



“VIP Industries Limited Q4 FY2020
Earnings Conference Call”

May 26, 2020



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Moderator: Ladies and gentlemen, good day and welcome to the VIP Industries Q4 FY2020 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 telephone. 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 Madam!

Shradha Sheth: Thanks Rahman. On behalf of Edelweiss, let me welcome you all to the Q4 FY2020 earnings call of VIP Industries. From the management today, we have Ms. Radhika Piramal, the Executive Vice Chairman, Mr. Sudip Ghose, the Managing Director and Mrs. Neetu Kashiramka, the CFO who just joined. Without any further ado, I will hand over the call to Ms. Piramal for her initial comments, post which we will open the floor for Q&A. Thank you and over] to you Madam!

Radhika Piramal: Thank you so much Shradha and thank you everybody for joining this call. A little unusual call as it is fixed at 6 p.m. and we just completed our board meeting less than an hour ago. I would like to give some opening remarks and then as a new development this time, we have given an investor deck at the BSEindia.com website for in case anybody on the call has not yet had a look at that, I will request you to please go to the BSEindia.com website search VIP and you will find investor deck that we will be taking you through.

Before I start with my opening remarks, I would like to warmly welcome Mrs. Neetu Kashiramka to our company. She joined us on April 8, 2020, it has been a very few short six weeks since she joined and she has been working from home in Mumbai as our head office is shut, but it is amazing what technology can do and she has fully integrated into our company already. So warm welcome to Neetu.

Let me start with my opening remarks. I will actually like to talk about the future immediately and I am going to discuss COVID and the way ahead with the few remarks then I am going to hand over to Neetu who will go through the investor deck and talk about the Q4 results and then we will take the Q&A. So far COVID let me come straight to the point because today we are on May 26, 2020 and we have already been through April and May so unfortunately travel and therefore luggage as we all know is definitely disrupted. I would like to assure our investors that we have been I think very fast on our cost containment measures and that sort of addresses all the costs whether they are fixed overheads relating to plants, whether they are office rents, whether they are calls on which stores may be profit making or loss making in the year ahead so for the brand stores as well



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as for some of our VIP colleagues we have made difficult management decisions in terms of cuts in salary, some cuts in headcount where it is unavoidable and we have also increased our borrowing significantly since in the period gone April 1, 2020 we had a minor surplus and no borrowings and whatever borrowing we have not needed to use them yet, but we have increased our financial limits considerably. So what I can share with total confidence at this point is that our company is extremely secure. We are now in a financially strong position on liquidity despite the complete collapse of revenue and I will come to revenue forecast in a minute so we are very sort of solid even if the revenue forecast is nil for six months or eight months out. We do not see any issues in terms of liquidity.

Secondly we find ourselves in a relatively strong position with respect to our competitive landscape because as we all know Bangladesh is more and more important to the company and you can see from the Q4 results how much in fact it could contribute as and when our revenues return and also in terms of migration from China to Bangladesh our company can do that quickly. We are the best off because we have a fully established skilled up operation and looking at that say, obviously we anticipated revenue decline on an annual basis for the year ahead. We should be in a position where 100% of our supplies could come from Bangladesh, which is something I have not said on any such call before but we are in that position now.

The final point I will say before handing over to Neetu what is the revenue forecast for the year ahead. Now this is an extremely difficult question to answer nobody knows it depends when the lockdown is lifted. We all know that of course there might be different tiers of demand coming from different places in India but as long as the four metros or eight large cities are lockdown or in red zones, it will be difficult for the revenue to come back. I can share that in April and May let us say that our revenues are extremely depressed. I do not want to share too many more figures at this stage, it is mid way through the current quarter but I will use the word severely depressed and in terms of when we see our revenues coming back and we expect them to be let us say, what percentage of last year's revenues we expect for the year. We expect it to be 50%, we expected to be 70%, we expected to be 80% obviously it all depends on Q2, Q3 and Q4, Q1 is going to be a washout and for Q2, Q3, Q4 let us see how we proceed, a lot depends on the disease, on the Government of India, on consumer confidence and it is impossible for any promoter or manager to give you any realistic estimates of when we see the demand coming back. We can say that we have done a lot of online consumer polling and we know that people are frustrated by being at home and that one of the first things they would like to do once normalcy resumes is just take a short break more likely in a car to place that they can go for a shorter trip let us say a two or three-day trip rather than a domestic flight. We see international tourism coming down significantly. We see leisure travel bouncing back earlier than business travels because many businesses have realized how much in fact they can achieve in the absence of



business travel. So we see business travel as more difficult than leisure travel in terms of the return but when it comes to our brands, our portfolio our luggage for us, it really does not matter whether it is leisure travel or business travel. VIP industries is the company that has strong brands that caters to family market, business market and all markets. With respect to market share also, we have still highly motivated sales team who are just ready to sort of hit the ground running. So as soon as things open, we are looking forward to resuming and meeting the demand which we see we can do in a market leading capacity. The question is when things reopen and how quickly do the revenues come back. A final point is my personal goal is to ensure that the company can break even or even be marginally profitable as revenues are much more depressed than what we were last year and we are taking the cost containment measures to achieve that. This is not possible in the current quarter that is Q1 where we definitely expect to experience a loss. So that is for the COVID situation. I will happily take all the questions on COVID after our presentation, but for now over to Neetu and welcome to VIP Industries.

Neetu Kashiramka:

Thank you Radhika. So I will straightway go to the presentation. I will skip the company overview and go to slide number 4, which is financial snapshot. For the quarter it is -27% on the revenue whereas profitability further down around 70% but for the year if you see sales is -3% with the PBT before exceptional item of Rs.197 Crores versus Rs.215 Crores. Now if I give the impact of COVID on this, we lost Rs.120 Crores and a PBT of Rs.26 Crores. If I were to add this to our current numbers then we would have had 3% growth on the full year topline and 4% growth on the profitability.

Now, let us talk about gross margin where we had a very healthy increase, it for the Q4 from 48% last year to a 58% even for the year it is from 50% up to 53%. This gross margin improvement is basically due to few factors and the biggest out of that it is higher procurement from Bangladesh. There was an improvement in the hard luggage share, also there was some reduction in the RM cost but I would say that bulk of this improvement has happened due to higher contribution of Bangladesh to the overall revenue. EBITDA is at 12% for the quarter and 17% for the year. PBT before exceptional items for the quarter is low at 4% from 8% but for the year it is flat at 12%. PAT for the year at 9% versus 8% but one good part is that ROCE is at 25% versus 22% for the year. This is mainly because we also did some good work around the inventory and debtors and therefore, there was release in the working capital and therefore ROCE has improved to 25%.

The next chart clearly explains what happened in March. So January, February actually we did a profit of Rs.38 Crores which was higher than the last year quarter profit but what happened in March was actually unbelievable and we landed up with only Rs.32 Crores of revenue and a loss of Rs.27 Crores which changed the scene and therefore you see the Q4 where it is.



The next is the financial results so this I will skip since you already have these numbers with you. Next is the quarterly revenue. So if you see 2019-2020 versus 2018-2019 here we have put the quarterly numbers and all of us know that 2019-2020 economic environment was tough but the way we started was much better so we started with 9% growth for the Q1 then the Q2 was 3% growth, Q3 was 0% and Q4 actually washed out because of the COVID. The key financial metrics, ROCE as I already mentioned 25% versus 22%, inventory was contained Rs.451 Crores in spite of revenue not happening for the last two weeks versus the last year same period of Rs.527 Crores, debtors were at Rs.267 Crores versus Rs.299 Crores, borrowing which was Rs.86 Crores last year same time, we were at Rs.32 Crores, revenue as already mentioned 1718 versus 1785, gross margin for the full year was at 53% versus 50%, EBITDA was at 17% versus 13%, PBT before exceptional item was at Rs.197 Crores versus Rs.215 Crores.

I now take you through the EBITDA movement, how it has moved from last year same period to now so for Q4 from 9.5% to 12% basic increase happened in the gross margin which was 10.5% and there was a reduction in the other expenditure. This was mainly due to some provisions which we have taken due to the COVID risk because once we open, we do not know there might be some risk on inventory and debtors and therefore we have taken a conservative approach and taken some provisions around it. For the year if you see from 13% it moved to 17.5, gross margin benefit of 3.8%, employee cost reduced it by 0.9% and the other expenditure contributed 1.3% and therefore we reached 17.5%. Now I will open the floor for questions.

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 of all thanks for sharing the presentation it helps to skip a lot of bookkeeping questions. The first question to Radhika if you can help us to understand the situation as it stands today from supply chain, labour shortage, if any and overall demand perspective how things are improved or has it evolved in May and what you are looking in June ahead?

Radhika Piramal: Yes I will take that question. News reports of labour shortages, etc., for us definitely the whole issues is demand side not supply side because we do have our own factories in Bangladesh where unfortunately in fact, we had to reduce some headcount, but we do not see an issue with sort of bringing that headcount back as and when we need so we do not face any issues on the raw material side, supply side or labour side. We obviously foresee great tension on the demand side. With respect to April and May our revenue is negligible compared to what we were used to. I think I should say something otherwise it is not a helpful call so we can say that in April and May it is less say 5% or 10% of what it should be. April and May are biggest selling months of the year, we all know this and to that



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degree despite the fact that the inventory levels were better than they were this time last year we were still well position with a high amount of inventory for the season ahead and now that the season is not happening we find ourselves well stocked for many months. So it is really a question of demand resumption and I wish I could tell you the answer I wish I knew it myself, but we are seeing extension to the lockdown. We are seeing a major metros closed Mumbai in particular, we are seeing malls closed where unfortunately a large number of our stores are, our own stores or whether they are our modern trade partners I do not think anybody can classify branded luggage as an essential item. We are firmly in the consumer discretionary space and we have to sort of stick to it as they come. So I cannot give you any revenue forecast, I mean I can tell you that we are working on a scenario basis obviously and we have modeled out scenarios from revenue of Rs.750 Crores to Rs.1500 Crores for the current year. I can share that much.

Tejas Shah: Sure. Second Radhika agenda and you rightly said but agenda for most of the management is from growth management to cash management now cost-cutting measures that we can share cost-cutting measures that we have planned or already taken or plan for rest of the year?

Radhika Piramal: Yes Neetu you want to take this question please?

Neetu Kashiramka: Yes so most of the actions actually have been taken already. Few actions might happen in future if we do not achieve what revenue we are talking about, but overall I would say we have taken around 30% reduction in the cost and the execution already done so that is what I can share with you. 30% reduction includes reduction of people on the field so basically the people who were selling on the field we have reduced them and we have also got waivers and reduction in rental. We have also looked at reducing our exclusive stores so all this put together we will be saving around 30% and we have not really planned on any advertising for the current year. We might make some smaller efforts on the digital platforms, but we used to spend around Rs.100 Crores a year on advertising so that will be more or less negligible in this year.

Tejas Shah: Sure and lastly based on the news print that we are hearing from other sectors that distribution is also under serious stress because of cash crunch so have you heard from any of your distribution that they will need some support once the market opens and perhaps you will have to use your balance sheet to provide some liquidity to them?

Radhika Piramal: They can ask us, I do not see us in a position right now to be able to offer help to our customers for their liquidity problems I can tell you that the collections have continued obviously to a much lower degree, but still collections are happening in April and May even though the sales are not so that is one reassuring sign with respect to strength of our



customer relationships and we will have to put in slightly more stringent credit risk policy from our side as and when we resume the billing in terms of clearing past dues but yes I mean there is stress in liquidity, yes it is a stress for most organizations at this time. So whereas we feel well protected to some degree ourselves through the higher borrowing we do not think we can extend financing help to our customers.

Tejas Shah: Has sales also slowed down along with other channels?

Radhika Piramal: Stores are closed so there is no sales . In case of CSD what happened was there was some March order that was not billed during the lockdown in April. It is being build in the month of May, it is not clear whether there will be any fresh order for the month of June, it is unlikely. Actually because all our trade partners, also have inventory for all items right so nobody keeps a week or two weeks of inventory, typically everybody has four weeks or six weeks of inventory some customers may have even two months or three months of inventory so everybody will wait and watch the inventory level before restarting fresh billing.

Tejas Shah: I will come back in the queue for more questions.

Moderator: Thank you. The next question is from the line of Manish Ostwal from Nirmal Bang. Please go ahead.

Manish Ostwal: Do you see any material risk with respect to account receivables collection during the year because your customer also facing a lot of liquidity problem you said we cannot help financing customers so what kind of risk we are anticipating for collection?

Neetu Kashiramka: On the collection piece we have reviewed our debtors in detail and if you see the number is not that high, still we have taken some provisions around it like let us assume if the bottom 100 guys do not pay, then what happens so that consideration we have taken and we have created a relevant provision in the books.

Radhika Piramal: So that is from the accounting perspective and from an operational perspective we are okay to wait for sales, but we will collect first. We will not increase exposure to certain parties if that means that there is a delay in resumption of revenues that is okay.

Manish Ostwal: Secondly you said that incremental sales will have stringent pay terms so what kind of credit terms once you resume your operation normally so what kind of credit terms you are looking at?



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Radhika Piramal: It will vary by customer and channel, these are longstanding customer relationship so one does not spoil every relationship at one point in time, but what I can say is management is taking measured approach to credit risk and we will only resume billing in a carefully calibrated way once we are sure of the trade receivable by customer we may have different policies for different channels and different customersg.

Neetu Kashiramka : So it is like ABC classification of debtors.

Manish Ostwal: Understood. Thank you.

Moderator: Thank you. The next question is from the line of Jatin K from Alpha Capital. Please go ahead.

Jatin K: First question would be after we come out of all this do we think there is some market share gains possible like from unorganized to organizer or from players like Samsonite etc., have announced their closing some stores in India do you think this kind of thing is possible?

Radhika Piramal: I think so increase in market share is definitely possible as in the last two months while we have not been busy in the daily operation. We had a lot of time to sort of go through each channel, each customer in detail understand our market share. I do not think we can gain market share from unorganized sector because I do think there is going to be an overall price pressure as India goes into a recession, people will be less willing to spend but we are better off than Samsonite, and I will say that all priced players should do well.

Jatin K: Okay and in terms of manufacturing how much are we getting from China and how much we are getting from Bangladesh and how much are we getting from India?

Radhika Piramal: From the past it will be different in the future so in the past I will say that we got let us say 60% from China and 30% from India and only 10% from Bangladesh I think the future will be very different. We might go up to 80% or 100% from Bangladesh.

Jatin K: And this thing will increase our cost or reduce our cost moving to Bangladesh or China?

Radhika Piramal: I am sorry but if you are asking this level of question on this kind of call after the presentation I cannot answer that, okay we will make more money if we get from Bangladesh.

Jatin K: I meant to us how much percentage in terms of we will be able to....

Radhika Piramal: You see our gross margins over the last four quarters.



- Moderator:** The next question is from the line of Varun Goenka from Nippon Mutual Fund. Please go ahead.
- Varun Goenka:** I just wanted to clarify on the inventory part, we have Rs.450 Crores inventory with us if clarify what is the channelized inventory and may be what would be our assessment of the industry level inventory and how long would that take to clear either through e-commerce channel or through some kind of a price liquidation?
- Radhika Piramal:** We have Rs.451 Crores of inventory depending on the demand it will either last three months, six months or nine months I would like to clarify that this Rs.451 Crores of inventory it is not valued at our selling price, it is valued at our cost so sales price it is worth more.
- Varun Goenka:** Rs.450 Crores inventory on our books I was asking also the channel inventory with our dealers, distributors, franchise?
- Radhika Piramal:** It really varies so let us say broadly modern trade has less inventory so they keep only three to four weeks of an inventory on their floors and that should have been selling right as things start opening up in the last two weeks we have seen some sales. General trade typically keeps higher inventories than modern trade so typically general trade will keep about 60 days and in bad case 90 days, good case 30 days. CSD keeps about 30 days but it is usually about 60 days. So overall levels I will say on average 60 days.
- Varun Goenka:** Okay and have you seen any initial trends of e-commerce trying to sell or liquidate some inventory or other brands?
- Radhika Piramal:** I agree with you that E-Commerce will come back faster. CSD is the next followed by modern trade. These are the three we see coming back fastest. We see general trade distributors and dealers being a bit slower and within e-commerce what they have indicated is between luggage and backpacks they would be more interested in backpacks, which makes sense.
- Sudip Ghose:** Radhika just one more thing here most of the e-commerce pin codes are not serviceable as yet, as and when the serviceable pin codes happen because lot of pin codes are on the red zones, and so the movement is yet to start but that channel would probably go faster than anything other channel.
- Varun Goenka:** What is our assessment of the price side will there be very large, maybe 15%-20% kind of pricing so that we can get rid of our inventory or e-commerce can sell this inventory down because that is what we seeing across consumer durables and couple of other sectors?



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Radhika Piramal: I would not be surprised, there were some aggressive discounts in order for all parties that is the manufacturers themselves in this case us and customers to reduce inventory right and we have unprecedented situation of two months of gap of the demand everybody has got high inventory.

Varun Goenka: Is there any major terms of trade from China side in terms of pricing because your input cost have gone down so significantly so your fresh production...

Radhika Piramal: It is because of the higher ratio of Bangladesh as a percentage contribution to the company sales we had anyway pre-COVID, we were talking about doubling and tripling Bangladesh capacity and we have tripled in fact finally we had tripled capacity and Bangladesh in Q4 would have been maybe as high as 55% and that is what we have planned for the year ahead. So, you know when the best laid plans go stray. We feel very confident on our cost side that is why I am not much bothered about there is any set of price war or anything. I am not much bothered about market share and I am very confident on those parameters. Fundamental demand resumption is what we need.

Varun Goenka: Just apart my ignorance on Bangladesh what would be our import dependence of raw material for our Bangladesh plant on China?

Radhika Piramal: Raw material, 90% of the raw material for Bangladesh comes from China and we do not see any hiccups. China has fully opened. China is ready to ship RM, they are shipping RM, they are ready to ship the finished goods. It is the demand side issue. Let us move to the next questions please.

Moderator: Thank you. The next question is from the line of Ankita Kanodia from Marketing Services. Please go ahead.

Ankita Kanodia: My first question is we have lost this Rs.120 Crores do we mean to say that we have lost Rs.120 Crores in the last seven days of COVID or it was full month?

Radhika Piramal: It was for the month, but the sales actually dried up from 15th Marh onwards there was hardly anything.

Ankita Kanodia: Okay and the second question would be since what has happened right now from a longer term perspective do we see that we would be working on our reducing our dependency from China and focusing more on Bangladesh because till last call what we could see that the capacity was very low compared to the demand we had?



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- Radhika Piramal:** Yes it is in our interest to migrate quickly from China to Bangladesh, as I said in Q4 Bangladesh was 55% of our sales and now let us say our sales have much less than used to be that 55% can cater the whole thing.
- Ankita Kanodia:** No but my question was say one year down the line when normalcy returns in terms of demand how much would Bangladesh would be ready for it?
- Radhika Piramal:** We will take a call by then so financially it is better for the company to get as much from Bangladesh as possible and less from China, but China has certain capabilities on product differentiation assortment which Bangladesh has still not yet achieved so there may be some China product.
- Ankita Kanodia:** Okay thank you.
- Moderator:** Thank you. The next question is from the line of Susmit Patodia from Motilal Oswal Asset Management. Please go ahead.
- Susmit Patodia:** So firstly congratulations from the phenomenal cash flow management that you have been able to pull off this year. I wanted to know two things for example gross margins and cash flow management would these two things carry on in the normalcy let say FY2022 to FY2023 would these two things be the biggest changes that you would see in the normalized years compared to our past?
- Neetu Kashiramka:** Yes in fact just to answer we should do better I think we are still high on working capital.
- Susmit Patodia:** Right and secondly want to know the green zone stores opening up and are you seeing any flicker of demand there?
- Sudip Ghose:** We have about 56 stores across the green zones, which have opened. Unfortunately, the Central and state government there is some kind of disconnect. Some states have opened, and later they say you cannot open for the whole week so alternate weeks are opening I will give you an example this Sunday out of this 56 we had about 14 stores, which were operational, others were shut down. It is happening on and off because nobody really sure but yes, wherever there are green zones stores have opened and we have started seeing some sales coming and these are primarily people who are traveling, or who are planning to travel immediately after the lockdown which opens either going back home, where they have been stuck or they are coming back from home, since the guys have some time we have been asking them why are they buying the products and 30% sales is on account of marriage.



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- Susmit Patodia:** Just one last question, you mentioned towards 30% cut in expenditure so this includes the ad spend as well so this Rs.620 Crores has been non-cost expenditure in FY2020 so that is the number that you would be referring to 30%?
- Neetu Kashiramka:** Actually on advertisement as Radhika mentioned that we will be hardly spending on the entire other piece it is 30% reduction.
- Susmit Patodia:** So on the entire other piece. Thank you. Best of luck.
- Moderator:** Thank you. The next question is from the line of Youn Yoo from Tokio Marine. Please go ahead.
- Youn Yoo:** You mentioned in your opening remarks of the leverage and you have increased your leverage can give us a sense of what that number is and how we measure that?
- Neetu Kashiramka:** Yes so till last year we had borrowing sanction limits of around Rs.100 Crores which we have increased now close to Rs.220 Crores we have not withdrawn the entire money, we have withdrawn only Rs.100 Crores but that entire Rs.100 Crores is actually invested also, so we have not utilized it but capabilities have been created so that we can withdraw whenever it is required.
- Youn Yoo:** You the mentioned the 30% of the sales so far in April and May are marriage so first quarter it is your peak season partly due to the marriages and this case if you have any sense whether this demand and these marriages will be delayed to months during the year or these marriages postponed for one whole year?
- Sudip Ghose:** In India marriage is something that it is like festival so nothing is going to happen what I said is of the sales that we have happened so anyway the sales have been very minimal as we have been saying of which 30% is because of marriages, we do not see the kind of the marriage we use to see in summer season bigger than the winter season. So some of the marriages might go in, but it will definitely not be the kind of marriage season that we usually see...
- Radhika Piramal:** I think Sudip question was will these marriages will be cancelled. They will certainly get postponed, they will not get cancelled and the question is do they get postponed to July, August and September quarter or the October and November December quarter because of the monsoon season and sort of festive seasons, they are more likely to move to Q3 than Q2 is might sense.



- Youn Yoo:** Okay this potential tent up month to make up for as you mentioned negligible first quarter revenues perhaps Q3 you could see some kind of demand, we do not know until it happens but there could be a scenario is what you are saying as oppose to waiting for a whole 12 months cycle okay. I am just curious that the exceptional item you mentioned in your presentation is that receivable written off or provide for?
- Neetu Kashiramka:** This was actually happened in Q1, this was loss of goods at Ghaziabad warehouse and it happened in Q1 due to fire.
- Youn Yoo:** Okay you had a fire.
- Neetu Kashiramka:** Yes and it happened in Q1.
- Youn Yoo:** You mentioned receivables have been written off, you have not done that yet?
- Neetu Kashiramka:** Yes we have made provision which is already charged to P & L in other expenses.
- Youn Yoo:** How much is that?
- Neetu Kashiramka:** Around Rs.8.5 Crores.
- Youn Yoo:** Alright thank you that is all from me.
- Moderator:** Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.
- Ravi Naredi:** What is the status of insurance claim and when we are going to receive it?
- Radhika Piramal:** Yes we were making good progress on that, we have submitted our claim and that has been processed, we were making good progress I will say until February then unfortunately been very little movement in March, April and May so we are looking forward to getting that claim process in the current financial year, I would like to be able to give you a more specific timeframe but I cannot at this time.
- Ravi Naredi:** Whatever provision we are making towards the debtors stock it will be sufficient for the current year?
- Neetu Kashiramka:** As of now we feel yes but we do not know right because only once the lockdown opens and we will understand economic situation, but whatever we felt sufficient at this stage we have provided for it.



- Radhika Piramal:** With respect to inventory as well we have provided.
- Moderator:** Thank you. The next question is from the line of Jinesh Joshi from Prabhudas Lilladher. Please go ahead.
- Jinesh Joshi:** Now there have been news reports that one of your largest peer has decided to close about a 100 stores in India due to demand slump so have we taken any structured decision as yet and secondly for the EBOs that we typically have in malls, have we invoked the force majeure clause or are we still liable to pay the rent in lockdown?
- Sudip Ghose:** So what we have done is we have taken very calculative thing on the EBOs that we have and we have made scenarios on which are the ones which will make loss and we have already given notices to a large number of them. The way to look at it is if the store is not making profit at the expected sales that we have in mind, we have already served notices and we have actually got waiver of almost 60% of our stores for the time of lockdown period so there is no rent to be paid during that period of time. For the malls, you know malls are not opened we have already put in our application and officially asked waiver of the rents but till that time we get a confirmation from them we cannot say that so on the high street stores, everything is done, rent waivers, rent reduction all of it has been done. On the malls stores we are working on it all retailers across all malls have written to them, the malls owners are also waiting for some government intervention, but as of now there is no confirmation from their side.
- Radhika Piramal:** I will just add one thing, I think Samsonite is more value affected than us because they have a higher price points so they are going to be affected more than us in absolute term and that is their business decision we are taking our decisions.
- Jinesh Joshi:** Okay and secondly I believe that the orders to Chinese vendor, for our plant sales in FY2021 may have been done well in advance but actual sales might be lower because of the kind environment we are into, so can this lead to a situation of a significant inventory pile up in FY2021 despite we have seen the reduction in inventory in FY2020 and what steps are we taking to mitigate this risk?
- Radhika Piramal:** I will answer that. One good thing is because of so many of our Chinese suppliers from China, we have been sort of tracking COVID since January, February, so I do not expect inventory pressure also because we are going to extremely strict about restarting procurement and production frankly. I mean with the kind of focus we have on cash right now, I do not see any danger of inventory going bad and in terms of our commitments to Chinese vendors, we are negotiating with them. We will find a way out.



Jinesh Joshi: Okay regarding stretching this a bit more, but for 1Q of FY2021, I believe the orders might have been placed in October and November, so the cycle would have already been in process. So will be kind of cut down on those orders in anticipation of lower sales or will be have to take that excess inventory on books

Radhika Piramal: You are correct that we have placed the orders in October and November but the factories do not ship then until February and March and the reason is because in this January, February they take the one month Chinese lunar holiday. So we have placed the orders, they prepared they take a holiday, then they come back, then they ship it. So we were in time to stop many shipments in February and March. You are right that like we have not inwards the same amount of goods as what we placed orders for back in October.

Jinesh Joshi: Okay and one last question on Bangladesh I mean in this quarter, our margins were higher because sourcing from that particular destination had risen meaningfully. So going ahead, I mean how will be the situation exactly pan out, does Bangladesh operate at a peak capacity? Will it need additional expansion or the current capacity is sufficient to kind of meet the current demand requirement. Once the situation stabilizes, it is not in the current environment?

Radhika Piramal: I will answer that question. So with respect to supply, there is machine supply and there is labor supply, so as the machine supply suppose once you tune to normal, I expect 100% utilization of machine supply and we can increase our machine supply as per the growth and demand. With respect to labor supply, in fact unfortunately we have to reduce labor, but we feel confident, we can bring it back. So it is a fairly flexible and cost effective supply solution that we have in Bangladesh. We have reduced the labor. We have excess capacity right now in Bangladesh looking at the demand situation, but once demand comes back to normal, we will first get 100% of capacity and then as demand goes, we will go back to a good old days of increasing manufacturing capacity as and when that time comes.

Jinesh Joshi: Okay and one last question, out of the total labor force that we have, can you share what is the approximately contractual labor, I just want the rough indication?

Radhika Piramal: In Bangladesh, we have no contractual labor force, but labor laws are very different there, we are in an export processing zone so we follow absolutely 100% compliance with every labor law in that country, but Bangladesh has a different labor law regime than India. For India, in terms of our factories, I will say about 50% of our work force is permanent and 50% is contractual.

Jinesh Joshi: Thank you so much.



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

Samir Rachh: Good evening. I have two questions. One is what is the mix between soft and hard luggage during last financial year and do you think that mix changing significantly in favor of hard luggage because they are easy to disinfect and my second question is regarding growth in backpack. So how much of the growth in backpack during the current financial year and do you see backpacks following a different cycle than the luggage.

Sudip Ghose: The first part of the question between soft and hard, frankly, we have to see how consumers buy, whatever sales that we have seen, it has been 50:50, so it is not really changed much from where we were. To rephrase the answer, earlier it was about 70:30, currently also it is around 70:30 between what we have seen in sales, which is going. So that is the part one. Backpack season will change because the biggest backpack season is with school. Schools will probably open sometime in September. So we see that the backpack season which usually is between April, May, June, July and is now going to move to August and September. So yes the backpack season will change and that season will not get impacted because when you go to school, you buy new bags and probably that market will be going.

Samir Rachh: Sir just some sense on how much of the backpack sales during last time?

Sudip Ghose: While we do not give internal numbers, one of the growth pillars was backpack. So backpack was good and the new range had already come in so we have good stocks for the season.

Radhika Piramal: I just would like to add one point, which is no material difference in our gross margins between hard and soft. So therefore mix change between hard and soft does not moves the needle on gross margins or profitability. Backpacks are little bit less like I am going to say 200 basis points or 100 basis points less gross margin than luggage. But being the fastest growing category and also the fastest to resume demand at this point it is really about hitting some revenue numbers and breaking even again rather than worrying about product mix.

Dilip Piramal: Okay. I want to add one thing very relevant here to answer your question about luggage that hard luggage demand is going up. So luggage per se, there is no doubt that hard luggage demand is growing as compared to soft luggage, but backpacks are entirely soft luggage and that is growing very fast, the proportion of backpack growth keeps the 70:30 ratio in favor of soft luggage.

Samir Rachh: Yes. Got it. Thank you so much Sir.



Moderator: Thank you. The next question is from the line of Sonaal Kohli from Bowhead. Please go ahead.

Sonaal Kohli: Thank you for this opportunity. You mentioned about the cost cut, can you please give us a breakup of what is the absolute amount you are looking at in terms of cutting cost whether you have included rental, you mentioned that many of other stores, we have got exemption in terms of paying the rental as part of that cost. So some broad color would be helpful.

Neetu Kashiramka: Okay. So basically when I mentioned 30% reduction it is for the full year, the first quarter reduction must be higher than the second quarter the reason being that the rent waivers and rent reduction in lockdown period is much larger as compared to the full year. So 30% includes all costs.

Sonaal Kohli: Can you give an idea what that absolute number would be when you say 30%?

Neetu Kashiramka: That can be easily calculated right, from the financial.

Radhika Piramal: Honestly, we are in the middle May, I think if we go with a normal flow and we have been quite open with the current state of affairs and I think any more details with numbers we should wait for the quarter to end.

Sonaal Kohli: Okay. Thank you.

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

Pulkit Singhal: Hi. Thank you for taking my question. I am just trying to understand and imagine the kind of industry structures that could emerge post COVID that is one year down the line or two years down the line, I mean everyone is under stress, the brand side, supply side and there will be lot of receivable or inventory issues. So how do you think the industry will evolve, I mean in terms we know the top three players can probably manage the situation better even at the third player, we do not know well. But what about the remaining players, do you think many of them will go out of the market because they may not get the money back from the retailers, etc?

Radhika Piramal: There would be something like 10 to 20, I am going to call them regional brands. There would have any turnover in the range of let say 60, 80 Crores. I do not know I cannot name them all. But we know, so honestly we are not the right people to answer that question very well, I would imagine that not of them will survive. It all depends on each person's cash position, I do not know and what was their credit terms in the market, etc., etc.



Pulkit Singhal: Sure and in terms of channel mix also you already mentioned, some channels would be more better do you anticipate lot of foreclosure therefore in the luggage segment and to that extent people who have their own stores will eventually stand to gain?

Radhika Piramal: Yes. So if you are saying do I see the general trade channel, dealers and distributors actually having a resurgence with modern trade and malls, yes I do and that is the trend that will benefit VIP Industries very well because we have the largest sales team with the widest distribution reach and that is why we were relatively high cost company right and so we can get that back actually quite quickly, we can respond to the market quite fast and if the general trade grows over the modern trade, we are much stronger, our market share in general trade is much higher than our market share in modern trade.

Pulkit Singhal: Right. Actually I was asking the opposite thing. I was just wondering whether those general trade shops, I mean I do not know how the economic says but do you think many...

Radhika Piramal: They will be fine actually. They will be fine because all those general trade shops are typically proprietors who own their stores, they are not paying the rent. They are certainly not paying loans and so on.....

Dilip Piramal: Their overheads are also low.

Radhika Piramal: Yes the overheads are very low. They will not buy so much until they feel confident, but they have enough savings to make sure their families are fine, they own their properties. So they will just wait it out.

Pulkit Singhal: Right. The last question I mean just Bangladesh obviously very clear good quantitative advantage to have over a two to three period, I was just wondering to reach 100% of sales in Bangladesh on a full year basis, how much investment could be need from here on and will be doing that in the next year or we will start it only...

Radhika Piramal: As on date, I do not see any problems with doing 100% of VIP Industry sale from Bangladesh without any further investment, we will see.

Pulkit Singhal: No. For the FY2020 sales, if you were to do that 100% for Bangladesh, how much would be the investment.

Radhika Piramal: No further investments. We will have to bring back the labor.

Dilip Piramal: You say FY2020?

Pulkit Singhal: FY2020 sales, yes.



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- Sudip Ghose:** Forget FY2020, let us look at future.
- Radhika Piramal:** I do not see any further investment required this year.
- Pulkit Singhal:** Okay. All the best. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Ritesh Chheda from Lucky Investment Managers. Please go ahead.
- Ritesh Chheda:** Thank you for opportunity. Based on past research or study that you would have done how much would marriage and international travel as a key reason of contributor to luggage sale, is there any ballpark percentage?
- Radhika Piramal:** We do not split by international travel and marriage rather we say marriage, business travel, leisure travel and within the leisure travel, as international part of both. I will say marriages are 30% of our sales and we have this whole backpack category which is back to school that is maybe 20%-30% and the balance is travel which is leisure and business. Within that, see our brands are slightly more affordable compared to Samsonite. So let us say Samsonite customers are the one who takes many international trips a year and Indians are really going to reduce the international travel in my sense. Domestic travel will come back faster than international travel. So in that sense we are better placed as we are the sort of price warriors in the market.
- Ritesh Chheda:** Second question, do you run any pilferage or damage risk on the inventory considering, it would have been lockdown for two to three months of anything, significant?
- Radhika Piramal:** Neetu can specifically answer, we can say what was the provision we have made in the Q4 on inventory.
- Neetu Kashiramka:** Yes. So we have around 4 Crores of provision. So the risk is only on the inventory at store. Other than that because we were actually sending people, to all our warehouses, every alternate days we were sending somebody or the other to see everything is fine so only the store inventory and we have taken enough provision around it.
- Dilip Piramal:** I think crime level was also quite low in this lockdown.
- Neetu Kashiramka:** Everybody was afraid.
- Ritesh Chheda:** Okay.
- Radhika Piramal:** There could be some spoilage maybe...



- Dilip Piramal:** So it is not significant to worry about actually.
- Neetu Kashiramka:** So as on now it does not look like.
- Ritesh Chheda:** Okay and in your comment you mentioned that anywhere sale can be from 700 to 1500 is anybody's guess. Just based on the internal budgeting on cost, what would be the EBITDA neutral sales level for you if that is possible to share?
- Radhika Piramal:** That is very good question. It is early, I would prefer to comment on this later.
- Ritesh Chheda:** Okay. And lastly e-commerce as a channel, so you mentioned about GT will gain against modern trade but any comments on e-commerce as a channel how much will it gain and what is our preparedness there?
- Radhika Piramal:** It will change how much I do not know, e-commerce stands to gain amongst all the channels and we are well prepared. I will go further, I will say actually over the last two years, e-commerce performance has not been up to our own internal standards because we are the market leader in the category in the industry even if combined all the channels. But we do not have market leadership in e-commerce. So I think our goal is and it is a very clear goal now because the focus is vital, so gaining market leadership within the e-commerce channel is definitely a goal for the management team in the current fiscal. The point is we need to achieve that.
- Ritesh Chheda:** What is the today as a channel mix e-commerce?
- Radhika Piramal:** We do not give the specific number, I can say it is less overall as a company. So in that sense, internal benchmark is not where we want to be.
- Ritesh Chheda:** Less than the industry standard is what you are referring right?
- Radhika Piramal:** Yes. So we have 55% market share overall. But we do not have 55% in e-commerce, it is less than that. That is why it is not up to our internal standard. That is something we are looking forward to rectify in the current year.
- Ritesh Chheda:** Okay. Thank you and all the best. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Jaspreet Singh Arora from Equentis Portfolio Management. Please go ahead.
- Jaspreet S Arora:** Hi. Thanks for the opportunity and sharing all information. So in this situation has there been any learning that you could share in terms of how things will happen once things



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resume in terms of 10% normalcy, 50% of normalcy I am referring regions like China, South Korea, Singapore, if there is anything that you can share there?

Radhika Piramal: Sure. I mean these are early days, yes we are in the end of May and it is out of the world. But what we can look at is we can look at Samsonite China sales, Samsonite gave their presentation, so I urge all in the travel industry to go have a look at it. So in February in Samsonite China I think they only made a 20% of their normal sale and then March, April I think they are doing 30-40%, it is not very clear, they are not being very clear and that is understandable in early days.

Jaspreet S Arora: Okay. Fair enough. For us to reach to that top end of what is that, what would be some of the assumptions or monetary position that you can suggest, so I am talking about let say flights resuming 80%, trains 90%, malls, what is some of the things that you want to be keeping a close watch to get that one.

Radhika Piramal: Definitely. So what we look at is I mean domestic aviation is a great place to start. So if you look at the figures I share, I said 750 to 1500 Crores versus what we actually achieved 2000 Crores last year. So I am talking about anywhere from 30% to 70% of revenues. It will go in line with domestic aviation is a good bench mark. Q1 is too early to comment in fact I think I will have a very little to report in the next quarter because the July, August, September when we will actually come to know than can we look at a sort of proper H2, I mean sort of, it is 70%, 80%, 90% in H2 then that is enough to get us over the line.

Jaspreet S Arora: Okay. You are saying aviation number itself is a good parameter to judge where exactly we are heading in the subsequent quarter?

Radhika Piramal: Absolutely.

Jaspreet S Arora: Lastly, to the CFO Mam this EBITDA movement in one of the slides, gross margin jump is 10%, So would it almost entirely be attributed to the Bangladesh factor or is it maybe beyond that?

Neetu Kashiramka: Not entirely, Bangladesh – 60% attributes to Bangladesh

Jaspreet S Arora: Jump of 10%, I mean that movement of 10%?

Neetu Kashiramka: Only gross margin.

Radhika Piramal: Gross margin is majority due to Bangladesh and I would like to remind everyone that we are referring to consolidated results only.



- Jaspreet S Arora:** Correct and the balance would be what value mix price hike etc.,?
- Radhika Piramal:** Yes.
- Jaspreet S Arora:** Okay. All right. Thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Siddharth from ValueQuest. Please go ahead.
- Siddharth:** Thank you for the opportunity and for the detailed presentation. Couple of questions. The first was on this exit gross margins of 57%-58%, is it sustainable number going ahead, how one should look at this number?
- Radhika Piramal:** Yes. It is a good question. Let me answer that. Unless we go into some sort of terrible price war, this number should be sustainable maybe little bit less because I do think there might be some adjustments on pricing to store demand. It is not as complete an answer if you would like but...
- Siddharth:** In a normalized situation, this number is sustainable going ahead?
- Radhika Piramal:** Correct.
- Siddharth:** Got it. Second can you help us to understand what is the fixed cost per month for us today?
- Radhika Piramal:** Fixed cost consists of the biggest is headcount manpower both on the roll as well as contractual, then we have office rents, warehouse rents, store rents, so rents and manpower cost are largest, we had advertising which is typically about 100 Crores a year, so these would be, and I mean obviously we have freight expenses that do not come of cost but is freight is more variable than is fixed. These will be the main heads.
- Siddharth:** If you can help us understand the quantum is it 10 Crores a month, 20 Crores a month, it is a fixed cost, so there is no...
- Radhika Piramal:** I think we can report on this in more detail in the next quarter.
- Siddharth:** Okay. Then can you help us to understand what are the total number of EBOs currently we have which is company or company operated today?
- Radhika Piramal:** Yes. None are owned, we do not own any of our stores, we have 250 stores, our competitor Samsonite I think has 300 and they are closing 100. They also had a similar 250 and they



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are closing 100. We are in the process of evaluating how many of this 250 we should close, definitely we will be closing somewhere between 50 to 100.

Dilip Piramal: And I think their first store sales is double of ours. A good majority of their sales comes from their own stores as compared to us.

Radhika Piramal: Definitely.

Siddharth: But Sir their stores are owned by some franchise partner if I am not wrong and 50 stores is owned by the company, right. So there is a difference in that?

Dilip Piramal: No. All the company stores are owned by the partner.

Siddharth: Our 250 stores are owned by VIP itself, right?

Dilip Piramal: Owned means run by VIP, not owned and about equal number is run by franchises. In their case, all the stores are run by franchise, which is the partner of Samsonite, the Indian partner, which is the joint venture of the Indian partner of Samsonite.

Siddharth: Perfect and Sir just last question on Bangladesh, so you said there has been 3x capacity increase this year, so on 100% utilization, what kind of sales you can expect from Bangladesh?

Radhika Piramal: I think that is a very well phrased question. But many people have asked the question, we have not answered, let us wait one more quarter.

Siddharth: Okay just adding to that, can you produce all the products in Bangladesh or we need China for some of the other products, so dependence in China, how we can manage?

Radhika Piramal: Yes. I understood your question. We need China, let say 10% to 20% of products but those products are also in a very growing market, so some specific things all marketing design that they want to make attractive and innovate new products. If we are just going to do some basic luggage, and compete on price, loosing those items is not a problem.

Siddharth: Okay. Got it.

Dilip Piramal: In a year or two years, we can develop all that in Bangladesh also.

Dilip Piramal: Yes. I mean, we have good facilities in India too.

Siddharth: Okay. Thank you. And all the best.



Moderator: Thank you. The next question is from the line of Rohan Advant from Multi-Act. Please go ahead.

Rohan Advant: Thanks for the opportunity. Most of my questions have been answered. Just one question on the slide where you give the monthly numbers, January, February 2019 versus January, February 2020, our revenues have dropped from 300 to 279 Crores. So is there any COVID impact even during those two months because the international travel had already started reducing, if you could throw some color on that?

Radhika Piramal: Yes. Good question. I mean could it be COVID or was it sort of Indian macroeconomic atmosphere, typically in January and February, we launched our backpacks and it is a big launch for us in January and February. So the first part of billing was not to our expectations, that is why even in January, February there was a slight decline and that I have to down to macroeconomic slow growth of India, not COVID.

Rohan Advant: Okay. Got it. Thank you.

Moderator: Thank you. The next question is from the line of Sabyasachi Mukherjee from Centrum Portfolio Management. Please go ahead.

Sabyasachi Mukherjee: Just one question on the COVID impact of 120 Crores of revenue, so if I see your January, February number, it is almost 7% decline Y-O-Y. What makes you think or what made you think rather that if Rs.120 Crores will be added that almost turned on to a 13% kind of increase in the March number, March month Y-O-Y. So what you made you think that March would have been better?

Radhika Piramal: It is about achieving company sales target and management incentives for year end to answer to your question. March is the final month.

Sabyasachi Mukherjee: In the last question you answered that there is a macro demand slack that has been there for the last, probably one year where your sequential revenue growth has been coming off from Q1, Q2, Q3, and Q4.

Radhika Piramal: Yes. Point well noted. We are saying 120, it can be 100 also. I am not a big fan of debating hypothetically.

Sabyasachi Mukherjee: Okay. Thanks.

Moderator: Thank you. The next question is from the line of Varun G from Nippon India. Please go ahead.



- Varun G:** Just want to clarify on the e-commerce side in last two to three years how have you seen percentage contribution of the entire luggage industry including backpack on e-commerce and we see the Amazon basics also entering the industry with quite aggressive pricing, so have you seen any material sales from their end or any market share gain or are they insignificant what could be our best guess?
- Radhika Piramal:** Yes that is a very detailed question. Sudip, can you answer the question of whether Amazon basics that is Amazon private label luggage and bags, are they threatening our market share within the e-commerce channel. I think that is the question, is that right?
- Varun G:** That is right.
- Sudip Ghose:** As we closed pre COVID that was not the case. The fight was between the branded players itself, but post COVID depends on how aggressive the branded players play, we would keep a close watch on them because they can usually also prefer their private labels, we have to play accordingly.
- Varun G:** Okay. But do we have any guess on what percentage of the industry is doing business on e-commerce maybe 5%, what is that number today and how is that trending?
- Radhika Piramal:** You are saying is what percentage of sales in luggage comes from e-commerce channel that is your question?
- Varun G:** Yes.
- Radhika Piramal:** I would guess anywhere between 5% and 15% but I expect it to rise to 30% within the next three years.
- Varun G:** Okay and any guesses to where is Amazon basics today, because it has been a year since they entered, or how have they done?
- Radhika Piramal:** You will have to look at it from the mindset of the seller, so when the seller gets private label maybe they will do some commodities, so they will do general apparel by the time it comes to luggage it is a very small section within the general merchandise. So it may not suit every private label guy and then their product knowledge is much worse than ours, right because it is such a small category for them where they are going to get like a luggage merchandiser versus let say VIPs full team right of marketing and design. So in that sense, luggage has never been, I mean some like Wal-Mart private label luggage is good but they developed that about 20 to 30 years etc., etc., So Amazon basic luggage in India, would Amazon itself like to invest in luggage as a category right now, I am not sure.



- Sudip Ghose:** Just to give an example about two quarters back MI luggage also came in and there was this whole thing, how would MI luggage come and take over but nothing much happened. So luggage also means, so as of now, there is no significant, they have not come in our level.
- Moderator:** Thank you. The next question is from the line of Rupesh Mehta from Swyam Capital. Please go ahead.
- Rupesh Mehta:** My question is do we see an opportunity to develop export business over the medium term given there are trade issues between the US and China and on the other side, we have our own manufacturing capacity in India and Bangladesh?
- Radhika Piramal:** The answer is yes. But it would be premature for me to give any forecast or figures at this time.
- Rupesh Mehta:** Okay. Thanks. That is all from my side.
- Moderator:** Thank you very much. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Thanks. Couple of follow-ups. Radhika, what proportion of industries revenue would have come from CSD channel in FY2020?
- Radhika Piramal:** Less than 20%. It is really gone down.
- Dilip Piramal:** It is about 15 now.
- Tejas Shah:** Okay. Just to understand now this vocal for local by Government of India has been interpreted as many ways as possible by government agencies, so any communication how CSD is looking at category like us which is produced in China but all by Indian players, so are we exposed to that, any risk there?
- Radhika Piramal:** I think it is unlikely but is a potential but it is unlikely because forget luggage, there are many, many categories in CSD and not all of them are not made in India. There is another sort of separate organization, which is called central police canteen that is different from CSD. It is totally different from CSD, different management, different reporting structures, there they have taken it strong, they have taken vocal of local very seriously. So they are evaluating whether to stop all imported items that could affect us but the CPC is a very small channel, it is not like CSD, it is different.



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- Tejas Shah:** Sure and lastly in a year like this when other drivers demand seems to be blurred right now. Do you think that CSD will be a stable source of the demand because the travel by paramilitary or military forces will be as normal as they were and that can provide some...
- Radhika Piramal:** Absolutely. The CSD remains a very critical channel for the company and hopefully regular demand, sales and collections.
- Tejas Shah:** Great. Thanks and all the best.
- Shradha Sheth:** Radhika, Shradha here, just one question from my side, just wanted to understand as you said we are looking at breaking even, even on very marginal sales, so I also wanted to understand at the gross margin level, with the entire supply coming from Bangladesh, can it take care of also the forex cost which has shot up for us, I mean can it completely take care of...
- Radhika Piramal:** I think, Shradha in a way what you are asking is at the current rupees is the gross margins are concerned, the answer is because we are so well stocked on inventory, Rs.75 is not bothering me at all because at this time I do not anticipate new order to China for at least seven or eight months and at this point we will carefully evaluate all our product costing and Bangladesh continues to be better that would we ever go back to China.
- Shradha Sheth:** Understood. Okay. That is great. Thank you. Just two more questions in the queue and then we can close.
- Moderator:** Thank you. The next question is from the line of Yong Yoo from Tokio Marine. Please go ahead.
- Yong Yoo:** Thank you for taking my questions. So I just wanted to clarify on the Bangladesh impact, and 10% point decrease in the gross margin you have highlighted in your slides. Can you give some color is it because of the labor savings we know that there is a duty savings moving manufacturing from India to Bangladesh, just want to understand this 10% points where this saving coming on from a year-on-year basis?
- Radhika Piramal:** Chairman, would you like to answer this.
- Dilip Piramal:** You got a right duty labor everything, the working costs are quite low and see Bangladesh is a difficult country to operate in and it has taken us eight years to get our act together and we are very fortunate that we have been able to do that because otherwise it is a low cost economy, but it is a low cost the infrastructure is very poor. At one time we were thinking



of leaving Bangladesh about four years ago. So today I think everything is working in our favor so we are making goods at the low cost.

Radhika Piramal: It is labor as well as tax because import duty on Chinese products is about 20% and there is no import duty from Bangladesh because of the SAFTA trade agreement.

Yong Yoo: So year on year you are saying that last financial year 2019 fourth quarter you were doing lot more of your manufacturing in India. So you moved the manufacturing to Bangladesh and you saved money on duty and also the labor cost. That is the movement in terms of 10% point okay. If I were to break it down how much is coming from the labor, how much is coming from the duty sales?

Radhika Piramal: We do not share so much detail at this time.

Yong Yoo: Okay. Thank you so much. All the best.

Moderator: Thank you. We will take one last question. The last question is from the line of Ashwin Reddy from Samatva Investment. Please go ahead.

Ashwin Reddy: So I had a question regarding the Amazon, so is there a chance to see all the semi-branded players right now becoming a vital partner for Amazon because we have seen this happen in some other categories in Amazon, wherein the semi-branded guys have become the white label partners for Amazon, and they are scaling up quite well. So how do you think about that risk?

Radhika Piramal: Sure. The way I understand Amazon is they really look for a single category management first, and within themselves, if I was Amazon right now, I would focus more on a multiple different categories like health care product, hygiene product, at home comfortable apparel, versus formal wear, or party wear or luggage. So of course it is a risk but only Amazon can answer it correctly. Do they view luggage as a category and then within that accepting the fact that demand for luggage is going to be less would they like to go on their own to private label, or would they like to go with a small time regional player or would they like to go with the market leader that is for Amazon to decide. For us obviously perhaps on a demand environment, you are best off with the market leader.

Ashwin Reddy: So but in that sense economic value remains right because if Amazon keeps bulk of the value which a smaller guy might be okay in this environment while major players will give a bulk of the value to Amazon?

Radhika Piramal: Yes. It is okay. I think we have answered as much as we can on this topic.



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Ashwin Reddy: All right. Thank you so much. Good luck.

Moderator: Thank you. We have one last question in queue that is from Aditya. Please go ahead.

Aditya: Hi. What I would like to ask is we have obviously been scaling up our Bangladesh production and it has been working well for us and it will work well for us in the future as well that is the expectation. But does that not expose us to like a country specific risk or something like that for Bangladesh. So are we taking any steps to mitigate that as well?

Radhika Piramal: I think the steps we are taking to mitigate that is that we have a buying office in Hong Kong and for example although we have reduced our staff count there, we have not closed the office. So we have a capability to continue buying from China at anytime. We have our own factories in India, currently both are closed. We will open one at a time or both at the same time. We have manufacturing capabilities in India and we have terrific buying capabilities in China. So these are decisions that we will adjust the same way we are adjusted on COVID, no one saw this risk and we will adjust to it, the question is how long will it take to adjust.

Aditya: Okay. That is all from my side. Thank a lot and all the best.

Moderator: Thank you very much. That was the last question in queue. I would now like to hand the conference back to the management team for closing comments.

Radhika Piramal: Everybody thank you so much for taking the time for one and a half hour call. I think it is your dinner time now and I really appreciate the support the insightful questions and I look forward to our next presentation in Q1. It will be difficult, we may not give all the answers, I really do believe that we will have to wait for Q2 actual demand resumption in July, August and September before we can give some better sort of estimates for the year ahead. So look forward to your patience and support. Thank you.

Moderator: Thank you very much. On behalf of Edelweiss Securities that concludes this conference. Thank you for joining us ladies and gentlemen, you may now disconnect your lines.