

SEC/43/2021-22

August 02, 2021

BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai 400 001. Stock Code : 532638	National Stock Exchange of India Limited Exchange Plaza, Bandra-Kurla Complex, Bandra (East), Mumbai 400 051. Stock Symbol : SHOPERSTOP
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Dear Sir/Madam,

Sub: Earnings Conference Call – Q1FY22

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Company had filled its letter ref. no. SEC/35/2021-22 dated July 27, 2021, in respect of the analyst / investors conference call on **Friday, July 30, 2021 11:00 am. IST** to discuss the corporate performance for the first quarter ended June 30, 2021.

In respect of the same and as required under Regulation 46, we are pleased to submit herewith the transcript of the earnings conference call so held on July 30, 2021. The same is simultaneously being made available on the website of the Company.

Kindly take the same on records.

Thank you.

Yours faithfully,
For Shoppers Stop Limited



Vijay Kumar Gupta
Head Legal, Company Secretary & Compliance Officer



Encl: aa

SHOPPERS STOP

**“Shoppers Stop Limited Q1 FY22 Earnings Conference
Call”**

July 30, 2021

SHOPPERS STOP



**MANAGEMENT: MR. VENUGOPAL NAIR – MANAGING DIRECTOR &
CEO, SHOPPERS STOP LIMITED
MR. KARUNAKARAN MOHANASUNDARAM – CHIEF
FINANCIAL OFFICER, SHOPPERS SHOP LIMITED
MR. JAIPRAKASH MAHESHWARI – VICE PRESIDENT,
FINANCE & ACCOUNTS, SHOPPERS SHOP LIMITED**

MODERATOR: MR. GAURAV JOGANI – AXIS CAPITAL LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Shoppers Stop Limited Q1 FY22 earnings conference call hosted by Axis Capital Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during 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. Gaurav Jogani from Axis Capital Limited. Thank you and over to you, Sir.

Gaurav Jogani: Thank you Rayo. Good morning everyone. At Axis Capital, it's our pleasure to host the conference call for Shoppers Stop today. From the management we have with us Mr. Venugopal Nair –Managing Director and CEO; Mr. Karunakaran Mohanasundaram – Chief Financial Officer; Mr. Jaiprakash Maheshwari –Vice President, Finance and Accounts.

I would now like to hand over the call to the management for their opening remarks post which we can take over for the Q&A. Thank you and over to you, Sir.

Venugopal Nair: Thank you Gaurav and thanks Rayo. Good morning friends. Thanks for joining us today to discuss the Shoppers Stop financial results for the first quarter of the fiscal year 2022 that ended on June 30th, 2021.

Before I talk about performance, please note that our quarterly results, press release and investor presentation are available on our website. I hope you have had a chance to browse through the highlights of our performance.

Before we discuss business, I want to talk about the difficult phase that the country went through in the last quarter. As the second wave overwhelmed the country's medical infrastructure, we recognized that vaccination was our best bet for an early return to normalcy. We undertook a pan India vaccination drive that began in May amongst our colleagues and brand associates. And we not only covered all our employees, but all the associates who work with us. I am happy to say that as of today, 99% of our eligible employees and associates are vaccinated with at least one dose. Needless to say, this has been completely funded by the company. Due to the time interval of the first and second dose, mandated by the government we will have the second dose falling due by the middle of August for those who have not completed their second dose. We expect to complete the second dose by the end of August. That will complete the entire vaccination program which we believe is a strong factor in ensuring the safety of our employees and associates.

The agenda of today's call will be as follows:

Firstly, I'll talk about our performance in Q1. I'll then talk about the performance on our strategic pillars and finally, the way forward for the coming this current quarter and for the full year of this financial year.

Q1 performance:

On the Q1 performance similar to last year, COVID impacted most part of the quarter. Despite this, our sales grew by 306% and our gross margins improved by circa 1200 basis points. The stores were operational for nearly 28% of the eligible days. As you are aware, the second wave of began in April and almost started with Maharashtra, which was completely shut, and progressively as April went on, the number of stores across the country increased in its closures. May was almost completely shut across India. And in June, as the cases started to recede, the stores started opening with state governments relaxing the opening of the stores and also the opening hours itself. However, in June, and for most part of July, our stores have been functioning with restricted timings. Maharashtra and Kerela have been mostly shut. Also, in a lot of other markets weekends closures have been followed. As I speak to you, you would have all seen the press reports that Maharashtra is now considering opening up malls and cinemas from the 1st of August. We are waiting for the detailed notification. Of course, that is very welcome. As the physical stores were shut, we engaged our customers through our omni-channel business. We continued to benefit our customers and our business benefited in that process in the shift to omni-channel. As our customers chose to engage with us both offline and online, including their preferences with the help of our personal shopper assistance, our sales growth of 295% through our digital channels gives us immense confidence in our continuing shift to being a truly omni-channel retailer.

Overall, our EBITDA losses were lower by 17 crores. We have sufficient liquidity, including an additional credit of 100 crores sanctioned during the quarter which we have not drawn as on date. During the quarter, we invested in marketing and had seven campaigns, and this contributed to 31 crores of sales, and it continues to contribute to our topline. While we invested in marketing, particularly in omni-channel, I'll also talk in much more detail about our omni-channel performance in a few minutes.

In terms of our KPI's, we saw significant improvement on a few parameters. Our average bill value was considerably increased from FY20, a 22.6% increase. Also, the number of items per basket increased by 20.4%. In terms of products, men's casual wear, denim, women's western wear, innerwear, watches, fragrances, and beauty categories outperformed. Even men's formal wear has shown a smart recovery, partly due to the wedding season getting extended. The categories which have been slower are sunglasses and women's innerwear.

On operational costs, we continue to save versus FY20. In Q1 we saved approximately 140 crores. Just to remind you, we have opened over 12 stores during that interim period and hence the cost savings are not directly comparable. The stores were partially open and shut and because of that our lease rentals were higher than last year, but still lower by 43 crores versus FY20.

I will now talk about our strategic pillars, has happened in the last few years. I am pleased to inform that our performance has been consistently good across all our strategic pillars. Our first citizen strategic pillar is what I'll talk about first. Our loyal customer, our first citizen customers and the sales that we generate from them continues to contribute to a majority of our sales. For this quarter, our first citizen customers contributed to 72% of our sales. We continue to grow

this program. Our average bill value of first citizen customers is 20% higher than that it was in FY20. We are segmenting our campaigns and targeting our loyal customers through various channels. We have also extended our membership points that were lapsing during the quarter to enable our customers to make use of their points over next two quarters so that they do not lose out because of the stores being shut. For our exclusive first citizen black customers, we have initiated active engagement programs which we intend to do on a monthly basis. Our store managers, our unit heads now directly manage the black-card customers.

On omni-channel:

Our contribution first citizen remains at over 40%. Our second strategic pillar is omni-channel. As we have said in our previous quarters, on omni-channel and investment thereon has been giving us good results. I am pleased to say that for this quarter, omni-channel contributed to 18% of our total sales. We had several campaigns during the quarter. Our Share my New Year with Shoppers Stop Exclusives during the Bengal new year was received very well. For Mother's Day, we had Shuffle with Akanksha. During the complete closure that happened in May, I had personally messaged to all our members to stay in touch and for any help that they would need, especially to procure essentials and we were ready to ship them, which we did. Our Add to Heart campaign, in May with exciting offers had record sales both across the entire channel and also in beauty. Further, we had a beauty event which was done in June and again we recorded highest ever single day sales for both beauty and omni-channel.

I do hope that all of you have visited our website www.shoppersstop.com and also downloaded our app on your mobile. We have improved the overall customer journey on our app and website and as we speak, we continue to improve on it. We have engaged a leading international consultant to handle this for the next phase of this journey. We have made considerable investments in UI/UX, analytics, and personalization, which are our key focus areas. These developments will lead to smoother discovery, seamless checkout, segregated category focus, clear brand highlights, and a lot more. You will start seeing these changes over the next two to four months. We have also commenced project Jarvis, a massive data lake and analytics projects. This will significantly improve our overall analytical capabilities. This will enable us to have a significantly better understanding of our customers' behavior, their preferences, and enable us to personalize the offers for them, with products as per their preferences. This combined with the rich data of our first citizen customers who have been loyal to us for years now, will improve the overall experience that our customers have with us and also help us to add to our first citizen loyal base and increase our overall customer base. All of this we believe will lead to a higher share of our first citizen customers as also enable us to bring in a lot more new customers onto our app, website, and stores.

As we scale up, we need to build talent. I am delighted to welcome our new Head of Omni-channel, Sreekanth Chetlur who joined us a few weeks back and also our Head of Retail Operations, Sandeep Narayan. Sree has several years of international experience and with the most recent of it being with Matahari in Indonesia and has worked in leading international chains

in India, Middle East, and Southeast Asia. Sandeep, similar to Sree, has also worked in large international chains with his most recent stint being with Max in Malaysia, from where he has joined us. They are extremely talented individuals with proven track record. I am confident we will find their experience extremely enriching and add tremendous value to us as an organization and help us to scale up much faster.

I'll now move on to our third strategic pillar of private brands:

We continue to outperform in private brands. Private brands contributed to 15% in this quarter. In our online business, our private brand contribution has now increased to (+) 20%. As you are aware, Shoppers Stop has both apparel and non-apparel. Specifically in the apparel category, private brand contributes to 21% of our total sales across the business. Similar to the previous two quarters, we continue to register significant volume growth. In this particular quarter, our volume growth was at 96%. We launched INSENSE our highest selling women's western wear brand and BANDEYA, a range of Indian wear for men. Our new range of products in kids' wear have also performed exceptionally well. Our offer on the price value matrix is considerably better and continues to improve. Our products are extremely competitive, great quality, and have significant features on them specifically on performance. These complement the international and national brands that we offer in our stores and on our app and very nicely gives a broad choice of brands for our customers to choose from. We have been receiving incredibly positive feedback from our customers on our products and on range and the massive volume growth that we have seen bears testimony of the success that we are having. Our first citizen customers contribution also continues to remain strong in private brands.

The fourth pillar or our fourth strategic pillar is beauty:

I will now talk about that. Our beauty business had the highest contribution ever in this quarter contributing to 19.2% of our sales. Our online sales for beauty was 20%. Fragrance and makeup led the overall recovery. We launched Kenneth Cole and Vince Camuto leading international brands in fragrance and in our private brand Arcelia we launched a number of new variants across bath and body, hair accessories, and personal care categories. We had the Showstopper Fest for beauty across online and offline and plan to continue having these beauty fests at regular intervals for the rest of the year. We have enhanced the make-over services, both paid and free on skincare, fragrance, and consultation. This is a significant point of difference that we offer to our customers. We are planning to launch a number of new brands in the coming quarter with strategic partnerships with global leading beauty companies.

Finally coming to the strategic pillar of personal shoppers:

This is our unique service to our customers. The personal shopper's contribution has been consistent. This quarter it was at 16% with the average ticket size being 2.5 times higher than the average. During the lockdown, we did extensive calling of our customers and that generated more than 3% of our total revenue for the quarter. Our endless aisle sales during lockdown also contributed significantly to our omni sales. This has now been embedded as a regular part of our

business. We have styling festivals through our personal shoppers both online and offline. Our other services such as Yellow Messenger and White Glove continue to grow our overall sales.

I will now talk about Q2 and the way forward. Even as we speak our national vaccination program, probably the biggest in the globe is proceeding well. We are confident that this will help us to get business recovery accelerating and we will not have a similar experience to what we had in Q1. The COVID wave two has brought into sharp focus the volatility and uncertainty of the times that we live in. I am extremely happy to say that our employees have responded very well showing resilience and have helped in serving our customers during this tough period. We have always said this, and we will continue to reiterate our biggest asset are our people. Their safety and wellbeing are our topmost priority. They are our frontline warriors and that act as catalysts between our loyal customers and management. They continue to give their firsthand feedback on our customers choices, preferences, purchasing power, etc. And when I speak to you next time in October, I am confident that all of our employees would have been vaccinated.

This year the festive period has moved forward by a few days which will help our business. Omni is a long journey, and we are delighted with the progress that we make. This is an area where we continue to invest and specifically in technology and marketing. In Q1 versus FY21 we had investments of over 10 crores, and this will continue and increase as we expand the channel. We continue to believe we can grow profitably in the near short-term.

On operational efficiencies, we genuinely believe that we are in the next stage. We constantly benchmark some of the best companies and continue to course-correct where possible. While balancing cost and cash we will continue to look for growth opportunities and invest in the right ROI model. This will enable us to grow the business and strengthen. As I said in May, we expect the COVID impact to start receding as we are seeing it already. Our store expansion program continues to be on track. We have been speaking with our developer partners to ensure that we can open the stores that have been planned on time. As I said, last time, we should open 20 stores across all formats, and I reiterate that. We did close two unprofitable stores in the month of July, and we will continue to evaluate the performance of our stores making corrections where needed.

Last but not the least, our growth fundamentals, that is our four strategic pillars and Omni channel, improving the penetration, impactful innovations, designing our Omni channel and creating the fuel for growth combined with four clear priorities of people, customer, product, cost, and cash with the technology muscle that we have built in the last one year helped us to navigate this crisis and it will continue to do so. Needless to say, our safety measures for customers, employees, and stakeholders will continue.

I will now open up for questions. Thank you very much.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Nihal Jham from Edelweiss.

- Nihal Jham:** A couple of questions from my side. First, just to understand the recovery better, are we saying that despite our key state of Maharashtra being closed in July we are still at a 70% overall recovery? Just wanted to understand that better.
- Venugopal Nair:** Comparing like-for-like stores that are open for the operational days, we are at a 70% recovery.
- Nihal Jham:** So, this number would be lower because Maharashtra is still not open and for our existing stores, we are at a 70% recovery.
- Venugopal Nair:** That's correct.
- Nihal Jham:** The second question was on our store expansion target of 20 stores that we are giving, possible just to split it in terms of the department stores and some of the other formats, if there is a ballpark figure that you may have internally lined out?
- Venugopal Nair:** 10 to 12 of the 20 is department stores, the large Shoppers Stop department stores, and the rest would be beauty stores.
- Nihal Jham:** Last question from my side, when you say that we are looking at getting into Tier-2 and 3 cities again, are we looking at making the department store sizes more efficient and even in terms of collection maybe a higher share of private label? Just your thought as we enter these cities about what is it that could change? And would beauty also be a part of the expansion in Tier-2 and Tier-3 cities?
- Venugopal Nair:** I'll take that one at a time. Firstly, as we go into smaller towns, we would have the store sizes appropriate for those markets. Typically, we are looking at 20,000 to 30,000 square feet stores for the smaller towns as we go in there. This gives us much better productivity and efficiency as you can imagine. All our department stores carry our entire range of categories that we have including beauty and beauty is a fundamental part of our department store and they will definitely be present in all the department stores that we open.
- Moderator:** The next question is from the line of Shalini Gupta from Ashika Securities.
- Shalini Gupta:** I just wanted to ask is it fair to say that gross margins will be the same as they were in financial year 2021?
- Karunakaran M:** No Shalini. We expect the gross margins to improve because financial year 2021 in the scale was probably less than 50% of FY20. And as Venu just now said that, as the situation improves, Q2, Q3 and Q4 to better and we also have a higher mix of private brands, so we expect the gross margin to be better than FY21.
- Shalini Gupta:** My second question is that we have cut a lot of costs, I think about 400-450 crores of costs were cut in financial year 2021. So, is it fair to say that our costs now will be at around 350 crores for financial year 2022, other expenses?

- Karunakaran M:** Shalini, if you observe that 433 crores what we saved in FY21, includes lease rental and other expenses on a reduced scale of operation. There was a question at the beginning of the year for a full scale of operation on a like-to-like basis, we will continue to save 200 crores. However, this year again we are not having a full scale of operation. We are having a review scale of operation in Q1. So, depending upon the scale of operation, our savings will also be there. So, we expect this year, I mean I don't want to give up a number, but this year also the savings should be relatively better, but the savings will be basis FY20, not basis FYFY21.
- Shalini Gupta:** So, in the presentation you have mentioned that you are rental expenses were about 54 crores for the quarter. So, going forward also now we are expecting that's obviously once the recovery starts, Q2, Q3 whenever that really happens, so the rental expenses for the year will be at around 650-700 crores or so?
- Karunakaran M:** Shalini, I think probably you got juxtaposed on the numbers. In the first quarter our lease rental expense is 77.7 which is 78 crores. Our normal lease rental expenses are in the range of 450 to 500 crores in a year and because the malls were shut in the first quarter and some of the malls were shut in the second quarter, we will expect some savings in the lease rental. As I said, it all depends on how the malls are opening in Q2, Q3 and Q4 and depending on that we will negotiate the lease rental with the landlords.
- Moderator:** The next question is from the line of Priyanka Trivedi from Antique Stock Broking.
- Priyanka Trivedi:** My question is basically, this time we understand that the recovery has been very sharp in comparison to the first wave. Like during the first wave despite the things opening up consumers were still skeptical of getting out of their homes and it took us almost 1½ to 2 months for the recovery to pick up. However, this time the recovery has been better. So, what according to you has led to this sharp recovery. So, basically, on the consumer mindset and the sentiment side?
- Venugopal Nair:** Good morning Priyanka, thanks for that question. I would like to believe that it is the fantastic range of products that we offer which obviously leads and helps that recovery. Apart from that, I think some of the other factors which are driving that growth, I think first and foremost is the fact that vaccination drive is happening as I mentioned in my speech. And that definitely is helping or giving customers the confidence to get out of their homes and come out to the stores and malls. What we are also finding this time is that unlike the last time where it was much more mission-based shopping, this time when the customers do come in, they are spending a longer period and the overall footfalls into the stores and eyeballs onto the app, have been higher than what we saw in the last year. Finally, I also believe, and we see that buying related to marriages have also happened much more than what we saw last quarter and because the marriage season itself got extended and that led to buying happening for those occasions. This is specifically telling when we look at categories like Men's Formalwear which has had a much better performance than what it was last year. In terms of specifically to products, last year we had observed a sharp increase in items which were specifically COVID essentials, like masks, home products, t-shirts, shorts. Whereas this year the recovery has been much more wider across a larger number of categories. I hope that answers your question.

- Priyanka Trivedi:** Yes sir, most of it. My second question would be on your online business. Our sales were at around 44 crores during the quarter. So, how much of this has come from our own website and how much has come from the third-party websites? And also, if you could give some sense in regard to the key parameters with regards to the online business like the conversions of the online traffic, the average basket size on our online platform (32.42), on those parameters basically?
- Venugopal Nair:** Out of the 44 crores of net sales that we had from online, the majority of it came from our own website which is shoppersstop.com, which was roughly 75% of our sales came from shoppersstop.com, and the rest was a combination of other websites that our products are presented including Amazon. And also, the beauty standalone apps of MAC.in, Estee Lauder, etc., which we manage,
- Moderator:** The next question is from the line of Trilok from Aditya Birla Sunlife Insurance.
- Trilok Agarwal:** I just wanted to understand this rental concession point, how should we build that going ahead? Because one of the statement on your Item 6 also speaks about, there is some concession beyond period after 30th June 2021.
- Venugopal Nair:** Trilok, in terms of rental concession it is directly related to the stores opening operational number of hours and it varies from mall to mall, store to store. So, there is no one fixed number one can give, but what we are seeing and what we have had in the first quarter where working with our developer partners, we have worked out models which benefit us as well as we are fair with our developer partner. Overall, because the number of stores that were shut was very high in Q1, which is why the overall reduction in rentals was very high, we expect that to continue to have rental concessions in Q2 as well because of the fact that it is restricted number of hours and also some store closures continue to be there.
- Trilok Agarwal:** If you can help me on, I am sure lot of stores must be shifted to revenue sharing as well. What is the mix between revenue sharing and rental, if you can just give some sense on that?
- Karunakaran M:** Trilok, I'll tell you what, we have agreements which are exclusively revenue share, and we have something called a minimum guarantee and above minimum guarantee we pay the revenue share and there are minimum guarantees. So, we have three type of stores. If you see our non-gap income statement, we have reported around about 78 crores of that and we have significant savings in the first quarter. For the second quarter, we continue to negotiate with our landlords. I think just Venu said that. It also depends on how many stores were open and how many hours they were open. It's a bit early in the month of July to say what will be the savings or what will be the revenue share. It's a bit difficult right now to estimate that.
- Trilok Agarwal:** The last question is, as of today how much was the operational stores, which you said 27% in the Q1 what it was?
- Venugopal Nair:** Sorry, is it operating stores?

- Trilok Agarwal:** Yes.
- Venugopal Nair:** Today we have close to 70 stores operational, or I would say, 70 of our 85 stores are operational today and places which are shut is obviously Maharashtra as you know, Bhubaneswar and Calicut and then weekends Uttar Pradesh and Ranchi are also shut.
- Trilok Agarwal:** Effectively, although 80% is out of the total store, but hours-wise it could be 50%. Is that correct to assume?
- Venugopal Nair:** Circa, I mean, it varies so much and there are so many **(Inaudible) (37:11)** so on and so forth, but of course, I think, for everyone worth calling out that while the impact of stores operation not operating is there, we have migrated and moved to being a true Omni-channel retailer and so effectively we are available, and all our stores are available 24/7. We will see a benefit of that as we go forward.
- Trilok Agarwal:** I really appreciate on that. Certainly, we have seen that significant traction on that particular front.
- Moderator:** The next question is from the line of Deepak Poddar from Sapphire Capital.
- Deepak Poddar:** My question is one on the medium-term perspective from the 2 to 3-year perspective, once we are through with the pandemic, how do you see that? Like in terms of past peak, in terms of revenue, scaling up, so any kind of thought process on those lines would be helpful?
- Venugopal Nair:** Yes Deepak, thanks for that question. And, if I look at the medium-term perspective, we are extremely confident about the economy in the country and the growth of retail in there. To give you some broad perspectives, today 29% of total retail in the country is organized retail, which is obviously the category that we play. This is something which has been growing year on year, over the last 10 years. We expect this to continue to grow. When you look at some of the developed economies, I'm not even looking at the fully Western countries of Europe and US, even in places like Southeast Asia, organized retail is 50% or thereabouts. Just that headroom for organized retail to grow is very high. That is the first reason for our optimism of retail. The second is as a country, India is, people like to socialize and going out to malls, movies, food courts is a very-very important activity that we do as a family with friends etc. and that will continue to remain. That's the other reason that the shopping will continue to grow. The shift that we have made to being a truly Omni-channel retailer also stands us in good stead, because it gives the customers the convenience and the option of shopping and engaging with us online at any point, as also having the physical experience of trialing a garment, experiencing makeovers in beauty and so on and so forth that we offer across our stores and the whole opportunity to engage with us physically through our stores and online, gives us an added edge in terms of our ability to service our customers. Finally, the third factor is of course, the growth of the economy per se and also the improving infrastructure, especially in the tier 2 and tier 3 cities where we have just touched the surface if I may use that phrase at the moment. That's an area of expansion that we have identified for ourselves, and we will keep growing. Add to that

our growth in the beauty segment, which again, as an industry is in its nascency and that will again stand us in a very-very good stead. So, if I look at those, just those four reasons alone, we are extremely confident about the future in the next 3 to 5 years,

Deepak Poddar: That's quite helpful, but in terms of specifics do we aspire to regain the Rs. 3,500 crores type of our top line with 15%, 16% of EBITDA margin that we had done in the recent past, once we are through, with the current situation?

Venugopal Nair: We would expect to do much better than that. I mean, that in my view would be just a bare minimum and we would be doing far better than that.

Moderator: The next question is from the line of Devanshu Bansal from Emkay Global Financial Services.

Devanshu Bansal: My question is related to categories with slightly weaker recovery like you mentioned categories like Indian women wear, so what according to you are the reasons for weaker recovery for these categories and what are the potential drivers that shall need to a pickup in these categories?

Venugopal Nair: I think, specifically on Indian wear part of the reason is because, the number of occasions other than weddings have not been happening with people being at home and not venturing out. Wedding is a small part of our offering per se and specifically wedding wear in ethnic wear is not something which we play in massively at this point in time. The opposite of that which is lounging clothes, sleepwear has seen spectacular increases. I think that is what, people have chosen to buy in the short term while they were stuck at home. As that moves out and people start socializing, these categories will come back and it's just a temporary blip in our view.

Devanshu Bansal: This, according to you is a mobility driven thing, and there is nothing structural that should propel people to wear more western wear and move away from Indian ethnic wear?

Venugopal Nair: Absolutely, I think Indian wear is a fundamental part of our customers wardrobe and will continue to grow if anything, because Indian wear has got a multi-occasion use, it is comfortable and it's something that our customers genuinely appreciate and like and as we improve our offering and specifically within our private brand portfolio, this is a category which we are strengthening and we will see some significant improvements over the next quarters across our brands of Kashish, Stop and Haute Curry. As we do that, we expect the category to be a very significant and important part of our overall portfolio.

Devanshu Bansal: Lastly, these new labels that we are entering into, we are, developing more into these labels. What is the segment, among value premium and luxury? Where are they going to play?

Venugopal Nair: Each brand has a specific lifestyle use and has got very sharp brand definitions. The overall brands that we have are quite large, so I wouldn't go into each of them. But what I would say is that each brand identify has a clear target customer, has a clear lifestyle segment that it caters to and the range that we offer brings in the latest trend, the latest colors for the month and we are

moving into monthly launches so that every time a customer walks into the store, there is something new that she and he can see and buy from.

- Moderator:** The next question is from the line of Gaurav Jogani from Axis Capital.
- Gaurav Jogani:** My first question is with regards the CAPEX program for this particular year, given that we are planning to open 10 to 12 departmental stores and beauty stores, so if you could give the breakup CAPEX in terms of store opening and also of the Omni channel initiative?
- Karunakaran M:** Rahul, thanks for the question. Unlike last year's last year, the previous year, this time the landlords themselves are investing in our overall CAPEX program. We expect though we are going to open 10 to 12 stores large stores and 8 to 10 smaller stores. We expect our CAPEX be anywhere between 80 to 100 crores this year and we should be able to fund that.
- Gaurav Jogani:** The next question is with regards to, given the fact that, the COVID again came in during this month of April, May, and June, which is where generally most of the people put in the new collections and everything and we believe that will be some inventory in the system across. How do you see the discounting, do you see the level of discounting increasing, decreasing any trends that you can share will help?
- Venugopal Nair:** As I had mentioned a few minutes back, we have moved to monthly launches and shorter buys, and this is something which we have been working on have moved to over the last 12 months. What that has done, is to help us having a very, I would say optimum level of inventory and a large chunk of our inventory is very-very fresh, because of the fact that we are buying for shorter lead times and buying much closer to the season, because of that, we are very comfortable with the level of inventory that we currently have. As you know we have both private brands and national and international brands with whom we partner. A number of the discounts that are offered by the brands are also funded by the brands itself. So, to that extent, the discounting is completely based on what our brand partners want to do. On our own brands, the ones that we design and retail we have more than two monthly launches, shorter lead times and because of that, having fresh inventory all the time.
- Karunakaran M:** Just to add compared to last year, our inventory is exactly say June '20 versus June '21, we have produced more than 170 crores on inventory. That excess inventory is not an issue anymore Gaurav.
- Devanshu Bansal:** My question was actually was more than in terms of the industry trend, as you rightly mentioned that the other brands that you have, would also be looking more from industry perspective per se. Last question, with regards to the Omni-channel initiatives, we've seen really good progress over the last one and a half years that you have been doing this and now it's contributing to the 18% of sales. While I agree, the percentage seems to be a bit higher because of the lower level of sales from the stores, but what is a steady state or a percentage of contribution that you expect within the next, one to two years when the things get normalized, what kind of position are you expecting from this channel?

Venugopal Nair: Thanks, thanks for that question. I really appreciate the recognition of the work that we have done on Omni-channel and the results that we are seeing. As I have mentioned, we have made significant progress in our Omni-channel journey, and it is now established form of our business. In terms of our current numbers, you are right because the stores were closed and hence the 18% is slightly inflated. If you look at 2 years back, it was about 1% of our sales. In fact, not even to 18 months back, it was less than 2% of our sales. It moved up to around 6% of our sales last year, as we close the Financial Year '21, this year and going forward into FY23 and FY24, we expected to end up being around 20% to 25% of our total sales. Now, I think it's also important to recognize and appreciate that, the same set generate and end up being bought through the digital channels is not a complete reflection of the actual contribution, because increasingly as a true Omni-channel retailer, there will be a lot of business which will be, probably will happen in the store, but would have started off through the app or through the website and vice versa as well, where it would have probably been something that the customer would have seen physically in the store and end up buying online. But as a pure number, we expect it to be around 20% to 25% of our total sales.

Moderator: The next question is from the line of Rahul Jain from Phillip Capital.

Rahul Jain: My question is basically on the beauty segment. How are the customers responding to our private labels, products launched in the last six months and how are the price points of these products and how does this affect our relationship with Estee Lauder group?

Venugopal Nair: I presume the question is on Arcelia that you are asking Rahul, which is our private label brand in beauty. On Arcelia, we launched in November last year and we have launched with Bath and Body and every single month we have seen a month-on-month increase and it's growing very nicely. It is still a small part of our overall offer that we have. In this quarter, we will be launching, Perfumes and Deos followed with cosmetics across eyes, face, lips, and nails. Subsequent to that in Q4, we also will be launching skincare and haircare on Arcelia. Overall, Arcelia is a beginning of the journey, has had a very good start, a very good launch and expect that to continue to grow as we go forward. Overall beauty of course, has its best quarter at 19.2% contribution to our overall business, which was 200 basis points increase over the previous year. The online-mix itself was 20% as I had mentioned. In terms of the impact of this on our business with Estee Lauder, it does not really have any impact, it's just an additional business because the Estee Lauder standalone stores that we operate are only for Estee Lauder. Obviously there, it's only the Estee Lauder products that are sold and where it is a department store, we are at liberty to have as many brands as we would like, giving each brand the necessary importance and space. Towards that what we have done is to move to a beauty hub concept, which you will see in our new stores, which is much more space efficient and also highlights each brand very nicely. The newer stores, each of the newer stores that we are opening are using the beauty hub. This is something that we will continue to roll out as we go forward, apart from our own Shoppers Stop beauty stores which we also talked about.

- Karunakaran M:** Rahul just to add, we don't have an exclusive arrangement of Erica. So, that has nothing to do. I think Venu has already reiterated that
- Venugopal Nair:** Where it is Estee Lauder the stores we operate for Estee Lauder, they are standalone for Estee Lauder. The Mac stores will have only Mac products. Estee Lauder will have only Estee Lauder, Clinique will have only Clinique. We won't have Arcelia in those stores.
- Rahul Jain:** A follow-up question on the beauty private labels. What is the mote when it comes to Arcelia, apart from our physical store presence and multiple DTC brands are investing millions in marketing to gain traction, how are we expecting to stand out from the crowd?
- Venugopal Nair:** The mote that we have on Arcelia I think it is a uniqueness of the product that we offer, the product innovation that we bring in. When I talk about product innovation, it is the infused ingredients that we have in skincare and the 100% natural products that we have. It gives us the ability to bring to customers, product which they like, it also by having our own private brand it gives us the ability to react to what customers are looking for and bring in products based on what they like. Of course, apart from that, it also enables us to give them the full offering of 100% natural products across Bath and Body accessories. And what's coming up soon, eye, fragrances deodorants makeup across eyes, lips, nail, face, skincare, and haircare.
- Rahul Jain:** Regarding marketing how do we plan to market this brand going forward?
- Venugopal Nair:** Each brand needs the investment to improve its awareness and to move it from being a label to a brand. That is something that, we are doing. We will grow that as we increase the number of products that we are offering. Our primary channel of marketing has been digital and that is what we would continue to do. We engage with influencers and going forward also with celebrities to be able to ramp up and amplify the awareness of each of our private labels, including Arcelia.
- Moderator:** The next question is from the line of Binoy Jariwala from Sunidhi Securities and Finance Limited.
- Binoy Jariwala:** My first question is on the private label business and pricing philosophy. In the past we've spoken that we are sharpening prices on the private labels. I understand that this could come from the philosophy of first price being the right price. Now, if you could just share your thoughts on that, is my understanding is correct and secondly, this philosophy of pricing, can it be applied to the branded label business as well?
- Venugopal Nair:** Binoy thanks for that question and good afternoon. The philosophy on pricing is having the price right and is not being the primary factor that would lead to a customer buying. I think what is important is to have the latest fashion curated and our job as retailers is to offer a curated range to our customers so that, when they are looking at our brand on the app, website or in the store, it is a selection which we offer them which helps them to buy for their wardrobe. It is not one unit; it is not, and we are not trying to compete at being the cheapest. I mean, that's not the game at all that we are in. It is about offering great value and value is about what you offer at the price

that you offer. Prices is a secondary factor, and it is a delight when you offer fantastic product at prices that has a price and that's the philosophies that we have applied and that's the philosophy that we have been consistently following. It is also about having, I mean each brand stands for itself. It has a clear definition, lifestyle that it caters to and what we design to range and put into our stores and on our website is, a culmination of a lot of effort to bring in a very sharp offering for our customers. In terms of branded label, I think, again I would not like to speak for other brands because each brand has its own philosophy and it would vary depending on the target customer that they are trying to reach, but in terms of our own brands and as we grow our brands and make these established brands in their own right, our philosophy will always be about offering the latest trends, the latest fashion for the target customer, curated and offering absolutely fantastic value in terms of quality performance at prices that are a surprise.

Binoy Jariwala: Understood, related to this and on the private label business. Could you talk about, how much of the retail area and the new stores, is being allocated to the private labels? How much of the shelf space has been allocated to the private labels?

Venugopal Nair: Binoy, it would depend on the store, it would depend on the catchment. I mean, there could be, if it is a market which lends itself to more casual wear then you would have more space for casual versus if it is an area where which sells more premiums. I wouldn't put a very specific number for that. It would be highly dependent on a number of factors. What I would say is that we will ensure that we do justice to all our brand partners, as well as to our own brands. Finally, it is about ensuring that we offer the best mix to our customers, as also ensuring that we have high-profile.

Binoy Jariwala: Let me put it differently, so what I'm trying to understand is that, is the private label the sales turn on the private label, the inventory turns on the private label, is it much faster than branded labels? And secondly, is the private labels getting more and more shelf space in the retail area or for store?

Venugopal Nair: To your first question, yes. The answer is, yes. The turns are good and will continue to be so because we are moving from monthly drops and having a regular newness in the store. On the second question, in terms of the, is the space higher, I think as private labels increase, the productivity itself improves and because the turns are higher, even with the existing space, we would be able to achieve a much higher proportion of our overall sales from private brands. Of course, then it is about overall the return that you get out of your space and based on that, it would lend itself to increase or decrease as the case may be.

Binoy Jariwala: Understood. My last question, this is on the CAPEX and on the balance sheet together. So, we have, CAPEX plan of roughly about Rs. 80 to Rs. 100 crores for this year, to open roughly about 20 odd stores. Simultaneously we have seen operating loss of roughly about Rs. 115 crores in the Quarter 1. Would we be able to fund the CAPEX plan from the internal cash flow or would you need to raise additional debt or maybe equity?

- Karunakaran M:** Binoy, I think Venu spoke at the beginning of the conversation, though the Quarter 1 was quite muted, the recovery what we saw in Q2 has been quite encouraging in the month of July. And we are confident that the August and September would also be good. To answer your question, this 80 to 100 crores, as of now, considering the recovery what we have been seeing, we should be able to fund full an additional line of credit what we have. We also have investments if you see in our balance sheet and plus, we have significantly unutilized a cash credit also. We have a number of options when we can use this line and we can fund this capital.
- Binoy Jariwala:** Fair enough. If I may just ask a small clarification in the presentation, we've mentioned that we plan to open about 30 stores over the next 24 months. These 30 stores are we are essentially talking of only Shoppers Stop stores or mix across Shoppers Stop and beauty?
- Venugopal Nair:** It will be majority of Shoppers Stop, but it does include a few beauty stores as well, specifically the Estee Lauder stores that we manage and operate.
- Binoy Jariwala:** It possible for a breakup?
- Venugopal Nair:** I would say roughly, I mean every year and I have stated that earlier as well, we intend to open between 10 to 12 Shoppers Stop department stores as a bare minimum, apart from our own beauty stores, which would be Shoppers Stop beauty or Arcelia as they are currently labeled as, branded us. That's the broad split and of course based on the opportunity and if spaces are available, we would, be quite aggressive in terms of our store openings and we may go beyond the 10 to 12 as well if the opportunity is exist and is available.
- Binoy Jariwala:** Fair enough. One small additional question if I may, you've closed two stores in quarter one, sorry FY to date July, do we plan to close any further stores during the year?
- Venugopal Nair:** So, Binoy, we continue to evaluate each and every store based on the sales, based on the profitability. If something is not working, we will definitely close, but at this point, just to add what Karuna said, for this financial year based on the current rate I don't expect us to be closing any further stores.
- Moderator:** We have one last question in queue. We take the last question from the line of Kaustabh Pawaskar from Sharekhan BNP Paribas.
- Kaustabh Pawaskar:** Most of my questions have been answered and good to see the faster recovery in July. Just one question checking over to Binoy's question on private label. So, considering your strategy behind private label and your efforts where do you see the private label contribution going from current level of around 14%-15%, over the next two to three years?
- Venugopal Nair:** Thank you Kaustabh. That's a very good question and helps me answer one that I wanted to answer I mean, wanted to speak about. Private label is one of our strategic pillars as you know, and we are putting a lot of focus on this. We expect our private label contribution to be between 25 to 30% of our business in the next two to three years.

- Kaustabh Pawaskar:** Okay. So that will definitely add on to your gross margins because private labels have better gross margins, we have seen in the industry that the companies having higher private labels brands in their revenues have better margin. So, from margin perspective also, it will be help you to see better margins I head. Is it a right understanding?
- Venugopal Nair:** Yes, absolutely. I think the margin is a derived benefit. The real reason of offering private label is to be able to offer our customers products for specific lifestyles and give them a reason to come to Shoppers Stop exclusively, because these would be brands which will be available for me in our stores and on our app. As we grow as an Omni-channel retailer, it gives one more reason apart from the great customer service and the range of brands that we have, also a set of exclusive brands, which they would be able to shop from Shoppers Stop. And as we do that, of course, the fact that we design label I mean, design, manufacture and retail these brands, also gives us the ability to have higher margins, which help us.
- Kaustabh Pawaskar:** Just one clarification in press release has been mentioned that investment market we have seen recovery of around 70% and in Northern and Western together it is around 50%, is this right or which one is much better than Western and then it is North?
- Venugopal Nair:** It is for the stores that were open Kaustabh. It does not reflect the region as a whole. In the West, Gujarat has been opened and the performance is from the stores in Q1 was better than the rest of the country, because the stores which were open.
- Moderator:** Thank you very much. That was the last question in queue.
- Venugopal Nair:** Thank you. Thank you, Gaurav. I just want to close this session by firstly thanking everyone for spending their time and listening to us. Thank you for your time and thank you for your attention. I would just like to close by restating the progress that we have made across each of our strategic pillars and the response that we have seen is something that, gives us a lot of confidence for the rest of the year, across each of our strategic pillars of our first citizen customers who continue to bless us with their business, our Omni-channel, and our transformation to being a true Omni-channel retailer. Growth of private brands as we said, we expect that to be between 25 to 30% of our business over next two to three years. Beauty, again a very important strategic pillar of ours and again, that's a subject we expect to continue to grow and expect that to get to around 25% of our overall business. Thank you once again and stay safe and hope to see you all in our stores and website.
- Moderator:** Thank you very much. On behalf of Axis Capital Limited that concludes the conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.