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Conference Call Transcript

VIP Industries

Q2FY16 Results

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Corporate Participants

Ms Radhika Piramal
Managing Director

Mr Jogendra Sethi
CFO

Questions and Answers

Moderator: Ladies and gentlemen good day and welcome to the VIP Industries Q2 FY'16 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 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. Shradha Sheth from Edelweiss Securities Limited. Thank you and over to you Ms.Sheth!

Shradha Seth: Thank you Margaret. On behalf of Edelweiss let me welcome you all to the Q2 FY'16 Earnings call of VIP Industries. From the management today we have Ms. Radhika Piramal, the Managing Director and Mr. Jogendra Sethi the CFO of VIP. So without any further ado I will hand over the call to Ms. Radhika for her initial comments post which we will open the floor for Q&A. Thank you and over to you Madam.

Radhika Piramal: Good afternoon Shradha and thanks for that introduction. Welcome to Q2 results of VIP everybody. Thank you for making the time to be here. I am pleased to report a good set of results for the quarter. I will give my opening comments and then open to Q&A. We earned Rs. 295.5 Crores this quarter which is really a robust sales growth. I am really pleased that we have a good set of revenue numbers that is a 35% growth over Q2 of last year which was 218.9 Crores. I had mentioned in our last call that we were in the running to get a very good institutional order for Hajj pilgrims in Q2 and I will say that order came through. We successfully executed it and that is one of the main reasons our Q2 results are showing up so well. Having said that, even without the Hajj order, our sales growth would have been 20% and that is due to some good market share recovery that we have made in our important CSD channel which as many of you know was underperforming for the last four quarters or so. So with major institutional order of Hajj plus improvement in the CSD growth rate, we have shown a good overall sales growth of 35% and I will go through each of the cost item in detail but very pleased that our profit after tax is Rs. 15.7 Crores compared to only Rs. 3.8 Crores of the Q2 of last year. I will like you to note that during Q2 of last year, we did have a VRS of around Rs. 2 Crores. So, actually the better comparison would be for PBT of Rs. 22 Crores as against Rs. 5.6 Crores and I will say that about half, all of the increase is due to increase in sales flowing down to the bottom line, some of which has come from the Hajj orders, higher CSD sales and robust growth across all other channels. So, now just talking about cost of goods sold a bit, our cost of goods sold was a 57% versus 55% of the Q2 last year. The higher COGS is due to little bit lower margins on the Hajj order as compared to rest of our business. Also the rupee depreciated, continues to depreciate which is preventing margin expansion in soft luggage. We are seeing a very high growth in our modern trade channels which have a higher cost of sales than our traditional dealer channels because of the discounts that these sort of big customers for example Big Bazaar take from us. That is a structural issue that is going to continue and we want to take higher price increases in these channels to offset the continued margin pressure which we will be taking forward in this festive season but overall I will say that cost of goods controlling the margin and the margin pressure continues. We thought that it would ease up a bit because of decline in plastic prices which have come down considerably since Q1. Having said that and the Chinese Yuan also depreciated. We thought that we would get some gains from that but unfortunately the Indian Rupee correspondingly depreciated exactly the same amount. So whatever gains we are getting on the Chinese pricing front are being offset by the depreciated rupee. So, while our sales growth has been good and I am very happy and positive about but the margin pressure does continue on the raw material side.

Moving on to fixed expenses, our employees benefit expense of Rs. 31 Crores versus Rs. 26.8 Crores of Q2 last year, growth of 15% that is in line with employee expectations. Depreciation is slightly down. Other expenses of Rs. 71.5 Crores over Rs. 60.6 Crores in Q2 of last year, that is a fairly big increase. I will say 10% increase is normal, Rs. 60.6 crores should have become let us say Rs. 67 Crores and we have spent about Rs. 5 Crores more than the normal growth, the reasons for that we spent significant amount of money on in-store merchandisers as well as sort of below the line advertising specifically in our CSD channel and that is what has resulted in regaining some market share in CSD. In CSD canteens, where we put in our own brand staff as well as do fixtures etc. So, significant increase and expenses have gone up there. We also have a small increase in rates and taxes which are also contributing to higher than normal increase in other expenses. Other income of Rs. 40 lakhs versus 50 lakhs is almost the same. Finance cost are Rs. 50 lakhs, quite a bit higher than Rs. 10 lakhs of Q2 of last year due to additional working capital required for Haj order. All of which have resulted in Rs. 15.7 Crores of PAT as against Rs. 3.8 Crores of Q2 in the last year.

I will just share with you a bit of the industry dynamics. Getting this Hajj order was a very good outcome for VIP Industries. This is an order that happens every year, however the bidding for it happens on an annual basis, so next year again we will bid for it and we hope that we will be successful although that is not guaranteed. We beat Samsonite and American Tourister in achieving this bid and we hope to try again for that next year.

In other channels our traditional dealer channel remains very subdued. It is because that the consumer is shifting rapidly to the convenience of malls, hypermarket within malls and also online shopping. I will say that as we have very strong brands and we do see more opportunity in e-com. However in order to achieve sales in e-com channel without disrupting the existing channels of both dealers as well as hypermarkets, we have to be very careful with out assortment and pricing and we are working on improving some exclusive assortment just for online channels so that there is less channel conflict which is a work in progress and we hope that we can drive some growth next year. That is an opportunity for the year ahead. Dealer channel remains subdued, modern trade remains positive, online is still very small but an opportunity for the future. Our main competitors continue to be American Tourister/Samsonite, and Safari where Safari is very strong in CSD channel in particular and American Tourister and Samsonite they would be, I guess, after us the second largest luggage company in the country which has a reasonable presence across all channels. Skybags as a brand continues to do well. Our new Skybags polycarbonate ranges currently being featured in this season of Big Boss and we are quite excited to launch a colorful range. It connects well with the youth. We will be supporting it with the Diwali advertising campaign for this festive season. Despite our good results of Q2, Market sentiments are not great. Our same-store sales growth is still double digit due to the improved assortment. We have been working on our supply chain process and the addition of backpacks. The early signs of this festive season remain quite subdued. We are going to continue with all our advertising plans with a special focus on Skybags which has been showing really excellent growth over the last few years and is now the second largest brand in our company. I will turn over to question and answers please.

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

Tejas Shah: Hi, thanks for the opportunity and congratulations on good set of numbers. Just wanted to understand, if I recall correctly you had mentioned that Hajj order cumulative was 50 Crores, so out of that how much we booked in this quarter and typically this order comes with what kind of EBITDA margin along with it?

Radhika Piramal: Thank you for your question. I am not able to share this much detail. I can share that a good proportion of that Rs. 50 Crores was booked in Q2, Rs. 50 Crores includes VAT and excise. When we show our numbers, the sales numbers are net of excise and VAT. Hence, Rs. 50 Crores will come down to around Rs. 37 Crores.

Tejas Shah: Radhika, we have normally seen that government order comes with slightly stretched payment cycle, so how are the terms, I don't want the numbers.

Radhika Piramal: No, we have collected around 80% of our receivables. It does not show in the September balance sheet but it has come in the first 20 days of October.

Tejas Shah: Lastly if you can help us to understand channel wise growth momentum.

Radhika Piramal: CSD' growth is back on track. Modern trade was always doing well for us. The dealer channel remains flat. We have a very large base with the dealer channel which is developed over 40 years. We are the strongest here and they are not growing because the consumer is shifting away from them. It remains a challenge. We can keep working on making our brands popular but the consumer is shifting away from them. The best thing we can do is to try and maintain it and keep continued efforts in the new channels which are coming up.

Tejas Shah: The rupee has actually depreciated quite a bit in this year, should we take this quarter's cost margin as a right reflection of whatever rupee correction has happened in recent past?

Radhika Piramal: It is difficult to predict exactly, let us see how it flows through. We have taken about 3 to 4% price increases across all channels including dealers, hypermarket and some in CSD effective October and November. Let us see how it works out but Q3 margins will be more indicative of Q4 margins than Q2 margins because they are affected by this Hajj order.

Tejas Shah: Lastly, Radhika, if you see our employee cost, it has actually, this is fifth consecutive quarter of year-on-year double digit growth and the same is other expenses also has shown some kind of inelasticity, so is there any elasticity build in the numbers let us say growth comes down and we can respond that way?

Radhika Piramal: No, I call it semi variable cost. It has not come under cost of goods sold because they are reported as per SEBI results format but they are directly linked to the number of doors and the sales we do through modern trade and CSD. For every door in which we sell luggage, we hire an in-store promoter or merchandiser store staff. This cost will directly affect the sales outcome. This is a fundamental issue for low EBITDA of the company. High cost channels are the one which are growing fast and the low cost channels are growing are flat which is also adding up to the margin pressure.

Tejas Shah: Is this change structural in nature?

Radhika Piramal: It is structural in nature. I have been saying it for the last four quarters. It is more expensive to retail where the retail you call it as company run stores or whether you call it a Big Bazaar or whether you call it a Shoppers Stop which are replacing the traditional dealer on the high street because their costs are higher . Hence, they take more from the brands.

Tejas Shah: So is it that unorganized players are finding it easier to sell it on retail platform or the channel itself is losing market share in the overall distribution.

Radhika Piramal: The distribution channel is overall losing share which has been picked up by hypermarket and e-com and e-com still is very, very small. One good thing about e-com is that at least at this time the cost of the channel is the same as traditional dealers rather than retail but I have to say as a brand dealing with the e-com buyers they will have a fair amount of leverage in the future.

Tejas Shah: What proportion of our turnover comes from them?

Radhika Piramal: It is very small, it is miniscule. It is definitely an opportunity for the company.

Moderator: The next question is from the line of Sagar Kharkanis from Nirmal Bang, please go ahead.

Sagar Kharkanis: Hi, congratulations for the good set of numbers and thanks for this opportunity. I had two questions. One is on our e-com strategy, are we open to resorting to discounting because our competitors do heavy discounting and secondly on the Caprese handbags if you could throw some light how that is doing?

Radhika Piramal: Sure, thanks for the questions. The first is regarding e-com, are we open to discounting. To be honest the brands are not doing the discounting, the e-com players as retailers are making their decisions on how much to discount, so we are selling a certain assortment at a certain price which is the same as what we sell to other channels and we feel it is very important to maintain that fairness between channels, especially given the percentage of sales e-com has right now compared to all the other channels. As a result, I will be frank. Our assortment is not what the customer wants yet within e-com. We have to improve our assortment. We have to widen the assortment. The pricing strategy of e-com players is up to them. They are heavily discounting and they are funding it themselves and they are funding it because they are very well funded from all the investors having invested in them. The winner in this whole value chain is the customer. They are getting the lowest price from e-com, so I think as a company our strategy is continue to improve our assortment, so right now for example in VIP brand at least from the company you can only get a very limited assortment of VIP products because we know that the e-com players will discount it to the point where it affects our retail stores, our dealers. We are working on a sort of fresh assortment where the channel conflict will be less. I hope that answers the e-com question. In terms of what our competition is doing? I will say that they are probably giving a wider assortment, not necessarily lower prices but a wider assortment. Every company has its own strategy on how much channel conflict they are willing to tolerate. I will repeat that our stakes with our dealer channel and hypermarket is bigger than our competitors; therefore maybe competition can afford to take more risk than we can.

Your second question was on Caprese. It is growing very well. We had a 35-40% growth even in Q2 and it has been that kind of growth for the last three to four quarters. Our celebrity brand ambassador Alia Bhatt has got a very good response from the market. Our product collections have improved. Every collection we launch is better than the last as we gain experience of the category, so we have added some, because of the range and the response being good. We have been able to add some dealers in the last few quarters. As I had mentioned earlier that so far the best response for Caprese had been in department stores as well as in our own retail stores which is a very small percentage of our distribution channel. In the last few months, we have also improved our performance in e-com as well as in our dealer channel. I always said that as a brand picks up we will be able to widen distribution and that is happening, so we are very pleased with the Caprese results.

Moderator: The next question is from the line of Pritesh Chedda from Lucky Investment Managers, please go ahead.

Pritesh Chedda: Hi, thanks for the opportunity, two questions, one you referred to the SSD growth in double digit, which channel were you referring to and second if you can give more color on the 20% organic growth ex the Hajj order, if you can give some qualitative comments here?

Radhika Piramal: So, the same-store sales growth was for our company run stores. They are very small percentage of our total company sales. It is a good sign that our brands are growing and the overall growth is 20%. Leading channels remains the hypermarket and modern trade. CSD has a strong comeback. These are the two channels that are really leading and then general trade which is what we call our dealers and distributors remain a cause of concern, I feel that this is a structural issue and so for us to continue with this kind of sales growth we will have to do something quite different in e-com than what we have done if we want to continue growth in this channel.

Pritesh Chedda: Can you give the CSD growth in the quarter and the contribution to annual sales and the quarterly sales?

Radhika Piramal: Not, so specifically.

Pritesh Chedda: Does CSD in the quarter also mean channel filling by CSD which gets typically normalized over the course of year being erratic in nature?

Radhika Piramal: No, it is not that. We had a pretty poor performance in CSD in Q1 and we have improved in Q2, part of it is a slightly base effect of last Q2 which was not good and also partly because we have continued to improve our operations in CSD.

Pritesh Chedda: So it is basically business which got spilled over couple of quarters with a low base last year?

Radhika Piramal: Yes.

Pritesh Chedda: Now considering H1 has passed through what would be your best case.

Radhika Piramal: I will not going to comment on that but I will add one thing for the path ahead. I will say that since we have had a good H1, we would like to really invest in our brands in H2 and that we remain focused in the long term. The festive season is ahead, the market is not great, however we would like to continue, so we are going to do a bit more advertising than otherwise we would have without this good set of numbers. I do want to just put that out there so that people are clear about the second half of the year, it will be balanced with this good set of results.

Pritesh Chedda: I will just squeeze in one more question here. The previous participant asked about the costs in the system, in your annual P&L what is the extent of cost on account of your own channel, own store? If it contributes 10% to your sales X the gross, obviously X the RM number all the other line heads what would be the cost on account of your own store and are we investing in that channel to grow?

Radhika Piramal: Rather than giving a specific number, I will rather say that our retail stores used to be loss making maybe two to three years ago. We have had a more disciplined approach in the last one-and-a-half years where we have closed some loss making stores. We have really aggressively pushed for same-store sales growth through better assortment and now that whole channel is break-even taking in to account corporate overheads, whether we grow or not. Our first option is still to grow through dealer channels, CSD, hypermarket and e-com rather than put our own stores. We would prefer to find a franchisee rather than our own store. Having said all of that, there are clusters in which no third party is coming forward and we feel we can make a break even store if not a profitable store, then we may put up a store so our brand is represented properly, that is our company's approach to company run stores.

Moderator: The next question is from the line of Nitin Gosar from Religare Invesco, please go ahead.

Nitin Gosar: Thanks for the opportunity, madam, just wanted to understand since there is structural change in the traditional channel that we have been talking about I recollect in one of the past concall where you had mentioned that in order to improve the contribution from traditional channels you will be investing or you will be expanding in hundred new cities in the medium term, so how does this go like, is the expansion of new cities still a virgin area where one can still see a meaningful contribution coming in from traditional channels?

Radhika Piramal: I will say that it is very much a work in progress because the dealer channel is experiencing that customers are moving away. If we have to go to next hundred towns and grow the channel, it is quite hard finding good enough retailers who have the discipline to work with the brand, to work with the payment terms of a branded company like ours; it is going to be a slow burn.

Nitin Gosar: On CSD channel just wanted to understand we had listed couple of products or brands and we were in the process of listing couple of them, can you share some numbers?

Radhika Piramal: Yes, it is simple. Skybags has really taken off in our trade channels in the last two years and so we started the process of listing more and more Skybags items in CSD. It started in July of 2015 and we expect more items to be introduced as we go along and it is one of the reasons in addition to by that channel we are sort of recouping our market share.

Nitin Gosar: Over here the process is like for every design you have to go and list a product?

Radhika Piramal: Yes.

Nitin Gosar: It is what, three month time process.

Radhika Piramal: No, it is more like six to nine months, it takes time.

Nitin Gosar: Could you share something on Bangladesh facility about the capacity utilization there?

Radhika Piramal: We had a decent quarter with out Bangladesh facility. The sales remained pretty small. Our capacity utilization remains at 50-60%. We will be publishing our consolidated figures in March and I can give you more light there, so overall it remains positive but marginal because the raw material comes all the way from China and then we make it and then we give it to India. Product's flexibility and product life cycle is actually quite short. It is taking us some time to set up a really efficient supply chain system and until we do that we do not want to scale up. Fortunately, the fixed overheads are very well controlled and we would rather get it right before we scale up and I have been saying that again for three quarters now.

Nitin Gosar: Anything number specific for brand Carlton?

Radhika Piramal: No, it is pretty small, it is growing but we have to really compete effectively with Samsonite and became a Rs. 100 Crore brand and it is going to take some more investment and we are just thinking. When I said that we are thinking of how to invest in our brands in H2 of this year that is one of the options we are considering whether with the good profits of this quarter, we should really spend a disproportionate amount on Carlton to achieve our sales goals.

Nitin Gosar: When we talk about brand investment there would be certain key priorities that we will be having in our mind, would it be Carlton and Caprese or?

Radhika Piramal: I will say that the two brands that have the most momentum right now are Skybags and Caprese, so we definitely continue those. VIP is our flagship brand and we do not want to under invest in the flagship brand and Carlton is a new premium brand that is going to take a fair amount of investment to get some scale, so it is difficult to prioritize between the brands, I will say that with a good set of results we should be able to do justice to all.

Moderator: The next question is from the line of Nisarg Vakharia from Lucky Investment Managers, please go ahead.

Nisarg Vakharia: Hi Radhika just wanted to get some numbers on Caprese, you did mention that we grew 35%, now we are already first half complete, is it possible for you to tell us how much is Caprese in absolute number?

Radhika Piramal: I don't give the specific brand wise channel wise numbers. It is not that I don't want to share. It is just that this transcript of this goes to everybody including competition.

Nisarg Vakharia: Our same-store growth has grown at 10%, what is the contribution of hyper and modern trade as a percentage of sales and e-com?

Radhika Piramal: I think that I have given as much channel wise brand wise as I can give at this time.

Nisarg Vakharia: Okay, you did mention that the traditional channel is kind of showing a negative growth in volume terms, do you think this is likely to continue in second half also because that forms a very large portion?

Radhika Piramal: Yes, I do.

Nisarg Vakharia: So, then is it fair to assume that the second half will be a softer.

Radhika Piramal: Yes.

Nisarg Vakharia: So this 20% growth may not be there in the second half.

Radhika Piramal: Correct.

Nisarg Vakharia: Also exports are you seeing any movement?

Radhika Piramal: Yes, it has been a mixed year for exports. Q1 was not good for exports, Q2 has been much better and it has been not the most consistent performance and it is a little early to comment on Q3, Q4, let us see how the year pans out.

Nisarg Vakharia: Just to kind of summate, so therefore if we go back in to history five, six years back when our margins used to trend at 15spend we did not have any rupee depreciation and we could make lot of money, so therefore going forward current 10% margins that we are delivering how difficult it will be to kind of move the margins higher?

Radhika Piramal: I see a fair amount of challenges in moving the margins higher. I will put it this way, as all of you are seasoned people, it is definitely a great quarter but I will say that we should look at all four quarters in total and look at the annual performance over the previous year and then make our analysis. One quarter is small in the scheme of things.

Nisarg Vakharia: Sure internally I am sure some sort of margin direction you might have laid down?

Radhika Piramal: Which I cannot share on this call.

Moderator: Thank you the next question is from the line of Amar Kalkundrikar from HDFC Mutual Fund, please go ahead.

Amar Kalkundrikar: Thank you for the opportunity. I have two questions on the CSD channel, one could you please give some qualitative insights on performance of VIP brand in that channel and what is the sustainability of this market share recoupment that you have seen in Q2?

Radhika Piramal: Qualitatively, we have improved the brand ambience of VIP brand in canteen stores by investing more in in-store branding, fixtures etc. We have also Skybags as a brand and backpacks as a category, so we expect improvement on that to continue. We do expect that to be sustainable. It will take time though because it is a very large channel with a very large number of canteens. It is more than 1500 points of sale and we are just starting with the big ones and we are going to keep going, of course while we are doing all this competition is not just sitting idle, so it is a fairly competitive space similar to hypermarket, so as we do things I am sure they will also come back, I do expect the channel to do better in the year ahead than the year gone by both obviously in absolute terms but also in terms of growth rate but that is about as much direction I can give at this time.

Moderator: The next question is from the line of Sanjay Tulsyan from Emkay Investment Mangers, please go ahead.

Sanjay Tulsyan: Hi madam thanks for taking my question. Of the 20% growth ex the Hajj order I wanted to get a sense of how much was it driven, on a very broad level, how much profit was driven by pricing and volume if you can give me some sense and my next question is are you planning any other price hikes especially in the modern trade segment?

Radhika Piramal: Yes, I will answer the second question first. We are doing some price increases in the modern trade segment. It is much needed because our margins are lower than in the dealer channel and the growth is much higher than the dealer channel, so that is on the second question. Regarding value volume, actually our volume growth has been pretty good, so it is about 50:50, 10% volume growth, 10% value growth, this volume is coming from an increase in backpack sales which has been really a successful category for us. We have been working on improving our backpack sales for the last five years, that was one of the big reasons why we introduced Skybags as a youth brands because we thought Skybags back pack will do very well in the market and I will say then in this last 12 months is where we finally are sort of getting the fruits of our efforts, it is really growing very well.

Sanjay Tulsyan: Any sense on how much price increase you are expecting to take especially in the current financial year?

Radhika Piramal: 3 to 4%.

Sanjay Tulsyan: Just broadly, given the high cost structure of the modern trade are you usually be able to take as much price hike as you want or is it equal to the dealer channel?

Radhika Piramal: No, it is limited by competitive pressure I will say.

Moderator: Thank you, the next question is from the line of Shirish Guthe from HDFC Standard Life, please go ahead.

Shirish Guthe: Thank you for taking my question. I have only one question. I wanted to understand if VIP brand if it makes higher gross margin and we started spending behind the brand since the last one quarter or two quarters have you started seeing initial improvement in the growth of VIP brand and how will it help on your gross margin going forward, thank you?

Radhika Piramal: The question is good. I will say overall that our Skybags advertising has been better received than our VIP advertising, so we have been spending on both brands but the response from the Skybags has been much better than VIP, one of the reasons for this is VIP is a much older brand, people already have perceptions about it that are based on the experience of it, much more than what a new ad shows, so the short answer to your question is the VIP advertising has not been received so well, the sales growth of the brand is not up to expectations, Skybags is doing better and we really have to consider how we can improve the advertising of VIP to help the brand grow better.

Shirish Guthe: Have you seen any improvement or not really?

Radhika Piramal: Not really.

Moderator: The next question is from the line of Ankit Babel from Subhkam Ventures, please go ahead.

Ankit Babel: Good evening madam, my first question is again on your margins. In the past the management has publicly mentioned that we are targeting a double digit margins in the coming years, by when can we expect those margins?

Radhika Piramal: You will be the first to know. I will happily, let us go quarter-to-quarter and when annually we are achieving it then that is when it will happen.

Ankit Babel: But can it happen in the next couple of years or is it still distant from more than two years?

Radhika Piramal: It is difficult to predict a timeline so exactly.

Ankit Babel: What will lead, will it be the reduction in raw material prices or will it be the volume growth?

Radhika Piramal: It will be the volume growth.

Ankit Babel: My second question was ex of Hajj order in this quarter you mentioned that the growth was 20%, 10% volume and 10% pricing, now what lead to these kind of growth, was the industry growth also in to the same range?

Radhika Piramal: Industry has not reported any figures for Q2 yet, I can say that for us it was a combination of international business, CSD and modern trade going very well, so therefore our growth rate was 20% despite the dealer channel remaining flat plus Caprese grew well.

Ankit Babel: So can we expect at least this momentum for the next couple of quarters?

Radhika Piramal: I said no, earlier also. I said that the first 20 days of this festive season has not been good.

Moderator: The next question is from the line of Dhaval Dama from Equirus, please go ahead.

Dhaval Dama: Hi Radhika, just some bookkeeping questions. For this quarter what would be our ad spend?

Radhika Piramal: Not very high, similar to last year and I must add once again to everybody on the line that in Q2 we hardly spent on advertising, let me put it this way, the same revenue in Q3 will have at least much less profit because we hardly spend on ad in Q2.

Dhaval Dama: What is the current capacity in Bangladesh, like you mentioned that utilization is currently around 50-60%, so what is the current capacity over there in terms of number of pieces per month?

Radhika Piramal: It is quite flexible actually because we have the shed and adding machinery and people is not difficult so it does not matter, the issue right now is supply chain process and our ability to ramp up.

Dhaval Dama: So basically you are saying that the issue is getting the line right, the production line right?

Radhika Piramal: Correct.

Dhaval Dama: Maybe if you can just throw some more color on what would be the growth for VIP in this quarter because over the last three to four quarters we have seen that we have really struggled for growth in VIP also because of CSD also, so it would be great if you could share something?

Radhika Piramal: I can share that VIP has stopped declining but is not growing in double digit.

Dhaval Dama: So would it be fair to assume something around high single digits right now?

Radhika Piramal: I cannot give you more than this.

Moderator: The next question is from the line of Tejas Shah from Spark Capital, please go ahead.

Tejas Shah: Hi Radhika, I just had one followup, the media, news and some of the channel also led us to believe that one of the biggest competitor is planning to launch something at March end which will be over Skybags so are we planning any A&P spend to revive those brands or that segment of the market does not deserve any brand spend?

Radhika Piramal: We have a robust presence; it is just that we don’t advertise it, so I don’t talk about it so much. We have Aristocrat brand and Alfa brand, so I think we are very well positioned in the value segment. Our strategy is that Aristocrat is present in modern trade at pretty low price points that are competing with Safari and then we have Alfa which we put in the traditional dealer channel also competing against Safari, so while our competitor will come with a low priced brand it is fine, Safari is already there, so we have a good portfolio to compete there.

Moderator: The next question is from the line of Rahul Khandelwal from Systematix, please go ahead.

Rahul Khandelwal: Hi, I just wanted to know what would be the impact on margins if the GST was to come in?

Radhika Piramal: Not significant but it may help reduce the number of warehouses we have, because we pay sales tax right now, so the main improvement I think if GST would be coming from an operational perspective would be we could reduce the number of stock points that we have to service all our customers and channels.

Rahul Khandelwal: Just on the sales tax last quarter there was some question on the Maharashtra Sales Tax Authority case going on, any update on that?

Radhika Piramal: There is no specific update on that and this is going to be a multi-year case because the amount involved is large, so it will go through all the various stages of tribunals and courts possible Supreme Court. I expect it to be on the book for a long time.

Rahul Khandelwal: Any expectation as in what stage is it right now?

Radhika Piramal: It is at a very preliminary stage, there has been zero progress, these things take time.

Rahul Khandelwal: Last question would be on the international business side, any growth seen in that segment?

Radhika Piramal: As I mentioned before Q1 was not good for that, Q2 was more robust and we nearly need to results through the rest of the year before we can take a view as to whether that overall business is doing well or not.

Rahul Khandelwal: So the focus is still on Carlton growing over there.

Radhika Piramal: That's right.

Shradha Sheth: Radhika, just two questions, wanted to understand our strategy because I understand we are revitalizing VIP as well, but going forward as a portfolio how are we seeing the company because incrementally we are seeing Skybags, Carlton and Caprese which are almost, my sense is around 30% plus contribution to the company, so incrementally would that keep on increasing or would we also see VIP and Aristocrat and Alfa gradually coming back, so would the mix remain similar or will be keep seeing the shift towards these slightly lower margin?

Radhika Piramal: I think given the popularity of Skybags I will say that management's focus is now to bring Skybags margins in line with VIP, they are not very far away, I think with a few more price increases over the next six to nine months I think we should be able to achieve that. Carlton is not big enough to move fundamentally on the gross margin, so I think if management can bring Skybags gross margin in line with VIP then the percentage contribution of Skybags or VIP does not really matter.

Shradha Sheth: Sure but going forward as a portfolio, the focus will be completely towards, actually towards Skybags and the growing brands as compared to putting in more efforts to ones which are not really growing right?

Radhika Piramal: No, I think that VIP remains half our company's turnover and it remains the most profitable brand, so I will not say that the focus goes away from that. I can just define our brand strategy for everybody on the call. At the premium end we have Carlton, right now our company that is a segment in which we have to do the most work, then we have Skybags and VIP at similar price points competing against American Tourister where I think we are doing very well although VIP is not growing to our satisfaction Skybags is growing extremely well and together I am confident that we are taking market share. The endeavor is to find a bit more growth for VIP and we are working on that and then at the value segment we have both Aristocrat and Alfa which compete very effectively against Safari plus anything at the low ends that the competition may bring and then separately we have Caprese which is growing well.

Shradha Sheth: Right, as of now as obviously VIP is a very big portion of our sales but say three to five years down if the growing segments keep on increasing in contribution over the next three to five years it should be a sustainable double digit growth right as the lower value brands keep coming down like Alfa, Aristocrat and maybe VIP is a very gradual descending mix, incrementally as these growing brands keep on increasing in the contribution we should be having a smoother, faster.

Radhika Piramal: I think that it is very difficult to comment on the future. I think that we are best off discussing this quarter's results.

Shradha Sheth: In the last two quarters we are seeing the airline traffic growth being much stronger, double digit like 15-20%, so are we seeing any reflection of that because you said there is no improvement on the sentiments, so no reflection of that in the sales pickup as such?

Radhika Piramal: Not yet.

Shradha Sheth: What should be the green shoots we should be watching out for?

Radhika Piramal: It is the same, sales growth, volume growth, as you can see that is what is going to drive our company's performance and what we are working towards.

Shradha Sheth: In the sense the airline data is no reflection of any lag effect which could flow through, any indicators which we should monitor to see any correlation?

Radhika Piramal: I think that it is as much a fight between the brands as it is about the market, the industry I don't believe that it has grown that much. I don't get any great confidence from the consumer or from the channel partners.

Shradha Sheth: Okay just lastly industry what is your sense is growing at, the growth rate?

Radhika Piramal: I will say 15%, it has been the same for a while, let us see what Safari is, they have not yet announced results.

Moderator: The next question is from the line of Tejas Shah from Spark Capital, please go ahead.

Tejas Shah: Hi Radhika, just last followup, just wanted to understand gross margin dynamics between the product categories, so polycarbonate backpacks and your usual cabin bags, how they are factored in terms of gross margin contribution?

Radhika Piramal: Luggage which we count as uprights whether it is soft or hard or duffels, uprights have pretty good contribution, then duffels and backpacks have slightly less and handbags have slightly more, that is how it works out.

Tejas Shah: And you can correct me if I am wrong, but our channel check says that in polycarbonate unorganized players are not able to match organized players, so if the demand trend moves towards more polycarbonate bag does it bring pricing power back to branded players to some extent?

Radhika Piramal: I do think so. In fact, thank you for mentioning polycarbonate. We are seeing good growth in polycarbonate and I think that the same will continue. Now, the unfortunate part again is that we have this legacy polypropylene business, which is the old fashioned suitcase with a frame, so that declines at 20-25% per year and there seems to be no bottom to that, so that has been happening actually for the last 10 years, and right now our hard luggage is flat because all the declines in polypropylene are being offset by the gains in polycarbonate, so I will say for VIP Industries as a company there is a future now. Is it five years away or ten years away that is difficult for me to say but where the newer channels which have all the growth become a larger percentage of the base than the traditional channels because we have one product category that keeps pulling us down which is the traditional suitcase and then we have a dealer channel which is still the largest customer segment and these two are not growing and they have pulled down the growth rates of the company for the last many years.

Tejas Shah: Are we planning to go online or address that demand directly through our websites?

Radhika Piramal: We are present online and it is a working site, it is an attractive site, but we are not spending any money promoting it, so I think at this point it would be wiser to go with the channels, the customers who are spending so many hundreds of Crores promoting themselves rather than us trying to promote our own small website.

Tejas Shah: Are we on market place model with all our online engagements or are these outright?

Radhika Piramal: It is complex, we cannot stop anyone, suppose we sell VIP to somebody a dealer, we cannot stop them from listing themselves and selling it to a third person, so when I talk about our e-com sales I am talking about our sales to the official distributors of the main four - five e-com players, so I just referred to that, the market place is actually much bigger and we have very little control on it.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the floor over to Ms. Shradha Sheth for closing comments.

Shradha Sheth: We would like to thank the VIP management for giving us this opportunity to host the call and we would like to thank all the participants for being there on the call. Thank you and Radhika if any closing comments from your side.

Radhika Piramal: Thanks everybody for being on the call, it has been a really good quarter, I don't want to be negative but we need to wait and watch Q3 and Q4 before we make forecasts for the whole year. Thank you so much.

Moderator: Thank you, on behalf of Edelweiss Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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