“Shoppers Stop Q3 FY21 Earnings Conference Call”

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MODERATOR: **MR. AASIM BHARDE – DAM CAPITAL ADVISORS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Shoppers Stop Conference Call hosted by DAM Capital Advisors 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 the operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aasim Bharde of DAM Capital Advisors Limited. Thank you and over to you, sir.

Aasim Bharde: Thank you, Aisha. Good morning everyone. On behalf of DAM Capital, I welcome everyone to the Q3 FY21 results conference call of Shoppers Stop Limited. I would like to thank the management for giving us the opportunity to host this call. We have with us, Mr. B. S. Nagesh - Customer Care Associate and Chairman; Mr. Venugopal Nair - Customer Care Associate and MD and CEO; Mr. Karunakaran Mohanasundaram - Customer Care Associate and CFO and Ms. Asawari Sathaye - Customer Care Associate and Head Communications.

We will start the call with the brief overview from the management before proceeding to the Q&A. Thank you everyone and over to you, Mr. Nagesh.

B. S. Nagesh: Thank you, Aasim. Good morning everybody and welcome to this call. A very Happy New Year 2021 and really a welcome New Year after the 2020 that we all have faced. Hope you and your colleagues, family members, your dear ones are safe during these testing times and thank you for joining us at this call. Before we discuss the Q3 performance, I must say I am very happy to introduce Venu who has joined as the Managing Director and CEO of the company starting November 2020. During my last call, I had deeply mentioned saying that he is confirm joining and he is going to be there with us and I am happy that he is sitting next to me on the call. Although Venu needs no introduction, let me introduce him. He is an international retail leader with 27 years of rich and varied experience in the Retail and Apparel industry across South Asia and Europe. Before joining Shoppers Stop, Venu was a CEO of Westside, looking after Trent and Venu was instrumental both in organic and inorganic expansion of Trent. Before that Venu was the Managing Director of Marks & Spencer Reliance where he played a pivotal role in its growth, turnover and profitability. During his tenure, the number of stores under operations more than doubled with the significant growth in local sourcing. Venu has also worked in Madura and Arvind both in India and abroad. He has already spent 9 to 10 weeks with us and we are so happy to have him with us. I request Venu to take you through the Q3 results. Post his brief update, Venu, Karunakaran, our CFO and I are available to take any questions. Over to you, Venu.

Venugopal Nair: Thank you, Nagesh and good morning friends. Happy New Year to each and every one of you. It is indeed a privilege to be a part of the Shoppers Stop family and speak before you after improved Q3 results. Just to remind you, 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 the performance. Now, I will go through the details of our performance for Q3.

We had discussed in detail about the new normal in the previous quarter and it continues. I will talk briefly about COVID followed by customer behavior, the customer connect that we had or journey across stores and Omni-channel, product, people and of course our 4 strategic pillars. Both at the macro level and at Shoppers Stop, there are several positive news during the quarter which are as follows. When we spoke to you, we had 800,000 active cases of corona infected people. It has now reduced to circa 200,000 in India. More than 50% of these cases are restricted to Maharashtra and Kerala. Both the central and state governments have now started vaccination for COVID. Our Prime Minister has started the vaccination right from last Saturday and we expect mass vaccination ahead of time which will all go well for the retail industry.

The Indian economy is expected to stage a better performance in the third quarter as compared to the V-shaped recovery seen in the September quarter. All the major indicators indicate positive recovery. In Shoppers too, our performance largely mirrors the Indian economy. From a mission-based visit, customers are now coming to our stores are spending much longer time. I am glad to inform you that all our stores are fully operational in the last quarter excepting some brief interruptions like the unrest in the North which impacted the NCR region particularly in December.

As I said before, footfall improved month on month. We had 5% of last year's footfall in Q1, 19% in Q2 which improved significantly to 50% of footfall in Q3. We continued to see improving footfall in non-metros, particularly in tier 1 and tier 2 cities with improved sales. East is outperforming other zones for us with metro stores recording good footfall. Sequentially, we observed the footfall growing 36% in October and November and 6% in December on a much larger base. Similar to previous quarters, we had 77% of last year sales in non-metros whereas the metros the same number is 61%. Sequentially, as I speak to you, we see improving trends in January also. The average ticket size increased by 4% versus last year. We observed better sales trajectory in Home, Innerwear, Casual Wear, Fragrances, and Kids Wear. With offices now starting, we are seeing slow recovery in men's formal wear as well. Number of our customers who were not visiting our stores have also preferred to purchase online with our Personal Shopper assistance.

Our response to COVID has been as follows. We have been talking about connecting customers in different ways, improving the overall performance, adapting to the new normal by focusing on Omni-channel, maintaining liquidity and sustain cost through various initiatives. As we said in the last two quarters, we continue to exceed our internal targets. Our focus on cost reduction initiatives continues. We have renegotiated every cost. We are conservative in our spending. We had set ourselves a savings target of Rs. 450 crores and as on date, we have saved 390 crores including 75 crores in the last quarter. Our savings could have been higher, but we do need to invest in Omni-channel. We are on target to achieve 450 crores of savings for the year. We may invest part of that savings in our Omni-channel. Our rights issue has been oversubscribed. Post the issue, we have repaid debts of 125 crores and after two quarters, we are now debt free. We have a net cash surplus of Rs. 46 crores at the end of the quarter. There is a continuous focus on cash conservation across the company. Cash and bank deposits are at Rs. 224 crores as of

December 31st, 2020. The most heartening feature of our cost savings and liquidity is that there is an ownership at every level on cost and liquidity during these critical times. Our safety protocol for COVID continues.

We discussed our new normal and Omni-channel being the game changer in retail. I am extremely pleased to inform you on the progress in Omni-channel which are as follows. We had tech-related teething issues in July and August, particularly after implementing SAP Hybris for our Omni-channel operations. I am pleased to share that our tech is now functioning very smoothly. I would also like to add that we have completed the implementation of the ERP system S/4HANA with SAP HEC which is the first implementation in the retail industry in India. We have been continuously improving our customer interface and experience on our app and website and are satisfied with the progress that we are making. We completed our tech stabilization project “Trishul” in November and have now started the scaleup project named “Everest”. Our average daily orders are at an average value of 2349 and we had 30 million visits in Q3. Our delivery turnaround time reduced to less than 4 days. Our customer satisfaction has increased to 4.24 on a scale of 5. We are now working on new beauty experiences with virtual makeup and virtual skin analyzer which will be launched in February.

In addition to the above, with Amazon we have more than 50 stores and distribution centers live. Our SKU count live on Amazon has gone up to 61,000 and we are fulfilling 99% of our orders to Amazon acceptable norms. This had helped us to make a quantum jump on our Omni-channel e-com sales. Consequently, our e-com sale for the last quarter is 3 times that of last year. The e-com share of our sales increased to 6% from a mere 1.5% a year back. Our sales in Amazon also increased threefold versus last year. We started fulfilling MAC.com with our beauty partner Estee Lauder. We have now begun with MAC and progressively will be adding other brands and products.

Now, let me talk about this quarter's performance. Our performance in Q3 significantly improved versus the last two quarters, despite most of our stores being in malls and the cinemas being closed for most part of the quarter, it impacted a footfall. We achieved 68% of last year's sales. We recorded Rs. 885 crores in sales with 32% margin. Our margin impacted by higher discount on Private Brands and obsolescence provisions on our stocks. As we said in the last quarter, our inventory provisioning policy is conservative and we have provided for Rs. 16 crores this year today. As I said before, with our continued focus on costs, we saved Rs. 77 crores versus last year. Despite, reduced sales, we made positive EBITDA of Rs. 21 crores.

I will now provide the brief update on the performance of our strategic pillars. First Citizen: During these critical times, we have been innovative to reach our customers. Our First Citizen sales continue to exceed 80%. For the quarter, our First Citizen contributed 83% of our sales as against 81% last year in the offline. We have new enrolments of 309,000 with average ticket size increasing 6% versus last year. 33% of our new members repeated sales within 90 days of enrolment. We also continue with our Black Card, our premium subscription service apart from First Citizen enrolment which is also fee based. On the shopping trends, we have the 40+

customers now starting to come to our stores. With offices starting, we have also seen good recovery in men's apparel. With an increased focus on Omni, our First Citizen contribution Omni-channel increased to 20.45%, an increase of 230 basis points.

Personal shoppers, which is our second pillar: Our personal shoppers continue to excel and contributed 16% to total business and an average cash memo size of 2.7 times of average transaction size. Our Personal Shoppers continue to be innovative during these critical times to reach out to our customers. They responded with range of digital initiatives such as video assisted white-glove service and chat-enabled real time online transactions. We have also developed an exclusive in-house app for our Personal Shoppers. Our repeat customers served by Personal Shoppers generated 65 crores of sales with an average ticket value of circa Rs. 12000 three times that of non-assisted shopping average ticket value.

The third pillar is our Private Brand and our Private Brand share has increased to 13.4% this year and increase of 230 basis points versus last year. As in the previous quarter, our declines in Private Brands are lower than brands both in offline and online. I am extremely happy to inform that our Private Brands had a unit growth of 4% versus last year. Also, the proportion of sales online of Private Brands was 21%. We had introduced several growing categories such as Sleepwear, Loungewear, Athleisure, and Men's Indian wear. We are also significantly growing our Infantwear and Babywear business through our private label named Karrot. We are creating a Bottom wear destination for women's Indian wear by offering a large consolidated range. We are focusing on sell through and move towards monthly launches to ensure we have got freshness in stores at all times.

Moving on to the pillar of Beauty, our Beauty business continues to remain strong and the beauty mix sustaining at circa 16%. We have launched our Private Brand Arcelia, the Bath & Body range and the initial response from customers has been very positive. The two Arcelia stores opened during the pre-COVID times have delivered the KPIs and we would be opening another 3 to 5 stores in the next financial year. We have launched a number of new brands in fragrance, skin care, and other ranges. We also opened the first two phased store in India in DLF Promenade Mall, Delhi. Our Beauty event with Malaika Arora for Talent and Beauty Show called the Eye Stoppers which was done during the quarter received an excellent response.

Before I end, I will also update on the following. We believe the COVID impact will continue for the next 2 quarters. Our business should be continuously improving towards the levels of FY19 by quarter 2 or quarter 3 of next financial year. With COVID impact coming down, our new store openings for the next year will gain momentum. We are planning to open between 10 to 12 Department Stores mostly in tier 2 cities which will add additional footage of approximately 2,50,000 square feet. We have also identified some of our existing non profitable stores for renegotiation of closure during the next financial year. This exercise will ensure that our chain becomes more productive. Our Omni-channel should continue to grow exponentially to contribute to a larger share. We have commenced our digital journey and we expect e-com to have large share in the near future. Our focus on cost controls and maintaining liquidity will continue. Our safety measures for customers, employees, and stakeholders will continue. Once again, thank you for attending this call and wish you and your family to stay safe.

B. S. Nagesh: We can open up the question and answer, please.

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. Please go ahead.

Nihal Jham: Sir, three questions from my side, first on the recovery if just bifurcating our performance, while our footfalls for the quarter are around 15%, but our sales are around 30%, so as you mentioned there is obviously quite a decent increase in the average transaction value, what I wanted to get a sense of is that in the coming quarter, do you expect that the footfalls will come back to pre-COVID level and similarly even the transaction values may normalize or is the increase in transaction value a trend that may continue and that can drive better recover in the coming 2-3 quarters?

Venugopal Nair: We see continuing footfall growth, so to that extent compared to last year we expect that improvement in footfall to keep growing and we are seeing that consistently in January as well and we reckon by quarter 2 to quarter 3, it will come closer to what it was in FY19. The transaction value will also continue to be higher. I suspect that the footfall may not come back to 100% of where it was for FY19, but close to it and given that drop and with improved conversions that we are seeing and a lot of focus which has happened on conversions over the last 2 quarters, we expect to see the benefits of those continue and hence a higher invoice value.

Nihal Jham: My second question was to Mr. Venu Nair, first of all sir, congratulations on joining the company, you did mention of the four strategic pillars that Shoppers Stop has been speaking off, I just wanted a specific comment that out of these four, is there anything that will be first focus by you and also specifically on online, you mentioned that we are at 6% share, but just from your perspective, is there a thought of where you want to take this number as the term progresses in the next 2-3 years?

Venugopal Nair: In terms of the four strategic pillars and if I were to call out one which would be the most important for us, Omni-channel is definitely the first of the four and that is one which has become significantly more important post COVID and as a company that is an area which has been elevated to having the top most priority for us. Currently, we are at 6% and we expect that to continue to grow and we would expect it to get between 15 to 25% over the next 2 to 3 years.

B. S. Nagesh: Nagesh here, also if you look at with Venu's expertise and his background from Madura, Arvind, Mark & Spencer, Trent and now to Shoppers Stop, I believe Omni-channel will be the front end customer facing initiative and Private Brands will be the back end supply taking initiative and the combination of this is what should really benefit the organization.

Nihal Jham: Just last question on the Omni part, I think last quarter also the tie-up of the number of stores was around 50, which has stayed stable, so just wanted to check that, is there a target of getting all the 84 stores on the Amazon platform by Q4 still in place and if it is possible to share any metrics on those stores which are already on-boarded?

Venugopal Nair: Nihal, I will answer it in two parts. So first part, in terms of stores, the first focus was to get the stores onto Amazon.com and circa 50 of them had got on around the end of September and then during the quarter, the focus was increasing the number of SKUs which were online, so we started of it about 15,000 to 20,000 SKUs which then progressively went up and now currently we are at about 61,000 SKUs being online and available across these 50 stores. The second focus then was to improve our delivery performance and Amazon have very strict performance criteria where we have to achieve 99% CPT which is a turnaround time of within 24 hours and that took us about 4 to 6 weeks for us to stabilize and get that sorted. So two things which have improved, one is the number of SKUs available going up to 61,000 and then the turnaround time being consistently now at 99%. The third phase or what we go next once we get out of our end-of-season sale towards the end of January would be then to add the balance stores also onto Amazon.com. So that is the next phase which will happen from February.

B. S. Nagesh: Also, it is important to understand that it is not necessary that we should connect all the 80 stores. The connection of the stores in Amazon will be based on the consumer journey that we see and also productivity and profitability of the assortments that is there in the store. So there are two stores 3 kilometers away and one store has a larger assortment, if it can serve the community around 5 kilometers, then we will prefer to add only that store and not the other store because it is not about number of stores connectivity, but it is about the reach that we can achieve through our physical network into the communities that we want to serve.

Nihal Jham: And just on that follow-up that any metrics in terms of how the revenue per store may be improved ballpark once these stores were on-boarded in Amazon, may be the mature ones which were on-boarded first?

B. S. Nagesh: No, if you look at it, the incremental business that we are getting from Amazon is all going through the stores only, so if your total improvement that we have seen is about 6% from 1.5% contribution and Amazon is contributing to 20% of the total online, that is the improvement that we are seeing in the stores.

Moderator: Thank you. The next question is from the line of Ankit Kedia from Phillip Capital. Please go ahead.

Ankit Kedia: Sir, my first question is on the revenue recovery, last quarter we were targeting to have a flattish kind of a revenue from quarter 4 onwards, now we are guiding for next year quarter 2 to quarter 3 for full revenue recovery, so are we seeing some demand pressure from the customer side in last 3-4 months, December month being soft and while January is also in the similar line of marginally improving, could you throw some light on that?

Venugopal Nair: What we are seeing, we had, if I start with Q3, so in Q3 itself, we saw a significant improvement in both footfall as well as the recovery levels and specially the festive period was very good at 75% to 80% recovery and that continued pretty much till the end of season sale. End of season sale, also the absolute numbers were good, it is just at the spike that normally gets associated with the end of season sale was not as high because of the fact that there was still a limitation in terms of the number of footfalls into stores and number of people who could walk in. Once that spike has gone away, the comparatives have started to improve again. We expect and were cautiously optimistic in terms of the recovery levels and we expect those numbers to keep growing from the current levels of 70% to 80 and beyond as we get into the Q4 and beyond into Q1.

B. S. Nagesh: Also the theatres and multiplexes which were supposed to open up and the Food Court to go into full capacity has not happened and therefore in the mall the traffic remains to be muted and as the multiplexes are getting opened and traffic comes back, we expect the recovery to happen, so our focus will be on ensuring getting revenues back and profitability back and therefore even at a lower extent of customer footfall and revenue we should be focusing on profitability for the coming quarters.

Ankit Kedia: Sir, my second question is on the private label, you said acceptance of private label online is nearly 20% out there, while offline would be still 12 to 13%, so with Venu sir's experience, what changes are we doing to get this number to 20% in our offline stores as well and which will be visible to the customer or at the backend side, be it on the pricing, display, merchandizing?

Venugopal Nair: So I think it would be led by product and first and foremost offering the latest trends and fashion with clear segmentation for each of the brands. So what we have been focusing on is to sharpen the definition of each of our brands across men's wear, women's wear, both Indian wear and Western wear in women and kids wear. Having that sharpened focus on brands, then to have monthly launches and freshness focusing on sell through, so that would help us to drive not just sales, but profitable sales both online and offline. And within the store having very aspirational visual merchandizing with clear space in the stores which would put our Private Brands in focus, along with that offering great value, so fashion with clear aspirational visual merchandizing and great value with a big proportion of that mix being under the price point of 999. So that in terms of our customer offer as the hierarchy there is the national brands and then on complimenting that would be our own Private Brands which would offer great fashion at significantly great prices.

Ankit Kedia: Sir, private label, just a follow-up, what would be our strong point in terms of men's formals or men's casuals, women's ethnic or kids or beauty what we have just launched, so if you can just give us some pyramid, what is stronger for us in terms of customer acceptance?

Venugopal Nair: What is?

Ankit Kedia: Sir, in private label, which product is small, where we are more strong in terms of men's, women's, kids or beauty?

Venugopal Nair: As Shoppers Stop is a house of brands and we offer a good mix of national brands and our own brands. Our own brands come in offering the latest fashion at good prices combined with the quality that our customer dresses for and that gives us a good platform for our customers to shop with us. What makes us stand apart is the fact that we would have clear sharply defined private label with the newness which would come in every month, hence every time a customer shops with us, every time she comes to our store, she would have something new to buy from us across each of the categories. Equally, in beauty and I think that is another area where we would complement our national brands or brands that we already have along with our own range Arcelia, where we have launched the Bath & Body range to begin with. Nagesh, would you like to add?

B. S. Nagesh: Yes, to get to your specific question, I think the biggest opportunity which we are going to be seeing is in the kids and our brand Karrot is going to be the lead in that because of the kind of baby boom that we are expecting this year as well as the fact that whatever we have launched in the last two quarter, there has been significant growth. In the existing men's, we have seen a good growth from men's casual, in fact men's casual has run much ahead of women's and then the next will be ethnic wear and then within that if you look at it, there were two large assortment in ranges which were missing and with Venu and Head of Private Brand Ajay joining in the last two quarters, we have seen that being launched. So one is the Loungewear and second is the Athleisure wear. So between these two, we believe there will a significant growth in our mix and contribution from Private Brand.

Ankit Kedia: And just one last question for Karuna sir. Sir, on the cost cutting exercise, while we are near a target of 450 crores getting into next year given that we are talking of a normal to come from Q2 to Q3 of next year, how much of this cost cutting would continue next year? How much with vendors now being near normal from quarter 4 onwards, so the other expenses part, if you can just throw how much we should model for next year?

Karunakaran M: See, remember last time we spoke about this. So as you say we plan to save close to 450 crores and next year, we should be able to sustain almost 200 crores of the savings, Ankit.

Ankit Kedia: And this would predominantly be including the employee cost saving, that is right?

Karunakaran M: Yes, including the employee cost savings. That is right.

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

Gaurav Jogani: Sir, my first question is with regards to the 4 store closures we have done, so are there any further possibilities of the store closure during the year and also as you said the store opening guidance for 10 to 12 stores, so that would be for the next year from Q2 onwards or how should we look at it?

Venugopal Nair: Gaurav, the second point was on store opening, is it?

Gaurav Jogani: Yes, the second point is store opening.

Venugopal Nair: In terms of the store closures, we expect to have between 5 to 7 store closures and some of them start with obviously renegotiation of the rent where we can, so that we can make the stores full productive and profitable and feeling that only we would close. The new store additions, we expect to start from Q1 of next year, so most of these stores which we are opening are in malls and the work had stopped during the COVID period which has now restarted and we expect to have the store starting to open from April or May of 2021 and in total, we expect to add 10 to 12 new stores during the year.

Gaurav Jogani: Sir, one follow-up question to this is, earlier we have guided that the store opening would be on a partnership model, wherein the landlord or the tenant would also be contributing some part to it, so in this light, what would be the CAPEX per store going ahead and how much CAPEX can be built for FY21?

Karunakaran M: Gaurav, we are negotiating, I mean in some of the stores, the landlord is almost contributing 80% of the capital cost and we are contributing 20% each and it depends on store to store and some of the premium malls, we do have a slightly higher percentage. To answer your answer, yes we are negotiating with the landlords for the CAPEX, but it will be difficult to put a percentage right now, predominantly it will be from the landlord Gaurav.

Gaurav Jogani: To replace it, what could we built as CAPEX per store going ahead for FY21 or may be the years ahead, a ballpark figure would help?

Karunakaran M: I didn’t understand your question, what do you mean by that?

Gaurav Jogani: Sir, CAPEX per store, what could be that we can build in per store basis?

Karunakaran M: You are talking about CAPEX cost per store?

Gaurav Jogani: Yes, sir, exactly that.

Karunakaran M: Right now, Shoppers Stop remodeled the store itself, we are planning to open a store between 20,000 to 30,000 square feet. We don’t have larger footplate like what we used to have, so on an average cost of Rs. 2500 it should be around about 5 to 6 crores. Part of it will be funded by the landlord and part of it will be funded by us.

Gaurav Jogani: And sir, one more question with regards to this particular quarter only, so the depreciation this quarter was a bit higher and would it be alluded to these four store closures that we had this quarter because of that?

Karunakaran M: No, Gaurav. As you see our last Q4 presentation, we did mention that we are changing the life of the asset and for every quarter, we will have 10 crores impact that we said in the last fourth quarter itself. So there are two reasons, one, because of the change of life of the asset, we have circa 10 crores and compared to last year, we have also added 11 new stores, so that is also contributing to depreciation of round about 2-3 crores, so that is the reason for the difference of almost 13 crores which is last year, Gaurav.

Gaurav Jogani: So sir, this wouldn't come in the base from Q4 onwards, right, I mean the 10 crores at the additional that was due to the change in the life of the asset?

Karunakaran M: No, that was coming from the last year Q4. So if you have seen in the last 3 quarters, we have the additional depreciation of almost 10 crores because of the change in life of the asset.

Gaurav Jogani: And sir, one last question from my end is, with regards to the Omni-channel we initiated back reacting and we have seen good progress on the sales with the sales now being around 6% odd and once the contribution does go to 15 to 20% as we envisage for the next 2 to 3 years, how can it contribute to the profitability? I mean is there any differential between the margins of what we have at Brick-and-Mortar store versus the online store?

B. S. Nagesh: Nagesh here. See, I think we need to go into a little history and then look at how the way forward is. Historically, all online businesses have been making losses and we did make losses on selling of even the 1.5% the loss was substantial. In the last two quarters, whatever online sales we are doing, it is almost reaching the breakeven stage. In fact, at the unit economics there is a positive contribution. If I look at the gross margin, after supply chain it will be almost 4 to 5% lower because of the supply chain cost of 5% and if you try to anticipate the 6% contribution of this year going to 15% to 20% in the next 2 to 3 years' time, I think the contribution should become very positive even at EBITDA level. So we are not seeing the Omni business to be a loss-making business like you see in the online business in the various ventures that you have in the country and internationally where they keep losing money. We don't see losing money in the online business anymore.

Moderator: Thank you. The next question is from the line of Binoy Jariwala from Sunidhi Securities. Please go ahead.

Binoy Jariwala: Just quick one on, is there any onetime write-offs relating to inventory provisioning or anything captured under depreciation in this particular quarter?

Karunakaran M: We have already said Binoy. We have provided 16 crores as of date and probably even if I take, divide by 3 and then 3 to 4 crores will be there in the Q4 also. I mean I would expect that in further inventory provisioning for the next quarter also. On the onset, I have just mentioned to you the increase in depreciation is because of two reasons, one, because the change in life of the asset and additional 11 new stores what we had opened.

Binoy Jariwala: But there is no onetime setting in depreciation, onetime write-offs, or anything of that sort?

Karunakaran M: No, in addition to that if you have seen our balance sheet, our inventory level is also significantly lower compared to last year. If you see our own stocks, they come down from 484 crores to almost around 282 crores, almost 170 to 180 crores reduction in the inventory level right now.

Moderator: Thank you. The next question is from the line of Percy Panthaki from IIFL Securities. Please go ahead.

Percy Panthaki: My questions are on the e-commerce business, so out of the total e-commerce sales you have done, could you give me a split of how much of it is on your own website or app versus aggregators like Amazon, etc.?

B. S. Nagesh: Percy, Nagesh here. If you look at it way forward for businesses that even the online and offline business will not want to segregate, there is a lot of mix happening across. If you just want an indicative, I mean 80% came from our own Shoppers Stop.com and the balance 20% came from Amazon and MAC, but going forward, because there is a pickup happening, there is a curbside pickup, there is a home delivery happening, there is cross merchandise happening, so we will not want to segregate because eventually the future is all about digital commerce and it will be totally Omni, but as of today like I said you got 20% in Amazon and MAC at 80% from the Shoppers Stop.com.

Percy Panthaki: And related question and forgive me if this is a bit naïve, but why on Amazon do we need to onboard each store separately? Why can we not have sort of Shoppers Stop as an entity on Amazon and then you would decide from which store to fulfill the order?

B S Nagesh: This is for customer convenience because I am sure when you shop, you actually realize that sometime some inventory you do not get or after you have bought, you realize that delivery time goes up, but if you look at it here, suppose if you are staying in Versova and nearest store is in Andheri the moment you come in, what you are seeing is first the system picks up, what is available in Andheri store. It also brings down the delivery cost, the logistics cost, and the ease of delivering you faster. Second is, if you look at the future, the future will be able to tell you that this will be kept aside and you may say I would like to pick it up. Rather than waiting for 2 days delivery, you may say I want to pick up on the way to office from your Andheri store, so the system picks up the nearest store and this is what the hub and spoke is and if you look at it, this is what the online players are trying to do, Amazon buying the Horford or anybody in India wanted to buy an offline channel is basically because they want to physically reach and be closer to the customer. We are doing the reverse, because we already have a physical chain and we are closer to the customer, we are trying to see how we can actually through technology and logistics and digitally connect the customers.

Moderator: Thank you. The next question is from the line of Ankit Kedia from Phillip Capital. Please go ahead.

Ankit Kedia: Sir, my question is on the inventory, in Q1 you have return of around 12 crores of inventory, Q2 call it was 5.5 crores, so you said in 9 months around 16-17 crores we have written off, so I assume this quarter, there would be no inventory provisioning, so why is the gross margin down? Is it due to the increase in online contribution or something else also to do with it?

Karunakaran M: Ankit, let me give you the numbers. In Q1 we provided 5.5 crores, in Q2, we provided 6 crores and Q3 we provided at and above 3 to 3.25 crores. That comes to around about 16 crores for the last 3 quarters. That is one. Second, as you rightly said, any inventory provisioning will impact the gross market, so our gross margin is also impacted by the Private Brand. Because of the inventory, we were selling with offers, so that is also impacting the overall gross margin. Our Omni, even now it is only 6%, though I agree Omni, the gross margin is lower, but that will not impact the overall gross margin.

Ankit Kedia: Sir, from a Private Brand's perspective, are we still deep discounting and liquidating the inventory?

Karunakaran M: Yes, we do, some of the stocks of Autumn-Winter '19 and Spring-Summer '20, we do deep-discounting and we are selling it off because it is better to sell at a discount rather than to write off the T.

Moderator: Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Just couple of questions, sir, what number of stores will be housed in the mall with multiplex as on today?

Karunakaran M: We have among 84 stores; 11 stores are standalone and the balance are in shopping malls.

Tejas Shah: Sir, in a hypothetical scenario of multiplex taking much longer time to recover or perhaps in worse scenario structural shift against multiplex altogether, how do we see our demand being independent of the trend going forward?

B. S. Nagesh: So if you look at it a infrastructure by the mall operators for a multiplex is almost 20% of the mall, we do not see a scenario of the multiplex is not opening at all, that totally ruling it out because it is a very large industry and Indians love entertainment. In terms of opening up in phases, yes it will happen, and our dependency is, we contribute to 25 to 26% of the customer entry of a mall. So if the mall entry is dropped to that extent, we get impacted, but don't forget that 83% of last quarter sales came from our First Citizen. So irrespective of the multiplexes opening or not opening will continue to be serving our First Citizen, but with multiplexes opening, this will actually enhance, so if we can maintain profitability at 75% of our business with our First Citizens, a jump in the business and profitability with multiplex opening will be substantially higher compared to earlier year because of the cost reduction as well as the average ticket size going up. The third important thing is, Personal Shoppers are contributing to 12,000 average transaction value compared to 3000 plus for a non-personal shopper or regular customer. So to me, I am seeing this is a very positive change and the productivity improvement has happened in the company in the last three quarters and I see more positivity coming out of it and may be Venu also has an answer to this.

Venugopal Nair: Thanks Nagesh and just to add to what Nagesh just clarified on malls and multiplexes, the second factor also to consider is the other big footfall driver into malls is our Food Courts and as Nagesh said, for the Indian consumer, entertainment and visiting malls is a big part of that. Food Courts have progressively opened faster than the multiplexes itself and that is something which we are seeing contributing to footfalls coming up and even over the last two weekends when I have been visiting mall, so one thing which you find is that the footfalls into Food Courts are significantly higher, so that again helps driving footfall into stores and into the malls. The other aspect which also I must flag is that with our mall partners and developers, we worked together and we have negotiated our lease cost and we see our occupancy cost going down which again helps on profitability. So that is something which we continue to do in line with the level of footfalls that we see.

Tejas Shah: Just last one on this, in our guidance of recovery which we expect by mid calendar year, we have taken an assumption of multiplexes opening by then?

B. S. Nagesh: Yes, multiplexes opening, but not at the 100%. We believe that they are gradually opened, so coming back, we are probably not 100% dependent on multiplexes.

Venugopal Nair: And that is where the Omni-channel because what we are seeing increasingly is that customers are choosing to shop, using our Personal Shopper and White Glove service. They do shop even when they are not coming to malls and hence the recovery being ahead of the footfall growth itself.

Tejas Shah: Last one book-keeping question, I missed perhaps if you gave this earlier, what will be category mix in our Omni sales?

Karunakaran M: There is private brand is 20% and the brands are at about 80%.

Tejas Shah: No and within that Apparel and Cosmetic if you can give breakup?

Karunakaran M: It is broadly the same as an offline, 60 is Apparel and 40 is non-apparel.

Tejas Shah: And cosmetics in particular if you have number?

Karunakaran M: More of similar and if it is something different, I will definitely come back to you personally.

Moderator: Thank you. The next question is from the line of Binoy Jariwala from Sunidhi Securities. Please go ahead.

Binoy Jariwala: Just wanted to understand the Shoppers Stop, what is the typical refurbishment cycle and what is the typical refurbishment CAPEX and likewise for the Beauty store, how does the economic work? What is the typical store size, sales per square foot, break even be it on your EBITDA and CAPEX per square foot?

B. S. Nagesh: As far as the refurbishment cycle is concerned, the earlier period we have taken it as 5 to 7 years. Going forward, to me it will be in the region of 3 to 5 years, so 5 years is the right point to look at it from a refurbishment cycle of any Shoppers Stop store.

Binoy Jariwala: And sir, on the Beauty stores?

B. S. Nagesh: The Beauty stores, I think the average has been about 2500 to 3000 square feet and the first two stores have before the COVID shown path to breakeven and in terms of the gross margin return on floor space, the gross margin return on square feet, they are almost towards the other brands, so we are fairly ahead of on all the KPIs and the Beauty Stores.

Binoy Jariwala: Would it be possible to quantify, what could be the gross margin percentage and likewise CAPEX and working capital per square feet on Beauty Stores?

Karunakaran M: Normally, we don’t disclose the gross margins category wise and you are aware of that, I mean it is strictly confidential. All I can tell you is the beauty margins are higher than our normal apparel brand margins.

Karunakaran M: And within that our own Private Brand is even higher.

Venugopal Nair: Yes that is right, within that our own Private Brand is even higher.

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

Sameer Gupta: Just one actually, just looking at the store metrics in a more granular fashion, so can you just explain on a sustainable basis, what kind of a cost per square feet number are we looking at and this is including your corporate overheads and excludes the cost of goods?

Karunakaran M: That again depends on store to store Sameer. If you take our income statement, you can see that we have a margin of between 32 to 34% and the EBITDA margin and ideal circumstance would be between 6 and 7%, so that leave the gap of say 26%. On the 26%, leave aside our head of the cost of 3 to 4%, so that is the overall broad number I can give you, but obviously this cost will be lower in a non-metro city and that will be higher in a metro city, so again store to store like, for example, if you take a store in a premium within Bombay that will be higher. I can't give a broad number. It depends on store to store, Sameer.

Sameer Gupta: Agreed sir, but I am asking on a sustainable basis, is it supposed to be similar to what it is today or there are some structural changes that can happen and over a period of time, this difference of 26% that can come down gradually is the basic thought process here?

B. S. Nagesh: Yes and honestly if you look at it, the biggest structural change that was happening is that we have redesigned our formats for a lower area coverage, so against an average of 35,000 to 40,000 square feet in the historically, today we are working on a 20,000 to 25,000 square feet. So the two stores which have been opened, their productivity on the sales per square feet is almost 40 to 50% higher, so the moment you look at these stores, automatically the throughput for these stores will be much higher. All the new stores that are opening that Venu spoke about between 10 to 12 stores are in the range of 25,000 square feet.

Sameer Gupta: That is very helpful, so we are basically looking at lower store sizes which will basically absolute basis might be the same sales, but cost per square feet may also be the same, but the size itself will be lower, so that will?

B. S. Nagesh: So the other structural chain that is happening is if Private Brand has moved from 11% to 13.5% and is on a growth trajectory. Private Brand gross margin is almost 35 to 40% higher than the others and their contribution on a per square foot would substantially go up, so these are things which are as a traction in the last two quarters and the coming quarters are looking positive and there will be some structural changes with Shoppers Stop.

Moderator: Thank you. The last question is from the line of Binoy Jariwala from Sunidhi Securities. Please go ahead.

Binoy Jariwala: Karuna, could you help me with breakup in the rental and nonrental savings of 390 crores and there is an increase in loans and advances in the 9-month, FY21, could you just help me understand why was that? And last one is, on the inventory, we have reduced inventory by about 225 crores in these 9 months, are we comfortable with the current inventory level? Would it require a bit of more discounting or any write-offs, anything you can highlight on that?

Karunakaran M.: Let me go on the reverse order, I think the first question you asked is about the inventory. If you see our balance sheet in the investor presentation, we have clearly mentioned what is our inventory and what is ROR inventory and ROR inventory is where we can return back the goods to the supplier. If you see our own inventory, it is around about 292 crores. The 292 crores include Beauty, OR products as well as Private Brands. Almost roughly 120 is Private Brand and rest two thirds are non-private brands. I think Ankit asked a question, as far as the provisioning is concerned, we had included whatever that has to be provided for the ROR that is our own inventory, that we will consider in Q4 as and when it happens, we have included in the forecast. What is the next question you said, about the lease rentals and non-lease rentals, right? I don't want to mention the breakup, but all I can tell you is the lease rental would be one third of the total or slightly more than one third of the total savings, say 40% and non-lease rentals would be around about 60% of the total savings. Sorry, I missed the third question, what was the third question?

Binoy Jariwala: Actually, it was about loans and advances?

Karunakaran M.: Yes, increase in loans and advances are primarily because of the GST input credit what we have taken on the goods where we have purchased, we are unable to process because of the lower sales and because of the ROR purchases what we have paid. That may get replaced as we go back. See, one of the rules we have seen as is if you don't get a supplier within 6 months of buying the stock, then we have to reverse the input credit because they are on the ROR basis, so that input credit will be availed only when we sell the goods.

Binoy Jariwala: Just a bit on the inventory part, just missed the comment, whether are we comfortable with the current level of inventory, I am especially talking of our inventory, not SOR? Are we comfortable?

Karunakaran M.: Yes, we are comfortable, and we are still working on. If there is a possibility to reduce that further, we are working on that.

Moderator: Thank you. As that was the last question, I would now like to hand the conference over to the management for closing comments.

Venugopal Nair: Thank you and I think just to summarize again in terms of where we are, I think as a business we are very pleased with the way Q3 has performed and we continue to progress. The COVID impact as it starts to get even lower our business will keep growing. In terms of expansion, we talked about the opening of 10 to 12 department stores, mostly tier 2 and we will be adding 2,50,000 square feet over the next financial year. Apart from 3 to 5, Arcelia Stores which also we will be adding. Our Omni-channel business will continue to grow and grow exponentially contributing to a larger sale. Our focus on cost controls and maintaining liquidity continues and our safety measures for customers, employees, and stakeholders also continue. Once again, thank you for attending this call and please do stay safe.

B. S. Nagesh: Yes, I just want to thank all the investors and like I started off in my opening remarks, I am so happy to have Venu who settled down in the company in the last 9 weeks and continue to work with the team and leave the team towards various objectives that we have set up and my support to Venu continues and slowly and slowly Venu is taking over full charge to run the business. Thank you once again and wishing you all wonderful season going ahead and all you and your family members are safe. Thank you very much.

Karunakaran M.: Thank you.

Moderator: Thank you. On behalf of DAM Capital Advisors Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.