

SHOPPERS STOP

SEC/101/2022-23

January 30, 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 – Q3 FY23

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Company had filed letter ref. no. SEC/90/2022-23 dated January 19, 2023 in respect of the analyst / investors conference call and ref. no. SEC/98/2022-23 dated January 25, 2023 in respect of Audio Recording of analyst / investors conference call, on **Tuesday, January 24, 2023 at 11:00 a.m IST** to discuss the corporate performance for the quarter and nine months ended December 31, 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 held on January 24, 2023.

This disclosure is made available on the corporate website of the Company and can be accessed using below link:<https://corporate.shoppersstop.com/investors/disclosures-under-listing-regulations/>

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

Registered & Service Office : Umang Tower, 5th Floor, Mindspace, Off. Link Road, Malad (W), Mumbai 400 064, Maharashtra.
T 022- 42497000 CIN : L51900MH1997PLC108798. Email : customercare@shoppersstop.com Website: www.shoppersstop.com
Toll Free No.:1800-419-6648 (9 am to 9 pm).

SHOPPERS STOP

“Shoppers Stop Limited
Q3 FY'23 Earnings Conference Call”

January 24, 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: Ladies gentlemen, good day, and welcome to the Q3 FY'23 Earnings Conference Call of Shoppers Stop Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero, on your touch-tone phone.

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; 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 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 strategic questions only. Housekeeping questions can be dealt with separately with the IR team.

I will now request Mr. Venu Nair for the opening remarks. Over to you, sir.

Venu Nair: Thank you, Rutuja, and good morning, friends. Thanks for joining us today to discuss the Shoppers Stop financial results for the third quarter of FY '23. As Rutuja mentioned, along with me, I have Karuna, our CFO; and Jaiprakash, our FP&A lead.

Our Q3 and the year-to-date results, investor deck as well as the press release, have all now been shared on our website, BSE and NSE. I'm confident you have gone through that.

For the last eight quarters, we have been growing consistently. For this quarter too, we have achieved our highest quarterly sales, EBITDA and PBT. Our success in the last eight quarters and the continuous improvement there is the outcome of our well thought out strategy and of the judicious capital allocation that we have been doing.

Let me now get into the details of our Q3 performance and the way ahead. The strong momentum that started at the beginning of the year has been continuing, even though we witnessed a little bit of moderation on that immediately after Diwali. Fortunately, it did not last long.

We had robust sales in the quarter growing at 20%. Our gross margin improved by 20 basis points, our EBITDA by 27% and PBT by 44%. We had our highest-ever EBITDA of INR 128 crores during this quarter. Of course, this did include a onetime income of INR 17 crores, which I will talk about a little later.

Even excluding that, it was our highest ever quarterly profit on EBITDA and PBT. The run up to Diwali was strong, as I said, initially in the East up to Pujio and then for the rest of the country. Post Diwali, we did have a couple of weeks of muted sales. Our focus on beauty through Singles Day and Block Friday helped to bring customers back to our stores and online.

Subsequent to that, December sales were led by winter wear, wherein we had invested disproportionately this year. And this again helped to bring customers back into our stores. On some of our other KPIs, our average transaction value grew by 10% Vs last year due to the mix of our customers purchasing higher value-added products. Our average selling price grew by 10%. Our items per basket was flat, and our cash memo count increased by 11% Vs last year.

And the significant improvement in KPIs indicate the strong undercurrent of the business and our ability to deliver results now for nine quarters consecutively. Our average bill value has now been increasing for eleven quarters consecutively. And this is a clear indication of the fact that our customers are blessing us with more business. Let me now share some of the details on operational costs.

On a like-for-like basis, our costs remained flat. Excluding lease rental escalations, our investment in e-comm, refurbishing the store etc, was an investment of INR 25 crores. We do believe these investments are critical for the future, and we will continue to invest.

Last year, we did receive some rebates on lease rentals due to COVID, which helped us to lower our occupancy cost. And overall, the costs have gone up by 10%. It is purely due to the new stores and investment, as said above.

With the strong sales and the tight control on costs, we reported an EBITDA of INR 128 crores in non-GAAP, a growth of 27% and INR 240 crores as per GAAP financials. Last time, we had briefly touched upon our plans to strengthen our beauty business. I would like to give more details on this now.

We have now gotten to the distribution of beauty brands with exclusive rights for India. Our beauty strategy is to be the best beauty destination with leading engagement combined with great customer experience. In addition to this, we expect our company to become the priority retailer for all beauty brands internationally and in India, make the stores more interactive, educative and engaging continue to make our website stronger with our own brand and distribution brands and strengthen the SSBeauty brand across both a stand-alone and within our own shopper-stop stores.

Our long-term objective is to distribute international luxury, bridge to luxury and premium brands in India, positioning these brands as experts within their categories, capitalizing on their history, strength and expertise. This is to enable our brands and brand partners to create a strong distribution vertical across fragrance, skin care and makeup categories. We will have exclusive launches and plan to capitalize on this.

We are starting off this vertical, launching eight brands from the L'Oréal International division, Clarins and Earthi. We expect this division to contribute more than INR 500 crores in the next couple of years and add a significant profit to the bottom line. This distribution business will be through our 100% subsidiary Global SSBeauty.

Our capex investments in new stores and refurbishments for the quarter was at INR 21 crores. I'm extremely happy to say that we opened six department stores and five beauty stores during

the quarter. Needless to say, our capex has been funded through internal resources. Not only that, but our internal accrual is also sufficient to fund our loan repayments as on date this year.

During the quarter, the working capital increased by INR 85 crores, primarily in our private brands and beauty. Both these verticals are recording healthy growth, and we believe we need to invest in these verticals, particularly during the festive season, such as Diwali and Pujo and also the end of season. All of these have been funded by internal accruals.

Having said that, we are monitoring the inventory levels very closely, and you will observe a reduction in the absolute inventory numbers by the end of Q4. Last year, we had provided around INR 25 crores as interest in the previous years, particularly during COVID. However, the relevant sections in statutes have now been repealed, and we have had a onetime benefit of reversing this provision of up to INR 20 crores. Of the INR 20 crores, we have included INR 17 crores as other income and INR 3 crores reduced from the interest expense.

As always, as a compliance adhering company, we had provided interest on a conservative basis month-on-month. And as these provisions are no longer required, we have now reversed them. We have obtained the experts' advice on the same and implemented the same accordingly. From operations, I will now move to the performance of our strategic pillars. As always, I'll focus on each of our strategic pillars.

First citizen is our first strategic pillar and a few notable features on our first citizen program. We have always believed our customers are our success. The retail landscape is fast changing. Today's consumers seek personalization and demand experiences going beyond the typical shopping experiences. Through experiential retail, we can give our customers unique and innovative experiences, both online and offline.

Our ability to engage with our customers and specifically, our first citizen customers based on the information that they share with us and we have of them gives us a unique advantage in the market. Of the total off-line sales our loyalty members contributed to 77%, and our online sales contributed to 38%. Our new enrolments have increased by over 2 lakh members compared to the previous quarter.

Overall, for the year, we have now added over 7 lakh new members. Apart from the active members, we're also focused on bringing back customers who have not come to us for over a year. I'm extremely happy to say that we converted 140,000 members from inactive to active. This indicates the strong loyalty to our membership program and speaks volumes of the ability for us to engage with our loyalty members and make shopping at the light for them.

Not only are we focusing on bringing back customers who have not shopped with us for a year over a year, we are focusing on ensuring that they come back a second time after we bring them back, ensuring that it is a sustainable return to our business. We started our HDFC co-branded loyalty card in April this year And I'm happy to say that we have added more than 30,000 co-branded members in the last two months.

We also added a significant number of new Black Card loyalty members during the quarter. For our Black Card loyalty members, and this is our unique subscription annual subscription program, as you will remember from the previous calls, and we continue to focus on these customers by offering them experiences unique and different to what they would normally get.

During the quarter, we had a special showing of Mughal-E-Azam for Black Card First citizens in Mumbai, had a Golfing Sunday and in the East, we had specific Pujo related showing for them at the West End. The average spend of this Black card customer is as much as four times our normal members, and we will continue to focus on this segment.

On private brands, which is our second strategic pillar, the Private Brands business grew by 23%. We achieved INR 201 crores of sales for the quarter, an important milestone for our private brands. This is the highest quarterly sales that we have achieved in the history of the company. Year-to-date, we have grown our private plans business by 84%. And sequentially, quarter-on-quarter, our private brand sales have consistently grown.

As a proportion of our total business, it now contributes to 20% of our total apparel business and 14% of our total business. Within the digital channels, our private brands contribution has increased to 16.5%. During the quarter, we had invested in Kashish, which is our Indian wear brand for women's and on Bandeya, which is the menswear brand. Both of these had very strong growth. Our focus on women's apparel has yielded very, satisfactory results. In fact, in Indian wear, our private brands now contribute to almost 50% of our total business.

Also worth mentioning that our own brand "Stop", which is the everyday Workwear brand that we have is the largest brand that we now have in apparel across our own stores and online. Moving on to the third strategic pillar of beauty. Our Beauty business grew by 18% with an all-time high mix of 16.2% to our total sales. This has been one of our best quarters for beauty in the history of Shoppers Stop.

Engagement with customers is a key part of the beauty buying process. We did 112,000 Makeovers during the quarter, which led to strong engagement and higher sales. It is worth mentioning that this 112,000 is against an original plan to do 100,000 Makeover's in the full year. Compared to that target of 100,000 Makeover's for the full year, we actually did more than that just in one quarter. And we will now end up doing over 4 lakh Makeovers in the full year, which illustrates the great traction that we have had with our beauty customers and gives us a strong platform to bring customers back into the stores.

As you will understand, the whole engagement that comes in with makeovers gives us a unique opportunity as a retailer in this business. November is an important month in Beauty. We had Block Friday and Singles Day with exciting offers on our beauty products and campaigns endorsed by Malaika. We recorded our highest ever sales during this period as well. We open five beauty stores during this quarters and make considerable progress in our exclusive beauty website the ssbeauty.in website as well as the SSBeautyApp is expected to go live in the first week of March '23.

Currently, it is in the testing beta phase within our closed group, which brings me on to the next strategic pillar, which is Omnichannel. And as we have explained before, we've had a great healthy growth in our offline business. And during the fiscal, our customers have had the option of visiting our website, coming to our stores and buying the same.

With a strong base in FY'22, our overall sales through the digital channel remained flat. But we do know that all customer journeys start or majority of the customer journeys start online and then happen offline, and that's a reflection of the fact that we have got strong healthy sales. We continue to offer personalized suggestions to potential buyers based on their past search history, and we are gaining immensely from this.

To make a truly Omnichannel system perfect, it is essential that there is a strong integration between our stores, warehouses and having real-time inventory. And I'm extremely proud to say that we are the first large retail business to be able to do this offering products to our customers across the entire ecosystem that we have of the 250-plus stores and shoppersstop.com on a real-time basis.

Today, over 70% of what we ship to our customers is from our stores. Specifically, on the numbers and our investments, we continue to invest into digital and we invested in performance marketing, tech upgrades and more importantly, the website on ssbeauty.in.

Finally, moving on to expansion. I'm glad to say that we opened six new department stores and five new beauty stores during the quarter. Of the above, two are in Tier 1 cities and four in Tier 2 cities, where we continue to focus. As on date, during this financial year, we have now opened nine department stores and 11 beauty doors. Apart from renovating nine large stores, we have incurred a capex of INR 101 crores which includes technology and INR 32 crores of opex. These are completely funded by our internal approval, which signifies the strength of our balance sheet.

In conclusion, I would say that we have been able to sustain the strong momentum on sales, both organically and inorganically. Our success of the last eight quarters and the continuous improvement there is an outcome of the well thought out strategy that we have in place and the judicious capital allocation that we have been doing. Retail has changed dramatically over the last couple of years, and we have adapted to that change, transforming ourselves into an omnichannel retailer, focusing on engaging with our customers and offering them a great experience whenever and however they interact with us. Our pristine balance sheet gives us the ability to invest in our growth areas. That's beauty, expansion, digital, data analytics and private brands.

With the sales growth we are planning for the next three years, we should be able to deliver significant cash. Our framework approach its customer experiential focus, engagement led and community building, while remaining conscious of capital allocation. This framework approach has guided us well in the last two years. And we believe this framework will serve us well in the coming quarters. I'm fairly confident our total sales growth should be able to maintain the mid-teen growth post opening of the new stores and the pipeline that we have.

We have just begun our journey on distribution of beauty, and we should be the priority retailers for all international brands, particularly in the premium and lifestyle spaces. We will continue to deliver on our strategic pillars and most importantly, our engagement with our customers will make Shoppers Stop the ultimate destination for their business and for their buying.

Thanks for listening. And I'll now request the moderator to open the floor for questions.

- Moderator:** The first question is from the line of Nihal Jham from Nuvama.
- Nihal Jham:** So three questions from my side. First is just required a couple of data points. One is, could you share the like-for-like growth versus pre-COVID and the walk-ins excluding the online visits?
- Venu Nair:** Okay. Do you want to go through all three and then answer?
- Nihal Jham:** Sure. I'll just mention the other two also. The second was that when you're speaking of this INR 500 crores for the B2B distribution business, could you give a sense of what are the kind of counters we are targeting to reach the road map for the same? And potentially, there would be initial cost if you could quantify the same?
- And the last question would be, are we contemplating any other format in the value segment. There have been certain press articles on it, and if you could just give some more clarity.
- Venu Nair:** Okay. So on the first one, in terms of the like-for-like growth. The year-to-date number, the Q3 numbers specifically, we had an overall growth of 16% in total and Vs pre-covid growth of 1%.
- Nihal Jham:** The like-for-like growth was 1% if I heard right?
- Venu Nair:** Yes. That's over pre-COVID.
- Nihal Jham:** And on the walk-ins, just for the offline, the store business?
- Venu Nair:** On the offline business alone, for Q3, walk-ins grew by 14%, and minus 7% Vs pre-covid.
- Nihal Jham:** Possible to get the absolute number. We've given the customer entry of 39Mn, which I think includes online. I was just looking at the offline entry specifically?
- Venu Nair:** Yes. Just one second.
- Karunakaran:** Nihal, can I just message you separately on that. I mean because we now track both online and offline together, I will message you separately what will be the offline visits.
- Nihal Jham:** Sure.
- Karunakaran:** Okay. Now just coming back to your question on Beauty. You did ask something, but you said the distribution business and asked something about the cost. We could not get fully.
- Nihal Jham:** Yes. So what are you referring to, you gave a target of INR 500 crores from this business in the next couple of years. Is it possible to give a sense of what are the doors we plan to reach for the

distribution business and the cost that will also entail given it's a new business that we are setting up totally organically?

- Karunakaran:** Yes. So in terms of cost, this should be largely breakeven from year two onwards, even year 1, it should be a very-very minimal loss. In terms of the doors, what we are approaching is lifestyle Sephora and other beauty companies, Nihal.
- Nihal Jham:** Just one thing. There will be no targeting on GT. I know these brands are premium, but just to be sure of that fact. That there won't be a focus on general trade or trying to reach these counters. It will really be the premium beauty retailers.
- Venu Nair:** Absolutely. Our focus will be on the premium organized retailers.
- Nihal Jham:** That makes it clear. Sure.
- Venu Nair:** Just coming back to your question on walk-ins. Offline walk-ins grew by 14%.
- Nihal Jham:** And the last on the Value fashion?
- Venu Nair:** I mean, while it has something which has appeared in the press in the past, it's not. And it is a very attractive segment and a segment that we continue to look at. At this point, we won't have anything concrete to be able to share. But as and when we crystallize our plans on that, we will come back on that.
- Moderator:** The next question is from the line of Bharat Chhoda from ICIC Securities Limited.
- Bharat Chhoda:** So basically, I just wanted to understand about this gross margin in the Beauty business like that you are targeting?
- KarunakaranVenu Nair:** So Bharat, are you referring to the gross margin in the distribution business?
- Bharat Chhoda:** Yes. Distribution, yes.
- KarunakaranVenu Nair:** It will be more or less same in the range what we are doing right now between 30 to 35 percentage. That would be the range we are targeting the gross margins for our distribution business also.
- Bharat Chhoda:** And would you be spending anything on this or the brands would be spending for the brand visibility? Or how it is in this ideally how -- and anything that we are paying to them specifically, something like a royalty payment, how this model works there?
- Venu Nair:** So it does vary from brand to brand in terms of what the arrangements would be. But broadly, the investment into marketing and building the brand tends to be done by the brand itself.
- Moderator:** The next question is from the line of Percy Panthaki from IIFL Securities.
- Percy Panthaki:** Just continuing from the previous question on the distribution business gross margin of 30%-35%. That is actually quite unheard of. I mean Nykaa has a similar B2B distribution business, and they mentioned that they would be targeting a 10% to 12% gross margin and a 5% kind of

EBITDA margin. So just wanted to understand when there are two people in the value chain sharing the overall margins, how is it that the margins are so high in this business?

Venu Nair: I mean, I cannot comment on what the others are doing. It is on the wholesale price that these margins are talked about, and it's probably the base which might be different. Happy to discuss it separately and get into more detail to explain that.

Percy Panthaki: And also just to confirm this INR 500 crore target is for FY'26?

Venu Nair: Across the next two years. So by FY '25, we should be getting close to that number.

Percy Panthaki: And also, just like you have shared some idea on gross margin once you achieve that scale of INR 500 crores, what kind of EBITDA margin would you target on this business?

Karunakaran: Percy, as Venu said, this will be in a separate subsidiary called Global SSBeauty Limited. So EBITDA margins should be slightly higher than what our Shoppers Stop margins are. Though the initial years, there will be a breakeven or a marginal loss. But in year three and year four, it will be more or less in line with Shoppers Stop.

Percy Panthaki: And how many brands have you tied up with for this distribution business?

Venu Nair/Karunakaran: We have currently tied up with over 12 brands. And this is obviously a business that we will continue to grow, and we will be adding more brands as we go forward.

Percy Panthaki: And my last question is on the physical retailing part Shoppers Stop department stores. On a per square feet basis this quarter, more or less, you are in line with the similar quarter pre-COVID. So just wanted to understand now in light of your store expansion targets. Do we see this sales per store on an average being flat from here because even if you do see a same-store sales growth the new stores opening up at below system average will pull down the average sales per square feet. So just your thoughts on this topic, sir.

Venu Nair: I think it's a fair assessment. And in the short term, I reckon we would see a flattish sales per square foot. However, as we get into year two and year three from now, because of the overall percentage of new stores, we'll start to shrink from the total mix, we would expect the numbers to continue to grow.

I mean the sales per square foot to start growing. Also worth pointing out that a number of the new stores that we have now opened and are opening are smaller, which takes care of the productivity. So that the aim is we do start off with a strong sales per square foot in the new stores as well.

Moderator: The next question is from the line of Priyanka Trivedi from Antique Stock Broking.

Priyanka Trivedi: So my first question would be on what would be the square footage addition in the 9 months that have gone by, and if you could give the breakup between the department stores and the beauty stores and the capex breakup also between these two?

- Venu Nair:** So the total, we added nine department stores, which total to circa 3 lakh square feet on a chargeable basis or on a carpet area, it was 2,30,000 square feet. And that's on the department store. And on Beauty specifically, it's 11 stores that we added in total. So that would be circa about 9,000 square feet that we would have added.
- Priyanka Trivedi:** And in terms of the capex, what would be the split? Is that possible?
- Karunakaran:** Sorry, you're talking about the cash spend, Priyanka?
- Priyanka Trivedi:** Yes.
- Karunakaran:** We are close to INR 100 crores in the first 9 months.
- Priyanka Trivedi:** And my second question would be on if you could give us a sense on the contribution of the women's wear to our overall basket and listed between the Western wear and the Ethnic wear.
- Venu Nair:** Broadly, within Womenswear, Western womenswear contributes to -- I mean, the two put together contribute to 21% of our total business with Western womenswear being at around 14% and Indian wear being at 7%.
- Moderator:** The next question is from the line of Kaustubh Pawaskar from Sharekhan By BNP Paribas.
- Kaustubh Pawaskar:** So my question is on demand trend. As you mentioned that festive was good, but post festive, there was some moderation in demand. And for our case, I guess Beauty was the one which helped us to mitigate the pressure to some extent. So just want to understand from demand per se, what do you expect, how much time it will take for things to rebound? Because Again, there is a strong wedding season which is coming up. So in that context, can you provide some brief?
- Venu Nair:** I mean if we take our current trends, so the kind of momentum that we had in December has continued into January. February is a strong wedding month, and hence, we expect that to move up a bit more. But overall, if we look at the fundamentals, especially in the segment that we operate in, which is in the premium lifestyle space, it has been quite robust, and that's what we expect to continue.
- Kaustubh Pawaskar:** And what was the contribution of the online Omni-channel business this quarter? And how was the growth on a Y-o-Y basis, if you could give that number?
- Venu Nair:** On a year-on-year basis, it was flat and the contribution to the overall business from our digital channels was at 4.4%. Now I must underline this with what we have been saying now for a few quarters. As an Omni-channel business, what gets registered or where the final purchase is happening digitally is not just the only way we should be looking at it.
- Because especially given that we operate in the premium space and the ASPs are high for a number of products, customers would start the journey digitally, but finish offline. And hence, a lot of the business that we generate offline does start online, and that's the way it should be looked at. And that's also the reason we have stopped separating it out as online and off-line, being a true omni-channel retailer the right way to do it is to look at it together.

- Kaustubh Pawaskar:** And one last on the capex. So how many stores you are planning to add over the next two years? And what could be the capex for the sale and whether we will be comfortable doing it through internal accruals over the next two years?
- Venu Nair:** So we have budgeted to do between 12 to 15 stores every year, which we will do this year. We've opened nine. We've got another five that are under fit out, so we will end up between 12 to 14 department stores this year. We will do a similar number next year. And on Beauty, we would do between 10 to 15 those again. All of these would be entirely through internal accruals.
- Kaustubh Pawaskar:** And capex would be around similar, around INR 120 crores to INR 130 crores kind of?
- Venu Nair:** Including refurbishments, yes.
- Moderator:** The next question is from the line of Rahul Shah, an Individual Investor.
- Rahul Shah:** Just your guidance overall for the EBITDA and revenue margin outlook for the last quarter this year for quarter 4 and financial year '24. If you have any targeton which area of this are you expecting the most growth in?
- Karunakaran:** The EBITDA, if you're asking for next year, it will be higher than this year in terms of overall margin. But if you are aware, I mean, we don't give any specific guidance on any of the margins. But all I can tell you is it will be higher than this year.
- Rahul Shah:** And where are we seeing the most growth from? I know you mentioned the Beauty segment is on the distribution channel. Any other business segment you include to entry?
- Venu Nair:** Our growth will come from our strategic pillars. We are a house of brands, and that's the foundation on which our business is. And the disproportionate growth would come through Beauty, private brands and through expansion of our physical stores as well as online. The distribution business on Beauty would support the growth within Beauty.
- Rahul Shah:** And as for revenue margins, also you would say within the same lines as current growth for the next year?
- Venu Nair:** Yes.
- Moderator:** The next question is from the line of Ankit Kedia from Phillip Capital.
- Ankit Kedia:** So my first question is regarding the private level. We will be touching around INR 100 crores revenue from private label this year. Out of the brands we have, how many brands have crossed INR 150 crores? And Stop would have multiple categories where they are present across now. So if you can give some category-wise stuff have become sizable in nature today for us. And what is the growth plan for these brands to go further?
- Venu Nair:** I wouldn't want to break down the individual brand numbers because obviously, that's more internal. But what I would say is that of the nine brands that we have, two of them would be INR

100 crores to us individually. And then the other three would cross the INR 100 crores in the next 12 to 18 months.

Ankit Kedia: And so given that the discounting this time in private level would have been slightly higher. The EOSS was much earlier for the industry. Are we seeing gross margins under pressure lately? And are we comfortable with the inventory in the system we have for private label?

Venu Nair: So firstly, the end of season sale for us actually was slightly later than earlier in the previous years. And so to that extent, the overall level of discounting that we have had to do was in line with what we had expected.

Ankit Kedia: And the last question is regarding the beauty business. ssbeauty.in has already launched. We can see the beta version live. We also seeing the app what you mentioned there. So what is the marketing plan regarding this launch? Are we expected to spend higher in A&P in the coming quarters? And also on the INR 500 crores of B2B run rate, some part of this will also be our Shoppers Stop. And some part of the revenue would also be booked in the standalone entity. So if you can just say how much are we looking from our own entity in Shoppers Stop departmental stores, vis-a-vis, third parties?

Venu Nair: So on the ssbeauty.in, we plan to launch it formally in March, and it would be accompanied with a strong marketing program where we would give it a focus and bring attention of customers to this new platform. Obviously, it takes time to build the customer -- acquire customers on to a new platform. And hence, the investment that is needed for it. And it will be for both the ssbeauty.in website, the app as well as for the SSBeauty stores because what we are creating is the whole ecosystem for beauty as SSBeauty.

In terms of the revenue that comes in through that, it is incremental to the extent that these are new stores. And would be over and above what we get through Shoppers Stop or through the department stores where we have the beauty brands.

Ankit Kedia: Sir, my question was from the B2B business, the INR 500 crores which you mentioned. So the business of some part of this chunk would also be to Shoppers Stop. So is that number over and above the parameters?

Venu Nair: No, that would be included within that. And that would be within Shoppers Stop as Karuna had clarified. The distribution business itself would be under a separate subsidiary called Global SSBeauty, and the revenue from the distribution business will be under that vertical.

Karunakaran: Ankit, just to clarify, whatever Shoppers Stop sells to the end customers, it will be included in Shoppers Stop sales. Whatever global sells it to Shopper Stop and other companies will be in global SSBeauty company. On consolidation, the intercompany sales would be eliminated.

Ankit Kedia: And on other investments which we have done in the subsidiary through Glbal SSBeauty Ltd, do you think the working capital requirement is sufficient currently for that? Or do you think as the size increases to INR 300 crores over the next two years, we need to invest further in the subsidiary?

Karunakaran: Ankit to you, I already answered that question. See, we have already invested INR 5 crores we are planning to invest another INR 25 crores in this month. In addition to that, we will have some temporary borrowings to take care of the working capital. Net-net, we expect INR 50 crores in the next four to five months. What we have also informed the Board is, I mean, as we increase the business and if there is a need for capital, it will be a combination of preference shares plus bank borrowings.

Moderator: The next question is from the line of Varun Singh from ICICI Securities.

Varun Singh: So my question is on the beauty-- new B2B beauty business. So I just wanted to understand that what is the need of entering into this business given that we already have enough in our plate with regards to revising the private brands and chasing high growth opportunity in small tier cities to let by the success of incremental efforts that we are putting in revising the private label brands. So how are you thinking with regards to like why to chase growth opportunity in the B2B space?

Venu Nair: I think what I would like to emphasize is that the reason for getting into the distribution business is to strengthen our beauty pillar. But as you would appreciate, is an important strategic pillar for us. And to make the supply strong in that area is why we are getting into this.

As most of or the majority of what we sell in our beauty business is international brands and the big national brands that we have. And by having exclusive partnerships, we are able to bring in brands, which are I mean we have the right of first refusal on to them. And depending on the strength of the brand and what we would -- how we would like to take it forward, it gives us the ability to be able to take it much deeper within our own stores across both Shoppers Stop and department.

The key factor, of course, which I would like to add is that it gives us the ability to get higher margins and better inventory control because of the fact that we have the end-to-end margin available with us.

Varun Singh: So are we saying that the operating business economics of this segment of business will be superior or at least in line with the existing beauty business that we exist with?

Venu Nair: Absolutely. Yes, absolutely.

Varun Singh: And sir, my second question is on the offline business. Sir, so we have been, I think, on a strategic front, we have done almost every all right things with regards to accelerating store renovation rate and optimizing store sizes, etcetera. But still walk-in numbers does not look very much encouraging. So like how are you looking at this number or a gradual improvement?

And also, I mean, the reason that I'm asking is on is because when we look at revenue growth from a three-year CAGR perspective. So it still continues to be a low single-digit number. So like when, or how are you looking at the improvement in this number. And of course, I think the current quarter number is -- I understand it's very much encouraging, but any thoughts on this will be really helpful.

Venu Nair: It's an interesting point. And over a period of -- and what we focus on is looking at the total engagement that we have with our customers across off-line and online. As you would appreciate, majority of the customer journeys start digitally today and eventually end up with an actual purchase. The fact that we have seen a consistent increase in our average basket size is indicative of the fact that customers who are walking in into our stores are the most serious customers and that's what's helping us to generate the growth that we have.

Having said that, coming specifically to customer entry, where we have now gotten to the drop, which we used to see four, five years back, has been arrested. And that is something which we are pleased about. What we are seeing is that customers are now coming in small, I mean, earlier you used to see large groups of customers coming in and -- that's changed, and that's the change that we are seeing across the country where we've got smaller individual families coming in and individuals coming in. And that's partly why you don't see the total number as not being high.

At the same time, when we look at the specific stores where, which are our large stores, the customer numbers are growing and very encouraging. We have a few large small stores in catchments, which have now become less dominant. While these are still large stores, it is into these specific stores where we see a drop in sales, and that would be one of the reasons for that is because we have expanded within that city itself.

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

Devanshu Bansal: Sir, there are multiple tailwinds for Q4 this year in the form of delayed winter, higher number of weddings as well as no Omicron-led disruption as well. Can you help us understand how this Q4 can be different versus the historical Q4 based on the trends that you have seen so far in January?

Karunakaran: We expect the Q4 numbers to continue the momentum that we've had in the first three quarters and should be significant in March because of the comparison versus last year where there was a level of omicron, etcetera, and so to that extent, it might not be directly comparable. But if we just look at the momentum that we have had, the absolute numbers that we have been getting in Q1, Q2, Q3, we expect that to continue.

Devanshu Bansal: Sir, typically versus historical trends in Q4 versus Q3. So how has that been shaping up so far in January? Are we seeing better results? Or is it largely in line?

Venu Nair: It's large, I mean I would say it's slightly better than what we had expected so far.

Devanshu Bansal: Ex of other income in both this quarter as well as base quarter, there is a 50 basis points of decline. So what explains that?

Karunakaran: This is last year you are talking about?

Devanshu Bansal: Yes, versus last year Q3.

Karunakaran: So last year, Q3, we had significant concession on rent. And overall, the expenses were lower, but as we see, it's more or less in line with the numbers. I mean, I could not see a drop in margins.

- Venu Nair:** Where are you picking this up from because we've actually had an increase in the margin.
- Devanshu Bansal:** I'm talking about the pre-Ind AS numbers. So if we exclude other income from both the quarters, then we are getting a 50 basis points of a decline?
- Karunakaran:** Okay. Now we got it. So that's I think Venu said in his speech. Last year, we had significant concession on the lease rental because it was impacted by COVID. What also happened last year was some of the concessions for Q1 and Q2 came in Q3. And we don't account unless until those concession happens, we accounted that. So that's one of the main reasons. Plus, we have also opened close to nine stores this year.
- The productivity will improve as we progress. So -- but the cost will -- some of the cost will be there. So these are the two large reasons where the EBITDA margin is 50 basis points lower than the last year.
- Devanshu Bansal:** So I was coming from that one, so this store expansion is going to continue going ahead as well. So will this sort of materially impact our margin improvement going ahead? Or we should be able to sort of negate this in fact is the kind of investments we are doing on private labels as well as on the beauty front?
- Venu Nair:** We would be able to negate the impact of the higher lease cost with the growth in business that we would see across each of our strategic pillars.
- Moderator:** The next question is from the line of Vignesh Iyer from Sequent Investments.
- Vignesh Iyer:** I just wanted to know what is the ASP for the company in quarter two for this number.
- Karunakaran:** Our average selling price for the quarter was 1,627, and that was a 10% growth over last year.
- Vignesh Iyer:** I mean Q2 to the year Q2, that way.
- Venu Nair:** Q3.
- Vignesh Iyer:** And what is the total capex we are planning for? I mean how much we have spent for the current year in total? And what is the plan for Q4?
- Karunakaran:** So we have spent INR 101 crores on the capex. INR 81-82 crores is on account of stores and the balance on account of technology and other things. For the next for this quarter, Q4, we expect anywhere between INR 25 to 30 crores capex in line with what we normally spend in third quarter.
- Venu Nair:** And sir, your spend on the distribution, the new business, the Beauty, SSBeauty. So excluding that, what would be the capex for the next year, a rough estimate?
- Karunakaran:** Again Venu, just now clarify. On the new stores plus refurbishments, it will be anywhere between INR 120 to 150 crores. Plus, we also have some plans on tech, which we are working

out right now. So I would -- I mean if I have to give a ball park number, it will be between INR 150 crores to INR 200 crores next year.

Vignesh Iyer: Including SSBeauty?

Karunakaran: The SSBeauty capex is very, very small. I mean probably it will be less than INR 10 crores next year.

Moderator: The next question is from the line of Aliasgar Shakir from Motilal Oswal.

Aliasgar Shakir: I had a question on the growth over the next two, three years. So slightly longer question. So if Venu had mentioned that we are planning, we would double our revenues, over the three year period, I think that was FY'20 number. So as of now, if we see, we -- from FY'20 numbers, have -- if I see the GAAP numbers, then our growth is relatively prepaid. And you also mentioned SS versus pre-COVID is about 1%. So how should you see over the next two years this growth being? One is that is renovation, renovate the store going to have a reasonable jump from here that should drive growth for you?

And secondly, what proportion of growth can come from the new store addition. I know the number you have mentioned, but incremental revenue that can come from the beauty and probably margin improvement from private label. So if you could just take it down and explain that guidance on doubling of revenue, how are we placed there?

Venu Nair: So if I break that down and how we are looking at it, the growth from our current business would have -- would be from 2 engines, the like-for-like growth and growth from new store addition. And these two combined together, we expect a CAGR of 20% every year. And then the distribution business would add on to that. Apart from that, we do have a couple of other plans, which we will bring in the subsequent quarters as we crystallize on to them.

Aliasgar Shakir: And the 20% growth that you mentioned, if you could break it down, the new store addition, if see building about close to 12-14 stores from departmental and even in beauty, that should be about 10%-12% growth and maybe high single-digit SSSG. Is that what you are hinting?

Venu Nair: Absolutely. We would be looking to mid- to high single-digit like-for-like and the rest coming in from new store additions.

Aliasgar Shakir: So that will be about 20% growth. But even with the 20% growth, we will not touch doubling of revenue. So you think -- the contribution from these new engines of good that you hinted will be very meaningful in the range of about 20%, 30% plus? Or they would be, relatively lower?

Venu Nair: The new engines of growth would lead to substantial numbers coming in the year two and year three, as we had just touched upon. And that would definitely help us to add to the existing numbers that we just talked about.

Aliasgar Shakir: One, of course, is the B2B and the other, we have not disclosed our plans yet?

Venu Nair: And we also have the SSBeauty, which we just talked about.

- Aliasgar Shakir:** And what about the margin improvement, how meaningful that should come by because I'm just asking from two point of view. One is renovated stores, what should be the contribution from them in revenue? I understand from margin, it should be significant given that new store typically do much higher SSSG. And then from many other of these levers of growth that you are hinting in terms of SSSG improvement, how should that play out in terms of margin?
- Karunakaran:** Aliasgar, Karuna here. I think we discussed normally-- we don't give guidance on the margin. I can give you an overall number. See, our margin should improve for a number of reasons. One, the private brand mix should be improved.
- Second, as you rightly said, the new stores are of smaller space, and then that should deliver a higher margin. So what we expect is probably a high single digit in the next two years. And from three years from now, it should be close to a low double-digit number. So these are the margins what we are internally targeting.
- Moderator:** The next question is from the line of Visha Sheth from Anvil Wealth.
- Visha Sheth:** Sir, when you mentioned that with the like-to-like growth was 1%. And you also mentioned that the December momentum was strong. So how are we getting the 18% growth since the like to like is this 1%?
- Karunakaran:** So the like-to-like 1% was pre-COVID, which Venu said. If you are comparing the like-to-like growth Vs last year, we are around about in mid-double digits, close to 15 to 16%, and the overall mix is 20%.
- Visha Sheth:** Sorry missed on that pre-COVID part. And secondly, sir, on the margin front. Sorry, I missed one line of what you said on the improvement of margins, what are the levers? First I heard the beauty distribution business, but that would be on the subsidiary. On standalone basis, what can help in the margin?
- Karunakaran:** What we said was our overall strategic pillars, the private brands with higher margin should improve the overall mix. And that should give us -- that's one lever.
- Second, our new stores being smaller in size will have a higher throughput, and that should also increase the overall margins. Plus, our fixed cost will not be linear to sales. So that will also be fixed. These three things will help us to improve the overall margins.
- Moderator:** The next question is from the line of Gaurav Jogani from Axis Capital.
- Gaurav Jogani:** Sir, my first question is with regards to the SSSG. If you can, sir, please clarify. I think there was a lot of confusion between the walk-in and the SSG numbers. So if you can just highlight what has been the SSG growth on a Y-o-Y basis and versus the pre-COVID levels?
- Karunakaran:** Gaurav, I'll just clarify, the SSG growth versus last year is 16%, versus pre-COVID is 1%.
- Gaurav Jogani:** Sure. And sir, my next question is with regards to the gross margin. So if you see typically Q3, we generally have a higher gross margin due to the better sales mix at the festive season coming

in. Then this time around, if you see our gross margins haven't expanded to that extent. That's largely actually been declining on a Q-o-Q basis. So if you can explain the reasons for the same in this light, how do we see Q4 because people being a season where we typically see some discounts are coming in?

Karunakaran: I am not sure from where you got this number because even this is last year or even pre-COVID, our gross margin remain more or less constant. Probably here and there, 10 or 20 basis points. Other than that, it remains largely constant. This is the pre-COVID or even this is last year.

Gaurav Jogani: Sir, I'm saying Q-o-Q. So basically, in Q2 FY '23, if you see the gross margins on the long-term basis was around 32.7. I'm excluding the other income here. And if you see from this quarter, it's 32.3 to that extent. And hence, it's a Q-o-Q comparison because Q3 generally, you see a gross margin expansion usually?

Karunakaran: I am not getting that number. We're having a different number. Probably Gaurav what we can do is we can discuss with you offline. I mean, you have my number. Let me understand what are your numbers and then we can probably discuss that. One thing I would add, the GAAP numbers also include consignment sales treated in a different way. So let me understand what is it and then I can talk to you.

Moderator: The next question is from the line of Shalini Gupta from East India Securities.

Shalini Gupta: Sir, just one question on the other income. So this quarter, the other income is up 68% Y-o-Y. And during the course of this presentation, sir had mentioned that there is a INR 17 crores adjustment or something we were saying, which if you could just repeat that.

Karunakaran: Let me give you what is the other income includes? In our non-GAAP income, other income includes a space on hire, plus other income from the loyal members. It can be the normal loyal numbers and the black card members. These are the three large items.

And when we said during the speech, we had provided interests in the previous years, which now that particular section has been repealed, because of which we have reversed INR 20 crores, out of which INR 17 crores has been included in other income. So that comes to around about INR 32 - 33 crores. So that's the breakup of other income, Shalini, for Q3.

Shalini Gupta: And sir, my second question is like Arcelia is a private brand for beauty for Shoppers Stop. So what is happening to Arcelia now? What are your plans?

Venu Nair: On Arcelia, we launched in this quarter, we've now launched lips and nails. And as you would see, the range is now largely in place, and it is about building scale into that. Currently, within the Shoppers Stop ecosystem, it is within the top three in each of the categories that it operates in. And we would look to take this further and beyond the Shoppers Stop ecosystem as well. With that, it grows the brand as a whole.

Shalini Gupta: Sir, could you just quantify how much -- how big Arcelia is?

Venu Nair: Again, we don't really break down individual brands, Shalini.

- Moderator:** The next question is from the line of Jignesh Kamani from GMO.
- As a participant left the queue, we'll move to the next participant, which is Tejash Shah from Avendus Capital
- Tejash Shah:** Sir, first question pertains to our B2B business. If I understood correctly, we are targeting INR 500 crores turnover by FY'25. Is that the current understanding?
- Venu Nair:** Yes.
- Tejash Shah:** And so this will be a wholesale price you said, right?
- Venu Nair:** This would be at the retail price.
- Tejash Shah:** Retail. And sir, how much capital...
- Venu Nair:** Sorry, when you say wholesale, this is the price at which the subsidiary business would sell. That's what I meant.
- Tejash Shah:** Yes. So as a customer, they'll be -- at MRP, it will be at least 40% higher, I'm assuming?
- Venu Nair:** Roughly, yes.
- Tejash Shah:** So to kind of create that kind of business, how much capital will have to infuse in the near term, including what we have done now?
- Karunakaran:** Tejash, I just said that. What we are doing is we have infused INR 5 crores. We are planning to infuse under the INR 25 crores as preference shares probably either this month or beginning next month. We are also planning to buy INR 20 crores. And as we expand the business, we will do a combination of issue of preference shares as well as borrowing from the bank for the working capital.
- Tejash Shah:** Sure. And sir, this capital would largely go in creating logistics or warehouse capabilities? Or are there any other plans also?
- Karunakaran:** See, we have an existing warehouse, that's sufficient for us to cater this demand. This capital will be largely for the working capital, which is inventory as well as the receivables because we are also targeting companies other than Shoppers Stop to sell these products.
- Tejash Shah:** And sir, just to understand this business better, let's say I'm a dealer on beauty products. I have a shop. What will be my incentive? Or what will be my reason to switch from existing distributor to Shoppers Stop or SSBeauty?
- Venu Nair:** I think, what I would clarify and emphasize is that, each of these brands that we are getting into, we would have the exclusive rights in the country. So we are not switching distributors the Global SSBeauty will be the only opportunity for you to get that brand into your store.

- Tejash Shah:** Sure. So sir, are we making any minimum investment guarantee for these brands to do marketing activity because we'll have to create markets for this brand?
- Venu Nair:** The investments required for building the brand would be done jointly or by the brand itself and would be a part of the total commercial agreement that we would have with them. There is definitely an investment that is factored in, but that is something which is in agreement with the brand.
- Tejash Shah:** And so you spoke about financial capital. But what kind of manageable capital will need because this is slightly out of our comfort zone kind of business versus what we have done as a company. So will we need the talent pool perhaps if you can elaborate on that as well?
- Venu Nair:** Yes, the talent pool required for this, we already have started building the team, and we do have a good team already in place. It is set up as a different vertical and a different business and operates on a different floor, and that's the way we are building it.
- Tejash Shah:** And lastly, sir, do we see ONDC as an option to kind of bypass the stage of like creating a direct D2C consumer franchise without getting into this. Because at that certain level, ONDC is kind of trying to create the disruption by and powering all the stores to go direct to consumers. So are we kind of even thinking on that line, how to kind of think out of the box and leverage some of these opportunities which are coming at the peripheral of the ecosystem today?
- Venu Nair:** We have engaged with ONDC and we have had initial discussions with the ONDC team. And it's certainly an exciting opportunity that we see to be able to expand our reach and we would -- as we are upgrading our own shoppersstop.com, ONDC would certainly be on other platforms that we would be looking at.
- Karunakaran:** See, one last Rutuja. Amar from Nippon is here. He has sent questions to us. We believe, by and large, we have answered the questions. If Amar is still there and if he has any further questions, we can take that. Probably what we will do is we will connect with Amar one-on-one separately.
- Moderator:** Ladies and gentlemen, that was the last question for today. On behalf of Shoppers Stop Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.