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Conference Call Transcript

VIP Industries

Q4FY17 Results

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Corporate Participants

Mr Dilip Piramal
CMD

Ms Radhika Piramal
Vice Chairperson & Executive Director

Mr Jogendra Sethi
CFO

Questions and Answers

Moderator: Ladies and gentlemen, good day and welcome to the VIP Industries Q4 FY2017 Earnings Conference Call, hosted by Edelweiss Securities 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 the operator by pressing "*" then "0" on your touchtone phone. I would now like to hand the conference over to Miss Shradha Sheth from Edelweiss Securities. Thank you and over to you Madam!

Shradha Sheth: Thank you Lizann. On behalf of Edelweiss, let me welcome you all to Q4 FY2017 earnings call of VIP Industries. From the management today, we have Mr. Dilip Piramal, the CMD, Miss Radhika Piramal, the Vice Chairman and Executive Director and Jogendra Sethi, CFO of VIP. Without further ado, I will hand over the call to Mr. Dilip Piramal for his initial comments, post which we will open the floor for Q&A. Thank you and over to you Sir!

Dilip Piramal: Good afternoon everyone. I am back with you I think after a gap of two or three years and I feel very good. We have had a very good quarter and we achieved sales and income from operations at Rs. 307 Crores against Rs. 275 Crores in the corresponding quarter of the previous year registering a growth of 11.6%.

For Q4, the sales growth achieved from domestic business is around 16% and international business continued to decline. We were having issues with one of our major customers in the key international market, which has been addressed recently.

The entire domestic business growth of 16% is volume growth and none of this is due to any price increase. Sales growth at 11.6% is a better number after a modest 6% growth in the third quarter, which was affected by demonetisation initiative taken by the government. Demonetisation is expected to benefit the organised sector in the long run as the cost of the unorganised sector increases and the price difference between unorganised and organised reduces. The entry-level brands and even the middle brands from our portfolio will become more attractive.

I will now cover our annual sales. For the year 2016-2017, the Company achieved income from operations of Rs. 1275 Crores against Rs. 1216 Crores in the previous year registering a growth of around 5% which was much less than expected. Domestic business has grown by about 6.5% while international business has declined. The major sales challenge for VIP Industry is to address at this point is the low cost competition from the organised sector rather than any overall market demand situation.

Domestic sales growth in FY2016-2017 was also due to lower growth in Q1 which is our main quarter, our largest quarter. The main reason for the lower growth in that quarter was the lower sales during the month of May which was a very poor month in terms of retail demand and the main reason for that was that the marriage season was very poor during that month in the last year.

Our first quarter is our strongest quarter and it is driven by the travel and the marriage season, and sometimes like last year there were not too many auspicious dates in the month of May and that is why our May sales was quite low compared to the normal May sales and that is why it had also affected the entire sales growth of last year.

Also during the year 2015-2016, we had a very large institutional order from the Haj Committee of India, which comprise 5% of our annual sales and this order was not repeated last year because the Haj Committee did not float any tender for the luggage. If we exclude sales of the Haj order, our domestic business has grown by about 12% which is actually the reality because this Haj was a one-time order. The international business is a concern but we are trying to take corrective steps. Our sales growth on an annual basis has been mainly on the basis of volumes and which is actually much better.

Our Skybags brand is growing very well. Skybags is also the leading brand for backpacks, customer response to our latest backpack collection is very good and we become market leader in the backpack section in a very short time.

Our Aristocrat brand latest collection has also been well received. Celebrity endorsements by famous cricketers, Ashwin and Rohit Sharma have created strong brand recall for Aristocrat brand. Last year, Hrithik Roshan advertised for our VIP brand. We have advertised Aristocrat brand after many years. Brand ambassador for our Skybags brand is Varun Dhawan, the young actor.

Our ladies' handbag brand Caprese is also doing well and grown well during the year and margins are also very good. During the year, modern trade channel has grown very well in spite of high base and e-commerce channel also has picked up pace.

I will now talk about the profitability. Firstly, the quarter profitability was good. Our EBITDA was Rs. 31.4 Crores up from Rs. 22.7 Crores which is a growth of about 38%. In fact, I think the main highlight of the last year has been the higher growth in our profitability as compared to the growth in sales.

Overall our EBITDA is 10.2% in Q4 as compared to 8.3% in the same quarter of the previous year, which is a good improvement. EBITDA has improved due to lower advertisement and other expenses because this year we have spent higher amount on advertisement during the third quarter rather than in the fourth quarter.

Our profit before tax was Rs. 27.8 Crores for Q4 up from Rs. 19.2 Crores that is a growth of about 45%. EBITDA for the entire year was at Rs. 137.7 Crores as against Rs. 110.5 Crores last year registering a growth of 25% which is mainly contributed by improvement in gross contribution.

Gross contribution has improved due to our product mix mainly and also the strengthening of the rupee in the last four months of the year and of course that trend seems to be continuing.

Our profit before tax for the financial year 2016-2017 were Rs. 123.5 Crores up from Rs. 95.1 Crores last year which is a growth of 30%. Fixed overheads are well under control. In spite of a little struggle in quarter one and the shock of demonetization, we have achieved good profitability numbers, this is a satisfying performance. During FY2016-2017, excise duty exemption was not available for our Haridwar factory which had ended in the previous year and the Haj Committee order did not also come again in spite of that our profitability has been quite good.

Our wholly owned subsidiary in Bangladesh, VIP Bangladesh, had a good Q4 as well as annual performance. Profit before tax was about Rs. 3.5 Crores for the last quarter and about Rs.9 Crores for the entire year this has been a very good turnaround in terms of profitability. Bangladesh factory has a very study supply chain and operating system and margins are also good.

Finally, I would like to summarize position as follows. For any consumer goods industry or for any industry, the overall growth depends on the rate of the growth of the GDP which in our country is presently about 7.5%. When the GDP grows by 7.5%, typically industries like ours grow at about at least twice the rate and we have been seeing that.

This is at the macro level. Company's performance depends on the competitive strength of the company in the industry. In our case, our competitive strength is very good because our market share is slightly over 50% and that is a very ideal situation. If we try to improve market share beyond that, it becomes very expensive and it is not very viable or economic. So, I think 50% market share is actually an optimum market share.

Finally, any industry or any company's performance depends on the cost trends in that particular industry. For example, if the business is raw material intensive and the trend of raw materials is high in that particular industry then obviously the profits are under stress and conversely if the raw material prices are going down then it improves the profitability. In our case, imports are one of the major contributors to our cost and since the rupee is appreciating that is a very positive aspect for our industry.

All in all, things look quite good. Of course, there has been a concern area that we will be taxed under the 28% bracket in the GST and we have to see the repercussions of that as we just learn this morning otherwise till yesterday evening thing was really going great for us.

I will now hand over the floor to Radhika for her opening comments and we will take questions after that.

Radhika Piramal: Thank you Chairman. I think Chairman summarized very well. I will say that three big initiatives by our Company in the last five years are really bearing fruits now. One was the relaunch of Skybags, which has become as big brand as VIP and with the same margins as VIP. The second initiative was launch of Caprese hand bags which has grown very well and we expect it to keep growing for the next three to five years and the third was setting up of manufacturing facilities in Bangladesh. It took few years for it to come into maturity. In the year 2016-2017, it really did well to our bottomline. So, these are three things that have really paid off in the past and I would just like to echo Chairman's comments that in terms of the cost inputs, we were expecting an improved gross margin in FY 2017-18 due to the appreciating rupee.

Now, with 28% GST, it is almost certain that we will have to take a price increase. It is premature to comment on what degree of price increase because we have to work out but on the other leeway would be taking some sort of price increase in the near future. We would also like to share that 28% GST rate is a little bit unexpected for us and in our existing tax rate. If you consider either customs or excise depending of whether it is imported or manufactured plus VAT across different states, the blended was closer to 18% that is our existing tax. So, we were hoping to be in the 18% bracket and being in the 28% bracket, may have some inflationary consequences in our industry, but the next few months things will unfold better and we will be able to give more clarity on that. With that I turn over to questions please. Thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Dimple from SKS Capital. Please go ahead.

Dimple: Congrats on a good set of numbers. What are the strategies we are looking forward for the international business?

Radhika Piramal: The strategy is to improve the quality of our distribution network. The fact is that our brand strength and brand recall is stronger in India than outside India. Some of the Middle East markets have not been doing well due to the low oil price in those countries. There is less number of tourists. There is less spending and what happens is when let us say a medium strength brand in a declining economy tends to do worse as compared to strongest brand in the same declining economy and we have had a difficult time in our international business in the UK, Europe, Asia PAC as well as Middle East and so we are working with different set of distributors in order to strengthen our business and it is a work-in-progress. In our largest market, we had some specific financial issue with one distributor and we are trying to resolve it. We had to wait for a certain amount of time to ensure that there are no issues on our receivables. Now, we have ended agreement with that distributor and just March onwards we have signed with our new distributor.

Dimple: With the GST and I understand will these margins be sustainable at whatever is?

Radhika Piramal: It is too early to comment. Obviously, our endeavor will be to maintain our margins but we have to calculate what is the price increase required to achieve that and then management will decide on the degree of price increase. It is too early to comment. The second piece of information I am eagerly waiting for is to see the service tax slab for air fares which will also have an overall impact on our industry.

Dimple: As you said in the initial remarks that Q1 is the best quarter so since already we are in the end of May if you can just throw some light then how it has been?

Radhika Piramal: It is really too early to comment on that because there has been a fair amount of uncertainty around GST. I think that it we will be best of talking about Q1 in our Q1 call.

Dimple: Finally, just one question what would be the quantum of ad spends in this year in FY2018?

Radhika Piramal: We will remain within our band of 5% to 7% so broadly it remains in line with our current policy.

Dimple: That is all from my side, thank you and best of luck.

Moderator: Thank you. The next question is from the line of Atul Mehra from Motilal Oswal Asset Management Company. Please go ahead.

Atul Mehra: Good evening and thanks for the opportunity. Just couple of questions one is in terms of in the market place now GST obviously is a newer thing but in the current market place as we were seeing a rupee appreciation how is the competitive environment so is competition reducing prices to take benefit of the rupee appreciation or market is pretty stable in terms of pricing?

Radhika Piramal: We have not seen any price cuts. During FY 2016-17, we had a very good year in terms of taking some market share from our key competitors which is Samsonite American Tourister so we feel that we took share from them across all channels and across price points. We do have aggressive price competition from Safari Industries at the bottom end but nobody has cut prices but the presence of a fast growing low price competitor means that we have to ensure that a certain portion of our product mix is at aggressive price points. There is no price cuts and there is some degree of price discipline but there is also more activity on the bottom end of the market because of Safari then there would have been three or four years ago. We still took a small relatively small price increase as usual in April.

Atul Mehra: That is across modern trade?

Radhika Piramal: No, I mean primarily in our general trade and retail trade not in modern trade. The modern trade is where the price competition between us and our competitors in terms of price seems to be the stronger. So, we did not take a price increase in modern trade but we did take a price increase in the general trade and our retail trade in April.

Atul Mehra: Secondly in terms of if you were to say rate your growth versus something like air traffic growth because that will be a good proxy in some way so what we see is the traffic is really quite buoyant but this category of organized luggage is still in terms of really they build double digits in terms of volumes et cetera so how do you correlate the two?

Radhika Piramal: For FY 2016-17, our Chairman has discussed at length. There were 2-3 specific issues for lower growth and one was this.

Dilip Piramal: There is one absolute difference. In air traffic, there is no unorganized sector at all and in our segment there is very large unorganized sector. It is very difficult to say what percentages with unorganized sector and what percentages with organized sector. In the smaller items, the unorganized sector market share is larger than in the larger items of suitcases.

Radhika Piramal: Just adding to that, there were four very specific issues that in our FY 2016-17 growth rate, sales growth rate looks so low because the first was the Haj effect from FY 2015-16, the second, May of 2016 was really a poor lagan month. Third, November was a big shock. Our sales declined in absolute terms in a fairly significant way so we must have loss around Rs. 30- 40 Crores sales may be in that month and finally we had absolute decline in our international business. This is the way of explanation not as way of excuse. If we take effect of all these, our domestic luggage sales growth would have been in the rage of 14- 15% which is closer to the air traffic growth.

Atul Mehra: Air traffic.

Radhika Piramal: Yes.

Atul Mehra: And any of that you have seen from say Kamiliant in the sense that it is more targeted towards the lower end of the market?

Radhika Piramal: I will say that Kamiliant is also a response to Safari in the same way as we have responded by increasing the promotion of Aristocrat brand with celebrity cricketers and our competitor American Tourister have responded by launching Kamiliant, which is a low cost brand in the modern trade.

Atul Mehra: One final question in terms of the management so between you and Mr. Piramal how is it really going to operate now in the sense that the relocation etc. if you could just in terms of just give some?

Dilip Piramal: I will tell you one of the best contributions, which Radhika has done in the last five years, is that she has built a very good team of top management. I do not think that we have had such a good team in the last 20 years as I recollect in the early 90's we had a very good team and what Radhika has done and which was purely needed in the company was a very good top corporate management. In terms of our marketing, sales, finance and the biggest difference has been in the design department. Our manufacturing also has revived. So, that has been the biggest contribution and on that basis we feel that if Radhika is now being posted in London. We will be fairly comfortable in our day to day management with our top team and I have taken over as Managing Director also in addition to being the Executive Chairman. Radhika being in London will give us an international dimension and also to our design thinking. It will give some fresh ideas and our basic day to day affairs are being taken care of by our existing management team very effectively.

Moderator: Thank you. The next question is from the line of Kinjal Desai from Reliance Mutual Fund. Please go ahead.

Kinjal Desai: Congratulations for good set of numbers. I was just trying to understand a few soft points one was the could you just explain how cum our other expenditure has been so low for the quarter as well as for the full year if you could just give me a little bit of clarity on that front?

Radhika Piramal: We kept good control on expenses. I would like to credit Mr. Sethi who is on the call for his very robust supervision on the year for that. We have not had a terribly inflationary environment in FY 2016-17. So, oil prices have remained low so freight. We were able to negotiate one of our big fixed expenses is rents of warehouses, offices and stores. In India, normally one can expect to have 10% to 15% possibly even 20% increases in other expenses so we did have a good year in FY 2016-17.

Kinjal Desai: Also would this be in any part be due to any cut in A&P that we would have done?

Radhika Piramal: No, it is not a fact. I know that Chairman mentioned that in Q4 we spent less in ad than we did in Q4 of the previous year but that is because in Q3 we spent more than we did in the previous year. For those of you who attended Q3 call, you may recall that in fact we have spent majority of our ad spend in October and then demonetization happened which was too late for us to cut so all of those things happened in Q3. On an annual basis in FY 2016-17, we spent about 10% higher on ad than we did in FY 2015-16 and the higher spend is actually as a percentage of sales it is a bit more than our sales growth.

Kinjal Desai: Just on the gross margin front while I appreciate that the INR has obviously appreciated over the quarter yet it has not seen to be reflecting on our gross margin as much so am I missing something in my understanding on that?

Radhika Piramal: No, because of the amount of inventory we have to we keep typically because we import from China our inventory is usually running at a 100 plus days so by the time we should be seeing the effects of this rupee appreciation more in Q1 than what we saw in Q4 because really it sorts of started January onwards.

Kinjal Desai: On a structure I am not asking for FY2018 per se but probably from a three four-year point of view we are currently enjoying around 10% on EBITDA margin could you give directionally where we would be seeing this kind of over a period of time.

Radhika Piramal: The aspiration has always been 10%. It is almost 11% actually. Last year, we were at 8%. The goal of the management is certainly to get us closer to 14% to 15% which is what we think could be a better representation of our brand strength in consumer goods. Having said that I would like to mention that GST rate of 28% may have a bearing on this.

Kinjal Desai: Just touch up on the GST part of it while yes 28% has been a surprise so from an industry perspective would we be expecting the unorganized in just from a point of view that your compliance etc., will go up would be over a period of the time see that kind of moving out of the system?

Radhika Piramal: At an 18% rate, the price difference in unorganized and organized would have decreased; the incentives for an unorganized player to evade tax would also decrease. With 28%, there is still an incentive for the unorganized player to try and sell good without taxes.

Kinjal Desai: Thank you very much.

Radhika Piramal: Chairman, can you comment further on this?

Dilip Piramal: No, I absolutely agree and let us see we have to work on this.

Kinjal Desai: Thank you very much.

Moderator: Thank you. We will take the next question from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

Kunal Bhatia: Thank you for the opportunity. I just had one question now initially at the start of the call we did mention some bit competition from the organized player if you could elaborate a bit on that and also just wanted to know currently what is our market share in the organized space and how has that gained or vis-à-vis come down in the last must over three to five-year period?

Radhika Piramal: I will answer the last bit first. 3 to 4 years ago, it may be 46% to 48% and now we believe it may be closer to 52% to 54%. So, in 2016, we have gained market share. Overall we would have gained share primarily from American Tourister. Safari may have taken some share from us. I talked about the broad contours of the market earlier in the call. Chairman do you have anything to comment on overall our competitive position?

Dilip Piramal: It has definitely strengthened. Our competitive position has been very good and I think in the last couple of decades, it has been remained strong. Also our margins are better so it is not that we are getting market at lower prices or offer more discounts. Our margins have also gone up and it is a very positive sign so it is true brand strength and true indicator of competitive strength.

Radhika Piramal: We acknowledge that we have room to grow in the premium segments. Our market share in the premium segment is relatively lower. We are very strong in the middle and in the value segment. In the premium segment, Carlton brand has room to achieve its full potential.

Dilip Piramal: One area where we have really gained market share is the backpacks. We were virtually very low in the backpacks area about five years ago and we are now the market leaders like the rest of luggage we have got a due share and due position there. That has been our biggest gain.

Kunal Bhatia: Sir in the premium segments what would be our current market share?

Radhika Piramal: Difficult to put an exact number on it because we do not share data brand wise but we are small. You can see that certainly Samsonite is a much bigger brand than Carlton.

Kunal Bhatia: Just to get a sense of how big would be the unorganized market and with this 28% rate do you see any expansion on that end because from the way the government is taking the tax structure difficult do you still hope that will lead?

Dilip Piramal: It is too early to comment on that absolutely. Overall unorganized sector is very difficult to gauge because what is luggage also what is not. It starts at the very low end like a handbag a large handbag also can be categorized luggage so there is not sort of proper data on this segment but we make a rough estimate that it is larger than the organized sector in value terms. Radhika, am I right?

Radhika Piramal: That is right. By volume, it is easily five or six times and so by value may be it is perhaps twice.

Kunal Bhatia: Okay Madam. That was helpful. Thank you.

Moderator: Thank you. The next question is from the line of Nitin Gosar from Invesco Mutual Fund. Please go ahead.

Nitin Gosar: Good afternoon. On the GST 28% is it applicable on luggage as well as backpacks or only luggage?

Radhika Piramal: Luggage, backpacks and handbags.

Nitin Gosar: Okay all three. Now the second question is pertaining to the same thing keeping in mind in the backdrop where the indirect taxes have moved up from maybe 18%, 19% to 28% so definitely the space for unorganized players have increased now in such a kind of scenario being a low price organized player mix and so being a mid priced organized player mix and because how you positioned yourself on pricing depends how close you are to the competition?

Radhika Piramal: India is a big market and we should be present in all the segments. Chairman you go ahead please.

Dilip Piramal: Yes, I was going to say the same thing that luggage industry is a very small industry. If you see the overall industry, the organized sector is about Rs. 3000 Crores. It is a very small industry so you have to be in all and there is a market in all the segments and usually the higher priced segments are more profitable. We are very well placed because in very high segment, we are very small. In the sort of the cream segment which is 60% - 70% of the market, that is our main VIP and Skybags market, we are very strong and have the large and then of course the lower end the Aristocrat and Alfa segment, there also we are very well positioned.

Nitin Gosar: I think I framed it in a bit of tricky way. Let me rephrase this whole question in this current environment now who is relatively facing higher threat of competition from unorganized, the guys who are at the low price point or the guys who are at the mid price point?

Radhika Piramal: The low price point is always have more competition because in that pricing is closer. If we had been in the 18% tax bracket, we could have expected the gap between unorganized and organized to reduce and at 28%, I am not sure. Unorganized segment of luggage will remain a strong force in our country.

Dilip Piramal: Ultimately, good consumer aspiration is a very difficult and tricky thing. I will give you a different example. If you see Mumbai to Pune airfare and you see Mumbai to Delhi, Mumbai to Delhi airfare economy class ticket is about Rs.5,000 and it is not a cheapest. Mumbai to Pune airfare is Rs. 8,000 for economy class. Mumbai to Pune which is a difference of 110 kilometers business class ticket is Rs.36,000 and flight is full. For such a flight between Mumbai to Delhi, business class is about Rs.20,000. Sometimes consumer aspiration is that some people who want to fly business class on Mumbai to Pune will fly business class. So, money does not matter so the strength of the brand is very important in consumer marketing.

There are certain set of consumers who will always use which starts at Rs.50,000. There are certain consumers who will use only Samsonite and then there are a lot of consumers who will not use unorganized but will use VIP or Skybags and so on. Brand strength becomes very important and in a long-term that is what stands by you and that is why we are very confident that the underlying strength of our brands gives me great confidence that we can bear all these trends, because it applies to the entire industry.

I also want to add something here where lot of people ask me that are you taking share from the unorganized sector or is the unorganized taking share from you usually that does not happen. When in a industry like us where the penetration is very low which is only about 20% to 25% as compared to FMCG where the penetration is 60%, 65%, all the segments grows with the growth in the economy but it does not mean organized sector is taking some share from the unorganized sector. Unorganized sector is getting absolutely new consumers who were not using luggage and may be using just a sort of piece of cloth to put their stuff in. All the market participants grow but not at the expense of the other participants when penetration is not high. It is even possible that the unorganized sector might grow more while we are growing at 15%, unorganized might grow at 20% but it is very difficult to gage all these things.

Radhika Piramal: I will just add one thing perhaps more direct reply to your question. More premium brands have better ability to take price increases to offset a GST tax like VIP, Skybags and Carlton are in a position to take more price increases than let us say Alfa and Aristocrat without affecting the demand.

Nitin Gosar: So the follow on question here is if you are priced low your pricing capability right now is getting question for interim period I am just trying to take a broader.

Dilip Piramal: In fact, we will strengthen our Aristocrat and Alfa brands and we are doing that. We already have got brand ambassadors for Aristocrat and we have distinguished our self from the unorganized sector. We may be able to take a price increase on the strength of the brand.

Nitin Gosar: So in interim you do not have a meaningful channel and you highlighted that you are facing a challenge from low price organized sector?

Dilip Piramal: No, I do not think so we are not facing a challenge. We have separate markets.

Nitin Gosar: So low priced organized sector I think you gave an opening comment where.

Radhika Piramal: He means Safari and Kamiliant, Chairman.

Dilip Piramal: Yes.

Nitin Gosar: So keeping in mind those brands have been priced at a lower end their ability will be slightly bit tricky to take those?

Radhika Piramal: No, but they are also under same GST rate. So, it is too early to comment on all these beyond a point. Yes, it happened this morning.

Nitin Gosar: Just one last question gross margins are in domestic market vis-à-vis export market?

Radhika Piramal: We do not give channel wise specifics but they are broadly the same they are not meaningfully different.

Nitin Gosar: Thank you.

Moderator: Thank you. The next question is from the line of Lakshminarayan from Catamaran. Please go ahead.

Lakshminarayan: Thanks for taking my question. Couple of questions I have one is that in terms of your overall decision in terms of various channels, can you please let me know what type of margins you actually look at do you actually look at margins at a gross margin level per channel or EBIT or a ROCE to ensure that each channel is profitable?

Radhika Piramal: Look we know whichever channels are more or less profitable but being present in each channel is not only a question of profitability it is also on a market share brand presence etc. So we determine where the company and the brand have to be on an overall basis.

Dilip Piramal: Every channel is profitable. In a fast moving channel, the margins are low but the volumes are very good and slow moving like the very luxury channels, the margins have to be higher but that is there for everybody so it works out well. In case of top end channel, the visibility is very high so you get publicity value. There is the economical rational for everything.

Lakshminarayan: The question which I am trying to get answer to is you have multiple brands and you have multiple channels when you take business decisions is it a channel wise profitability you look into consideration?

Dilip Piramal: No, brand subsidiary has to be aligned with the channel.

Dilip Piramal: Let me also add. I think that actually every brand cannot fit in every channel like Carlton brand will go in the premium channel. There would not be one shop which will sell both Carlton and Alfa so they are sort of mutually exclusive and channels are also different.

Lakshminarayan: No when you say profitability you measure at an EBIT level profitability that?

Radhika Piramal: What are you trying to get and what difference you have whether we look at EBIT, EBITDA or contribution? what is your real question?

Lakshminarayan: Because there is while our CSD may be good in maybe lower in gross margin but it will be higher in EBIT like whereas in EBO would be completely different right?

Radhika Piramal: No, there are sales overheads like advertising. If we advertise any of our brands, it helps all the channels so please understand the difference between gross contribution and EBITDA is mostly corporate overheads which are then spread across all channels.

Lakshminarayan: Which is the channels that is growing fastest for you and which is the most profitable?

Radhika Piramal: We have several channels that are about equally profitable. We do not give specific channel wise profitability. In terms of growth modern trade and e-commerce are two fastest growing channels.

Lakshminarayan: You mentioned that you took market share away from a leader and you also mentioned that the lower organized player also took market channel away from you can you please elaborate as to any specific thing as to where you got market share and where you actually launch market share with channel?

Radhika Piramal: No, channel wise we cannot share. Safari is taking our market share simply because their sales growth in FY 2016-7 was higher than ours so therefore by definition they may have taken some market share from us having not been present. Our sales growth in FY 2016-17 will be more than American Tourister so we have taken share from them again across all channels.

Lakshminarayan: One last thing in terms of mix of backpack and hard luggage what is the broad mix now and what was it few years back?

Radhika Piramal: Right now our hard soft mix is 75% soft luggage 25% hard luggage and within that 75% soft luggage our backpacks have really increased quite a bit so now it is overall 20% of our company revenues. Let us say five years ago instead of 75%, 25% it may be 60%- 40% or 65%- 35% and backpacks would have just been 5% to 10%.

Lakshminarayan: 5% is the overall turnover to almost 20% is the overall turnover.

Radhika Piramal: That is right.

Dilip Piramal: That is also by industry trend. 20 years ago, there was no backpacks so this is relatively new entry segment and we were a bit late in coming and let me also admit that we have made up in a very short time w and got back to being industry leader.

Radhika Piramal: Yes.

Lakshminarayan: Thanks a lot. I will get back in queue.

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

Sonali Salgaonkar: Thank you for the opportunity. Most of my questions have been answered but just about a couple of them. Firstly, where do we stand on our distribution network right now as and in terms of dealers and detailed touch points?

Radhika Piramal: We have about 3000 direct dealers. We also have about a 100 distributors that in turn sells to about 7,000 points of sales but these are very small. These would be very small in terms of the sale per month. We have 250 of our company run stores and then we are present in really almost every modern trade chain whether it is a hyper market or department store. During FY 2016-17, we may have seen perhaps 5% to 7% increase in footprint not substantial. During FY 2017-18, we are expecting far more buoyancy in demand and the economy. We can look for some distribution expansion which we have not been done in the last three years.

Sonali Salgaonkar: So any specific budget allocated for that?

Radhika Piramal: Not any specific budget as the same is an ongoing sales process.

Sonali Salgaonkar: My second question is in terms of your overall revenue could you give approximate breakup as to how much percentage comes from retail versus modern trade versus general markets?

Radhika Piramal: We do not give specific channel wise numbers. Now, modern trade has become as big as almost general trade.

Sonali Salgaonkar: My third questions is very approximately could you give us a sense has to how big is the unorganized market in your industry the reason I am asking is to appreciate much as to how much benefit organized players can get out of GST?

Radhika Piramal: It is difficult to quantify. If you insist on a number we can say two times the organized market but that is two times could easily be three times and I would not know that and for the organized market the simplest way to calculate is to add the three players who we believe 90% of the organized market which is Samsonite American Tourister, ourselves and Safari.

Sonali Salgaonkar: Lastly how much percentage of our raw material is imported right now?

Radhika Piramal: Including Bangladesh because that is also important.

Sonali Salgaonkar: Yes.

Radhika Piramal: So let us say about 60%.

Sonali Salgaonkar: This is very helpful. Thanks that is all.

Dilip Piramal: Raw material is not the correct definition.

Radhika Piramal: Finished goods also

Dilip Piramal: And finished goods also.

Radhika Piramal: It is primarily finished goods.

Sonali Salgaonkar: Thanks so much. That is, it from my side.

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

Tejas Shah: Congratulations for good set of numbers. Unfortunately, GST is holding the thunder. So a lot has been asked today on GST and obviously the rate has not been in our favor but a theoretical expectation of market has been that when GST comes unorganized will lose market share. Now when we see that, that the fact that unorganized also sources it from China so that becomes very difficult to that to understand that what is the source of the competitiveness except the dodging patches for them in terms of pricing because I am assuming that organized players might be sourcing it at much competitive rates versus unorganized and obviously advertisement spend is also there so just wanted to understand what is the source of competitiveness what they have today in market?

Radhika Piramal: This source of what.

Tejas Shah: Source of competitiveness the price competitiveness that unorganized sector has?

Dilip Piramal: It is revision and nothing else.

Tejas Shah: So we believe that this expectation that in general on premise on which that it will lead to be much higher compliance from the economy in terms of tax compliance do you believe that they will find a way out of this as well?

Radhika Piramal: I cannot comment on that. I think it depends on the category and the bracket it is in. So for anybody in 5%, 12%, 18% slabs, I think there should be less revision and there will be more compliance. In 28% categories, there are not a very big unorganized like white goods, washing machine, fridge, cars. It is a bit unfortunate that luggage which has such a big unorganized market has been put in 28% whereas let us say apparel which also as a big unorganized market is expected at much lower rate. So, it is unfortunate for the luggage category.

Dilip Piramal: Fridge cannot be made in the unorganized sector. Who has made a motorcar in the unorganized sector?

Radhika Piramal: Yes, we are one of the fewer industries who are being tax at 28% which has such a big unorganized sector.

Tejas Shah: Second question pertains to Bangladesh. If we see this year's result one of the most remarkable turnaround feature has been on Bangladesh turnaround. So just wanted to know what is the current status there. Are we expanding capacity there and what is the current capacity utilization there?

Radhika Piramal: So we have reached about 90% utilization. It took three full years of operation for that to happen mostly because of the supply chain and planning process. Our team really executed well in FY 2016-17. So, after having had one good year we are certainly very open to the ideas of expanding and we are currently working out some plans for that. There is nothing definite yet. As soon as we have some concrete idea of timing and spend, we will get back to you.

Tejas Shah: Lastly in the opening remarks Chairman made a statement that we have now enough cash at our disposals so we can think of investing into R&D also so when we see this foreign markets we have lot of start ups who are trying to bring I would not say digital but electronic touch into the whole luggage space so just wanted your thoughts on the same and would the sector transient beyond design in near future?

Radhika Piramal: This is one of the reasons why I have partially relocated to London just to make sure we are not missing out on any next big thing because in terms of luggage innovation is to continuously launch a fresh number of ranges every year. The same way one would follow on a fashion cycle but another thing is material research, use of technology and better products. It is very important that we should a world class company with world class product and we just want to make sure that we properly evaluate all the technologies and materials so that if there is some opportunity to bring them to the Indian market at the price point acceptable to Indian consumer we can do that but right now there is nothing specific that I can comment on.

Tejas Shah: Lastly because of the cash accrual that you are having would have there any rethinking on the dividend payout policy that we have?

Dilip Piramal: Yes, I think there are so many options.

Tejas Shah: Thanks that is it from my side and all the best in your respective new role.

Radhika Piramal: Thank you. Shradha may I request we take last three questions now or last one two or max three questions.

Moderator: Thank you. We will take the next question from the line of Sanjay Bembalkar from LIC Mutual Fund. Please go ahead.

Sanjay Bembalkar: Thanks. When you alluded to this modern trade being as large as general trade I just wanted to understand does this change significantly our working capital dynamics when you said that that there is significant change in the frequency of fresh inventory launches etc., how does that change our working capital growth dynamics for us?

Radhika Piramal: Fortunately for us we have a very good market share in modern trade and therefore we have been really working in out good partnership with all our channel partners and so working capital wise it is not so different. There are a little bit receivables on modern trade a bit higher than general trade but not significantly. Fresh in ranges are important in all channels so we have same number of new launches and same inventory levels.

Sanjay Bembalkar: Secondly due to the change in the sales mix do we see any large change in our warranty related trade or post sales service related part?

Radhika Piramal: No, the consumer is buying VIP and Skybags branded product wherever they buy from, they get same warranty and same after sales service and there is no change because of that.

Sanjay Bembalkar: Thank you.

Moderator: Thank you. The next question is from the line of Chirag Lodaya from ValueQuest Investment Advisors. Please go ahead.

Chirag Lodaya: Couple of questions from my side first is on our CSD channel so off lately we have been hearing there has been lot of cut on ordering front from CSD channel so are we also seeing some pressure from this channel?

Radhika Piramal: March onwards, they have been reducing their inventory so that has not really affected our Q4 numbers and it is early too comment for Q1. We can talk a little in more detail on this in the next call.

Chirag Lodaya: How big it would be on FY2017 basis our overall CSD sales roughly?

Radhika Piramal: It is about 20% of our company revenue.

Chirag Lodaya: Secondly on Bangladesh can you just comment on what was the overall quantum of sourcing from Bangladesh this year?

Radhika Piramal: Jogendra.

Jogendra Sethi: Yes, it was around 10% for the total sourcing.

Chirag Lodaya: On this overall growth brand wise growth and channel wise growth if you can give?

Radhika Piramal: We do not give those figures.

Chirag Lodaya: On a percentage basis?

Radhika Piramal: We do not give those figures.

Chirag Lodaya: Thank you.

Moderator: Thank you. We will be taking the question that is from the line of Saurav Balsara from Quantum Advisors. Please go ahead.

Saurav Balsara: Just one question to Sir you see any consolidation in the industry?

Dilip Piramal: It is such a small industry?

Saurav Balsara: Agreed but to fight with the unorganized I think the lower end of organized sector should get consolidated in the regime GST?

Dilip Piramal: We do not have any intention and I cannot talk about competition.

Saurav Balsara: Thank you so much.

Moderator: Thank you. Ladies and gentlemen that was the last question I would now like to hand the conference over to Shradha Sheth for closing comments. Sorry to interrupt Ms. Piramal there is one more question in the queue can we go ahead with that. That is from the line of Dhawal Dama from Equirus Securities Private Limited. Please go ahead.

Dhawal Dama: I just wanted to ask like you mentioned that in the beginning that let us say our blended duties that we will be paying is something close to 18% to 19% so could you just give a bifurcation because if I am not wrong, the imported duty on luggage that they import from China is around 26% to 27%

plus for our own manufacturing I think that there would be an excise duty of 12%, 12.5% if I am not wrong so it would be very helpful if you could just give some breakdown on that is possible?

Radhika Piramal: The breakdown become complex to give you because CVD is on FOB not on our net sales value and VAT rates are different state wise and the effective rate is different on hard and soft.

Dhawal Dama: Hard and soft it is different rates right?

Radhika Piramal: Yes, custom duty is applicable on soft and excise duty is applicable on hard and then VAT which is slightly different in each state.

Dhawal Dama: One last thing let us say what would be the percentage of revenue that will be coming from modern trade for FY2017 now even though Q4 of FY2017?

Radhika Piramal: We do not give that specific.

Dhawal Dama: May be the average GST INR for Q4 2017 versus Q3 of FY2017?

Radhika Piramal: I do not have handy. Jogendra do you have it handy otherwise I am sure you can work it out Dhawal.

Dhawal Dama: Not a problem.

Radhika Piramal: Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question I would now like to hand the conference over to Miss Sheth for a closing comments.

Shradha Sheth: We would like to thank the management of VIP for the detail insights of on the Company and the industry and thank the participants for being on the call. Also I would like to hand over the call to management for any closing comments. Thank you.

Radhika Piramal: Thank you for joining the call. For me it has personally been a great pleasure to have Chairman back on the call after gap of a few years so Chairman any closing comments please?

Dilip Piramal: I think everything has been covered and we will see you in the next quarter and there will be a lot of clarity on the GST by then.

Radhika Piramal: Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Edelweiss Securities that concludes today's conference. Thank you for joining us. You may now disconnect your lines.

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