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July 31, 2023

BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai 400 001. Stock Code : 532638	National Stock Exchange of India Limited Exchange Plaza, Bandra-Kurla Complex, Bandra (East), Mumbai 400 051. Stock Symbol : SHOPERSTOP
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Sub: Transcript of Earnings Conference Call – Q1 FY24

We refer to the analyst / investors conference call, on **Tuesday, July 25, 2023 11:00 a.m IST** to discuss the corporate performance for the quarter ended July 30, 2023 (“Earnings Conference Call”) and our letters in terms of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, ref. no. SEC/41/2023-24 dated July 19, 2023 and ref. no. SEC/46/2023-24 dated July 25, 2023, intimating of the call and providing the link for the Audio Recording, respectively.

In respect of the same and as required under Regulation 46, we are pleased to submit herewith the transcript of the said Earnings Conference Call. The same is simultaneously being made available on the website of the Company.

Kindly take the same on records.

Thank you.

Yours faithfully,
For **Shoppers Stop Limited**

Vijay Kumar Gupta
Vice President- Legal, CS & Compliance Officer
ACS No: 14545

Encl: aa

Shoppers Stop Limited

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SHOPPERS STOP

“Shoppers Stop Limited Q1 FY’24 Earnings Conference Call”

July 25, 2023

SHOPPERS STOP



MANAGEMENT: **MR. VENU NAIR – CUSTOMER CARE ASSOCIATE, MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – SHOPPERS STOP LIMITED**
MR. KARUNAKARAN MOHANASUNDARAM – CUSTOMER CARE ASSOCIATE, CHIEF FINANCIAL OFFICER – SHOPPERS STOP LIMITED
MR. JAIPRAKASH MAHESHWARI – CUSTOMER CARE ASSOCIATE, VICE PRESIDENT- FINANCE AND ACCOUNTS – SHOPPERS STOP LIMITED

MODERATOR: **MS. MAMTA SAMAT – PERFECT RELATIONS**

Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY '24 Earnings Conference Call of Shoppers Stop Limited, hosted by Perfect Relations. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Mamta Samat from Perfect Relations. Thank you, and over to you, Ms. Mamta.

Mamta Samat: Thank you, Michelle. Good morning and thank you all for joining us on the Shoppers Stop Q1 FY '24 Earnings Conference Call. Today, we have with us the senior management represented by Mr. Venu Nair, Customer Care Associate, Managing Director and Chief Executive Officer; Mr. Karunakaran Mohanasundaram, Customer Care Associate, Chief Financial Officer; and Mr. Jaiprakash Maheshwari, Customer Care Associate, Vice President Finance and Accounts.

We will begin the call with the opening remarks from the management, after which we will have the forum open for the interactive Q&A session.

I must remind you that the discussion in today's earnings call may include certain forward-looking statements and must be viewed, therefore, in conjunction with the risk that the company faces. Please restrict your questions to the quarter and yearly performance and to the strategic questions only. Housekeeping questions can be dealt with separately with the IR team. I would now request Mr. Venu Nair for the opening remarks. Thank you, and over to you, sir.

Venu Nair: Thank you, Mamta and Michelle, and good morning, friends. Thanks for joining us today to discuss the Shoppers Stop financial results for the first quarter of FY '24. Along with me, I have Karuna, our CFO; and Jaiprakash, our FP&A Lead.

I will begin with the retail market as on date, and then cover our quarterly performance in detail. As has been extensively reported over the last few months, the retail market, particularly apparel, has been moderating since Diwali of last year. In the light of that, we had a mixed quarter, with strong growth in beauty, non-apparels such as luggage, watches, etcetera, with a lower growth in apparels.

Last year, the same quarter, as you are aware, we had the pent-up demand post-COVID being the first quarter after COVID when the markets had opened. In addition to that, we had also spoken about the global uncertainty, persistence of inflation and the prevailing uncertainties globally. All of this will ease off, and it will take time for that to happen, particularly in the informal sector.

Consequently, we observed the mass and masstige segment in apparel continues to have muted growth. June has been better and July is continuing in the same lines. Despite these challenges, we have delivered a resilient performance this quarter and is quite competitive.

Let me talk about the Q1 performance and the way ahead. We have delivered sales growth of 4% with gross margin remaining flat and EBITDA of INR58 crores against INR67 crores last year during the same period. Our EBITDA decline can be attributed to two large factors. First being that we have invested into new initiatives and margins were flat due to offers in mass and masstige brands during the season.

On some of the other KPIs, our average transaction value grew by 8% this year versus the same period last year, with continued premiumization across the category and brands. This is the 13th consecutive quarter of growth in the average transaction value. And this shows that our customers are blessing us with higher wallet spend.

Our average selling price grew by 5%, primarily due to our focus on premiumization across the categories. On non-apparels, we observed double-digit sales growth. A good example of the shift to premiumization is in the watches category, where the share of Titan watches above INR15,000 has grown from 11% to 23%. In the same space are items per transaction, which is the third metric that we track, grew by 4%, again, underlining the fact that our customers are putting more items into their basket when they come into our stores and online.

Our customers and their preference for premium products has increased. The early start of end-of-season sale across the industry resulted into higher footfalls in malls, and we also saw the same. We did observe higher discounting to expedite inventory liquidation.

Let me now move on to costs and share some of the key details on the operational costs. Our total costs have increased by 9%. We have been investing into new initiatives such as the footwear in private brand, launching ssbeauty.in, an exclusive website for our premium beauty products available in the SS Beauty stores.

And in June, we introduced a new format, which offers Fashion For All in the name of Intune, which I will talk about a bit later. Without these new initiatives, our costs would have increased by a nominal 6% to 7%, which is largely inflation led. We have always been cautious on spending and continue to monitor the costs particularly during these tough times.

With strong sales and tight control on costs during the quarter, we reported an EBITDA of INR58 crores compared to an EBITDA of INR67 crores in FY '23 first quarter. As I said before, market conditions on apparel and the new initiatives led to the marginal decline in EBITDA, and we firmly believe we will recover this during the year, particularly in the second half of this financial year.

During the quarter we opened 6 Beauty stores and 1 HomeStop store. We would have opened 2 to 3 department stores. But due to delay in getting regulatory approvals, the opening of these stores has been delayed. We should open 2 department stores in the next 2 to 4 weeks, which are fully fitted out and just waiting for the mall itself to open.

As you observed, we have sustained improvement in all our KPIs for more than 10 quarters now. We follow the 3C framework, which is consistent growth, customer centricity and capital allocation. I have talked on the growth part, I will cover customer centricity in our strategic pillar and capital allocation, including working capital, investment in new stores and cash flow subsequently.

From operations, I will now move on to the performance of each of our strategic pillars, starting with First Citizen, which is our first strategic pillar. Our loyal customers continue to return back to shop with us, which is the pillar that's a firm foundation for our success. We firmly believe customer loyalty is important to retailers because it helps them to build a strong relationship with their customers that gives better insight through analytics of their behaviours, preferences and likes.

We have created a culture in our company that customer is the core of everything, and providing a seamless shopping experience to them, delighting them with exceptional services, going the extra mile is our way to show that we care.

Our First Citizen program creates an emotional connection between our customers and us, one in which our customers feel, seen and heard. We cater to their needs, provide exclusive shopping experiences and offer tailored promotions. We have the highest advocacy within retail in India, and we are proud of that. Our loyalty contribution is now at 80% in off-line and 42% online. Our repeat sales and members shop grew at 11% and 3%, respectively, driven through the Black Card tier and the Platinum tier.

Our loyalty contribution at stand-alone Beauty stores was at 71%, almost double. We had more than 450 customer engagement activities during the quarter across our stores. And these engagements resulted in twice value of sales with 26% higher average transaction value. Our loyalty points redemption generated 11% sales with 16% growth over the previous year.

We also focused on our inactive base, and this generated an additional 4% of our revenue through specific campaigns. Our new enrolments have increased by over nearly 200,000. And our First Citizen Black Card contribution has now increased to 13% with consistent double the average transaction value of the normal customer and spends of more than 4x that of a normal First Citizen member.

Moving to the second strategic pillar of private brands. Our private brand sales largely remained flat due to the tough market conditions in apparel. During the quarter, we

achieved INR171 crores. Our private brand share has sustained at 14% for the quarter, and the share within apparels is at 21%.

Indian wear outperformed, and our brand Haute Curry grew by 42% and the occasion wear brand, Kashish by 14%. The kids and infant brand, Karrot, grew by 7%, which also saw an expansion of apparel range for newborn. The Smart Casual wear brand, Fratini, grew by 39% overall.

Within the private brand portfolio, I would now like to talk about the new format that we have launched, Intune. This is a fashion-for-all format for the trendy college goer to the classically dressed young parents to the cute and energetic kids, Intune has something for everyone. This is a trial that we have launched, and we have opened three stores so far, two in Hyderabad and one in Dombivli. The early results are extremely encouraging, and we are going to open a few more stores as a part of this trial, and we would have more details on it in the coming quarter.

In this category, we are primarily focusing on apparels across men's, women's and kids' category, and our objective is to provide irresistible fashion at unmatched prices. With its 100% in-house assortment, Intune brings to the fore fresh quality, fashion for the cool spirited at shockingly accessible prices. Apart from ensuring differentiated fashion and experience for customers, active control of the value chain is integral to evolving a sustainable business model for this concept, which is one of the strengths of us as an organization.

I'll now move on to Beauty. Beauty is one of our fastest-growing categories and contributed to 16.4% of our overall sales with INR216 crores, an increase of 13%. Our unrelenting customer engagement activities, such as makeovers in stores, led to double-digit contribution to the Beauty revenue. We have launched more than 80 SKUs across the Beauty segment, taking the portfolio to 500-plus SKUs. We have also introduced Virtual Try On and Skin Analyzer at SS Beauty store, and this is one of the unique proposition from Shoppers Stop to its customers.

Our SS Beauty stores are performing well, and we continue to expand our reach through stand-alone Beauty stores. Apart from the 98 department stores where we offer Beauty brands, we now have 89 Boutique Beauty stores, which are stand-alone. Our Beauty distribution business is progressing as per the plan. We are launching Armani, which is a flagship brand from L'Oreal International division, and the perfume brands of Tumi and Banana Republic from the Park Fragrances Group in this quarter. The recently launched Beauty distribution contributed INR15 crores worth of sales and achieved a breakeven at an EBITDA level. A total of 20 retailers have been onboarded online as well as off-line, with 266 doors till date from where these brands are now retailed.

Moving on to the next strategic pillar of omni-channel. Omni-channel retailing, which offers a seamless and consistent shopping experience across multiple channels is rapidly

gaining popularity. Customers expect a seamless experience as they move between physical and digital channels.

At Shoppers Stop, we have one view of our customers through products being available in our stores and at the same time on shoppersstop.com. Our online shoppersstop.com had a good quarter and registered a growth of over 16%. We are aware that omni-channel retailing is a rapidly evolving landscape, and we will need to stay ahead of the curve to meet the changing needs of their customers, and we are well geared to do that.

From the strategic pillars, I will now go to capital expenditure, working capital and cash flow. We have opened 31 department stores in the last 4 years. Our capex is circa INR200 crores per annum, and it's primarily funded through internal accruals. In the quarter, we renovated 3 large department stores, 1 Beauty store and also one HomeStop. We also made investments in technology and other areas.

For the quarter, including deposits, we spent INR54 crores on capex. Due to external factors, as I mentioned before, the stores opening has been delayed, and we will be opening 2 stores in the next 2 to 4 weeks, with three more stores before the end of the quarter. We have four stores under fit-out as we speak, and we are on track to open 12 large department stores and 15 Beauty stores during the year.

In addition to that, we are opening a brand new, state-of-the-art large Beauty format in Quest Mall in Calcutta by the end of Q3 or early Q4. This will be a 9000-square-foot Beauty hall and will be the first of its kind in the country. Our inventory increase is led by Beauty, partly due to the increase from SOR to outright and lower sales in the private brand apparel, which would get corrected in the coming months.

Our investments in capital expenditure and increase in stocks will be augmenting the future growth. We had a net borrowing of INR90 crores at the end of the quarter. And due to the shifting of the festive period from the end of Q2 to Q3, I expect the net borrowings to be in the range of between INR100 crores to INR120 crores at the end of the second quarter too. We have both Pujio, Diwali and the second end of season sale in December. And post that, I expect cash surplus in our business. I'm reasonably confident that we will end this year with cash surplus even after our planned investment of INR200 crores in capex.

Finally, looking at the outlook for the future. At Shoppers Stop, we continue to partner with brands and launch new brands, ensuring that our customers have something new each time they visit our stores. We are future ready in terms of product offering and customer experience. We continue our efforts towards collaborations with large global apparel and beauty brands, which helps us to offer new brands to our customers each time they visit us.

On store launches, just to reiterate, we plan to have 12 department stores and 15 Beauty store launches in FY '24, which we are on track for. Fitment and renovations of existing stores will continue as planned. We are continuing our efforts to give premium experience to our customers across physical and online platforms.

Our investment in SS Beauty and Global SS brands will continue. And last, but not the least, we expect Q2 to have modest growth as there has been a shift of season from Q2 to Q3 this fiscal year, the shift in festive, which I mentioned just before. As I said in the past, for a vast economy of India, any slowness is temporary. We are confident the Indian economy will turn the corner, which is already happening in sectors like travel, hotel, FMCG, etcetera, and they are into the growth phase. We are buoyant and very confident that the apparel sector would have a higher growth in the subsequent quarters.

With that note of positivity, I end my speech and will answer questions that you may have. Thank you.

Moderator: Thank you very much. We will now begin then question-and-answer session. We have the first question from the line of Sameer Gupta from India Infoline.

Sameer Gupta: I have two. So firstly, on the department store addition, I recall that at the end of the third quarter, we had stated that we had five department stores under fit out. Now fourth quarter, we saw two department store additions, none this quarter. So are we just being more measured on the demand environment and our store openings? Or is there a real procedural regulatory issue that we are facing? And in case of the latter, is this 12 department store addition guidance for the year going to be very back ended and there is a risk of a spillover here?

Venu Nair: Thanks for that question. It's an interesting and good one. If I get into a little bit more specific, the 2 stores, which were supposed to open in this quarter, I mean, what we had expected to open in this quarter are Guntur and Cochin, which originally we had -- I mean, we had started fit out and we were planning to have it opened in March.

Both of these stores did not get their occupation certificate, and even as we speak, they have just got it in the last week. So Guntur will open on the 10th of August and Cochin is slated to open on the 19th of August, which is when the mall itself opens. So, it was purely due to the occupancy certificate without which, obviously, we can't open.

Coming on to your second question in terms of the 12 department stores. We expect to have 5 stores opened within this quarter itself. And we should have a further 3 in the third quarter. So I don't expect it to be back ended. Having said that, I mean I keep my fingers cross I say it because we are at the mercy of; A, wherein the case if it is a large mall than the mall itself being ready; and B, the occupancy certificate and the other certifications that are required being obtained by the landlord or the mall developer as it might be.

The one thing which we won't do is to rush into opening a store purely for ticking the box and factoring in a store open. Because when that happens, all that we end up doing is having a store open too early with not enough customers coming in, and that just doesn't give a good experience to any of us.

So internally, we've put some guidelines as to how much of the mall has to be occupied before we open a store. And that's something which we will strictly monitor and follow.

Sameer Gupta: Thanks for a very detailed answer. Second question is on the margin front. So we have done around a 4.6% margin if I look at on a gross sale level this quarter on a pre-IndAS basis. Now we are doing a lot of things. We are opening a new Beauty format, as you alluded to in Kolkata. We are trialling a new format in Intune. So are we still guiding for a high single-digit margin in the medium term? Or is that also at risk at this point in time?

Venu Nair: So one is, I would just like to clarify that each of the investments that we are doing are in line with our strategy, focusing on our strategic pillars of the 2 that we specifically talked about, the Beauty store as a part of our Beauty pillar and the new format Intune as a part of the private brand pillar. In terms of margin, the guideline that we had given earlier is what we continue to maintain. At an EBITDA level, we were in the quarter, we were at 5.3%. And the guidance of high single digit is what we continue to maintain. We don't see any significant dilution of margins with these new investments.

Sameer Gupta: Just a clarification, sir. This 5.3% is on net sales. And I believe our guidance has always been on gross level. So I just wanted that to be clarified.

Venu Nair: You're absolutely right.

Moderator: We have the next question from the line of Nihal Mahesh Jham from Nuvama.

Nihal Mahesh Jham: Sir, my first question, would it be possible to share the footfalls for the offline stores, how that has been on a Y-o-Y basis, looking for that number first?

Venu Nair: Nihal, on footfalls, we have moved to a new system of measuring footfalls using cameras, which was installed in the fourth quarter, and now all of the stores have moved to that. So because of that, I just want to flag that it is two different systems, which we are looking at. Last year was on a different system versus this year camera-based system, which is more advanced and AI enabled. Having said that, in the first quarter, we had a total growth of 8% on footfalls in our stores.

Nihal Mahesh Jham: If I understand that number was around 17 million last year. So this quarter was around, say, 18.5 million kind of a number?

Venu Nair: No, it was 10.5 million last year and 11.4 million this year.

Nihal Mahesh Jham: The offline customer entries?

- Venu Nair:** That's right.
- Nihal Mahesh Jham:** Okay. I'll take that separately. Then the other part is that as you started EOSS early, have you seen a significant improvement in the footfalls for let's say, the last 10 days of June and the ensuing 25 days of July? Or that is also something that is still tracking on a moderate basis despite EOSS starting?
- Venu Nair:** At the end of EOSS -- I mean normally when we get into the end of season sale, we do see a significant growth in footfall or increase in footfall, and that's something which we saw this time as well. In total, there was a growth of 11% in the month of June. And specifically, during the last 2 weeks when we went into sale, it was significantly higher. I don't have the breakdown of that, but it was upwards of 20%.
- Nihal Mahesh Jham:** That is helpful. Sir, the second question was on the inventory part. You did highlight that in your effort to obviously reduce the inventory, there was EOSS, which was preponed. And we did mention that maybe on the private label side, the traction is limited. As we stand today, is the inventory situation stable or it is still a little on the higher side where we may have to, say, increase the EOSS days potentially or the percentage to normalize it before the festive comes in?
- Karunakaran M.:** Nihal, Karuna here. See, as of 30 June, we did have some higher inventory on private brands. We expect that to normalize in July, August, and the inventory should come down for private brands. Having said this, on Beauty, the Beauty growth has been quite good, and the inventory will be at these levels even in the coming quarters.
- Nihal Mahesh Jham:** Got it. Final question was on Intune. Just to understand that in terms of, say, getting the pattern in place and also the design system that is totally being worked on, and now incrementally, we're just going to add stores based on how the response is, or that is also something we are still going to be putting in place and it will be a gradual scale up for this brand even over the next 1 to 2 years?
- Venu Nair:** Our plan -- I mean, firstly, it is a separate team, which has been set up for Intune. And it is operated entirely differently to Shoppers Stop because it is a different market and a different brand. It is in its pilot stage, and we intend to have 10 stores by the end of Q2, which is when we would have more results to share.
- Nihal Mahesh Jham:** One last question. What would be the ASP for this brand? And I'll be done.
- Karunakaran M.:** Sorry, Nihal, you were very fast.
- Nihal Mahesh Jham:** I'm sorry. I was asking what would be the ASP of Intune?
- Venu Nair:** It is between INR450 to INR500.
- Moderator:** The next question is from the line of Gaurav Jogani from Axis Capital.

- Gaurav Jogani:** Just one clarification. You said 10 stores in Intune by the end of Q2?
- Venu Nair:** Yes.
- Gaurav Jogani:** Okay. So my question is with regards to the absolute other expenditure for the quarter. So if you look at the BSE reported other expenditure number, that number is down by 4%. So just wanted to get a sense from your end, how should we look at this cost because this has been coming down quarter-by-quarter on an absolute basis?
- Karunakaran M.:** Gaurav, Karuna here. Your voice was not clear. Are you talking about other expenses in the GAAP numbers were declined by 4 %
- Gaurav Jogani:** So Karuna, that was INR152 crores odd in Q1 FY '23, and now it is around INR146 crores odd in Q1 FY '24. So on an absolute basis, it is down. So just wanted to get a sense how should we model this going ahead?
- Karunakaran M.:** Okay. See, what happened in FY '23 was some of the lease rental payments, we could not - we opened the store and some hiccups on signing the final agreement. So, the AS 116 got invoked in the second and third quarter. And that's the reason there was a highest lease rental expenditure. Whereas in this quarter, we ensured that all are accounted in the AS 116. I'm sure you understand the AS 116 regulation.
- I mean once the lease agreement is completed with the final term period, then the AS 116 taking of ROU asset and ROU liability starts. And that's one of the reasons. The other one is, of course, we are also monitoring all the expenses and wherever it's positive, yes, we are reducing the cost to go up.
- Gaurav Jogani:** Sure. So simply put, should the amount that we are seeing on an absolute basis, can that be extrapolated, or we might see some spike as the store openings start coming up from Q2 onwards?
- Karunakaran M.:** A bit difficult to say that right now, but very unlikely because we would like to include the entire lease rentals in ROU asset and liability from the beginning of the lease term itself. And that's what we ask that for because it gives us correct picture if somebody is referring to the GAAP numbers.
- Gaurav Jogani:** And next question is with regards to the top line growth. I mean, we do understand that the top line has been impacted largely due to this benign environment in the apparel space. But how do we look this ahead? Because on a 4-year CAGR basis also, this number hasn't really picked that over the last many quarters. So this has been in the range of around that 4% odd mark. So despite the store addition, I mean, if you see the ASP increase was around 4% and -- which is actually the top line growth for us. So do we see negative volumes here because the stores have also been added that, that is the special that has also come up. So how should we look at this?

- Venu Nair:** So overall, at a volume level, we were largely flat for the quarter. And as you rightly mentioned, apparel has been benign, and that led to a little bit of the slowdown. In the medium term, we expect the growth to come back, and we would expect high-single-digit or low-double-digit growth, which is what we are aiming for, and that's what we would be expecting. Obviously, this would be a combination of like-for-like and the new store. And as the new stores get into full effect, that's when we see the impact of that.
- Moderator:** We have the next question from the line of Ankit Kedia from Phillip Capital.
- Ankit Kedia:** Sir, two questions from my side. First is on the ESOPs. There was a INR3.5 crores of ESOP expenses in the quarter. Could you just quantify for next 2 years, what could be the ESOP expenses we should build in? And how much dilution would come in to the parent company?
- Karunakaran M.:** Ankit, this year, it should be in the range of INR10 crores to INR11 crores. Next year – see, as you are aware, we granted the scheme last year in July 2022, and it always happens. The first year is higher and second year is lower, and I mean, it's more of a – the reverse of hockey stick approach. So this year, I would expect to be between INR10 crores and INR11 crores. Next year, it should be much lower than that, and year 4 would be a very low single-digit number, Ankit. When you say year 4, it will be FY '26. That's one. I'm sorry, what's your second question, Ankit? I...
- Ankit Kedia:** Sir, dilution?
- Karunakaran M.:** It's – overall, it should not exceed more than 1.8 or 1.9 percentage. That's nothing more than that.
- Ankit Kedia:** Over 4 years?
- Karunakaran M.:** Over a period of 4 years for the entire scheme. – you're right.
- Ankit Kedia:** My second question is regarding the Beauty distribution business. This quarter, we saw low teens top line. You had guided for INR175 crores to INR200 crores revenue for this business for the year. So how should we build this at the back end of quarter 3, quarter 4? Are we on track to achieve that guidance? Or how should we monitor this business?
- Venu Nair:** We were just ahead of budget in the first quarter, and the second quarter is progressing well. The launch of Armani has got pushed back by a month and was to launch in July but will happen in August. So to that extent, we are broadly in line with our plans. The 2 big factors which come into place, Armani is the largest player by large, and hence, we specifically mentioned that. The second big kicker will be when NARS is launched, and we are planning to have the NARS launch in Q3 of this year. By design, it is back ended, and we are on track as of now.

Ankit Kedia: And sir, when you say on the new investments of footwear private label, SS Beauty online and Intune, how much back-ended investments for all 3 should we build in our model for this year and next year in these businesses? Because Intune will probably be loss-making for a couple of more years given that you will have aggressive store expansion in year 1 and they will take at least 18 months to breakeven. Along with that, obviously, beauty B2B will also take time to break even or just be breakeven in this year. So at least in the initial quarters, what should be the impact on EBITDA for these businesses?

Venu Nair: So on footwear, the investment is already done, and we don't expect any further investment into that. The ssbeauty.in also, the investment on the build itself is over and now it is about growing the business, and we intend to run it as an omni-channel business. Hence, we wouldn't expect it to be very large. On Intune, and again, Intune, we expect it to be breakeven from year 1 itself. So to that extent, we don't expect it to be a significant impact on the bottom line.

Ankit Kedia: Sir, if I may ask one more question, could you just share the stores economics for Intune? How are you looking at it from a gross margin to EBITDA margin, capex per store? That will be helpful for us to build the model.

Venu Nair: I mean it is a fair question, Ankit but as I had said it is only 3 stores we are extremely delighted with the results that we have seen but at the same time, it is still early for us. The guidance which I gave in terms of how we expect the EBITDA is based on what we have budgeted and we are ahead of that.

I would like to take another quarter to have a bit more experience in terms of what we've seen before we report. I mean as you know, it needs to go through the full cycle of the season, including the end of season sale, etcetera. The results what we are seeing currently is the 3 stores, actually they are trading without any end of season sale.

We actually launched them during the end of season sale at full price and they are tracking up well compared to the rest of the market, so that's encouraging but I would like to give more details on it once we've had more stores open.

Moderator: We have the next question from the line of Varun Singh from ICICI Securities.

Varun Singh: Two questions from my side. First is when I look at the result. So one impression that I have is that our performance in private label has been much, much lower compared to the branded product. I mean that is also looking at the outperformance in the Beauty and the Accessories segment that is quite appealing. But having said that, the -- I mean given 5% ASP and 8% to 9% retail expansion, I mean, looking at 98 stores, even though we have not added any stores, but looking at the number of stores in the base quarter.

So 9% retail expansion, 5% ASP, 4% overall revenue growth and flat revenue growth in private label, so like -- I mean, what I could understand is our branded business has

performed better compared to private label. And given the general industry slowdown in apparel that you are facing and as Venu has also highlighted, I mean, I would, as an analyst expect private label to outperform the branded players given the lower ASP, etcetera.

So like what -- how should we kind of understand this underperformance in private label despite the overall industry general slowdown? That is my first question.

Venu Nair:

So if I take that into two parts, first is, within apparel, private brand and the national, international brands that we have, their performance was on par. So they were very similar. The overall branded business is ahead, primarily led by the Beauty and non-apparel growth. And as we said, the overall apparel business was benign in terms of the market itself and the private brand has followed that trajectory.

Within that, again, we had some -- there was a couple of brands which pulled out the overall number. Indian wear was a star outlier and a star performer across both Haute Curry and Kashish. Similarly, in kids, the brand Karrot did extremely well. Within men's, Fratini did very well. The 1 area which was muted and challenging was Western wear. And in this category, specifically Life as a brand was well behind the curve. So that's the one which we need to fix.

Varun Singh:

Understood, sir. But even like frankly, looking at only private label revenue growth, which is flat and 9% retail expansion in the departmental store. And also, I mean, as you alluded that the performance in apparel was similar for both branded and private label, assuming only apparel -- I mean, in the respective segment, still -- sir, I mean, don't you think this performance is still, I mean, much, much more subdued compared to like what it should have been?

Venu Nair:

I agree. It should -- we had expected it to be better. And specifically, April and May was challenging which pulled down the overall performance to be at par rather than ahead of the rest of the apparel categories. That's something which we are conscious of. We've seen revival in June, and we expect with the launch of the new season in August for this to come back.

Varun Singh:

Right. I mean, sir, what I intended to us that is the problem structural or temporary or seasonal? I mean, if I can put it that way.

Venu Nair:

It's definitely a seasonal issue. And as I said, within Western wear, the product performance was slightly below par. The overall market also was low for Western wear, but we were hit probably a bit more on that. But it's more seasonal. And that's the beauty of private brand specifically because as the season changes you get in fresh merchandise. And it's about making sure that we clear the inventory that we have built up to be able to launch the new brands, which is what we are doing.

Varun Singh:

Got it. Got it. And sir, my second question is now that, I mean, since you joined Shoppers Stop in November 2020, it has been 2 -- I mean, more than 2 years that all the strategic interventions that you executed very, very rightfully in all different segments. So I mean, if I understand correctly, whatever incremental store addition after you joined that we have done, that would now reflect almost maybe 25% new store in that -- I mean in the total whatever department stores that we have executed.

On the Beauty side of the business, I mean, we are doing quite decent. But on the departmental store side of the business, how much of the journey you think that you have already travelled, or -- and like how happy you are with regards to the intervention that you have executed given FY '23 was a COVID-free year?

And as a consequence now going forward, I mean, the Intune side of the business, excitement, high growth, etcetera, and that I understand. But on the departmental store, on the branded side of the business, you think more fine-tuning is required? Or like how -- what is your candid assessment of what we have already done so far?

Venu Nair:

So if I take that in the parts, we've opened 20 stores in the last 2.5 years. We have also optimized some stores. And the third thing is we have been renovating and that's something which is still in progress. We still have about 17 stores, which are old and need work, which we will do. What we are finding is that the stores the new stores, the productivity is about 15% higher than the older concept stores.

The capex is also optimized, which definitely helps from an overall return perspective. And in the stores that we have opened, what is appealing and we're getting good customer feedback is in terms of the design, the open facade, the fixtures being a lot more compact and the lights being much more brighter.

Going back to the first point on the total stores that we opened, I must also flag that as a part of our regular process, we also close stores, and we closed, I think if I'm not mistaken about 5 stores in the last 2 years, 6 in the last 3 years. But in the last 2 years, specifically, it was around 5 stores.

Varun Singh:

Understood, sir. And on the branded side of the business, do you think any fine-tuning is required or that's perfectly fine?

Venu Nair:

See, the branded side of the business is in very exciting times because with the onset of a lot of D2C brands, it also gives us the opportunity to bring in some exciting brands into our stores, which is what we have been doing, and we'll continue to do that. And what we do is to make sure that we have a regular churn based on customer requirements, customer feedback, at the same time, performance. And we would churn between 20% to 25% of the brands in a -- at the end of a quarter and definitely within -- at the end of the season to make sure that each time the customer comes into a store, there are new brands that we are able to offer.

- Moderator:** The next question is from the line of Shalini Gupta from East India Securities.
- Shalini Gupta:** Just wanted to understand what has been the growth of the department stores without Beauty, without your private brands, with the department stores, what has been the growth?
- Venu Nair:** All I think that – I mean, both private brand and Beauty are an integral part of the department store. So I mean, we don't look at it differently or separately, and I don't think we can do that in any form. What I can say is the department store format growth itself was slightly ahead of the total curve at 5%.
- Shalini Gupta:** Okay. And sir, what has been the online sales growth?
- Venu Nair:** Again, we don't separate out online and off-line because of the fact that a number of customer journeys start offline and finish online or vice versa, especially because we are in the premium segment. We sell products at high selling prices and, hence, a number of customers would start the journey online, but would finish it offline when they would come and specifically see the product. I mean, like watches as an example, where they would want to feel the product, see the product. So it wouldn't be fair for us to separately report online, and that's what we don't do.
- Shalini Gupta:** And sir, home stores, would you say how much sales were in this quarter?
- Venu Nair:** So as you know, we have Kavindra Mishra, who has joined us as the CEO for HomeStop, apart from also being the Chief Commercial Officer for Shoppers Stop as a whole. And under his leadership, and with a new business head for Home, we have started the revamping of our Home format. We have opened two new stores of HomeStop, one in Dehradun and the second one in Select City Saket.
- And also renovated about four stores within the Shoppers Stop ecosystem. And all of these stores are doing extremely well, and we are very happy with the performance. And based on that, we intend to continue the expansion for HomeStop as we go forward.
- Shalini Gupta:** Okay. And sir, last question, the footfalls, I understand you gave the number, the number that you gave is basically the physical footfalls as well as the people coming to your website? But if you could just give, say, what has been the physical footfall for you people?
- Karunakaran M.:** Shalini, Venu clarified when Nihal asked that question. Last year was 10.5 million, and this year, it is 11.4 million, and there is an increase of 8 percentage on footfall purely in off-line.
- Moderator:** We have the next question from the line of Gaurav Gandhi from Glory Tail Capital Management.
- Gaurav Gandhi:** Congratulations on the recent progress overall. Sir, I have a question on the slight medium- to long-term perspective. Sir, if you look at the market today, it has become so

competitive in terms of pricing, variety, store appeal, etcetera, you know the way these Zudio, Trends, H&M, Zara, Westside, Centro kind of stores coming now. The only factor, I think, which will keep the customers stick to or will attract towards Shoppers Stop will be the passion and the variety we keep either. So how do we manage the styles and the fashion, the variety we keep with us? And are we able to catch the pulse of the market, especially the young generations?

Venu Nair:

It's a very good point you mentioned, Gaurav. I think you are right in terms of the product being at the heart of what we do and making sure that we are having the latest trends. And if I take a step back, as Shoppers Stop, we are a house of brands. And what we offer is the opportunity for our customers to shop multiple categories under 1 roof.

And within these categories, we bring in a curation of the best of each of these brands. And our buyers are tasked and are the experts in looking at what is coming in, and based on that, bringing the latest trends into our stores with the national brands as well as in the case of private brands, we also have designers who look forward in terms of what are the coming trends, and based on that, bring the latest design, the latest products for them to be in the store, whether it is the colour, the trend, I mean, colour, the fabric, the silhouette.

And indeed, the overall segment of the lifestyle that is going to come in trend, I mean like leisure wear was the initial trend a year back, which moved to Quartz. It moved to Victorian dresses. And that's a shift which will keep happening. And it's our job to predict and bring that trend into our stores, at the same time, as the rest of the High Street. So that's the first part.

Over and above that, what I would add to what you said is it's – while product is absolutely at the heart of what we do and very important, it is also the experience that we offer in our stores and the loyalty that our customers have to us because of the exclusive benefits that they get being a First Citizen customer.

As you know, our First Citizen program is the longest standing loyalty program in the country and definitely within retail. And we are blessed by the business that our customers give us because of the experience that they get in our stores and the benefits that they get because of the loyalty. So first is loyalty. The second is the experience itself in our store.

And again, one thing which is unique within our stores is the personal shopper and the personal shoppers have now upgraded to being personal stylists. And what they do is offer our customers help and advice in terms of what the latest trends are, how garments are prepared and how they can buy an entire outfit rather than just a single garment. And this is something that we train our personal stylists every season.

And based on that, they are able to help and add value to our customers when they are shopping. And equally, the parallel to that, and an example which I mentioned in my speech as well is makeovers that we do on Beauty. I think it's well repeated that we did over 4.5 lakh makeovers last year. And in this quarter alone, we have done over 1.5 lakh makeovers.

And what we find is that when we do these makeovers, again, as you know, it is something personal. It is where there is an engagement between the makeup artist and the customer. The customer is able to have effectively education, at the same time, also try out new things while they are in the store. And in that process, they are able to -- also they end up buying more from us as they go forward.

And I think all of this, if I summarize it in a nutshell and if we look at how are we doing, we measure ourselves on NPS, and this is something which we had put a pause on during COVID. We have now restarted, and we're delighted by the fact that our NPS scores, with the constant focus on it, has moved from 60 to 75, which I believe is one of the best in class in the whole industry.

Gaurav Gandhi:

And I hope that now our focus, we keep on that. And another question was, what do we do with the unsold inventory in the apparel category eventually?

Venu Nair:

So Gaurav more than hope, I'm confident that will happen. In terms of the unsold inventory, again, it's something which we deal with as the season runs out. And we take -- we try and clear that out during the end-of-season sale, which is what we are doing now. So by the end of this quarter, the large part of it should be cleared.

Moderator:

We have the next question from the line of Amit Sinha from HDFC AMC.

Amit Sinha:

My question was on the apparel segment overall. And you have mentioned -- and clearly, this quarter, we have seen some moderation in the segment. So just wanted some more colour there. You also said that the issue is seasonal in nature. But if I do math, the overall segment moderation, at least in the SSG side, is significant.

And just wanted some more colour that which subsegment, Indian wear or Western wear, or if you can provide some colour on the same, if -- what is the kind of trend if -- in the overall apparel segment ex of private level which you are seeing?

Venu Nair:

Sure, Amit. I'll try and give a little bit more colour as you asked for. Within the subsegments, Indian wear outperformed pretty much all of the brands that we have in our store and had a fantastically great season. So that is the one which did extremely well, followed by men's, and men's also grew over the previous year same quarter. And kids was largely on track. Now if I look at the category, which didn't perform well, it's Western womenswear. And within Western womenswear, the casual denim brand was the one which had a muted overall growth.

And the other one was sleepwear specifically. And I think, again, sleepwear, if I go back during COVID, obviously, this was one which had peaked and has done extremely well. And up against some of those strong comparatives, it did have a muted or rather mundane growth, if I'm being totally honest. So it's Western wear or Western womenswear, which was a bit of a pain point for us. And that's the one which we are correcting as we go into the new season.

Amit Sinha: Okay. And so apart from the last year same quarter high pent-up demand, which kind of -- on an optical basis, which kind of impacted this year's number. What are the other reasons you -- specifically, when you say that this problem is seasonal in nature, just wanted to understand that part, sir. I mean, is there anything which was one-off during the quarter, which impacted the demand? Or is it a typical inflation-led moderation in the overall demand environment?

Venu Nair: No, there was nothing one-off in the quarter. It is broadly -- I mean we have been at par with the environment. Private brands was not immune to what the rest of the industry has experienced. And I think as we -- the reason I say seasonal is because we obviously launched new ranges after the end-of-season sale, which is when we offer a completely new -- the latest trends that come in. And this time, it will be around modern workwear, which is what we would be launching as we go into the new season, followed by the festive season. And we expect the demand to come back as we go into that period.

Amit Sinha: Okay, sir. And lastly, for the full year FY '24, is there any targets or any aspiration we have for the apparel segment as a whole?

Venu Nair: We do have internal targets, but that's not guidance that I would like to give out here.

Moderator: We have the next question from the line of Tejash Shah from Spark Capital.

Tejash Shah: So I have four questions. I'll just try to stitch them together. So your strategic pillar slide which you have been quite consistent in sharing, value retailing of fast fashion was never kind of part of that plan. So how should we see Intune kind of in light of that slide? Second, what would be the peer set for Intune? And fast fashion has become a very crowded space, so how we believe that will have like a separate value proposition or right to win there?

And lastly, we have seen that value retailing is a very supply chain intense format. So after what store count, the format will demand investment in back end in terms of warehousing or other capabilities?

Venu Nair: Thanks for that, Tejash. As I said, it's early stages. It is a pilot, which we are looking at. But if I answer your questions and how it's linked back to our strategy, Intune is a part of our private brand strategy because it is about controlling end-to-end from design to what we

offer to our customers being -- everything being done in-house and -- apart from the manufacturing itself. And that's where it fits into it.

In terms of value retail itself, the reasoning behind that is, if you look at the overall market in India, the largest segment of the market is in the Tier 2, Tier 3 and beyond. Along with a huge unorganized market, I mean, today, organized retail is less than 30% in apparel, and 70% is in the unorganized space. And the unorganized space is around INR1.3 lakh crores. So what we have been seeing over the last 10 years is the move from unorganized to organized. And hence, that segment is very, very large.

The one thing I would specifically flag is Intune, while it is in -- it is priced attractively, it is Fashion For All, and that's the segment that it is Intune. And what it does is to offer the young customer, the young family choice across all of the categories of men's, women's and kids, with kids being something which we are specifically focused on and that becomes a big factor.

In terms of the supply chain, which is the other question that you did ask about and having strength in that, we have warehouses across the North, Southeast, East and West 4 DCs across the country. And our capacity is committed. And this is -- I mean, sorry, our capacity is -- we have planned, and we have that capacity already for the expansion that we have planned for this year. And it is flexible, and we do have the ability to expand that quite quickly. So this is not something which we would worry about. What we have, along with the space that is available, which can be quickly expanded will definitely take us till FY '25. So, we will take that expansion as the need arises. And so effectively, the next 3 years is covered from that point of view. And the overall capex requirement for that...

- Karunakaran M.:** We have already committed...
- Venu Nair:** It's committed, and it's about INR3 crores. So that's already done.
- Moderator:** We have the next question from the line of Disha Sheth from Anvil Share & Stock Broking Private Limited.
- Disha Sheth:** I just wanted to check what would be the like-to-like growth since we have expanded to so many stores?
- Venu Nair:** Our like-for-like for the quarter was at 1%.
- Disha Sheth:** 1%. Okay. And sir, the 5 new stores, which we are going to expand in FY '24, so most of them -- all of them would be in Tier 2, Tier 3 or are we planning to open in Tier 1?
- Venu Nair:** It is a combination, but I would say that almost 75% of it would be in the Tier 2 -- Tier 2s, I wouldn't say 3, but Tier 2s predominantly, with a few in Tier 1. So we do have a store in Pune. There is a store in Hyderabad, which we have slated. But along with that, we do have stores in Guntur, Cochin, Allahabad, Imphal etcetera.

Disha Sheth: And sir, what's in your view considering the second half is going to be better would be the sales growth for coming 2 years? Because considering we have to adjust our price as cotton prices have come down. So we have to – it might impact the overall sales growth. We won't have more of price growth, we will have volume growth. Sir, in your view, what was the 2 years sales growth been?

Venu Nair: We expect to have -- overall the price, as you rightly said, is something which, on a product basis, we are not increasing. The premiumization that is happening is more from a product mix point of view, and that is what is leading to the price increase rather than absolute price increases. So that's something which we are very conscious of. In terms of the growth for the future quarter, that is something which we don't give guidance going forward. And hence, we wouldn't do that.

What I would like to point out is that the -- I mean, for the last 13 quarters now, we've had higher average -- I mean, the transaction values are -- the overall bill values that customers buy from us has continuously grown and that is because they are buying more products from us each time they come to us. And that is a focus and emphasis for us to continue growing that.

Disha Sheth: Can we expect, sir, around high single-digit growth for the period?

Karunakaran M.: Disha, we normally don't give guidance.

Disha Sheth: No problem. And sir, in terms of margins, the spend was 5.3%. So with premiumization increasing every quarter we expect it to improve going forward. And also on the other side, we are taking out the Intune model, which is, I believe, lower EBITDA margin. So how is the mix going to play going forward?

Karunakaran M.: That's a good question, Disha. On premiumization, please understand, it's a combination of both brands as well as private brands. On brands, the margins are fixed. So merely premiumization may not increase the gross margin significantly. Second, to answer your next question, with Intune, Intune's margins would be largely – I mean, as we said, it's in the – still in the pilot stage. The gross margin should be more or less at the same gross margin of the company. So we don't expect to have a significant dilution because of Intune.

Moderator: We have the next question from the line of Jay Gandhi from HDFC Securities.

Jay Gandhi: Sir, I just wanted to clarify, one, the guidance of high single digit on net revenue or gross revenue?

Karunakaran M.: What difference it makes? I mean both gross and net are in tandem.

Jay Gandhi: I mean GAAP or non-GAAP, that's what I meant.

- Karunakaran M.:** We give only the non-GAAP revenue growth, Jay.
- Jay Gandhi:** No, fair enough. And sir, this is – 1 is on rental base. I was just looking at your rent expenses last year, FY '23, it was about INR416 crores. So that works out to about INR88 per square foot per month. Now if I look at 1Q, the 1Q number, which is about INR119 crores, annualized, and, let's say, certain growth rate that you're going to have, the rental bill is about INR107 per square foot, which is a 20% jump on a per quarter foot basis. So I just wanted to ask you, is this like, is there some one-off here, or are rental bills overall in the retail space meaningfully increasing?
- Karunakaran M.:** I'm not sure from where you got this. Last year, just clarify. Are we referring...
- Jay Gandhi:** Sure. So the stand-alone...
- Karunakaran M.:** No, no, just hold on. So last year, I mean, if you're referring to the non-GAAP numbers, Jay, let me open the file. I mean, it is quite a significantly higher number. I mean I – it may be anywhere between INR580 crores to INR600 crores last year. Just give me a second, I'll give you in a minute. Yes, last year, this FY '23, we had a rental expenses of INR600 crores. Yes, INR599 crores. That's what if you have seen our last year Q4 investor presentation we had presented a INR600 crore total rental expenses. And this year, it would have a modest single-digit increase as compared to the last year. There is no – there is neither onetime impact last year, nor we expect anything this year.
- Jay Gandhi:** Okay. No, fair enough. Sir, I just want to ask you from a philosophical point of view, which category kind of lend itself to sticky revenues? Is it apparel or non-apparel? Just wanted to understand the hook for the end consumer to walk into your store?
- Venu Nair:** I think there are a number of categories which would lend itself to that. Beauty is definitely one where because of makeover engagement experience, the stickiness tends to be higher because it's a category where – I mean, it's a choice of colour, product and also a combination. Because I mean the makeup regime would be a combination of three or four products and the order in which it is done, the way it is done is quite important, and this is where our makeup artist make a big difference.
- So Beauty definitely is 1 category where you do have that advantage of stickiness coming in. Apparel tends to be brand-led and specifically, again, customers shop for brands. And as the house of brand, we give the choice of multiple brands under 1 roof, which is what our customers come to us for.
- Combined with our personal shopper to our personal stylists and help customers make choices in terms of how to pair and bring out the latest looks when they buy, that's something which, again, gives customers the reasons to come back to us.

Moderator: Ladies and gentlemen, that was the last question for today. We thank the members of the management. On behalf of Shoppers Stop Limited, that concludes this conference. We thank you for joining us, and you may now disconnect your lines. Thank you.

Venu Nair: Thank you.

Karunakaran M.: Thank you.