"Shoppers Stop Limited Q1 FY 2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good morning, and welcome to the Shoppers Stop Limited Q1 FY 2021 Earnings Conference Call hosted by IDFC Securities 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 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. Rohit Dokania from IDFC Securities. Thank you and over to you, sir.

Rohit Dokania: Thank you. Good afternoon, everyone and welcome to the Q1 FY 2021 Result Conference Call of Shoppers Stop Limited. I hope you and your near ones are doing well. I would like to thank the management for giving IDFC Securities the opportunity to host this call.

The management team is represented by Mr. B. S. Nagesh -- Customer Care Associate and Non-Executive Chairman; Mr. Karunakaran Mohanasundaram -- Customer Care Associate and CFO; and other senior management personnel.

We will start the call with the commentary from the management and then move into the Q&A.

Thank you, everyone and over to you Nagesh, sir.

B. S. Nagesh: Thank you, Rohit. Good evening, and Namaskar am to everybody. Welcome. Hope you and your near and dear ones are safe. These are testing times. And thank you for joining the Shoppers Stop Earnings Call for Quarter 1.

As you are aware, the Quarterly Results, the Press Release, and Investor Presentations are available on our website. I hope you have had a chance to browse through the highlights of the performance.

Rajiv, who conducted the last quarter's will be exiting during the next two weeks' time and therefore, I am standing by for the Managing Director, CEO of the company. It is a pleasure and privilege to come back and speak to you after almost eight years, nine years, ten years.

As we said in the June meeting, we had to close all our 293 stores from mid-March. I think once the lockdown was gradually released from June 8th, we have opened the store, step-by-step and have been opening the store based on the government and local and regulatory authorities with control movements, maintaining social distance, taking appropriate hygiene measures. and following the directions of the regulatory authorities.

Let me start presenting the situation, which is not the same as year before. I think there are huge amount of changes that have happened and whether it is the new normal or the next normal that is the reality.

But some of the COVID realities are that the COVID regulations continue to hamper opening up the stores, inconsistent, erratic, irregular calls taken by local authorities, sometimes makers open the store, close the store, change the timing. And therefore, there has been inconsistency. Above all, malls and large stores in a few states are closed during the weekend due to government regulations and restrictions.

Not only the government restrictions and regulations, but even the consumer behavior has changed. And in the last two months, we have been operating stores, we experienced the following change in behavior: There is significant decline in the footfall, about 92% in June gradually improving to 70% decline as of now or for the stores that have been opened for the last two months or two fortnight's or two weeks since the time we started opening.

This impact has been witnessed by almost all the retailers, fashion retailers, department stores. And for Shoppers Stop our stores in non-metros have shown higher level of resilience. And standalone stores have outperformed the mall stores.

And there have been surprising facts, some of our stores in some cities have hit above the last year's numbers. So, which means that the behavior is very different in different cities based on either the COVID situation or the resilience of the customer.

If I look at the categories. Home, Kids, and Beauty performing comparatively better than Apparel. Like this, the Casual, Sports, Athleisure are performing better than Formals. And it is also because of probably work from home or the way the consumer is behaving and conducting his office work. Masks, Sanitizers, Personal Grooming categories demand has been increasing from the customers.

Customers are coming to stores with a very specific purpose and that is also reflected in the average transaction size, the bill values, the conversions, which have all gone up. If you look at it, the ticket size has gone up by 34%.

Another very interesting factor is we are seeing a catchment concentration. Whereas in the earlier years, we saw the malls becoming destinations and people willing to travel five kilometers to ten kilometers to go to some other malls, which was outside the catchment. But this time, you are seeing that people are coming from two kilometers catchments.

Also, customers are visiting those stores, which they consider to be safer in their mind. So, some of the businesses or Shoppers Stop as a brand, which has sustained its loyalty towards its customers and has always been treated as a trusted brand is seeing better movement. And therefore, we believe that the trust and the First Citizen contributions will keep adding value to our business as we take it forward.

We have also responded to the COVID situation. Like in the last meeting Rajiv spoke about reducing costs and maintaining liquidity. I think, we are tracking favorably against all the internal targets that we had set, and these internal targets are being set and reset, because we are seeing opportunities as we go forward.

We are learning from the situation. And we are learning to react fast from the situation. We continue to focus on cost reduction initiative then using monthly cash burn rate. On rentals, we have had some substantial savings. But the rental savings will continue to be negotiated, because as we see stores opening, footfalls happening, up and down, I think we will continue to negotiate.

Manpower optimization started from June. We did have changes in the manpower and therefore, we also incurred one-time Q1 cost of over Rs. 10 crores. The gain from the manpower rationalization will be seen in the further quarters, much more than what you saw in the first quarter.

Travel is nil. Other administrative overheads we have cut by almost 75%. Discretionary expenses have been substantially reduced. The savings are expected to be about Rs. 450 crores for the full year, representing approximately 35% savings year-on-year. Of this, about Rs. 185 crores we have already seen in the quarter one.

There is enhanced focus by the team on cash conservation across the company to maintain short-term liquidity and ensure balance sheet strength, because these are unprecedented times, no doubt. We have maintained sufficient liquidity both with existing and new line and we are committed to maintain liquidity to ensure that the business crosses these tough times.

Cash and bank deposits are at about Rs. 59.5 crores, as of June 30th, 2020. We further availed a Rs. 75 crores loan in July to deal with commitments made during the quarter. This is in addition to the loan that we had availed in May of Rs. 75 crores.

In June, we opened 52 stores and as we progress, we are opening further stores. As on date, 74 stores are open, and these are as per the government guidelines. We did open stores in Maharashtra from this month.

However, I think, we opened some stores in Thane, Navi Mumbai, just for a day and we had to close, because of the regulation. And in Tamil Nadu many stores are yet to open. Just like I mentioned earlier, very inconsistent, we are hoping things will stabilize over the next six weeks to four weeks' time.

Wherever we have opened the store, we have ensured utmost safety for customers and employees and we are followed the WHO guidelines. We have been receiving very positive reviews from the customers and if you look at our presentation, there is a few testimonials also, which are there from the customers and this is very important for us.

For us, the safety and health of our customers and our employees is extremely important. And they say, "Jaan Hai Toh Jahan Hai" and I think, we will continue to keep doing this again and again.

We also spoke about in the last meeting about implementation of SAP S/4HANA and GRAVTY, this enables us to have a single view of the customer. This has also helped Personal Shopper to use endless positive results.

So, after a long time, we now can look at customers through a single window. So, when we look at a customer, whether it is online, offline, click-and-collect, whatever be the channel, we have full view of the customer, one customer, single customer, full view, from all angles.

Let us now talk about the most important initiative, pivoting from the traditional offline to omni-channel organization. In the process, we have been working on this for last two years, three years. I think, this business requires much more talent than what we thought; and the talent required is from multifaceted skill set. And therefore, we thought the best is to get an organization, which has done it globally, and which can help us pivot from the tradition to online to omni-channel and become a multi-channel organization.

In the process, we have appointed a leading international consultant to improve the overall customer experience, as well as improve the backend, as well as tighten up or the loose points that we had in the system, which has to be corrected. We need to build capabilities to improve supply chain, user experience, user interface, advance analytics.

I think some of the investments that have been done have now started fructifying. Some of them will fructify in the next three quarters to four quarters. And in the process, we are also doing an in depth assessment of our technology to facilitate the above and also look at the future, because the future is looking much larger on online-multi channel than just a brick-and-mortar.

Allow me to discuss the quarter one performance of the company. As I said earlier, our Q1 performance was impacted by lockdown and partial re-opening. Already said that April and May were totally shut, and some stores opened partly in June. So, we started looking at the business slightly differently apart from sales per square feet and various things. We said, how many store days where we open? So, looks like the last year, in Q1 we had 7507 store days and this year, we had just about 1,321 store days.

Actually, if you start looking at it from store hours, this will further dropped, because we have not operated the full ten hours in almost all the stores, even the 1,321 store days that we have had. So, the store days are declined at 82.4%; and of course, if I look at the store hours, it must have declined further.

Against last year sale of Rs. 1,100 crores, we could achieve just Rs. 60 crores, though our ticket size increased by 34% and conversions increased by 12%. Our margins will lower as we must provide for inventory as per our policy, which was not sold in the first quarter by Rs. 5.5 crores on a Rs. 60 crores revenue.

If you had looked at even last year's sale, this would have been less than 0.5%; very, very insignificant compared to the turnover Rs. 1,100 crores, which would have been higher this, if everything was normal.

The provision was necessitated due to the negligible sales and like I mentioned, we have always been conservative, and this is also one of the tasks that we did due to our conservativeness.

Under these circumstances, it is prudent that we conserve our costs and maintain liquidity. Our costs were lower by Rs. 185 crores versus last year; that we have 40% of last year. This is after accounting one-time exit cost of employee of Rs. 11 crores.

I would like to complement our team for this kind of an effort in these tough times, because this is what we had planned, and I am happy that the team has achieved. Despite the cost corrections due to negligible sales, our EBITDA was negative at Rs. 132.8 crores. Well, that is the reality, but we are looking at things improving as we go forward. And we are quite confident, we will start showing better results quarter-on-quarter as we move from here.

Coming to some of the strategic pillars. On First Citizen, we have now launched SAP S/4HANA and New Loyalty Engine, GRAVTY. This enables us to have a single view of the customer. We also upgraded our First Citizen program for better engagement and personalization.

Our First Citizen mix remains at a healthy level of 76%. Our repeat purchases have increased by 1%. Our average ticket size has also increased by 6% even during this lockdown, we are able to serve and add 5,000 test members during this quarter. The addition of members continues.

Our Personal Shopper continues to excel. We started this program two years ago and it has been recognized as one of the best initiatives in the industry. During the COVID times, their contribution has been immense, as they have been able to engage with our First Citizen customers.

And in addition to this, they continue to serve our customers through White Glove services, that is customers at home or office can view the product through a video call and place an order. Payments are made through a link received on their mobile.

To Endless Aisle, a Personal Shopper improved retail overall customer experience, we started have started a special initiative to serve our Senior Citizen customers, which is called 60 ka Saathi**,** and this has been received very well and appreciated by many.

I personally feel that this is a huge opportunity in our country. Due to social reasons and due to pressures from the family, the Senior Citizens are not being allowed to go out to shop. Even the Government keeps saying that above 60 years - above 65 years do not go to work. But this is a set of people in our country who have a large amount of money, have no more responsibilities and are willing to spend. And we believe our program 60 ka Saathi is a very good initiative and we are hoping to see some decent contribution from this initiative.

With restrictions in traveling, we are seeing of two kilometers, Personal Shoppers have been calling our customers within two kilometers and increasing the affinity. In fact, sometime during the last three months - four months, every employee who was at home, especially on the front end made multiple calls. And I am told, we have done more than 0.5 million or a 1 million calls, connecting ourselves to our customers, which is important for us. And this is not to sell, but this is just to inquire about the health of our customers as to how they are doing. And this also builds tremendous affinity for a customer.

Due to all these initiatives, our contribution from personal shoppers have increased from 17% to 18% during this quarter.

Coming to the next pillar of private brands. The private brand share increased to 15% this quarter. We made huge efforts to reduce the inventory in the private brand and as a part of Personal Shopper and private brand, the personal shoppers have been recommending private brands and we have seen the increase to go to 15%.

We also in the last two quarters tied-up with very large exporters and companies, which can help us in a growth momentum, where we want our private brands to increase and reach a threshold of 30% We have launched from Home collection and added categories in Athleisure, Loungewear, Innerwear, etc.

The third pillar Beauty. Our Beauty business continue to remain strong and the Beauty mix has increased to 22% of our total revenue. We have added 11 new brands with a few prestigious names such as Prada, Chloe, Bombay Shaving Company, WOW, etc. And the live sessions continue in the social media during COVID with our customers.

Way forward, our outlook on demand; we believe that COVID impact will continue largely for Q2 and in this festive season in Q3 normalcy should return; and by Q4, we expect close to last year or we may even start seeing growth, especially because march was a very, very weak month. And we hope, that by that time, our online business is fully clicking, our single view is operating, our new Personal Shopper initiatives are working.

On stores, 74 stores have been operational out of 84 stores. We expect that all the stores will also open in the next three weeks to four weeks' time. And therefore, everything should be operational as of September. And with the demand to increase in East from September because of the Poojo, things should start looking much more normal.

In the last call, I had updated that Mr. Rajiv Suri has stepped back, and he stepped out of being the Managing Director and CEO of the company. He is moving back to Dubai. His last date of working is 25th. We are in the process of appointing a successor. I am personally involved in directly looking at the appointment, and I must say the progress has been very good. Hopefully, in the next three weeks to four weeks, we should make an announcement.

In the meantime, we have CXO committee, which is managing the day-to-day affairs. I am involved, along with Rajiv to take over and help the CXO committee in their performance. We are very, very confident of our CXOs and the leadership team that we have in the company. And we believe that things should be normal. And I would be involved on a regular basis to ensure that there is no loss during this transition from Rajiv to the next CEO.

We will continue to focus on cost initiatives. I said earlier, we are re-negotiating every cost. We have implemented a zero-based budgeting last year and it ensured efficient allocation of resources, this also helped the managers to find cost effective ways and solution to improve our activities.

We had really made some big savings last year and over and above that during the COVID, we brought in some more savings. So, this will all start bringing their impact into the numbers as we move forward. We have commenced our digital journey and we expect the E-com to have a large share in the near future and we are expecting the traction to increase as we finish up this project where we are working with this consultant, international consultant to bring everything under not only one roof, but align everything together for a single-view of the customers.

Our safety measures for customers, employees, and stakeholders, will continue. We are not going to compromise on any of these, because it is extremely important. Fortunately for us, in the strength of 7,000 employees plus another 10,000 of our brand employees, we have not had any major COVID issues. And anything that happened was controlled and everybody’s back fully relieved.

Once again, I thank you for attending this call. I wish you and your family all safety, all the best wishes. And I am very sure by the time we come back next quarter okay, or the next normal would have come in, and the next normal is going be much better than the current normal. We are seeing green shoots and we are seeing things improving as we go forward.

Thank you once again, thank you very much.

Moderator: Thank you very much. Shall we begin with the question-and-answer session?

B. S. Nagesh: Yes, please. Go ahead,

Moderator: Thank you. We will now begin with the question-and-answer session. The first question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Just wanted to kind of revisit the comment on the recovery. If you could kind of just clarify, I am sorry, I missed that. That you are expecting things to normalize by fourth quarter towards the pre-COVID normal, which means there is a growth that you would expecting, if you could clarify that?

And second related point, if you could just answer the or can you give us a sense on how July or the recent End of Season Sale has been to help us understand how are we reaching? What are the green shoots that you are talking about?

B. S. Nagesh: So, let me answer the EOSS of the July month. We are seeing recovery week-after-week; and, this is erratic because even on EOSS some stores open, some stores closed. So, we have seen from (-70%) to now about (-60%). But it ranges by (-55%) to (-65%) depending on the store and the location, okay. But just to give you can take a name of Vijayawada or Vizag or Varanasi, okay or Guwahati okay suddenly as frank surprises of doing 100% of last year or 80% of last year, okay, so which actually means that what you are seeing is not only based on consumer. But is also based on what is happening in the local catchment and the local community, which also gives us the hope that the fear in places where the COVID impact has not been high, is not as much and people are coming out. And that is the positive thing that we are seeing.

So that is as per EOSS, that is what makes me make a statement of a green shoot. Now looking at this and trying to project it forward, okay. We are also saying, if because there are lots of ifs and buts in which you know which is also talking of a second wave in October, November. But also, October, November is a festive season for our business. Just saying that by January end, which is the EOSS of December, January, okay things to start looking normal. And January and March should be in the region of minus 10 to flat to our growth, okay. That will totally depend on what happens during the last quarter.

But yes, we are hopeful that the Q4 of 2021 should be flat to positive or a very, very low and negligible negative.

Avi Mehta: This is drawn an underlying even though Q4 was weak, okay, fair enough. This is it. Okay. And the second bit, Nagesh was essentially on the consumer behavior. Especially in terms of the industry dynamics. Now as you as you correctly alluded there are issues across the industry in terms of footfalls, but the End of Season Sale has given some real hope. Does this suggest that you might see discounting to get the customer back or something that right, would you see that or how it…?

B. S. Nagesh: Actually, I see it contrary. See, because please understand that when the retail industry is closed, okay, it has also impacted the manufacturing, Okay. And retail was already sitting as of March with fresh inventory for Summer 2020. So, we had an inventory, the manufacturers had supplied us, the payments have got stretched, okay and the retail has not opened. So, you must have heard some other players also, that many of the Spring Summer items are out getting extended and launched in Autumn - Winter, if the system permits. So, therefore, I am not seeing that the retailers will go in discounts, because there would not be much of merchandise to sustain October, December, and January, and March till the time the production begins from the back end.

So, personally I expect that you would not see much of discounting. There will be some depending on players, who probably have got too much of stocks are not able to sell. Second is you also saw this time the industry saw discounting happening at a lower rate and saw the discounting almost starting at the same time. So, people did not go erratic of starting early, doing things like that. So, I see very, very positive behavior from the industry and this is a good sign.

So, I am not expecting the discounting to be so high that we all will bleed in order to cross the border as it comes.

Avi Mehta: Perfect. And with your permission, just the last one, before I go back into the queue? The provision of Rs. 5.5 crores that you have made, does that now kind of at least from here on obsolescence or any kind of risk on that front and now behind us? Is that how I should see it, if you could just give us a sense on what this Rs. 5.5 crores inventory**?**

B. S. Nagesh: You are aware, that we have a conservative policy that depending on the number of seasons the merchandise has crossed, we write it off in the books, okay, if we had a Rs. 1,100 to Rs. 1,200 crores of business, we would have written off this Rs. 5.5 crores, irrespective of that, okay, we have even under Rs. 60 crores turnover taking the same conservative policy and written off Rs. 5.5 crores and we have provided for it. We just provided, Avi.

Avi Mehta: Okay. There is not going to like advance for expectations of obsolescence.

B. S. Nagesh: No**.**

Moderator: Thank you. The next question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: I have question on Private Label and Beauty business. So obviously, Q1 quarter has been extremely erratic and volatile. So, any data interpretation will be tough. So, I am asking on the Movement seen in Private Label, it was stuck at that 11% - 12% for many quarters, this quarter 15%. So, would you say this is due to the success of the strategy or it is not good enough quarter to really conclude, because you must have focused on inventory data reduction also? So, could you comment on that? Why has it moved? And can you touch 20% now sooner than your expectation two months back?

B. S. Nagesh: So, there are multiple reasons for it. I do not want to take away the efforts, which have been done by the team. Basically, because do not forget, when a customer comes into a store, he or she also has an option to buy the brand. And the same option that they had earlier, they must have seen much, much better product range and much better pricing.

And I must tell all of you that please visit our stores in the next two weeks or four weeks and see what the team has done on the Private Brands in terms of pricing and the quality. And you would be surprised. I mean, we are is the coming into play.

So, I would say, one is, because of the work that has been done. Second is, the customer under these circumstances have become more value conscious than what they were earlier. So, when we look at the data, okay, the number of items per bill has gone up, by a few percentage points.

And the transaction size has also gone up, basically because they do not want to do multiple visits. So that has also made a difference. So, value consciousness towards private brand has also gone up.

The third is, if you look at a Personal Shopper scheme, the Personal Shopper are actually working with customers and they have had a chance with more customers, because there were less customers and the Personal Shopper numbers were the same. So, they have also been recommending private brands. So, a combination of three has yielded this and I do not see any reason for these three things to drop.

So, I am hopeful that the contribution will continue to raise, whether we hit 20% much earlier, give me another quarter to judge and then maybe I will come back to you.

Abneesh Roy: Sir, other apparel companies have said E-commerce, they have seen (+50%) kind of a growth this quarter. In Private Label part of the business, because that is something, which is very important from a strategic perspective, how much is the E-commerce growth there?

B. S. Nagesh: Private Brand mix has gone up to 15% from last year's 12%. But, I think, you have to be conscious to the fact, and I did mention in my commentary, that since we just finished implementation of SAP and the whole integration of SAP with GRAVTY and SAP Hybris has happened, okay. We did lose the last three weeks, four weeks or five weeks, during this time to really capitalize on the full E-commerce growth.

So, our growth has been muted, okay, basically because of all this integration work that was going on. So I hope that once our all the integration work is done in the next three months, we will actually see a much better result both for the Private Brand mix within the E-commerce business as well as within our First Citizen as well as on the floor.

Abneesh Roy: So, integration may take some more time, right? Impact of the integration some more weeks?

B. S. Nagesh: I would say that in about four weeks to eight weeks, we should be alright, but take about a quarter before we start seeing better results.

Abneesh Roy: My last question is on the Beauty business. So, 22% of the business sales coming from there. if you see FMCG companies have had a very tough quarter in the Beauty business, because of the work from home. So, I wanted to understand why you are done well on a relative basis? And is it because of the 11 new brands you have added? Or is it some other proactive or some activation you are done?

B. S. Nagesh: No, I would say it is not because of 11 new brands. But like I mentioned also in my commentary that during these times, we find that the customers are buying much more in one transaction, because they do not want to come again and again. And the second is, especially Beauty, which is very personal, and it is something to touch the skin, they always go to a trusted brand and retailer. And we always had the largest Beauty business on ground, okay.

And the Beauty as an overall business has done online, also very well. So, it is a combination of all these four. The new brand launches are very new for it to have impacted this much.

Moderator: Thank you. The next question is from the line of Shalini Gupta from Quantum Securities. Please go ahead.

Shalini Gupta: I just wanted to know like, will you be opening any new stores this year?

B. S. Nagesh: As per our plan, there were about five stores to be open by March 31st, okay, and depending on the delivery by the developer, I think those we will continue to do. Overall, I think, in the last year we had mentioned about 12 stores. But it looks like those six stores to seven stores will get delayed, because of natural reasons, not because we do not want to do, okay. So, say about five stores by March 31st is looking like a possibility.

Shalini Gupta: Okay. And sir, I wanted to ask you, like earlier, online was about was about like 1% or 2% of sales. So how much will it be now?

B. S. Nagesh: It remains around the same.

Shalini Gupta: Okay. But has it turned profitable now?

B. S. Nagesh: You are saying online to overall sales?

Shalini Gupta: You, online to overall sales.

B. S. Nagesh: This quarter if you look at the online contribution, it is 18%, which is substantial because of the movement that has happened.

Shalini Gupta: Okay. And like you are expecting, I mean, this has been a profitable business now for you? Online?

B. S. Nagesh: I would like to say in a slightly different way, okay. The losses from online has substantially dropped, substantially, okay. And the contribution has turned positive, the variable contribution has turned positive, which is an extremely positive sign for the online business.

Shalini Gupta: And you are expecting that will continue?

B. S. Nagesh: Well, again, as it grows, we must see how we push the business, because like everybody else, I think we also must see that the contribution increases substantially. But, I think, it will remain either flat or a little profitable than what it was last year. Last year was, I think, substantial losses on the online business.

Moderator: Thank you. The next question is from Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani: Sir, my question is with regards to the Rs. 145 odd crores savings that we have done for the quarter. Can you just break-up into various heads, as in how much was saved through the rent? And, this quarter we have not seen this rent line item in the P&L, so a break-up of this would be helpful.

K. Mohanasundaram: Okay. Can I take the question?

B. S. Nagesh: Go ahead.

K. Mohanasundaram: So over Rs. 185 crores; Rs. 112 crores are on account of other costs. We saved rental of about Rs. 74 crores, Gaurav.

Gaurav Jogani: And sir, this Rs. 74 crores are pre IndAS number that you are saying for the quarter?

K. Mohanasundaram: It is the non-GAAP number because IndAS number does not talk about rent at all, it talks about the ROA**,** asset interest and liability. So, if you see our GAAP number, we have given Rs. 185 crores in the Investor Presentation. Of the Rs. 185 crores, the break-up is Rs. 111 crores non-lease rental and Rs. 74 crores are lease rental.

Gaurav Jogani: Sure, sir. And sir, in terms of the cost savings that we have achieved. How much do you think is sustainable over like the Rs? 450 crores that we are talking about? So, we saved this particular year, how much we can sustain in the going years ahead, like some cost would come back with the sales coming back, but how much can we sustain?

K. Mohanasundaram: It is a bit difficult to say right now, but we do expect anywhere between Rs. 200 crores to Rs. 250 crores to be sustainably in the future Gaurav.

Gaurav Jogani: Sure. And sir, with regards to this store expansion that you have said, in this quarter, I noticed that we have closed two stores. So, when we are saying about these five stores that we are opening, are those net stores or like these are the gross stores opening?

K. Mohanasundaram: So, these are the gross stores doors opening, Gaurav. I mean, if you listen to the previous quarter speech what Rajiv said, we are evaluating all these stores and if the store is not making profit, the EBITDA profit or in the foreseeable future is not making profit. We are planning to close it down.

In fact, last year, we almost took a provision of Rs. 20 crores and to answer your question, the two stores what we closed in the last quarter are very, very small stores. One is in Jaipur, other one is at Mangalore, anyway the term got expired. So, they are very small stores and we closed those two stores.

B. S. Nagesh: But we also opened one large store in Phoenix in Lucknow in the month of July.

K. Mohanasundaram: Yes, on July month, yes.

Moderator: Thank you. The next question is from the line of Trilok Agarwal from Birla Sun Life. Please go ahead.

Trilok Agarwal: Just taking this question on savings further, out of the Rs. 450 crores, what will be the broad breakups in rent and other expenses for the full year? We just want to get a sense on that.

K. Mohanasundaram: I would say, probably 60% is non-lease rental; and 40% would be lease rentals, slightly more than 60% will be non-lease rental; and less than 40% would be lease rental in that. We at this point of time, we do not want to give the exact numbers. in the range of that.

Trilok Agarwal: Sure. But is it advised to assume that the large portion of the savings and lease rental come back in 2022, because this could be obviously this year only, correct?

K. Mohanasundaram: Yes, that is right. It would come back. You are right.

Trilok Agarwal: Yes, I mean, that kind of agreement would be our self with landlord, correct?

K. Mohanasundaram: You are right. Yes.

Trilok Agarwal: And sir, also, in the beginning remarks, when you talked about improvement particularly exponential improvement in demand and footfalls, just want to hear your thoughts, you have already mentioned about (34%) average bill sizes are up, what is the consumer actually picking up? You have mentioned about Beauty and Cosmetics doing well, but obviously, given the magnitude of the fall is so large, this doing well does not kind of give us the exact picture. Can you just throw some light category wise that will be helpful? We do not want an online picture, we want an in-store picture, sir.

B. S. Nagesh: So basically, the biggest contributors are Home, Beauty, and Casual, Athleisure, Children Garment and Women's Ethnic Wear, which is wearing at home. Kids and Women's Ethnic Wear are the ones that they wear at home.

Trilok Agarwal: Understood. And do you see, I mean just out of curiosity, given in the extension of lockdown and intermittent lockdown in various parts, do we run a risk of delay or a change in habits in consumer in terms of purchases, particularly apparel fashion versus essentials your thoughts on that will be helpful. Because one of your competitors was alluding to the fact that, because of maybe, I mean, we are all obviously getting given this year, you would relatively volatile in terms of going out of patience and all. So maybe the impacts on the Apparels could be much higher than probably what we all think of?

B. S. Nagesh: See, for us, firstly, more than 35% to 40% is non-Apparel; 60% is a Apparel; in that, currently 12% going to 15% - 20% will be Private Brand, which means we will be able to articulate the assortment as per what we want. So therefore, the risk for us of Apparel going down is much lesser than an Apparel company. That is number one.

Number two, if you look at the way forward, we see a huge change in the Formal Wear to Casual Wear. I mean, Formal Wear was anyhow, coming down, I would say dying down. But that I think is one big change that we are seeing. We also are likely to see even in the Casual Wear; we see that the lighter garments are likely to go up compared to Denim. But Denim have done well in the last few months.

So that is one big change that we see. We see the share of customer wardrobe within the two kilometers to three kilometers catchment going up. Because of the First Citizens program and because of the trust in the brand. So, these two behavioral changes we differently see. We continue to see the football increasing in numbers for some time because parents are not bringing children; adults are not coming in groups and families, okay, maybe one adult is doing the shopping for the other. Therefore, also the increase in ticket size.

So, these are some of the changes that we are seeing. And we are monitoring this, unfortunately, as we go over the next few quarters, our data is becoming richer by the day because of the implementation of GRAVTY. We should be able to start sharing some very interesting facts as we go, okay.

So, if you look at it, I think we have put in terms of single men shopping 6%; single women about 12%; couples about 37%; families about 45%. So that is the kind of break-up we are seeing in terms of the shopping.

Moderator: Thank you. The next question is from Avi Mehta from IIFL. Please go ahead.

Avi Mehta: So, I just wanted to kind of put the cost savings program in the context of the reducing monthly burn rate that your kind of quantified? Would it be possible for you to share at what level of sales would you be kind of breaking even in a way or that will help us understand how to kind of better estimate, because this year is, I understand it is very volatile. And I am not expecting any margin expectations, but any guidance on how you are looking at breakeven would be very useful?

K. Mohanasundaram: So, Avi that depends on whether you are talking about this year or next year, because these costs are…

Avi Mehta: Let us talk about this year and both. Looking for both, to be frank with you. But maybe. This year would be more relevant if you could start with that, please.

K. Mohanasundaram: Yes, this year if I do probably anywhere between Rs. 700 crores to Rs. 800 crores in a quarter, we should be probably badly break-even and next year we will be slightly more than that. Say probably between Rs. 900 crores - to Rs. 1,000 crores a good number to begin with to have a break-even. Slightly lower than

Moderator: Thank you. Next question is from Trilok Agarwal from Birla Sun Life. Please go ahead.

Trilok Agarwal: Yes, sir, I also wanted to understand, this GRAVTY sort of Loyalty Program that you have launched, if you can just tell us what is the objective? And what is the kind of investment you are doing? And what are the thoughts behind it? If you can just share your thoughts on this, please?

K. Mohanasundaram: It is an investment we have done in the last financial year. We were implementing it and we had to coordinate with the SAP implementation, which happened in this quarter. And therefore, SAP implementation and GRAVTY happened together.

What GRAVTY does is, it gives us a single view of the customer online, offline. And it helps us in personalization. So, if you look at till now, what was happening is, if you were shopping in the offline business, we had a view of what you were doing. If you are shopping online, we had a view of it. We had a detail assortment of what you have done offline and online separately. The offers were being done separately.

Now we will be able to look at your shopping online offline, everything will look together. So, if I take out a factsheet of yours, I should be able to see at what time you looked at offline? When you do look at online? Where you looking at online even inside the store? And inside the store standing, did you decide to look at offline, select but buy it from an online and took home delivery, because you did not want to carry the bag in your car and take it home.

So that is the kind of opportunity, we start getting. And he talks helps us in doing a lot of dynamic campaigns. So now, if suppose you are standing inside a store and going online, okay, we can do a dynamic campaign for you to see that you are able to buy it offline inside the store as you are standing. So, I think these are the things that we will start seeing.

And as we go, the tier will start working, we will be able to offer separately to a Gold Customer to a Platinum Customer to a Black Card. And all this will start happening both from the app or the web or offline, including a Personal Shoppers who will be able to see what you have done, what is your record, whatsoever, your transaction is with us.

And eventually, we want our Personal Shopper to have a full view of you as much as you know about your wardrobe, we should be able to know. In fact, we want to reach a stage where we want to know more of your wardrobe that even you know, because we would have a full detail of what you have shopped with us over the last one month, two months, even offline and online.

So that is the capability we are building and we want to see that these capability start fructifying in the coming quarter and slowly, we are able to use all this to improve our service and experience and also our revenues and bottom-line.

Moderator: Thank you. The next question is from Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Sir, my question is on technology front. So, if you see the technology companies are saying work from home will continue for many years and they see this as a long-term trend. And other sectors also trying this for the first-time and they are reasonably happy with this.

So, my question is, opening physical stores, can that become a big, big question mark for you longer-term. So, do you see an opportunity here, because of the issues with the physical store? And do believe that after say vaccine comes customer will go back to the mall or the way technology has changed this sector in U. S. and other market already, that can happen within India and it can get accelerated because of the COVID?

B. S. Nagesh: So, I think, this question I should be asking you back, because you do probably interact with more tech companies and more retailers. But if you look at…

Abneesh Roy: But sir, my tech analyst feels, it will happen. That is why I am asking you; he is quite bullish on this. These ten years are most bullish.

B. S. Nagesh: I personally feel that in the next five years to ten years, do you look at India as a whole, okay, this is not what is likely to happen, the India contribution online is still 3% to go into 5%. If it doubled every year also, it will be at about 20% to 25% over the next three years to five years.

However, if you look at the penetration of malls and shopping centers, creating experience for the customers and likely the first-time experience is yet to happen in many of the cities. So I think as you go forward, okay, we believe that the customer will continue to come to a physical shops and malls, because there is entertainment, which will still happen, theaters will come back, maybe they will take a little more time to come back. And do not forget if you are working from home, at some point you also stop looking at your laptop at 6:30 or 7. So the travel time will get saved and we believe the customers are going to come back.

Yes, people just go into malls to be there and enjoy the air conditioning in just two food court may come down. So, we expect the traffic may come down, but the transaction size will go up. And we are saying as customer experience, we want to create something like moments that matter to you matter to you matter to her. And therefore, will start personalizing quite a lot.

So, I am not expecting that to happen. Even if you look at the UK market and if you look at the average of the UK market, you have maybe 18% - 20%. But you have an outlier in a John Lewis, who is doing a 40% average and suddenly hits 60%. So, they will be outliers. So, people like us, must work on online capabilities and therefore, build online capabilities. But do we expect to see 40% - 50% coming from online in the next two years, three years? I do not think so.

Abneesh Roy: So as of now, your medium-term, long-term plans of opening physical stores that remains unchanged, pre-COVID and now?

B. S. Nagesh: No, it remains unchanged from maybe the number of cities that we want to go. But it changes from the size of the format and the cities. We would be more focused on Tier-II, Tier-III. We will be more focused on properties where the CAPEX can be reduced dramatically, by the landlord sharing the CAPEX and our store that we opened in Seawoods Mall in Navi Mumbai, okay, that format saw a return within the first two months. And it is a very small format 15,000 square feet - 18,000 square feet. So that is the format that probably will take it to Tier-II, Tier-II cities where the retails will be faster, break-even will be faster, the payback will be faster.

Abneesh Roy: Right, that is useful. My second question and maybe Karuna, can maybe answer this. On the rentals Karuna, if last year's the base was say 100 what is the realistic base you are internally targeting for the full year? And how many percentages of contracts we have already signed? And Nagesh sir said that because of the erratic nature of the lockdown currently also, you are again revisiting some of the signed contracts, the renegotiated contracts?

K. Mohanasundaram: See, Abneesh, you are right, Abneesh. Let me answer one by one. See, for the first quarter, we saw anywhere between 60% to 65% reduction, because our rentals in non-GAAP includes rental as well as common maintenance charges. Maintenance charges, we did not see a much reduction, but we saw a significant reduction in the rentals.

Overall, we saw anywhere between 60 percentage to 65 percentage. In second quarter, we will not get such a high reduction, probably anywhere between close to 50% or slightly less than 50% reduction will happen because malls were open, and the stores are open.

In fact, last item also Rajiv said, wherever we are not opening the stores, we are not paying the rentals. So those things are there. See, the landlords have not given any long-term commitments, they are giving commitments up to per quarter.

So, most of the landlords have committed up to September and yes, we are negotiating very hard even for Q3 and Q4 for several reasons, because the number of customers has not come up. The stores are also not opening, double shift, we have a single shift and even within the single shift we are forced to closed on Saturday, Sundays, so we are renegotiating. In fact, we are re-negotiating even for the retrospective period, for the Q1 also, okay?

A bit difficult Abneesh, to go. I mean, though internally, we have some estimates, what should be the saving for the lease rental for the Q3 and Q4. We do not want to make it public right now, because we do not want others to know or we do not even want, because these calls go to the public domain. Yes, but we do have an internal task and we are re-negotiating for Q3 and Q4 also.

Abneesh Roy: Right. And last question on the E-commerce with Amazon, because of all these changes, is there some ramp up of tear happening in terms of more percentage stronger relationship?

B. S. Nagesh: With we had, I think Rajiv had mentioned that we were working, that as soon as our SAP gets launched and SAP Hybris gets interconnected, which is currently happening and the consultant who is sitting with us and working on it, we will connect many of our stores to Amazon directly, so which means, when the customer shops on Amazon at Shopper Stop, they are actually seeing our store inventory.

We are still targeting by the end of this quarter, the second quarter that connect should happen. And that could be a very, very huge movement in terms of the shopping as well as delivery. Because if you are in an Andheri and you happen to shop and we identify that stock to be sitting in Andheri next to you, I mean the delivery could be the fastest. So, we are on that project and we believe in the second quarter we should be launching with connect.

Abneesh Roy: And eventually all stores will be visible?

B. S. Nagesh: We will have to really see, I mean, honestly, if you look at theoretically it is not worth connecting all the stores, because all the stores do not have the full assortment, okay. And between distribution and all the stores, if you can meet the benchmark, which currently the best benchmark is probably a delivery within 24 hours, we should be able to do. But more than the delivery and the experience to the customer. It is the optimization of inventory and not stocking inventory and all over the places incremental to what we have in the store. That is the big advantage will get.

But, I mean, this is an important integration and like I said, lots of things are happening together, keeping my fingers crossed. If this happens, this is a big moment for us.

Moderator: Thank you very much. That was the last question in queue. I would not like to hand the conference back to the management team for closing comments.

B. S. Nagesh: Yes, I would like to thank everybody who came on the call and everybody who asked the questions, because your questions not only help us in understanding, what you are thinking, but also help us in start thinking differently.

So, thank you for asking the questions. And hope, all of you remain safe, your family remain safe. And together, we can come out of the situation over the next one quarter. So, we will touch base again, next quarter for this call.

Thank you once again and thanks to all our team members who have worked towards making this call successful. Thank you to Rohit and IDFC for helping us put this call through.

Rohit Dokania: It is totally our pleasure, sir. Thank you, everyone.

K. Mohanasundaram: Thank you.

Moderator: Thank you very much. On behalf of IDFC Securities, that concludes the conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.