

SHOPPERS STOP

SEC/64/2024-25

July 24, 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
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Dear Sir / Madam,

Sub: Transcript of Earnings Conference Call – Q1 FY24

We refer to the analyst / investors conference call, on **Friday, July 19, 2024 11:00 a.m IST** to discuss the corporate performance for the quarter ended June 30, 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/48/2024-25 dated July 12, 2024 and ref. no. SEC/63/2024-25 dated July 19, 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**

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

Encl: aa

Shoppers Stop Limited

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SHOPPERS STOP

“Shoppers Stop Limited Q1 FY '25 Earnings Conference Call”

July 19, 2024

SHOPPERS STOP

Perfect Relations
The Science of Image Management



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 PRIVATE LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the Q1 FY '25 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 from Perfect Relations. Thank you and over to you, ma'am.

Mamta Samat;

Thank you, Sejal. Good morning, and thank you all for joining us on the Shoppers Stop Q1FY'25 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 separately with the IR team.

I will now request Mr. Kavindra Mishra for the opening remarks. Thank you, and over to you, sir.

Kavindra Mishra:

Thank you, Mamta. Good morning, everyone, and welcome to the conference call of Shoppers Stop Limited. This morning, we will cover the results of June quarter for the financial year FY '25. On the call with me is Karunakaran, our CFO; our FP&A Lead, Jaiprakash; and our Investor Relations Lead, Rohit.

We will start with prepared remarks wherein we will cover an overview of our performance in detail. I will also cover the performance of our KPIs, our strategic pillars and in the end, our future broad outlook. We expect this to take around 15 minutes before we open up for the Q&A session. I'm sure you would have read the Investor Presentation, which is available on our website and it has been sent to both the stock exchanges.

Let me first start with an overview of the opening context for this quarter. Demand remains subdued due to several reasons, such as fewer wedding dates, long election season and a strong heat wave. This was coupled with high levels of cumulative inflation. Needless to say, this influenced our growth and volume recovery remained negative, except in value fashion, and beauty. Given this context, I would say that our sales growth has been muted. Our EBITDA margin declined due to new stores wherein it would take some time to turn into profitability.

Let me cover some of the highlights of our performance. Our customer entries largely remained flat during the quarter. Our Private Brand business has improved full-price sell thru to SS24 range, an effective pricing strategy, which resulted in lower discounts. On the same subject. Our inventory in Private Brand is lower by INR65 crores, again the same period last year. We had taken a conscious call to have right and fresh merchandise for the festive. This will boost our sales during the festive season. I have been speaking to you about our key such areas for Shoppers Stop in the last few Earnings Calls, which is our premiumization drive, a lot of what we have already been doing and that has strengthened our business and we will continue to build on it.

Given the context of increasing affluence and under-index premiumization, we have a huge opportunity to build categories of the future. We are doing this through persuasive

communication, partnering with premium and bridge to luxury brands, innovating in new demand spaces and formats for the future and educating customers at a scale.

The results are evident. Our Premium Brands product portfolio grew by 10% on a like-for-like basis and overall growth of 14% for this quarter. Our Beauty and INTUNE vertical remained EBITDA positive during this quarter. Our store openings are on track, with 11 stores opened during the first quarter.

As I said before, our strategies are giving us desired results, and we just need the external market to be favorable to deliver the margins and the overall recovery. Be that as it may, we are working on it to recover the profit and have respective return on capital employed. I will discuss this at the end. Meanwhile, I will start with the KPIs, strategic pillar performances and discuss the future outlook both short term and long term.

Here are the effects on our KPIs. We delivered Q1 sales of INR1,260 crores with 2% growth. If I have to analyze month-wise performance in April and May, while our sales declined by 1% and 2%, respectively, in June, we grew by 7%. Performance in June was also positively impacted by advancement of EOSS by a few days. Women's Wear, Women's Westernwear, Beauty and INTUNE categories outperformed.

During the quarter, our gross margins are largely flat versus FY '24. While Private Brands trading margins were higher by a percentage point, it was offset by the mix. On some of the other KPI questions, I just spoke about premiumization and K-Shaped recovery. Due to this, our ATV grew by 5% and ASP grew by 3%. This is something which we have been seeing quarter-on-quarter consistently now.

The great news is that our items per transaction also grew by healthy 2%, and that's a very, very favorable point of view. Our EBITDA was impacted by the slowness, with costs largely fixed such as rent, staff and energy cost at the stores and other fixed costs. Consequently, our EBITDA declined against last year. During the quarter, we opened two Departmental stores and nine INTUNE stores.

From operations, I will now move to the performance of our strategic pillars. First Citizen. Our engagement with our loyal customers remains solid as it's always been. Our loyal members' contribution to sales remain at 80%, with marginal increase in repeat purchases. I'm extremely happy to say that our First Citizen members now has caused an important milestone of 10 million during this quarter.

Our Premium Black Card customers contributed 14% of our sales with a 5% growth. There were several events such as AI-based and persona-based personalized videos, personality quizzes, loyalty fest schemes, which has driven engagement and resulted in additional revenue.

Now let me talk about Private Brands and INTUNE.

First about the Private Brands. The slowness which has impacted Private Brands is particularly on Men's and Womenswear category. The Private Brand growth has to be read in the context of, first, we had discontinued some of our exclusive brands, which are contributing 1.1% of our total revenue as these were making lower margins besides not fitting in the redefinition of positioning, which we are currently doing. Our improved offerings and competitive prices helped us to achieve higher trading margins.

We are launching Autumn/Winter '24 season in August. This will ensure 70% full fresh stocks and should surely drive revenue and margin both. We are also implementing a new merchandise planning system called Goldratt from this month end, which will help us to improve the inventory turnover besides obviously improving customer availability.

As I said, our operational focus is to improve margins and reduce and optimize the inventory. We have been successfully increasing our trading margins and expect to increase this in the next few quarters.

From Private Brands, I'll move to INTUNE.

I'm extremely happy to inform that we opened nine stores during the quarter, taking the total stores to 31. More importantly, even at current scale, the INTUNE business has achieved all the requisite KPIs. Our customer conversion is at 33% even during this period, wherein our peers were at end-of-season sale with large offers, which symbolizes the strength of our business. Our IPT remains strong at 3.8 items per bill. Incidentally, we are selling at full prices even now.

Our sales per square feet are at INR11,000 with several stores also opened in high streets. Our Full price Sell Thru 80% within a year, which indicates the strength of the brand and the product we offer to our consumers. Our margin delivery is higher than expectations. At the store level, our INTUNE business continues to remain positive and higher than our internal budgets.

We have also entered the Northern markets, with two new stores in NCR region. The store expansion is on track. With the success in the last 1 year, we are planning to escalate our store expansion. Originally, we had planned to open close to around 60-plus stores in the current year, but we'll be increasing that guidance to 75-plus stores this fiscal. During the quarter, subject to regulatory approval, we should open 20-plus stores.

Beauty:- We are the largest offline beauty departmental store format in India with a history of creating categories and brands across color cosmetics, fragrance and skin care, making us the distant number one in these segments. Fragrance continued to outperform, with 19% growth over last year. During the quarter, we also added Tom Ford and KATE SPADE in our Fragrance portfolio.

In our journey of sustaining number one premium beauty company in departmental stores, we opened state-of-art large beauty store in Quest Mall, transforming our Beauty business. Our Beauty business has been and continues to build through experiences. On the tactical initiatives,

akin to previous quarter, our customer engagement and education reach through 239,000 makeovers continues. We also launched 4 SIS for MAC stores during the quarter. Our 100% subsidiary Global SS Beauty business delivered INR39 crores sales with a growth of 2.5x.

On our Beauty distribution, we expanded to 27 brands with eight fragrance brands addition. We had a mega launch of Giorgio Armani near Gateway of India, Mumbai this month. Our distribution network increased to 444 points of sale. This business continues to be EBITDA positive and encourages us to expand further. We are planning to add three marquee brands during quarter 2. With the upcoming launches and festive season, we should be able to achieve INR230 crores of sales during this fiscal.

Omnichannel:- Our omnichannel sales largely remained flat. We have been delivering omnichannel brand experience with messaging campaigns across 12 plus channels, including push, email, in-app, SMS, WhatsApp and others. We have created our content personalization with fine-tuned message content and delivery type for individual users based on their behaviour. We have improved campaign performance with our best-in-class tools for incredible engagement. We are also elevating our consumer experience to an updated version of our SS.com mobile app by end of quarter 2.

HomeStop:-We are in the process of revamping a few standalone stores including our largest store in Malad. Our shop-in-shop stores registered a healthy double digit like-for-like growth with significantly higher than budget. We also had a strong growth in our HomeStop business. Our way forward would be to focus on private Brands and aim to increase the contribution from 27% to 30%.

Now let me talk about the **Departmental stores and National brands**. I'll be discussing about premiumization in our departmental stores. We'll be launching the autumn/winter season ahead of time with a target of around 60% freshness by July end. Specifically, on the premiumization we have launched True Religion and are also planning to extend Beverly Hills Polo Club, Dockers and other premium brands.

In women's category, there is a slew of brand launches which are planned which includes Tommy Hilfiger, Calvin Klein, Mac Duggal, Aarke, Saundh, RITU KUMAR and Indya Luxe. On the watches category we are launching Aigner and in sunglasses Gucci, Prada, Mont Blanc. Our new brand launch would be Raymond Loungewear, Iconic, Elle woman, RSPV, Autumn Lane, Juniper, Arrow New York. Needless to say, these are very fantastic brands, and they will be working with us very closely.

We did a pilot of sunglasses Luxe Concepts in 5 stores and we are adding 5 more stores with encouraging results. This is something we are really banking upon to drive premiumization in our stores. We recently opened Starbucks in our Kanpur store and we are witnessing a significant amount of business contribution from these customers. Based on this experience, we are adding more coffee shops in many standalone stores in the next 1 year.

In our quest to elevate our customer experience we have recently increased our personal shoppers from 300 to 400 and will increase it further. Our personal shoppers enhance our customer experience and thereby increase the ATV which is normally a 3x of our normal customer.

On the investment, we aim in renovating our flagship store at Malad with the help of a renowned global design firm and investments of nearly INR20 crores. Our new Malad store will be lean with lesser space, but far better created brands and a delightful consumer experience. We should be able to open the Malad store before Diwali.

Now let me talk about capex working capital and cash flow. We have been discussing about the capital allocation in the last 4 quarters. Akin to previous quarters, I reiterate that our capital allocation would be higher wherein we have higher ROCE and shorter payback period. We had earlier said that we would open 15 departmental stores. Due to issues in certain markets and regulatory delays and financial issues of local builders at Tier 2 cities we expect delays in some of the departmental stores.

At this point, I would say this may impact 3 to 4 stores and we should be able to open 11 departmental stores this year. However, in INTUNE we have a complete visibility and we should be able to open 75 stores during the year. We expect to open 20 plus stores during the quarter. Overall, we expect to spend INR225 crores to INR250 crores in capex including shifting to a new warehouse in Bhiwandi. On the working capital with increased focus on reducing our private brand inventory our overall working capital has reduced by INR20 crores.

Now let me end this meeting with some bit on the outlook. We have strong strategies in place and I am seeing green shoots on marginal recovery in this quarter and more importantly during the festive season. We are reasonably optimistic about our value segment INTUNE , Beauty vertical and our recently started Beauty distribution. Our expansion plans remain intact. I've already discussed about accelerating our Intune store expansion.

Due to regulatory and other issues we may have to defer few store openings for departmental stores this fiscal. We are exploring further collaborations and tie-ups with beauty and apparel brands particularly premium brands and they will continue in FY '25. We strongly believe that the festive season should have decent growth aided by monsoon and strong GDP growth.

On the cost and capital spend the outlook is as follows. First, rationalize costs in line with the business particularly in unproductive stores and a few verticals. Optimize inventory at our private label. We have already reduced INR65 crores versus last year and we will continue to keep on optimizing this further in line with the business.

We also committed to give the right consumer experience to our customers which means that we continue to churn brands and add stores to improve the GMROF. While Q2 would be better than Q1. I'm confident that H2 with large festive season and increased weddings approximately

50 days versus 14 in H1 should give us higher productivity and take us back to where we belong to.

With this optimism we expect near-term demand to recover gradually. We remain very confident on mid to long-term opportunity in Indian retail. India's booming economy, expanding affluent population, accelerating digital transformation coupled with under-indexed premium spend will spur premiumization and many more would be the recipe for the strong runway of growth.

With our distinctive capabilities and our strategy of transform to outperform we are confident of delivering higher growth in margins. With this, I conclude my remarks and we will take Q&A from the participants. I am also pleased to share that I have with me Biju Kassim who is the CEO of our Beauty business; and Devang who is Head of Business for INTUNE to answer specific queries on these two businesses as well. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Rahul Agarwal from IKIGAI Asset Management. Please go ahead.

Rahul Agarwal: Thank you so much for the opportunity. Good morning. I just had two questions. Firstly, we all hope for recovery into consumer demand. A lot of hiccups which have happened over the last four years, five years I think now for retail industry and we look with optimism. I just wanted to understand given what you have mentioned on the square footage addition and the SSG recovery would next two years look like 15% plus on console top line. That's one question.

And secondly on the cash flow. So as I understand I think your store expansion plan looks pretty strong and as you mentioned it will spend about INR200 crores to INR225 crores on capex all inclusive including the warehouse. I just wanted to understand the funding for this in terms of will this be 100% internal funding or are you seeing some cash flow mismatches right now? And if you could elaborate more on Fiscal '25 and '26 growth, it will be really helpful?

Karuna: Thanks a lot. Let me answer the second question. Yes, we do with the softness what we have seen in Q1. We may have to borrow probably INR100 crores during the year. We don't expect to borrow anything more than that. And for the next two years with the capex more or less be remaining at the same level and we do expect the business to improve. I don't think we will be borrowing. So this INR100 crores would be probably a onetime borrowing in this fiscal.

Kavindra Mishra: And on the first question so I think the next – so if you're looking at the way we are expanding and the kind of investments we are making in this business over the next two years I think overall business when you look at Shoppers Stop including the INTUNE business, the beauty business, the beauty distribution and the box itself I think we should be in a double-digit growth over the next two years. That's the number we are looking at.

Rahul Agarwal: The square footage Kavindra itself is like almost like upwards of 14%, 15%. So the growth shouldn't be higher. Obviously, will come over 12 months to take an average number, but I would

imagine given the strength of store opening itself that number should be 15% plus. Is that a wrong understanding?

Karuna: I don't think it would be such a high number because one Intune will be 5,000 to 5,500 square feet. And the large departmental stores we are now opening between 25,000 to 30,000 square feet. On the back of the envelope calculation it comes anywhere between 8 to 9 percentage not more than that the space addition. Secondly, it doesn't happen uniform -- it doesn't happen on the first day of the year. It happens throughout the year and what we have seen is most of the store openings happen during the fourth quarter. And internally we are also evaluating to rationalize the store size and a few more things. So yes probably we don't expect such a large increase because of the additional space, Rahul.

Rahul Agarwal: Got it. That answers my question. I will come back in the queue. All the best. Thank you.

Management: Thanks Rahul.

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

Ankit Kedia: Sir, my first question is on INTUNE. What is giving us confidence on the ground that we are accelerating our store opening from 60 to 75 to 80 in INTUNE? Can you share -- now it's been 1 year for the format launch. How has the first 6, 8 stores response been, because at the blended level if you're seeing 11,000, two quarters back, we were speaking about INR14,000, INR15,000 SPF. Last quarter, it was INR12,000. This quarter, it's INR11,000. That number is on a declining trajectory, but the initial 8, 10 stores, how was the margins? And between metros, non-metros, malls and high street, how is that response coming? And how is the customer acceptance of the product, because it's becoming hyper competition in value retail now?

Devang Parikh: Thank you, Ankit. To answer your question, I mean first of all with the kind of expansion that we have, the blended numbers will not give you the full story. The 6 stores which have seen the third quarter now, their SPF in Q1 of FY '25 was upwards of INR14,000, so we are holding on to the SPF in the bucket from the last 3 quarters to now. That's the first question that I would like to answer.

Second question is what Kavi mentioned in his opening address. About 40% of our stores right now are high street stores, which are within the first 3 months of their operations. So there is a gestation period of walk-in growing in our new brand high street stores.

And the last point in terms of customer acceptance, in terms of our product, I think we have a very, very high delivery of that KPI. I think in the presentation, it was mentioned that we had 75% plus full price sell through. I'm happy to share that from the day that presentation was made to now, our full price sell through is north of 80%.

In fact, it reached the point where I don't have enough stock on discount. So I think the product acceptance in this hypercompetitive environment is very, very strong. Also, what I have seen is, now that a lot of my stores are in the third quarter of existence, we started tracking repeat

customer behaviour and seeing a very, very healthy repeat to a point where 1 out of every 5 customers is shopping more than once within a quarter.

So I think when you just club the product performance and the customer metrics, the customer acceptance seems to be increasing quarter-on-quarter. And when you see the older stores performance, the high SPF delivery seems to continue. So I think I wouldn't read too much into the 14, 12 and 11. I think we will -- as the stores age, we will come back to the same levels at a blended level also.

Ankit Kedia: And Devang, how are the margins for these old age stores are you seeing at the store level? Are they near double-digit margins these stores?

Devang Parikh: You are referring to EBITDA margins, I'm guessing.

Ankit Kedia: Yes.

Devang Parikh: Yes, yes. We are. Close to that. Close to that, Ankit.

Ankit Kedia: Coming to my second question is regarding your omni strategy. Not 3 years back, you had spent more than INR100 crores on the omnichannel, and that was one of our strong pillars of growth. Last year, we didn't speak of omni and the customer experience as a customer. It's not great versus competition.

Now again, next quarter, we are going to spend money on relaunching our app and website, and SSBeauty online was just launched last year, right? So what is the capex plan for omni and how much is coming in opex? And do you think there is a right to win for Shoppers Stop in having omni presence marketplace, what we have of all the brands together? And is there a set out of some opex part for this part of the business?

Kavindra Mishra: No. So I think, Ankit, great question. Our stated intention is to be a premium omnichannel player. And as you rightly mentioned, we had some gaps in the consumer experience and so that's the reason why over the last 12 months or so, we have been working on the new app version for SS.com. The new SSB is built on the same platform and SS.com is coming on the same platform as on 30th September.

If anything, it will ensure that 2 things will happen. One, from the consumer's end, the experiences will actually be far, far better in terms of search, searching the merchandise queries. I think it will be at the top end number one.

Number two, how it will also help us is that because once both SSB and SS.com are on the same platform, the cost actually will start shrinking on this piece from next year onwards. So Ankit, we are at situation right now that the 2 platforms are on a different basis. We will be merging the platforms from September end, and we will start seeing the benefit going forward.

I think it's a win-win because it takes care of the cost, it rationalizes the cost, but more importantly, the customer experience becomes better. In fact, with SS.com, the new version which we are seeing, we will be also able to target things like same-day delivery, some things which would be very, very powerful for us as we drive the omnichannel experience.

Moderator: Thank you. The next question is from the line of Sameer Gupta from India Infoline. Please go ahead.

Sameer Gupta: Sir firstly I see other expenses, see a sharp jump this quarter. It's up 21% now. I understand that you're opening new stores, but usually this line has been -- you have exhibited quite a strong cost control here. So just wanted your thoughts. Is this front ending of some costs? Or is it going to stay at this level?

And in that context, how do we see the EBITDA margin for this year panning out? So first quarter is around 1%. You usually guide towards a mid-single digit, around 5%. Is that doable given this performance? Your thoughts on that, sir.

Karuna: Thanks for the question, Sameer. I'm not sure when you say that the cost increase. If you -- we have also attached the non-GAAP income statement. The overall cost increase is 10 percentage out of which the like-for-like so is between 2 to 3 percentage. The cost increase have happened primarily because of new stores and new businesses, what we have established during the quarter, which is not comparable to the last quarter.

If you want, we can take it offline and then we can discuss about the cost. But all I can assure you it's not more than 10%. This is the last year. That's one. Second, on EBITDA margins. Normally, we don't give a guidance. Yes, but with what has happened in quarter 1, we expect mid-single digit for the full year.

Kavindra Mishra: And Sameer I think one of the big things and Ankit kind of referred it in his previous query, we continue to invest on tech. We continue to invest on ensuring -- in fact, we have also taken a big bet on how to strengthen our security systems and so I think you will see some investments there.

But I don't -- while they might be recorded as expenses, they are investments to ensure that the business remains strong and profitable. So I think that's the journey we are in right now. We will definitely see some improvement in tech cost next year over this year's base once we rationalize the platforms in which we have omni play working on right now.

Sameer Gupta: Got it, sir. I'll take it offline, probably the cost question. Second was a more general kind of a question. So department stores, specifically, if there's any broad trend that you can share now. Is it some particular brands, third-party or your own, which are facing an issue? Is it mall versus high street? In general, we are seeing most of the brands opening EBOs in mall. Is there -- consumers are moving in that direction. So any broad trend that you can share here as to the future of department stores?

Kavindra Mishra: No, I think -- great question again, Sameer, and it's actually -- this discussion and debate can take actually hours and hours. But I think fundamentally two, three things I wanted to share. We have got a very strong partnership with our brands, and we see a lot of consumption of the brands by their consumers, that's one.

We clearly mentioned that one of the big trends globally and I think in India also gets very relevant going forward is that premium and premiumization is a very, very important thing. Even in a very tough quarter when we shared our revenue growth, our Premium Plus portfolio actually grew by 10% like-for-like.

So what we are seeing is that we need to sharpen our product offering. We continuously engage with our partner brands to ensure that what we see in Shoppers is not what you see everywhere. There will also be a lot of consumers who prefer to shop in EBOs, but there are far, far more who want to engage with the departmental store because they come to us for the convenience and for the house of brand possibility, that's one.

Second, from the brand's perspective, for a lot of brands, the profitability in this channel is higher than their own EBOs. So I think there are a couple of angles. There's a customer angle where we need to continuously upgrade and ensure that the kind of merchandise which we offer is differentiated, number one.

But there's also a business angle where the partner brands also feel that the kind of walk-ins which we are able to draw to our stores and the kind of experience that we're able to give through things like use of technology or through use of personal shoppers, I think it's a very, very strong thing which we have.

I think we had a soft quarter, generally, and I speak to people across the board. So if you look at the numbers across the board for the brand, whether it is for their own EBOs, I don't want to talk about that a lot, but fundamentally, I think we have done fairly well vis-a-vis brand channels across the board.

Sameer Gupta: Just a follow-up here. Can you share the like-for-like number, the overall, for the department stores? I think I might have missed it.

Kavindra Mishra: For us, it is -- for the first quarter, it is minus 6%. April and May were fairly negative. I think June, we saw a recovery and we became positive.

Moderator: Thank you. The next question is from the line of Gaurav Jogani from Axis Capital. Please go ahead.

Gaurav Jogani: So my first question is with regards to the store opening guidance that you have given, that you have said, only 11 departmental stores that we might open. So 2 parts to this. One, is it a net number, or is it a gross number? Because you also alluded to some closure of some unviable stores. And the spillover that you're talking about for the next year, the 3, 4 spillover, would that mean in the next year, can we open 20 departmental stores, in that case?

- Kavindra Mishra:** Okay. So Gaurav, thanks for the question. First part is the number which we have said 11 is a gross number. It's not a net number. As a good business practice and I think in these times when the customer journey and the customer demand is always something we've all been seeing how things have been in the past few years. We have to be very, very conscious of the stores and what we have. So we are looking at 5 to 6 stores to rationalize, that's the present sense I have got. The number which I spoke to you about are the gross numbers, the 11 store openings.
- Gaurav Jogani:** And the spillover number, because you mentioned that then there might be some spillover to the next year, so that 3, 4 spillover and then 15 numbers for the mixture, is that intact? Or that will also kind of get changed going ahead?
- Kavindra Mishra:** I think broadly, that number will be there. But again, that will be a gross number.
- Gaurav Jogani:** Okay, got it. And sir, my next question is with regards to again the cost line item. I mean, I do realize that on a Y-o-Y basis, there has to be some inflation that cost increases and given the store openings that you are having. But even if you look at it on a quarter-on-quarter basis, there is a sharp jump in the other expenses line item. So the question really is, one, the cost that we have seen during the quarter, are these sustainable at the same levels? There might be some rationalization in this because of the efforts that you have talked about, like closing of the unviable stores and other strategies?
- Karuna:** Yes, there will be some rationalization we are working on right now. Probably when we come and speak to you next quarter, we should be able to give a lot more details what are the costs and how we are going to rationalize.
- Gaurav Jogani:** But Karuna, the number -- at least the reported number of the stock exchanges that you gave, that is around INR177-odd crores for the quarter that we see. So is it fair to expect the numbers to be in line with this? Or there might be some -- we can expect some moderation in that?
- Karuna:** There will be some moderation on this, Gaurav. We are working on the piece. There will definitely be some moderation.
- Gaurav Jogani:** Okay. Thank you for this. That's all from me.
- Moderator:** Thank you. The next question is from the line of Chintan Shah from JM Financial. Please go ahead.
- Chintan Shah:** So two questions. So first is, I wanted to get a better sense on the EBITDA margins. So right now, if I see there are a lot of initiatives happening in terms of Beauty, INTUNE's renovations, store closures etc. So if you can broadly indicate on standalone department level what sort of EBITDA margins would be making, that is one.
- And secondly, from an outlook perspective, is it fair to say that the broadly store closures, the renovations and a lot of major expansions should be completed in FY'25? And then when we

enter FY'26, we should see much better traction in terms of profitability? That's my first question?

Karuna: Chintan, thanks for the question. Yes, so I think as we mentioned, we are looking at a mid-single digit EBITDA for the year. There are a lot of initiatives that we are looking at in terms of rationalization wherever required and the steps to take. So we spoke about, in certain cases, store closures.

We have also seen in the past that whenever we have rationalized the spaces for our larger stores and made them sharper and quicker, they tend to throw out a better EBITDA. So that particular piece is also happening as we speak. We believe that is -- and obviously, we are looking at all cost items.

It's good always to have a tight control on costs. We believe that the margin should improve in FY'26. Also, we see that the play of private brands, whatever we wanted to do in terms of putting the position strategy in place, putting the structure in place, I think that we are at the end of the cycle now, that should start throwing in better margins from Q3 onwards.

Chintan Shah: Sir, just to be clear. So when you say mid-single-digit EBITDA margins, is it fair to say stand-alone departmental margin will be much higher since a lot of this initiative would be very low in terms of profitability? And for this quarter per se, if you can give some indication how those margins would look like?

Karuna: See, Chintan, you were spot on. The departmental stores, I believe, will have a higher margin because INTUNE is a new business. We have opened a number of new stores. So expecting those stores to achieve the same level of margins would be difficult. At this point, there are common costs, and we don't want to dwell into details, like what would be the departmental margin and what would be the INTUNE margin. But yes, to answer your question, the department margin would be higher than other verticals.

Chintan Shah: And my last question is on the Beauty side. So if I see the other, probably the leader in the industry, they have been able to report a consistent growth quarter-on-quarter of 20% plus, and they looked at ours, and including the distribution, we have been growing single digits probably. So just wanted to get your thoughts basically what is happening here, and in the future, how do you intend to grow this business and what other steps you're taking to drive this growth?

Kavindra Mishra: Sorry, we lost you in the first half minute. Can you please repeat?

Chintan Shah: I'll just repeat my question. The question is on the Beauty segment. So if we see the market leader here, they been growing consistently 20% plus quarter-on-quarter, and then we look at our performance for last few quarters. Including the distribution as well, it's been single digits. What I want to understand, basically, one, what is the reason for this? And second, basically, what steps are we taking to improve the growth profile? And what is the outlook on this?

Kavindra Mishra: Biju, you would like to take the question?

Biju Kassim: Yes. Sure. Thank you for the question. So from the point of view of what we do and what we have been doing well, we have been operating fairly well on the premium space. The growth, if I look at it across segments, you have the premium and then you have the masstige and the mass.

I would reckon that mass and masstige is obviously growing much faster because that's a lot of recruitment category. So in our case, while we also have a masstige representation, our current mix is largely on the prestige space, and prestige is probably growing at a lesser rate than the masstige and the mass, and hence, is reflective of what our growths are.

Second part of the question, in terms of way forward, we have actually set up beautiful and amazing stores with the most compelling brand mix. And in the philosophy of what we think is working well for Shoppers, the premiumization journey, we would really have the education, expression and engagement part that will hopefully bring in better growth prospects in the year and going forward.

So we're actually building up a strong base to be able to really give the best of the expression and engagement and experience to the customers largely on the prestige part of it, which is what we are heavily focused at this point.

Chintan Shah: Okay. I understood, but some guidance in terms of growth, basically, how do we kind of say, from a 2, 3 year perspective not to see around something?

Biju Kassim: So to complement this, and we have put it out in the public domain, we are currently working on masstige brands, which is actually where volumes come in. And this quarter and beyond, we will have masstige brands that will largely accelerate the existing pace of growth to have a blended growth which will actually be at par or around the competition in the next few quarters.

Kavindra Mishra: So, Chintan, just to add on what Biju has said, I think for Beauty, we are looking at a 12% to 15% growth as a base for this year. That the number -- or just the guidance we're looking at.

Chintan Shah: Okay, sure. That's helpful. I'll get back into the queue. Thank you so much for answering the questions.

Moderator: Thank you. The next question is from the line of Shalini Gupta from East India Securities. Please go ahead.

Shalini Gupta: Yes. So I wanted to check, was the discounting in the quarter higher than what it was in the previous quarter, that is fourth quarter? Because your gross margins have come off Q-o-Q.

Karuna: Okay. Shalini, we have explained in the past the GAAP gross margin is a function of two things. One, what is our SOR sales, because if the SOR sales are higher, the contribution is added to the margin. And to that extent, the margin is always higher. And precisely for this reason, we always request all the investors and analysts to see the non-GAAP margin, which is a true reflection of

our margins. So if you see the non-GAAP margins, it's more or less flat to this Q4. So I don't think there is any reduction in margins versus Q4.

Shalini Gupta: Okay. And sir, a lot of people have asked questions on the other expenses, so I just wanted to check. The other expenses are mainly rent, is that right?

Karuna: No. There are multiple heads in the expenses, Shalini. Not only rent, of course. We have electricity cost, we have marketing costs, we have, admin operating costs. We have the service office costs, which is also there where all of us are working here. So there are 5 or 6 line items. The highest cost, what we have business is on the rental cost, which is about – the increase is around about 14%.

Kavi spoke about the investments in tech, particularly in cybersecurity, and we are also moving from on-premises to cloud. So whenever we move from on-premises to cloud, the tech expense is bound to increase because we don't invest anything on the capex. These are the two large reasons for the increase of expenses by 10%.

Shalini Gupta: Okay. And those were my questions. Sorry, one last question. In the presentation or in the write-up of the press release, you mentioned that growth has disappointed, one of the reasons you've said is because of the elections. Now I just wanted to understand why would the elections impact a B2C business like yours?

Kavindra Mishra: Shalini, thank you for that question. Let me take this. Fundamentally, when the elections happen, obviously, and if you would have seen, a lot of elections happen on the dates are over the weekend. So that, obviously, that day, that particular market will get shut. Store opening, so for example, in a lot of cases, we'll open some in the evening. And if you are doing your Friday, Saturday, Sunday, I mean we did that math and that's how May was worse than April.

Elections also, what they do is if there is a particular rally or something near in the vicinity of the store, the store operation tends to be affected. In fact, it's a good point because when we looked at the last 2 elections, and then we're looking and analyzing the data, during the election time, the quarters -- the numbers actually were slightly positive.

So, we were quite hopeful with the few of things which we are doing, we should have seen a bump up. This has come as a surprise to us as well. But when we deep dived into it, I think a longer election period, a lot of the election days happening over the weekends, Friday, Saturday, Sunday, a lot of dates happening, the stores being forcibly shut down, whatever reason, obviously, for the right reason, I think this all disrupts to our operations.

Shalini Gupta: Okay, sir. Thank you, that's all from my side.

Moderator: Thank you. The next question is from the line of Jay Gandhi from HDFC Securities. Please go ahead.

Jay Gandhi: On the EBITDA margin guidance of mid-single digits. I'm just trying to reconcile this. How do we achieve this? Because let me try to paint a picture. Beauty distribution is a low margin, relatively low margin business. INTUNE at least for '25 is going to be a relatively low margin business compared to the core, and the core itself actually is likely to just about to recover in the second half. So how do we get to mid-single digits, because the core itself is effectively by and large a cost-plus model, right?

Kavindra Mishra: Thanks for question Jay. Two things. One -- and I think I will likely talk about the revenue part more because I think that's important. All margin improvements primarily in a business like ours should come through -- and for the business as a whole should come through the demand, even rebound in the demand. So I think that's something which we are banking on very strongly.

We are looking at a very strong festive campaign. We have talked about last year about weddings, and I think that's something which we'll go after in a very big way. I mentioned somewhere that there are around 50-odd dates of weddings this year in second half, and we believe that we've got a right to win with the kind of merchandise. We want to be the wedding destination.

So I think that's something which we are looking at and driving, so that's one. We see a strong demand recovery in H2, that's one point. Second, obviously, there are certain steps which we have to take from the cost side to ensure that we are fit and fine, and we are really sharp in terms of how we are executing.

So, I think these two, one in terms of growth, in terms of using the festive and the marriage season to drive revenue, I think that's one part of it. And obviously, we can take it offline and have a larger discussion on all of it. And second, we have to work on the cost part of it. We are fairly confident about the mid-single-digit number which we are mentioning right now.

Jay Gandhi: Also the second one, second question I have was on the working capital needs for INTUNE. Now, I'm presuming it's a faster moving format, right, because it's affordable category. So as I was looking at the Q1 inventory days, it was actually to about 140, 143 days as a percentage of GAAP sales, right, or in terms of this.

I'm presuming that INTUNE would have contributed meaningfully higher versus what it was in the base quarter. Even beauty distribution would have only contributed higher versus the base quarter. So you should have ideally seen some decline in working inventory days, right?

Karuna: Jay, if you have referred to our non-GAAP balance sheet, we always see the inventory, which is outright purchase, and ROR inventory. And if you further segregate that, on our private brand, which Kavi spoke about, there is a reduction of INR65 crores versus last years. The only place where the inventory has increased marginally is on Beauty, where we purchased during the last week of June around about INR25 crores to INR30 crores and which will get liquidated in this quarter.

So overall, yes, we got your point, with the expansion of INTUNE, there will be a marginal increase in working capital. But at the same time, in our larger Private Brand business, we are working on to reduce the inventory. And so net net, the inventory should reduce and the working capital reduction should be more or less in the same levels what we have seen in the first quarter, Jay.

Jay Gandhi: And the last question again was on INTUNE's expansion plans. Maybe looking at – right. So again, this format necessity, it's a cluster based expansion right? So, are we well equipped to NCR whilst we are doing AP Telangana or the other fields? Are we necessarily equipped from a supply chain perspective?

Devang Parikh: Thank you, Jay, for the question. You're absolutely right. We are also following our cluster base expansion process. I think as this financial year progresses, and if you check the presence of INTUNE stores, you will find the presence of strong clusters being in North, west and South.

To your question on whether we are equipped to handle national logistics, we are. We are very heavily leveraging on the routes of Shoppers Stop as a company where we supply chain need or vendor-based need any kind of a logistical support stemming from having an operational Shoppers Stop in the vicinity. It all of it helps. So I think INTUNE is benefiting greatly from that. And I think from that point of view, no part of the country is out of reach from a logistical standpoint.

Moderator: Thank you. The last question is from the line of Ankit Kedia from Phillip Capital. Please go ahead.

Ankit Kedia: Thank you for an opportunity again. Kavi, if I see the black card customer base or the contribution has increased to 14% of revenue. Now, ideally, a customer is paying INR5,000 for a Black Card and on INR75,000 of shopping, pretty much he is in the money. Do you think, with this increase in traction, margins will compress for us on the Black Card customer as the base is increasing?

Kavindra Mishra: So Ankit, I don't think that is the case. In fact, the Black Card customers actually – and we have this personas where we do the trusting in the profitability of each of the personas which we have, right? So a Black Card customer, when it comes to the store, its average spend is around INR65,000 to INR70,000 against a normal INR5,500 for every visit.

So I think this base a very strong and profitable base for us, Ankit. I didn't understand from where, did you pick this point that the Black Card acquisition is a value loss acquisition. In fact, the repeats are higher and the cost on acquiring this Black Card customer, because we also have a high repeat rate of the customer in terms of renewal, I think it's a key to our business strategy to drive repeat and loyalty with the customer base.

Ankit Kedia: That's on the top line, Kavi. But if I look at the EBITDA, you're actually giving 5% points back, right? And that's where the margins could be lower for it, while obviously, it's driving top line growth?

Kavindra Mishra: Okay, from that. So, what happens is the repeat rates take care of that, Ankit. If that customer is coming back and back again, and that company, along with the money which he's paying, he pays INR5,000 to become a Black Card customer, takes care of any of these things. I think the strength of our program is to get him come again and again and get repeated because the cost of acquiring the customer is far higher than the cost of 5% points.

Ankit Kedia: And again, in one of your opening remarks, you alluded to Personal Shopper. Now at one point of time, we had around 600, 700 Personal Shopper and it came down to 300, and now again, you are expanding the Personal Shopper program, and that will help the Black Card consumers also. Then, again, that's added cost, right? When you're talking of premiumization journey, all these things help to do that, the Personal Shopper, the Black.

Do you think at this point of time, in a 5% margin business, you can get it up to 8%, 9% and then invest here? Because you're closing down still -- pretty much 65% of the stores was renewed until last years. And again, we are seeing some 4%, 5% accretion in the store itself. And along with that, you are investing for personalization and premiumization. Do you think the mid-level consumers are going off the platform?

Kavindra Mishra: Ankit, my sense is that the number which we had always was around 280 to 300. In fact, whatever engagements and discussions I had with the team here, all of us know that this has been one of the reasons for customers to come and shop with us, but we were never aggressive on this, right? Strategically, when we are trying to say that we are going to drive the business to experiences and premiumization, this becomes a very important phenomenon.

So the idea is that from the 300, which we had, we have moved to around 400 odd in Q1 and take this up to 500, the ATV when the customer comes and shops through a Personal Shopper, is actually 3x the ATV of a normal buying. So actually, the program is structured that the Personal Shopper program is structured in such a way that it pays back for the cost, whatever. And it's highly incentive-driven.

So the cost of a Personal Shopper is not in terms of only the base cost. The more he sells, the more he gets back. I think that's the important thing. And these things are very differentiated. So, I think earlier in the call, we were asked that why with the EBO different from a department store. I think Personal Shoppers, these things define that experience which makes us different from an EBO for certain stores, and we'll continue to build on them.

Ankit Kedia: Sure, that's it for my side. Thank you, sir.

Kavindra Mishra: Thank you, Ankit.

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