

SEC/81/2021-22

January 25, 2022

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
---	--

Sub: Earnings Conference Call – Q3 FY22

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Company had filed its letter ref. no. SEC/76/2021-22 dated January 13, 2022, in respect of the analyst / investors conference call on **Friday, January 21, 2022 11:00 am. IST** to discuss the corporate performance for the third quarter 2022.

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 January 21, 2022. 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

Encl: aa

Shoppers Stop Ltd.

Registered & Service Office : Umang Tower, 5th Floor, Mindspace, Off. Link Road, Malad (W), Mumbai 400 064.
T 022- 42497000 CIN : L51900MH1997PLC108798. Email : customercare@shoppersstop.com Website www.shoppersstop.com

SHOPPERS STOP

“Shoppers Stop Limited Q3 FY22 Earnings Conference
Call”

January 21, 2022

SHOPPERS STOP



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

Moderator: Ladies and gentlemen, Good day and welcome to the Q3FY22 Earnings Conference Call of Shopper Stop Limited. I must remind you that the discussion and 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 strategic questions only. Housekeeping questions can be dealt with 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 touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Venugopal Nair – Managing Director and CEO. Thank you and over to you.

Venugopal Nair: Thank you, and good morning. Thanks for joining us today to discuss our Financial Results for the Third Quarter of this Fiscal Year, which ended on the 31st of December 2021. We have shared our Q3 Results in the Investor Deck and Press Release and I hope you have had a chance to go through the same.

I will now talk to you about our Q3 performance, the progress on our strategic pillars and the way forward.

At the very outset, I must say we had an extremely strong quarter and we saw a big forward momentum carrying on from the recovery that started in the second quarter. Consumer confidence has rebounded sharply and as a result of this, we recorded extremely strong sales. Our GAAP sales was 1070 crores, a growth of 35% over Q3 of FY21 with margins growing by 170 basis points. Our non-GAAP sales was 1190 crores with a similar growth.

The business was strong with the same store sales driving the performance and was consistent throughout the quarter seeing a high customer spend and the growth in the average transaction value. The growth in average transaction value has now been sustained over 7 quarters, which is a clear engagement of the customers coming in and it shows us that when they come to us they spend a lot more both offline and online.

Apart from the strong sales in stores, our sales through the digital channels also continued to perform strongly and grew by 39% over FY21.

From a product point of view, athleisure and activewear have been in demand for the last 18 to 20 months and has been well talked about, however, in the past quarter consumers have rebooted their wardrobes for the post-pandemic life buying in large quantiles of different categories of apparel and beauty. We realized this trend very early and our stores having an assortment that is in sync with this consumer taste. We benefited from this wardrobe reboot that is being done by our customers.

After a short gap, we are also back to opening up new stores. During the quarter, we opened 5 new stores, 3 department stores and 2 Beauty stores.

On operational costs, we continue to save versus the FY 2020. In Q3, we saved Rs.40 crores and we are back to being a Debt-Free business.

With a strong sales and tight control on costs we reported an EBITDA of Rs.197 crores as per GAAP Financials, which is a growth of 57%. On non-GAAP reporting, the EBITDA was Rs. 100 crores and our non-GAAP EBITDA grew by five times of 380%.

We continue to invest into our business. The investments are to grow our digital commerce capability and on new stores, along with data, analytic, and MarTech. We also refurbished some of our overall stores. Combination of all of this so far, we have invested Rs.55 crores during the year.

I now move on to our strategic pillars:

As always, I will take you through each of the strategic pillars one after the other, we continue to make good progress in each one of them.

First Citizen, our Loyalty Customer Program, continues to demonstrate a strong growth trajectory with offline sales accounted 72% of its sales coming from our First Citizen customers and online this was 42%, which was up 160 bps. The First Citizen Black Card customers which is our annual subscription program, performed exceptionally well, with enrollments growing by 85% year-on-year in this quarter. This subscription service brought in a revenue of 4.5 growth in membership even as these customers bless us with a much larger share of their wallet, illustrated by the fact that this segment of our customers, visit us four times more than our core First Citizen customer.

In the omni-channel, our contribution for First Citizen grew as I mentioned before, and these are customers we are engaging very closely. Our unique service to our customers, personal shoppers, and the contribution from personal shoppers has been consistent, contributing to 10% of our sales. The average ticket size of the customers shopping with us with the assistance of personal shoppers is 3x that about four First Citizen customer. We also had styling festivals through our personal shoppers, both online and offline. A big focus for us in our stores is to have varied experiences for our customers week in, week up so that every time a customer comes in, they see something different, there is something new for them to look forward to. The same we are doing on www.shoppersstop.com as well to make it far more engaging, increasing the number of visits that we get from our customers.

At this point, I am delighted to share that we have now appointed Chief of Marketing, Shwetal Basu. Shwetal joined us from Metro Brands, where she contributed to the growth of their various brands. She has extensive experience of working in retail marketing, including a long stint with ABRL. She is spearheading our drive of customer engagement through the use of data and the

information that we get through the spending habits of our First Citizen customers enabling us to offer better service to them both online and offline. We have now started using propensity models to be able to bring them a much more curated offer on a regular basis.

I now move on to our second pillar of Private Brands:

Our strategy for growing our private brands in apparel continues to work well. Private brands contributed to 14% of the total business with it being 18% online. Specifically in apparel, our private brands contributed to 18% of the total apparel sales, which was a growth of 185 bps. Within private brands in women's Indian wear, our private brands now account for nearly 50% of our total sales from this category through our brands of Kashish, Haute Curry and Stop.

In kids wear our private brands of Karrot, Stop and Life grew by 98% which was absolutely delightful and spectacular.

In the last call, I had mentioned to you about the launch of our first D2C online brand "Insense". I am glad to share that this brand has now established an annual run rate of Rs.5 crores and is growing strongly.

Our third pillar is Beauty"

Beauty grew by 41% and the sales from this category accounted for 17% of total sales, a growth of 75 basis points in the quarter. The growth was across both offline and online. With us having a record single day sales on November 11, also known as "Singles Day".

This quarter, we launched 28 new brands in Beauty and so far in the year, we have now launched 70 new brands. Arcelia, our private brand in the Beauty Segment, launched 40 SKU of perfumes, deodorants and sheet masks. This marked the entry of Arcelia into the fragrance and deo space.

Another 75 SKUs of makeup and nails are to be launched in the 4th quarter this year. This would be our entry through with Arcelia into the makeup category. Makeup accounts for 51% of the total Beauty sales mix and hence, we expect this to be a big contributor going forward to our sales.

In the last call, I had also mentioned about launching standalone Beauty Stores. Today, we are doing the launch of our 1st SS Beauty Store with the second one slated to open in the next three weeks. This is a segment we intend to grow aggressively, both offline and online.

At this stage, I would also like to share the good news of us having appointed a Chief Beauty Officer to accelerate the growth in this category. Biju Kassim joined us earlier this week. Biju you has over 27 years of experience in international brand management, distribution and retail operations in the luxury and lifestyle space. For the most part of his career, he has been based out of Dubai and Mumbai, working with businesses across various countries in Asia, Europe and Africa. He has held leadership positions at Intercraft, Baccarose and Beauty Italia in his past

roles. His understanding of the business, expertise and strategic planning and operational excellence, along with his forward-thinking leadership will add tremendous value as we look to grow aggressively in the Beauty space.

Finally, the fourth pillar of omni-channel:

Digital sales grew by 39% on FY21 and continues to grow strongly quarter-on-quarter. Our sales on Amazon specifically saw a massive growth. We have transformed ourselves into an omni-channel retailer with www.shopperstop.com firmly established as a shoppers destination for our customers.

Consumers now have a Metaverse mindset. Adapting to this consumer behavior, we are focusing on social shopping that gives our customers a seamless experience from discovery to checkout. As mentioned before, we have been working on improving the customer experience online. The first upgrade of our Shoppers Stop App was done in December, and you would be seeing a much better visualization from before. The page load speeds have improved significantly and the combination of these improvements is being appreciated by our customer as is demonstrated by the fact that the android rating of our app has now moved up from 3.4 to 4.5. The next phase of the upgrade is due later this month. As you would appreciate this as an area we are investing in and a big part of our total investment is into digital to enhance the customer experience, and to continue to drive our strategy of building a sustainable growth online.

We have also been investing into data, analytics and personalization and this is an area which continues to help us engage with our customers in a much more sharp manner. We have now started to use propensity models, which we are able to derive through the data that we have of our customer shopping, especially with the history that we have of our First Citizen customer. As you know, this is 8 million customers strong data and these customers have been engaging with us consistently over the last many-many years, giving us a rich data for us to be able to use our mind.

I am confident this focus on data and analytics will help us to continue reach our customers in a much more targeted manner online and also offline, where using the behavior that we are seeing of our customers, we are able to bring in much more sharper offer of brands that they are looking for and is more suited to their local needs.

Finally moving on to expansion, as I mentioned before, we opened 3 full line stores and 2 Beauty stores of Estee Lauder in this quarter. We have another 5 department stores that are fully ready and will open once the malls that they are in are ready to open, most likely to happen in the third and fourth weeks of February. Majority of our new stores is in Tier-2 and we have a strong pipeline for the next year, which will be a big contributor to our future growth.

In summary:

We have had an exceptionally strong quarter and are demonstrating sustainable growth. This is a result of the strategy that had been put in place over the last two years and is working very well. We have a strong team that is in place with able leadership and capitalizing on the high loyalty and great trust that our customers have. We expect to see continued growth on Shoppers Stop.

Thank you all and we will open up for any questions.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

Karunakaran M:

One second, we have received a lot of questions as Venu was speaking and some of the questions we received this morning.

Should we take those first?

Yeah, what we thought if we answered those questions, probably some of the questions would be automatically answered. I mean, we have almost 20 questions. Okay. Venu and I we will take it through.

Venugopal Nair:

Okay, so I'll start with the first one was what are the key growth drivers for the top line? Expected like-to-like stores growth in the medium term? So, I think that's two questions. Our growth has been across all our strategic pillars. The strong foundation that we have is of the brands, both national and international, across apparel, Beauty, watches, sunglasses, home and all of these categories have seen good stable growth. Apart from that, the specifically the growth engines, and we have really two big growth engines which we have identified in the category space. One is Beauty and the other one is our own private brands across apparel and these two are growing well ahead of the average growth that we are seeing. The second part of the growth comes from the channels which is Omni as well as new store expansion and again, as I touched upon both of these areas, we have aggressive plans to grow. In terms of what is the expected like-to-like store sales. We expect to have high single digit or low double digit growth in the immediate future. I would think more double digits in most of the quarters. Second question is on way forward on private labels, private brands is a strategic pillar and it is outgrowing our departmental store sales consistently for the last seven quarters now, we have started off by trimming down the number of brands making sure that each brand caters to a specific lifestyle and there is a clear brand definition, which we continue to sharpen as we go along. Our latest additions when they are infused, as I mentioned have had a very robust start and look very promising and the way forward our private labels will continue to grow by growing product categories and filling gaps within product categories that we have under influence and also by increasing the space as the category starts to outperform productivity of the rest of the store. We will also invest strongly into building these brands, through advertising and marketing and through sharply focusing on our specific customers who are buying our private brands. Of course, also private brands gives us a massive

opportunity to grow our margin, the margins in private brands being significantly higher than what we make in our business. Next question is on margin profile for Beauty centers, especially do they have better margins and break even faster, we have opened 2 Beauty stores and they are extremely profitable. As I said, we are opening 2 more in the next three weeks and we intend to continue to strive over the next 12 months in key locations that where we are not present. We are very confident that they will continue to recover our investments as we have seen in the stores that we have already opened. On margins, Beauty margins have always been higher and will continue to be higher, the three-to-four-year growth strategy, I think I already outlined that in my speech, but if I were to just summarize that again, our growth is through our strategic pillars, our strategic pillars of First Citizen, private brand, Beauty and Omni Channel. Building on the strong base that we have of our existing business being a household brands and the partnership that we have with our brand partners both national and international, aided by growth through expansion of stores apart from like-for-like sales.

Next question, discounting, how much of the sales takes place during the discount season, have discount rates gone up?

For this quarter, our sales during end of season was the industrial sale was actually lower. It was marginally lower than the previous years and the window for end of season sales has been reduced.

How is demand shaping up in the last fortnight of December and beginning of Jan? How have the footfalls been in year to date Jan 2022?

I think as we know, there is a slight slowdown because of Omicron and the third wave that has come in. There are multiple restrictions that are applicable across states within a few states, the stores being closed over the weekend, stores closing early during night curfews, etc., The good thing is that this time, there has been no complete closure anywhere. So, the stores are trading, but with significantly lower footfall. This has definitely impacted, however, because of the double vaccination and the fact that the actual severity of Omicron itself is much lesser than what has been seen in the past, we expect this to be a short period and we expect the footfalls to come back fairly quickly.

Next one is, what are the company's strategy for Infuse?

As I said, Infuse is our D2C brands, fast fashion, young trendy and targeting the young customer in the 18 to 25 age group. We will continue to grow this online and grow this by expanding the choice that our customer has, the number of options that the customer is able to see and this time I am delighted with the way the team have grown this category or grown this brand and having had a preview of what is to launch in February and March, it will be a very-very sharp increase that we expect from this brand.

Any details company can share on the Rs.40-crs investment done for digital?

I think I again touched upon it. It is twofold. One is the investment into the customer experience improving the UI/UX on our app, also the data analytics and improving our capability to be able to analyze the trend, and then using AI and ML to be able to retarget and reach our customers and engage with our customers in a much sharper way. Data is becoming a key part of what we do, and fundamental to all our decision making and this has been aided by the analytics ability that we are now being able to get through the investment that has been done in this area. The second part of the investment into digital is also in marketing, and especially social commerce, which I mentioned, the whole matter was mindset of our consumer, and how we are able to adapt to that and again, we are able to do that digitally, which is where our investment is going in.

Next one, I think again, relates to a similar one of Omicron. Do you see a further threat of further delay in recovery for the retail industry?

Overall, I think if we look at what we saw the customer sentiment is extremely strong and buoyant and I say expect the Omicron slowdown to be short and sharp, it will be a short blip is what we expect.

Next question is on Omni channel contribution in steady environment comes to around 6%. What are the plans to increase the contribution in the next four to five years?

Over the next, this is an area we continue to invest in and we continue to grow, again, as with private brands, Omni Channel sales has seen consistent growth quarter-on-quarter for the last seven quarters. The growth here is coming with better engagement with our customers by being able to bring them back on to our app as also through Amazon and www.mac.in and www.esteelauder.in, www.clinique.in which are the other platforms that we operate. Specifically, on shoppersstop.com, the First Citizen customer base that we have is extremely valuable and I touched upon our ability to now use the shopping behavior, the buying behavior that we have of our customers to develop propensity models, which then gives us a forward view that we are able to do that. The growth in Omni sales will also come by adding more brands and we now have a number of brands, which are present only online, and not in our stores and this gives an additional opportunity for our customers to get products and brands that they do not get in stores and also, by offering them it becomes as an omni channel retailer, it gives customers an option of being able to shop at any point and do it as a competition to us where and let us say example of a watch that they have seen online and being a high ticket purchase, many customers would like to actually see feel the product before they buy it and the ability for us to be able to offer that experience is quite unique or if I take Beauty as an offer and we have grown online Beauty very strongly, as I mentioned, but then makeup is the experience that can I mean an experience which you have to feel and it is something only we offer and that is a point of difference which we have, which again helps customers to be able to start the journey online, come to the stores , experience it, see the color or feel the product before they actually buy. So, multiple ways by which we expect our Omni sales to go up, improvements in the customer service. I am just summarizing that first one is improvement in the customer service. Second is the wider offer of brands and products. Third is convenience and the ability to experience the

product, feel the product before they buy, making it truly Omni. Next question, I think the next set of questions I will request my colleague, Karuna to take.

Karunakaran M.:

Thanks Venu. Thank you so much.

The next question is revenues have increased by 34 percentage while employee costs have increased by only 3 percentage any reason for the same?

We have been talking in the last four or five quarters, we have commenced our zero-based budgeting on cost and that is dealing with a significant results not only in employee cost and overall all the other costs also. In addition to that, we have closed almost 8 loss making stores. It is a combination of these two I have kept not only the employee cost, the other costs also in check. So, that is the reason you can see the cost overall increase is much lower than the revenues increase.

The next question is what are the efficiency pockets, pockets we are targeting to drive up our operating margins?

Three or four things. One, we have been continuously talking to the brands to improve the overall margins. Second, Venu just spoke about other strategy both on private trend and the Beauty, both are going to outgrow our normal departmental sales and both Beauty and the private brands have a significantly higher margins as compared to our brands, so that will improve the overall gross margin. Of course, there will be a blip due to Omni, but yeah, that is a small one. So, overall, we expect the mix to be better. I have just spoke about our zero-base budgeting and cost savings. So, our cost savings will also help us to improve the overall EBITDA margins.

The next question is any impact on GST rate increase from 5% to 12%? What percentage of SKUs are priced below 1000?

Let me answer you the first one, the impact would be very little. If at all, it gets implemented, we have seen a difference the government has deferred already three times. So, if it all gets implemented, the impact is very, very little. We are working on two sets two plan strategy here. One we are renegotiating the cost of the supplier and we will also take selective price increase on our apparels, we of course on our footwear, the GST has increased 12 percentage, but that is very, very insignificant for our overall basket.

The next question is the gross margin continued to be at below pre-COVID levels, what would be the reason for the same?

In fact, compared to pre-COVID, our offline gross margins has increased by 110 bps. Because of the significant increase in E-com, there is some adverse impact, but overall, our gross margins remain flat as compared to the pre-COVID. We have published the results both for FY20 and FY21. If you still have any questions, we will be glad to answer that. The ASP has increased sharply by 20 % over last year. Venu will take that.

Venugopal Nair:

Yeah, I think this is a combination of two things. As I mentioned before the stem we have had the shorter end of season sale period and this has resulted in lesser discounting as compared to last year and in the last year itself, it was after the second wave and there was a much sharper drive to clear inventory and hence a higher level of discounting has happened and it is the combination of the two that we have has massively impacted the overall ASP growth and this is something which we have seen with our brand partners as well as with our own brands, the lower level of discounting this year versus last year. The second factor is also the product mix and one of the factors which helped us in our growth in the last quarter was the marriage season, which came back very-very strongly given that marriages have been postponed from the earlier quarters and there was a big rise in shopping specifically for weddings and festivities and this leads to a product mix which is of higher value, which again led to the higher price increase. I mean the growth of ASP.

Karunakaran M:

Okay. The next question is how the investment in omni and technology of Rs.55 crores has been capitalized or expensed out?

Let me clarify we have made close to 100 crores slightly more than 100 crores investments as of year to date, out of which 66 crores is an account of the physical stores a combination of our CAPEX and deposits. The CAPEX will be capitalized, the deposits will be treated as deposits and it will lie as such in our books. In addition to that, we also spent Rs.40 crores on Omni, which again Venu spoke in detail speech. Of this Rs.40 crores, Rs.20 crores in marketing and the balance is in technology. Both the expenses in marketing as well as in technology, we have expensed out.

The next question is, is the company in talks for the rent payments?

Of course, yes with the lower footfall, the entire retail industry has been talking with the landlords for the rental waiver. We are at the beginning stage. We have been discussing with the landlords and probably when we meet next that we can come back to you.

The next question is on what is the scope for further margin improvements?

I just answered that a combination of how we are going to grow private brand beauty and the cost savings. I have just answered that.

The last question is why depreciation is lower on a year-to-year basis?

Two reasons, rather three reasons. One, we took a one-time impact on utilization in FY20 almost Rs.20 crores. Second, in the last two years, we have closed almost 11 stores and that has resulted in lower depreciation. Third, what has also happened is, I am sure we are following a straight-line method and when we do a straight line method, at some point of time the assets gets automatically retired, I mean there will not be any for the depreciation because we have those assets should have been fully depreciated. So, these are the three reasons why our depreciation is particularly lower on year-to-year basis.

Venugopal Nair: There is one more question which is on Arcelia run rate?

Arcelia is our private brand in Beauty which I talked about in my speech. The current run rate on Arcelia is Rs.1 crore per month and this is only with the Bath and Body range and for three weeks in the quarter we have, we had the fragrance and deodorants as I elaborated. This is a brand which we expect to see massive growth and with makeup getting launched during the quarter. As I said we are launching 75 SKUs of makeup and nails in the fourth quarter and with more to come in the following quarters. This will become a large part of our Beauty offers. That's, that completes the questions that we have. We cannot take questions from people on the call.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Aliasgar Shakir from Motilal Oswal. Please go ahead.

Aliasgar Shakir: I had a question on your costs while you did give some indication, when I compare your costs with three QFY20 numbers, I see you know, with the revenue recovery, your margins are actually nearly about you know, 60-70 bps below. So, yeah, well employee costs is obviously lower, but you know, rest of the costs are higher and of course, you know, Omni channel cost is actually something I think I see a 40-crore increase. So, just want to understand, I mean, you know, whatever cost savings, we have mentioned, should we expect this to now be you know, utilize more towards our omni-investment and therefore, overall level, you know, costs should remain where they were at the pre-COVID level or I mean, how should your overall you know, cost structure trend now, thank you very much.

Karunakaran M: Actually, the costs have come down as compared to FY20. In FY20 we had a total cost of 345 crores and as of now, we have 305 crores. If you remember, what we said in at an annual level, we will continue to save 200 crores and we did save 40 crores in this quarter and we also said that 200 crores is excluding the investment is what we will make on Omni or any other marketing investments we will be making on our strategic pillars. So, as you rightly said, I mean both Venu and I touched about. We invested close to 40 crores in Omni and in spite of the 40 crores of course year to date, we could save close to 40 crores for the quarter. So, to answer your question the cost savings should be we should be able to sustain this cost savings earlier.

Aliasgar Shakir: Okay, could you quantify because when I am seeing 3Q like-to-like, there is about 70 bps lower margin. So, I mean, I am just thinking well if at all large part got you know, I mean bulked tap into this quarter if that is the reason that if you could quantify from that level, you know, what kind of margin saving we expect to continue from FY20 level.

Karunakaran M: The margins have increased as compared to FY20 level Aliasgar, but what I can do is, I mean, I can give the break up ,in the interest of time, see we saved almost 17 crores in employment and occupation every in across all the lines we save the cost probably it should be discussed offline. I mean, you know my number and I know your number, why cannot we take it offline and then I am not clear in the numbers. So, we can take it offline and then we can definitely do that.

Aliasgar Shakir: But can you just share some outlook in terms of from, you know, FY20 levels, what kind of margins you will post Omni channel investments do we expect net of that.

Karunakaran M: See our investments are normally continued to be dynamic, okay and similarly, your marketing cost. So, while we would definitely save 200 crores probably if you are going to invest 30 to 40 crores in Omni as well as another marketing. So, our net cost savings should be between 150 - 160 crores. As I said earlier, I mean, like they are they these are dynamic and bit difficult to say that, but these are the investments broadly we are discussing internally.

Moderator: The next question is from the line of Nihal Jham from Edelweiss, please go ahead.

Nihal Jham: Given it is one question, the key question I wanted to check with you is that you are incrementally targeting majority of your store openings in Tier-2 and Tier-3 cities and looking at your ASP it is, I guess, a little higher than what a lot of the other retailers generally work at. So, when you move into these cities, other than, say, having a smaller store format, are you targeting a change in assortment also to maybe align to those regions, just your thoughts on? How do you see yourself succeeding in those regions? What are the changes you plan to make?

VenuGopal Nair: Absolutely, I think you have nailed it when you say it is a combination of tighter stores, and also our ability to because as a house of brands, we have the ability to play up or play down depending on the catchment and the location. For starters, in a number of most of these stores, we would have a higher percentage of private brands, because private brands in the hierarchy cater to the good and better segment of our customers, and hence are more attuned for our Tier-two customers. The second factor is again, by being able to look at the data of our First Citizen customers who are shopping with us online from some of these places. We are able to get a better sense of which brands would be most suited for these for these catchments and accordingly, bring those in and the third is also the split between categories itself. Because unlike a number of our competition, we have a good mix of apparel, beauty, watches, sunglasses, travel. So, we are also able to tweak the categories based on the catchment and the need of the customer in those places.

Moderator: The next question is from the line of Ankit Kedia from PhillipCapital, please go ahead.

Ankit Kedia: Venu my question is for you, it has been more than a year now you are in the system just wanted to know, is the top management team, according to you now fully set because last two or three quarters, we have seen some replacement, some, you know, a lot of new joinees at the top level now. So, are you confident then which areas do you see you would still need some leadership team members to join, which will take you through the next five years?

Venugopal Nair: So, firstly, our leadership team is now fully in place and we have had I would say additions rather than replacements, filling into key areas, which where we are driving growth, and our strategic pillars, as I mentioned, Shwetal joined us and looks after strategic pillar, of course, and customer and customer engagement is an area Shoppers Stop has always excelled in that and we continue to be ahead in that area. Biju joined us on Beauty and again, it is a strategic pillar, and

would help us grow aggressively in this area. The other new members who joined the team in the previous quarters were Sandeep who had joined us as the head of retail, and this was our gap, which we had in our leadership team and fourth new member who had joined us earlier this year was Shreekant and Shreekant join us as the Chief of E-Commerce, which again, is our strategic pillar, and hence having clear leadership in this area. So, as you can see from the additions that we have done, it is to spearhead each of our strategic pillars, and make sure that we have good leadership for us to be able to grow in these categories. So, our other than that, our team is complete. We have an excellent team in place, the team has settled on apart from the two new members who joined recently, all the others have settled in well, and these two members who joined have also blended into the team very well and I am absolutely delighted with the way that we are working as a team and this is clearly illustrated in the moto that there is within the team, the confidence and the mood that is present within the team.

Ankit Kedia:

Karuna on the cost saving side while you alluded 200 crores would be on FY20 base, with the current inflation we are seeing across be it on the manpower cost or be it in other areas as well. You know, two years out with the aggressive store opening as well. Do you see from FY22 base, of cost growing in line with our top line growth, or you see the cost will you know, we can see some margins, apart from private label Beauty and stuff, but broadly, the costs growing in line.

Karunakaran M:

What we said even at that time is 200 crores on a like-to-like basis. Of course, if you open say we are opening close to 8 to 10 stores this year, and we are planning to open 10 stores next year. So, all those inorganic expansion will definitely drive the cost. Okay, so that is one. Second again, I repeat once more, we are investing in Omni and that has yielded a significantly good results and we are being extremely conservative even our technology investments, we do not capitalize, but we write off as and when we invest. So, all those investments will take some of the cost savings what we make, but we repeat on a like-to-like basis, we should be able to save close to 200 crores and plus whatever investments we are making and probably we may make 30 to 40 crores on Omni and some investments on the new store. Yeah, those things will reduce the overall cost saving, but on like-to-like basis, we still maintain we will save 200 crores.

Ankit Kedia:

Right and my last question is on the ASP increase. While you know Venu eluded on the two paths of shorter EOSS as product mix, are you seeing raw material pressure being there with the way yarn prices are and in the next season industry as a whole needs to take a double-digit price increase given the way you know inflation is in raw material?

VenuGopal Nair:

Yeah, definitely we are seeing a price pressure especially in the apparel category and also to some extent on Beauty where bulk of the product tends to be imported and given the pressures on raw materials and the input cost, there is a price increase that we have already taken. What we do believe is that because of the strong offering that we have, this is something which will still keep us very-very competitive in the market. We have, I wouldn't say it is a double digit increase, but it is a high single digit increase. That is helpful and all the best for the future.

Moderator:

The next question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: I was looking at your gross margins and for the quarter versus two years ago, they have dipped by about 200 bps, just wanted to understand the reason behind the same.

Karunakaran M: Percy probably that be the see we have given both the non-GAAP results and the GAAP results. On the GAAP results, our margins I am just talking on the offline we have increased significantly, but that has been offset by the Omni, but overall, our gross margins remain the same as we were in FY20 in the non-GAAP. In the GAAP what could be what could have happened is because of AS-115, the revenue recognition is based on consignment sales and non-consignment sales. So, that could be one of the reasons where the GAAP margins would have come down, but my request would be take the non-GAAP and then the margins are absolutely remain the same.

Percy Panthaki: Okay. So, basically, I am just trying to reconcile the EBITDA margin fall and I am looking at the EBITDA pre Ind AS 116. So, you have you mentioned earlier that you have actually saved some costs between the gross profit and the EBITDA. So, if the EBITDA margin has fallen, despite the cost saving, that would mean that there is a gross margin compression, or am I missing something here?

Karunakaran M: No. I am not sure from where you are getting the numbers. I mean, we have our non-GAAP thing. Okay, so our margins are remained flat. The cost savings is around about 40 odd crores and our EBITDA margins increase by 50 basis points, which is FY20.

Percy Panthaki: Okay, I will probably take this offline.

Karunakaran M: Yes, we can discuss offline and then I can take you through the entire the numbers.

Moderator: The next question is from the line of Kaustubh Pawaskar from Sher Khan, please go ahead.

Kaustubh Pawaskar: Sir, my question is on what Store expansion strategy. So, you mentioned that you will be adding another five store departmental stores and the stores will be largely in the Tier-2 town. So, in terms of size, should we expect the size of the store to be you know, lower compared to what it was on your for you and second question is, now you are focusing more on your Omni channel, you know, Omni channel and digital platform. So, considering that even your departmental size stores will be lesser in the coming years compared to what it was earlier.

VenuGopal Nair: So, our store size earlier used to be in the range of 40,000 to 50,000 sq. ft. as we go into Tier-2s, and as you as likely picked up most of our expansion and focus ease into the Tier-2s, where we are not present or even where we are present where we have the opportunity to grow second one and I will elaborate on that in a minute, but the reduced store size is definitely a set formula that we are now using and typically it is 25000 to 30,000 sq. ft. that we are now going with versus 40,000 to 50,000 sq. ft. and what we are seeing in these places is the productivity and profitability both are significantly better. Examples of Siliguri, Ranchi where we have opened tighter stores and extremely profitable with very high productivity. In fact Ranchi which I mentioned where we already have one store, we are actually going into the second store in a Tier-2 itself given the

adaptability that we have seen and the acceptance from our customers of these places. Similarly, there are a number of other cities where we are expanding into, there is Jaipur, Jodhpur., Guwahati, Bhubaneswar all of these places where we are going into. The second question, sorry, I forgot your second question. Could you please repeat?

Kaustubh Pawaskar: So, now since we are focusing more on the Omni.

VenuGopal Nair: Omni, I mean, see, if you look at the market penetration of retail and if I just step back and look at macro numbers in retail organized retail today is 29% of the total retail market. A large part of the growth that is being seen in online is unorganized retail moving into organized and a number of this migration from unorganized to organized also would benefit the organized physical retail, hence the opportunity for both online and offline. Second, the future of retail is Omni, it is neither online nor offline customers will choose to start their journey online and then get into the store or vice-versa, as per their convenience and hence, retailers will need to be present both offline and online to be able to fully service and cater to our customer and that is the journey that we are on and we are seeing that increasingly, that whole engagement on the app and in the store going up and with data and analytics, we are able to service and cater to that customer in a much better way.

Kaustubh Pawaskar: Thanks for the understanding and just have one question on the consumer sentiments, as you mentioned that the consumer despite the fact the emergence of third wave consumers sentiments have been strong. So, considering that even though you are going to see you know, some kind of, you know, temporary blip on Q4 numbers, because of the restrictions on various states have imposed, but whatever, you know, the small blip will be should we expect that to get recovering in Q1 because the pent up demand will be there and, you know, again, the marriage season is expected to be postponed. So, considering that and the overall improvement in the mobility, should we expect, you know, this quarter one sales to be better than if there is some kind of blip in Q4?

Venugopal Nair: You are absolutely right, I think there is there is a pent-up demand, which we saw come out after the second wave, and we expect the third wave to be much sharper, shorter, and the recovery to be equally strong and quick. As I said, there is I believe we believe there is a wardrobe reboot that is happening, where customers are gearing up for post pandemic life, buying large quantiles and different categories across apparel and beauty and we were able to realize this trend early and it is something that we will continue to review and make sure that we are offering the right product to our customers and that is something which plays to our advantage because of the large portfolio of products and categories that we carry, and their ability to we are in and out based on what our consumer demand is. So, effectively the wardrobe reboot, combined with the availability of data and the agility that we have now to be able to cater to that standards in good step and would be able to help us grow our business strongly and sharply.

Kaustubh Pawaskar: Thanks for the understanding. I will get back to you.

Moderator: The next question is from the line of Deepak Poddar from Sapphire Capital, please go ahead.

- Deepak Poddar:** Yeah, thank you very much for the opportunity and sir just I wanted to understand first on the other income side now, so how much of the other income reported of about 40 crores would be from maybe rent favor or some those sort of income and was the sustainable other income going forward?
- Karunakaran M:** You are talking about the GAAP numbers for Q3.
- Deepak Poddar:** Yes sir, the 41 crores number.
- Karunakaran M:** oh, that includes some of the consignment sale what where we account only the margin income. So, other than that, I mean that fluctuates depending upon the contract what we have with our suppliers. So, I am sure you know the AS 115. Other than that, there is nothing but what we said and how it is treated in accounting for the purpose of GAAP. Other than that, we do expect the other income of anywhere between 10 crores to 15 crores this year, per quarter and it should marginally go up as we move on. See the other income comprises of two large things. One, Space on hire what we get it from our retailers. The second one is the subscription money what we get it from the loyal customer base. It has both the normal loyal customers as well as the Black Card customers. We have been seeing a significant increase on the subscription from Black Card customers. In fact, Venu in speech also said that the Black Card customers subscriptions have almost doubled in the last one year. So, as we go through we do expect a significant increase on the other income.
- Deepak Poddar:** Okay but going forward 10 to 15 crores per quarter is what is normalized level.
- Karunakaran M:** Yeah it should be slightly more than that probably 10 to 15 is right now, it should be slightly more than that.
- Deepak Poddar:** Okay, fair enough understood and sir in the part like on a little medium term, maybe four years we have spoken about doubling our maybe revenue from FY20 base, which was about 3500 crores, so, FY25 our vision would be to have 7000 crores of a top line target. So, any comments on that?
- VenuGopal Nair:** Yeah, I think as we have stated in one of the earlier calls, our aim is to double our business over the next four to five years and I would expect it to be slightly higher than that. So, 7000 on GAAP sales is what he have picked up, which is pretty much I think, where we would end up on a non-GAAP it will be like slightly higher and the engine for this growth is, as I said before, the growth of Omni channel, new stores and from our categories point of view, the strategic pillars of private brand, Beauty and First Citizen.
- Deepak Poddar:** Yeah, the pillars that you are spoken about. Understood. My final queries on your margin to how do we see margins going forward now. 19% margins that we reported how sustainable that one should look at.

- Karunakaran M:** Q3 is exceptionally good because of two reasons. One, our Q3 has always been the best quarter not only for the Shoppers Stop but across all the retail. So, the Q3 margins are always high, but again, when we discuss we discuss the non-EBITDA margins, our non EBITDA margin, EBITDA margins should be close to high single digit in the next one to two years and then if like with our plans in the private brand and Beauty it may go even to low double digit three years from now.
- Deepak Poddar:** The non-GAAP right?
- Karunakaran M:** Yeah.
- Deepak Poddar:** That is it from my side and all the very best. Thank you.
- Moderator:** The next question is from the line of Prateek Poddar from Nippon India Mutual Funds, please go ahead.
- Prateek Poddar:** Sir just one observation when I see within your private labels, the mix of Beauty is much lower than apparel and with you launching the new categories that you just spoke about in the initial remark and covering the entire category, is it fair to say that the mix of Beauty within private labels will increase from hereon.
- Venugopal Nair:** Yeah, currently, the mix of Beauty is extremely small. Because it started only a couple of quarters back and so far it's only Bath and Body and three weeks perfumes had been so this is a category as a percentage to the total in the private brand play Beauty will play a much bigger role in the next four quarters because we have a strong lineup of new launches, which are there.
- Prateek Poddar:** And can you just help me understand the gross margin differential between Beauty private brands versus third party?
- Venugopal Nair:** It is significantly higher. I would not want to put an absolute number in there but what I can say is that it is significantly higher double digit.
- Prateek Poddar:** Okay. So, just to add these two together with the share of Beauty increasing private brand Beauty increasing and you know the way you talked about gross margin differential. In the next four quarters, we could see I think Karuna was also mentioning higher gross margins coming into the business on a structural basis.
- Venugopal Nair:** Yes.
- Moderator:** The next question is from the line of Devanshu Bansal from Emkay Global Financial Services. Please go ahead.

Devanshu Bansal: Yes, hi. Thanks for the opportunity and congrats on a good set of numbers. I wanted to check on how these growth investments are going to be funded going ahead. So, would internal accruals suffice or we may have to raise external capital as well.

As you would have seen, we are completely debt free and the internal accruals that we have are more than enough to be able to fund these. So, on a net basis I guess our cash reserves are at about 10 to 12 crores.

Karunakaran M: So, see this is the year in which the first quarter has been completely washed out. Second quarter, we had almost 50 percentage, third quarter we came close to pre-COVID. From next year onwards, if there are, I mean, we do assume there will not be the COVID and our investments, as you have seen in 2018-2019 and 2019-2020, all has been completely internally funded and we will continue to be internally funded for all the investments we have been making.

Devanshu Bansal: Sure. Secondly, I wanted to check on you mentioned about increasing margins from the brands. So, is this specifically for new brands that will be associating this or with existing brands as well and also, if you can indicate any ballpark numbers for the increase that could be helpful.

Karunakaran M: See, we have been continuously negotiating with all our trade partners for increase in margins and particularly wherever we found that there are specific reasons why we have to take a margin increase, we have been doing that. So, it has been difficult put a number saying that what could be the margin increase from the brands next year, but yeah, that is ongoing and there has been an increase of say 10-20 basis points, or sometimes slightly more than that on a year to year basis.

Venugopal Nair: Also, just to add to what Karuna said, there are two other levers which help us. One is by jointly looking at and working with our brand partners to reduce logistics costs, which can be a significant portions, I mean, if I give a specific example, with one of our large brand partners, what we did was to relook at our entire supply chain and by moving it to a warehouse based model. We have been able to increase our overall margin at the same time reduce the inventory. So, that is one lever. The other one is that we also are continuously looking at the performance of the brands within our stores, and brands that do not perform, we have the ability and flexibility to be able to replace them with better brands and as we bring in newer brands, we are also able to negotiate a higher margin with some of these and I mean Q2 of course, that common one which is a third one is also consistently working on better buying and hence lower discounting, better sell through and being able to sell at a full price is something that we pride ourselves in and are able buyers and merchandisers together are constantly looking at this to make sure that we are able to sell at a much higher full price and hence a much lower level of discounting that we need to do which leads to a final higher margin.

Devanshu Bansal: Sir last call you mentioned about slower pickup in some categories like ethnic and all. How has been the pickup during Q3.

- Venugopal Nair:** Indian wear has had a lower sales for a few quarters. However, in Q3, it picked up very sharply aided by the festive season of that we have in the normal quarter plus, as we mentioned the number of weddings which had got postponed, etc., coming back and obviously, all of these caters specifically to the ethnic wear and Indian wear and we saw a very-very sharp growth in both in the categories both across women's and men's. "Bandeya" which is our newly launched men's brand contributed to 5% of the total menswear sale. Similarly, in Indian wear our private labels of "Kashish", "Stop" and "Haute Curry" contributed to nearly 50% of our overall sales and if I look at absolute growth that we saw in women's Indian wear, it was disproportionately higher than the rest of the category.
- Moderator:** Thank you. The next question is from the line of Binoy Jariwala from Sunidhi Securities. Please go ahead.
- Binoy Jariwala:** Couple of questions for Karuna and one for you Venu, firstly, set on Karuna, can you give me the carry forward tax losses that are available to us as of date.
- Karunakaran M:** It should be close to 350 to 400 crores Binoy.
- Binoy Jariwala:** Understood and by when do we expect this to go to be able to set off completely?
- Karunakaran M:** See, we are I mean, we are working on the plans. So, in the next two to three years, we should be able to completely utilize these tax losses.
- Binoy Jariwala:** Understood. Last one is Omni channel OPEX that we plan to do about 40 crores in FY23. Will this be ongoing of at the rate of 40-50 crores a year or FY23 is the last year?
- Karunakaran M:** So, we have spent 40 crores as of now, okay, and we expect the Omni share to increase from six to 10% over a period of time. So, if we want to increase Omni share to double digits, we have to continue to invest I do not think without investing you can get the 10 percentage. So, 40 crores is what has happened as of today, probably for the full year it will be higher than 40 crores which will be primarily in marketing and technology and if you ask me whether we will have it for next year, yeah, we will definitely have it for the next year also.
- Venugopal Nair:** However, also just to add to what Karuna said important to note that when it comes to Omni, especially the technology investment, the most of our investment is OPEX than a CAPEX while so the benefits of the investment would last much longer and hence the absolute spent overall will start to taper down after a period, but currently we are in the investment phase there.
- Binoy Jariwala:** Understood and the last question, which is specifically for you Venu, you know, as you've reiterated on this call as well that we plan to double sales to about 7000 crores on the GAAP numbers over the next four or five years. This means that we are targeting, we should be targeting close to 20% sales CAGR for this period, right. When I look at the disclosure that you have made for retail area edition, in FY20 that amounts to roughly 7 odd percent of the total area. So, 20 minus 7, 13% has to come from same store sales growth ballpark, right. So, first question is that

do you see the need to revisit the timelines and if not, then what is giving you the confidence of being able to deliver double digit same store sales growth over the next four to five years consistently.

Venugopal Nair: So, Binoy couple of factors here, one, same stores sales, and as I touched upon, we expect it to be high single digit-low double digit is what we would expect, year-on-year. The second is the expansion that you have taken of new stores, we expect to add around 10 to 12 stores every year. So, it would be slightly higher than the 7% that we are factoring in because if I mean today, we have 86 stores and 10 stores on that is around 11 to 12 and appreciate that, even if you were to maintain that same trajectory, and the absolute percentage to the overall will taper out whether it will be broadly around 10% and the third factor is online growth, as we talked about extensively during the call, a big part of our expansion or growth will also come from online sales and digital sales. So, those three factors is what would help us and this was something which has been detailed out and we expect to be able to achieve that.

Binoy Jariwala: I was actually saying retail area addition in terms of square footage. Sir in the presentation, you have mentioned that you plan to add roughly about point 3 million square feet in FY23 and we have a base of 4.2, 4.3 million square feet as of now. So, that is how I got the number of 6 to 7%. But I understand.

Venugopal Nair: It should be taken along with the statement that the productivity in these stores tend to be higher.

Binoy Jariwala: Venu. So, you know, when I look at the cost structure, you pretty much sorted now you are in the mode of expanding your retail are footprint as well. Right? So, all in all, this gives us the confidence in the business model, but when I look at the gross margin, you are operating on non-GAAP basis you are operating at 32% to 33% gross margin and when you are operating at such thin margin, you know the flow through benefits that you have to the bottom line is limited as well right and you have a CAPEX plan of roughly about 100 crores a year which you want to fund it through internal accruals. So, do you feel that there is a need to improve upon your gross margin. This 200-basis points improvement on 3500 crore turnover, or 3000 crore turnover would mean a lot. Right. So, 100-200 basis points even would mean a lot.

Venugopal Nair: Yes, so, I think first point absolutely agree. One of our key focus areas is to grow our overall margin and the tools that we need to do this is first and foremost, of course, private brands, which is obvious and also within private brands, it is the growth of the total sales, as well as the overall margins within private brand as well through better buying and lower discounting. That is the first one. The second one, we talked about Beauty and the growth of Private Brands in Beauty and also the mix of Beauty itself because the overall margin that we get tends to be high and the marginal increase also coming in from national brands and within national brands, Home as a specific category where we are making a sharp increase in the share of private brands within home.

Binoy Jariwala: Understood. So, can I expect that the gross margin could look up to closer to 34 odd percent or do you think 32-33 is the steady state for the business?

Karunakaran M: Binoy normally, we do not give any guidance for the gross margin, but as we are, in fact, both Venu and I have addressed separately, there are three or four levers where we are working on gross margins. One we are discussing with the brand. Second, Venu has probably been reiterated more than three times both our private brand and Beauty, the margins will increase so overall the mix of increase. Of course, in Omni the margins are lower. Possibly it will offset, but our plan is to increase the gross margins to the levels whatever you are saying about Binoy.

Moderator: The next question is from the line of Vivek Gautam from GS Investments, please go ahead.

Vivek Gautam: Yeah, sir I would like to know about the sustainability of the growth in the current quarter and are there really one of like inventory adjustment and exceptional gains contributing to good numbers.

Venugopal Nair: So, firstly, the growth that we saw in Q3 is based on strong consumer demand, based on the performance of each of our strategic pillars, as well as the core foundation of national brands that we have and each of this is on very firm footing and we expect this to be consistent and sustainable. Over and above that, the new areas where we are growing into specially Omni channel and also in private brand and Beauty, these are areas where we have got a very high headroom for us to grow as we had detailed out earlier and given the investments that we are making into each of these areas, and also the strong offers that we have in terms for the customer, as well as the product portfolio that we are offering. It is something which will definitely sustain in the medium to long term. Lastly, I talked about the investment into data and this is something which we are going to double down on constantly going forward being moving and transforming ourselves into a data led business using AI and ML to be able to derive the benefits of the vast amount of data that is available with us. So, all of this makes it extremely sustainable going forward and we are very confident of the growth.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Venugopal Nair for closing comments.

Venugopal Nair: Thank you very much. I would just like to, once again, thank everyone for their participation for the questions and the active engagement that we had. Just to summarize, once again, delighted with the strong quarter that we had and we are now demonstrating sustainable growth. This is a result of the strategy that we had put in place over the last 18 to 24 months and we are delighted that it is working very well. We have a strong team in place with able leadership for each of our key areas and as we continue to capitalize on the high loyalty and the great trust that our customers place in us, and on the Shoppers Stop brands, we expect to see good growth in the coming quarters. Thank you very much, everyone.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of Shoppers Stop Limited. That concludes this conference. We thank you all for joining us and you may now disconnect your lines.