SHOPPERS STOP

SEC/62/2021-22

October 27, 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**

Dear Sir/Madam,

Sub: Earnings Conference Call – Q2 FY22

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Company had filed its letter ref. no. SEC/53/2021-22 dated October 13, 2021, in respect of the analyst / investors conference call on **Thursday, October 21, 2021 10:30 am. IST** to discuss the corporate performance for the second quarter and half year ended September 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 October 21, 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**

Shoppers Stop Limited

Vijay Kumar Gupta
Head Legal, Company Secretary & Compliance Officer

Encl: aa

“Shoppers Stop Limited
Q2 FY2022 Earnings Conference Call”

October 21, 2021

ANALYST: **MR. GAURAV JOGANI - AXIS CAPITAL LIMITED**

MANAGEMENT: **MR. VENUGOPAL NAIR – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER - SHOPPERS STOP LIMITED**
MR. KARUNAKARAN MOHANASUNDARAM – CHIEF FINANCIAL OFFICER - SHOPPERS STOP LIMITED
MR. JAIPRAKASH MAHESHWARI – VICE PRESIDENT (FINANCE & ACCOUNTS) - SHOPPERS STOP LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Shoppers Stop Limited's Q2 FY2022 Earnings Conference Call hosted by Axis Capital Limited. I must remind you that the discussion on today's earnings call may include certain forward-looking statements and must be viewed there for in conjunction with the risk that the company faces. Please restrict your questions to the quarter and yearly performance and the strategic questions only. Housekeeping questions can be led separately with the IR Team. 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 conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gaurav Jogani from Axis Capital. Thank you and over to you Mr. Jogani!

Gaurav Jogani: Thank you Nirav. Good morning everyone. On behalf of Axis Capital, it is my pleasure to welcome you all to Shoppers Stop's Q2 FY2022 Earnings Conference Call. On the call we have with us today, Mr. Venugopal Nair, MD & CEO; Mr. Karunakaran Mohanasundaram, CFO and Mr. Jaiprakash Maheshwari, VP Finance & Accounts. I would now like to hand over the call to the management for their opening remarks post which we can start the Q&A session. Thank you and over to you Sir!

Venugopal Nair: Thank you Gaurav and good morning friends. Thanks for joining us today to discuss the Shoppers Stop financial results for the second quarter of the fiscal year 2022 that ended on September 30, 2021. We have shared our Q2 results, the investor deck, and the press release with you, and I hope you have had a chance to browse through the same. Today I will talk to you about the Q2 performance and as always give you an update on the progress on our strategic pillars and the way forward.

To start off in the second quarter we saw a strong rebound from the second wave of COVID-19 and the consumer confidence has rebounded sharply. Our GAAP sales were Rs.709 Crs a growth of 117% over Q2 FY2021 with margins growing by 490 basis points and EBITDA by 386%. The reopening of stores and the recovery from the closures in Q1 was varied through different states and there was growth in sales in each of the three months of the quarter on a sequential basis. We have had a strong start to the festive season and currently we are nearly at the same levels of sales as pre-COVID this suggests that we are likely to have a strong come back over Diwali and Christmas.

Apart from the strong sales in stores, our sales through our digital channels continue to perform strongly and grew by 103% over FY2021 same quarter. I would also like to call out at a total level as a business now we had six consecutive quarters where our average bill value has been increasing. This is a clear indication of a higher level of engagement with our customers and that they are spending more with us every time they visit us in our stores or online. On the operational cost we continue to save versus FY2020, in the second quarter we saved Rs.62 Crs. The savings have been on lease rentals, employee cost and admin and operating expenses. We managed our inventory efficiently adopting the lessons learnt front last year when the first wave hit. Our inventory has reduced by Rs.82 Crs compared to the same period last year; again this needs to be taken in the context that the sales being at a much higher level than last year. The strong sales and tight control on cost we reported an EBITDA of Rs. 138 Crs as per GAAP financials and Rs. 1 Cr as per the non-GAAP reporting.

During the quarter we invested Rs.20 Crs on Opex in building our e-commerce and digital technology as we continue to transform ourselves in to an omni-channel retailer. Apart from that we also invested Rs.35 Crs across capex and opex in opening new stores and refurbishing our existing stores. In our store renovations we have been focusing on improving productivity of the stores and a good example of this is our store in Inorbit, Hyderabad. In this store we reduced the store area by 35% and yes the sales have reached the same levels as pre-COVID improving the profitability of the store significantly. We are also happy to state that during the quarter we completed the sale of Crossword for Rs.41.6 Crs. So that is an overview in terms of our overall performance.

If I now move on to the strategic pillars and I will talk to you about each of them in turn. We continue to make good progress in each of our strategic pillars and we are very happy with the way we are progressing on it.

Our first strategic pillar, First Citizen our loyalty program and this continues to go strongly with 75% of our sales coming from them. We are growing our First Citizen Black Card customer enrollment, which is an annual subscription program wherein our customer pays Rs.4500/- for an annual membership to be a part of this program. This customer visits us three times more frequently than our average First Citizen customer which leads to much higher annual spends. We migrated the First Citizen loyalty program to a new campaign management platform called “Gravity” last year and in the second phase of this, this is now being linked with our data warehouse this will give us the ability to engage with our customer in an even more targeted manner improving our conversion and growing our overall sales through better engagement. On our second strategic pillar of Omni needs specifically that I will come to omni channel in greater detail later but just on First Citizen our sales on omni from our First Citizen customers grew from 21% to 40%. As mentioned before we are engaging with our First Citizen customers very closely 33% of the customers who have shopped online have also shopped in-store and they spend six times more than the average online customer it just shows how much more engaged of First Citizen customers are when they are shopping both channels and hence our endeavor to continue to increase the share of First Citizen customers spending online even as we continue to attract new customers.

Our unique service to our customers, Personal Shoppers continues to be a strong offering for our customers, a differentiated offering that we give personal shoppers and sales through the personal shoppers has been consistent and contributed 14% of our sales with an average ticket size of 2.8 times higher than our normal. We also do styling festivals through our personal shoppers both online and offline. Our other such services continue to contribute to our overall sales, all of this helping to make the First Citizen customer our loyal customer feel special in our stores.

Moving onto our second strategic pillar of Private Brands. Our strategy of growing our private brands in apparel and beauty is working well. Private brands contributed 14% of our total business with it being 18% in our online business. Bulk of our private brands is on apparel and in apparel private brands contributed to 19.4% of the total sales of apparel. The 9 brands that we have in apparel continue to grow faster than the company. We had invested in getting the price right for these power brands and this has led to a volume growth of 59%.

In the last call I had mentioned to you about the launch of “Insense” our sleepwear brand and this I am happy to report has now jumped to be one of the top brands in our women’s western wear. In women’s Indian wear our private brand sales now contributes to nearly half of the total sales of this category. In men’s we launched “Bandeya” again this was something which I had shared with you at the last call, Bandeya is a range of men’s ethnic wear and this is now the biggest ethnic wear brand for men’s in our department stores, and finally in kids wear our private brand sales have been way ahead of all of the other categories growing by 162%. So to summarize across all of apparel, our private brands continue to grow well and we are pleased with the progress we are making.

Moving onto our third pillar of Beauty, and in beauty we continue to build on our leadership in the offline space and we are increasing the number of brands that we reach. In parallel we are adding a lot more brands which would be available only online with a great opportunity to have Shoppers Stop as a strong omni channel player. We have added 19 brands in the second quarter and we will be adding another 41 in the third quarter. We also continue to build our private brand Arcelia in beauty. Just last week we have launched 10 new perfumes across men’s and women’s and we will be launching 20 different varieties of deodorants in the next four weeks. We have launched accessories, sheet masks and some of these are priced extremely attractively. Further we will be launching over 200 variants of lipsticks and nail polishes in the Q4 of this financial year as we continue to grow “Arcelia” as our private brand.

With makeovers now being allowed in stores we are seeing higher customer footfalls for beauty and they are spending more time in the store. Makeup categories grew by 133% over the same period last year. We will be launching 3 new “Beauty by Shoppers Stop” stores in the next 12 weeks. These are standalone beauty stores and a destination for beauty specifically and our plan is to open 10 to 15 of these standalone beauty stores over the next 12 months.

Finally moving to the fourth strategic pillar of Omni Channel and here we continue to transform ourselves into an omni channel retailer. With shoppersstop.com firmly established as a shopping destination for our customers and as emphasized every single store of Shoppers Stop and all of our standalone beauty stores are now linked with shoppersstop.com on a real time basis giving customers the choice of buying every product that we have in our stores and it is available to our customers on shoppersstop.com at all times. Apart from that we also have additional brands which are available only on shoppersstop.com expanding the range that is available for our customers even more. As a result of all of this our digital sales was up 103% on FY2021 and contributed to 8% of our total sales.

We have strong unit economics on shoppersstop.com has also through Amazon and on the Estee Lauder online sales that we do. As mentioned before this is an area we are continuing to invest and we are investing to improve the customer experience on our app on MarTech, on analytics, and on insights, which will lead to higher conversion and sales. The first phase of this will be implemented in December of this year and the second phase in March 2022. In order to further strengthen our Omni channel, play I am pleased to share that we have now two board members joining us from pure market place and omni channel background with good domestic and global exposure.

Christine Kasoulis comes from John Lewis in the UK having extensive retail experience and the proven track record of identifying future consumer trends and delivering market leading propositions across multiple product categories including home, fashion, beauty, nursery, and sports. I am also pleased to welcome Arun Sirdeshmukh on to our Board. Arun has been associated with the fashion business in India for over 25 years and has build some of India’s largest and strongest fashion brands and retail businesses such as Reliance Trends, Amazon Fashion, to name a few. Arun is presently leading the largest electronic vehicle two-wheeler business as SVP & Global Business Head Ola Electric and also is the CEO Ola Cars in India.

Moving on to expansion, we have opened two beauty stores of Estee Lauder in the second quarter and we also renovated five of our department stores. Our expansion program is back on track and we plan to open six department stores and three beauty stores in the third quarter. Two of the department stores are fully ready and will be open as soon as the mall starts trading over the next few weeks. For the next two years our target is to open 10 to 12 department stores and 20 beauty standalone stores every year.

Last but not the least we have most of our team in place now. We have a very strong management team with extensive international and domestic experience with clear domain expertise in each of these areas. Having a clear plan, strong focus on our strategic pillars and a great management teams puts us in a good place to take our business forward strongly.

In summary we have had a very strong and encouraging quarter, we are trending strongly into the festive period, our strategy is working well and the team that we have in place is well placed to deliver on our plans capitalizing on the high loyalty and great trust our costumers placed on the Shoppers Stop brand. Thanks for listening and we will open to questions now.

Moderator: Thank you very much. We will now begin the question and answer session.

Karunakaran M: Nirav we already received probably seven or eight questions what we thought Venu and I will read the question and answer it and probably so that will avoid a similar question from the analyst. So we will do that and then probably we will open to the questions I mean we should not take more than five minutes to answer all these questions.

Moderator: Sure Sir.

Venugopal Nair: I will quickly go through them the first one was we are at 75% of Q2 FY2020 sales despite 87 operational days do we expect to cross 100% of Q3 FY2020 in Q3 FY2021, what do we expect to end FY2022 as a percentage of FY2020 sales? On the first part in terms of the stores being opened for 87% of the operational days it is true that they were open but as you all know in the month of July COVID was still a fear and the number of hours such stores were operational were quite low, add to that in a number of cities the stores were not open during the weekends which do tend to be a significant part of our sales so hence that 87% operational days is not directly comparable to the sales recovery of 75%. On the second part we are trending well and as I mentioned currently our sales are close to FY2020 number for the festive period which gives us an indication of where we are progressing. Second question please can you throw light on the cost savings are they largely from rentals or other areas? Savings I have mentioned in my initial talk are from across various expenses including employment, occupation cost, electricity and service office cost. Third question we have made investments in technology to help our digital presence are we happy with our current digital presence, do we plan to spend more to ramp up our presence? We are progressing well and we are continuing to invest to improve the experience that customers have on our app on MarTech, on analytics, on insights and we believe all of this will help us to serve our customer better, engage with them at a more personnel level which should lead to higher conversion and sales are we happy with where we are? We are happy with the progress we are making, but we believe we will continue to improve and we will continue to get better in this area. I will move onto the next question which is are we now comfortable with the inventory and net debt levels, any further reduction, optimization in the second half? Yes, net debt has reduced sequentially from Rs.196 Crores in the second quarter of FY2021 to Rs.96 Crores in the first quarter of FY2022 to Rs.62 Crores in the second quarter of FY2022 and we expect to be debt free by the end of Q3. Next question, do we see any cause of concern as Reliance Retail has acquired stake in Manish Malhotra and Ritu Kumar, just as ABFRL as done with Sabyasachi and Satya Paul. I would not talk about competition or what their strategy is, but what I can say is that if we look at the overall size of the market in India, only 29% of the total retail sales come from the organized sector and the rest is in the unorganized sector and over the years this has been expanding. We expect to continue to see this organized market grow and expand and I think there are years and years of growth yet to come in and hence there is enough place for a lot of players to be in there. What is important is your ability for us to engage with our customers, to reach out with our customers and delight them every time they engage with us and that is what we are aiming to do, that is what we are doing.

The next question is a similar way, a lot of players are getting aggressive on the beauty and personal care category, how do we plan to maintain customer share of wallet and stay relevant.

What I mentioned about the market a few minutes back is holds for this category as well. The one thing which is different and plays in our favor usually in the beauty and personal care space is the experience that customer gets when they walk into the store. When it comes to beauty, makeovers, and ability to actually have services that they can use in the store is extremely vital and this is something which we have been doing and we have almost made it into a fine art over the last 15 years that we have been doing this. Our customer service associates in store are extremely well trained are highly trained and they offer a very unique experience to our customers which gives us a unique point of difference. We also have strong brand partnerships which have been there for many years now and using that brand partnerships, working with our brand partners we are able to offer curated ranges which is a major play in the premium category that we work in. We also have our loyalty programme which gives us a single view of customer which again is a point of difference that we have and which has been built over the last 15 years, also the ability for our customers to cross shop across beauty and personal care when they walk into our stores, when they are buying accessories, watches, sunglasses, apparels or brands, so on and so forth. The private brand that we are growing in the beauty space again gives us an edge and all of this I believe puts us in an extremely unique and strong position in the market.

Moving onto the next point which is on performance of private label and the steps to increase the sales. Private brands continue to grow as I mentioned in my earlier talk. We are focusing on our 9 power brands and the way we are focusing on this is by personally getting the product right. We strongly believe that product is in the heart of everything that we do and getting the product right, offering fantastic quality, latest trend at absolutely stunning prices is the most important thing and that is what we have been working on. Getting the product right, getting the price right, further to that having sharp demarcation of the brands, making sure that each brand is placed to its core offers a clear end use, each brand is for a specific lifestyle and having clear focus on that makes that brand come alive and finally to grow a private brand apart from the existing power brands we continue to look at white spaces and we will grow in that. The latest of that was Insense in sleep wear, which we did, Bandeya for ethnic wear and also “INFUSE" which is our direct to customer online only brand which we have just got it, so that is the way we want to continue to progress on private brand, focusing on product, price, brand, and white spaces. The last one that we have on the questions come to us was the progress on Omni Channel initiatives. I think I have covered that already so I would not go into that again. Suffice to say that we could progress on omnichannel. We are continuing to grow the number of customers who are buying from us online. Also our First Citizen customers are engaging with us more online and our investment into the UI/UX of the customer experience on the app, also on the MarTech personalization, insights, all of this will help us to grow our business and we are truly omnichannel retailer which is the transformation that we had embarked on a few quarters back and we are continuing to grow well. As I said we are probably one of the very few retailers who have every single store across department stores and the standalone beauty stores, every store is linked on a real time basis to shoppersstop.com.

Karunakaran M: Those are the questions that came to us, so we thought will answer that. Gaurav over to you and we are happy to answer the questions from any other analysts or individual investors.

Moderator: Thank you very much. The first question is from the line of Percy Panthaki from IIFL securities, please go ahead.

Percy Panthaki: Hi Sir congrats on a good set of numbers. My question is on the margins so despite fairly good recovery we are just about breakeven EBITDA on Ind-AS adjusted basis and this also I think includes Rs. 28 Crs of rental waiver am I right?

Venugopal Nair: Yes.

Percy Panthaki: My question is that if I do a simple kind of math where let us say I assume that the sales instead of being 25% down versus two years ago supposing it was sort of 0% versus two years ago and on that incremental sales I take let us say 40% gross margin and assume that gross profit flows through directly to the EBITDA line and then I add back this 28 Crores of rental which will go away once things normalize I get adjusted EBITDA margin of about 4.4% so is not that fairly low margin, would not we have aspirations of doing higher and if so what will drive it from this 4.5% level to a higher level?

Karunakaran M: Percy thanks for your question Karuna here. See there are number of assumptions what you have made I am not validating that, but see Q2 is one of the lowest quarters for us. So normally our average margin of 6-7% is for the full year considering a significantly higher margin for Q3 that is one. Second the lease rental reduction what you are talking about also includes some of the rental savings due to permanent closure of stores which were loss making in the previous year that also includes that. Third while I agreed the operating margins at 40% please do understand that for this quarter because of some liquidation of the private brand our margins are not as strongly as it ought to be so there are number of other factors we have to consider for a particular quarter. It is not as probably as you are equating Percy, so if all goes well and if we have to be at the same level of say the last year with the cost savings our EBITDA margin should be definitely higher than FY2020.

Percy Panthaki: So what would you be internally targeting for margins for FY2023 assuming no third wave or anything?

Karunakaran M: Percy normally we do not give any future guidance. You are aware of that, but we are targeting very aggressive increase compared to FY2020 for FY2023.

Percy Panthaki: This quarter apart from the rental waivers in the cost below the gross margin, are there any savings which are temporary in nature for this quarter?

Karunakaran M: No Percy in fact for the last six quarters we have being seeing that, our savings on a like to-like-basis we should be able to save Rs. 200 Crs per annum. This quarter specifically we saved Rs. 62 Crs I agree probably 30% to 35% from these rentals, the other expenses what we saved are permanent nature and I also want to reiterate Percy we had invested in Omni Channel quite a significant amount which will spoke during his speech.

Percy Panthaki: I did not get what you were saying you invested in what?

Karunakaran M: We invested in omnichannel plus we also invested in stores refurbishing so we have invested in those two items.

Percy Panthaki: But that would come in the balance sheet Sir or in the P&L?

Karunakaran M: No E-com investments are all in P&L.

Percy Panthaki: They are not recurring investment so to say?

Karunakaran M: Probably for this year we will be investing it, next year it will be significantly lower.

Panthaki: How much would be that e-commerce investment hitting the EBITDA this quarter?

Karunakaran M: Between say Rs.10 Crs. to Rs. 15 Crs totally and the store refurbishing would be another Rs.5 to 6 Crs.

Percy Panthaki: What I meant by savings which are temporary in nature is what I meant is let us say right now the travel would not have sort of returned completely to a normal, so supposing COVID goes away completely would not the travel cost naturally grow up and when your sales goes up would not your advertisement cost also go up as a percentage of sales it will go up in absolute terms so I am just wondering whether these items should be increased so as to not overstate the operating leverage when I am doing your model?

Karunakaran M: Let me conclude that Percy. Our travel expenses are very, very small that does not constitute, probably it will be 0.20% or 0.25% not more than that and if you see our marketing expenses as a percentage to revenue this quarter is higher than the FY2020 quarter. We are already investing in the marketing.

Percy Panthaki: Very clear. Secondly this digital asset sale that you have 8% that is across all types of e-commerce what I wanted to understand is out of this 8% how much is from your own asset that is your own website?

Karunakaran M: You mean Amazon?

Percy Panthaki: Including the aggregator websites or the platforms and if you look at only your own asset how much would be the contribution of that to the total sales?

Venugopal Nair: I will take that Percy. I think overall close to 75% of the sales in the last quarter came from our own app and the balance would be from Amazon and Estee Lauder.

Percy Panthaki: Okay I understood. What would be the contribution of the beauty segment that is not inside your Shoppers Stop but the other stores that you have your Estee Lauder or MAC or Arcelia whatever, what is the contribution of those beauty stores to the topline and the EBITDA in normal year?

Karunakaran M: Percy these are all sensitive data we do not like to share that. All I can say is they are reasonably healthy and the mix has been quite better Percy. These are all very, very sensitive data and we cannot share in a public forum like this and I am sorry about that.

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

Shalini Gupta: I have two questions actually. Sir as per Ind-AS basically what we saw is depreciation and interest expenses are going up and we were told that they will be higher in the initial years and they will reduce as time goes so my question is when do we start seeing that reduction?

Karunakaran M: We have discussed in the past. See our depreciation and interest includes normal depreciation as well as the lease rentals which as per Ind-AS includes both depreciation and interest. Answering your question specifically if I see even the GAAP accounts last year we had depreciation and finance cost of close to Rs. 110 Crs that has already come to Rs 85 Crs, so reduction of Rs 25 Crs has already happened and if you see only the non-GAAP depreciation which is the actual depreciation that has also come down by Rs. 7 or 8 Crs versus last year so overall the depreciation is coming down Shalini.

Shalini Gupta: Sir my second question is that I think the government introduced some COVID concessions because of which you were able to take the savings on rentals in the other income line so till when do you expect this to continue?

Karunakaran M: Shalini please refer both our GAAP and non-GAAP accounts. In the GAAP accounts we have considered as another income whereas in the non-GAAP accounts we have reduced the lease rentals from the lease rental expense. So in the first two quarters whatever reduction has come in it has reflected both in GAAP and non-GAAP accounts. We are regularly negotiating with our landlords for the possible reduction in Q3, but it looks a bit difficult because all the stores are opening and the sales are also good. So way forward our view is the rental reduction may not be significant as it was for Q1 and Q2.

Shalini Gupta: My last question if I just look at the presentation and compare the GAAP and non-GAAP financials in the EBITDA line there is a gap of something like Rs 137 Crs and there is a gap of about Rs 20 Crs on the revenue front, so would that be correct in assuming that the rentals per quarter are something like Rs 100 odd Crs now?

Karunakaran M: Slightly lower than that you are almost spot on, the rentals will be anywhere between Rs 90-95 Crs for Q2 Shalini and way forward it will be slightly higher than Rs 100 Crs.

Shalini Gupta: Percy was talking about savings of Rs 28 Crs on rentals so basically those savings are already in the profit and loss account.

Karunakaran M: Yes, you are right it is already there in Q1 and Q2, you are right Shalini.

Shalini Gupta: Thank you Sir.

Moderator: Thank you. The next question is from the line of Ankit Kedia from Philip Capital, please go ahead.

Ankit Kedia: Sir my question is regarding the revenue recovery. When you say in Q3 we could be close to Q3 FY2020 numbers but if you look from the number of stores or the square feet we would be significantly lower or pretty much same because we have closed the bigger square feet stores, so is it fair to assume that once Maharashtra comes to normal given that now in the malls double vaccination are only allowed and recovery is full swing so the like-to-like underlying growth would be significantly higher than the flat revenue which you are guiding?

Venugopal Nair: Ankit your point is very valid that we have closed some of our nonprofitable stores and hence the numbers that we would be looking at is not a true comparison on a total basis. However, the guidance that I was giving you or the numbers that we did say we were talking on a like-to-like basis.

Ankit Kedia: Sir can you share the recovery outside Maharashtra because Maharashtra would be still double digit contribution and there are still restrictions which are getting lifted in Maharashtra now, so the underlying growth ex-Maharashtra if you can share some indication of that?

Venugopal Nair: It varies by region quite significantly Ankit so to that extent rather than giving you non-Maharashtra it still does not give a true picture. What I can say is that each of the regions is performing strongly with East leading the way at over 100%.

Ankit Kedia: Sir my next question is regarding the Beauty. In your opening statement you mentioned we will be opening "Beauty by Shoppers Stop" today we have Arcelia, we have Estee Lauder group and EBOs, with this coming in what would be the format of this new store if it is not Arcelia and what kind of brands would we have in this store?

Venugopal Nair: Thank you for that question and I will elaborate on it. These would be 2000 to 2500 sq ft Stores, Standalone Beauty Stores, and "Beauty by Shoppers Stop" that is the working name that we are given to it and we expect to have 3 of them opened by December this year. The mix of brands here would vary of course depending on the catchment and the mall or the city that it is opening in and based on that effectively it will be in the premium when coming to the top end of Masstige that is the market that we would play in and working with the brand partners that we have and probably some new ones with whom also we are talking to. So our brand partners are strong ones that we have will definitely be a part of it and a few new ones that we would continue to bring in as I mentioned in my note. As I said we have taken a plan to have 60 new brands over a three-month period and we are well on track on that, we have launched 19 of them, we are launching another 41 and all of this to make sure that we are bringing in more and more brands for our customers to choose from and equally bringing in strong brands that work with us. These independent beauty stores are important part of our omni journey because what it does do is they gives us the opportunity to go into a lot more markets, it gives us the opportunity to bring the best of our customer service and our associates are able to offer and reach a far higher number of customers through these independent beauty stores, it gives us the legs to move much faster within the beauty space and expand and continue the lead that we have in physical stores on beauty.

Moderator: Thank you. The next question is from the line of Nihal Jham from Edelweiss Financial Service please go ahead.

Nihal Jham: Thank you so much and good morning to the management. Sir couple of clarifications from my side, first when you say that the festive period is already at recovery near 100% I am guessing we are comparing to the festive two years back that is how we are coming to these numbers?

Karunakaran M: Your voice is not clear Nihal. Are we comparing the festive period pre-COVID you said something like that?

Nihal Jham: Yes, am I audible now I am so sorry about that.

Karunakaran M: Yes, we are comparing the festive period pre-COVID and when Venu said it is 100% it was pre-COVID festive period.

Nihal Jham: That is helpful. The second part I just wanted to clarify the thing you mentioned the share of private labels to the online sales were around 18% now would it be right to assume that all the sales of private labels or majority of them would be driven via our own app or website?

Venugopal Nair: It would be through our own app and also through Amazon which is the only market place that we have presented.

Nihal Jham: Just one last if I may on the cost part of it as I noticed you mentioned about the example of the Hyderabad store where we have optimized the store size is that mainly the main way in which the savings both on the employee and also on the opex side as you mentioned X the rental part is coming in that the optimization of the square feet is mainly the one that is driving this kind of saving or is there any other initiative specifically on the other extent side that you want to highlight for better clarity?

Karunakaran M: Thanks Nihal that is a very good question. Let me clarify we have five line items, one is the employee cost, lease rentals, electricity, advertisement and marketing and other operating expenses which includes both stores and service office where we are. Other than lease rentals and marketing all the other savings are permanent that has nothing to do with reduction of space. Some savings will be there but we largely optimize the cost when we did the exercise in FY2020. Our marketing cost largely we follow the curve and we also are investing in omnichannel. Lease rentals I just clarified there are one time reductions but there are also reductions due to the closure of stores.

Nihal Jham: Just on the other three items any kind of example about how these are being achieved for better clarity if in case you want to share anything around?

Karunakaran M: Of course yes. In case of say store employees we have optimized the staff, in case of say the space in the service office we have surrendered some of the spaces and like what Venu said I mean one of the other reason is we closed some of the loss making stores so these are some of the permanent savings I am talking about, some of the examples I mean there are quite a few.

Nihal Jham: Understood. I will take that offline. Thank you so much and wish you all the best.

Moderator: Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan by BNP Paribas, please go ahead.

Kaustubh Pawaskar: Sir my question is on the average ticket size which you mentioned in your initial comments that you have seen six consecutive quarter of improvement in the average ticket size what is the current average ticket size if you can give us the number and what it was during the pre-COVID level and my second question related to this is this improvement in the average ticket size is because of the increase in the number of items in the per person ticket or is it because of the improvement in the mix?

Venugopal Nair: The average ticket size currently is just circa Rs.4000 and the increase is because it is again a combination of two factors, the significant one is that the fact that our customers are buying more items in every basket and that has gone up and has been consistently going up. There is also an increase in the average selling price in some cases, so a combination of the two.

Kaustubh Pawaskar: One question I have about the customer engagement you were speaking about maybe for your First Citizen customers or customers who are already tied up through app, so can you just throw some more light at how it is helping you to generate higher conversions?

Venugopal Nair: I think there are a number of different things that we do on that and probably it would not be the right forum to go into each and every one of them, but if I were to give you some simple ways of engaging better what we do and the fact that we have the ability to see what our customers are buying from us both for online and offline and also comparing that to what customers of a similar persona so we have our First Citizen customer base is split into customer persona and based on the customer persona we then create specific targeting that we do. At a broad level we have eight personas that we work with, but then we go further and segment them into almost 40 different segments and each of these segments is based on what else customers like that do. We are able to offer them products or reach out to them whether it is through a basket of brands or through price or through a volume based engagement and a number of things that we could do on that and this is which we keep doing constantly. Specifically, with our First Citizen Black Card which is our annual subscription program and for our Black Card customers this is a crème de la crème of our First Citizen customer it is the top end and it is 2% of our total member base contributing 7% of our sales and for these First Citizen Black customers what we do are very high level of engagements so for example the store manager is the personal shopper for this customer. For this customer we do a monthly engagement activity, which are exclusive events open only to the First Citizen Black customers, they have an accelerated points earnings capability and they are able to also have a first in the queue or jump the queue in our stores while they are shopping with us. We also have special offers for them on a monthly basis and what we ensure is that the value that they get out of this membership far outweighs the annual subscription that they pay, but the most important thing is that it is a customer who is engaged with us, who comes back to us and shops three times more than our average First Citizen customer. Our average First Citizen customer itself is coming back more than non-First Citizen customer and the First Citizen black customers comes three times more and that is just an example and the three times is during the COVID period, pre-COVID it was even higher so it is just one example of how we engage with our customers.

Kaustubh Pawaskar: Right Sir thanks for the detailed answer.

Moderator: Thank you. The next question is from the line of Tejash Shah from Spark Capital Advisors India Private Limited. Please go ahead.

Tejash Shah: Thanks for the opportunity. Sir you spoke about beauty space and beauty space is relatively underappreciated at least from our perspective so just wanted to understand what is the size of opportunity that we are targeting here and which all categories are very relevant to be part of this bucket and which are on the borderline of personal care counted as beauty that is first and second if you can comment on competitive landscape because in the last six months alone we have seen now Tata Beauty and even Reliance is also launching a dedicated line there, somebody like Myntra is also having a dedicated line of beauty and personal care so if you can comment on competitive landscape as well?

Venugopal Nair: So let me first start with the market and then get down to specifics. The total market size of beauty and personal care is estimated to be Rs.1,73,000 Crs of which online is 13% so the rest of it is offline. Specialty retail the market that we play in is around Rs. 12,000 Crs. The online share being around 20%, 80% being offline. Our positioning is in the premium and Masstige space as I mentioned earlier. The categories that we work on or the categories that we focus on is skin care, makeup, cosmetics, fragrances and accessories so those are the ones that we are in and the ones that are growing is clean and natural and men's grooming specifically these are the two new categories that have come in and these are the ones we are also getting into. Specifically, our private brand Arcelia I already mentioned about and through our private brand of Arcelia we will be growing and completing the entire offer, so we launched bath and body three quarters back actually and already within our stores bath and body Arcelia is now the third largest brand. We are launching fragrances and perfumes were launched last week, we are launching deodorants in the next four weeks. We also launched a whole range of accessories and a number of them being absolutely unique to us and not many players offering something like that. Then into Q4 we will be launching eyes, nails and completing the entire offer on makeup over the next three quarters so that is in Arcelia and how we are dealing with that. We are also assisting product discovery for our customers through and that is again fuels repeat purchases and that is something, which gives us an advantage compared to a number of other players because of the strong history and experience that we have in the beauty space.

Tejash Shah: Sir any comments on competitive landscape?

Venugopal Nair: I am not an expert on competition. I would not be able to add any more than what you already know on competition. What I can answer and what I can tell you is about my business.

Karunakaran M: Gaurav we can see a number of participants in the queue. Can we extend the call by another least 15 minutes if you do not mind?

Gaurav Jogani: Sure Sir.

Moderator: Thank you. The next question is from the line of Pratik Poddar from Nippon India Mutual Fund. Please go ahead.

Pratik Poddar: Sir when I look at your timeline journey and journey for customers the reviews on play store or app in general or even on twitter social media are not that encouraging how should we think about this journey, I know it is a journey but how do we see these small issues where the experience is not similar to market place apps in terms of buying, selling or refund, etc., when do we expect a streamlining of this that is question number one? Second is you talked about refurbishing stores and the moment you refurbished the sales are same as what they were pre this refurbishment right what is your refurbishment target if at all do you have in mind which is clearly that improves the payback period and lastly you had made a comment on doubling your sales over five years I just wanted to know when does those five years' start is it FY2021 or FY2020?

Venugopal Nair: So let me take the three questions one at a time. The first one I would actually contradict what you said or ratings on both the play store as well as on the iOS app has consistently been up and this is something we track on a fortnightly basis and we have seen consistent improvement. On iOS we always used to be high, but on the play store we used to be low and if I remember right about a year back our ratings were around 2.7, which have now jumped to almost 4.4 and is comparable with some of the others. Having said that we are also conscious and appreciate that this is a journey and the experience on our app needs to improve, which is why there is significant investment which we talked circa Rs 20 Crs that we incurred in Q2 and will continue to incur over the next two quarters to improve that and the investment going into improving the biggest investment and the biggest shift we would see is in the UI/UX first of which comes through in December and the second phase in March. Also on MarTech, on customer insight, on analytics, all of which will help us to get a far better understanding of our customers, which will help us to improve the conversion and grow our sales and this is something which we have done. The first phase was to get old data warehouse where we have got all of our customer data, product data and the store data, all assembled together in the one data warehouse that we have. That data linked project has now been completed and we are building on that on the analytics insight. One side is the backend and the other side is the front end and the customer experience through the app so that is something which we will continue to improve. The second question was on store refurbishment and store refurbishment is I would say business as usual in some ways. The difference is that we are being far more efficient with the way we do it and the fact that in Hyderabad, which I gave you as an example we reduced almost 30% of this space. Now that is not something which we would do on every store this was a one particular example where we did that and the productivity went up but even where we do not right reduce the sales what we do find is that when we refurbish the store the like-to-like numbers do grow and that is something which we continue to do. We renovated five stores in the first half and we plan to renovate another four stores in the second half. What we are also doing is to doing the renovation in a far more efficient manner so one of the other stores that we just did in Bengaluru it is a 30,000 to 35,000 square feet store in Garuda Mall and we did the entire refurbishment in 15 days, which again means that the downtime is much lower and this is something, which we want to continue doing and our teams have done a fabulous job and the project team in terms of being able to do that so that is the second part and obviously as we do that we are able to A grow the topline and hence also be efficient in terms of the investment that we make for the refurbishment.

Pratik Poddar: Aspiration to double your sales by FY2025 or FY2026?

Venugopal Nair: See it is four to five years and what we had taken in is in the next four to five years we will get there that is what we would put in there.

Pratik Poddar: From FY2021 end or in FY2022 end that is what is my small question was, when should I consider four to five years from which year do you start?

Venugopal Nair: When we had taken this target for ourselves it was based on the FY2020 numbers, now it has got delayed by a year and slightly more because of COVID and that is the way I would look at it.

Pratik Poddar: Great. All the best. Thanks.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital Partners LLP. Please go ahead.

Deepak Poddar: Thank you very much Sir for the opportunity. Sir just a clarification you said in the last participant question that it is based on FY2020 as the base?

Karunakaran M: That is right yes. You are talking of doubling the sales right?

Deepak Poddar: Yes.

Karunakaran M: That is right because FY2021 was COVID impacted.

Deepak Poddar: Fair enough and what is the margin level we are looking at like when we are looking at doubling the sales at that kind of level because the opportunity advantage will also play out?

Karunakaran M: Because that is a too longer period Deepak. We prefer not to give guidance so I think Venu has already said that. We should be either close to high single digits or low double digit EBITDA margins at that time. That is the overall guidance we prefer to give it but I am sure you understand that five years is a long period.

Deepak Poddar: Understood and my last question is on your other income so we have seen lot of volatility in the other maybe it might be because of the rentals we were so just wanted to understand what kind of sustainable level we are looking at once things normalizes?

Karunakaran M: You are absolutely spot on. I think you are referring to other income in GAAP income statement am I right?

Deepak Poddar: Right.

Karunakaran M: It is primarily the lease rental reduction. If you see AS116 and read with Institute of Chartered Accountants of India's latest guidelines last year due to COVID restriction what they have suggested is any lease rental reduction we should take it as an other income and that is the reason we have taken as an other income, otherwise our other income would be very, very nominal amount Deepak.

Deepak Poddar: Like Rs.7 Crs to Rs.10 Crs a quarter right?

Karunakaran M: Right anywhere between yes and what we also expect is the space on higher and other card income should go up once the business normalizes so that income should start coming in and the rental income reduction which is largely what has been included in Q2 will go away.

Deepak Poddar: From Q3 onwards right that is what you mentioned because the wavier will go away from Q3?

Karunakaran M: You are right. By and large it will not be there, but still we should be getting a small part of waiver for Q3 also.

Deepak Poddar: I understand. Fair enough. That is all from my side. All the very best. Thank you.

Moderator: Thank you. The next question is from the line of Aliasgar Shakir from Motilal Oswal Financial Services Limited. Please go ahead.

Aliasgar Shakir: Thanks for the opportunity. My question is on this growth from the smaller size tolls, now I see we have mentioned that the 20 stores we are looking to add until FY2023 are kind of around 20,000 square feet stores against an average of about 50,000 store this is something that we have spoken before as well that basically the smaller stores will drive higher productivity so just wanted to understand what is the experience we have seen in some of the stores we may have added in a smaller size when are we adding this, are we going deep into the existing cities or is the smaller store setup allowing us to grow much wider in our space in terms of covering more cities and if you could give a little flavor about how the economics are, is the smaller store helping you drive better economics, I am just coming from the point of view that we were seeing footfalls in the existing stores kind of plateauing or declining so is the smaller store giving you little better economics when you go into smaller cities as well?

Venugopal Nair: In terms of the smaller footprint and it is smaller relative to where we were but they are still between 25,000 to 30,000 square feet stores that we open, which is one of the larger formats within the country. Where we had gone with these is twofold one in some of the existing cities where we already have a large number of stores and when we go into some of the more secondary catchments within that city, it helps us to add to our portfolio, reach to customers better, but in a more efficient way. Secondly and where the smaller stores are used more is in the Tier-2 and Tier-3 cities and the stores that we have opened, we have in Varanasi and we have more recently in Calicut and so on and so forth, there are a number of stores that we have opened and we are very, very pleased with the productivity that we are getting from these stores and the results that we get from them gives us encouragement to go much deeper and if I look at the next 10 stores that we are planning to open, I think eight of the 10 or seven of the 10 are in Tier-2 cities and the new cities where we may not have been, but equally also in some places it helps gives us the opportunity to open a second store like again for example I can give you is Seawoods in Vashi where we already have a store in Inorbit in Vashi and we opened a second store in Seawoods, which is the tighter store and the productivity numbers from there was extremely encouraging. Also what we do see is of course needless to say as you would know the newer stores the smaller stores have lesser capex and hence much faster payback and a far better productivity and also last but not the least increasingly we are also adopting a model where we have capital contribution to these stores from the landlords themselves so that again helps our payback.

Aliasgar Shakir: Got it. This is very helpful so basically I can now think that maybe because we are at a smaller store size hopefully the kind of store addition pace will pick up quite significantly because that will allow you to probably go much deeper into new cities that we had not seen in the last five years probably?

Venugopal Nair: Absolutely you are very right and to put that in perspective if you look at our trajectory from 2015 to 2020 it was very, very muted in the first four years it was in the FY2019-FY2020 that we did add 12 stores and that is the momentum that we now want to continue with. We had to hit the pause button because of COVID and because of the fact that a number of projects which we were involved in and the work had got stalled or stopped, but they have now all restarted and we are quite confident that we would open around eight to 10 stores this financial year and continue at least 10 per year for the next coming years and accelerate that depending on availability of property and this is just the department large format stores I am talking of excluding the smaller format beauty stores which would be in addition to this.

Aliasgar Shakir: Understood and do we think that anymore rejig left in the existing portfolio of stores?

Venugopal Nair: When you say rejig you mean closures?

Aliasgar Shakir: Correct any kind of closures?

Venugopal Nair: I think again closures is a norm that happens and that is something which we review every six months, we review the performance of the stores and based on performance of the stores if the market has shifted, the catchment has shifted, and it is not worthwhile and we will try and renovate stores after a certain period and the new investment into that store if we believe will not be worthwhile then we would take a call to either resize or shut the store as it may be, so I would just call it as ongoing business activity.

Aliasgar Shakir: I agree but generally the pace we have seen probably is slightly higher in the last couple of years probably 5% to 10% so that should come down right?

Venugopal Nair: I think largely most of the corrections have happened so it is very unlikely that you would see a similar rate to what you saw in the last two years but I would not rule out a couple of them depending on where required.

Aliasgar Shakir: Understood. This is very helpful. Thank you so much.

Moderator: Thank you. The next question is from the line of Shivaji Mehta an Individual Investor. Please go ahead.

Shivaji Mehta: Sir thank you very much. All my questions have been answered.

Moderator: Thank you. The next question is from the line of Binoy Jeriwala from Sunidhi Securities and Finance Limited. Please go ahead.

Binoy Jeriwala: Thank you for the opportunity. Venu a couple of questions on the guidance that we have given of doubling sales over the next four to five years taking FY2020 as a base now in order to achieve this we would need to grow at roughly about 15% CAGR on FY2020 base right, we are adding stores at the base of roughly about 3 lakh square feet, which is 7% to 8% of the retail area so which means that on a like-to-like basis our stores would need to growth at least closer to double digit range right at a SSG level can you just help me with your thoughts on this?

Venugopal Nair: The growth would come from more than just the opening of new stores as you rightly pointed out new stores are a part of it, second is the improvement in the productivity of our existing stores and what we have found in both private brands and duty the productivity tends to be very, very strong. The third factor is how Omni channels and digital Sales and the digital sales would be in addition to what we get out of stores and that is the way we would look at it and that is the way we have planned for it and the fourth is also the growth in beauty that we look to do. So the space increase is about 8%. The like-to-like improvement would be like a single digit to close to double digits online and digital sales within that and finally the additional beauty stores, the new beauty stores that we are talking about.

Binoy Jeriwala: Thank you.

Moderator: Ladies and gentlemen, we will take the last question from the line of Ankit Kedia from PhillipCapital India Private Limited. Please go ahead.

Ankit Kedia: Sir in the usual remarks you gave an example of the Hyderabad stores where you had cut the size and the productivity was thin do you think that is possible in some of the existing stores as well to increase throughput and increase productivity?

Venugopal Nair: There are a few stores where that are possible I would not want to get into the detail of how many, where, etc., but that is definitely a possibility and that is something which we will explore every time we look at the refurbishing an existing store.

Ankit Kedia: Sir the second question is on retention rate of our First Citizen customer while the revenue contribution is between the 70% and 80% band on quarterly basis but what is the retention rate if you can highlight what percentage of customers actually shop in our customer base that will be more interesting actually how do you look at that?

Venugopal Nair: I think it is a very good question. First overall First Citizen base is close to 8 million customers. At any point in time we roughly have between 40% to 45% of them who are active with us and active being defined as people who have shopped with us in the last one year that number dropped in the last one year clearly because of COVID as you would appreciate, but that tends to be the number, but also what we do find is of the people who have not shopped with us in the last 12 months do come back to us some of them would come back after 18 months and so on and so forth so that level of overall retention numbers tend to be very high. The second factor is while the 75% does include a certain number of customers who come in and who have shopped with us during the quarter who enrolled and shopped during the quarter so that is also part of the 75% and that is quite healthy because the fact that we get new customers to enroll is very, very important. If I just take last quarter as an example it was 63% was the absolutely repeat customers, balance 12% out of that

75% were new enrolments who shopped during the quarter and that tends to be broadly the sort of numbers that we see on a regular basis.

Ankit Kedia: My last question is to Karunakaran Sir. The gross margins if I look at 2019 and 2020 have been in the 42% band last six quarters while due to COVID and provisioning has been around 38% with increasing share of private labels when do you think we can go back to this 42% kind of a gross margin number?

Karunakaran M: Ankit you are referring the GAAP numbers. I would not go by the GAAP numbers because GAAP numbers tend to fluctuate with the OR and SOR. If you see the non-GAAP numbers what we have given compared to last year it was around about 36.8% that has come to 35%. Two reasons one our e-com share has gone up because there is an adverse mix and second thing there is a one time we have some what you call peaks internally and we are working on that right now these are the two reasons otherwise our margins for Q2 is by and large as per what are in Q2 FY2020.

Ankit Kedia: Understood. That is helpful. Thank you so much and all the best.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to the management for closing comments.

Venugopal Nair: Thank you Gaurav and I just want to once again thank everyone for taking time out and joining us for the call. I have and I had already summarized the way forward and the way we are looking and given that we are well past our time I do not want to take any more of everyone’s time. All I would like to say before we log off is to wish each and every one of you a very happy Diwali and look forward to continue to see yourselves and your friends and your family in our stores both offline and online. Thank you very much.

Moderator: Thank you very much. On behalf of Axis Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.