Edelweiss
Ideas create, values protect

Conference Call Transcript

VIP Industries

Q4FY18 Results

May 22, 2018 | 03:30 p.m. IST

Corporate Participants

Mr Dilip Piramal
Chairman and Managing Director

Ms Radhika Piramal
Vice Chairperson & Executive Director

Mr Jogendra Sethi
CFO

Questions and Answers

Moderator: Ladies and gentlemen, good day and welcome to the VIP Industries Q4 FY2018 Earnings Conference Call, hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Shradha Sheth from Edelweiss Securities Limited. Thank you and over to you Madam!

Shradha Sheth: Thank you Janice. On behalf of Edelweiss, let me welcome you all to the Q4 FY2018 earnings call of VIP Industries. From the management today, we have Mr. Dilip Piramal, the CMD, Miss Radhika Piramal, the Vice Chairman and Executive Director and Mr. Jogendra Sethi, CFO of VIP. Without any further ado, I will hand over the call to Mr. Dilip Piramal for his initial comments, post which we will open the floor for Q&A. Thank you and over to you Sir!

Dilip Piramal: Good afternoon everyone. It is my great pleasure to welcome you this afternoon. We have had a very good year and a very good quarter and during the Q4 the company achieved income from operations of Rs. 362.57 Crores against Rs. 312.88 Crores in the corresponding quarter of the previous year, registering a growth of 16%. Consequent to introduction of GST several indirect taxes including central excise and VAT had been subsumed into GST and as per the new accounting standards revenue has to be reported net of GST and VAT and inclusive of excise duty hence results for the quarter and corresponding quarter in the previous year are not comparable.

GST for Q4 was higher by around Rs. 12 Crores as compared to VAT in the previous corresponding quarter. Under Ind-AS additional scheme discount of around Rs. 3 Crores had been netted off from sales during Q4 FY2018, which used to be included in other income during earlier years. Hence, there is a total difference of about Rs. 15 Crores. In that case, total revenue would have been Rs.377 Crores, a growth of around 21% for Q4 FY2018 against reported sales growth of around 16%. For the year ended March 31 2018, the company achieved income from operations of Rs. 1416 Crores against Rs. 1282.5 Crores in the previous year, registering a growth of around 10%.

For majority of the call, I will be referring to our consolidated financials. For Q4 the sales growth has been achieved from domestic business, as international growth was negative. Domestic growth is mainly volume growth.

I would now like to talk about brands. Skybags brand is growing very well. Skybags is also the leading brand for backpacks. VIP brand is also growing very well. We have started advertising Aristocrat brand on television. Aristocrat latest collection has been well received and sale of Aristocrat is growing steadily.

Carlton brand also has shown good growth in Q4 and right now, you might be observing we are having a very intense campaign for the Carlton brand.

The Caprese, ladies handbag brand, is also doing well and grown well during the quarter and margins also are quite good. During the quarter, all channels have done extremely well. Modern trade and general channel also are growing well in spite of high base. E-commerce channel is also growing well.

Now I would like talk about profitability. Our EBITDA was at Rs.56.7 Crores for the quarter up from Rs. 31.7 Crores a growth of about 79%. Overall, our EBITDA was at 15.6% in Q4 as compared to 10.1% in Q4 of last year, which is a significant improvement. EBITDA has improved due to higher gross contribution. Gross contribution has improved due to product mix and strong rupee. Advertisement and market expenses were around 6%.

When sales growth is more than 10%, gross margin kicks in and that takes up all the margins quite higher. For the year ended March 31, 2108, our EBITDA was at Rs. 202.76 Crores up from Rs. 139.83 Crores that is a growth of about 45%. Overall, our EBITDA is 14.3% for the year as compared to 10.9% for the last year, which is a good improvement. Our profit before tax for Q4 was Rs. 53.12 Crores up from Rs. 28.09 Crores during Q4 of last year, which is a growth of 89%. For the year ended March 31, 2018, our profit before tax was at Rs.189.6 Crores up from Rs. 125.5 Crores during the previous year, which is a growth of around 51%.

Fixed overheads are well under control.

During FY2017–18, two new subsidiaries have been incorporated in Bangladesh viz; VIP Industries BD Manufacturing Private Limited and VIP Luggage BD Private Limited. One manufacturing facility under VIP Industries BD Manufacturing Private Limited has commenced production during March 2018. Hence, VIP Industries has three subsidiaries in Bangladesh.

VIP Bangladesh now has three 100% subsidiaries, which had income from operations of Rs. 19.8 Crores during the last quarter against Rs 15.9 Crores in the corresponding quarter of last year, a growth of 24.5%. Income from operations for the year ended March 31, 2018 were about Rs. 57 Crores as compared to rs. 49 Crores in the previous year, a growth of 15.4%. Profit after tax for VIP Bangladesh for Q4 was Rs. 3.2 Crores as compared to Rs. 3.3 Crores during the last quarter. For the year ended March 2018, profit after tax for VIP Bangladesh was at Rs. 9.5 Crores up from Rs. 8.3 Crores during the previous year, which is a growth of around 14.5%.

With this, I now open the floor to any questions. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line of Chirag Lodha from Value Quest. Please go ahead.

Chirag Lodha: Congratulations on very good set of numbers. My first question is on growth, so is the adjusted growth for full year FY2018?

Dilip Piramal: Adjusted growth you mean after taxes and all?

Chirag Lodha: Yes, GST and its discounts.

Radhika Piramal: 16.5%.

Chirag Lodha: Secondly on, how is the overall competitive intensity now with American tourist re-launch and Kamiliant doing very well, Safari is also growing at very good rate, so how you see overall competitive intensity vis-à-vis, how market as an industry shaping up because if you look at your number per se last four quarters, we are seeing growth rates are moving up, inching up quarter-on-quarter, so how one should look at this overall industry growth vis-à-vis competitive intensity shaping up?

Dilip Piramal: Our market share is highest for so many years. As we understand, one of the competitor has taken market share from another competitor but all our brands are doing extremely well. I have been in this business for so long and our all four luggage brands that is Carlton, VIP, Skybags and Aristocrat are performing well even Caprese brand is performing well. We are quite strong in most of areas of our operation. Our international sales is weak for last 2-3 years and it continue to be weak. I feel that we are on a very strong wicket. Indian economy is doing extremely well and specially non-consumer goods. Penetration of non-FMCG sector is not very high. In FMCG, the penetration is about 60% while penetration in our category is hardly 20%. Aviation is doing very well and that has a direct bearing on our business. Therefore, we have very strong tailwinds. I feel that today we are in a very sweet spot on both these aspects and the overall economy has been performing very well. GST has been a great boon for the industry and it will strengthen the formal economy. Insolvency and Bankruptcy code is a very good for the economy

Chirag Lodha: Sir, can you add a little bit on the CSD, what happened on FY2018 full year basis to CSD sales and how?

Dilip Piramal: Canteen stores department is the arm of the defense ministry and it was setup around 70 years ago for the civil requirements of the armed forces and in the front areas there were no civil retail shops as these areas were not very vastly populated. As I understand, these canteen stores have increased tremendously over the years. One of the biggest advantages of canteen stores is that they charge only a 5% markup. Canteens do not make any profit so the distribution cost is virtually nothing as compared to upto 40% on the selling price for other channels. As I understand, CSD is reducing its operations in certain areas

Chirag Lodha: So, going ahead we do not see this as a growth channel for us at least?

Dilip Piramal: Yes, CSD business is coming down especially for our company.

Chirag Lodha: Any specific reason just for our company vis-à-vis?

Dilip Piramal: No, I am talking about our company because I know information about our company. I do not want to comment about other companies.

Chirag Lodha: Sir, just one question on this gross margins, so if I look at your gross margin quarter-on-quarter sequentially vis-à-vis Y-o-Y, we have seen very good improvement in your gross margin and now in last three, four months we have seen rupee Yuan currency movement is turning back, so which are not in favour to us, so how one should check?

Radhika Piramal: To answer this specific question on why the gross margin has improved quarter-on-quarter. Two reasons viz; one is the revenue base is less because of the netting of GST, under old reporting system our sales revenue was slightly higher. The second is our gross margins had improved.

Chirag Lodha: If I take your revenue basis 375 instead of 363, my gross margins actually go up because my cost is fixed?

Radhika Piramal: We took some price increases last year. We pay in dollars not in Yuan. Due to long lead-time from China, we have 3 to 4 months of inventory. Depreciation started about one to two months ago that may actually flow through in Q1.

Radhika Piramal: There will be margin pressure in Q1 not only because of currency, but also because of raw material prices, which have also increased. There has been a FOB increase for finished goods from China after a long time and plastic prices have gone up. Therefore, there is expected to be some pressure. We are evaluating whether we need to take another price increase this year, as we want to maintain the current margins.

Chirag Lodha: Three-price increase quantum put together quantum would be in the range of?

Radhika Piramal: It would have been higher last year around 8%, we cannot take such a big price increase again.

Chirag Lodha: Just one last question on operating leverage, so we have seen 16%, 17% topline growth for full year and when I look at your gross margins they are up by 350 BPS, at the same time our operating margins are just up by 320 BPS, so we have not seen any operating leverage kicking in the number, so how one should look at it going ahead also?

Radhika Piramal: We are investing in the business. It is a philosophy to invest in sales growth so we are spending a little bit more on advertising, we are also spending a little bit more on people, but when you say operating is not grown, but our EBITDA is much higher than it was this time last year.

Chirag Lodha: It is all because of gross one, so just wanted to understand the fixed cost nature of the business, it is also growing at the same pace vis-à-vis topline?

Radhika Piramal: We are investing in all our brands, so once upon a time we used to only advertise one or two brands in Q1. We are advertising in four brands viz; Caprese, Carlton, Aristocrat and Skybags.

Dilip Piramal: If EBITDA has gone up, fixed expenses are not increasing at the same rate.

Chirag Lodha: No, what I am trying to say is EBITDA margin improvement is all from because of gross margin?

Radhika Piramal: Yes, I understand what you are saying.

Chirag Lodha: A&P number will be really helpful for full year, how much spend vis-à-vis last year?

Radhika Piramal: It is a bit more like.

Chirag Lodha: That is it from my side. Thanks a lot and best of luck.

Moderator: Thank you. We take the next question from the line of Ravi Naredi from Naredi Investment. Please go ahead.

Ravi Naredi: Can you tell us, how much production we are doing and how much we are importing from China?

Radhika Piramal: We manufacture our hard luggage in India and we import our soft luggage mixture from China and Bangladesh.

Dilip Piramal: And also from India we outsource.

Radhika Piramal: And we buy some little bit from India so overall we buy about half of material is from China.

Ravi Naredi: Half a material outside and half material in-house?

Radhika Piramal: No, in-house that from Bangladesh and India, but I mean depended you call Bangladesh in-house or not, it is in-house in one way, but it is a foreign country.

Ravi Naredi: Definitely we are not manufacturing single product in our factory premises?

Dilip Piramal: All our hard luggages are made in India in our own factory.

Ravi Naredi: Made in India it is okay?

Dilip Piramal: In our own factories.

Ravi Naredi: In own factory and how much capex we are planning in next one, two years?

Radhika Piramal: We are evaluating whether we should increase our Bangladesh capacities. Bangladesh is not a very easy place to manage the raw material cycle, etc. The amount of management effort required is really taxing to achieve this, so, we are evaluating whether to setup more factories but we are still working on how much, so depending on that we will determine the capex roughly around Rs. 20 Crores of capex.

Ravi Naredi: And when we will be doing that?

Radhika Piramal: That is under consideration by management how long it will take that is to be determined.

Ravi Naredi: Thank you very much, Sir.

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

Tejas Shah: Thanks for the opportunity and congratulations on the fantastic set of numbers. Sir, first question on growth, so what we have picked up from your opening commentary that growth seems to be secular in nature because all brands are growing, all categories are growing and apparently whatever the number we have of your competition they are also delivering robust numbers on topline, so basically the whole sector is actually facing or experiencing the tailwind and just wanted to understand from your vast experience of more than decades in the sector, when was the last time you experienced this kind of tailwind for the whole sector?

Dilip Piramal: When dollar rate was very favorable to us, it was and the rupee had gone as strong as Rs.38 to Rs.39/USD around 2010 to 2012. Safari was quite weak that time. Safari definitely in the last five years has become very strong so that was a very good period we had and prior to that I would say 1990-1992 when we had some three to four good years.

Tejas Shah: Sir, would you qualify the current momentum more structural in nature versus the previous cycle?

Dilip Piramal: Yes, Indian economy should be really booming.

Tejas Shah: Sir, in the beginning you have mentioned rightly so that one of the factor which is helping us is also low penetration?

Dilip Piramal: No, this is a general feeling.

Tejas Shah: Sir, second question on your margin, historically our fourth quarter margins have been way lower than our first quarter margins this is after perhaps for the first time that your fourth quarter margins are almost vicinity of your first quarter margins, so when you mentioned that we will strive to protect the current level of margins, are we mentioning the exit margins for the year or the overall full year margins that?

Dilip Piramal: Last year, in the middle of June, GST was announced. Hence, in the month of June, our sales was collapsed. Therefore, our main sales had happened in April and May. In our business, if sales topline goes down, margins come down very much. Net margins are a result EBITDA and all the result of topline. First, GST was levied at 28% and afterwards, it was corrected to 18%. Hence, margins got back to our regular margins. In the fourth quarter, we got the correct margins. Our sales has also increased quite well. It was a combination of all these factors.

Radhika Piramal: Overall sales was good in January and February. Our Q4 sales composition has fundamentally changed. Now, we sell lot of backpacks and the backpacks season is January, February and March. So, one of the reasons historically our sales and margins in Q4 were not great because our sales was not that high, but now January, February and March has become a pretty good quarter for us.

Tejas Shah: As backpacks reached to a level where you believe that from here on continuing the past two years growth run rate will be difficult or still there is a long runway?

Radhika Piramal: There is a long way to go. I tell my sales team that as many motorbikes are in India, we should sell that many backpacks. There is a long way to go.

Dilip Piramal: And motorbike cost Rs. 40,000 to 60,000, backpack is still Rs.1000. So, we should sell thousand times more backpacks.

Tejas Shah: That is a good target. Sir, Bangladesh factory, what was the capex done this year in FY2018?

Radhika Piramal: It was about Rs. 8 Crores.

Tejas Shah: 8 Crores and what are we planning incremental in FY2019?

Radhika Piramal: So, that depends, it could be Rs. 10 Crores or could be Rs. 15 Crores. It depends on the pace at which we can go so that is the thing.

Tejas Shah: Sure and lastly in Caprese, in opening remarks you said that Caprese is doing well with good margin, so any threshold you want to share that the brands has reached in terms of size?

Radhika Piramal: I do not want to share a specific number. I can proudly say that it is definitely in the top three ladies handbag brands in India. It is really well known. If you ask more people in our target group of young woman, it is growing well, but to reach the next threshold to become as big as some of our luggage brands, I do feel that we would have to enter more distribution channels than where we currently are. Right now, we are in department stores, e-commerce and in own stores. We are not present in the dealer channel. Originally, the goal was same dealers who sell luggage and sell lot of unbranded or private label handbags and they would take Caprese but they have not done that. Therefore, we are just experimenting. If we can add that distribution channel in a meaningful way, we can start hitting that Rs 2000 Crores or Rs. 3000 Crores figure. We are still some distance from that.

Tejas Shah: And just one clarification, this is home grown brand right?

Radhika Piramal: Yes, we launched it five years ago.

Dilip Piramal: It sounds like a European brand.

Tejas Shah: Thanks and all the best. I will come back in queue.

Moderator: Thank you. We take the next question from the line of Shekhar Singh from Excelsior Capital. Please go ahead.

Shekhar Singh: What percentage of your total raw material is foreign country denominated?

Radhika Piramal: Half. Let us not call it raw material. It is a mixture of finished goods and raw material.

Shekhar Singh: No, including finished good.

Dilip Piramal: That makes all the difference.

Radhika Piramal: Half.

Shekhar Singh: 50%, and considering the way currency has behaved in the last few months, do you think there will be some sort of margin compression in the coming quarter?

Radhika Piramal: There is a risk. I cannot say no. I want to see how the Q1 margins are depending on that how we go then we can see how bigger price increase we have to take. Definitely, we have to take some price increase.

Radhika Piramal: I also want to see how long it is going to be like this. The trend is not in our favour for sure. Is it a short term trend or is it for a full year?

Shekhar Singh: Sir, what is the outlook on sales for the coming year?

Dilip Piramal: Very good.

Shekhar Singh: Very good will be like in terms of?

Radhika Piramal: Very good. We will leave at it.

Shekhar Singh: I am saying will it be in the 15% to 20% sort of a range or will that be 10% to 15% sort of the range?

Radhika Piramal: It is too early to comment.

Shekhar Singh: Great Sir. Congratulations on a great set of number. Thanks.

Moderator: Thank you. We take the next question from the line of Ankit Kanodia from Synconic Solutions. Please go ahead.

Ankit Kanodia: Thank you for taking my question. First of all congratulations for good set of numbers. What is interest rates strategy for exports, international business is not picking up for long, any specific reasons for the same, why are not focusing on exports?

Radhika Piramal: In India, we get a brand premium. Our brands are well known and we are market leader. We can use the scale to keep promoting our brands and to further cement our market dealership position. In UAE, there is some Indian population who recognizes the VIP brand, but we are not the number one, two or even top three brands. If we have to increase sales, we have to take market share from a strong player and that is expensive. It is an expensive proposition. Should we focus on the Indian consumer market where we have established brands, competitive advantage, scale, premium and talented employee pool and people dedicated to the company who can execute our plan in the market? In the west or even in East Asia, Far East, etc., it is difficult to get all of this, so getting the growth in abroad will be much more expensive than getting the growth here.

Ankit Kanodia: Right, fair enough. My next question would be domestic business is doing good and you get a lot of tailwind, if we have to really think hard and come out with one strong threat or risk for VIP for the next two years, what would that be as per your understanding?

Radhika Piramal: There are only two risks. One is definitely continued depreciation of the rupee means that all price increases go towards maintaining or protecting existing margin versus margin expansion. The second risk is to launch aggressively priced products to counter the competition, which puts again price pressure on the company.

Moderator: Thank you. We take the next question from the line of Amar Kalkundikar from HDFC Mutual Fund. Please go ahead.

Amar Kalkundikar: Thank you for the opportunity. Can you please share with us what has been the growth rate impact that is for the full year?

Radhika Piramal: It is high.

Amar Kalkundikar: Will that be particularly high in Q4, the reason I asking is that historically this business has had seasonality that Q4 sales are typically lower than Q3 sales, but first time now in this year Q4 is higher than Q3 by almost 10% points?

Radhika Piramal: Yes, I think we can expect that to continue.

Amar Kalkundikar: And that late primarily by a backpacks only?

Radhika Piramal: Yes, because we launched a new backpacks collection in January year.

Amar Kalkundikar: Got it. Thank you very much and all the best for year.

Moderator: Thank you. We take the next question from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Thanks for taking my question. Congrats on very strong quarter. So, obviously Caprese, your Skybags, backpacks and your luggage's are very three different growth drivers, can you help me understand operationally what has been the market deepening, the channel deepening initiatives you have taken and in the context of strong comment on three X in four years and four X in five years, operationally what we have to do to get those kinds of numbers?

Radhika Piramal: We have a very strong channel wise focus. We have different sales teams for different channels. We are focusing on distribution in the general trade. We are doing a lot of work on becoming a secondary oriented company versus primary push. I believe that we have served hypermarkets very well in the last few years, so we want to continue with that good service. E-commerce has been an area where the company can improve. We have improved a lot in the last year, but there is room to further improve. We are having good assortment and managing channel conflicts so there is much less conflict by having exclusive ranges assortment for each channel.

Baidik Sarkar: Just to conceptualize that better just help with numbers in the sense that?

Radhika Piramal: No, we do not give specific channel wise or brand wise numbers.

Baidik Sarkar: So, I meant say for example last year if you have said X thousand retailers, you added X plus 1000 retailers, so number in terms of that channel, which could help us to understand the initiatives you have taken operationally?

Radhika Piramal: I have already said as much as we can share.

Baidik Sarkar: Sure, in terms of your Skybags, backpacks has that reached the 200 Crores just a ballpark of how large you are on that category because it is a large category by itself, so just to understand the numbers better?

Radhika Piramal: We do not give specific brand wise numbers. Skybags is our lead brand on the backpack, so it is a substantial sale.

Baidik Sarkar: Sure, thank you.

Moderator: Thank you. We take the next question from the line of Atul Mehra from Motilal Oswal Securities. Please go ahead.

Atul Mehra: Good afternoon and thanks for the opportunity. Just one question in terms of e-commerce, how much would it be for the industry at this point in time and similarly if would have any kind of?

Radhika Piramal: Difficult to comment for the industry. It is less than 10% still and feel there is a lot more opportunity.

Atul Mehra: Right and how would this number be in the US or something where the e-commerce is more evolved?

Radhika Piramal: It is high. It is 30%. There is a lot of room here to grow.

Atul Mehra: While you focus on your e-commerce what I have observe in terms of Amazon and Flipkart, so most of it is through third party sellers, so would that be the way we would continue.

Radhika Piramal: Yes, because they are experts in this field and if you look at the west, they really dominate, so we would definitely be partner with them and in the same way that we collaborate with all channel partners, in hypermarket we collaborate with all major retailers.

Atul Mehra: Do you think there is a room so given typically you have channel conflicts to do with products and pricing in online and offline, so do you think there would a need to have an online only brand for you guys as well given that this could be something which could be going forward?

Radhika Piramal: Actually we have six brands, six brands is a good number of brands for a company of our size, so rather if we can manage through assortment rather than new brand it is better.

Atul Mehra: Right, but at this point in time there is no price difference between online and offline for us?

Radhika Piramal: No, not really. We have different brands for different segments, so some brands are stronger in some channels because of the pricing of those channels, for example; hypermarkets and e-commerce are probably where the most value products are available, so there Aristocrat brand is quite strong.

Atul Mehra: Right, great that is it and wish you all the best. Thanks.

Moderator Thank you. We take the next question from the line of Kashyap Jhaveri from Emkay Fincap. Please go ahead.

Kashyap Jhaveri: I had a question on your gross margins, if I look at full year

FY2018 versus full year FY2017, this is about 200 basis points of gross margin expansion, how much would attribute and this is not adjusting for even this GST part, there is about 300 basis points expansion, what could you attribute in terms of let us say product mix, price increase that you took and the currency deprecation if you got to split this?

Radhika Piramal: It is about equal between the price increase and the stronger currency.

Kashyap Jhaveri: That is it from side. Thank you very much, Sir.

Moderator: Thank you. We take the next question from the line of Chirag Lodiya from Value Quest. Please go ahead.

Chirag Lodiya: Madam, I had a question on this gross margin. So if you can just help us understand, how one should look at FY2019 gross margin shaping up, when should focus on last two quarters gross margin front or on a full year basis FY2018 what we did and we should do our own calculation on that number?

Radhika Piramal: There is a trend and the trend was positive. Please wait for Q1 results which will give a better trend for the year going forward because then we will have depreciated rupee against the dollar, slightly higher RM costs plus all whatever last year's price increases.

Chirag Lodiya: And any number to distribution expansion we did this year?

Radhika Piramal: There were two channels, which actually widened our distribution, one distributors or the retailers, and the second is hypermarket expansion.

Chirag Lodiya: Thanks.

Moderator: Thank you. We take the next question from the line of Resha Haria from Green Edge Wealth Services. Please go ahead.

Resha Haria: Thanks for the opportunity. I just had one question, wanted to check that is there globally a shift in front from soft luggage to polycarbonate hard luggage?

Radhika Piramal: Yes, there is. It is very prevalent in East Asia. In India, we are about 70% to 75% soft luggage and 20% to 25% hard luggage. Half of hard luggage is polypropylene and balance is polycarbonate. Our polycarbonate growth is offsetting a big decline in polypropylene, which keeps the hard luggage sales the same and then over a period as a polypropylene goes down to almost zero. Polycarbonate is expected to continue to grow for next many years, as it is a very good product. It is strong and light.

Resha Haria: So, it would be fair to say that in India the entire luggage industry polycarbonate hard luggage is going at a faster pace than soft luggage?

Radhika Piramal: Yes, for the industry.

Resha Haria: I mean in a way fair to say this will be favorable to us because this reduces and over a period of time it pans out, it reduces the dependence on the raw material?

Radhika Piramal: Absolutely, it is very good for us. We buy the raw material in rupees, we manufacture in our factories in India that is good for us.

Resha Haria: Thank you so much and all the best.

Moderator: Thank you. We take the next question from the line of Karan Khanna from Ambit Capital. Please go ahead.

Karan Khanna: Thanks for the opportunity. So, my question was largely on the gross margins, we have taken 10% price hike in FY2018, secondly the GST rates have been reduced from 28% to 18% in mid November and thirdly you have mentioned that the gross margin expansion that we have seen in Q4 is largely is because of currency movement and partly because of the price hikes that we have taken, so is it fair say that the 52% gross margin that we have seen in Q4 FY2018 are not sustainable?

Radhika Piramal: It will be challenging to maintain. We are striving to maintain them.

Karan Khanna: Because the price hikes that we have taken such a competitive industry and clearly we will have to cut down the prices that is something that?

Radhika Piramal: We are not cutting down the prices, but we may not be able to take price increase to the level we want.

Karan Khanna: Sure and secondly on the cash conversion cycles you are looking at cash conversion cycle this is roughly remain the same in both FY2018 and FY2017 around 75 days, but if I look at the debtor days there is an increase of 35 days to 46 days in FY2018 so what could be the reason behind this?

Radhika Piramal: A lot of our growth is coming from hypermarkets and their debtor cycle is longer one. Secondly, CSD did not give high overdue at the end of Q4 which is very safe.

Karan Khanna: And if I look at the payable days even that has increased from 42 days to 54 days?

Radhika Piramal: We will try to endeavor to do that.

Karan Khanna: Sure, clear. Thanks a lot.

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

Tejas Shah: A couple of follow-ups, bag the category size would how much and what would be the growth rates for the category organized one?

Radhika Piramal: Category size for organized may be Rs. 1000 Crores, not fully sure and growth rate may be 30% to 40%.

Tejas Shah: And this is at retail price level?

Radhika Piramal: No, it is a wholesale.

Tejas Shah: Yes, industry.

Radhika Piramal: Industry at wholesale, not retail.

Tejas Shah: And it is fair to assume that your growth rates will be in backpack will be much higher than this 40% or you will be gaining market share on this?

Radhika Piramal: No, we are all going the same. Everybody is penetrating. The main players are American Tourister, ourselves, Safari and Wildcraft.

Tejas Shah: So, is Wildcraft also gaining market?

Radhika Piramal: I know market is growing, I do not know Wildcraft growth rate exactly; I know our growth rate.

Tejas Shah: Sure and Radhika this quarter subsidiary margins are actually have not shown the same trend as, so any take on that?

Radhika Piramal: The sales mix was not quite right, so it has nothing to do with the capacity or any structural issue.

Tejas Shah: And that can be done without any major capex?

Radhika Piramal: Yes, that can be done without capex, but takes time in management plan etc., so it takes time six to nine months may be.

Tejas Shah: Lastly on dividend payout last time we were thinking of rewarding shareholders or increasing payout either through buybacks or some other means?

Radhika Piramal: No, we are not thinking any of those things.

Tejas Shah: Because I think capex requirement is not that high, the business is in steady state, there is no working capital stretch either?

Radhika Piramal: Yes, we do not find a buybacks attractive at this point. We are happy with our dividend payout policy. We have been fairly consistent over the years.

Tejas Shah: Thanks a lot and all the best.

Moderator: Thank you. Next question is from the line of Kamlesh Kotak from Asian Market Securities. Please go ahead.

Kamlesh Kotak: Just one point to how much was the CSD as percentage of the total revenue?

Radhika Piramal: It is about 20%.

Kamlesh Kotak: And how it would have been last year?

Radhika Piramal: Similar lines.

Kamlesh Kotak: That also has grown from growth rates?

Radhika Piramal: No, for the year it did not grow, so last year may it would have been a bit more than moreover 22% or 23%.

Kamlesh Kotak: Thank you.

Moderator: Thank you. That seems to be the last question. I would now like to hand the floor to the management for their closing comments.

Radhika Piramal: Everybody thank you. I am sorry that we started the call a little bit late. It has been a terrific year gone by and thanks for your support. We are looking forward to another good year ahead.

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

Aditya Narain, Head of Research, aditya.narain@edelweissfin.com

ADITYA NARAIN

Digitally signed by ADITYA NARAIN
DN: c=IN, o=EDELWEISS SECURITIES LIMITED, ou=HEAD RESEARCH, cn=ADITYA NARAIN, serialNumber=e0576796072ad1a3266c27990f20bf0213f69235fc3f1bcd0fa1c30092792c20, postalCode=400005, 2.5.4.20=3dc92af943d52d778c99d69c48a8e0c89e548e5001b4f8141cf423fd58c07b02, st=Maharashtra
Date: 2018.05.28 11:46:02 +05'30'

ESL or its associates may have received compensation from the subject company in the past 12 months. ESL or its associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. ESL or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research analyst or his/her relative or ESL's associates may have financial interest in the subject company. ESL and/or its Group Companies, their Directors, affiliates and/or employees may have interests/ positions, financial or otherwise in the Securities/Currencies and other investment products mentioned in this report. ESL, its associates, research analyst and his/her relative may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: (i) exchange rates can be volatile and are subject to large fluctuations; (ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs and Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Research analyst has served as an officer, director or employee of subject Company: No

ESL has financial interest in the subject companies: No

ESL's Associates may have actual / beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report.

Research analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

ESL has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

Subject company may have been client during twelve months preceding the date of distribution of the research report.

There were no instances of non-compliance by ESL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years except that ESL had submitted an offer of settlement with Securities and Exchange commission, USA (SEC) and the same has been accepted by SEC without admitting or denying the findings in relation to their charges of non registration as a broker dealer.

A graph of daily closing prices of the securities is also available at www.nseindia.com

Analyst Certification:

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Additional Disclaimers

Disclaimer for U.S. Persons

This research report is a product of Edelweiss Securities Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Edelweiss Securities Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Edelweiss Securities Limited has entered into an agreement with a U.S. registered broker-dealer, Edelweiss Financial Services Inc. ("EFSI"). Transactions in securities discussed in this research report should be effected through Edelweiss Financial Services Inc.

Disclaimer for U.K. Persons

The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA").

In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order"); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons").

This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

Disclaimer for Canadian Persons

This research report is a product of Edelweiss Securities Limited ("ESL"), which is the employer of the research analysts who have prepared the research report. The research analysts preparing the research report are resident outside the Canada and are not associated persons of any Canadian registered adviser and/or dealer and, therefore, the analysts are not subject to supervision by a Canadian registered adviser and/or dealer, and are not required to satisfy the regulatory licensing requirements of the Ontario Securities Commission, other Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and are not required to otherwise comply with Canadian rules or regulations regarding, among other things, the research analysts' business or relationship with a subject company or trading of securities by a research analyst.

This report is intended for distribution by ESL only to "Permitted Clients" (as defined in National Instrument 31-103 ("NI 31-103")) who are resident in the Province of Ontario, Canada (an "Ontario Permitted Client"). If the recipient of this report is not an Ontario Permitted Client, as specified above, then the recipient should not act upon this report and should return the report to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any Canadian person.

ESL is relying on an exemption from the adviser and/or dealer registration requirements under NI 31-103 available to certain international advisers and/or dealers. Please be advised that (i) ESL is not registered in the Province of Ontario to trade in securities nor is it registered in the Province of Ontario to provide advice with respect to securities; (ii) ESL's head office or principal place of business is located in India; (iii) all or substantially all of ESL's assets may be situated outside of Canada; (iv) there may be difficulty enforcing legal rights against ESL because of the above; and (v) the name and address of the ESL's agent for service of process in the Province of Ontario is: Bamac Services Inc., 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3 Canada.

Disclaimer for Singapore Persons

In Singapore, this report is being distributed by Edelweiss Investment Advisors Private Limited ("EIAPL") (Co. Reg. No. 201016306H) which is a holder of a capital markets services license and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as "institutional investors" or "accredited investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations ("FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to EIAPL when providing any financial advisory services to an accredited investor (as defined in regulation 36 of the FAR. Persons in Singapore should contact EIAPL in respect of any matter arising from, or in connection with this publication/communication. This report is not suitable for private investors.