

**SHOPPERS STOP**

**“Shoppers Stop Limited Q3 FY 2018 Post Earnings  
Conference Call”**

**February 02, 2018**

**SHOPPERS STOP**



**MANAGEMENT: MR. GOVIND SHRIKHANDE CUSTOMER CARE  
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STOP LIMITED**

**Moderator:**

Ladies and Gentlemen, Good Day and Welcome to Shoppers Stop Limited Q3 FY 2018 Post Earnings Conference Call. As a reminder, all participants' line 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, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Govind Shrikhande -- Customer Care Associate and Managing Director, Shoppers Stop. Thank you and over to you, sir!

**Govind Shrikhande:**

Thank you. Good Evening, Friends. This is our Quarter Three Call. And the Annual Budget by the Government has just been announced. So, I thought let me start with the Budget and then get on to our quarter three numbers.

So this year's budget as expected being a pre-election budget is all about "Mera Bharat Mahan" and covers agriculture in a big way covers poverty in a big way, a lot of emphasis on women. I would say the biggest impact that I could see is from National Health Protection Scheme that is definitely one of the most path-breaking schemes that we have seen similar to Obamacare, I do not know whether they will call it Modicare later or not. But similar to that.

As far as retail is concerned, nothing really great to offer there. In fact, some disappointment because Customs Duty on many of the categories that we retail which is Make-Up, Jewelry, Furniture, Toys, Watches has gone up by 10% from 10% to 20% and as you know when Import Duty goes up there is input cost and post the input cost there will be markup at the trading level at the retail level. So it is likely to have an impact of anywhere between 15% to 20% at MRP level starting tomorrow, the minute the new import start hitting in. So this definitely is definitely inflationary for sure and may have some impact on the demand. And I will take maybe more questions when we open the forum on the budget part. But retail-specific only this is the part.

We have not really seen any big driver for consumption because even the standard deduction would not really come back to the pocket there is a 3% to 4% cess change that has also happened that would also take away some amount of money. So I would say okay budget. And as I said, "Mera Bharat Mahan" kind rather than an overall industry budget.

So coming straight to the Quarterly Presentation, Business overview page #3. You can see that we open two stores in the department store format one in Thane and one in Chennai. The first time we are opening in a Palladium Mall and in Market City Mall. We believe that this would be a landmark mall. Any case, it is one of the best performing malls in Chennai right now and which would strengthen our relationship in Chennai.

We opened four M. A. C shopping shop stores in Delhi, Chennai, Kolkata, and Mumbai. Similarly, we opened for Clinique Mumbai, Lucknow, and Chennai shopping shop stores. Two Bobbi Brown standalone stores in Mumbai and Bengaluru. Two Smash box standalone doors in Mumbai, Delhi. Smash box is the latest addition from the Estee Lauder group. This is now strengthening our relationship with Estee Lauder and now the count for the entire Estee Lauder format of brands has now reached 97. So we hope to achieve 100 stores in this quarter itself.

Loyalty Programme going from strength-to-strength now at 5.1 million customers contributing more than 75.6% share.

Page #4, you can see the geographical spread of all the formats 82 in a department store; 42 in Crossword; 18 in Home Stop; and M. A. C, Clinique, Estee Lauder, Bobbi Brown, Smash box at 97; total 237. More than 4.5 million square feet.

Covering just about 38 cities now. As we had always been talking India has got about 55 cities in 1 million population. We do target to open in all the cities in the next four years' time.

Page #5, format-by-format actual square feet so department store obviously having the largest amount of square feet at 3.9 million almost 4 million. The other formats specialty retail and beauty have the second highest square footage.

Page #6, Big Mall, Thane it is a nice compact store of 31,000 square feet next to the Hypercity that we were operating earlier. Even Phoenix Market City, Palladium that we have opened is again a 33,000 square feet format two levels.

Moving on to Page #8. Sales growth looks disappointing in terms of numbers I will explain to you some logic behind that. 0.4% at an overall level, like-to-like at 1.4%, the stores greater than five years actually getting impacted and running at -2.3% I will also explain to you what is happening there. But stores less than five years are running at 8.5%. Sales per square feet have grown basically because of some amount of rationalization.

Let me first come and explain to you on the like-to-like growth of 1.4%. What we have really seen is there has been a GST change in the month of November where many of our categories which are comprised of non-apparel which is Beauty, Sunglasses, Watches they comprise almost 37% plus of our sale. The GST was dropped from 28% to 18% and which meant the MRP drop by 10%. And when you look at this number along with almost 45 days sale, what we are seeing is almost a 3% drop in the top-line. So the 1.4% we should read it in the region of 4.5% to 4.8% rather than 1.4% because the price drop has not really helped us in terms of driving any volume. That is part one.

Part two is when I look at stores that have got impacted there are three big contributors to that South City Mall, we talked about it last year and we have been talking about it for almost three quarters now. One of our largest stores and that has got hit because of mall renovation. The mall renovation still continues and may continue for another two quarters. We are seeing almost a 50% drop in the entry there. But it will get recovered in the second-half of the next year. All of you are aware about the work going on for Metro on Link Road in Malad that has impacted Inorbit and two other big stores which is Vashi and Bannerghatta have also got impacted either because of the renovation of the store or some new competition coming in.

Irrespective of this central region grew double-digit at 12%; even North grew 8%; so the weak areas have definitely been East which is running negative because of South City and the West and South which are running flat or negative.

Moving on Page #9. Customer entry negative at 7.8%, I have already spoken the reasons of some of these malls or stores where the entry has been impacted. Conversion is up by 1.9% vis-à-vis the 7.8% drop. Transaction size is much better growing at 8.4%. ASP is up by 1.7% and this is where my explanation on the 3.5% - 3.7% change because of GST comes in. Otherwise, our

ASP should have been higher at least by 4% to 4.5% and that is where you are seeing the slightly depressed top-line number. We can also see that the volume is almost flat at 0.3% minus.

In terms of category wise sales and the private brand, this has been one of the disappointing quarters for private brands. But we knew about it and we had already said to all of you in the last call that this year private brands is slipping basically because we are going through some correction and from the current 9% - 8.9% that we are seeing next year we are targeting a 12% share of the private brand. 12% going to 15% to 18%. We are or we have actually undertaken a major correction for all our private brands including Stop, Life, Kashish, Haute Curry, and Vettorino Fratini. We are basically now going with fashion add value, rather than fashion and premium. And we are also correcting the number of options in each of the brands to deliver much higher throughput rather than having a large amount of bid.

As far as the merchandise buying model is concerned, the bought out continues to drop and also make our working capital stronger and stronger.

On Page #11, you can see the apparel, non-apparel, non-apparel continues to grow well and some of the categories that are really growing strong. Beauty continues to grow at double-digit. We are also seeing very strong growth in Watches which is again growing at double-digit. We are seeing Women's Western Wear growing at double-digit. The categories that are struggling one of them definitely is Mothercare and second is Men's Formal Wear and we are working on both these categories to really understand what can we do about it. But clearly, Fashion, Watches, Beauty and Women's Western Wear continue to perform well in spite of multiple challenges that are there.

Page #12, shrinkage very much under control. In fact, this might be one of our lowest shrinkage that we have been able to record because of multiple practices.

Page #13, look at the top-line growing at 2% margin on sale has dropped by 1% almost 100 basis points that is combination of share drop of private brand and the sale that we started almost 7 days earlier vis-à-vis last year. But in spite of that, what we are really seeing is our operating expenses we have been able to hold well. In fact, they have dropped by 220 basis points.

As a result, the EBITDA is up by 15% from a Rs. 71.4 crores last year to a Rs. 81.9 crores and PBT before exceptional items is up from Rs. 32.7 crores to Rs. 43.98 crores.

Now before I touch exceptional items, let me just remind you what we had undertaken and announced in the last quarter and the path that we have taken. So that you are clearly understanding the perspective of the exceptional items.

So last year we had said we are exiting Hypercity and that exit is almost now complete. The valuation of that business was supposed to a Rs. 911 crores. While handing over the business, we saw certain challenges in the stock, etc. and that is why we have taken an impairment of Rs.

14.9 crores. In my opinion, this will be the last impairment on the Hypercity business and that is the way we see right now and the whole transaction will get completed by March.

Parallel to our exit and when we exited Hypercity we also acquired FRL shares that is Future Retail Shares worth almost Rs. 250 crores and against the price at which we acquired Rs. 537 December end the price was slightly lower. Hence, we have to take a mark-to-market of 6.1. So both these what you call exceptional items is related to Hypercity Exit.

The third one is related to Time Zone. Just to explain the Time Zone zone, we had made an announcement that we want to exit and we are exiting, we have already signed a share purchase agreement with Time Zone, Australia, and the whole transaction will get completed in this quarter. We believe we will get Rs. 21 crores at the end of the transaction. The cash will come. And against the enterprise value of 22.7 because we are getting Rs. 21 crores we have taken an impairment of Rs. 1.7 crores. So all these three put together you are seeing an impairment value of 22.7. All these are one-time except the mark-to-market because mark-to-market we are not in a position to predict how prices of FRL will fluctuate. So, we do not have to worry, this is a national entry as far as mark-to-market is concerned. And we believe that the price of this stock will be much-much higher considering the amount of work that is going on in FRL. But these are the exceptional items that are really there.

So post exceptional items, really speaking if you look at the PBT and PAT has dropped but that is actually a non-operating result. So operating result if you ask me pretty happy with a slightly lower sales growth, we have been able to deliver a good EBITDA and a good PBT growth.

Consolidated I would not spend much time because post-November end actually Hypercity has moved. So actually console does not make much sense. But just to explain on the sale of Hypercity in consolidated accounts, we booked a profit of Rs. 208 crores that is why we are seeing exceptionally high profitability in PBT thereafter exceptional item and same thing at PAT level. But as I mentioned going ahead Hypercity moving out Q4 onwards consolidated would not be relevant at all.

I would not spend time on the nine months period for both standalone and console. Let me come to balance sheet which is what we have promised you that we will reduce our debt by almost Rs. 300 crores to Rs. 320 crores, we are not only on that promise we are actually exceeding that promise. September ends we were at Rs. 536 crores of debt. December end we are already at Rs. 237 crores. We have reduced the debt by Rs. 299 crores in this quarter.

We also are happy to announce that Amazon NV and we the FPI of Amazon has already invested Rs. 179 crores in January that money has also come in. So our current projection is by the Q4 end our debt would be in the region of Rs. 40 crores to Rs. 50 crores. So substantial reduction from a Rs. 536 crores we will be down to maybe a 0.1% or below in terms of debt and target next year between Q2 to Q3, we should be completely debt free.

So we have set two objectives for ourselves in terms of direction. One is cleaning-up of the balance sheet and then strategically looking at the P&L. So one part we are clearly able to see already happening.

On the strategy side, I will now explain to you what is it that we are doing. But before I touch there some of the big initiatives that are being completed in this quarter which I had made a mention that one of them would be omnichannel. So omnichannel our path is getting more and clearer and in this quarter, we have actually grown by 130% the highest growth that we have ever seen in omnichannel. And our path towards 10% mix - 1.3% share this year to 3% to 6% and to 10% is getting more and more clearer and our tie-up with Amazon also would help.

So as of now, our sterling OMS execution the MTM execution, the ESB execution all of them have been rolled out. We have started actually today. In fact, about three months back shipping from stores in 15 stores and that is contributing a large volume of our e-Comm. This week we are also starting our trial of click and collect. So click and deliver is already there, clicked and collect will start. So by March to May our entire omni journey as far as the customer is concerned will be completely there and we should grow between 150% to 200% in the coming financial year.

As far as Amazon is concerned, we started going live from December. As of now, we have more than 250 brands live on Amazon. We are growing about 50% to 80% month-on-month now and target definitely in the next year would be to grow more than 200%. By May or June, our entire catalog should be available on Amazon. And then from quarter two onwards, we will start working on multiple other initiatives which are right from experience center in the store to joint marketing.

Sorry, I think we got disconnected, I was talking about the expansion plan in Beauty and so we should hit 100 stores by the end of this financial year. We are targeting to open 10 stores to 12 stores every year for the next three years' time. So we should be in the region of 140 stores over a four year period.

We believe this is a category that brings in the young and fashionable and we will continue to leverage there. Our other strategy is obviously to improve the store service and the store experience. And last year we launched the personal shopper across many stores, now it is available across all the 82 stores and already contributing 12%. We believe this is one edge in terms of service standard that we have and we want to really take it up further. We are also working currently on many digital initiatives including becons in the store, digitization of the store, cardless loyalty program and all of those will come into play in the coming year.

Recently, we completed a study along with Google on Digital Habits of Indian Customers and the Influence of Digital to Physical and Digital Shopping and the study has come out pretty well indicating that any company which is omnichannel for them if 1x is one channel, 5x is the sale when you are omnichannel and clearly we have seen that impact also in Shoppers for the same customers.

So fundamentally the whole idea and objective is really speaking bring back romance to retail through all the strategy and really drive not only growth but also profitability.

So that is where I would leave the forum for questions. Thank you.

**Moderator:** Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We have the first question from the line of Avi Mehta from India Infoline. Please go ahead.

**Avi Mehta:** Just wanted to kind of first understand the SSS growth for the year. So what I was saying is that while ago weakness in demand has made Q3 growth slow you indicated a guidance of 5% SSS growth in FY 2018 which implies almost a 7% SSS growth in 4Q. Despite the fact that EOSS has got preponed, etc. so what is exactly is the reason for this confidence for pick-up and if you could kind of share some thoughts over there please.

**Govind Shrikhande:** Avi, I never commented on the Q4 like-to-like growth. This we had mentioned at the Q2 call that we were targeting an overall like-to-like growth for the year. And we were expecting quarter three to be about 8% plus but it has not planned out that way and Q4 we are currently seeing similar to the Q3 like-to-like growth. We will end up 4% like-to-like growth most probably for the whole year.

**Avi Mehta:** Okay, fair enough.

**Govind Shrikhande:** Yes, possible.

**Avi Mehta:** Okay. The second was on the EBITDA margin guidance, you have seen a very healthy EBITDA margin performance in this quarter. Would you retain the 6% guidance or should we expect an upside from there?

**Govind Shrikhande:** No, I would still retain the 6% guidance because we have to do a lot of correction if you ask me in the private brand which is a main driver of profitability and as we have seen a lot of volatility because of the taxation situation that is there. So while all of you are aware that the Government has been increasing or reducing GST or customs duty on every 45 days - 60 days' time what it really poses is a challenge at a retail level is we do not control any MRP. We are completely dependent on the brands to really change it. As they do not change it then we have to go back and work on discounting customers are demanding it and we have to do it. And at the end of the day, there is a big challenge in terms of how do we manage profitability and with 90% of my sale being brands, it is always a challenge to really manage it. So our current understanding is that we believe that the current track what we have got in Q3 is definitely far better than what we have been able to deliver for the first six months period. But yes, the target to grow this EBITDA margin by 100 basis points each year for the next year and next to next financial year that holds good.

**Avi Mehta:** Okay. 6 and 7 we continue to reiterate.

- Govind Shrikhande:** Yes, 6, 7 and 8 that is the way we see.
- Avi Mehta:** Okay. And last if I may in this Hypercity transaction, I am just kind of little confused if you could help me understand, we have taken write backs I mean we have taken provisions or impairments but still there is a positive number and consol number, I am a little confuse, it will help explain that
- Govind Shrikhande:** So console number that is about Hypercity getting consolidate where on Hyper city's book value versus realization there is a gain and that gain value is Rs. 208 crores and that is what is getting reflected there in the console number. If we have shown you a Hypercity P&L, it would have also reflected a similar line, Avi. But we are not showing because it got transferred in November. So I do not have to consolidate it till for the whole quarter.
- Management:** In console we anyways book the losses of Hypercity every year for last ten years. So finally on console balance sheet when you sell off the investment, you actually see a gain. So it is more of a book entry then actual gain because what has happened you have book the losses over last ten years and now finally when you sell off the investment you actually get a gain. So it is more of accounting entry on a consolidated balance sheet.
- Avi Mehta:** And would it fair now this is the last amount of impairment that we saw in standalone books because now the Hypercity has been sold off.
- Govind Shrikhande:** Yes, absolutely.
- Management:** Absolutely.
- Moderator:** Thank you. Next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.
- Kunal Bhatia:** Sir, just a clarification in terms of the focus and the for the full year SSS growth what we are talking about. So are we considering the 1.4% SSS growth in Q3 or as you mentioned 3% on account of the change in MRP?
- Govind Shrikhande:** I am still considering the 1.4% because I only explained the bridge because what happens is when price drop, I have not control because it is MRP and the prices have dropped on a big segment if it had dropped only on one section we would not have really explained to you that much. On 37% mix the GST has dropped by 10%. So that is the problem.
- Kunal Bhatia:** Okay, fine, sir. Got it. And sir, in terms of private labels, which are the ones which we have stopped as you mentioned, or which were the premium brand?
- Govind Shrikhande:** No, so actually what happened was in two brands one is called Haute Curry, we had launched a Western Wear range which did not work and we had also taken the pricing up in both Haute Curry the mainline and we had also taken it up in the Vettorino Fratini Men's line. So our



realization is private brands although liked by customers for style, they are always looking for value. So style value fashion combination is what one has to gun for rather than complete with brands on their price structure. So that is the correction we are doing which is what originally was. So if you look at it, over the last 18 months we have lost share because of this change of track. We are actually bringing them back to the original track but further tightening the appeal, further tightening the Presentation and the fashion quotient.

**Kunal Bhatia:** Okay. Sir, so going forward if we go for the value fashion brand, would these margins be similar or would it be somewhat lower than the previous one?

**Govind Shrikhande:** No, so the margins currently what we are delivering versus what we used to deliver earlier, we would be in the similar range of 46%.

**Kunal Bhatia:** For the private brand?

**Govind Shrikhande:** For the private brand, correct. We do not see a challenge in that.

**Kunal Bhatia:** Okay. And sir, how much of these brands were contributing earlier? The Haute Curry...

**Govind Shrikhande:** At the peak, we were at 13.5% share four years back. Today we are at about 11%. So the whole year will be about 10% to 10.5%. This quarter you are seeing them at 8.9% which is the lowest.

**Kunal Bhatia:** Okay. And we are completely stopping them?

**Govind Shrikhande:** No, we are not stopping them as I said, the only thing we are discontinuing is Haute Curry Western Wear in others, we are correcting price and range.

**Moderator:** Thank you. We have the next question from the line of Harith Kapoor from IDFC Securities. Please go ahead.

**Harith Kapoor:** Sir, just firstly you spoke about the bridge between the like-to-like growths, would not you have a reverse effect in Q4 if the custom duty goes up in terms of MRP change and then the like-to-like growth looks a little better if a large proportion of your product is impacted because of increase in custom duty?

**Govind Shrikhande:** Yes, but that would not happen overnight because Import Duty or Customs Duty change happens for all products that will start getting imported now. So we are already holding a lot of stock. But yes, full Q1 or Q1 end we should be able to see that impact.

**Harith Kapoor:** So, have you done any calculations on what is the additional LTL that you can get on account of this?

**Govind Shrikhande:** So, whatever the loss right now that we are seeing of 3.5% to 3.7% that should definitely come back in the Q1 end because as you know typically anybody who operates in retail today operates on at least four months to five months stock, especially on the import side. So that stock plus import, so it takes some time to have a full fresh stock at new prices.

- Harith Kapoor:** Okay. So, Q2 should be where the negative and positive bridge kind of negate each other, right? That is the way we want.
- Govind Shrikhande:** If the government does not do any more changes in between.
- Harith Kapoor:** Of course, status quo. Assuming status quo. Understood, sir.
- Govind Shrikhande:** Because we are seeing so many things happening every 45 days - 60 days so a lot of times we are only pulling out our calculators and doing calculations only.
- Harith Kapoor:** Yes, that is a huge challenge. The second part was on the expansion part, so if you could just give us a sense of store expansions. So this year our net addition is only two and so this year are we adding anything and what is the outlook for next couple of years?
- Govind Shrikhande:** So, looks like we should be able to add one more store in this quarter and next year another five stores in the department store category. Currently, we are not able to see any closure as of now, but nearer to Q4 we will be able to tell you the outlook if we are going to shut one or two stores next year. But going ahead of that there are four stores planned each year, as of now signed out of that is only about seven against the 12 target I would say a virtual handshake is 7 out of 12, out of 17 overall. So that takes it to 100 basically.
- Harith Kapoor:** Got it. And from a city perspective, you said you will want to be in all 55 cities, how many are we in right now, I missed that number?
- Govind Shrikhande:** In 38 we are already there and in next year we are taking in three new cities, we are going to Calicut, we are going to Bhubaneswar, we are Guwahati, we have plans to enter Nashik and four other cities in the next to next year plan.
- Harith Kapoor:** Understood. Okay. On the omnichannel and Amazon partnership, just wanted to get your sense on, you obviously mentioned that the rollouts that you are planning over the next 12 months, especially in FY 2019. By FY 2019 end or exit FY 2019, what is the expectation in terms of say addition to like-to-like growth that this whole initiative can bring or if you could explain it in terms of as a percentage of sales for the business, however, in whatever metric you can give a broader view?
- Govind Shrikhande:** See, the percentage of share is what I did explain. So we started this journey at less than 0.6, we moved to 0.8 last year. This year we should close at about 1.3 from 1.3 we will start doubling up, 1.3 to 3, to 6 and to 10. That is the journey basically. And I believe we are very much on the path to hit that number.
- Harith Kapoor:** And would it be fair to assume that this is basic incremental LTL for us?
- Govind Shrikhande:** I think so, there could be maybe a 15% - 20% cannibalization, but my guess is 75% to 80% should be incremental.

- Harith Kapoor:** Okay. On the mall renovations, etc., so I think you spoke about Inorbit, South City, all these malls. So by when do we expect these things to stabilize and you also spoke about some incremental competition. So if you could just talk a little bit about that.
- Govind Shrikhande:** South City mall, the renovation started last year Q4 was expected to get completed by Q3 but has not got completed. Looks right now that it will get completed by Q2. So the Puja for second-half of the coming year should be good for the South City but it would have a challenge in terms of not being able to recover the entire sales growth that we are currently dragging down. As far as Inorbit, Malad is concerned, although the work on Metro is progressing well, we also had a challenge that even the side roads were dug up for almost six months. So those side roads have now got cleaned up, so I would say it can come back to some normalization in quarter one of this financial year. Vashi got flanked by two new malls, one Sea Woods Mall and the other is Central which opened right outside, so there again I would expect normalization by the second half of next year. And the same case for Bannerghatta it should get normalized second half of next year.
- Harith Kapoor:** Okay. So would then you would be looking to once again move back to your high single-digit SSG target for FY 2019, assuming a lot of these things are normalizing now?
- Govind Shrikhande:** Yes, next year we are targeting a 7.5% LTL growth, we believe it should be achievable if all these things as we see right now, in fact, a number of stores we have also undertaken renovation in this year and those renovations some of them are already complete, some of them will also get completed before March, so we should get a full boost for the full financial year next year.
- Harith Kapoor:** Okay. And the last question was on the private label you kind of spoke about. But if you could just give a sense on any traction that you are seeing on the exclusive brand portfolio, you had said another way of driving growth on the side is private plus exclusive. So any new things which you have kind of added which are exciting?
- Govind Shrikhande:** So, I would say that there are few experiments that we are doing right now during sale period where across three brands we have launched, entry-price point products and against the sale through that one expects on a week-on-week basis 4%, 5%, 6% we are seeing sales of about of (+15%), which really means that the customer is accepting those products. But this is only a small trial right now across three different brands. But if you ask me at an overall level the way the portfolio of private brands is constructed, 55% to 60% of the portfolio is women's wear, 35% is about Mens, and then 20% would be kids wear. So we struggle basically on the women's portfolio which is what we are correcting in a big way, especially on women's ethnic wear, and the second would be women's western wear. So all those corrections we understood what are challenges that were there what is the competition change and what is the customer taste change because finally what happens is you can design anything but the customer liking it or not liking it and how is it vis-à-vis competitive product. So those benchmarks we had done and we believe that we have got our answers right this time around, and yes you will continue to have some fallout from range to range, but I think the path is right.

- Moderator:** Thank you. Our next question is from the line of Naveen Jain from Florintree Advisors. Please go ahead.
- Naveen Jain:** Sir, my first question was on the working capital, so when I look at the receivables level it seems to have gone up fairly sharply during this first nine months and also the creditor levels. So can you explain what is happening here?
- Govind Shrikhande:** Basically, the receivables have gone up only because of the early sale that we had in Q3, you would not have seen it in the first half. So, during sale period definitely there is a lot of SOR merchandise that has come in, and that is what you are really reflecting there. So, nothing to really worry because if you look at our current ratio we are still on a 1 last full year and 0.8 for a nine months period which is similar, which is, in fact, better than last year.
- Naveen Jain:** Okay. So by the fourth quarter end, it should...
- Govind Shrikhande:** It should get normalized because the second week onwards they had started moving in but the sale actually started in the third week. So all the payout starts in January because there is a 15 day to four week credit period and all the payouts will happen right now.
- Naveen Jain:** Okay. Sir, secondly, like when you talk about 6% EBITDA margins target for next year and increasing by 100 basis points next year and again 100 basis points in FY20, is this based on your gross retail sales or is it the sales that you report as per the accounting?
- Govind Shrikhande:** No, the margin is always on gross retail sale, it is always gross retail sales. See, we never understand net because we collect from the customer the full money, out of the money collected we pay out to government whatever the VAT or GST, whatever the tax regime.
- Naveen Jain:** Right, fair point. So I just wanted to clarify, it is based on the gross retail sales, your guidance?
- Govind Shrikhande:** Yes, always.
- Naveen Jain:** Sir, thirdly, now that our balance sheet is very comfortable, we are literally going to be debt-free next year and our store addition plan also does not seem to be very aggressive, at least at this stage, so what really is the thought process in terms of capital allocation going forward, do we plan to enter newer segments or how we really plan to sort of, because I believe from next year onwards you will have decent cash flow generation.
- Govind Shrikhande:** There are two parts, Naveen. One is we have always been very comfortable in our working capital, we have always never had a challenge. We always never over-leverage our balance sheet as well. So the comfort level definitely is if you are debt free is the fantastic situation and to have cash on hand is very, very good. So, I think two, three things I mentioned, one is on the strategy side and second, I didn't mention earlier but we have got a new CEO on board, now Rajiv has just joined two weeks back. And along with Rajiv and team, we will revisit our strategy because a great balance sheet is a good way to really look at new opportunities and really take on new opportunities. But looking at opportunities and then taking them and executing is at least six to nine months exercise. So maybe we will be able to tell you something in the second half of next

year by which time our thoughts will be clearer whether we drive current model faster or new models faster or specialty faster, I do not think I have an answer as of now, just because you have cash you cannot create strategy, strategy has to be based on customer and I think that is something that we want to build in over the next six months' period.

**Naveen Jain:** Sure. And sir finally just last question, so this FRL shares that we have now got by way of this transaction, you mentioned that you sort of believe you will hold it for long-term, is there any restriction...

**Govind Shrikhande:** So, one year is the lock-in, Naveen, so one-year lock-in we have to hold, post that we will take a call.

**Moderator:** Thank you. Our next question is from the line of Avi Mehta from India Infoline. Please go ahead.

**Avi Mehta:** Sir, just two bookkeeping, if you could share CAPEX expectations for this year and next year?

**Govind Shrikhande:** This year I do not have the ready figure, but we would be in the region of Rs. (+130) crores this year and next year again would be a similar number, Avi.

**Avi Mehta:** Okay, so Rs. 130 crores are kind of the expectation now?

**Govind Shrikhande:** So, basically what happens is while you may not see a large number of new store openings, there is a lot of CAPEX investment going on in the renovation of existing stores because we believe that is the only way to drive like-to-like growth stronger. So we have taken almost eight stores for renovation next year which is all getting completed by March and that is what I believe will give us a sort of tailwind to really drive larger LTL growth.

**Avi Mehta:** Okay. And on the Amazon partnership, now if I recollect you said that you would have the entire listing done by this quarter right, fourth quarter?

**Govind Shrikhande:** Between this quarter to May.

**Avi Mehta:** Okay, so how does this process work typically, if you could help me understand that, is there a backend kind of a chain that is required or how does this, is there integration of a system that is happening?

**Govind Shrikhande:** There are two challenges, Avi – one challenge is classically lot of brands who do not want to deal with Amazon and are on my site or in my store, we have to get into a sort of negotiation, discussion to get them on board, that is the longest because if you look at our (+450) brands we have almost 150 brands which are international. Then if you are to list anything no any site you require permission from each of the brand's owners. That is the longest process if you ask me, balance everything else is more of a mechanical process between four to eight weeks to shoot the assortment and then list it and then organize the stock. That is not a big challenge, the big challenge is getting permission and moving on from there.

- Avi Mehta:** Okay, got it. And lastly, from a more kind of the overall point of view, now our LTL footfalls have been kind of quite muted.
- Govind Shrikhande:** Yes, they have been negative in fact, (-7.7%).
- Avi Mehta:** So, the key drivers would be a private label, would experience change that you are using to drive because finally how are we trying to get new customers?
- Govind Shrikhande:** Footfall drive cannot be a private brand, footfall has to be driven by the brand assortment, footfall has to be driven by store level experiences, and footfall has to be driven by clear communication, advertising and gaining share of the mall traffic. And as I mentioned that in four to five malls where either the mall has gone under a big renovation the mall traffic is down by 50% I cannot really help anything to do with that. So, the mall renovation getting completed we believe that traffic will come back. So, one mall alone which is South City which is down by 50% contributes almost 1.5% of this (-7%). So we believe that it will come back to normalcy next year because the mall is a fantastic mall, but if it is under renovation yes it will struggle and that struggle has been endured for more than four quarters now, maybe one more quarter to go.
- Avi Mehta:** Sorry, let me rephrase my question. I mean, since FY15 LTL customer entry growth has been negative, it is kind of varying from...
- Govind Shrikhande:** Yes, average de-growth is about 5% every year.
- Avi Mehta:** So, I was just trying to understand what are your plans to correct that and do you see this changing or is it going to be more AST linked where you are targeting, what is the key driver for SSG growth?
- Govind Shrikhande:** So, two, three things, one is to stop the de-growth as much as possible, I think that is one key element for sure, so -7% can you get it down to -3%, can you get it down to -2%. Can you drive ASP, because that is the key driver as well? Third, definitely through your experience and assortment can you up the conversion in IPT as we call it, number of items per ticket size which will drive the cash in both sides? So those are four key drivers. Private brand is not a key driver for customer entry. And definitely the use of omni and digital and Amazon to bring in more traffic to the store because a lot of customers start their buying or shopping journey online and then finally end up in the store. And so you will remember mentioned that the digital experience centers on Amazon are one key strategy as well, because if Amazon is currently getting (+400) million customers and I am only getting 4 million customers, which has gone to 6 million now as far as our online is concerned, it has jumped by 50%, but out of 400 million even if I get 4 million more my number doubles as far as entry is concerned. But I am not expecting that because these customers are coming from many, many small cities where I have no presence. So even if I take the top cities the relevant number could be 50 million let's say, and out of 50 million even if I get a million I think that number is done. So I think there are multiple tools that we are working on right now and we believe we should be able to first of all arrest the de-growth in a big way and maybe achieving flat I would say would be the best number that we are targeting.

**Moderator:** Thank you. As no questions from the participants, I would now like to hand the conference over to the management for their closing comments.

**Govind Shrikhande:** Thank you, friends, for joining on the quarter three call. Look forward to again talking to you in Q4. And I am sure the next year is going to be far better than what we have seen during this year which has been full of disruptions right from GST ups and downs, etc., and next year should be much more brighter and better. Thank you.

**Moderator:** Thank you very much, sir. Ladies and Gentlemen, on behalf of Shoppers Stop Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.