SEC/29/2024-25 May 03, 2024

To,

BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai 400 001. **Stock Code : 532638**	National Stock Exchange of India Limited Exchange Plaza, Bandra-Kurla Complex, Bandra (East), Mumbai 400 051. **Stock Symbol : SHOPERSTOP**

Dear Sir / Madam,

Sub: Transcript of Earnings Conference Call – Q4 FY24

We refer to the analyst / investors conference call, on **Tuesday, April 30, 2024 11:00 a.m IST** to discuss the corporate performance for the quarter and year ended March 31, 2024 ("Earnings Conference Call") and our letters in terms of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, ref. no. SEC/15/2024-25 dated April 24, 2024 and ref. no. SEC/26/2024-25 dated April 30, 2024, intimating of the call and providing the link for the Audio Recording, respectively.

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

Kindly take the same on records.

Thank you.

Yours faithfully,
For **Shoppers Stop Limited**

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

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“Shoppers Stop Limited Q4 FY '24 Earnings Conference Call”

April 30, 2024

MANAGEMENT: **MR. KAVINDRA MISHRA – CUSTOMER CARE ASSOCIATE - MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – SHOPPERS STOP LIMITED**

MR. KARUNAKARAN MOHANASUNDARAM – CUSTOMER CARE ASSOCIATE - CHIEF FINANCIAL OFFICER – SHOPPERS STOP LIMITED

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

Moderator: Ladies and gentlemen, good day, and welcome to Q4 FY '24 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 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, ma'am.

Mamta Samat: Thank you, Ria. Good morning and thank you all for joining us on the Shoppers Stop Q4 FY '24 Earnings Conference Call. Today, we have with us the senior management represented by Mr. Kavindra Mishra, Customer Care Associate, Managing Director and CEO; Mr. Karunakaran Mohanasundaram, Customer Care Associate, Chief Financial Officer. 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 risks that the company faces. Please restrict your questions to the quarter performance and the strategic questions only. Housekeeping questions can be dealt with separately with the IR team. I would now request Mr. Kavindra Mishra for the opening remarks. Thank you, and over to you, sir.

Kavindra Mishra: Thank you, Mamta. Good morning, friends. Thanks for joining us today to discuss Shoppers Stop financial results for our fourth quarter. I have with me my colleague, Karuna, who's our CFO; Jaiprakash, who is our FP&A lead; and Rohit from IR. I will start with an overall market update, then cover company's performance including KPIs. And in the end, I will speak about the strategic pillars and way forward.

As you are aware, the quarter started with an indifferent note with end-of-season sale advanced in December last. This impacted our Q4 Jan and February performance. The wedding season which led to larger conversions last year was missing this year. I'd briefly covered in the last quarter on the delayed impact of winter which started sometime in January which was delayed by more than 2 months. This overall impacted the performance. However, we saw a smart recovery in the month of March. I will cover the details in the next few minutes.

Let me start with the Q4 performance. We delivered sales of INR1,232 crores with a 5% growth. To give you the right context, our sales are largely flat in January, grew by 6% in February and 13.5% in March. We grew by 9% like-for-like in the month of March. As January is a large EOSS month impacted by advancement of EOSS sales, It dragged the overall growth in Q4. Akin to the previous quarter our performance was driven largely by beauty, Intune and brands, non-apparels in particular. The apparels also had a low single-digit growth during the quarter.

During the quarter, our margins were largely flat versus FY '23. The brand had higher offers due to slowness in private brand is not an exception. The slowness in higher offer resulted in inventory provisioning of INR9 crores during the quarter. Save this our margins would have been higher.

Last quarter, I spoke about our cost base which was built for higher scale. As the slowness continued, we were reassessing our cost base. I'm happy to inform you like-to-like costs were almost flat. The increase in cost is due to three reasons. One due to new stores opened in the last one year. Secondly, new business such as SSBeauty.com and Intune; and thirdly investments in technology.

I'm fairly confident that our new stores and new business will start giving a much higher returns starting this fiscal and will augment higher growth for the next few years. Overall, the costs increased by 10% due to the factors I mentioned above. While our reported EBITDA was lower than last year if you remove the one-offs and the investments in new business, our EBITDA would have been higher than FY '23 by 6%.

Of course, we need to invest in long-term growth. We prefer to trade higher growth than profit in the short term. On some of the other KPIs such as our strategy optimization continues to yield better results. During the quarter, our premium plus portfolio grew by 25% and we added more than 10 new brands such as Dockers, Beverly Hills Polo Club, GANT, Salt Attire, Saundh, Ancestory and Folksong . This resulted in ATV growing by 8% versus last year. This has also resulted in increasing our ASP by 4%. The thing which we are very proud of is that our items per transaction grew by a healthy 4%.

During the quarter, we opened 7 departmental stores, 3 beauty stores, 12 Intune stores. We promised to open 56 stores in this fiscal. I'm extremely happy to say that we opened 55 stores and we would have had 1 or 2 more except for the regulatory approvals which were deferred due to multiple reasons.

Overall, we invested INR84 crores during the quarter and INR246 crores for the full year. Our strategy of opening stores in Tier 2 cities such as Kota, Agartala, Kanpur and Shillong, are performing as per expectations and is helping us well. For the full year we have reported a revenue of INR5,228 crores, an increase of 3% over last year. Our beauty reported sales of INR887 crores which is an increase of 8% and private brands reported sales of INR689 crores, declined by 5% over FY '23.

For the full year, we have reported an EBITDA of INR226 crores, PBT of INR86 crores and PAT of INR 56 crores. Our KPIs have improved in the last 12 quarters. I will briefly speak about our 3C framework. First one being customer centricity. With the help of advanced data analytics and technology, we have the consumer shopping habit, purchase history to create personalized offers, recommendations and communications. This not only enhances the shopping experience, but also deepens the emotional connection between the customer and the brand. And this is something we are consistently working on.

Second is consistency in growth. Our long-term goals are consistent, which is to grow the core. The 2 ways to grow the core are penetration and premiumization. Driving penetration involves widening the base of users, which we are doing by opening a number of stores, entering newer cities, strengthening the private label and increasing the loyalty base. I've already covered the premiumization journey before and would be happy to answer any queries on that later on.

The third one being capital allocation. Overall, the capital allocation would be higher to departmental stores, Intune and Beauty. During this year, we are planning to spend INR275 crores in opening circa 100 stores and innovating some of our top stores.

From operations, I will now move to the performance of our strategic pillars. First one being First Citizen. During the quarter, our sales from loyal members were at 78% with 65% repeat purchases. Our First Citizen contribution in Beauty has increased from 61% to 71%. Our members are just a shy away from the 10 million mark.

Our Premium Black and Platinum numbers contributed 12% of sales and grew by 14%. We had memorable customer events, including Spring Summer launch, 'Gifts of Love' campaign, unique activities for our First Citizen customers and actively engaging them through our Black and Platinum Card. We have further decided our First Citizen customers as personas. We are now targeting personas based on the behavior, working very closely with the brands to improve the customer journey.

Now let me talk about private brands and Intune. We continue to have challenges in private brands and is declined by circa 5% versus last year. For this year, we have a new strategy on private brand, which has differentiated product offerings for each brand to prevent cannibalization within and across brands. Clear and defined brand positioning by offering assortments that resonates with the target customer and connect through inspirational brands. Unique products and designs at affordable prices that is exclusively available at Shoppers Stop.

Our operational focus is to improve margins and reduce and optimize inventory. Our trading margins for the new season are on the rise, but the financial margins are impacted by write-off. We have been successful in reducing the inventory to INR134 crores, a reduction of more than INR50-plus crores versus last year. We've introduced 500 new options in the month of April. And as I mentioned before as well, we see the likely turnaround of private brands apparel business sometime in Q2.

From private brands, I will move to Intune, our success story in the last 8 months. We have opened 12 stores during the quarter. Probably, we would have opened a few more, but we are waiting for the regulatory approvals. Some of the key factors for our initial success in Intune are -- first, our mature stores,that is stores which have been opened before December '23 had the highest sales in March. Our customer conversion is at 33%. And as I speak, it has further increased in April. Our margin delivery is intact for a new business.

Overall, EBITDA margin at the store level continues to be positive in our first year of operations. The store expansion is on track. We are able to identify good locations at reasonable costs. And the pipeline is quite robust. The capex per square feet is sustained at INR1,550 per square feet. This will help us to improve the overall return on capital employed.

Our continued interaction with customers helped us to improve the retail KPIs such as sales per square feet, items per ticket and ATV which is average ticket value. I'm excited and at the same time, very proud to say that this new business in Intune has been on the right path and we'll invest more in this year and years to come.

Now let me talk about Beauty. Similar to previous quarter, we are over-indexing on Beauty growth. The recipe for Beauty's success as I said before is the investments made ahead of time besides the vision to grow premium beauty business in India. In Beauty, we recorded sales of INR218 crores with a growth of 8%. Our Beauty contribution sustained at 18%. We did more than 2,20,000 makeovers during the quarter and more than 8,78,000 makeovers during the year.

As I said earlier, we opened 3 stores. During the quarter, we opened the largest Beauty store in India in the most prestigious bridge to luxury Quest Mall at Kolkata. The total area of the store is 9,000 square feet with many celebrities attending the event. We have some of the best global brands such as Dior, Estee Lauder, Armani, Prada NARS, M.A.C as the part of the store. The overall operational and financial parameters since opening the stores are as per expectations. During the quarter, we also launched 7 Beauty brands, including 31 new SKUs in our private brand Arcelia. Our Beauty distribution brand continues to be on track.

Let me speak about HomeStop. Our HomeStop business though small has been a pillar of success for sometime now. I'll briefly speak about this. Home grew by 30% with like-for-like growth of 20%. Shop-in-shop stores, the SIS Stores registered a healthy like-to-like growth of 63%. Personal shopper contribution increased to 25% of total home sales. The home journey has been quite exciting, and we are looking at a high level of growth here going forward.

Now let me talk about capex, working capital and cash flow. For FY '25, we are planning to spend INR250 crores to INR275 crores and we are reasonably confident we will show this from our internal accruals. Our working capital increased during Q4 which is in line with the business trend of retail. It is pertinent to know that our private brand apparel inventory has reduced by INR56 crores versus FY '23.

Now let's talk about the outlook. As always, I conclude my speech with emphasis on strategic pillars to drive our sales. Even in these tough times, we have consistently demonstrated agility with razor-sharp focus on enhancing consumer experience, enhancing operational metrics. With our partners, we have run some numerous impactful campaigns across occasions and brands and categories.

We remain committed to delivering exceptional products and experiences to our customers. Furthermore, we will continue to maintain our position in the market through targeted expansions, focus on appropriate capital allocation and building premiumization. The broad outlook for FY '25 will be, first, we have exclusive brands across categories to drive that, which will help us to drive premiumization; exclusivity for our loyal consumers and improve the customer experience.

Second, we will experiment newer categories, for example, we are now opening cafes in our stores and we are very excited. We believe that apparels are poised for recovery in FY '25, and the women's ethnic wear line has shown some very, very strong performances across the board, and we are very confident about that.

For our business, the outliers will be Beauty and Intune besides Beauty distribution. We are poised to become a crucial growth driver for our company going forward. I'm confident that the convention environment will improve post elections and I'm confident that our investments in new stores, premiumization and enhancing consumer experience will lead to disproportionate growth.

I conclude by thanking you, once again, for attending this call, and we are now open to questions and answers. I have with me Biju, who's CEO of Beauty Business; and Devang, who is Business Head for Intune business. They are here with me to answer any queries about their respective businesses. Thank you.

Moderator: Thank you very much. The first question is from the line of Abneesh Roy from Nuvama.

Abneesh Roy: My first question is on the private brand. So last many years, there have been a lot of iterations here. So you have worked on pricing, assortment, overall look and feel of the stores and everything, sourcing also. But it still remains a work-in-progress still at 13%, 14% of the sales. So I wanted to understand out of sourcing, pricing, assortment, et cetera, what were the things which did not work? And this time, what will change because you have tried earlier, there's a lot of competition. So is there a white space available from an industry perspective to do something different here?

Kavindra Mishra: Yes. Great question, Abneesh. So if I look at the private brand business, there are -- if you break that business into four parts, we have women's Indian, we have kids, western women's and men's wear. They are these 4 basic broad categories, which we have. If I look at the business, the women's Indian and kids are doing outstandingly well for us. They continue to grow, in fact, women's Indian business give ups and the throughputs are far higher than the brands business as well. So that's something which we'll keep on over-indexing and building on.

When I looked at the business from outside -- outside of Shoppers and now inside, I feel that there is a lot of work which we need to do in 2 categories. One is men's wear because we believe that the positioning of a few of our brands was little confuse. So we have teamed up that positioning and you will see the new avatar of men's wear brands and the way they are positioned and the product lines in a very, very sharp and focused way from outdoor winter and that's why -- that is where my confidence comes in, in terms of driving profitability and GMROF there.

And the same happens with women's ethnic wear which -- the category itself was under a lot of pressure, and we have worked on it to change the product and the positioning. I think what is very clear in our mind is that we are looking at private brands business and a business where we are not taking them only as in terms of label to increase the proportion of business.

We want them to be as strong as any other brand in terms of the profitability of the overall business. So we focus on the GMROF and profitability instead of only the mix, which is something which people look at.

I think the whole idea of positioning the products, making the brands sharper that is something which we are driving very, very strongly. We also see that there are certain areas where we feel that the private brands can become stronger. For example, there's a clear case for us, we have a brand called Insense which is women's sleepwear does really well. So I think those are the categories for which we don't have equivalent brands in men's wear.

So I think that's one category we are looking at building on. Also, we have seen that men's ethnic wear is something which -- and Indemnization is something as a trend is going on very, very strongly. So for us, the private brand can really be focused Bandeya which is our private brand in men's wear, can really focus on that piece. So we are picking and choosing areas where we want to focus the private brands and drive the business.

Abneesh Roy: My second and last question will be on Intune. So currently, around 22 stores, and your earlier expectation was around 24 stores by FY '24. So you are fairly close to that. Now a very sharp scale up to 60 stores. So my specific questions are on the franchisee mode, any further thoughts to share. And if you compare to the other much larger player in this segment, Zudio, they have opened 193 stores.

So on a very small base, you want to open one-third of what Zudio is doing in the second year. Isn't that too high? And what is giving the confidence and what has been the initial learnings in this format?

Kavindra Mishra: Well, on the franchise, let me answer, but I will first ask Devang to answer the business part of it.

Devang Parikh: Abneesh, thanks for the question. If I understood you correctly, the question is more on the lines of why the aggression of 60 stores on a base of 22 stores.

Abneesh Roy: Yes, yes.

Devang Parikh: And I think the answer lies in the continued success that we have seen in the first 22 stores. Now we have stores which have seen as much as 3 quarters and they are holding up. They are existing in their own right amidst this competition. That's reason number one. Reason number two is our differentiation compared to all the other players in the market is now becoming more and more evident as we've covered in the deck as well. The pillars on which Intune stands continues to deliver. That gives us the confidence that as we scale up, we will create our own identity, right?

And the third thing is, I think we've taken the last 2 quarters, we've told this in the last investor call also, we've taken the last 2 quarters to build the resources required to grow this aggressively. So this aggression is not coming without adequate amount of planning. So all the efficiencies that you need, all the risk mitigation that you would need to ensure that this aggression doesn't come at the cost of profitability or sustainability, all the effort has already happened. It only with the confidence of these things in the past that we've taken a target of quadrupling our network in the next year. And I hope the question on aggression stands answered. Kavi can take up the franchising part.

Kavindra Mishra: On the franchising part, Abneesh, again, this is something we have discussed before as well. We want, at least, the first -- one full year the cycle to be completed because getting into the franchisee mode is something which we can easily do. We have inquiries from a lot of partners. But we just wanted to be very sure about the whole cycle. And once we go to the partners, then we can expand. So I think it's a matter of time. We are just ensuring that whatever learnings are there, at least for 1, 1.5 years, we are able to incorporate that, become very stable as a business model. And then when we go to the partners, we can actually expand it very, very quickly.

So we have the line up -- the pipeline ready with us. We are just waiting to ensure that we do that basic due diligence of crossing those quarters, crossing the year, seeing two season of sales, everything gets streamlined, and then we move ahead because opening a franchisee store is like a promise. You can't go wrong in that. And you can move very fast once you crack it.

Abneesh Roy: One follow-up question. Your commentary on Intune seems quite positive and sharp scale up versus 22 stores, adding 60 stores. My question was a lot of things which are going right for

Intune might also be applicable for your private brands business. So is there some KTF from there because if a lot of the decisions in terms of sourcing, I understand pricing is different. But in terms of the overall strategy, a lot of commonality will be there. So are you already getting some bit of that being built into the private brands?

Kavindra Mishra: So we -- see the private brands operate in an atmosphere where they are compared with luxurious brands, right? So I guess, there are 2 parts of it. The product part is very different Abneesh. The white spaces, which you see in a departmental store are very different from the white spaces which you see in an Intune kind of business.

Having said that, I think the agility of the team, the desire to drive costs, so rationally, I think that's something which we -- which there is a lot of cross functional learning and understanding, which is there. I think agility is one of the things which we are looking at very strongly. So we are working on these things but both the businesses are very different in terms of the approach, especially given the product -- on what products to make.

It's a different ballgame because we are working on a different competitive set. Having said that, moving into a tighter, I think one of the focus is on running inventory very tightly, moving into a 60-day cycle instead of 180-day cycle like a traditional brand. I think those learnings are well captured, and that's how we are driving this.

Moderator: Next question is from the line of Ankit Kedia from PhillipCapital.

Ankit Kedia: Sir, just continuing on the private label part. Do you think consumers are downgrading to value fashion now because pretty much in whichever mall today Shoppers Stop is on high street, we have Zudio, or a Intune, or a Style Union, next to that Shoppers Stop? And consumer today is not willing to pay for the brand and hence buying a private label in a Shoppers Stop.

For the same reason, we could be walking out of a Shoppers Stop buying in Intunes on the same product and pretty much the markups are much lower on that. Do you analyze the consumer data why they are entering Intune because Devang would be wanting Shoppers Stop consumer in his store as well and not only upgrading from unorganized market to Intune.

Devang Parikh: Yes. I think a great question, Ankit. This will take a lot of time to answer but let me try and address your concerns. So, I think there are 2, 3 things. One, when I said, see, if you look at our business, if there are 100 people who are entering within Shoppers, around 21% is the conversion. There is 79%, which doesn't get converted, right? So there is scope for private brands and to build that customer and drive that conversion, basis the right product, right pricing differentiation.

Obviously, the customers are willing to pay the price if the product is differentiated. So, if the product is differentiated and the pricing is right and that's something which we are trying to build upon in the private brand business. So, you will see that while the product has gone up in the fall, winter line, which will present, the pricing has become sharper because we have been able to negotiate the cost better. So, we'll be able to provide great value for the product at the right price, right?

What we're also seeing is that the Shoppers Stop customer is a more premium customer in terms of the choices which she or he makes. We have seen that across brands -- that we were cross brands, across categories. And if it's within the set of private brands, what we have seen is that the brands which are able to capture differentiated products, to aspirational product at great pricing, I think they have really done well.

For example, Bandeya, I spoke about, which is the men's wear ethnic brand for us, for example, Kashish or Stop. They have done really well. So, the idea is that work on -- so we already have successes of private brands within our portfolio. The desire is to ensure that those learnings get captured across categories. And that is what the drive we have in the coming season.

So, we are very confident that what we are doing in terms of the product, in terms of the pricing, we are doing. Also, the desire is not to only leave them as a label or as a product, also to work on marketing to campaign throughout the year, connect with the customer, use associations to ensure that private brands have seen across the board.

Because I think at the end of the day, you start the journey with the product, then we do the communication and build the brand. I think in the past, at times, we have been guilty of doing one or the other. This is a more concerted effort across the board.

Ankit Kedia: Kavi if I have to just tweaking this question. We have multimillion consumer data with us. At the same time, Intune would also be capturing the same consumer mobile number data. How many of the customers are overlapping between a Shoppers Stop and our Intune Connect?

Devang Parikh: So we have started doing that, but I think it's negligible as we speak.

Ankit Kedia: Understood. My second question is for Karuna. Karuna, in the slide of normalized Q4 EBITDA, there is a lot of one-offs out there, be it on Intune, focus was SSBeauty along with inventory write-offs. Can we have the same number for full year and for Q4 last year?

Karunakaran M.: Full year, I can probably submit across to you, or we will publish it in the addendum. Last year, I did not think of we had any onetime write-off or an income impact. Probably last year, we would have received some income because something would have been there. But very unlikely, see -- just see all the 3 reasons.

One, Intune was not there last year. SSBeauty was not that last year. Inventory write-off of private brand was not there last year, okay? These 3 items were not there last year at all and this is the largest impact. And we did not open any large store last year. Like the amount what we spent in Quest Mall is something different, unique, and we want to do that. So none of these items were present last year.

But having said this, Ankit, we will go back, we will see anything is there. See -- if it was there, we would have informed you in the analyst speech. The very fact that we have not seen anything, it wasn't that. But again I repeat, we will go back and we will see if there is anything is there.

Ankit Kedia: Sure. Just on the inventory write-offs, given that INR60 crores of inventories reduction we have seen this year, is it fair to assume your margin expansion in FY '25 will be partly led by lower inventory write-offs this year, given that inventory in private label is very, very fresh?

Karunakaran M: You are absolutely spot on, Ankit. When we did the budgeting exercise during for FY '25, we have factored the increase in margin in private brands. But please remember, at the overall company level, Intune mix will go up. So to that extent, there will be some offset but overall, we expect the gross margin to increase in FY '25.

Ankit Kedia: And my last question is for Biju. Biju, we have seen 12 EBOs of beauty close this year. Along with that, we are opening stores and investing in the bigger stores. And the capex for the Beauty stores is virtually 4x on normal Shoppers Stop or Intune capex per square feet. From an ROC perspective for the SSBeauty of -- a Quest Mall type of a store when do you see a payback happening. And do you see this kind of capital employed in Beauty business, be it even the distribution business of Beauty justified for the current EBITDA of the Beauty businesses throwing?

Biju Kassim: So, the first part of your question with regards to closure of EBOs, so what we are doing is we are rationalizing some of the EBOs in some of the malls into conversion of SSBeauty stores. So this is with the objective of improving efficiencies, both front end and at the back office level. So for example, when you have 4 or 5 EBOs and when you have a large format SSBeauty coming in with a better beautiful experience with much more -- much more powerful brands, we feel that integrating it into the larger universe of SSBeauty is a better customer experience. And also at the same time, in terms of efficiencies, we get better efficiencies. So that's the first part of the question.

Having said that, we are not shying away from opening EBOs in newer malls because we believe that the true brand expression for certain brands in terms of strategy comes from the EBO. So it's a combination. While we closed some integrated into SSBeauty, we are also open to invest in EBOs, depending on the new areas and new malls.

Now in terms of the ROC, we're talking about 15% to 20% to start with, and eventually moving up to 20% plus. This is normally the calculations that we work around. And for SSBeauty, what we have also seen is that our SPSF has improved over a period of time. And we are 50,000 plus in the second half of last year.

So it is clear that this strategy is working where we do better, bigger SSBeauty and integrate and bring larger bolder brands into the whole universe of beauty because what we are trying to embark is to rewrite the undertone rule of presenting beauty in the most glamorous way where customers get pampered and this all revolves around the experience part of it, which we think is core to our strategy.

Now coming on the capex. Yes, normally, Beauty stores have got a higher capex. This is basically because most of the brands insist in a way not to compromise on quality because the Indian consumer is a very discerning consumer who is looking at experience that is not short of UK, Singapore, Dubai. So we definitely ensure that the quality of fixtures are very high, and in many cases, we get it imported. And also the -- in particular in each and every product of the fixtures is dictated by the brand because these are universal brands or global brands. And hence, there is a higher capex to start with.

But with scale and with time, we always try and find ways of rationalization which means that effectively when you open a first boutique maybe your capex is on a higher side and then you get rationalization coming up to 15% to 20% eventually when we have scale and when we have better workmanship from local market conditions. I hope I've been able to answer to your point.

Moderator: Next question is from the line of Resham Jain from DSP Asset Managers.

Resham Jain: So I have just a couple of questions on Intune. So given the experience of the last 8 months, can you help with the overall kind of economics? How do you think that will work out in Intune and the payback period? And also compared to Shoppers Stop, the ramp-up of a store in terms of reaching to the desired level of revenue per square feet, how much time does it take? Is it faster or slower or similar? That also will be helpful.

Devang Parikh: Sure. Thank you, Resham. I think we already clarified in the deck. So let me start with the economics. Currently, I think our mature stores are consistently hovering in north of 12,000 as far as sales per square foot on an annualized basis is concerned. So that's the start point of the economics. We have clarified that our delivered margins would be in the range of 36% odd. That incorporates discounting, aging provisions everything accounted. So that gives you your GMROF so to speak, right?

Kavi just mentioned in his opening address that we've done a lot of optimization on the capex front, so the capex comes down to somewhere around INR1,550, which is, even if I say so myself, fairly benchmark worthy. So that takes care of the capex. All the opex assumptions are in line with what a value retailer would end up doing.

With this SPF and this margin, we will turn EBITDA positive in the first year, which is what we've seen in the stores, which are nearing a year of operations, right? So that -- do I answer all the economics, like, questions that you put on the table?

Resham Jain: Yes, qualitatively, yes. But what will be the payback period you're looking at?

Devang Parikh: Yes. The payback period would be about 2.5 years to 3 years.

Resham Jain: Okay, fine. And sorry, one more question is on all the new stores -- incremental stores you're planning in like outskirts of the city kind of stores, Tier 2, Tier 3 cities, this is how you're looking at?

Devang Parikh: We've clarified in the past that I think as far as Intune goes, we will follow a clustered expansion approach. We've identified markets where we want to go heavy in the first year. And we will continue doubling down on them. That doesn't mean we will completely shut down on opportunities outside of those clusters, but the overall focus will remain in those 8 or 9 markets.

Moderator: Next question is from the line of Gaurav Jogani from Axis Capital.

Gaurav Jogani: Sir, my first question is with regards to the overall capex plan that you highlighted. So the INR250 crores to INR270 crores, does it factor in the Intune stores being opened organically and not on franchise?

Karunakaran M: Yes, Gaurav. It includes all the capex. Intune, normal departmental stores, Beauty stores, plus renovation plus any capex on tech or warehouse, includes everything.

Biju Kassim: So there is no assumption of franchisee stores in the capex guidance which we have given.

Gaurav Jogani: Okay. And sir, a related question on this. I mean because Intune, we will be having our own inventory. And I'm assuming an inventory of around 3 -- inventory turns of around 3 to 4 months. So, what kind of additional working capital requirement would be required because of the increase in the Intune store format and also some bit of the private label part?

Karunakaran M: Let me answer the first one. On the private label, we discussed in detail we have already reduced the inventory. We expect the inventory of the private label between 14 and 16 weeks. But probably, we may even come down. I mean, that's the effort right now. We are fairly confident. I mean, we are between 16 and 17 right now, and we should come back.

On the Intune, again, we are between 12 and 16 weeks with just 22 stores opened. So, with the additional stores, I do expect the working capital in terms of weeks should come down probably between 12 and 14 weeks. So that should be the ideal number, Gaurav.

Gaurav Jogani: Sir, my question was in the absolute terms because we would be adding roughly around 60 Intune stores. And that would envisage another additional inventory that we need to store. So given the INR250 crores capex that we are looking for at the additional working capital, would we suffice with the internal accruals to match the same? Or we might need to re-substract for it?

Karunakaran M: We have done the overall cash flow for FY '25. When we presented the budget to the Board, we did the overall cash flow for the FY '25 also. See, we have INR150 crores line of credit with banks. And in addition to that, we have INR350 crores line of term loans with the banks. When we completed the cash flow, including the working capital, what we need for Intune, it seems that we should be able to manage within the working capital of lines that has been given to us. As of now, we are not planning to borrow anything other than the working capital limits Gaurav.

Gaurav Jogani: Sure. That's clear. And sir, my next question is on the Beauty distribution business. I mean, this year, you have done the revenue of around INR119-odd crores, and the EBITDA is also positive. Fast forwarding it to a couple of years more, say, by FY '26, '27. Any guidance that you can give on the overall business shape and margin profile for the same?

Biju Kassim: So, distribution is still a very young business, and we have entered into a very saturated market where there are already traditional distributors who have been in the domain for the last 15, 20-odd years. We are forecasting next year to double this current run rate. We intend to reach around INR250 crores. And what was very important for us is to be EBITDA positive from year 1 because this is something that gives us a lot of confidence, reaffirmation that we are in the right business. Even though it's a saturated business, we have started with some very powerful brands.

This is also to do with the fact that Shoppers Stop has got the legacy, has got the credibility in the market to be a long-term player. Now to tell you, for the next 3 years approximately, we're looking INR250 crores going up to INR400 crores and INR550 crores. But the fact of the matter is distribution revolves around brand associations and partnerships. So obviously, we can look beyond that. But for the moment, we would like to be conservative and to give you something that is achievable.

And we can reconfirm that this business also adds a lot of value within the shoppers ecosystem because you have visibility, and it gives you confidence to invest because we think that beauty is something which is here to stay. A horizon of 3 to 5 years is important because the beauty landscape is dramatically changing. And we think that this adds a lot of value, and we get visibility end-to-end which I think is very important from a perspective of a long-term investment.

Another important element to mention, we have embarked on the journey, and we have been quite fortunate to crack some very powerful brands, luxurious brands. But given the fact that India -- the belly of India's, beauty is in the masstige segment, we are quite confident, and we are moving into the masstige segment.

So next year, we will see quite some interesting masstige event being onboarded which is something also to ensure that we have the full assortment from luxury, lifestyle, prestige and masstige. So that's the direction. It's a strategic thought and then we are on track to achieve what we think is appropriate.

Gaurav Jogani: And sir, what about the margins? I mean, are high single-digit margins possible in this business given it's a distribution-format business?

Karunakaran M: So Gaurav, let me take that question Gaurav. I think Biju just now spoke. Last year is the first full year of operations. And we are EBITDA positive, and we want to be continue to EBITDA positive. So the margin should be in the range of between 7% and probably 9%. That's a range we are expecting it right now. To answer your question, that should be in the high single-digit margin, Gaurav.

Gaurav Jogani: Sure. And that would be like possible once you reach that INR400 crores odd top line by year 3. Would that be the right understanding?

Karunakaran M.: Probably in year 4 and year 3 would be slightly lower than that. And year 4 would be the numbers what you're talking about Gaurav.

Gaurav Jogani: Sure. And sir, the last bit on the expense part, the other expenses and the employee costs for this quarter, if you look at it on an absolute terms, the employee cost was flattish on a Y-o-Y basis and so was the other expenses. So one, as you rightly mentioned in the starting of the call that given that the business scale was lower and hence these expenses were managed, so how should we look for both of these going ahead in terms of forecasting?

Karunakaran M.: So Kavi spoke about in detail on the overall expenses even for this fiscal. Last year, during the quarter 4, on a like-to-like basis, the expenses are almost flat. This year, as we start, we want to have like-for-like expenses of probably half the inflation between 2 and 3 percentage.

And any new stores, obviously, will have the additional expenses, Gaurav. So, to answer your question, we want to absolutely keep the cost in control because the market is still -- there is a slowness in the market. And once the market improves, then we will start investing on marketing and other areas.

Gaurav Jogani: Okay. Sir, my question was more actually on relative terms also because even if you compare it versus Q3, Q3, though, I understand it's not right comparable because it's a festive season. But I mean, overall, the cost was really down. So do you -- is it because that we have taken some cuts in terms of marketing spends or some cuts basically across various line items that is leading to this and probably once the business recovers, we can see this going up again?

Karunakaran M.: Yes, more, I would say a large yes, Gaurav, because we did -- as you rightly said, we reduced the investments in marketing. Even in some of this, like, on the employment costs -- as soon as we are there, we not invest in the people because we want to get the higher productivity. So yes, if the sales growth starts as per planned, then we will start investing on the people.

Moderator: Next question is from the line of Sameer Gupta from India Infoline.

Sameer Gupta: I have 2. Firstly, the inventory write-off of INR9 crores this quarter, just wanted a little more information, a little more elaboration on this aspect. When do we typically write off? And is this sold in the depletion channel? And like, I mean if this is something that is part of the normal business, is it likely to repeat some typical qualitative aspects around this inventory write-off?

Karunakaran M.: Sameer, again, Kavi clarified that in his speech. See, last year was a challenge for the entire retail, particularly for men and women western wear. So that's the reason where -- and we also had some 1 or 2 ranges, what we purchased earlier that did not go well. And that's one of the reasons where specifically two brands where we had a higher write-off of last year. Our inventory policy is very clear, on the fashion, anything more than 1 year, we start writing it off. And by end of the second year, we write off the entire 100 percentage of the inventory.

To answer your second question, will the inventory write-off will be the same for FY '25? It will not be. I mean that it will be significantly lower. That will be the normal that happens in a year, I would say, 1% or 2% of the total private brands, that would be the normal write-off. That will be there for FY '25. We don't expect any higher write-offs on this year.

To answer your second question, on the inventory that has been provisioned, we sell it as a scrap to meeting the freshness in the shop floor like that is -- again, there is a process involved within the company. So all these inventory are sold as a scrap.

Sameer Gupta: Got it, sir. Second question, and I heard in the opening remarks that there is an expectation that consumption environment is -- at least there was a confidence in the voice about the consumption environment improving post elections. So just wanted to understand what would be the drivers here? I mean if March is so good for you, why is it that we have to wait till like the elections for actual recovery to start?

Kavindra Mishra: It's a great question, Sameer. So yes, March was very, very good. April also, the first 15 days have been outstanding. Once the elections have started, I think the mixture of election and the heat wave which we are all witnessing, there has been certain markets where there has been slowness.

For example, typically when an election happens and so in the month of April, it's happening, it has happened on 2 Fridays. In the month of May, it will happen on 2 or 3 Saturdays as well, right? So what happens is when you do that, the market -- the stores get shut for the entire day, and obviously, there is a hit because retail as we know, is all about driving things very, very minutely, but that is one.

Second, what gives us the confidence. So what we are seeing right now is if I look at the overall business and how we have been phasing over the last 1 year or so, a lot of our business has been focused around making Shoppers Stop as a premium destination, premium omnichannel destination.

I think we do spoke about a lot of good work, which is being done on Beauty, which is clearly showing us results. We have identified certain other categories, which we are focusing on terms of premiumization whether it is sunglasses or watches, handbags, footwear, where we feel that, as we change the brand mix, the reason for the customer to come to Shoppers keeps on increasing because we provide an exclusivity and a product, which is not available headed in the market.

I think the biggest thing which is happening, as we speak, is that we have been able to put up -- so even in case of apparel, we have seen that with the kind of mix which we are building on, we are seeing a great positive moment in terms of the growth. I think the apparel story is back after a long time. After a year, we are seeing this consumption in apparel is going on better. So I believe that once the market is steady and then we will do disruptions external. The stores are open throughout the days, months. I think there's a great story happening there.

Just to give you a data point, and I think it's very interesting. When we were looking at -- and we talked about opening of stores in Tier 2 markets, we have opened around 5 stores in the month of March, 3 of them were in Tier 2 markets, Tier 3 markets. What we are seeing is that even in those markets, the consumption of premium and premium plus brands has increased dramatically.

What is happening is that as we are opening the stores and they are becoming mature, we are the destination for the customer in those markets. So what we are saying is it's a function of overall category mix changes but even the entry of newer market and as those stores become more and more stabilized going forward, there is a lot of traction which we are gaining.

So we become the choice of customers for buying premium brands across categories. And I think that's a clear differentiation we have got. And I see as the market stabilize, we get an outstanding over-indexes from the consumers.

Sameer Gupta: Very, very clear, sir. Just a follow-up, if I may squeeze in. So FY '24 being a tepid environment, we still saw 15 department store additions. Let's just say FY '25, for -- I mean, if we assume that the recovery is slightly delayed or things don't go as per plan, are we going to change our department store addition targets? Or that still will continue irrespective?

Kavindra Mishra: No. So as I mentioned, as you enter into a new city, you start gaining market share because you were not present there, right? So out of the 15 stores which we have planned in the coming year in FY '25, 10 are in completely, completely new cities. So it's a netted addition for us as increasing the customer base, making penetration higher, getting connection with the consumer. So I think we are -- at this point of time, we are very, very confident of sticking to our guidance, which is 15 new stores in departmental stores and around 60 Intune stores and new stores.

Sameer Gupta: Got it, sir. And this funding via internal accruals, you are assuming that SS has growth and hence the EBITDA performance of the existing stores will improve, and hence, the internal accruals will be able to fund store additions, right? Is that understanding correct?

Karunakaran M.: Absolutely correct, Sameer. I mean there is no doubt about that. In fact, even last year, it has been largely funded from internal accruals.

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

Shalini Gupta: Just 2 questions. Just wanted to check, I mean, next year also, we are looking at some kind of gross margin reduction, is it so?

Karunakaran M.: No, Shalini. We are not. In fact, the next year, the gross margins should improve.

Shalini Gupta: Should improve. Okay. But should -- I mean, how much should we budget for by 100 bps?

Karunakaran M.: Normally, we don't give such guidance, Shalini. Since you asked me that question, I have answered that.

Shalini Gupta: Okay. And sir, my second question is, if you can please explain one of the lines you -- in the presentation you said GAAP PBT includes one-off of INR24 crores in other income on account of reversal of ROU liability. Sir this much I have understood that there is a reversal of liabilities, but then you're also talking about INR6 crores in exceptional income. So what -- if you can just please explain this?

Karunakaran M.: So Shalini, What -- I mean I will explain this. But what I will also request is, we have given a note number 5 in the notes to -- in our press release. There are two aspects. One, on the income we have a store in Pune which we closed. It was a 21-year lease. Because it's a 21-year lease, we created the ROU asset and the ROU liability. You are aware that ROU liability will always be higher than the ROU asset. As we are in the process of closing the store, the excess ROU liability, this is ROU asset is what we have written-off, that is around about INR24 crores.

On the exceptional item, as I said, if you refer to point number 5 there is a loss of INR5.7 crores on impairment of property, plant and equipment on the right-to-use assets. The Indian GAAP is very clear on the impairment testing and based on that, we have impaired three stores where these three stores are not profitably post allocation of expenses. And that's the reason we have impaired this INR5.7 crores. Any further questions?

Shalini Gupta: No, sir.

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

Kavindra Mishra: Thank you.

Karunakaran M.: Thank you.