“VIP Industries Limited
Q4 FY2021 Earnings Conference Call”

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MANAGEMENT

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Moderator: Good evening, ladies and gentlemen a very warm welcome to the VIP Industries Limited Q4 FY2021 Earnings Conference Call. From the senior management we have with us today Ms. Radhika Piramal - Executive Vice Chairman, Mr. Anindya Dutta –Managing Director and Ms. Neetu Kashiramka – Chief Financial Officer.

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. Radhika Piramal, Executive Vice Chairman, VIP Industries Limited. Thank you and over to you, madam.

Radhika Piramal: Thank you so much. Good evening, everybody. And thank you for joining this call. The results would have been shared with you just recently in the last 30 minutes, I do hope you have had a chance to look at it. I can say that the revenues are nowhere in line with our hopes as COVID has affected us badly. We had excellent plans for the current year but regretfully, the second wave has affected the current quarter. One good news is that, we have in place an excellent professional management team leading our company. In our last call about three months ago, I mentioned Mr. Anindya Dutta would not be speaking too much on that call but this time, I'm very pleased to say he is fully inducted into our company having joined us on 1st of February, 2021 and he will be leading this call for the rest of the duration of the call including the Q&A. Alongside him will be Ms Neetu our CFO. So, over to you Anindya. Thank you.

Anindya Dutta: Good evening everyone. Thank you for taking time out and joining this call. We will talk about the Q4 results to begin with, but before that let me put a little context. We know that the pandemic has hit luggage industry possibly the worst or the hardest way. In the quarter four we started seeing, easing of the pandemic environment in terms of more free movements, travel came back to about 70% -75% level of the same time previous year.

In-line with that our quarter four revenues were at INR 243 crore from operations, which is at 78% revival compared to the same period previous year. In all revival matrix was 54% in quarter three, 25% in quarter two and a mere 7% in quarter one. The 78% revival however, has a caveat as in the previous year March, 2020 was already hit by the pandemic and therefore was at a suboptimal level. So we saw all lead indicators like travel, people moving out, or easing out and coming back. However, the luggage industry continued to have some headwinds, which I would like to call out here.

Schools and colleges remained closed and continue to obviously do so, international travel did not resume in quarter four. One of our largest account Big Bazaar continue to operate at a sub optimal level compared to the rest of the modern trades largely owing to the Reliance, Big Bazaar merger takeover. In addition to all this, we witnessed a surge in raw material prices which is quite unprecedented. The polycarbonate ABS prices were almost 2.3 times to 2.5 times of the pre COVID level. So, the headwinds we're not only on the demand side, but also on our margins. Our gross margins for quarter four stood at 47% which is sequentially better than the previous quarter where gross margins were at 40%. However, it continued to be significantly lower than the same period last year.

The corrections in the discount and the mix corrections were partially offset by increase in the input cost. In terms of the fixed costs, the overall fixed cost for the quarter was INR 103 crore compared to INR 146 crore of the previous year which was sequentially higher than quarter three, largely due to the reinstatement of salary reduction and expense on travel and office which resumed. However, the structural cost reduction to the tune of INR 80 to INR 90 crore at annualized level will be sustainable going forward.

At PBT level we have a loss of INR 5.7 crore against a loss of INR 8 crore in quarter three and a profit of INR 10.4 crore in the quarter four of last year. Of the full year 2020-2021 the numbers as you would have seen on follows total revenue at INR 657 crore, 39% of previous year, gross margin at 45% against 53% of last year's, fixed cost at INR 318 crore as against INR 614 crore of the previous year. At this stage I would like you to know that out of the reduction in fixed costs other than the advertising sales promotion and freight expense the saving is almost INR 171 crore and almost INR 80 - 85 crore of this is sustained in the in the coming year.

With all this we have the loss of INR 124.6 crore as against profit of 148.4 crore at a PBT level in the previous years. It's quite evident the impact of the pandemic on luggage industry and our company has been very harsh. However, I just want to highlight that while we were in the crisis period the company had worked on strengthening its fundamentals. Today, our Bangladesh manufacturing operation has significantly scaled up and going forward with the Bangladesh manufacturing strength and India consolidation we will have a far better upstream control. And also we will have long term advantage on costs.

We spoke about structural cost reductions and both fixed cost reductions has made a significantly leaner going forward. We are also working on revamping our supply chain structure, which not only will make us far more responsive to the volatility in the demand but it will also be at a lower cost. We have also ensured that our distribution and our reach has sustained through the crisis and pandemic. And we witnessed our distribution almost scaled up to the similar levels of previous year in March and April in terms of the number of stores that we sell to.

And lastly, we strengthen ourselves in e commerce, where we were possibly competitively under leveraged in the past. And we did with a lot of augmenting of the portfolio, addressed the gaps that were there in our portfolio corrected our supply chain, and also worked on improving the productivity of our ad spends. With all this we started very well in April, 2021. In fact, the first three weeks of April, 2021 were very encouraging because we saw things really coming back to almost pre COVID levels, run rates. And unfortunately, after that, the pandemic hit again and this time much, much harder. The impact on the business is similar to last year's, complete lockdown. We however feel the recovery this time will be over a shorter duration and hopefully with lockdowns, gaining control on numbers and vaccinations scaling up with which you will start seeing faster recovery.

I just want to end by saying that, we feel quite optimistic in the long term VIP industries is all about products to do with joy, celebration, moments in families, travel, vacation, marriages, fashion, etc., These cannot remain subdued forever and situations will become normal. Hopefully now sooner than later. It's very difficult to predict the duration. But as we come out of this, the demand is out to get back to its original trajectory. And we will come out strongly. Thank you.

Moderator: Thank you very much. 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: First question is on demand scenario. So it's been more than a year since we would have experienced normalcy in demand. And however, last four months Jan, 2021 to April, 2021 is something which can be referred as closest to normalcy in some form, obviously not the full normalcy. So, if you can share some insights on consumer behavior where they are more discount seeking, because gross margins have improved sequentially, and is there any fundamental change in how consumers are traveling and how they're looking at the whole category post pandemic. Now we have in between pandemic now again, so first question pertains to that.

Anindya Dutta: Thank you Tejas. So, as we are experiencing now with this it is just when the things came out of pandemic around January to April, 2021 the post impact of pandemic was still there in terms of consumer behavior, the travels were possibly not as much and a lot of safety was their concern. So while this had an impact on the quantum of the demand, but in terms of the nature of the demand, I don't think there will be much of a distortion, and things comes back completely to its normal. It is just the impact of COVID and the concern around safety and security is possibly governing some bit of choice like, people are buying more hard luggage than soft luggage right now. But I don't personally see impact which is long term on to this.

Tejas Shah: Sure. So second question pertains to margins. So, obviously inflationary scenario has worsened Y-o-Y, across raw material baskets. And for our commodities also, underlying commodities there's a sharp inflation. And we already had a gross margin sinkage last year Y-o-Y so keeping all this factors in mind, how would you like to play the whole pricing power of ours in terms of branding power that we have, in the year ahead and how should we think about gross margins and EBITDA margins, assuming that normalcy comes back by the second half of this year?

Anindya Dutta: That will be a big assumption in terms of what kind of normalcy comes back. But, I would assume that even after the best case scenario, they will not exactly be the same as what it used to be before within this financial year. So there is going to be a constraint demand, and it will have its impact on margins, because the pricing is going to be always a challenge from a competitive pressure point of view. However, as I was saying that fundamentally, VIP has done everything that is necessary in terms of making our portfolio, our cost right and therefore, as demand situation becomes exactly normal as it was before our margins should be back to the same level at what we used to be and even better.

Tejas Shah: Fine. And, lastly if you can comment on insurance proceedings, any update on that?

Neetu Kashiramka: So, Tejas I'll tell you, so on insurance proceedings, I would say we are three four months away from getting a clear picture. It's a PSU and also because of the second lockdown again, people are not there.

Moderator: Thank you. The next question is from the line of Amandeep Singh from Ambit Capital. Please go ahead.

Amandeep Singh: Firstly, we know that the global luggage players are still closing EBOs to keep the cost under control, amid COVID led uncertainties. Similarly, with COVID second wave impacting the recovery, can you help us with your thoughts if you would maintain your current EBO counts or might have a relook on this strategy and close few more stores. Also, any update on the rental waivers across the malls and high streets amid the lockdown again?

Anindya Dutta: Thank you for the question. You're right, EBO is a concern on cost. But at VIP we had kind of taken hard measures in the previous wave itself and had kind of shut down almost 100 stores. As we speak right now, our viewpoint is that we would like to continue most of them, we can still look at a few which is falling, which is almost sitting on the fence in terms of its long term potential into profit. But this is something that as we speak right now, we are wanting to continue, this is also based on our assumption that we think this time the turnaround will be faster or quicker than last time.

Amandeep Singh: And sir any update on the waivers, which you might be discussing because it's again, a lockdown?

Anindya Dutta: Yes. So we've started the conversation, which is very decent right now, it's been last few weeks when this has happened. But that's something that will obviously put up very aggressively with the landlords and look at any possibility of reverse and reduction in rents in the short term.

Amandeep Singh: Thanks for that. And sir secondly on the employee costs, now with the second wave of lockdown will it be fair to assume that the run rate will remain same at INR38 crore per quarter going forward or will it be fair to expect more efficiencies here?

Anindya Dutta: At this stage, we have done a huge amount of cut in the previous year. And our approach would be to continue with the team and the morale and keep our self-ready for growth going forward. And therefore, we may have some bit of efficiency happening here. But largely, we will continue with the employee base and the talent that we have.

Neetu Kashiramka: Just to add to the employee cost for the quarter does not have incentives and variable payouts. If we do well, then that will be the additional cost.

Amandeep Singh: Noted, thanks. And we have been also hearing that the supply chain issues with respect to sourcing from China has sustained. So in that context, can you help us understand if VIP is also facing similar supply chain issues even now?

Anindya Dutta: So, as I was saying that we have successfully moved a large part of our production to our in-house production in Bangladesh. So going forward, any kind of exposure to China supply chain issues is something that we will possibly not have, though we are dependent for some raw material coming from China. And there is an implication on freight rates that have increased significantly between China and Bangladesh. But in terms of a larger disruption because of what may happen between in the China trade is not something that we will be impacted.

Amandeep Singh: Okay. And just finally, if we were to just extend the previous question, and now with you on board having the experience in the international markets in the past. Is it fair to assume that VIP would boost it's export sales via OEM manufacturing, assuming that even other luggage players globally would be facing similar supply chain issues from China or is it too early to say that?

Anindya Dutta: Strategically and in the long term, what you are saying is yes, but something that we would be having. But as we speak, as an immediate short-term measure, but that's not something that we may land up with or choose to do so. But that's something that is under evaluation. It will be a better time possibly in the next discussion to see where we land ourselves.

Moderator: Thank you. The next question is from the line of Jinesh Joshi from Prabhudas Lilladher Pvt. Ltd. Please go ahead.

Jinesh Joshi: If possible, I just need one small clarification. Now, if I look at our gross margins during the FY21, in three out of four quarters, we were lower than one of our listed peers. Now, I know that there is some bit of cost inflation and the discounting is also going on. But sir in the past such cases have been rare when our gross margin actually lower than the other listed peers. So, is there anything specific that you would want to highlight?

Anindya Dutta: That's flowing largely to the discounts that we were running. And our pricing was significantly higher compared to most in the market in terms of the mid-range that we had, and therefore the discounts on that were higher. But as I said that demand started coming back and we had taken control of the total inventory situation. As we move the discounts out from what we were running. We will come back to or we'll come close to our original level of gross margins.

Jinesh Joshi: Sure. And secondly, given that there is the cost inflation which is prevailing currently, is there any action on price front, price front have we taken any hike recently or is there something on the cards in the near future?

Anindya Dutta: So yes, we have taken a price increase, in fact two rounds of pricing increase, not very large but as the input prices increase and what increase we took, one in March and another now in April as well. So, there has been and this is not across the board. But this is more in selected range, wherever we felt that we could take the price up is where we have taken, it has not resulted into a large part of the gross margin increase, the gross margin increase is largely owing to the reduction in discount and the change in mix. But as we open up and everything resumes, the higher price will start playing it's role.

Jinesh Joshi: Is it possible to quantify the quantum, the hike which we have taken?

Anindya Dutta: So, would be difficult because it is not across the board one. So it's kind of by range in that, so it will be difficult for us to give you one number for that.

Moderator: Thank you. The next question is from the line of Saurabh from HDFC Mutual Fund. Please go ahead.

Saurabh: In the opening comments you had mentioned about the savings and cost, sir just wanted some more detailed thoughts on that as in how much of these would be variable because when we see as a percentage of revenue up, our revenue has also fallen sharply this year. And as a percentage, many of these the other cost specially it seems to be in-lines and if we adjust for the A & P, which we would be increasing as the demand improves. How much there would be a cost saving when assuming the revenue is back to pre COVID levels? That was one and secondly sir, international business you talked about the OEM path. But any thoughts on creating a global brand over a longer term, because our brand is very, there's not many large global brands, so is there an opportunity there, your thoughts on that sir?

Anindya Dutta: Sure. I'll take the second question. Neetu can you talk about the cost reduction part?

Neetu Kashiramka: Yes. So, on the cost there is saving on the fixed cost, which does not go in-line with revenue. So that overall saving is around INR 171 crore and 50% of that we said will be sustainable going forward. Other than that, if you see expenses like freight will go in-line with revenue and advertisement anyways as and when the things improve we will start to spend.

Saurabh: And can you just tell more like, what would these cost be, I understand one would be employee cost which you had been highlighting in the previous quarters also.

Neetu Kashiramka: Yes, in employee cost there were two parts to cost saving, one was a salary cut, which was there till December, 2020 for nine months and then there was headcount reduction. So, salary cuts have been resumed from January, 2021 which are back to normal, whereas the headcount reduction remains. So, that's how 50% of the employee cost savings will come back. And on the other expenses, we did 100 store closures and wherever there was rent reductions and waiver, this will come back later. Whereas for example we close 100 stores which is a permanent saving. We have closed some of the offices, so closures, yes it's a permanent whereas whenever there was a waiver or a reduction it is just for that period.

Saurabh: Ma'am just asking one thing, when we say this headcount reduction and store closer, so these will be permanent, but assuming the sales are back like INR 600 - 700 crore level so will we be able to manage with these lower number of store as well as lower headcount?

Neetu Kashiramka: At this point of time, yes on the management team, we don't intend to increase the headcount.

Anindya Dutta: To answer the other question that you had about international, obviously we would love to take the strength that we have in India to the pockets outside, and we will get to that. But before that, it's very important right now as we come out of the pandemic is to consolidate and get ourselves fully backed up and to run the way the India market was and therefore our first focus as we are coming out of this would be to consolidate and to strengthen the core. Core is our domestic business and that will be the first focus as we do that. And depending on timing, we will look at how we can we take our brand and our business outside. And at that point of time possibly we can talk more in detail once we are ready to start of that journey.

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

Dhaval Dama: So just wanted to ask you, now basically if I have to look at FY21 as compared to FY20, gross margins have been significantly lower compared to our pre-covid levels. And we are mentioning that discounting has been quite higher during the current year. But can you highlight, or can you just give us some broader understanding like say, if the production mix or the brand mix would have been dramatically different in FY21 for you, as compared to what it would have been in FY20 or FY19, just a broader understanding, because our mind has become very difficult when we compare a value based, or third largest player in the category today making similar gross margins as what you have done during the current quarter or so?

Anindya Dutta: Right. So, yes the product mix did change in FY21, in favor of the value portfolio within the VIP portfolio as compared to FY20. And that happened largely because that part of the market possibly was growing faster, e-commerce was something that was through putting harder than most of the other channels. And we have also played aggressively within those channels to get the revenue. So it did temporarily reduce or change the mix in favor of the value portfolio. But that's not how the VIP, portfolio strength is and therefore the VIP and Sky bag and the ranges under these brands is something that didn't play its role as much in the revival phase, because we are carrying stocks and we had to convert, when we started making in Bangladesh, we started making more of these lower end products, because that's what the demand were.

So, I would keep it as more about a temporary phase where we had to go in with our value range more aggressively. But going forward, once the revival is there and we come back, the demand comes back to its levels of pre COVID, we should be able to spring back to what our mix was before. The large part of that if not entirely.

Dhaval Dama: And second thing, one more thing I wanted to ask now, given the current scenario, if I were to look at the company in terms of two buckets, so how things can pan out over the next six months, and over the next three years, if I were to say that. Now do you think that, how long do you think that as per you view sitting in today, this value portfolio will continue to grow faster. Like you mentioned in your opening remarks in April, 2021 first three weeks, there was a descent recovery and we were almost back to pre COVID levels. So maybe if you can throw some light on that, basically how are we looking at over the next six months, and over the next two to three years and also, would we be willing to sacrifice gross margins as compared to what we were doing at pre COVID levels for market share gains, how do we look at it?

Anindya Dutta: So to answer the first question, while the environment of constrained demand situation is there, there is always going to be a higher play of the value segment that will remain because, people are going to compete on prices and that will one bring down the prices and also possibly somewhere affordability kicks in during this time and people whatever purchase is happening is looking at a lower price option. So, that short term, that's as much as what the current situation will last. And that's something that is very difficult to predict. But when you talk about the long term, I don't see the consumer behavior to be one only going towards the value segment or a large part going there. And also the marketers and the especially our role in making the mid and the upper end is going to start kicking in. And that's what we would like to do to create demand at the upper end through innovation, through better products, through communication and a better experience of the consumer. So that is what we were good at and we will continue to come back to do and therefore I don't see that as a problem in the long run. Did that answer your question, you have one more question.

Dhaval Dama: Yes. So basically over a longer period of time would you be willing to sacrifice some bit of your older levels of gross margins for market share gains?

Anindya Dutta: So, we will not be okay for losing market share. And we would like to make sure that we gain back market share. And if that needs to us to relook at our portfolio and to look at some bit of shaping of gross margin, we may do that. But right now, that's not something that is an easy conclusion but to gain market share, you may need to lose margin. But to answer your question, we are going to be strongly focused on gaining back our share.

Moderator: Thank you. The next question is from the line of Bhargav Buddhadev from Kotak. Please go ahead.

Bhargav Buddhadev: My first question is on the preparedness to meet the pent up demand, whenever it happens especially given that window for pent up demand could be as short as two to three months. So, should we go by luggage companies performance in the West. They have seen a significant growth since the population started getting vaccinated. So how prepared are we to sort of meet the similar nature of the demand as and when it happens?

Anindya Dutta: So, we are pretty well prepared, depending on how and when the demand comes. As I said, we rely more on our own manufacturing, where we have a good amount of headroom to scale up. And we will be able to do that when things start looking up, for sure.

Bhargav Buddhadev: So, even if the window is short we will be able to sort of manage our supply chain to meet that demand, is that correct?

Anindya Dutta: Yes, depending on how short the window we're talking about, but products, the lead time to production and hitting the market is always lower than the lead time to identify a sourcing and importing into the country. So to that extent, yes still there are a lot of assumptions here then we'll have to see what is the lead time and when does that happen.

Bhargav Buddhadev: Secondly, is it fair to say that the Bangladesh sourcing advantage of it to the extent of 15% given that imports from Bangladesh do not have any anti-dumping duty. So given that our dependence from Bangladesh could now be close to 100%. It makes sense to sort of become aggressive in our journey to gain market share and given such a big cost advantage, is it fair to say that we may not have to sort of compromise a lot in terms of our gross margins?

Anindya Dutta: I'm sorry, I didn't understand your question. Could you please repeat?

Bhargav Buddhadev: So the first part of the question was, is it fair to say that the Bangladesh sourcing advantage is to the extent of 15% given that imports from China have an antidumping duty?

Anindya Dutta: So, there is an advantage of producing in Bangladesh compared to importing from China and more than the number. Sorry Neetu you were saying something.

Neetu Kashiramka: Yes, 15% is right.

Anindya Dutta: Yes. So the answer to that question is yes. What is your next question?

Bhargav Buddhadev: Yes. So, the related question is that, as we answered to the previous question, that we will be chasing market share. So, this sourcing advantage from Bangladesh can clearly make us more cost competitive, and hence in our journey to gain market share, we may not have to compromise a lot on our gross margins, this is what I was trying to understand, is that assessment correct?

Anindya Dutta: Yes, we would continue to have that advantage. While I'm sure competition can also catch up little when other lower cost of manufacturing basis. So that is definitely a room that we have to play either on the market share or spend on consumers all look at having a better margin profile, but that is going to be completely dependent in that situation and the strategy therefore we will evolve basis what is the market context of that.

Bhargav Buddhadev: And lastly, sir given that a lot of unorganized players operate in the luggage industry would it be fair to say that the organized players would have gained the retail market share in the stores in FY21?

Anindya Dutta: Too early to say that because only once things normalizes in the market completely it is then we will get a sense of that. But a situation like this does pose a bit of a problem to the unorganized sector who relies on their own imports or getting imports through merchant importers.. But as we speak today, this is conceptual and therefore, we need to see once things normalizes how the market dynamics is evolving.

Moderator: Thank you. The next question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: So can you talk about our sales mix of urban, semi urban and rural currently and versus a pre pandemic?

Anindya Dutta: We can talk about how various channels are evolving and within that there are insights about the e-commerce channel, the Tier II, Tier III cities within e-commerce seem to be showing a better traction. But really speaking, I won't be able to give you a break up between an urban and a rural contrast between COVID and pre COVID and post COVID.

Sumant Kumar: Can you talk about the growth momentum in the two markets?

Anindya Dutta: Sorry, I didn't get your question, growth momentum on?

Sumant Kumar: So, you can talk about the growth momentum in the rural and urban market?

Anindya Dutta: As I said, it seems like post COVID in the revival phase, the Tier II, Tier III cities and there's not rural and urban but smaller cities to larger city, smaller city seems to be reviving slightly better than the larger in terms of our category revival.

Sumant Kumar: Okay. And talking about the wedding segment, we have a better expectation, but during the month of May and April there was a lockdown, so the overall demand impact, whatever demand we were expecting, it has a significant impact or some the partial impact?

Anindya Dutta: In which segment sorry, I didn't get you.

Neetu Kashiramka: Wedding segment

Anindya Dutta: Wedding segment okay. So, in April, May including the wedding segment as well had the impact point obviously, because with the lockdown like last year, as either the dates were changed or the level of celebration was significantly muted. So, we did not see anywhere close to the normal wedding season that happens in April, May and June.

Moderator: Thank you. The next question is from the line of Digant Hariya from Green Edge Wealth**.** Please go ahead.

Digant Hariya: My question is mainly that, I understand that the pandemic have been very harsh on luggage, travel, cinemas all these industries, but if we just look at our portfolio of polycarbonate and duffle backpack, we have kept the Ladies first brand and across all the channel like have we been able to maintain our position more or less in these products as well as these channels, we have seen some change in our competitive position across any of the metricizes?

Anindya Dutta: Are you talking about competitive positions within that categories and segments?

Digant Hariya: Yes, sir. I just want to know our brand strength or our positioning, has it been impacted like has any player done something really different then they would have taken up some segment wise surprise or some market share. If any insights that you can give generally on this things that would be great.

Anindya Dutta: So, I don't see anybody within this industry that we are in, has done something very different or dramatic. Everybody has kind of been really wanted the impact and managing the businesses. There has been a little bit of changes within channels and all that with direct competition depending on which channels are more active for a particular competition. So, for example, channels like CSD or institution business or to that extent e-commerce has done significantly better in the last twelve months let's say till March, then other channels or in other years, and any player who was more, who had a higher index on those channels, has possibly got a little bit of advantage. But I would say that is temporary, because as things comes back to its normal, the champion plays will also get reset back to what it was, there will be a bit of e-commerce, which will scale up permanently compared to other channels. And we recognize that and we are completely on top of it now,

Digant Hariya: Right. Sir my other questions are mostly data questions that, I think you answered it for some participant, that if our demand goes back to pre COVID level would 15% of our soft luggage sourcing happen from Bangladesh? Bangladesh, may have 15% of the total soft luggage manufacturing there or?

Anindya Dutta: Yes, so you are saying when the demand goes back to its normal level, we will have enough capacity to supply from Bangladesh.

Digant Hariya: No, sir I was trying to get that, earlier like 70% of our sales was soft luggage and all of it used to come from China. So, now with Bangladesh, capacity and what the work that we have done there. Once the demand comes back what would be the Bangladesh contribution in our whole soft luggage portfolio?

Anindya Dutta: It will be able to manufacture the entirety of the demand, because we are also eyeing as the demand goes up, one we have already huge capacities and we are also good at creating and we have find a creating more capacities in Bangladesh, if the demand so increases.

Digant Hariya: Okay. So, sir you are saying that the dependency on China will be completely reduced once things normalize and that would be a source of better margin?

Anindya Dutta: You are right, in the long run we will reduce our dependence to a very large extent no China imports.

Digant Hariya: Perfect sir, that's great to know. And last question is that, we have around INR 200 crore of debt, I know that we have taken it just as a prudential measure and never used that. But when do you think would be the right time to repay it, would it be when we receive the insurance money, would it be when the second wave is resolutely behind, any thoughts on that would be helpful, thank you.

Neetu Kashiramka: I'll take that. So, current debt is INR 150 crore and these are NCD which we will be repaying in July, 2021 and September, 2021 this because till now we have not utilized these funds. Also we have working capital limits, in case of requirement , we can use our normal working capital.

Moderator: Thank you. The next question is from the line of Aditya Malpani from Bryanston. Please go ahead.

Aditya Malpani: Sir continuing with the last China, Bangladesh question. So our understanding is the kind of variety and the kind of SKU China can make. Do you think it is possible in such a scenario to shift that entire sourcing from China to Bangladesh? Is Bangladesh competitive enough, in terms of say SKUs and variety compared to China?

Anindya Dutta: Yes question is, is Bangladesh technically capable enough to make all the products, the answer is yes.

Aditya Malpani: Okay, so it is practically possible to shift everything from China to Bangladesh?

Anindya Dutta: That's right.

Aditya Malpani: Okay. And sir my second question is, because of COVID in the last two quarters, we have seen downgrading happening and value portfolios and the value products are doing much better than premium products. So, by any chance has it helped smaller and unorganized players to gain the market share, instead of adversely impacting trend because of COVID situation?

Anindya Dutta: Temporarily possibly in terms of because it is already playing this game better, and they had the stocks and the range, but that is as I said, it's very temporary and we would always follow the demand. And having followed the demand, we've kind of done what we need to do to go after the consumer and the consumer changed that the demand change that has happened in the short term.

Moderator: Thank you. The next question is from the line of Jinal Sheth from Awriga Capital Advisors. Please go ahead.

Jinal Sheth: On your profitability margins, FY20, obviously was the high numbers, by when do you think over the next three to four years we can achieve those numbers or even surpass considering what you mentioned about Bangladesh?

Anindya Dutta: So as I said, at this point of time predicting, is very difficult and therefore we are more focused on building the fundamentals, keeping our foundation strong. And as situation revives completely, to what it used to be before, that's when it will start hitting the similar numbers and scaling beyond that. I don't see that happening this year, for sure. Because quarter one is our largest quarter, and we've had a big hit, once again, this quarter in quarter one. But it's for us to wait and see how things, revived from here and then see how this year will be and possibly the coming year FY23. If all goes well, I'll be keeping our fingers crossed, FY23 could be the year.

Jinal Sheth: Okay, thanks. And just the next question is on the market share, just trying to understand that in the last, have we lost market share in the last year or two from competition?

Anindya Dutta: Yes, we have lost market share in the last two years.

Jinal Sheth: And based on what you said earlier that once things come back to normalcy, you would want to focus to get that back, right?

Anindya Dutta: Absolutely.

Moderator: Thank you. Next question is from the line of Sanjay Banerjee from Credent Capital. Please go ahead.

Sanjay Banerjee: I just have only one question. Sir, what is the current tax rate for importing from China and from Bangladesh?

Anindya Dutta: Neetu would you like to take this?

Neetu Kashiramka: Yes. From Bangladesh there is no , we are talking about import duty. Whereas from China it is 15%.

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

Tejas Shah: A couple of follow ups, so what would be online contribution for FY21?

Anindya Dutta: You are saying the e-commerce business right online?

Tejas Shah: E-commerce yes.

Anindya Dutta: So FY21 saw almost 17% of the sale coming from.

Tejas Shah: Okay. So, is the gross margin contraction reflection of that change as well, because typically, consumer on that channel is much more value seeking than on offline.

Anindya Dutta: They are expensive, to the cost of selling and e-commerce was here, other than the margin is not very high in terms of the fixed costs or overheads. Unlike what is there in retail or in modern trade with promoters and all that. To some extent, the higher margin on the channel kind of gets nullified with a lower overheads to sell on the channel. Having said that, right now the mix that is selling in e-commerce as the scale up happens is of the, lower priced variants or low priced products so to that extent, it has an impact on gross margin. But I would say that, that now over a longer period of time, consumers will kind of start, we will have all kinds of consumers and e-commerce and the margin and the mix will improve.

Tejas Shah: Okay. Second, this wave has come with as much surprise as the first wave obviously, this time our cost structure is much more agile. But on planning part because just two months back or three months back when we were on the last call, we are very excited and rightly saw about the revival and then first quarter being very good. So have we pre invested in terms of inventory or other commitments, which may hit P&L, but revenue growth may not follow because of the wave two?

Anindya Dutta: So, we did expect a much better quarter one, when we were planning for it however, if at all there is a reflection of that and inventory which is more in raw material, then in finished good we did built some stock in terms of our manufacturing from Bangladesh but as of today we are not very worried about the inventory levels that we have.

Tejas Shah: And lastly sir, this decision specifically for you, so you have taken charge on this at a very difficult time and that was the case you provide last year. And then as they say that one should not let good crises go away. So, are you seeing an opportunity to make any structural change in the business which whenever the normalcy comes and then that is a matter of speculation, so whenever it comes point-to-point VIP is much more stronger and much more agile unite than yesterday.

Anindya Dutta: Yes, and we were already on to that part and while we add few more, what I was saying that fundamentals of the business which is in our control, on our upstream, our manufacturing of our own long term advantage on cost, we have made ourselves far more linear, we are looking at revamping our whole supply chain structure and the method of how do we optimize our inventories. So, there are many initiatives that we are all and then we are getting built as we speak, which kind of tries and attempts making the fundamental stronger. Therefore as we come out of this we would be in a far better situation to leverage the opportunity. And that's the aim of the management.

Moderator: Thank you. The next question is from the line of Prerna Jhunjhunwala from B&K Securities. Please go ahead.

Prerna Jhunjhunwala: Sir, I wanted some clarity on your OEM part of the business that we were thinking about supplying to global markets from our Bangladesh unit, what is your strategy there and what is the kind of opportunity that you're looking at from that portion of the business?

Anindya Dutta: To be honest, we don't have much to talk about it in this forum today, right now that's a possibility, definite possibility we do have a good manufacturing strength, and the right kind of cost to look at that business. But this is not something that we have done in the past and it's not something that we are ready to talk right now. Let's see how we evolve and large part of that whole manufacturing base that we had created was for the India demand or the domestic demand that we have. So we really have to think through, in terms of how do we use that opportunity, whether it's for OEM or kind of look at the demand here. But, we could talk more about this in couple of quarters down the line possibly.

Prerna Jhunjhunwala: Okay, and any color on the international market that we serve from the unit for your own brand, your export business partially, because exports are doing very well in other industries, per se?

Anindya Dutta: No, unfortunately COVID has obviously hit across the world, and it has impacted travel so it's not that the luggage industry is in buoyancy in any part of the world. But having said that, other countries are possibly reviving better and faster than India right now. Especially the Western world. And we do have a good setup in in Middle East and as the lockdowns are opening up there things are coming back to normalcy, our business should grow in the Middle East. But as we speak right now, it's our smaller part of the overall business and it's not something that we are putting as our priority one, two at this stage to look at and invest in international markets.

Prerna Jhunjhunwala: Okay. And sir my next question is on the channel mix, per se like how has been the sales in canteen store departments and distribution network for the year EBO channel, if you could give some color on how the year has panned out for you in different sales channels it will be very helpful?

Anindya Dutta: So, my every channel has its share walk the pandemic impact and differently so, and out of that I was saying before that possibly CSD and institutional business had the least constraint because they were not moving through the marketplace or in people were not needing to go out for, so for that extent CSD, institution kind of business and e-commerce had a much better play than the traditional channel for modern trade, general trade, our own retail. So that's, the change that we saw during the year compared to the previous year that these channels kind of index higher or they are salient grew within that overall portfolio.

Prerna Jhunjhunwala: Okay. And how would you see the inventory in the supply chain today with respect to your channels, if there is a pent up demand are they adequately filled for the demand or it will there is some challenges on that front as well.

Anindya Dutta: Yes, as I was saying in the previous question, that since we are now manufacturing in Bangladesh we should be able to feed the demand in a shorter term notice compared to we would do otherwise from imports. So, we feel good about how we are placed as far as when the demand opens up we will be able to scale up.

Prerna Jhunjhunwala: Okay. And last question on CAPEX, is there any CAPEX planned for enhancing the capacities or upgrading systems or anywhere else for this year and what was the CAPEX if at all?

Neetu Kashiramka: Nothing major at this point of time, if at all it will be only in the second half and that too INR INR 15 - 20 crore

Prerna Jhunjhunwala: Okay. that is for enhancing capacity?

Neetu Kashiramka: Yes, predominately yes**.**

Moderator: Thank you. The next question is from the line of Samir Rachh from Nippon Asset Management. Please go ahead.

Samir Rachh: Sir just wanted to ask, since this is your first call, kind of so, from an outsider's perspective, if you were to get VIP and if you were to do SWOT analysis, which are strength, weakness and opportunities in the company, and when post COVID things come back to normalcy, what kind of changes would you want to bring in this company?

Anindya Dutta: You're saying that, once situation normalizes what kind of changes?

Samir Rachh: Yes. So if you had to analyze, this company should identify which are the strength, which are the weakness, and how do you want to reposition this company so it creates value for all the stake holders?

Anindya Dutta: There will be many areas on which we are going to scale up and build strength, but I don't think there is one answer to that. It's a full-fledged strategy discussion with largely, we are what we are doing in this time as the pandemic hit, is that we are strengthening the foundation, of –the business, which is in our the consumer part of the business, which is product, process of innovation, looking at cost, capability for manufacturing. So all these areas are going to be going to be something that we work on. But, right now there is nothing that I can tell you about how, what will be the big different changes that will happen, these are things that we are working on right now. And we will see when we come to that in terms of, if you look at other businesses that we'll get into.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I will now like to hand the conference over to Ms. Neetu Kashiramka for closing comments.

Neetu Kashiramka: Thanks, everyone for taking out time and attending the call. We hope that the country opens soon and we do well. That's the hope in which I will end this call here. In case you have any other questions, you can anytime connect with me. Thank you.

Anindya Dutta: Thank you, everyone.