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Conference Call Transcript

VIP Industries

Q1FY19 Results

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Corporate Participants

Mr Dilip Piramal
CMD

Ms Radhika Piramal
Vice Chairperson & Executive Director

Mr Jogendra Sethi
CFO

Questions and Answers

Moderator: Ladies and gentlemen, good day and welcome to the VIP Industries Q1 FY2019 Earnings Conference Call, hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Shradha Sheth from Edelweiss Securities. Thank you and over to you Madam!

Shradha Sheth: Thank you Raymond. On behalf of Edelweiss, let me welcome you all to the Q1 FY2019 earnings call of VIP Industries. From the management today, we have Mr. Dilip Piramal, the CMD, Ms. Radhika Piramal, the Vice Chairman and Executive Director and Mr. Jogendra Sethi, the CFO of VIP. Without any further ado, I will hand over the call to Mr. 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. Thanks for taking out the time and joining our conference call. As you might have seen from the results that we have had a terrific quarter and the best in the history of our Company we achieved income from operations of Rs.518 Crores against Rs.407 Crores in the corresponding quarter of the previous year registering a growth of about 27%. However, there are some adjustments here consequent to the introduction of the GST several indirect taxes including central exercise and VAT have been subsumed into GST. As per the new accounting standards, revenue has to be reported net of GST, VAT and inclusive of excise duty, hence results for the current quarter Q1 and last year Q1 are not comparable. GST for Q1 FY2019 for this quarter was higher by around Rs. 16 Crores as compared to VAT in Q1 FY2018. On a like-to-like comparison, the total revenue would have been around Rs. 534 Crores, a growth of around 31% for Q1 FY2019 against reported sale growth of around 27% in Q1 FY2019. Q1 sales growth was achieved from domestic business as international business growth is negative in this quarter. Domestic business growth is mainly volume growth.

I would now like to talk about our brand. Skybags, VIP, Carlton and Aristocrat, all our brands are doing extremely well. Skybags is also the leading brand for backpacks. During Q1, we have advertized Carlton, Skybags and Aristocrat brands along with Caprese our ladies handbag brand. Skybags and Aristocrat's latest collection have been well received. Carlton Edge with unlimited warranty has been well received by our customers too. Caprese our ladies handbag brand has also grown well during the quarter and margins are also very good. During the quarter, all channels have done quite well. Modern trade and general trade channel are doing very well in spite of a high base. The e-commerce channel and institutional business are also growing quite well.

Now, I would like to talk about profitability. Our EBITDA was at Rs.97.8 Crores for Q1 up from Rs.63.6 Crores in the corresponding quarter of last year, a growth of about 54%. Overall our EBITDA was at 18.9% in Q1 as compared to 15.6% in Q1 of last year, which is a significant improvement. EBITDA has improved due to higher growth contribution. Gross contribution has improved due to product mix and higher sales. Advertisement and marketing expenses were around 7% due to advertising all four brands. This is the first time that we have advertised all our four brands in one quarter and on television also. Our profit after tax for Q1 was Rs.63.4 Crores up from Rs.41 Crores during Q1 last year, which is a growth of around 55%. Fixed overheads are well under control.

An update on VIP Bangladesh operation, income from operations from VIP Bangladesh for Q1 was at Rs.25.2 Crores against Rs.13.8 Crores in the corresponding quarter of last year, a growth of about 83%. Profit after tax for VIP Bangladesh for Q1 was at Rs.4 Crores as compared to Rs.3.2 Crores during Q1 last year. With that, I turnover to your questions please.

Moderator: Sure thank you very much. We will now begin the question and answer session. We have the first question from the line of Chirag Lodaya from Value Quest. Please go ahead.

Chirag Lodaya: Congratulations on great set of numbers. First question is on growth, so we have seen 30% growth in the largest quarter for due, some qualitative comments on the growth would be helpful?

Radhika Piramal: There are two or three reasons. The first is the market is good so definitely demand is good. Domestic air travel in particular at volume levels is around 20%. Airlines are running full, the load factor on the airlines is good and so we see a good demand there. The introduction of GST has meant that the price difference between unbranded and branded has narrowed and that makes branded luggage more attractive. In particular, entry level branded luggage. We saw that opportunity and we did a sort of extra focus on our value brand Aristocrat where for the first time we did TV advertising for Aristocrat. We have done it before a little bit below the line and digital, but we advertise on TV and it has resulted in a terrific sales growth on the value segment. Secondly our VIP brand, which had been struggling with for some time. We had a very new product line refurbished completely for Q1 and that has done well in the market, so I think that has helped a lot. On Carlton, we had a very specific new launch, which was Carlton Edge with an unlimited warranty including airline damage no questions asked and we advertise this and we have been wanting to become very serious about the premium segment for a long time and this was a very tangible consumer promise, which has been really well received. For each of our brand, we had a very specific idea or tactic going into the quarter and so that along with the macro economy benefit of GST, the difference between branded and unbranded, all of this has helped us. A little bit on the channels. I have mentioned that CSD has done well. One of the things that was little bit dogging are good growth in the sort of previous few quarters was that CSD was not doing well. CSD did well in Q1. No change in efforts from our side. It is more about how CSD as a channel manages their inventory and this time I think they felt that there was no point really having empty shelves, some of the things that we saw in calendar 2017, so that did not provide any drag as it was. Modern trade, general trade and e-commerce have been growing all this time, so without the drag of CSD. Without the drag, VIP has turned around. So without these few things that were preventing a good growth overall, we have just done very well and this is what happens when every brand and every channel contributes.

Chirag Lodaya: This trend continues going?

Radhika Piramal: So far, we do not see any reason why not.

Chirag Lodaya: Secondly on gross margins if you look at your grow margins QoQ we have seen a dip in gross margins by around 280 BPS, 320 BPS actually, so what has been the reason for this?

Radhika Piramal: There are two reasons for this. It is the depreciating rupee and there is an actual increase in raw material costs including plastic, all metals, petrol and freight. If I just run through Q1 of the last year, our gross margin was at 47% and in Q4 of last financial year, January to March quarter, our gross margin was good at 54% which is now at 50.5%. During the last con call, I had warned of some margin concerns. We have planned a small price increase of only 3% on July 1, 2018 and we will see how the rupee performs and whether we need to take another price increase later in the second half of the year. If it is needed, we will do it. We are interested in maintaining our margins at this level. We would not like to see a further decline what we saw from Q4 to Q1. We would not like to slip further than this, so that is the goal.

Chirag Lodaya: This 50.5% kind of gross margin can sustain on a full year basis at this point of time?

Radhika Piramal: It is a goal of the company.

Chirag Lodaya: Lastly on A&P, is there any budget on a full year basis what kind of spends we are looking?

Radhika Piramal: 5% to 7%. If sales growth and gross margins are good, we can invest a bit more. We might do that. I do not think that we will do less.

Chirag Lodaya: A&P in the base quarter would be, this quarter it is 7% to sales, what would be in the base?

Radhika Piramal: What you mean by base?

Chirag Lodaya: 7% to sales is A&P for the quarter what was in Q1 FY2018?

Radhika Piramal: We keep our advertising 5% to 7% for the year and some quarters it is higher than others. In the current year Q1, we spent much more than we had spent in the Q1 of previous year.

Chirag Lodaya: That is really helpful. That is it from my side. All the best.

Moderator: Thank you. The next question is from the line of Madhuchanda Dey from MC Research. Please go ahead.

Madhuchanda Dey: A very good quarter. My question is we have seen probably one of the worst moment of the rupee in the past three months and now rupee seems to be stabilizing. In this context what kind of margin are you falling out because you had kind of indicated that rupee is a wild card, but with the rupee you have improved your margins significantly on the EBITDA basis?

Radhika Piramal: In Q4 of last year, our gross margin was at 54%, which has declined to 50.5%, so definitely in Q1 of last year the GST regime was different. Rupee declined from Rs.64/USD to Rs.65 and subsequently to Rs.66. Currently, rupee is at Rs.68.5/USD.

Madhuchanda Dey: You expect these margins to sustain through the year right?

Radhika Piramal: It is the goal of the company to sustain these margins through the year.

Madhuchanda Dey: On the superb topline performance what is your take on the leaner quarters as we go ahead?

Radhika Piramal: The market trend remaining the same. While there are lean quarters that is taken into account on the base of the previous year, so in terms of a growth trend this was particularly good, so I do not know if 30% will continue, but I think we remain positive and we see the demand continuing and our brands performing well.

Madhuchanda Dey: If I may just squeeze in a last question, you mentioned in your commentary about the shift, which is happening because of GST, could you just give a rough quantification of this impact on your 30%?

Radhika Piramal: It is difficult to do that exactly. Each channel is performing well; each brand is performing well, which accumulates in this 30% growth. We can say that two or three years ago our growth rate in our company was not 30%. We were at 15% to 18%.

Madhuchanda Dey: Thank you.

Moderator: Thank you. The next question is from the line of Ankit Kanodia from Smart Sync Services. Please go ahead.

Ankit Kanodia: Good evening. Congratulations for the good set of numbers and thanks for taking my question. If I remember correctly in the last concall you guided us that the rupee deprecation will be completely factored in the first quarter of FY2019, so do you wish to say that for Q1 FY2019 we have got all forex related all the deprecation of rupee and if yes so how do you see the foreign currency going forward, how does it affect our profitability for the coming year?

Radhika Piramal: If the rupee/USD rate remains between Rs. 68 to 69/USD, we should be able to maintain these margins. If the rupee depreciate further, we would have to take price increases to offset that which have to determine some tradeoffs between price increases, market shares and sales growth.

Ankit Kanodia: Thank you so much. That is it.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Madam can you tell us what is the share between organized sector and unorganized sector in luggage industry?

Radhika Piramal: It is difficult to give you an exact figure. From looking at the market on a volume basis, we think that branded may be at 20% and unbranded may be at 80% and on value basis, perhaps branded may be one third and unbranded may be balance.

Ravi Naredi: Over the period of three years due to GST bill you think some shift will be there to organized sector?

Radhika Piramal: We are experiencing it.

Ravi Naredi: One more question more madam. As per human procurement cost in our balance sheet, so what is that and how it is different from employee additions?

Radhika Piramal: We have on roll employees and we have large number of store associates also or what we call in-store merchandisers. Services of some of them are outsourced.

Ravi Naredi: Thank you madam. All the best.

Moderator: Thank you. The next question is from the line of Mansi Shah from Cap Grow Capital. Please go ahead. There seems to be no response from the line of Mansi Shah. We move to the next question. The next question is from Riken Gopani from Infina Finance. Please go ahead.

Riken Gopani: Thanks for taking my question. I wanted to understand two things. One is on the women's handbag category how has that grown during the quarters and does that segment have a higher share of unorganized or otherwise and what are the plans for this segment?

Radhika Piramal: Caprese, our ladies handbag brand, grew around 30% in line with the overall company growth and other brands growth. The ladies handbag market is even more fragmented and unorganized as compared to luggage because in luggage we have been building branded luggage for 50 years and in ladies handbags, we have only started five years ago. It takes time to change the consumer habit, so there is more opportunity for sure. The gross margins in handbags are just slightly better than the gross margins in luggage, so there is a good opportunity, but it is taking long to move consumer from unbranded to branded. We have to keep tweaking our collection. Our initial goal was to have branded ladies brand handbags at price point of Rs. 4000 to Rs.5000, but we found that we had to keep lowering the price point where it is now around Rs.2000 where we see that sales growth is happening properly.

Riken Gopani: What approximately how large would it be in our total revenue today?

Radhika Piramal: We do not give specific brand wise numbers.

Riken Gopani: In terms of the other brands any particular brands that you would like to call out that delivered aggregate growth?

Radhika Piramal: Aristocrat is the brand that registered the highest growth, but all brands have done well this quarter and that is why the company as a whole has done so well because of every single brand delivered.

Riken Gopani: In terms of the margins across these brands are they broadly in line or do they have quite varying margins?

Radhika Piramal: They are not too different. VIP and Skybags, which are two largest brands in the middle, Carlton and Caprese above that and Aristocrat and Alpha less than VIP and Skybags, so that is sort of the premium mid and value.

Riken Gopani: If there is a faster growth in Aristocrat impact the overall margin structure if that is the case?

Radhika Piramal: There is also good growth in the other brands. Growth in Aristocrat is highest, but the differences are not so big.

Riken Gopani: That is it. Thank you.

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

Nitin Gosar: I just wanted to understand how is the competitive scenario right now post INR deprecation?

Radhika Piramal: The market growth is good and so I expect my competitors also have good results. Samsonite American Tourister had some issues. Safari may have also probably done well. Their results are not out yet, so I cannot comment further, but the market has been good. The channels have grown. All companies may have done well.

Nitin Gosar: I got the picture, but just trying to understand it for the better. If I were to put the competitor scenario today versus last three years how it look like better, worse, normal?

Radhika Piramal: I will say the competitive intensity from Safari is stronger than three years ago. As a company, they have grown. Their product line is stronger and because they have grown, they just have a greater share in various channels, which puts the price competition more than it would have been three years ago.

Nitin Gosar: Got it and in terms of second question in terms of EBITDA margins I think earlier call Sir highlighted that we would probably be coming closer to our historical high EBITDA margins and actually we are very much close to that, given the competitor scenario right now we are going through so the only risk to our EBITDA margin right now would be INR or is there something that we should be also keeping an eye on competition?

Radhika Piramal: No, I think that it is a very rational competition amongst three branded players and it is not an irrational competition. Rupee and a little bit of our fixed overhead controls determines the EBITDA margin more than any change in competitive intensity.

Nitin Gosar: Got it. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Chirag Lodaya from Value Quest. Please go ahead.

Chirag Lodaya: Madam have we seen any price increase from Chinese vendor in the last three months?

Radhika Piramal: Not in the last few months. Our Rupee has depreciated against the US Dollar so there was a very significant price increase in November and December, which is partly flowed through in the slightly lower margins in Q1 versus Q4.

Chirag Lodaya: What is the general lead time for our inventory from China I am just trying to understand?

Radhika Piramal: It is around three months lead time plus we hold inventory of around three months so that cost increase that we did in November and December would have flowed through in Q1 sales. Three months to come and three months to stock and that is the stock we sold.

Chirag Lodaya: That was really helpful. Thank you.

Moderator: Thank you. The next question is from the line of Kimee Chorge from GCJ Financial Advisors. Please go ahead.

Kimee Chorge: Madam what is the current position of the gross debt or cash position?

Radhika Piramal: I am sorry what is the question please?

Kimee Chorge: The debt and cash position of the company?

Radhika Piramal: I did not understand.

Kimee Chorge: The debt in the books and the cash position?

Radhika Piramal: What is cash position?

Kimee Chorge: Cash in hand?

Radhika Piramal: We do not publish our balance sheet in this quarter. I am so sorry I have not fully understood the question. Chairman, will you answer?

Dilip Piramal: I think that our investments are about Rs.100 Crores.

Kimee Chorge: Debt in case you have any working capital?

Dilip Piramal: We do not have any debt at all.

Radhika Piramal: We only have investments.

Dilip Piramal: In last two to three years, we have had no debt at all.

Kimee Chorge: Do we intend to launch any new product in our category?

Radhika Piramal: We are focused on building existing brands.

Kimee Chorge: Can you help us with a new brand in our product?

Radhika Piramal: No, at this time we are focused on growing our existing brands. We feel that there is more potential in our existing brands.

Kimee Chorge: Next question is around the distribution model, how many branches of our own and how much franchises we have?

Radhika Piramal: We are multichannel company so it is too much for me to go through the whole distribution structure. We have around 1000 active dealers. We have about 250 active franchises. We have about 250 of company run stores. We are present in about 1000 modern trade outlets, in addition we have about 100 active distributors who in turn reach about 1000 retailers.

Kimee Chorge: That is helpful. Thank you so much.

Moderator: Thank you. The next question is from the line of Mansi Shah from Cap Grow Capital. Please go ahead.

Mansi Shah: Good evening. Thank you for taking my question. I just had one question. As it was mentioned earlier that international growth has been negative for this quarter, so how do you see the rupee depreciation impacts the international growth further?

Radhika Piramal: It will help us, if our exports grow instead of declining, in case rupee continued to depreciate. It has not been the case for about two years. Our international business has not done well in last two years and we have not focused on it because we had focused on building brands. A company of our size should have a stronger international offering.

Mansi Shah: Thank you madam.

Moderator: Thank you. The next question is from the line of Chinu Gupta from Canara Robeco Mutual Fund. Please go ahead.

Chinu Gupta: Congratulations on good set of numbers. What was the market share in the organized segment last year and what is the market share now?

Radhika Piramal: It is difficult to give a very exact picture between this year and last year but our market share may be around 55% in the branded market.

Chinu Gupta: What percentage of our sales is self manufactured versus outsourced?

Radhika Piramal: We would manufacture around 30% of our sales primarily the hard luggage.

Chinu Gupta: What would be the capacity utilization of our entire manufacturing plant?

Radhika Piramal: We are running pretty full right now. Sorry I excluded the subsidiaries in that. I was referring to our Indian plants which have pretty full capacity utilization. Let me just talk about a little bit of Bangladesh. You would have seen that the sales increased a lot in Bangladesh but that the profits did not, the reason for that is because we have added one more plant in Bangladesh where we have the preoperating expenses, but we did not yet have the revenues, While the revenue has doubled as there is an increase in the plant, but still the opex is higher, the percentage of our own production is increasing. Bangladesh is increasing at the expense of China.

Chinu Gupta: Lastly on the price increase taken you mentioned you have taken 3% price increase in July, so that should help in taking care of the cost and hence aid in gross margin expansion?

Radhika Piramal: If you look at the average of April, May and June, the rupee continued to depreciate.

Chinu Gupta: Thank you.

Moderator: Thank you. The next question is from Ramesh Mantri from Whiteoak Capital. Please go ahead.

Ramesh Mantri: Congrats on a great set of results. My question is regarding the Carlton Edge launch, now you have come out with a clear very tangible promise consumer promise, so how has been the market response to Carlton Edge launch?

Radhika Piramal: It has been very good. We expected it to be good because we thought we were giving an extremely good proposition and it has met our expectations. We have put a lot of focus on some after sales service, we have hardly received any returns and definitely like we believe in the product that is why we can make this promise and so far it has been an excellent response in the market.

Ramesh Mantri: Has there been a competitive response in matching the promise?

Radhika Piramal: It is at the premium end, so the only brand that could respond would be Samsonite and Samsonite is a $2.5 billion company and out of that around $1.5 to $2 billion may be Samsonite brand sales internationally. So, it is very difficult to offer such a guarantee on a $2 billion base and there cannot be a different promise in India and outside India

Ramesh Mantri: From accounting perspective how do you kind of provide for warranty claims and all particularly considering your very, very long term tangible promise?

Radhika Piramal: These are early days. We make some provisions. The volume sales of the Edge series are not that large yet. As it grows, we will make the appropriate provisions for sure based on the actual results and applying those percentages.

Ramesh Mantri: Any thought towards not EVOs only on the Carlton brand?

Radhika Piramal: We have a couple of Carlton Caprese EBOs and they look good and they are doing well, but we still want to tweak the unit economics a bit before we do really large expansion on that.

Ramesh Mantri: Thank you and best of luck.

Moderator: Thank you. The next question is from Kamlesh Kotak from Asian Markets Securities. Please go ahead.

Kamlesh Kotak: Can you elaborate on the sourcing, which you mentioned, how much is the sourcing between Indian, China and Bangladesh?

Radhika Piramal: China supply for more than half of our overall sales and then next is India because that includes little bit outsourced and then third is

Bangladesh, which remains small, but which may also grow.

Kamlesh Kotak: In India between outsourcing and manufacturing how that would split up?

Radhika Piramal: Manufacturing is more than outsourced.

Kamlesh Kotak: Last call you mentioned about the polycarbonate products are getting more of growth so how it has been in this quarter?

Radhika Piramal: It continues to grow well. It is a very attractive product and we in fact launched quite a few lines in Aristocrat and VIP brand that did well, so it continues to grow well.

Kamlesh Kotak: Is it sourced from China or is it in house manufactured?

Radhika Piramal: No, it is manufactured in India.

Kamlesh Kotak: Higher growth of that would be a positive for reflection of the margin right?

Radhika Piramal: Yes, but broadly regardless of source or regardless of type of product, we try and maintain a certain gross margin across all our brands. It is more to do with the brand positioning of premium value.

Kamlesh Kotak: Secondly if you can just highlight what would be our strategy as you said it would take time for Caprese to further get into more distribution and touch points what is the thought process in that direction?

Radhika Piramal: We have to just continue doing the same things possibly evaluate whether we can slightly lower the price point in order to enter hypermarkets that is one thing we could look at. We are working on that.

Kamlesh Kotak: So what would be the rough touch points of Caprese as of now in terms of the distribution?

Radhika Piramal: We would be present in about 200 stores of modern trade and in about 300 EBOs. Caprese is also doing very well online, Handbag people buy for fashion, they look at it and they like it whereas luggage people really want to look at the size before they buy and that is very difficult to do online.

Kamlesh Kotak: Right, but we do not look at going more of a distribution model for that product as well?

Radhika Piramal: What do you mean by distribution model?

Kamlesh Kotak: Going through more retailing channel compared to what we have in terms of our own channel?

Radhika Piramal: Yes, we keep trying,

Kamlesh Kotak: Sure. Alright. Thanks very much.

Moderator: Thank you. The next question is from Dhaval Dama from Equirus Securities. Please go ahead.

Dhaval Dama: Just wanted to ask you what would be the share of modern trade, CSD or general trade in large revenue setting as of FY2018?

Radhika Piramal: We do not give out the specifics, modern trade and general trade are two biggest chunks. Five years ago, modern trade was a lot smaller than general trade, now modern trade is same size as general trade and they are two largest sections. The third biggest would be CSD and then institutional and then e-com.

Dhaval Dama: If I remember correctly a couple of years back CSD was around 20%, 22% of our revenues, so I think that it could be really helpful, if you can throw some colour like say what would be the growth rate in CSD during the current quarter?

Radhika Piramal: We do not give the specific market share.

Dhaval Dama: I am just asking about this quarter's growth rate in CSD?

Radhika Piramal: We do not give specific channel growth rates, can we move to the next question please?

Moderator: Sure we will move to the next question. The next question is from the line of Akash Manghani from BOI AXA Investment. Please go ahead.

Akash Manghani: Good evening. Thanks for taking my questions. First of all I would like to understand this investment that you are trying to make in Bangladesh over the next couple of years what sort of impact would it have on the share of manufacturing and trading in the overall entity and how would it impact the gross margin of the company as a whole?

Radhika Piramal: Chairman would you like to answer that or shall I?

Dilip Piramal: Share is not really growing because our overall sales are growing much larger, so while our rate of growth in Bangladesh is very high, but the base is very small, so let us say 5% of our outsourcing is from Bangladesh it might go up to 7%, so it will help in growth margins to some extent, but because the overall contribution of Bangladesh is not so much it would not make any big impact.

Akash Manghani: So I thought you are planning to use Bangladesh as a trade alternate to China sourcing?

Dilip Piramal: Yes, but because our overall growth is so high, we are not able to expand so fast in Bangladesh. It is very challenging to operate in Bangladesh.

Radhika Piramal: If you look at Q1, what has really driven the increase in the profits is the sales growth. It is not like a margin improvement or fixed overhead.

Akash Manghani: So this investment is primarily for Bangladesh related business, it is not feed into the India sales?

Radhika Piramal: When you say investment what do you mean, you mean capex for building new plant?

Akash Manghani: Capex in Bangladesh is for business in Bangladesh only?

Radhika Piramal: No, it is just a factory that feed India.

Akash Manghani: So if it offsets the sourcing from China does that in anyway improve the profitability of these products?

Dilip Piramal: It does improve the profitability, but the impact is very small because our overall sales are growing so much that are dependent from China is quite high and in fact our dependence on our Indian manufacturing and outsourcing is increasing.

Radhika Piramal: Let me put it in other way. Let us say, we have put one more plant in Bangladesh and suppose our sales were growing at 15% as they were then we will see a shift in like sourcing point destinations, but because our sales growth is growing 30% even though Bangladesh increase it did not really change the share of business.

Akash Manghani: The next question is could you talk of what is the share of backpacks and the overall revenue rough indication and what is the growth rate you are witnessing over the last year or so?

Radhika Piramal: Yes, it has grown very well, It has become a significant part of our business. Backpacks is now about 15% to 20% of our total business and it continues to grow well. It is growing more than 30% and it has been for the last three to four years and it may continue to do so because it is a huge market and a huge segment.

Akash Manghani: Could you put some number on it, what sort of because there is a large unorganized?

Radhika Piramal: It is a very large unorganized. Backpack is a repeat item. People buy a new backpack every year, and people buy luggage once in three to four years. The unit price per backpack average Rs. 1500 versus Rs. 2500 for a luggage, so unit price per item is less, but the gross margins are in line with luggage. The penetration of the category is much less than luggage, so it is a huge segment that can continue to grow for years and years.

Akash Manghani: Next is on this share of sales coming from the e-com channel, how would it help grown over the last two to three years and what is the growth?

Radhika Piramal: It might have gone from 3% to 4% to 6%, so 3% to 6% is like 100% growth for e-com, but it is not really moving the needle for the company, it is a terrific opportunity. The market is big like backpacks and there is a lot of potential to keep growing at these high growth rates.

Akash Manghani: Also the last question is that you mentioned earlier that the competitive intensity from some of your other international players has sort of reduced over the last three years, so has that translated into lower discounts at the retailer level?

Radhika Piramal: The price competitive intensity has increased as there are more price value players.

Akash Manghani: Is there a conscious strategy to increase the share of backpacks materially over the next year or two or it is just that?

Radhika Piramal: We are trying to cater to market demand of luggage and backpacks, so we are just going to cater to the consumer demand and create and build our brands.

Akash Manghani: If you correlate the sales with air traffic growth over the last two to three years would you say that is a very high correlation or is it just?

Radhika Piramal: **W**e have seen more than two to three years. Look at 10-year period, we can see when domestic air passenger traffic volume growth is good, our sales are good.

Dilip Piramal: Travel is a biggest driver of luggage sales, so it is a very basic inference.

Radhika Piramal: Our brands have to be performing well simultaneously. If air traffic is very good, but our brands are weak, we may not experience the growth, but if air traffic is strong, we stand to gain.

Akash Manghani: Thanks.

Moderator: Thank you. Next question is from BM Doshi from BR Investments. Please go ahead.

BM Doshi: Good evening. I just wanted only for Bangladesh operation, but I take my question you already earlier question by somebody else, so just wanted to know about Bangladesh expansion only and you are putting some more money also there I just learned from BSE or announcement actually?

Radhika Piramal: Yes.

BM Doshi: Increasing your allocation to Bangladesh actually, so we are putting some more fund at Bangladesh?

Radhika Piramal: Yes.

BM Doshi: So that will be only for outsource or for local market and Bangladesh also?

Radhika Piramal: That is for exports to India.

BM Doshi: Thank you.

Moderator: Thank you. Next we have a followup question from Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Madam how much capacity we are going to expand in current year because we are running at 100% capacity so?

Radhika Piramal: We will expand as per market requirement.

Ravi Naredi: So in current year any expansion will be there?

Radhika Piramal: Our sales is growing so there will be.

Ravi Naredi: How much capacity you need for that?

Radhika Piramal: We do not give specific capacity by plant.

Ravi Naredi: No, capex, how much expenditure you will do?

Radhika Piramal: Capex may be around Rs.20 Crores.

Ravi Naredi: Thank you Madam.

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

Tejas Shah: Sorry, I locked in a bit late, apology if I am asking the question, which has been asked earlier, but what was your growth without CSD YOY?

Radhika Piramal: We do not give such specific figures.

Tejas Shah: But is it fair to assume that since CSD had a very poor base, the CSD's contribution on growth will be disproportionate this quarter?

Radhika Piramal: Yes.

Tejas Shah: And has it restored to earlier level, pre-GST level, CSD is a channel?

Radhika Piramal: **I**t is restored in Q1.

Dilip Piramal: But overall it has come down in the last few years. The contribution of CSD to our total sales is definitely lower.

Tejas Shah: Radhika the recent announcement on GST on handbags coming down to 12%, so are we planning to past it on to consumer?

Radhika Piramal: GST on our handbags has not been reduced.

Tejas Shah: Does it make us more competitive versus unorganized and are you seeing that trend in last nine months after GST has been implemented?

Radhika Piramal: GST has been a very welcome development for us, so it has helped the branded sector tremendously.

Tejas Shah: That is it from my side and congratulations on good set of numbers.

Dilip Piramal: Radhika, I am signing off.

Radhika Piramal: Yes. Thank you. Can we end at maximum one or two more questions?

Moderator: Sure. Due to time constraints we will be able to take the last two questions. Next question is from Shaan from Edelweiss. Please go ahead.

Shaan: I just wanted to understand the trading part from China, so when I look at the purchase of traded goods even on a QOQ basis and even on YOY basis there is a significant drop and that is despite the currency not being favourable, so does it mean that there is a decrease in the volume of what we import from China?

Radhika Piramal: You have to also taken into account the changes in inventory.

Shaan: Okay.

Radhika Piramal: You have to sum cost of materials purchase, stock in trade and change in inventory and then do the analysis.

Shaan: Regarding Bangladesh in the last quarter we had highlighted that we are looking at some capacity addition?

Radhika Piramal: Yes we have been discussing this for the last 30 minutes, our capacity expansion in Bangladesh.

Shaan: Thank you.

Moderator: Thank you. We take the last question from the line of Pinkesh Punjabi from Taurus Mutual Fund. Please go ahead.

Pinkesh Punjabi: Good evening. Thanks for the opportunity. I have two questions, one could you please update about conversion cycle?

Radhika Piramal: Jogendra you want to answer that?

Jogendra Sethi: Can you please repeat the question?

Pinkesh Punjabi: Could you please update about your working capital and conversion cycle?

Jogendra Sethi: Yes, our working capital cycle is roughly around two months.

Radhika Piramal: I can be a little more helpful, I can say our payables about 80 days, our receivables around 40 days and we have about 100 days of inventory.

Pinkesh Punjabi: Second question is could you please highlight about your forex hedging policy currently?

Radhika Piramal: We have found over the years that there is a cost of hedging. Whatever policy we have, we have to stick to it and during the years of volatility, everybody looks at hedging, but when things are stable, they do not hedge.

Pinkesh Punjabi: I am done with questions. Thank you.

Shradha Sheth: Radhika just two questions from my side. Just wanted to understand, what is the market size of backpacks and as you said unorganized is huge so how much is that out of the overall market size?

Radhika Piramal: I really do not know Shradha,

Shradha Sheth: And just secondly on VIP just wanted to understand as you said we have started growing after a very long time, so definitely it being a big contributor, so that started to having grow, we can sustainably see this kind of a run rate in terms of growth rate?

Radhika Piramal: There are two main reasons for the growth of VIP, the first is a much better product line, which was well appreciated, so the merchandise is good. The second is a little bit of CSD impact because VIP was always a big brand in CSD

Shradha Sheth: Just one last question. If Jogendra or you could explain with the currency as you already said the USD INR part at these levels we are fairly comfortable, but if you can also explain in context of the USD Yuan part or the Yuan-INR part, with appreciating Yuan how does that impact?

Radhika Piramal: Appreciating or depreciating Yuan, Yuan is also depreciated against the dollar?

Shradha Sheth: Yes versus the dollar, so if you can?

Radhika Piramal: I will answer this way. Our cost increases in China comprises labour cost increases and raw material cost increases. We have to give a price increase on a FOB dollar prices. Last November-December, we would have expected with these continued raw material cost increases. Our vendors would have come back and ask us for another round of price increases in April-May, we were able to hold that off because of the Yuan depreciation against the US dollar, We can manage, if our dollar buying prices remain same. If the rupee depreciates a bit, if plastic prices go up a bit, we can still manage that to maintain margins through taking perhaps a second round of price increase in the year.

Shradha Sheth: Fair enough. That is helpful. Thank you. Raymond any further questions?

Radhika Piramal: No I think that was your last question, so let me take this opportunity to wrap up. Everybody thanks for joining the call. It has been a good call with some great questions. Really happy to report this quarter. High growth happened as all channels and all brands shooting at the same time, it has not happened for a long time and when it does it just shows the power of our company to grow. I see no reason why this should not continue on the sales growth as well as margin front, very excited for the year ahead. 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.

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