 11 is 68, expected to be standing in the future.

Avi Mehta: Fair enough. Then the second one was just wanted to clarify this reported sales growth is actually a decline, much sharper than what you highlight is that due to GST and if yes, what is or if not what is the reason?

Sanjay Chakravarti: You are looking at regulation 52?

Avi Mehta: Yes.

Sanjay Chakravarti: Yes, that is net of GST in the current year, net of VAT in the last year which is why you are seeing a sharp drop.

Avi Mehta: So, service tax is the reason for this.

Sanjay Chakravarti: Which is why you should see the sales number which is there in our presentation which is the like-to-like comparison.

Avi Mehta: Fair point. So, Govind what had happened is I remember in the last EOSS you had indicated that we have learned that we had to replace our stock with fresher stock which you kind of delayed and we kind of take those learnings and we will do it in next time. So, this quarter unfortunately that has not been playing out, so just wanted to understand was the GST the reason for that? Would that be a fair understanding?

Govind Shrikhande: So, if you remember Avi what we had anticipated was that GST came at the last minute in July. We were all expecting it to happen post September. We are all betting that it will happen only in December or January, so that we would have got out of the earlier buying cycle and worked on the new buying cycle based on the rates. Now, the GST rates have announced actually on April and our categories only in the month of June. So, we actually did not have any time to work on the taxation and work on the supply chain. So, unfortunately we did not have any time to do any correction that we were targeting at that point of time. Now that the rates are clear now that we are clear on what we can do about it and supply chain, I think it will play out better in the sale of January and definitely much better in the next year summer sale.

Avi Mehta: And lastly Govind, see in the private label I mean you alluded towards this strategy of going for value. Now is this also in a way kind of trying to position the private label for the online space and is there going to be closer cooperation between you and the Amazon team to kind of have those brands as one of the most stable brands the way we see with their other companies that they kind of have closer relationships with the kind of get deeper in those relations. So is there an intention to kind of get private labels as a focus area for them as well because we understand they are facing issues in apparel?

- Govind Shrikhande:** No, so this decision of ours to look at private brand with more value focus has actually nothing to do with the Amazon relationship. The Amazon relationship will deeper it further later on, but there is one parameter that actually come out of this year's the GST regulations. So, fashion which is to be earlier at 4% or 5% is now treated with two different taxations, below 1000 and above 1000. So, I think we will have to utilize it smartly that is clearly coming out and that is what we are trying to do. That if for example, tops and T-Shirts I can treat it because of 6% lower GST regime, I think it will help. It will also help us to value it right and also really get throughput better and the other part that we have learned through the last 24 months-30 months not only within India but across the world is value consciousness about fashion as well as real product has only increased. And value retailers have been able to get a much better throughput and sales at full price than the high priced ones. So, it makes tremendous sense for us to balance our portfolio by making the private brands much more value based because brands are anyway premium and BTL. So, it will actually complement the offering within the stores. Customers then have choices of price points moving.
- Moderator:** Thank you. Next question is from the line of Arshit Desai from SBI Cap Securities. Please go ahead.
- Arshit Desai:** My question is on your margins. Since your sales now look lower after GST, your margin guidance of 6% for this year and 8% by FY19-20 this is based on the earlier reported sales or?
- Sanjay Chakravarti:** Arshit, our percentage to sales is always on gross sales. Sales is what we collect as money from the customer.
- Arshit Desai:** Which is the retail turnover?
- Sanjay Chakravarti:** Which is the retail sales.
- Govind Shrikhande:** That is right. There is no definition change there.
- Arshit Desai:** So, you have done 4% margins in the first half if I see your presentation 4.2%.
- Govind Shrikhande:** Correct.
- Arshit Desai:** You expect that to go to 6% this year?
- Govind Shrikhande:** Typically the biggest margin jump changes happen in quarter 3 which is coming up right now. Look at our last 3 years-4 years, the highest EBITDA margin comes in quarter 3.
- Arshit Desai:** So, 6% for the entire year, not by the end of FY18
- Govind Shrikhande:** That is right.
- Arshit Desai:** So the big delta is coming only from seasonality issue or you think some more efficiencies and benefits will come in the second half?

- Govind Shrikhande:** So even during this quarter, there are a lot of efficiencies that has been bought in because of which you are seeing the EBITDA jump by almost 90 basis point. 45 basis point out of that is coming out of efficiencies that we have bought in. We believe it can we be at a similar level or higher and with like-to-like growth coming back, definitely it will be very positive.
- Arshit Desai:** And my second question is you said 45 bps of benefit came in from service tax input credits. If I look at last year numbers, this figure was roughly 2% of sales. So, why this benefit only 45 bps in the quarter?
- Sanjay Chakravarti:** This is at a flow through level Arshit. So you see what is going to happen is whatever service tax benefits may be coming, there is a GST impact also sitting in cost and in margin on account of transit stock and private brand stock. So, when we say 0.45 is at a flow through level that we are getting 0.45. You will also recall that in the first quarter when we were having the call, we had very clearly said that the entire flow through is definitely not visible in this year because of sell through pressures, margin pressures, discounting pressures and inventory pressures. So, 0.45 is really the flow through that we have seen.
- Arshit Desai:** But inventory pressure will not be there in next quarter?
- Sanjay Chakravarti:** No, we still have a certain amount of private brand inventory pressure which we believe will continue in the middle of Q4.
- Arshit Desai:** And lastly, your tax rate was almost 39%, what is your guidance on tax rate for next 2 years?
- Sanjay Chakravarti:** We believe we should be back at a maximum marginal of 33-34% by next year. **Moderator:**
Thank you. The next question is from the line of Harit Kapoor from IDFC Securities. Please go ahead.
- Harit Kapoor:** First thing was on you said 50% of the overhead reduction was due to your own initiatives on cost management. So, if you could just highlight what are the key initiatives that you are taking there and what more can you squeeze out of that part?
- Govind Shrikhande:** This is multiple things Harit, right from our first citizen program where we had a card called Black last year exiting that definitely is one big way. Second is rationalizing, advertising and marketing spends and third obviously is working on other operating cost whether it is power or people, etc. multiple action levers here. There is no one lever that has delivered.
- Harit Kapoor:** As I understood correctly, was that the benefit from the service tax flow through will increase towards the end of 4th quarter in FY19, right that is what you kind of said?
- Sanjay Chakravarti:** No, what we are saying is this year we will see very limited flow through. We believe that the optimization of this flow through will happen only in FY19 once this whole teething trouble of GST, transit stock, stock pressure, discounting goes away.

Harit Kapoor: So, the third question was on the SSG part. If you look at the last probably 13-14 quarters, if the customer entry growths have been either negative in certain parts or at best low single digit. So, clearly that does not seem to be a driver of SSG. So is the driver of SSG all going to be transaction upsizing, how do you see that part?

Govind Shrikhande: No, clearly there are challenges in customer entry and depending upon city or a zone, there are multi things happening. So, for example Calcutta one of our biggest on the whole, mall is under renovation, the traffic is around by 50% in the city of Calcutta. It cannot be covered by other stores going up. Same thing if I look Malad, Inorbit store for example where the whole metro work is going on and will continue for another year. We are seeing a 17% to 18% drop. Again this is our largest store in numbers and everything by far. So we do have some of these challenges going across multiple stores, so the only way to beat it is how do we really improve conversion and how do I improve ticket size. So, one of the biggest initiatives that we had taken and which had talked about last quarter was on Personal Shopper and our Personal Shopper is a program that is now running in about 72 stores across India and we have been able to really push conversion in both ticket size because of that and this initiative can further drive the conversion as soon as satisfaction of the customer and which we believe quarter one onwards it will further strengthen in the next financial year. So, you are right that the pressure on entry would continue and it can only be beaten through exciting assortment, super service and therefore a higher conversion.

Harit Kapoor: The third thing was on the expansion plan and I understand that 4 to 5 stores is what you are looking at every year given your format size and the fact which you need to plan way in advance you cannot just accelerate that only because you have higher liquidity now. But is there a thought process that some kind of a smaller format for you can work in tier 2 and below because we are clearly in metro and tier 1, we not even close to a tier 2 town or may be just very few. So, is there a thought process given the fact that now there is a single minded focus on the departmental store format that is good also dabble into different formats at tier 2-tier 3 towns as well?

Govind Shrikhande: So, clearly if you want to be a little deeper in tier 2, private brands have to become really important. So, this whole focus on private brand and driving them harder over the next 12 months' time getting them the identity, getting them the value would actually be a right test or test case for us to really look at taking them on in a tier 2 kind of a format, number one. Number two, we already gone and experimented for example in the Kolhapur, our store size is actually less than 30,000 square feet; in Goa we are less than 28,000 square feet. So, we already have a model which works anywhere between 20,000 to 28,000 square feet. But the model also needs to have higher level of private brand because in those cities, the premium brand demand is not so very high. So you are right, we are looking at that model but I am not able to comment to you whether it will happen in the next 12 months' time. I think it is at least 18 or 24 months away.

Harit Kapoor: And the last thing was the Amazon online, your presence online with Amazon when does that come about?

- Govind Shrikhande:** So, December end, our catalogue almost the entire catalogue will be up. We were having our only private brands, 5 brands just about a month back. Today, we have more than 40 brands already up, so by December end we believe we should at least have a 250 plus brands and Q4 we will have the entire 400 brand catalogue.
- Harit Kapoor:** Last thing on the Amazon part, what was the initial response that you seeing that you have already have now 40 odd brands, so are you already initially seeing the kind of, I know it is too early to say but initially kind of ...
- Govind Shrikhande:** Too early because they have just gone up post Diwali, last week. So, I think December end we will clearly know.
- Moderator:** Thank you. I will take the next question from the line of Naveen Jain from Florintree Advisors as there is no response from Mr. Krish Kohli's line.
- Naveen Jain:** So, I have couple of questions. One, sir we have closed about 8 stores in the last about 2 years. So going forward do you see more store closes and what will be the guidance on it let's say in the next 2 years?
- Govind Shrikhande:** I do not remember closing 8 stores. Will get the count rechecked, but they should be in the region of 5 or 6. Your question basically, are we going to close more stores?
- Naveen Jain:** Yes.
- Govind Shrikhande:** Our answer to that has always been for the last 24 months is that we will continue to look at the bottom 10% stores all the time and we will work around whether they can be turned around or not because if I had to deliver 8% EBITDA at a company level, need every store to contribute above that number let's say 11%-12%. So, stores that are unlikely to hit a number which can cross that benchmark, we have to seriously keep on looking at it.
- Naveen Jain:** So, last year we took an impairment cost of about 22 crores because of closure of stores, what will be the guidance for this year and let's say next year?
- Govind Shrikhande:** We did not take impairment of 22 crores for closure. I think you must be referring to the Nuance.
- Sanjay Chakravarti:** What you are talking about Naveen is the acceleration of depreciation not really an impairment provision. it is an acceleration of depreciation that is taken as a decision to close a store.. As per accounting standards when a decision to close the store is taken only then can you take the provision for accelerated depreciation. As of now, we have not taken a decision to close any store. Like Govind said as and when decisions are taken, we will take the provision for acceleration.
- Naveen Jain:** Sir, another question was on our investment to develop omni channel. I think we have spent about 60 crores in that I think you mentioned in one of your previous calls.

- Govind Shrikhande:** Yes.
- Naveen Jain:** So, are we going to make more investments in developing omni channel or are we done with these kinds of investments?
- Govind Shrikhande:** The large scale investment is done. Now what will happen is annually what you need to keep on upgrading and maintenance which should be in the region of 10 crores or 12 crores per year will continue. But the big investment infra piece is already done and over.
- Moderator:** Thank you. The next question is from the line of Shalini Gupta from Quantum Securities. Please go ahead.
- Shalini Gupta:** Sir, just a couple of more questions. One is this about the HyperCity deals, so you said 120 crores odd will be coming to you in cash, but sir like would you also be receiving 500 odd crores worth of shares of future details?
- Sanjay Chakravarti:** You are right, 500 crores is the total consideration in shares. We will be holding 255 crores of shares.
- Shalini Gupta:** 255 crores of shares of future retail?
- Sanjay Chakravarti:** Correct.
- Shalini Gupta:** So then that means it was reported wrongly in the media perhaps?
- Govind Shrikhande:** No. Shalini, you are not reading the entire picture. HyperCity is owned 51% by Shoppers 49% by the promoter. So, the 500 crores value 51% comes to Shoppers, 49% goes to the promoters. So, look at the enterprise value and then the 51-49 breakup.
- Shalini Gupta:** And sir like, so you have said that you are looking at opening 4 to 5 stores every year more particularly in tier 2 and tier 3 cities and you are looking at the smaller model for these cities because they are ...
- Govind Shrikhande:** No, we have not said opening in tier 2 or tier 3. We have said will continue in tier 1 and some more in tier 2. Tier 3, we are still not looking at Shalini. We do not really have a proper model for tier 3.
- Shalini Gupta:** But sir like if you could just give me two data points like what is the cost per square foot for your expansion?
- Sanjay Chakravarti:** Roughly around Rs. 1,500 to Rs. 1,600 a square foot in terms of capital expenditure.
- Shalini Gupta:** That is it? I mean I am sorry, yes.
- Sanjay Chakravarti:** That is it. We think it is very high, we want to bring it down further.

- Shalini Gupta:** And sir, like in terms of square feet again, if you could just give some kind of benchmark like you will be expanding like 8% or 10% in square feet terms?
- Govind Shrikhande:** Square feet terms will be much lesser Shalini because if I am opening, even 4 stores at 40,000 square feet it is 1.6 lakh and our current base is about 4 million approximately. We are talking about may be 3% or lesser expansion per year.
- Moderator:** Thank you. The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.
- Kunal Bhatia:** Sir, just I had one clarification sir. In the current quarter, how much of the savings was on account of the service tax reduction because of the GST?
- Sanjay Chakravarti:** The net flow through was roughly around 0.4%.
- Kunal Bhatia:** 0.4% and that would have been reflected in the raw material as well as the other expenses part or it is on ...
- Sanjay Chakravarti:** Yes. The debit would have come through in the COGS. The credit would be sitting in the OpEx.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Govind Shrikhande for his closing comments.
- Govind Shrikhande:** Thank you friends, thank you for joining us in this conference call. I am also happy to inform you that today is our 26th Birthday of Shoppers Stop. So, thank you for all your support and do visit the stores because we have some fantastic things happening in the store including personalization of home products, lot of makeovers happening in the stores, create your own fragrance in the store and yes a few stores are also having mid night sales. So, thank you for joining us, all the best and please go shopping.
- Moderator:** Thank you very much members of the management. Ladies and gentlemen, on behalf of Shoppers Stop Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.