

Conference Call Transcript

VIP Industries

Q3FY19 Results

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Corporate Participants

Mr Dilip Piramal

Chairman And Managing Director

Ms Radhika Piramal

Vice Chairperson & Executive Director

Mr. Sudip Ghose

CEO

Mr Jogendra Sethi

CFO

Questions and Answers

Moderator: Ladies and gentlemen, good day and welcome to the VIP Industries Q3 FY2019 earnings conference call, hosted by Edelweiss Securities Limited. As a reminder all participant lines will be in the listen only mode. There will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Shraddha Sheth from Edelweiss Securities. Thank you and over to you Madam!

Shraddha Sheth: Thanks Aman. On behalf of Edelweiss, let me welcome you all to the Q3 FY2019 Earnings call of VIP Industries. From the management today we have Mr. Dilip Piramal – the CMD, Ms. Radhika Piramal – Vice Chairperson & Executive Director, Mr. Sudip Ghose – CEO and Mr. Jogendra Sethi, the CFO. So without any further ado, I will hand-over the call to Mr. Piramal for initial comments post which we will open the floor for Q&A. Thank you and over to you Sir!

Dilip Piramal: Good afternoon ladies and gentlemen. I thank you all for joining our quarterly conference call. During the third quarter of FY 2018-19, the company achieved income from operations worth Rs. 430 Crores against Rs. 338 Crores in the corresponding quarter of the previous year, registering a growth of about 27%. All our figures are consolidated figures because all our subsidiaries are 100% subsidiaries. Hence, we share consolidated numbers.

For nine months ended December 31, 2018, the company achieved income from operations of about Rs.1350 Crores against Rs.1054 Crores in the corresponding period of the previous year, registering a growth of about 28%. We say "about" because the decimal points are not given that is quite accurate.

During quarter, e-commerce, modern trade and institutional businesses have grown very well. General trade channel has also grown well in spite of the high base. International business has also shown growth during the quarter. Sales growth is mainly volume growth. In fact, the volume growth is slightly higher because the sales mix has moved towards smaller items and also towards slightly lower end products.

Now I would like to talk about brands. Aristocrat, Skybags, VIP and Carlton are doing very well. Skybags is also the leading brand for backpacks. New backpack collection under Skybags brand has been very well received by customers. Festival collections have also been very well received by the customers. The new collection of Caprese handbags have been launched, which has been very well received by consumers. Caprese has also grown well with good margins.

Now, I would like to talk about profitability and I will be referring to consolidated numbers. Our EBITDA was at Rs. 40.6 Crores for Q3FY19 against Rs. 43.1 Crores in the corresponding quarter of the previous year. Our EBITDA was at 9.4% as compared to 12.7% in Q3 of last year. Our EBITDA was at Rs.

191.5 Crores for nine months ended December 31, 2018 against Rs.146 Crores in the same period of the previous year, growth of 31%. Our EBITDA for nine months ended December was at 14.2% as compared to 13.9% during the same period of last year. The rupee depreciated against USD dollar by about 11.4% during the third quarter, which has affected gross contribution and profitability for the quarter.

Our profit after tax for third quarter was at Rs. 23.8 Crores against 26.9 Crores during the third quarter last year. PAT for nine months ended December 31, 2018 was at Rs.120 Crores up from Rs.91.7 Crores, growth of about 31%. Fixed overheads are well under control.

I will now give you an update on VIP Bangladesh operations. Income from operations from VIP Bangladesh for third quarter FY 2019 were at Rs. 38.9 Crores against Rs. 18.4 Crores, a growth of 111%. Income for nine-month for Bangladesh operations were at Rs. 90 Crores against Rs. 37.1 Crores in the corresponding period of the previous year, a growth of 143%.

Profit after tax for VIP Bangladesh operations for third quarter was at Rs. 6.1 Crores as compared to Rs. 3.9 Crores during third quarter of last year, a growth of 56%. Profit after tax of VIP Bangladesh operations for nine months were at Rs. 12.7 Crores as compared to Rs. 7.2 Crores during the corresponding period of previous year, a growth of 76%.

With that, I turn over to the questions, which will be answered by Radhika Piramal and Sudip Ghose. Thank you. Over to you please!

Radhika Piramal: Before we get into Q&A, I would just like to add to overall comments to explain the results as our EBITDA margins went down. Gross margins have declined primarily due to rupee depreciation and also increased import duty. As everybody may recall, in our last call although our H1 results were very good, we had sounded a note of caution on the gross margins. Our margins were not declined in Q2 despite depreciation of the rupee because there is a little lag in inventory as we keep about three months of stocks. Hence, rupee depreciation impact has been reflected in Q3. We took some small price increase on some of our ranges but not in all channels. Hence, the combination of limited price increase as well as higher rupee depreciation has resulted in lower gross margin.

We will strive to get back some of these margins. The question is whether it will take one or two quarters. We will be taking price increase. We have seen some improvement in our buying costs from China because Chinese Yuan has also depreciated against dollar. We buy in dollars and we have negotiated with Chinese factories to reduce the price in dollars but that will benefit in Q1. In VIP Bangladesh, we would see that the sales has doubled but the profits have not and that is also because we continue to expand and invest our capacity in Bangladesh and when we are putting up a new plant, operating expenses begin before the revenue start happening. In longer timeframe, we do expect to see VIP Bangladesh profitability should go back to higher profits in next 6 to 12 months' time.

That is an overall comment on the gross margins and EBITDA. I now turn over the questions!

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Thanks for the opportunity. First question pertains to on the revenue line item, so if you can help us with volume and value breakup for the quarter?

Sudip Ghose: Value growth was about 27% growth while volume growth was around 30%.

Tejas Shah: So, essentially you are saying that volume was higher than the value growth?

Sudip Ghose: Yes. It was. The volume was higher than the value growth.

Tejas Shah: Okay. But we also mentioned that we have taken price hike so was it not across the product range or it was across the consolidated product range?

Sudip Ghose: As Radhika mentioned, it was across selective product ranges and not all and it was for certain channels.

Dilip Piramal: Volume growth was higher because we sold more backpacks, which are low in value per piece and our sales has grown in Aristocrat brand. Unit price of Aristocrat is lower than unit price of Skybags, Carlton and VIP brand products. Hence, weighted average has come down.

Tejas Shah: Now Sir coming to gross margin, you called the impact of dollar appreciation in the numbers, but at the same time we are seeing that product mix is also changing in favor of lower price units and brands within the portfolio, so what percentage or what share of the current pressure you will attribute to product mix change as well on margins?

Sudip Ghose: Impact on Gross margin would be mainly due to rupee depreciation.

Tejas Shah: Sir lastly as the peak dollar inventory hit the P&L in this quarter or it is till the part of it's yet to come in fourth quarter?

Sudip Ghose: It continues. We still have some inventory of material bought in third quarter.

Radhika Piramal: USD is around Rs 72 today. Hence, there is no peak to the rupee.

Tejas Shah: No, in between we had some relief so I was just wondering?

Radhika Piramal: Rupee has been between 70 and 72 per USD over three or four months.

Tejas Shah: And with our aggregate pricing action for nine months would be how much?

Radhika Piramal: The changes in brand mix are such that the volume growth

for the nine months is same as sales growth, so there has not been an increase in pricing for units sold and the reason for the change in brand mix is that our Aristocrat brand is doing very well. Aristocrat is growing at rate higher than overall sales growth due to heavy competition and opportunities at the entry level price points. With the beginning of GST, all the companies have rushed with very good products at aggressive price points to attract unorganized customers, which is an opportunity for volume growth, but economics at that price point is difficult. Goals of the management at this point would be to get back to sustainable margins even at the affordable brands. We want to bring Aristocrat's gross margins to an acceptable level. We have to work on the products and the costing to get better margins and continue our sales growth and bring margins back.

Tejas Shah: Sure. That is it from now. My all the questions have been answered. I will come in the queue. Thanks.

Moderator: Thank you. The next question is from the line of Ronak Raichura from Asian Markets. Please go ahead.

Ronak Raichura: Sir my question is regarding our hedging policy because if dollar is creating such a big impact on our margins, do we have a conscious policy to hedge that is one and the second is you just mentioned or Madam just mentioned that we are trying to improve the realizations on the Aristocrat but it is supposed to be a highly competitive category so what is the strategy there, how do we increase the realizations in Aristocrat brand?

Radhika Piramal: We only hedge our near term payables. Our company tries to keep gross margins at a certain percentage. The last time we had this kind of results in FY 2011-12, which was again when the rupee depreciated sharply around 10% or 12% within three months. That was on the hedging side. On the second question, I will ask Sudip to answer.

Sudip Ghose: There are two things where Radhika very clearly said that there is an opportunity at the price point and it is going to be very foolish for anybody to let that opportunity go and the other question as you rightly said how do I increase the gross contribution? We could negotiate our buying rates with our vendors in China primarily because RMB was also loose at that point of time. We have tried to price new launches at decent gross margins and I think that it will help us to improve the contributions.

Ronak Raichura: No, so the new products are at a higher price point and therefore the increased margins, or this is the costing, has improved?

Sudip Ghose: Price points are same while COGS is expected to go down.

Ronak Raichura: Okay and what percentage of our total raw materials would be imported Sir, last one?

Radhika Piramal: 40%.

Sudip Ghose: 40%.

Ronak Raichura: 40%. Okay.

Radhika Piramal: Because we manufacture hard luggage products in our factories in India. We also have some soft luggage vendors in India. We also get soft luggage from VIP Bangladesh factories which are not included in this.

Ronak Raichura: Okay, So though Bangladesh is imported technically?

Radhika Piramal: Yes, that is why I was clarifying.

Ronak Raichura: Correct, so this 40% is effectively from China is what you are saying?

Radhika Piramal: Yes.

Ronak Raichura: Okay. Thank you. I will wait in the queue.

Moderator: The next question is from the line of Sadyan Ketwani from Frontline Capital. Please go ahead.

Sadyan Ketwani: Thank you Sir. Thank you for giving the opportunity and congratulations for good revenue growth. I just want to know as you said that this gross margin came down due to be the rupee depreciation as well as import duty hike to get in September to by 5% and we are not able to raise the price, so can we expect that whatever this 47% gross margin was going on, we continued for another two to three quarters?

Radhika Piramal: Certainly not two to three quarter

Sudip Ghose: Two to three quarters for sure.

Radhika Piramal: Definitely one or two.

Sudip Ghose: There would be pressure in current quarter definitely.

Sadyan Ketwani: Current quarters?

Sudip Ghose: Current quarter, which is quarter four.

Sadyan Ketwani: Okay. Another question from just I wanted to know this purchase in the stock trade 214 Crores does we have only China and Bangladesh buying?

Jogendra Sethi: It has China, Bangladesh and India sourcing.

Sadyan Ketwani: India sourcing also. One other thing, there is a good hike in the other expenses as well as price expensive, somewhere around 13 to 14 Crores?

Sudip Ghose: Yes, other expenses includes freight and warehouse rents. As there is volume growths, we are also expanding in terms of infrastructure, which we are doing for future growth. Hence, it is slightly higher.

Sadyan Ketwani: So can we expect that such type of growth rate will continue in coming quarters or it has been done?

Sudip Ghose: No. We do not open warehouses every quarter. As I said, it is building up of certain infrastructure.

Sadyan Ketwani: Thank you for right now Sir. I will come again into the queue.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead. Mr. Naredi, your line is unmated; you may please go ahead with the questions. It seems there is no response from the line, will move to the next question that is from the line of Jinesh Joshi from Prabhudas Lilladher. Please go ahead.

Jinesh Joshi: Thanks for the opportunity. I have a couple of questions. First I just wanted to understand with changes in the e-com, do we expect the growth rate in this particular channel slow down a bit?

Sudip Ghose: There is lot of confusion in that particular channel. We have been in the constant touch with the two big players i.e. Amazon and Flipkart and they are talking to the government. As of now, they are confident that they would be able to find a way with the government. As of now, there is no impact on their offtake with us while there was some impact for a couple of days but they have sorted it out.

Jinesh Joshi: Secondly on the e-com platform, do we sell products via any particular vendor wherein we have any kind of equity interest in them or is it directly through a third party seller?

Sudip Ghose: They are all third party sellers. We do not have any equity in any of the sellers.

Jinesh Joshi: Secondly I just wanted to get a better understanding of the competitive intensity in the ladies handbag market, so while Caprese has scaled about 100 Crores in revenues over five years and we have a strong presence in modern trade, EBOs and e-com what I want to know is how are our tiers like say for example Lavie bag and Esbeda? How are we placed with respect to peers in terms of size and distribution network if you can just highlight bit about them?

Sudip Ghose: We are probably the last entrant in this field. Therefore, I think that we are the fastest growing and we are definitely in the top two luggage brands of the country today. In terms of distribution, we are much widely distributed as compared to Baggit or Espeda because they do not have much presence in trade as we have. We sell through military channel, modern trade (which are Shoppers Stop, Pantaloons and Lifestyles), general trade and hyper stores. We also sell through company run stores. I do not think Esbeda or Baggit would have that kind of distribution. Lavie may have. As of now, we would definitely be in top two brands in this category.

Jinesh Joshi: Okay, and is it fair to assume that the in the organized ladies handbag market, Caprese is the largest brand in terms of size, absolute revenues?

Sudip Ghose: As I said, in the top two brands definitely.

Jinesh Joshi: Okay Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Dhanish Jain from Assie Capital. Please go ahead.

Dhanish Jain: I have two questions. My first question, Sir how was company

getting the sales from these e-commerce platform?

Radhika Piramal: We do not share specific channel wise details, but it is less than 10%.

Dhanish Jain: Okay in the second question is madam, how much company is getting revenue from the in-house manufacturing as well as from outsourcing side?

Radhika Piramal: Our hard luggage would be about 25% of our sales and all hard luggage are manufactured in house. Soft luggage, which is about 75% of our sales, is either imported or bought from Indian suppliers.

Dhanish Jain: My last question is recently the government had announced the tax saving measures and all, so are you seeing any opportunity from this tax and all for middle class people.

Radhika Piramal: We are comfortable with the demand growth in the economy. We are not seeing any significant slowdown in demand, which is a good point. Our major issues are costing pressures and gross margins.

Dhanish Jain: One more last question, from the results in this quarters three and the company has mentioned due to this change in inventory of the finished goods, which has increased from 17 Crores to 73 Crores in this quarter, can you through some more light on it, so what is the inventory of finished goods?

Sudip Ghose: The finished good is primarily build up for the quarter to come and there has been a little increase in the inventory, which we are working on.

Dhanish Jain: Thanks.

Moderator: Thank you. Next question is from the line of Sahil Desai from Hornbill Capital. Please go ahead.

Sahil Desai: Thanks. I just wanted to check on the employee cost, both in Q2 and in Q3 we have seen rise in the employee cost, so can you give us some thoughts on what is happening there?

Radhika Piramal: Fastest growing channel is hypermarket and fastest growing brand is Aristocrat and in both of these stores are added. In stores, we have to add promoters and they have a certain cost. Cost of salaried employee is same whether they sell Aristocrat or they sell Skybags. Hence, hypermarket are amongst less profitable channels and they are growing fastest and they have high employee cost.

Sudip Ghose: Yes. In terms of percentage to sales, it is same and it has not increased.

Sahil Desai: Yes. You are right but ideally that should be lot of leverage, but I get the point that Radhika is making, I just wanted to check whether, so is there any buildup in the sales force ahead of revenues, so do you think this sort of evening out or is it volume linked and will continue to remain this say?

Radhika Piramal: It more depends on the channel mix. If we can slightly improve the revenue growth in those channels that do not have promoters, which are general trade channel and e-com and it will improve the operating

leverage.

Sahil Desai: Got it and just lastly does it have anything to do with the product mix also in the sense that if you see higher growth in your more prestige brands, does this come down?

Radhika Piramal: The product mix issue is being reflected in the cost of good sold and the channel mix issue is being reflected in the employee cost. If we can improve growth rate of VIP, Skybags and Carlton brands versus Aristocrat brand and if we take growth rate in e-commerce or general trade, where we do not have sales promoters, sales would improve along with profitability.

Sahil Desai: Got it. Thanks for the questions.

Moderator: Thank you. The next question is from the line of Amnish Agarwal from Prabhudas Lilladher. Please go ahead.

Amnish Agarwal: Thanks for the questions. Sir if you look at our profit margins for the first nine months, our EBITDA margins 13.7%, which is same as it was in FY2018, but in the past whenever there has been currency issue or raw material issue, would have taken us quite a while to come back to increasing our margins, now given the current scenario where our mix is deteriorating, the channels where the costs are higher growing faster, how confident are you coming back on marginal and how quickly the margins can come back?

Dilip Piramal: Mix is not deteriorating. Our sales is growing and part of additional sales is from the lower end.

Radhika Piramal: We can expect continued pressure in the current quarter. This is the first time, it has happened in five or six years. The question is how quickly we can come back to the same margins we enjoyed in H1 of FY 2018-19. We are trying to get back to profit growths in Q1.

Sudip Ghose: I would also like to add that in the product mix, we are selling more of the smaller items like backpacks. We were hardly selling any backpack about five years ago. In fact, one of the successes of the company has been by achieving high market share in backpack and we are getting a lot of share from the unorganized sector in the backpack. Backpacks is obviously a much cheaper item as compared to a suitcase. Backpacks averages at about Rs.1000 to Rs.1500 at the retail price, as against Rs.3000 upwards for the suitcase. It is very wrong conception to think that it is a deterioration. In fact, it is a very positive addition to our product mix.

Amnish Agarwal: My second question is at now with the two fast growing items, one is your backpacks and one is Caprese and we are growing well, I think above our overall leverage growth rates, so how is that profitability in these, is it in line with the overall company profitability and what is the scope to increase margins, more so in Caprese?

Radhika Piramal: Backpack is a much larger segment of the two. Backpack margins are in line with the company and we expect the growth to continue to be high. While Caprese is growing faster, it is smaller. Caprese margins are better as compared to overall company average but the base is small. Hence, it

does not shift the needle in a meaningful manner.

Amnish Agarwal: Okay, but so it means that if I have to look at say gross margins if that company level say for example 45 Caprese would be say at least 5% or 10% more than that?

Radhika Piramal: Yes.

Sudip Ghose: Roughly like this.

Radhika Piramal: For the company margins to improve, VIP and Skybags growth is important. Secondly, the percentage contribution that we have in Aristocrat brand is important. If these two things happen, gross margins of the company will improve.

Amnish Agarwal: Thanks a lot.

Moderator: Thank you. The next question is from the line of Saket Bansal from Stock Axis. Please go ahead.

Saket Bansal: It is a continuation of the same question, like if you are thinking about the gross margin improvement in Aristocrat, what kind of a contribution should it be in total revenue that overall gross margins up by what it was in H1 FY2018-2019?

Radhika Piramal: Skybags and VIP have the same gross margins as the company. Aristocrat is about 5% less and Caprese and Carlton are about 5% more. The ultimate goal is to bridge the gap between Aristocrat, VIP and Skybags.

Saket Bansal: Okay and there are other companies like Safari, how is the competition in there?

Radhika Piramal: Aristocrat, Kamiliant and Safari are at the entry-level price point. So, those price points are required in order to attract the consumer up from unorganized. These brands are partly fueling volume growth. We may be slightly increasing the prices as much as competition in this segment allows, to get back the margins.

Saket Bansal: So would it be easy for VIP to increase the contribution from Aristocrat when this other competitors are also there in the same price points?

Radhika Piramal: It is not easy, but it is necessary.

Sudip Ghose: I think that I answered the same question to some other gentleman sometime back. We are working on and there is a specific plan to it.

Saket Bansal: That is like negotiating the costing?

Sudip Ghose: We have already done that.

Saket Bansal: Okay. Thank you. That is all from side.

Moderator: Thank you. The next question is from the line of Ganesh from I-thought Financial. Please go ahead.

Ganesh S: So I just look at the previous concall for the previous quarter, so where you had mentioned that you will be concentrating on the Caprese

handbags at the lower price point at around 1000 to 1100, right. How has the strategy actually worked out like you said for where your strategy working similarly for the Aristocrat brand, so is the same is working out for the Caprese brand as well and how much of the actually we have made for the quarter and with respect to Caprese brand?

Sudip Ghose: We have just launched value segment of Caprese. The value segment of Caprese has high potential. Major challenges for Caprese is to grow. As Radhika rightly said that as soon as Caprese becomes a sizeable business like backpacks, it would have positive impact on bottom line of the Company because Caprese margins are 5% more than the overall company average margin.

Ganesh S: Okay and how much have we made for the quarter Sir on Caprese?

Sudip Ghose: We do not share brand wise details. Hence, I will not be able to answer the question.

Ganesh: So we just recently crossed the 100 Crores margins and we are growing at a CAGR of around 47% since 2013 is what I gather, so would we be able to maintain a similar growth rate or what would be our growth rate?

Radhika Piramal: Growth rate will continue.

Sudip Ghose: The growth rate will continue.

Ganesh S: Right. Thank you. That is it from my side. Thank you Sir.

Moderator: Thank you. The next question is from the line of Kamlesh Kotak from Asian Markets Securities. Please go ahead.

Kamlesh Kotak: I just wanted to understand as you mentioned, is it that the brands' Caprese, Aristocrat and backpacks have grown above the company's growth and the other segment have grown at a lower pace, is it the understanding right?

Sudip Ghose: Yes.

Kamlesh Kotak: Second thing just wanted to understand do you get some details about how many number of SKUs we would be having in, any new addition collection that we may have every festive seasons or may be at every level, how it works?

Sudip Ghose: Are you asking about SKUs?

Kamlesh Kotak: Yes.

Radhika Piramal: We do not increase the number of SKUs from one year to next year. Our company would have about 1500 SKUs.

Kamlesh Kotak: 1500?

Radhika Piramal: Four categories with backpacks and handbags.

Sudip Ghose: Caprese replace full range twice a year.

Kamlesh Kotak: Secondly can you just help us to understand, how has been the sell across the different channels, it may not give exact number, but can

department, modern retail and online?

Sudip Ghose: All channels have done well except canteen department because there has been government restrictions on that particular channel, so that is the only channel where we have little bit of struggle which is across the industry and not limited to us.

Kamlesh Kotak: Sir Canteen stores has degrown and what percentage it would constitute to the total business?

Radhika Piramal: It is flat. It has not de-grown.

Kamlesh Kotak: Lastly I wanted to understand you mentioned about this high inventory at the end of the quarter, it has been unprecedentedly high so it is something that is high cost inventory we may have the holding on that is where you said at Q4 also will be soft in terms of margin?

Radhika Piramal: Yes.

Kamlesh Kotak: That 84 Crores of increase in inventories what I was just referring to, so it is something that is not unprecedented in terms of the quarterly run rate, which we maintain?

Radhika Piramal: It is bit higher than planned. Few reasons for it. We had planned higher for Q3 and thus we build up for new season. We launched new backpack collection in January and we have to buy new collection for the quarter before new launches.

Moderator: Thank you Mr. Kotak. May we request you to join the question for any follow up? We have the next question from the line of Mandeep Singh from Ambit Capital. Please go ahead.

Mandeep Singh: Sir secondly it is fair to say that gross margins are all moderated sequentially because of cash back schemes, so the certain channel partners pointed out that VIP had a cash back scheme in December on purchase made for Rs.5000 or more?

Radhika Piramal: No.

Mandeep Singh: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Ankit Babel from Shubhkam Ventures. Please go ahead.

Ankit Babel: Couple of questions. Sir your growth rate has been very healthy in the first nine months at around about 28% plus and it seems you will be ending the year with at 25% plus kind of a growth rate, I just wanted to understand on this high base, we will be able to grow at 20% in FY2020 as well?

Radhika Piramal: We feel good about channel health. Domestic aviation should also grow. We see decent demand.

Ankit Babel: Great and Sir my question is I just heard that you said that you will take around three, four quarters to go back to the 15%-16% kind of margins, so why a such high, one was the high inventory, any other reason for that?

Radhika Piramal: It is not three or four quarters. We said one or two quarters to come back.

Ankit Dhakal: Okay, I mean the fourth quarter PAT can we witness any growth or not?

Radhika Piramal: Let me clarify what I meant by earlier comments. In a very good quarter, we have 15% EBITDA. In a medium quarter, we have 12% to 13% EBITDA. In not a great quarter, we have 9%-10% EBITDA. Getting back to 12% to 13% should be in one or two quarters.

Ankit Dhakal: That is helpful. Thank you so much.

Moderator: Thank you. The next question is from the line of Dhaval Dama from Equirus Securities. Please go ahead.

Dhaval Dama: Just wanted to know like say there would be any specific trends in terms of A&P, so during the current quarter, would the A&P be lower as compared to the previous quarter or during Q2 and last year also, any broader indication on that?

Radhika Piramal: We would like to continue on A&P. We would like to work on our gross margins and continue the trend on A&P as per historical levels.

Dhaval Dama: Any rough idea on how much would Bangladesh is contributing in terms of total volumes today?

Radhika Piramal: It is still only around 10% and it is just about that. We are trying to work towards building it but it takes time. It is operationally quite challenging.

Dhaval Dama: Right and another thing is that historically if we have seen that post that there is some revision in terms of labour rates in China, so any comments on that aspect whether you see the prices of some of your products going up because of that or basically because of currency you see some headroom in terms of getting it down, what is your view on that?

Radhika Piramal: We do a very robust round of pricing negotiations with Chinese factories. I do not expect too much pressure. We do not do the price negotiations very frequently. It is once or twice a year.

Dhaval Dama: Okay. Sure. Thanks a lot. That is it from my side.

Moderator: Thank you. The next question is from the line of Ankit Kanodia from Smart Sync Services. Please go ahead.

Ankit Kanodia: Thank you for taking my questions. In the last concall you mentioned that it was difficult to balance between price increase and maintaining market shares, but today we are guiding for some pipe hikes, I mean, Q1 of the next year, so how do you think it will play out in one of our market share?

Radhika Piramal: If we were tilting towards market share in Q3, it resulted in decline in margin and management is not happy with the same. We would like to increase prices a bit and do not expect to lose market share due to strong brand equity and strong distribution.

Ankit Kanodia: All right.

Moderator: Thank you. Next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: Followup, the pricing action that we took more than that industry level also the same response or industry is still going very hard game on pricing?

Radhika Piramal: It is still a hard game.

Tejas Shah: Okay, so organized players are participating in this price hike action or they have also not there, there are two competitors you are formerly affected?

Sudip Ghose: No. They are not participating in the price increase. I would like to see their numbers and I do not think that they can sustain this because they also import from the same country.

Tejas Shah: Second hearing from many other sectors that liquidity has tightened up a bit on cash rotation part and lot of distribution especially the wholesalers are finding a difficulty to churn cash, and that is also taking toll on growth for many other sectors, so are you feeling that kind of pressure and are you seeing any stress on receivable days also?

Radhika Piramal: Actually, I am surprised as Q3 volume growth has been very good. We do not see any concern in demand.

Sudip Ghose: We also have a very strict credit policy. We stopped supplying to our biggest customers, if there has been any deviation. We are very strict about our credit policy.

Radhika Piramal: Our stock rotation with our customers is high and they do not have stocks for more than one or two months, so it keeps the system going. We have been strict on that.

Dilip Piramal: But where is the question of slower sales?

Radhika Piramal: If dealer or distributor has high stock, we always encourage to bring down their stocks.

Moderator: Thank you. The next question is from the line of Kamlesh Kotak from Asian Markets Securities. Please go ahead.

Kamlesh Kotak: Just one clarification I wanted to have. We understand there is some Chinese players also have entered the fray with some excessive pricing and very high marketing kind of strategy, so any take on that is that something which you are seeing in terms of the competition getting into the price from new players?

Sudip Ghose: India is probably the only country where our nearest competitor, which happens to be world number one luggage Company, is far behind. Now, if they cannot do anything to us, do you really think a Chinese competitor can do? India believes in VIP. Our brands are very strong..

Kamlesh Kotak: Xiaomi has come significantly with some aggressive pricing

strategy and online sales channel is what we hear so just wanted to have some clarification on that.

Sudip Ghose: Answer to your question is no.

Kamlesh Kotak: Okay. Fine. Thank you.

Moderator: Thank you. Ladies and gentlemen that would be the last question; I now had the conference over to the management for their closing comments. Thank you and over to you!

Sudip Ghose: As Radhika started by saying, we had an okay quarter. Not a usual one from the profitability point of view. There is a particular reason and we are working on it. Current quarter could also be under little bit of stress but we are sure that in coming next quarters, we will be able to safeguard them and it should be good. These are temporary hiccups and I am sure for a very strong organization like ours, this should not put us off in any way. That is all that I have to say.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Edelweiss Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

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