

SEC/52/2022-23

July 29, 2022

BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai 400 001. <b>Stock Code : 532638</b>	National Stock Exchange of India Limited Exchange Plaza, Bandra-Kurla Complex, Bandra (East), Mumbai 400 051. <b>Stock Symbol : SHOPERSTOP</b>
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**Sub: Transcript of Earnings Conference Call – Q1 FY23**

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Company had filed letters ref. no. SEC/43/2022-23 dated July 19, 2022 in respect of the analyst / investors conference call and ref. no. SEC/50/2022-23 dated July 28, 2022 in respect of Audio Recording of analyst / investors conference call, on **Wednesday, July 27, 2022 11:00 a.m IST** to discuss the corporate performance for the quarter ended June 30, 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 July 27, 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*  
**Vijay Kumar Gupta**  
 Vice President- Legal, CS & Compliance Officer  
 ACS No: 14545

Encl: aa

# SHOPPERS STOP

## “Shoppers Stop Limited Q1 FY2023 Earnings Conference Call”

July 27, 2022



**MANAGEMENT:** **MR. VENU NAIR** – CUSTOMER CARE ASSOCIATE,  
MANAGING DIRECTOR & 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 & ACCOUNTS –  
SHOPPERS STOP LIMITED

**Moderator:** Ladies and gentlemen, good day and welcome to the Shoppers Stop Limited Q1 FY2023 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Mamta Samat. Thank you and over to you Madam!

**Mamta Samat:** Thank you Aman. Good morning everyone and thank you for joining us on the Shoppers Stop Q1 FY2023 earnings conference call. Today, we have with us the senior management represented by Mr. Venu Nair, Customer Care Associate, Managing Director & Chief Executive Officer, Mr. Karunakaran Mohanasundaram, Customer Care Associate and Chief Financial Officer, Mr. Jaiprakash Maheshwari, Customer Care Associate, Vice President Finance & Accounts. We will begin the call with the opening remarks from the management after which we will have the forum open for the interactive Q&A session. I must remind you that the discussion in today’s earnings call may include certain forward-looking statements and must be viewed therefore in conjunction with the risk that the company faces. Please restrict your questions to the quarter and yearly performance and to the strategic questions only. Housekeeping questions can be dealt with separately with the IR team. I would now request Mr. Venu Nair for the opening remarks. Over to you Sir!

**Venu Nair:** Thank you Mamta and good morning friends. Thanks for joining us today to discuss the Shoppers Stop financial results for the first quarter of FY2023. As Mamta mentioned along with me I have got our CFO, Karuna and Jaiprakash, our VP. We had shared our Q1 results, the investor deck, and the press release with you, and I am sure you had a chance to go through it by now. In the next few minutes I will talk to you on our Q1 performance, progress on our strategic pillars and the way forward. In April while speaking to you on our Q4 performance for FY2022 I had indicated that we had a strong March month and the momentum is continuing in April, indeed we have had a very good quarter and I am delighted to share that we had the highest sales and profits in the first quarter of a financial year in the history of Shoppers Stop. More importantly this momentum is carrying on. All our financial KPIs such as sales, gross margin, EBITDA, and profit have witnessed strong growth. Sales itself grew by 383% and on EBITDA we made 67 Crores as against the loss of Rs.116 Crores in the first quarter of last year. Even against pre-COVID sales numbers our non-GAAP sales grew by 8% while EBITDA grew by 37% versus pre-COVID. This is despite the end of season sales getting postponed by 10 days this year, had the end of season sales scheduled happened on the same day as that of the pre-COVID we would have registered a growth of 13% in sales and corresponding profits would have been higher by that much.

On some of the other KPIs our gross margins have improved by 540 basis points, this is primarily due to the lower base of last year and the lower markdowns that we had in

this current year. Our average selling price has grown by 15% further substantiating the strong consumer demand particularly the bridge to luxury categories and the premium categories that we are focused on and these have outperformed during this quarter. Another indication of this is the fact that our average bill value grew by 7% year-on-year. We have now had 8 consecutive quarters of increasing average bill values and this just shows the sharp focus that we have had on our premium categories is being awarded by our customers.

Our digital channel continues to outperform with a growth of 29% on a significantly higher base. On the operational costs we continue to save versus FY2020 on a like-for-like basis and this is despite a large inflation in lease rentals. Our operational investments in new stores and e-com was 33 Crores and they are being profitable. With the strong sales and the tight control on cost we reported an EBITDA of 67 Crores on a non-GAAP basis or 168 Crores as per GAAP financials. On expansion we are back on the track in terms of opening of new stores and in the quarter we opened six new stores, which break down as two department stores, three beauty doors and one airport store. Our capex investment in new stores was 21 Crores. Our plans to open 12 department stores and 15 beauty doors for the year are on track. As always our capex has been funded through our internal resources. We reduced our working capital by 67 Crores and our cash from operations remain positive. Overall there is a transformation of the retail landscape. Customer experience is the new reality. A host of global trends such as changing demographics, increased urbanization and hybrid ways of working are coming together to propel large stores like us to change the role they play in people's life. Now when customers visit our stores they are looking for multisensory experiences simultaneously keeping comfort and hygiene in mind.

Going Omni channel has become an integral part of our strategy. I spoke about wardrobe reboot in the last two quarters. This reboot and the steady recovery of demand post-COVID have now moved onto Omni channelization and that will gain momentum from now on. Customers are being provided information on offers, promotions and unique experiences not just in the physical stores but also on their mobile devices. This digital transformation of retail is real and I am delighted to share that we have adopted and embraced it. In the true sense with our offline presence and the strong online presence we are the true Omni channel retailers and that is being rewarded by our customers.

I will now talk to you in detail about our strategic pillars. The first one is on First Citizen and our First Citizen has been our loyal customer and they have been instrumental in our growth. With our increased offering on premiumization and various other initiatives our sales from First Citizen continues to grow. We had 63% of our sales from repeat customers on First Citizen and a further 16% from new First Citizen customers who enrolled during the quarter, first resulting in 79% of our total sales being from First Citizen customers. During the quarter we enrolled six-and-a-half times more First Citizen customers and in the premium black card program we enrolled five times more customers than the corresponding

quarter in the last financial year. Just to remind everyone our black card program is the annual subscription program within our First Citizen wherein our customers pay Rs.4500 enrollment fee or an annual subscription fee and this is the segment within our First Citizen base that is growing spectacularly. Some of the key features on our First Citizen program itself I would like to also share with you. Firstly, the median age of our First Citizen consumer continues to reduce and this is happening because we expand our offer to bring in the young consumers into our stores and online. More than 75% of our members are shopping for women categories, specifically on private brands our penetration within First Citizen customers is 50% and our engagement continues to be very high. We have automated replenishments for our beauty products, which is very critical and we have also created a point-based incentive program campaigns every month. Specifically, on our black card First Citizen customers we have revamped the on-boarding communication and the experience and the basket of benefits that they get continues to grow. Further on personal shoppers the contribution has been consistent and for the quarter they contributed 10% of our sales, here the average ticket size is over three times of our normal ticket size. We have done several local events to spread the awareness of our personal shopper. In the last quarter, I had announced the launch of co-branded HDFC Shoppers Stop credit card. I am pleased to share that we have additional members through the co-branded credit card as we engage with HDFC Bank in a synchronized manner and I am confident that many more HDFC Bank credit card customers will join through this program.

Moving to a second strategic pillar of private brands we have had a fantastic quarter on private brands clocking the highest sales ever in a quarter. Our private brands grew by 29% and our share of private brands within apparels has now grown to 21%. Specifically talking of some categories in kids we have been growing at over 100% for the last four quarters and even in this quarter we grew by 181% over pre-COVID numbers. Our focus on women's wear has yielded good results and our women's wear and Indian wear put together grew by four times. Specifically for women's private brands we now have Sanya Malhotra as the brand ambassador. For the summer season we had Sanya for Fratini and the brand grew by 120% vs pre-COVID. In the coming seasons we will have Sanya associated with our other women's wear private brands as well. The average selling price for our private brands increased by 50% during the quarter. Our volume more than doubled and our private brand contribution is at a healthy 15% at an overall level and as I said before within apparel 21%.

Moving to the third strategic pillar on beauty and our beauty grew by 321% over last year with a mix of 16.0% to our total sales. Our fragrance top 10 brands grew by over seven times. Our growth in beauty would have been higher, but the supply chain disruptions that we had experienced due to the disruptions in Ukraine. Our private brand sales within beauty have also been impacted because of the supply chain issues this time from China; however, despite these issues our private brand Arcelia grew by 8x and we have seen good sales coming in from a number of the new brands that we have introduced specifically Indian

beauty brands and we are continuing to bring in more beauty brands to cater to the aspirations of the customer. During the quarter we launched over 30 digital first brands on shoppersstop.com. We have also opened three beauty stores during the quarter. We now have seven SS Beauty stores trading and we are very satisfied with the performance of these stores. We will continue to open more SS Beauty stores, which is a key part of our beauty strategy. Further to complete the Omni channel experience we will be launching ssbeauty.in in the month of August as I had shared with you in the last trading call.

Moving onto our fourth strategic pillar Omni channel we have been leaped probably in our digital sales and for the quarter this grew by 29%. This is significant considering that we have had a large base in FY2022 largely on e-com space especially as stores were shut for a period in the first quarter of last year. As mentioned earlier we are a true Omni channel retailer and we are now serving customers across stores and online and have had 105% more visits across the channels. It is important for us to look at the customer journey across both channels together and that is what we have now been doing over the last few months. Transaction size increased by 6% in the digital channels and 38% of our total sales in this channel came from our First Citizen customers. As I spoke a few minutes back customers are looking forward for an Omni channel experience. I am glad to share that we have been investing and continue to invest in the Omni channel experience especially on analytics, on data, on content, all of which enables us to engage with our customers in a much better way. The investments made in the data lake last year has enabled us to have better cohorts of our customer helping us to personalize and cater to the leaps and aspirations of our customers in a much more focused manner. With our Omni channel retail, marketing, and service strategy in place, we are now reaching and engaging with our customers in whichever channel they choose to engage with us. As you all know majority of the customer journeys today start online before being completed either in store or online. We see the journeys weaving across various channels through shopperstop.com, social media channels, etc., as Omni channel integrates offline and online, internally we have decided to stop tracking our digital sales separately, as the journeys are merging and the lines are getting very blurred.

Finally, on expansion, we opened two departmental stores, three beauty stores and one airport store during the quarter. Our pipeline of new stores continues to be strong and as I said before I reiterate that we expect to open 12 to 15 department stores in FY2023. In summary, we have grown in the last five consecutive quarters and as I speak our July month continues to be very strong being one of the strongest months that we have had. We had great plans for the festive season ahead with our Omni channel firing on all fronts. The strategy that we have put in place is coming together nicely and working well for us and we intend to continue to focus on that as we go forward. Thanks for listening patiently and we will now open up to questions. We have quite a few questions, which in the interest of making sure that everyone who has dialed in get an opportunity first. We will take questions

first and then answer the questions that we have got. Mamta we will open the call for questions.

**Moderator:** Thank you very much. Ladies and gentlemen we will now begin the question-and-answer session. We have the first question from the line of Nihal Jham from Edelweiss. Please go ahead.

**Nihal Jham:** Thank you so much and good morning to the management and congratulations on this great performance. Sir, three questions from my side, the first one was you have mentioned about demand trends for July and they are continuing strong, why is this, I want some more color on the same is because obviously the April to June quarter as you said had a lot of revenge element or wardrobe refresh aspect as you highlighted, so moving into July what are the kind of trends that we are seeing, is it a similar kind of trend in the wardrobe refresh continuing or you think this is the organic footfall that you see pre-COVID, just wanted to understand that because slightly contrary to maybe what I was picking up and I was doing sort of checks?

**Venu Nair:** You had said two to three questions, is that all or you want to cover all the questions?

**Nihal Jham:** I will just tell the other two, if you could give me physical visits also in Q1 FY2023, you have clubbed I think the online visits also if that is possible and the last one was on the EOSS comments where I think you mentioned that your sales would have been 30% higher had the EOSS started on time I wanted to confirm that, so these are the three questions from my side?

**Venu Nair:** Thank you. So on the July trends the momentum has been continuing into July and while there was a little bit of a softening if I were to split sales in the previous quarter, April and July were extremely strong, first half of June was slightly weak and after that it sort of seem to gather momentum back and that has continued into July and we are seeing very strong growth and I do not want to get into specific numbers for July, but all I can share or what I can share is that it is definitely probably better than what we had expected so far, so that is what I would say. In terms of your second question on physical walk-ins, if you were to look at it compare it to pre-COVID numbers it was almost flat, again we are not comparing against last year because it is meaningless and hence comparison to pre-COVID and finally your third question on EOSS it is not 30% I wish it was, but that would have been spectacular, it would have been grown, it would have been higher by 5% the overall quarter number because the end of season sale and especially the first two weeks of industry wholesale does have a fantastic response that we do get, so against the 8% that we reported it would have been 13% so higher by 5% or 500 basis points.

**Nihal Jham:** Understood, just one followup if I may that the EOSS in the Q1 2020 started on what date I am guessing they started the same in July, is that the right understanding?

- Venu Nair:** No, it started on 13<sup>th</sup> June in 2019 , and this year it started on June 23, 2022, so 10 days shift.
- Nihal Jham:** Sir, that is helpful, I will come back in the queue for further questions. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.
- Percy Panthaki:** Sir, just wanted to understand on a slightly longer-term let us say three-year kind of horizon what is the total square footage that you would want to add across department stores as well as the other formats?
- Venu Nair:** So, our plan is to add 12 department stores every year for the next three years and between 15 to 20 beauty doors every year, so if I were to compare the two that would yield to about 300000 square feet per year or a 15% to 20% increase on a yearly basis.
- Percy Panthaki:** Basically we do not expect any issue in terms of identifying and procuring suitable locations for these stores?
- Venu Nair:** Finding the right location of course I would not say challenge but it is something which is we give a lot of focus and attention to. Having said that when we look at the pipeline for the next two years we have a very robust pipeline and fairly confident that we would be able to achieve those numbers and obviously for the third year the process is on, so broadly we do not expect that to be a challenge.
- Percy Panthaki:** Understood and when you are giving this guidance of 10 to 12 stores per year you are sort of building in buffers for normal builder delays, etc., in terms of actually commencement of the stores, etc.?
- Venu Nair:** We have built, it is 12 department stores and 15 to 20 beauty stores that we have budgeted and we have built in buffers, but as you probably know better than me we can never build in enough of a buffer but having said that when we say 12 to 15 we actually have a longer pipeline or a longer list internally, so to that extent we should be able to achieve those numbers.
- Percy Panthaki:** Understood, secondly wanted to understand from the digital sales, which is currently at 4.7% now this quarter has been completely normal from a COVID point of view, so in a normalized quarter your digital sales is about 5% where do you see this number going on a three-year horizon?
- Venu Nair:** As I was sharing earlier Percy increasingly the customer journey is getting blurred across online and offline and hence measuring it separately as just online is not necessarily the



right indication of how much of engagement we have online specifically for us because we are in the unique position given the physical presence that we have and at the same time the strong digital presence that we are now having we are probably one of the Omni retailers, which have got a strong online and offline presence today and going increasingly into Omni channel doing the way we look at it, so we use online to drive engagement, to drive visibility and a lot of specially because we have high bill values and when customers are choosing to buy high value products, many a times they would prefer to physically see it, feel it, and touch it before they buy specifically in categories like beauty, watches or even apparel and hence while it is 4.7% and we reckon that **against that our** sales would definitely be heavily influenced by online if not higher, even today we reckon that 60% to 80% of all our sales would have originated online where customers have chosen to visit us on shoppersstop.com, see what is there before they walk into the store and we expect this to get even higher as our online UI/UX improves even further, which is something we are continuing to work on. Specifically, we also see the First Citizen customers and how they engage with us and that is something where with data we are able to see the engagement that we get both online and offline, so absolute value will continue to grow and mix will be a derivative of the whole journey across online and offline.

**Percy Panthaki:**

How will you report the same store sales growth from now on, supposing if someone has ordered something on your app and that has generated some sales how is this particular transaction be accounted for in your same store sales growth reporting?

**Venu Nair:**

I think it is a very good question and these are some of the I would not say challenges but intriguing points that we do internally debate as well, now when it comes to same stores it is easier because the store is a store and somewhere shopperstop.com is treated as a store or we will continue to treat it as a store; however, as I had just said before the Omni journey does mean that they could have started the journey offline and bought online or vice-à-versa and hence to that extent there will be an influence and both the channels meshing across each other.

**Percy Panthaki:**

Sir, the reason why I am asking this is that we are investing this 12 Crores in the Omni initiatives per quarter approximately, so how do I evaluate what kind of benefit we are getting from this 12 Crores investment in the topline?

**Venu Nair:**

See, today digital and we all know this, the fact is the experience that customers have online is absolutely vital for you to be even in the consideration set and that is something both through our research and talking to our First Citizen customers and looking at their journeys we can see that where while they may have chosen to buy from us offline the journey started online and hence the investment that we do into online should not be measured only through the digital sales it has to be measured through the total sales what we get because the benefit is across both.

**Percy Panthaki:** Understood and last question from my side, you have done approximately 5.5% EBITDA margin non-gross sales this quarter, I just wanted to understand the two separate effects, one is you said this quarter had lower number of sale days, so this would have probably had a positive effect on your gross margin because sales would happen at a lower gross margin, but on the other hand it reduces the overall topline and therefore there will be a operating leverage effect, which is negative in nature, so which of these two effects is larger, is it a net positive or is it a net negative on EBITDA margin perspective?

**Venu Nair:** I would say that it was a net negative on the EBITDA margin because the surge in sales that we get during the end of season sale thus make up for the drop in the absolute gross margin percentage, so it makes up the absolute number or the absolute margin that we make tends to be higher during the sale period especially the first few days of the sale.

**Percy Panthaki:** Rough quantification possible instead of 5.5% this would have been what 5.8%, 6%, how much could it have been if the sale days have been normal?

**Karunakaran M :** Percy if you are talking specifically on gross margins it would be probably a point slightly higher because you are aware on our brands the margins remain the same whether end of season sale starts in 10 days before or 10 days after there will be some drop in the private brand margin, so probably yes, 6.5%, 6.6% would be the ideal number.

**Percy Panthaki:** The sales have been normal?

**Venu Nair:** Yes, that is right.

**Percy Panthaki:** Thank you very much.

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

**Ankit Kedia:** Sir, my first question, what is the SSG growth compared to pre-COVID if I see because 15% is the ASP growth, our topline is grown lower compared to pre-COVID, we have also had 10 departmental stores opening in the same time, so if you can just quantify volume growth and value growth compared to pre-COVID on SSG basis, it could be helpful?

**Venu Nair:** I mean I lost you for the first 15 seconds, could you just repeat the first part Ankit?

**Ankit Kedia:** Sir, I wanted to know the SSG growth compared to pre-COVID given that we have had a 15% ASP growth, we have had nearly 10 departmental stores opened compared to pre-COVID, so I just wanted a breakup of the volume decline compared to pre-COVID numbers and that is the opportunity for us to go back to in the next two to three quarters at least on the volume side, so just wanted that breakup?

**Venu Nair:** So, to pre-COVID numbers the same store sales both sales and volume were broadly flat and conversions were slightly lower especially because of the end of season sale does drive a higher number and the ASP growth also to some extent would be influenced by the same factor that end of season sales have moved back.

**Ankit Kedia:** Sir, despite store opening our revenue growth is around 13%, so you are saying an ASP growth is also 13%, so you are saying despite that our SSG is flat compared to pre-COVID?

**Venu Nair:** Yes, while we opened new stores also I think what given that we are comparing now against three years back in fact not even three, four years back because we are comparing against June 2019, we have also had store closures, so if I were to factor in the same store, the EOSS date change then it would have been a positive 5% if the EOSS had been the same, so I think that the right way to look at it is that like-for-like sales would have been plus five.

**Ankit Kedia:** Sir, my second question is on the beauty side of the business what is the online contribution of beauty today and how are you looking at ssbeauty.in, what is the investment expected and do you think some cannibalization from shopperstop.com to SS Beauty would come in, how is the positioning and marketing expected for this new app?

**Venu Nair:** So, as I mentioned, SS Beauty stores we now have seven and that is something we are continuing to expand on and this we are growing our standalone beauty format to offer our customers the experience, opportunity to physically come in whether it is makeup, makeovers, the makeup artist that are in stores or fantastic ambassador to the branch that we retail and that gives a whole beauty environment in which the customer shopping, at the same time as an Omni channel retailer it is important that we are able to also augment that physical experience with an online experience and that is why SS Beauty. in, so that it completes the customer journey and again it is today the customers journeys are completely interwoven and moves across online and offline seamlessly and it is important for us to be able to offer that seamless experience for our customers and hence ssbeauty.in. I would not separately call out the marketing investment that goes into because what we do on ssbeauty.in is literally our 360-degree marketing expense for both offline and online and that is the way we look at it. In terms of cannibalization from shoppersstop.com, we believe the growth that is there in the retail business and specifically in the beauty industry would more than make up for whatever small amount of cannibalization that we would have. I think also important to call out that even today apart from to shopperstop.com, with as part of our partnership with Estee Lauder we manage the mac.in, clinic.in, etc., standalone side, so that is also another channel through which we are serving our customers and it is about being present across channels for our customer wherever they choose to engage with us. I want to reiterate that beauty as a market is massive and it is something which we are absolutely doubling down on. To your specific question 21% of our online sales is beauty.

**Ankit Kedia:** Sure. Sir, this is a followup on this, if I look at the overall contribution of beauty over the last six to seven quarters has been in that 15% to 16% kind of a ballpark mark, what is the inflection point you think that this contribution would increase because it is growing in line with the company sales, the investments on the private label side of the beauty, the investments on the stores opening side is not visible at the sales level to us, so how should we look at this number moving or the KPIs and when do you think the inflection point expected?

**Venu Nair:** I think we will need to give it the next three to four quarters for that impact to come through because overall we opened three stores and at the moment we are at seven SS Beauty stores, so given the total size of our business it is still relatively small. I also mentioned that specifically in the last quarter beauty was the one category, which had supply chain issues because of the disruptions in Ukraine and also the difficulty of import from China and both of these places are big when it comes to international beauty brands that is something which we expect to stabilize by August, so that should help, but specifically to the overall beauty percentage we would see the participation in the total business go up over the next three to four quarters.

**Ankit Kedia:** Lastly on the beauty side like we have had partnership with Estee Lauder for exclusive EBOs for more than a decade now, you have added around 130 brands over the last four, five quarters, do you think any of these global brands would like to partner with you for exclusive offline EBOs like Estee Lauder or you are focusing more on SS Beauty currently and not on third party brands for EBOs?

**Venu Nair:** We are doing three things, of course our partnership with Estee Lauder is strong and we continue to grow that. We are also in conversation with a number of brands and some of them where we are looking to have exclusive partnerships and that is something which we will report as soon as that gets finalized and the third we would also within SS Beauty bring in brands, which would be available either exclusively on SS Beauty or on a limited basis, so three things that we are doing there.

**Ankit Kedia:** Sure, that is helpful; I will come back in the queue for more questions.

**Moderator:** Thank you. We have the next question from the line of Gaurav Jogani from Axis Capital. Please go ahead.

**Gaurav Jogani:** Thank you for the opportunity. Sir my first question is with regards to the expenses line items, while we do understand that the gross margin has seen a good expansion on account of the lower EOSS and the higher private brand sales, but at the same time your employee cost and the other expenses even on the non-GAAP trend has seen a sharp increase on a Q-o-Q basis, so if you would like to highlight is there any one-offs in these or are these numbers sustainable now going ahead with the normal addition sitting in?

**Karunakaram M:** Thanks Gaurav. Thanks for that question. See, please understand compared to the last couple of quarters we have opened nine stores of that largely is added in the fourth quarter and sequentially quarter-on-quarter it is not comparable, so that is one of the main reasons for the increase in expenses, other than that like the recent inflation on employment plus there is an inflation on lease costs, so these are the two normal inflations and there are no one-offs in the Q1 cost, it is primarily because of inflation plus a lot of new stores what we have opened in the last one and one-and-a-half years.

**Gaurav Jogani:** Sure Sir. So if I understand you right, these costs now are sustainable right we can extrapolate this for the rest of the year as well?

**Karunakaram M:** Absolutely you are right, probably it should settle down between 340 and 345 per quarter that is our expectations, Gaurav.

**Gaurav Jogani:** Sure Sir and in conjunction to this also actually the depreciation cost actually have seen a decline on a Q-o-Q basis, ideally because the stores are getting added we would have expected a depreciation to go up, but this has seen a decline, so anything there you would like to call out?

**Karunakaram M:** That is again a very good question Gaurav. See, we follow a straight-line method on the depreciation, lot of assets that got retired last year and that is the reason there is a reduction in depreciation, again on an annual basis extrapolating this 30 Crores odd is depreciation we should have an annual depreciation of between 125 Crores and 130 Crores.

**Gaurav Jogani:** Sure, Sir. Thanks for this and Sir, my last question is with regards to again like one of the previous participants has asked so even if we look at a three-year CAGR basis in terms of the topline growth and if I just for the 5% incremental growth loss to the EOSS still it would grown at 5% CAGR and given the fact that there has been a lot of engagement in terms of ASP, the growth seems to be a bit tepid, so is there anything that you would like to highlight that that would further boost the topline growth going ahead?

**Venu Nair:** Specifically as we said the overall volumes I think cannot be read on its own because of the shift in EOSS base, etc., the two points that I would like to call out one is we had in terms of our full price sales that has been extremely strong and that is definitely helping from our overall margin as well as very little impact on the absolute volume. The second factor which is worth looking at is the growth of our own private brands and the volume growth that we are getting on private brands, which is extremely strong and I had shared some of the volume growth that we have seen in private brands like in kids wear, we have been doubling and we have seen that over the last four quarters, similarly in women's wear we have seen some very strong improvements and that is helping the overall volume to grow up and as we dial down on our private brands and as the growth there continues we would expect our total volumes to rise ahead of the business volumes.

- Gaurav Jogani:** Sure Sir and just one last question if I may, in terms of the gross margin again, the gross margin have seen a smart expansion this quarter I do understand that the absence of the EOSS has marginally boosted it, but what could be a sustainable gross margin going ahead given there was a lot of noise in the base due to the COVID, so if you can help us like what kind of a sustainable gross margin can we expect going ahead?
- Karunakaran M:** Gaurav again thanks for that question. You comparing on a GAAP basis or a non-GAAP basis so it will be easy for us to explain?
- Gaurav Jogani:** Sir, I would say the reported basis once you report the GAAP basis.
- Karunakaran M:** See on non-GAAP basis we have reported 38.6%, a 60 basis point increase over FY2020, this should go up to as we now just spoke about our increase in private brands, the private brands have grown almost 30% this is the pre-COVID level, so this gross margin as we grow the private brand should settle anywhere between 39% and 40% by the end of this year almost 200 basis points increase versus is FY2020, so that is the number we are looking for.
- Gaurav Jogani:** Sir, 200 basis versus FY2020 right?
- Karunakaran M:** You are absolutely right.
- Gaurav Jogani:** Okay, Sir, that helps. Thank you for this, that is all from my side.
- Moderator:** Thank you. The next question is from the line of Sabyasachi Mukherji from Centrum PMS. Please go ahead.
- Sabyasachi Mukherji:** Thanks for the opportunity. A very basic question, so if I look at the numbers of Q1 FY2023 and Q3 FY2022 that is the December quarter last year we have clocked almost similar number of the revenue in terms of non-GAAP almost 1200 Crores, the gross margin, gross profits have improved 392 to 401, but the non-GAAP EBITDA number has sharply come down, can you just explain why this has happened, what is different in this quarter vis-à-vis the Q3 last year?
- Karunakaran M:** Two or three reasons, one on the lease cost, we had some concession in Q3 that did not obviously we have opened the stores in all days and the customer footfall is as good as pre-COVID level, so we did not get any lease concession that is one, again on the lease rentals we have opened more than 10 stores this last year what we are comparing 9 to 10 stores, so that the new store cost is also there on the lease rental. Similarly, there is an inflation on the employment cost plus the new stores, so it is a combination of both, inflation, some of the concessions what we got not only on the lease rentals on the other service providers the last

year because of the COVID and the inflation, so these are the three reasons where you will see an increase of almost I understand that 40 Crores odd in the cost.

**Sabyasachi Mukherji:** If possible can you break up among the three things that you have said this 40 Crores to 45 Crores of additional incremental costs?

**Karunakaran M:** Almost 50% comes in from because of lease rentals and the balance equally shared on our employee costs as well as the other administrative expenses pertaining to the stores.

**Sabyasachi Mukherji:** Lease rentals you mean the departmental stores that we have opened we are incurring rental cost for those right?

**Karunakaran M:** Plus we also got concessions last year because of the COVID impact in Q3.

**Sabyasachi Mukherji:** Going ahead you said that the quarterly run rate would be somewhere around this 343 Crores to 345 Crores odd am I correct?

**Karunakaran M:** You are right, that should be the average cost the quarter from now.

**Sabyasachi Mukherji:** Just one more question, you mentioned 10 to 12 store additions on the departmental front and I think 15 to 20 store additions on the beauty side, so let us say two-to-three-year kind of a horizon where do you see the gross margins and EBITDA margins settling down keeping in mind that we also have store additions to do in the next two, three years?

**Karunakaran M:** Again we do not give any guidance either on gross margins or on EBITDA margins; however, with increased store additions our gross margins will either be sustained or it will marginally improve because of our private brand mix, our EBITDA should also improve like three years from now we should be close to a double-digit EBITDA margin.

**Sabyasachi Mukherji:** Thank you. Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Chetan Sangwan from Bowman Capital. Please go ahead.

**Chetan Sangwan:** Good morning, Sir. Congrats for the amazing set of numbers. Could you please give some colour on growth by category in the apparel segment, so which category that is growing fastest and also going forward which category will be driving the growth in the medium term?

**Venu Nair:** So within the apparel categories the two categories which had disproportionately higher growth compared to the overall business was western women's wear and men's wear for us and I think this was driven by one is the whole mobility and getting back to work happening

and I think especially in western women's wear that is something which becomes quite obvious and that is also a reflection of the fact that we are a destination when it comes to western women's wear where we offer a complete portfolio of brands for the customer to choose from. The other men's wear also I talked about is being very strong and then specifically for us we saw watches as a category, which grew very well and within again I think because of weddings and weddings, which have been postponed which happened especially during the month of April and May I think drove that demand and finally luggage and travel and luggage as a category also saw some very strong growth for obvious reasons because travel is back, people are going out on holidays and I think that is a logical extension as to why that category would grow.

**Chetan Sangwan:** Got it, just a followup question, how is women, wear as a category doing is it back to pre-COVID level or is it still struggling?

**Venu Nair:** Women's ethnic wear has made a good progress and is now at the average of the business itself so while women's western wear was the strongest women's ethnic wear has also caught up and is doing reasonably well now, so during the COVID period it has seen a definite dip, but post-COVID that has come back to the average numbers specifically within that what I would like to call out is our own private brands in ethnic wear has done spectacularly well.

**Chetan Sangwan:** Got it. My last question is around the share of the private labels, currently it is around 20% in the apparels category, so how do you think the share of private label will move across in the next three to five years in the apparels segment?

**Venu Nair:** Currently, it is between 20% to 21% in fact to be specific it is 21%, while I would not like to give a guidance in terms of how it would pan out in the coming years, what I can tell you is that this is an area where we would continue to invest and we do expect this to grow strongly if I could give you an indicator in some of the new stores that we have opened the overall private brand mix within apparel is upwards 30% so that just gives you an indication of the direction we are going in.

**Chetan Sangwan:** Got it. Just a followup, if you could give some guidance or some colour what is the share of private labels in men's casual wear and women's ethnic wear?

**Venu Nair:** I think in all fairness that is getting into a lot more details and what we would like to, so I would not want to go there.

**Chetan Sangwan:** Thank you. That was the last question from my side.

**Moderator:** Thank you. We have the next question from the line of Aliasgar Shakir from Motilal Oswal. Please go ahead.



**Aliasgar Shakir:** Thanks for the opportunity. I had a question on your new smaller format departmental stores, if you could just share what is the kind of revenue, productivity or revenue per store that we are able to do there compared to our older larger stores if you could talk about stores, which you would have opened probably about a year that we would have seen some kind of reasonable revenue stability and the related question there is how your share of private label in those stores is that significantly increased and should that probably increase our share of private label significantly, does it have an ability to go upwards of probably 35% to 40% odd in the next three, four years?

**Venu Nair:** So, firstly in terms of your first question on smaller stores, what you termed as smaller stores and I would like to highlight that these are small relatively, but from a market perspective these are still large between 25000 to 35000 square feet stores, so from our own 45000 to 50000 it is a smaller footprint, our sales per square foot on the newer stores that we opened is upwards of Rs.13000 per square foot, in some of our oldest stores to put that in comparison it was around Rs.11000. In terms of the apparel mix overall private brand mix tends to be around 25% and that is specifically within apparel it is around 30%.

**Aliasgar Shakir:** That is in the smaller size stores right?

**Venu Nair:** That is right, yes, the newer stores.

**Aliasgar Shakir:** So, it is about 30% compared to what would be in the larger stores?

**Venu Nair:** 21% is the company average.

**Aliasgar Shakir:** Got it, so in the context that now majority of our stores that we are opening in this 25000 to 30000 square feet store what kind of number we think we should be able to achieve in a private label in the next probably three, four years?

**Venu Nair:** You have got the guidance already earlier.

**Aliasgar Shakir:** We have been earlier talking about the 200 Crores savings that we have done through our cost optimization, so just wanted to understand when I see your opex I see your quarterly run rate about 25 Crores odd of lower number against FY2020 number and looking at the IGAAP numbers, so it is like 100 Crores savings, is it lower because of the increased spend that we have done in online or how should I look at it because I am seeing in terms of like-to-like area we are pretty much the same versus FY2020 I do not think there is a very material increase?

**Karunakaran M:** Again that is a good question Aliasgar. I just explained the savings are there that was also bigger, there is some inflation that has happened both on the lease rentals as well as on the employee cost and we have also opened number of new stores so more or less if you ask me

are we getting 200 Crores may not be lower than that, but still we get savings on the stores plus like Venu has also mentioned that we do or we are making investments in our Omni channel, so both on the tech as well as on the marketing plus a lot of other new initiatives such as beauty, so most of the savings in fact even in our previous meetings we did say that the savings we are planning to invest and we are investing for the future as well.

**Moderator:** Thank you, Mr. Shakir. I request you to join the queue for any followup. We will take the next question from the line of Devanshu Bansal from Emkay Global Financial Services. Please go ahead.

**Devanshu Bansal:** Thanks for the opportunity. Sir, I had just one question, if you can quantify the lease rental inflation that we are seeing?

**Venu Nair:** Lease rental inflation will be, see some of the stores we have a 15% increase once in three years and some of the stores we have an increase of 5% every year so an average of 6% to 7.5% probably for a quarter, but for a year it will be roundabout 5%.

**Devanshu Bansal:** Sure, thanks for the opportunity.

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

**Kaustubh Pawaskar:** Thanks for giving me the opportunity. Sir, I just have one question on your beauty business, so we have seen recently large online players who have become aggressive in the market and they have been tying up with the brands, the beauty and fashion players, so in that context do you see any competition getting up for you in the coming years?

**Venu Nair:** It is a very fair question and thanks for that. The beauty market is growing ahead of the overall retail market as I think we all know and within that if you look at all the existing players together they are still the headroom available in the market is very large, so to that extent this is an area which will continue to grow and even as the competition both existing and new one comes in the strength that we have both in physical retail and now online will continue to give us that hedge to grow ahead of the market and that is what we would expect to see.

**Kaustubh Pawaskar:** Right, Sir. The number of brands we are launching in this space, how is the traction building up like how are the repeat sales happening in some of these for example some of your brands will launch in the past few years, which gives us an indication that yes, these are the products the traction is building up and this gives us an indication that the growth prospects are good enough to compete with some of these online players and to scale up in the coming years?

- Venu Nair:** Are you specifically talking about beauty prospect?
- Kaustubh Pawaskar:** Yes, I am talking about beauty.
- Venu Nair:** In beauty at this stage we have one private label brand and that is Arcelia and within Arcelia we have launched bath and body, we have got fragrances, we have got deodorants and we have launched nail polishes so far, we would be launching lips and foundations going forward, so it is only when we have finished all of that the basket of offering would be complete as I had mentioned to you we saw a 8x growth on our Arcelia sales from the first quarter of last year, so the overall thing is obviously dramatically high, but as a percentage total it is still insignificant given that it is the entire category is not completed, so as we go forward we would expect the sales from our private brands to continue to grow and would get very, very strong as it progresses.
- Kaustubh Pawaskar:** Thanks for giving me this opportunity.
- Moderator:** Thank you. We take the next question from the line of Ankit Kedia from Philip Capital. Please go ahead.
- Ankit Kedia:** Sir, a couple of questions from my side, in private label while the value contribution on apparel is around 20%, I believe the right indicator would be the volume contribution given that the ASP of private label will at least be 20% to 30% below the other brands operating, so if can you give the breakup between the older stores and new stores what will be the volume contribution because that will show the acceptance of the product to the consumer level?
- Venu Nair:** Fair question, the volume contribution of private label to the overall apparel business is over 25%.
- Moderator:** Thank you. The next question is from the line of Abhijeet Kundu from Antique Stock Broking. Please go ahead.
- Abhijeet Kundu:** My question was on the digital transformation that is happening and you are also heavily investing into it, other retailers are also doing that, so some qualitative understanding on what does it comprise of because there would be a lot of things happening in the supply chain where the lead time would be reducing, so across functions what is the change that we can expect to see and how it help the overall operation of the company the cost of the company going ahead, some colour on that?
- Venu Nair:** Sure. Thanks Abhijeet for that. The investments and the improvements that we are focusing on is across all the faces of customer touch points beginning from the customer discovery point of view the UI/UX online as well as the digital engagement within the store, going

further on the UI/UX content and engaging experience is very, very vital and you will see a significant improvement in that when we launch SS Beauty and going further on ss.com as well in the coming quarters. Then as we move on we will in terms of the overall discovery of the product online and making it a lot more personalized and based on the customer history and again we are blessed with a loyal customer in terms of the First Citizen and using their transaction data to be able to help them we are much more sharper and narrow focus in terms of what would appeal to them which then increases the whole conversions that we would be able to achieve online. If I would want to just give you an example, even today our customer irrespective of whether they have shopped online or offline on the shoppersshop.com as the First Citizen customer they can see their entire purchase history over the last many years whether it is offline or online and that is what the customer is able to see, what we are able to do is to use that data to them we able to offer personalized brands or products depending on what they love and this is something that we will be dialing down further on and this is one area we are investing into, the other area that we are looking into is also the lead time and the delivery part because that is equally important while that is post purchase that is a very important part of the customers journey and using algorithms to be able to get the product into the customer much faster and one of the indicators of that is the speed at which we are able to get product to our customer and that has significantly improved to the extent that today double almost more than 40% of what is ordered with us would be with the customer within 48 hours and that is more than double of what it was last year same time. The other indicator that again shows the improvements that have been made on the customer journey is just the app rating and on Google Play 18 months back when COVID hit our ratings was around 2.7 and today it has moved to 4.5 and it is at par with some of the major online only players and as the Omni channel retailer to be able to offer that kind of experience just illustrates the engagement that we have with our customers.

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

**Tejas:** Thanks for the opportunity. Sir, my question is you spoke about servicing the customer wherever they are and in terms of Omni channel presence, so just wanted to understand the journey of the customer, is it the discovery happens in online platform and fulfillment happens in offline or it is fungible both ways?

**Venu Nair:** It is fungible both ways, and that is something, which we are increasingly seeing where if I were to give you as an example, in the case of let us say watches, it might be something where the customer starts the journey online, does his research, looks at the various products available and then before making the actual purchase comes into the store to see the product probably wear it on his wrist and then buy, so that is one part of the journey, Usually on the other side where in some of our beauty products where it is a repeat purchase and the first purchase for that the customer would come into the store she would want to and let us say the lipstick she would want to check the shade, wear it, feel it and be

comfortable with it and then the repeat purchase would happen online, so it is extremely fungible now and we expect that to continue to happen as we go forward.

**Moderator:** Thank you. I now request the management to answer the questions received online. Request you to takeover please.

**Venu Nair:** Thank you, so the first question was overall area for the company was 4.4 million square feet in FY2022 and now it is showing 3.8 million square feet, if the company is showing carpet area now can you share both the area for the next four quarters for us to get an understanding? What is the industry norm for area carpet or saleable area? The industry norm is carpet, which is 80% of the chargeable area, on chargeable we are now at 4.5 and it may increase to 4.8 million square feet and the carpet area would be 80% of that.

The next question what is the same store growth pre-COVID, I think that is already answered.

The next question was it was around the contribution of private label and again that thing has got answered.

The fourth one Omni channel contribution has reached 5% of revenue, does this level of contribution justify Rs.50 Crores in opex for FY2023, when do you think is the inflection point in Omni channel. I think again I touched upon that or rather went deep into that area, it is not fair to look at the investments only as a investment for digital, because it is an Omni channel business and effectively it has to be seen as an investment for across the entire chain offline and online, most customer journeys will initiate in the digital space and hence it is an absolute necessity and as the offline sales increases due to the impact of COVID and the restrictions moving away, the overall contribution from digital has reduced, but as I said it is really fungible and internally we have stopped looking at them separately as online or offline because that is not a fair way to look at it and even if you were to look at just the digital as I said it has grown by 29% despite the large space.

Next one is on inventory while the total inventory in the system is 1129 Crores private label inventory 360 Crores, ROR inventory is 767 Crores, which is 32% of total inventory, revenue contribution is 14% to 15% are we sitting on very high inventory of private label or expect revenue to grow at an exponential phase, 360 Crores inventory includes private brand as well as national brands, private brand will be about 50% of this because there are a few national brands there also we have an outright model where we buy out the inventory.

Next question is 13% sales growth above Q1 FY2020 is positive, gross margin also back to pre-COVID, EBITDA margin is also strong; however, customer visits have doubled, but does not reflect in revenues to that extent, as an Omni channel business our customer entry, which we showed includes the online visits and the conversion in the online channels does

tend to be lower than in the offline channels. Next one is on employee expenses, they are up 7.5 Crores quarter-on-quarter, I think this was already answered.

The next one is on depreciation, the reported depreciation has fallen by 7.5 Crores quarter-on-quarter despite incremental store additions, however, how should one look at this, what would be a quarter depreciation run rate for us going ahead, we follow straightline method and some of the assets have been fully depreciated last year due to PAT or depreciation reduced by 7.5 Crores, our overall depreciation for the year would be around 125 Crores to 130 Crores. Next one is answered. I think all the others have been answered.

**Moderator:**

Thank you Sir. That would be the end of our Q&A session. Ladies and gentlemen on behalf of Shoppers Stop Limited that concludes today's call. Thank you all for joining us. You may now disconnect your lines.