



VIP Industries Limited
Q3 & 9M FY '24 Earnings Conference Call
January 31, 2024

MANAGEMENT

MS. RADHIKA PIRAMAL – EXECUTIVE DIRECTOR & VICE CHAIRPERSON – VIP INDUSTRIES LIMITED

MS. NEETU KASHIRAMKA – MANAGING DIRECTOR & CHIEF FINANCIAL OFFICER - VIP INDUSTRIES LIMITED

Moderator: Ladies and gentlemen, good morning, and welcome to the Q3 & 9MFY '24 Earnings Conference Call of VIP Industries 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 over the conference over to Mr. Snighter Albuquerque from Adfactors PR- Investor Relations team. Thank you and over to you.

Snighter Albuquerque: Thanks, Yashashree. A very good morning to everyone and welcome to the Q3 & 9MFY '24 Earnings Call of VIP Industries Limited.

From the senior management, we have with us Ms. Radhika Piramal, Executive Director and Vice Chairperson, Ms. Neetu Kashiramka – Managing Director and Chief Financial Officer.

Before we begin the conference call, I would like to mention that some of the statements made during the course of today's call may be forward-looking in nature, including those related to the future financials and operating performances, benefits and synergies of the Company's strategy, future opportunities and growth of the market of the Company services. Further, I would like to mention that some of the statements made in today's conference may involve risks and uncertainties. Thank you and over to you, Ms. Radhika Piramal.

Radhika Piramal: Thank you so much. Good morning everybody and thanks for making time for our call. I hope you will have had a chance to see the Investor Presentation that we have shared. I will not run through the numbers in that again. Neetu will do that in a minute.

I thought I would share some more general remarks about the company. I would like to firstly address the issues head on. It has been a poor quarter for us. We recognize our underperformance, and we are not meeting our own standards.

Having said that, I would like to reassure all our investors that in the quarter gone by, there have been many changes and many inputs. A lot of good work has happened in many different departments and in the company overall and the output of that in the form of higher sales and better margins is not yet showing but it will start to show in the current quarter that is Q4 and then further in Q1, there will be a sequential improvement as our MD gets more time to make decisions and then implement those decisions. She is taking these decisions at a good pace.

Here, I would like to add that Neetu and I personally are an excellent team. I believe that we have a very complementary skill set. I also want to reassure the investor community that both

of us are extremely committed to our shared common goal that we share with you all, which is shareholder value creation.

So, the fact that the quarter's performance did not meet our own standard and that our share price has not grown the way we would like since COVID is a matter of grave concern to everybody at VIP and the main sort of way we are using to tackle this is a combined teamwork between Neetu and myself to make good, fast decisions on a number of different focus areas, which I will outline and I am extremely confident that there will be much better performance in the calendar year 2024.

There are four focus areas. The process of product range, Neetu is going to talk about it in much more detail and it should be visible improvement in the stores across the country, sort of more or less from this month onwards a little bit and then more and more from March and April onwards. So, the products are much better.

The second focus area for us is premiumization. We all know that currently Aristocrat is the largest brand in our company but certainly, the company's goal is that Skybags of VIP should be the largest brand. We are not meant to be a value Company. We are a mid-premium company, and we need to get back to those winning race.

The third area in which there has been a lot of work has been on the leadership team. Neetu will talk about this in more detail, there were some intimations made to the stock exchange towards the end of December. We are happy to address that.

The fourth and final piece that we are working on with a lot of focus is improving our availability and fill rates as well as the costs of our supply chain.

There is good work happening on all four areas. I will repeat the four areas the first is the product, the second is premiumization, the third is the leadership team and the fourth are fill rates and costs of supply chain.

I would like to conclude my general remarks and hand over to Neetu, but I would like to reiterate at this time that the top management of VIP as well as the promoters are totally committed to shareholder value creation. In fact, we stand to gain the most as this happens and we are confident of the same in 2024. Thank you, Neetu, and over to you.

Neetu Kashiramka:

Thanks, Radhika. Good morning, everyone. Thank you for joining the call. We announced our third quarter results yesterday. Before we talk about the results, let me just highlight as to what structural areas, some of the things, Radhika already spoke so I will skip that. But what I started with, so it's four months now. I visited 20 markets in the last four months to understand from my own eyes as to where we are and where is the competition. Two good things which I observed is our presence is across the length and breadth of the country.

However, I think competition is slightly ahead on product from our standpoint, but other thing which I realized is that the brand recall for all our brands is quite good, especially VIP and Skybags, they are well known in the market and therefore, if we do our product right, I think we can win this game quite fast.

I am very happy to say that we are launching 37 new ranges between December to March, five to six are already done and lot is going to happen between Feb and March. Definitely, if you go and see our stores after around March, you will see a startling difference. Even if you go today to what it was four months back, you will see that difference.

The other thing, lot of time I have spent in last four months on having the right team to take this organization to the next level. 60% of my team is either new or handling a new portfolio. You must have seen that in the presentation which has been shared there are lot of fundamental changes. I think I spent a lot of time on all these things in the last four months and these changes now will start to follow into the performance.

You have already got the presentation so let me just give a few highlights. I am not going to talk very detailed on the numbers because everything is available with you. I will give more time for you to ask me questions and I can answer it in as much detail as you need.

Quarter three reported a revenue growth of 4%. However, domestic grew 6% which means international had an impact this was mainly because of China coming back and also slowdown in some of the Middle East areas.

However, there is one good thing which has happened because our entire focus was on clearing the pipeline inventory. Our secondary sales for quarter three is a growth of 24%. E-commerce has seen quite a heartening growth, 65%, I think our decision to accelerate E-commerce growth has helped.

We have opened 25 new EBOs during the quarter, mainly through FR route. Last time we had spoken about few airport stores coming up, I am happy to inform that two stores at the Mumbai airport are operational and four additional in different cities are coming up before March and 10 more in the FY '25.

One more good thing happened in quarter three, for the first time after the long time, VIP has seen a double-digit growth and this was because of our premium launches. There were two new launches which happened in VIP during this quarter, which was a lightweight category. I think that's got a great response. I am quite hopeful now that our VIP and Skybags brand growths will start to come in. Aristocrat also grew which is now on a sustainable growth journey. The entire focus of my team going forward will be on the premiumization.

You will also witness lot of launches and because of these premium launches, I think the growth will also start to see, January is also showing some green shoots. We are growing double digit now in January and for the quarter, it should be upward of 15%.

ASP has started to grow, our realization per piece we saw in quarter three has started growing and we should further see acceleration in quarter four. Basically premiumization will be two ways, upgrading the existing customer and also adding new customers to our portfolio who were either buying a competition product or buying something from outside the country. Our product portfolio is going to compete with everybody in the market today.

On profitability, one good thing which we have seen last two quarters, gross margins have reached where it should be, we are in the range of 55%-56% already and the gross margin is actually more difficult than anything else. Once we get the gross margin right, I think balance should follow and also with premiumization and ASP improvement we should further strengthen our position on getting into margin improvement.

EBITDA definitely has seen quite a sharp reduction this is mainly because of increased freight, accelerated investments in e-commerce channel, marketplace activation and professional fees for accelerating E-com growth.

If I have to talk about the market indicators, everything looks positive. The air traffic, passenger traffic, and hotel occupancy remains positive and therefore, I am quite confident that starting from quarter four, our sales number should start to increase, first you will see growth in sales followed by profitability and me and my team can assure you that we are working tirelessly to make this happen. All of us have this ESAR program. If we do it right, the VIP share price improves and therefore, we also gain.

One more thing is that we have extended this program now to second level also, basically 50 people are part of this program earlier there were only 11 people for this program. Today, there are 50 people and therefore, I am quite confident that together VIP team will take this company into a next level. Just give us some time and I think your patience will help.

In this quarter, quarter four, I am assuring that we will definitely have a double-digit revenue growth and much better starting from quarter one of FY '25. All the efforts which we have taken, I think the results are not visible but visibility will start soon.

With that, I think I will open the floor for questions and Yash.

Moderator:

Thank you very much. We will now begin the question-and-answer session. We have a first question from the line of Jinesh Joshi from Prabhudas Lilladher. Please go ahead.

- Jinesh Joshi:** I have a question on our inventory. I mean, if I look at 1H, if I remember right, we were at about Rs. 763 crore and I believe in this quarter, we have piled up another Rs. 122 crore. So, any reason for not consuming the existing stock but building more onto it? And also, how should we see the warehousing cost move in the near term because of rising inventory?
- Neetu Kashiramka:** You are right. The inventories have gone up. Mainly, there is one fundamental change which we are seeing. We have also alluded that into our presentation that certainly we are seeing a soft luggage slowdown into the overall market and that is the reason why you see this inventory.
- However, we already have some plans around how do we take care of production in this inventory. Warehousing costs currently, whatever it is, I think in next two quarters it should come down because we have plans to reduce our inventory levels from where it is today. It should be in the range of Rs. 600 crore.
- Jinesh Joshi:** The second question is with respect to our revenue. I mean, in this quarter, is it grossed up for the performance marketing fee towards E-com? And if yes, can you share the quantum?
- Neetu Kashiramka:** There is no change in the accounting because in the middle of the year, we didn't want to do that and even auditors did not agree but going forward we will see if we have to do that but that has not been done. This is as compared to last quarter.
- Jinesh Joshi:** For that quarter. One last question from my side, I think in the PPT, we have mentioned that the other expense was high due to higher freight. So, if you can explain the reason behind that? And also our tax rate was at about 46% in this quarter. So, any specific reason for it?
- Neetu Kashiramka:** The freight is high because of multiple movements of goods, because we want to liquidate the soft-luggage inventory. It had multiple movements, and the tax rate is higher mainly because of the deferred tax assets which got created because our profits are low, we created a deferred tax asset. However, for the year, it will be around 27%.
- Moderator:** Thank you. We have our next question from the line of Lokesh Maru from Nippon Mutual Fund. Please go ahead.
- Lokesh Maru:** Two questions. One is we also selling Uppercase in our retail outlets at this point? And why would that be?
- Radhika Piramal:** We are not selling Uppercase in our retail stores. We consider Uppercase a new competitor on the market.

- Lokesh Maru:** Another point is on profitability. It's quite visible that our profitability margin structure has changed now, given the freight cost and performance marketing spend, E-commerce expenses, etc. So, that margin has come down to 1.2%, could be, if you adjust for tax, would be higher than that obviously. But any guidance on, you know, earlier if our band was 18%-20%, now it's certainly lower, but how do we perceive that going forward?
- Neetu Kashiramka:** We still maintain our guidance of 18%-20% over next 12 to 18 months. Whatever you are seeing currently is also because the sales growth is lower and therefore overhead absorption is not happening at the pace at which it should have happened, you will start seeing improvement starting quarter one and in 12 to 18 months, we will get back to whatever promises we have done. So, 18% is something which definitely you will see in next 18 months.
- Lokesh Maru:** As the sales grow, would this commission that you have to pay to the E-com channel, the website, would that be proportionate to sales or is it fixed in amount?
- Neetu Kashiramka:** It is as a percentage to revenue. However, last year, it was like first year of our acceleration therefore, the percentage was high. It will come down as the growth happens.
- Moderator:** Thank you. We have our next question from the line of Jaiveer Shekhawat from Ambit Capital. Please go ahead.
- Jaiveer Shekhawat:** Neetu, first question is on relation to the resignations that have happened in the management level, especially the middle level management, especially post Anindya's exit. So, one, could you say, talk more about your strategy to sort of stem this attrition? And have you already found replacement?
- Radhika Piramal:** Let me take that on. I think Neetu has gone about things in a very organized manner. The change of leadership at the MD level happened in August. Neetu has taken time to assess the market, do market visits to assess the team and then in a very calculated and planned manner, there were some resignations in December and I think all the positions are full at the moment. We are expecting a CFO to join shortly.
- Neetu Kashiramka:** These resignations were planned. Yeah, it's not that it happened.
- Radhika Piramal:** So, mutual convenience of all involved.
- Jaiveer Shekhawat:** And secondly, when I see your growth, now if I compare it versus the pre-COVID level, whether you take FY '19 or '20, I think growth has only been around 20% -25% and a large chunk of that has come via higher realizations. So, you are still growing your volumes in low single digits. So, what really explains that and what you are starting to sort of grow your volumes from here on?

Neetu Kashiramka: Volumes did grow, basically what had happened, value growth is low mainly because of the mixed change and Aristocrat grew faster than the other brands and Aristocrat price realization is almost 60% of what VIP or Skybags realizes so volume growth is there.

Going forward, I already alluded that we have a strategy for premiumization and volume growth will happen because this year we are not taking any price increases because we are at a good gross margins, so whatever growth you will see will be in volume terms only.

Jaiveer Shekhawat: And last quarter, I think you had also alluded about the margin improvement and we understand it is largely because of the higher inventory that you are carrying that you are incurring that additional freight warehousing cost. So, one, you did mention about the remark that your soft luggage sales are not taking place and you already hold a lot of inventory. So, what's your strategy, exact strategy to sort of liquidate that part?

Neetu Kashiramka: I cannot talk about strategy on the call. However, we can meet maybe one-on-one or have a call, I can tell you. There is a plan that 50% of my slow moving inventory, I should reduce by March.

Jaiveer Shekhawat: And lastly, if you could talk about the range of competitive intensity that you are seeing and whether your competitors are sort of resorting to aggressive discounting to push their sales? Is that what you're seeing in the market?

Neetu Kashiramka: Not so much now.

Radhika Piramal: I will say a good healthy competition in the market with two, three larger players and then a number of new entrants and it makes it exciting to compete in this market that has a lot of potential for growth. I am not surprised there are lot of new entrants.

Jaiveer Shekhawat: And because in the past, what we have seen is we have in some quarters held on to our margins and compromised on the growth. So, there has always been a growth margin trade-off. So, what the strategy going forward is they had resort to accounting?

Neetu Kashiramka: With my premiumization strategy, I think the way I look at it is I should have a profitable growth and with premium strategy, it will automatically happen, so I will go after profitable growth.

Radhika Piramal: Our brand VIP and Skybags are very strong. We have experienced it in the past. If they are not showing their strength in the market right now, they will soon, on the basis of stronger product lines, better fill rates and a more focused within the company on our mid-premium brands rather than our value brands.

Neetu Kashiramka: Over the next 12 months, you will definitely see some products which are first in India, then first in the overall luggage industry and then something out of the box. I think just wait and watch.

- Moderator:** Thank you. We have our next question from the line of Manish Poddar from Invesco Asset Management. Please go ahead.
- Manish Poddar:** So, I just had two questions. One is, you spoke about product quality probably not meeting to expectation. Just trying to understand
- Radhika Piramal:** Let me clarify. Not quality. Attractiveness of the ranges that is product design is not product quality.
- Manish Poddar:** So, can you probably double click and help us understand what are you doing to probably, you know, in terms of interventions, not really getting to the broader strategy, but if you can probably help understand two, three areas where you have taken course correction?
- Neetu Kashiramka:** One, we are investing in the right team. I think design and development innovation is a key focus. Manish, you can come to office. I can show you the entire range which is coming up in Feb and March. You yourself will see the difference.
- Manish Poddar:** And would it be right to say, let's say, when you, you know, first you course correct and this inventory amount which you want to get it down in the next quarter, would it be right, let's say, when you look at FY '25, that is the year when you look at probably build-up sales again, get the right products at place and probably margin is not one should focus in FY '25? Is that how one should think about that year?
- Neetu Kashiramka:** As I said earlier also that I will be focusing on a profitable growth. I am not saying I will reach 18% EBITDA starting quarter one, you will see a journey sequentially, the margin improvement should be visible but I will focus on volume, and revenue, you will start seeing better revenue growth starting from quarter four.
- Manish Poddar:** Just, I don't want to put in a number, but what I'm trying to understand is, let's say, would internally, you are already happy with, let's say, 15% growth, and let's say 16% to 18% margin, or would you want 20% growth and 15% margin is what I am trying to understand?
- Neetu Kashiramka:** Manish, I think I need one or two more quarters to tell this, because a lot of things are like moving parts which I am working on today. I don't want to put any numbers at this point.
- Manish Poddar:** I understand. Fair enough.
- Moderator:** Thank you. We have our next question from the line of Bhavin Rupani from Investec. Please go ahead.
- Bhavin Rupani:** My first question is related to your Skybag and VIP. So, ma'am, we have been seeing that our focus is to increase the share of premium and mass product, but the combined share of both the products has been declining continuously. Can you please list down some of the corrective

measures that we are taking over here, apart from the new launches that we are supposed to make in the next couple of quarters?

Neetu Kashiramka: As I mentioned that we are looking at re-aligning our portfolio, basis of competition, something which is better than competition, something which is not seen in the travel industry and something out of the box, with that premiumization strategy, which is definitely on VIP and Skybags, you will start seeing.

If you see in this quarter, quarter three, VIP has grown higher double digits, 20% after a long, long time. We launched just two or three ranges in this quarter and that to mid-November means 45 days of new product has given us that kind of result. I am very sure that, you know, our new product portfolio.

We are focusing on VIP because earlier, I think I want to change the perception that VIP is an old brand. I think that's something which I want to change. If you go to our store today, also you will see a product which is Airtron and Air. I think you can feel the difference. You can go to any VIP store lounge today. You will see these new products which are doing fantastic.

Bhavin Rupani: And is it possible to quantify what incremental growth in VIP is from the new product in this quarter?

Neetu Kashiramka: Entire growth is from new products in VIP for this quarter.

Radhika Piramal: At any given month, typically, new products can be 20% to 30% of our sales because that's the nature of our industry. It's possible that in the last, let's say 18 months, the frequency of our new product launches was not good enough. Our products are getting dated that is one basic thing we are getting back to. In any consumer brand, I think the strength of the product assortment really drives growth. It's what attracts a customer and that is why we are focusing on products. Once again, it's the heart of the business.

Neetu Kashiramka: Just to add, travel is also becoming part of something which you are carrying and it is becoming more fashion which was earlier looked upon as convenience and that's why also design, color, innovation makes lot of difference.

Radhika Piramal: We acknowledge that our product range was getting a bit faded and dated. We did not do enough, good enough product development in the first 18 months after COVID but Neetu has been working extremely hard on this for the last 4-5 months.

Bhavin Rupani: And on Caprese, revenue more or less has been stable over here. What could be the reason over here and what are the steps that we are taking here as well? So,

Neetu Kashiramka: One, lots to do for me on luggage which is 95% of the business and therefore maybe this got slightly ignored. It will take two, three more quarters for you to see better growth increase.

- Bhavin Rupani:** And I understand your other expenses have increased by almost 7.5% of sales as compared to last year. Is it purely on account of freight cost?
- Neetu Kashiramka:** One is freight and the second we are doing this accelerated E-com project with BCG so that cost is also part of this other expenses which should get over in March.
- Bhavin Rupani:** And if I can squeeze in one more? On incremental capital allocation, what is our current capacity, if you can separate it between hard luggage and soft luggage? And what is the incremental capacity we are adding? And by when it will commercialize?
- Neetu Kashiramka:** In hard luggage, we have 94% capacity utilization and in soft luggage, it is around 70%. In hard luggage, we are looking at few models whereby we will be doing a distributed manufacturing and it does not require too much of a CAPEX at this point of time.
- Radhika Piramal:** And also some incremental supply from China.
- Neetu Kashiramka:** Yeah, and also as a strategy, all my new design, which are different, are coming from China.
- Bhavin Rupani:** So, what would be the capacity as of now? And any plans to increase over here?
- Neetu Kashiramka:** I don't want to put that number but it is 20% increased from last year on hard luggage. Soft luggage, we have not increased. In fact, we are converting our upright capacity into duffels and backpacks which are large categories and we have good plans for these two categories to grow.
- Moderator:** Thank you. Our next question from the line of Tejas Shah from Avendus Spark. Please go ahead.
- Tejas Shah:** First question is based on your extensive market visits that you have done. How would you articulate the core problem statement for constructing the revival plan?
- Neetu Kashiramka:** It's all about product, product, product. Nothing else. And premiumization and fill rates.
- Radhika Piramal:** Yeah, and fill rates.
- Neetu Kashiramka:** Right product at the right time to the right consumer, I think that's how I define it, therefore, my first few months, I have spent more on the products.
- Tejas Shah:** And not only on Carlton, because of the consumer, we have always...
- Neetu Kashiramka:** Maybe next quarter, yearend, I will do a physical analyst meet. We will show you what we have done, show my product range, so that everybody can see what has happened in the last 6-7 months.

- Tejas Shah:** And ma'am, secondly, your guidance on 18% margin, considering the challenges that you are handling today, would you say that 18% will be an exit month or exit quarter guidance for next year, or do you think that...
- Neetu Kashiramka:** Yes, not next year. I said 12 to 18 months.
- Tejas Shah:** 18 months.
- Neetu Kashiramka:** Yes, which means, exit of that quarter at the end will be that 18%.
- Tejas Shah:** And ma'am, looking at the current debt situation and inventory situation, I was just curious what prompted the decision to declare interim dividend? Because we have cash requirement in the business to fight or make all these changes.
- Radhika Piramal:** Understood. I think we took a middle path, which is that we did not increase borrowing limits in order to fund this dividend and at the same time, it also reflects our confidence in the future that we did not think this was such a big financial burden or impact on the company. We want to show some confidence, at the same time, take it in a measured way. We will decide about final dividends basis the final result only, we will see whether there should be a final dividend or not.
- Tejas Shah:** And then last, if I may. You were informing your new team what talent and cultural gap are you actively addressing through your hiring?
- Radhika Piramal:** Speed of decision making is the number one priority, granular details and understanding of our business, industry, and company.
- Neetu Kashiramka:** With no baggage.
- Tejas Shah:** So, no baggage means are you going outside your industry to hire talent or?
- Radhika Piramal:** Always have to do that.
- Radhika Piramal:** Yes, but that is common, because in our industry, it's a fairly small industry. We all know each other, our competitors fairly well. We often go outside the industry as well as our competitors. It's not unusual.
- Moderator:** Thank you. We have our next question from the line of Shobit Singhal from Anand Rathi. Please go ahead.
- Shobit Singhal:** Ma'am, can you please share the volume growth for this quarter and for nine months?
- Neetu Kashiramka:** I think volume growth for the quarter was negative 4% and 6% growth for nine months.

Shobit Singhal: And what is the current store count we have? And what is the target for this year end and next year?

Neetu Kashiramka: We have added 25 stores in the current year, which is taking the overall number to 541.

Shobit Singhal: And what is the target for the next year?

Neetu Kashiramka: We are looking at around 600.

Shobit Singhal: So, this year we will end by, okay, understood.

Neetu Kashiramka: This year we should end by 550.

Shobit Singhal: Understood.

Neetu Kashiramka: We have more stores are coming up.

Shobit Singhal: And next year, so you are saying we will be adding only 40 stores?

Neetu Kashiramka: We will be adding 50 stores, so 550 and then 600, so 50 stores.

Shobit Singhal: Understood. And all will be on the franchisee, right?

Neetu Kashiramka: 80% franchisee because certain places, large malls, they don't give it to the other than the manufacturer or the brand company.

Moderator: Thank you. The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: Good morning, Radhika and Neetu. Thanks for the opportunity. I have one fundamental question. Over four months, you have walked the journey and there is a lot of scope and there is work which is done which Radhika alluded in the beginning. So, task force members have become from 11 to 50. I was more curious in your weekly, monthly, quarterly review, what are the things that are discussed and what are the top three priorities the management is concerned about? I mean, though, Neetu, you said that the product is one of the things which you are focusing. But I was more curious, what are the things, what are the parameters we are measuring the performance of the team?

Neetu Kashiramka: We mentioned couple of times, one big thing is premiumization, which means NPD, which is New Product Development calendar if a particular product was supposed to be launched in February, is it getting launched at the same time or not, is one of the parameters which I see. The other focus area is fill rates, we keep track of what is the fill rate because lot of times we

are losing business because we are not able to fulfill the product on time. I think that supply chain is something which is the overall rehaul is happening as we speak.

Neetu Kashiramka: These are the two important things.

Radhika PIRAMAL: Of course, the internal is the leadership and management and mid-management changes to support this, once you have a good product, once you have better fill rate.

Neetu Kashiramka: I keep doing stand-up meetings, if you are saying what the kind of review are, I started some stand-up meetings, especially on the inventory something which is one of my other key focus areas, I do a weekly stand-up meeting. However, the team who is responsible, so we have created a cross-functional team, this is how we started working.

Neetu Kashiramka: I have a PMO. There is the MD office.

Radhika PIRAMAL: Neetu was very fast. That is the main thing and she understands a lot of details very quickly, and she is a quick decision maker.

Shirish Pardeshi: My second question is that when you and Radhika have stitched the new strategy for revival four months before and there is a change in the manpower, middle management and in terms of supply chain in the organization, in that whole journey, at this point of time, where we are in terms of our ambition? Is it 50%, 40%?

Radhika PIRAMAL: I would say 30% and you can say that less. Neetu says no, she is frowning as I say it and I am saying it 30% and to me that's not negative. It's positive which was how much more potential we have to go because you know, I feel I need to have the capability to look at what I would call immediate performance improvements which is for the current fiscal and the next fiscal as well as second horizons which would be 25, 26, etc., in that way I am saying 30% if Neetu wants to say 50%, I am fine with that.

Shirish Pardeshi: So, let me turn this in a follow-up question. If 30% is you are giving a confidence that we...

Radhika PIRAMAL: No, I am 100% confident. Please, you said, where are you on a journey of transformation?

Shirish Pardeshi: No, no, Radhika, what I am asking, in the 30% if you are getting this confidence, if you have been able to successfully drive that 100% strategy what you have in mind, the performance will be beyond your expectation. That's what you are trying to communicate at this time.

Neetu Kashiramka: As an organization, I tell you what is 100%, so today, we are known as a luggage company. I want this company to be known as a travel solution Company. I think that's my long-term ambition and that's what 100% is and today on that journey, we are at 30%.

Radhika PIRAMAL: 100% for me includes success in handbags and success internationally.

- Neetu Kashiramka:** Plus as I just said, it's not only luggage Company, it's a travel solution company, anything or everything about travel means VIP.
- Shirish Pardeshi:** My second last question. When you see 9 months contribution from premium and mass premium is about 56%, is this a factual market share? How this number stacks in premium and mass premium segment?
- Neetu Kashiramka:** It is very difficult to get this data because this industry is not tracked by AC Nielsen as it is done in the FMCG. What we do is we track an overall market share basis, three large, organized players because their data is available and there, today, our market share is 37%.
- Shirish Pardeshi:** 37%.
- Neetu Kashiramka:** Yeah.
- Shirish Pardeshi:** And a similar question on the follow-up. When you have GT, modern trade and E-commerce is roughly about two-thirds of our business. So, would you have been tracking some channel-wise market share in these three channels?
- Radhika Piramal:** We track it, but we cannot share that data at this time.
- Shirish Pardeshi:** No, the question is that, where it is deviating from the peak over last 3 to 4 years, if I may ask?
- Neetu Kashiramka:** I think E-commerce data is available which we are tracking. We will become number one soon in some of the channels, like Flipkart and Amazon. We are targeting to become number one. It is one or two quarters away.
- Shirish Pardeshi:** And the last question on the margin story. We are at close to about 10%, 11% and we are targeting to go to 18% over the next 15, 18 months' time. What are the levers and what are the short-term gains and what are the long-term, medium-term gains which you think? Obviously, supply chain is one of the things which will give you the operating leverage, I can understand. But what are the things because of the revival in management you can fast-track that.
- Neetu Kashiramka:** One, 10% and 11% is not a normal margin. It is an abnormal thing this is mainly because of low revenue growth. Once we do normal revenue growth, which is upward of 15%, this automatically will become 13% to 14%, which is our normal margins and from there, I have to grow and those are few things. Premiumization story, which will add little bit to my bottom line. And the second one is rationalization. I want to reduce my inventory, as I said, from Rs. 829 crore to Rs. 600 crore once that happens, my warehousing costs will come down. I think these two things plus rationalization on trade, looking at our overall warehousing structure, those are few things which I will work on.

- Radhika Piramal:** Yeah, I want to actually reinforce one point. We will certainly not be reducing our product specifications in any way and quality will only improve from here, that is a very firm directive from my side.
- Moderator:** Thank you. We will take our next question from the line of Nihal Mahesh Jham from Nuvama. Please go ahead.
- Nihal Mahesh Jham:** My first question was that if you look at the growth of Aristocrat over the last three years and also say the growth of one of your competitors, is there a case that the market has shifted more towards the value segment and in that context maybe wanting to premiumize? Just your thoughts on that.
- Neetu Kashiramka:** One what has happened post-COVID that the unorganized sector has moved to organized, where you see Aristocrat and our competition doing better in the lower end also, the supply chain of China was disrupted and therefore, the organized players took that opportunity and once a customer is clued on to a branded range, I think the preference is more towards organized rather than unorganized.
- The other thing is in the hard luggage, the polypropylene strategy also helped gain market share from unorganized because we were able to provide a product at Rs. 2,000. Branded luggage like Aristocrat and others were available close to Rs. 2,000, even lower, Rs. 1,899 and Rs. 1,999 types. India story is premium story. We are talking about every day there is one or the other article in the newspapers. India is moving towards premiumization and therefore, I am also working.
- Today my highest selling product in any of my lounge if you go, it's Rs. 10,000, I am upping that to Rs.18,000 so, by March, April, you will have few products where consumer price will be Rs. 18,000, that's the journey which I am starting and not that Aristocrat will not be focused, it will also be focused, and it will play its own game in the place or the market where it exists.
- Nihal Mahesh Jham:** So, just to be understanding better that I would assume that majority of the product range and launches that you are targeting would be more in VIP and Skybags incrementally going forward versus an Aristocrat.
- Neetu Kashiramka:** Nothing like that. We will have to have relevant across, right, because Aristocrat is Rs. 1,000 crore brand now so I will have to play my game there also if I have to be relevant.
- Nihal Mahesh Jham:** The second question was that when you are focusing on creating such an extensive range, will it lead to an increase in inventory, or would there be more of batch manufacturing? How to look at the range versus say the inventory next year?
- Neetu Kashiramka:** It will not increase the range as we move along.

- Radhika Piramal:** We are not increasing our range. We are improving our product attractiveness and design. When we launch new products, then we discontinue the old aged products.
- Nihal Mahesh Jham:** Number of ranges or SKUs would more or less remain the same or would it just be more refreshes that will be happening, right?
- Neetu Kashiramka:** Yes, plus I am also working on a reduction in the ranges because rationalization of products itself is also one of the works which I am doing now.
- Radhika Piramal:** Fewer ranges that are much more practical.
- Neetu Kashiramka:** Fewer and better, yeah.
- Radhika Piramal:** That is the goal.
- Moderator:** Thank you. We have our next question from the line of Jigar Jani from B&K Securities. Please go ahead.
- Jigar Jani:** So, can you give me what is the performance marketing spend in the quarter and the total A&P spend?
- Neetu Kashiramka:** It's there in the presentation, Jigar.
- Jigar Jani:** And any one-time payment to BCG done?
- Neetu Kashiramka:** Yes, there is a fee paid to them in this quarter as well, and by saying one time we mean it's a 12-month contract.
- Jigar Jani:** So, these Rs. 6 crore will continue basically till the time which we had paid last quarter.
- Neetu Kashiramka:** Till March.
- Jigar Jani:** Till March. And we had announced an incremental CAPEX of almost Rs. 50 crore. I think last quarter you had mentioned, out of which Rs. 30 crore was already done. So, is that CAPEX now over, considering we are not adding any new stuff?
- Neetu Kashiramka:** All CAPEX plans are on hold. For new designs we will continue. However, there is no big CAPEX in the next one or two quarters.
- Jigar Jani:** And so, on freight, when do we actually start seeing normalization in these expenses? Would it be like the second half of next year where we could see some normalization in this freight and handling expenses of warehousing expenses overall?

- Neetu Kashiramka:** Yeah, because for this the inventory has to come down, so it will take one or two quarters.
- Moderator:** Thank you. We have our next question from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.
- Vivek Ramakrishnan:** My question was in terms of I can understand where your journey is going in premiumization, and India is going that way. How do you think the consumer perceives VIP or Skybags so that it makes the journey from where you are to where you think the consumer should see where it is? It's not just a product and the price, right? So, I just wanted you to share your thoughts on that.
- Neetu Kashiramka:** One thing I would say that what I have realized after seeing these 20 markets in my first 45 days is that customer has a short memory. When they visit the store, they find something which is very attractive, and they know the brand they will pick it up. Skybag is known for a youth it's for the Gen Z so, you will find more colorful and so there is already a target audience defined for Skybag.
- VIP is something which we are working on. I agree it's not easy because people consider that it's some old brand, but to change the perception you will see lot of new ranges which are something different will all be in VIP. It's a journey, but yes, that's a journey which I have started already with two, three new launches and lightweight happened in quarter three and a lot happening in next one or two quarters. It's a journey, we'll have to talk about it. We will have to showcase but brand recall is high. The ToM score of VIP is the highest in the industry and which is actually almost more than 2.5x of any of our competitions and I have to capitalize on it.
- Vivek Ramakrishnan:** Thank you. We will take our next question from the line of Harsh Shah from Bandhan AMC. Please go ahead.
- Harsh Shah:** Hi, Neetu and hi, Radhika. Neetu, when you spoke about product in terms of design, does it also mean that we are moving towards more frequent launches of new products compared to what the previous norm was?
- Neetu Kashiramka:** Pre-COVID, we were good. Post-COVID, new launches and the kind of product profile had deteriorated. I am going to take it to what it used to be pre-COVID, refresh ranges multiple times and give something attractive to the consumer for them to get excited about.
- Radhika Piramal:** I wanted to add one thing here that maybe will convince you all. Neetu has been saying also 2022-2023 where our product needed improvement at that time, she was the CFO so, she could not directly influence the new product ranges but now she can, she will she already has.

- Harsh Shah:** No, my question was more in terms of frequency of new launches. Will that improve as well, increase as well?
- Neetu Kashiramka:** I said that it will go back to pre-COVID where we were good, it will go back to that kind of frequency.
- Radhika Piramal:** Both the frequency of launches as well as the percentage of new products that are launched that succeed, all of that will improve.
- Harsh Shah:** And secondly, since the focus is now on product, more design and frequency and also improving the fill rates, so when do we see our market share, which is now at 37% go back to the level they were before?
- Neetu Kashiramka:** It should take at least 12-18 months.
- Radhika Piramal:** Yeah. Previously, in the 1980s, we were 80%.
- Harsh Shah:** I mean, 45%-50%.
- Neetu Kashiramka:** 45%-50% cannot happen in 12 to 18 months. It will take 3 years.
- Moderator:** Thank you. We will take our next question from the line of Manas from Kotak Securities. Please go ahead.
- Manas:** See, E-com is picking up overall everywhere. My question is what percentage of overall sales you see from E-com going forward?
- Neetu Kashiramka:** Currently it is around 21%. I think it will stabilize around 25%.
- Radhika Piramal:** Maybe higher, I think.
- Radhika Piramal:** For western models, maybe it will higher.
- Neetu Kashiramka:** Yeah. 25% to 30%. Yeah.
- Manas:** And within this E-com, how many would be through your own web channel and how many would be through Amazon, Flipkart? What would be the share?
- Neetu Kashiramka:** At this point of time, 95% is through portals. Ours is very small. However, in FY '25, we will be focusing on our D2C. First we wanted to put the act together and right and then work on D2C which will be a focus area for FY '25. Our intent is like 20% should come from D2C.
- Manas:** And do you have an active CRM program?

- Neetu Kashiramka:** Yes, we do.
- Manas:** Or do you intend to have one?
- Neetu Kashiramka:** We have at this point of time, but we will definitely have a lot of improvement plans around it. We are also looking at doing a loyalty program kind of a thing but those are my second level priorities.
- Manas:** And one final question. Like I saw GC trends going up, right? Or stabilizing up. GC, I believe, gets count, right? What is the GC trend you mentioned in the presentation?
- Neetu Kashiramka:** So, I said it's going up. It used to be 49% -50% for last almost one year. We are now inching towards 55%- 56%.
- Radhika Piramal:** The gross contribution.
- Manas:** Gross contribution. What about the walk-ins that you see in your outlet? Have they improved as such? Is there a way to measure them?
- Radhika Piramal:** I don't think I have that data. We don't measure walk-ins. What we see is a robust demand based on all our key indicators like secondary sales, like passenger traffic, like hotel occupancy. We don't specifically measure walk-ins only because we have a very distributed distribution system with multiple channels. Our retail stores are only a small percentage of the total company sales. We have many different ways to track the secondary sales other than walk-ins.
- Neetu Kashiramka:** Yeah. Because there are 12,000 touch points and our own stores count is only 150.
- Radhika Piramal:** There is robust demand. We feel there is robust demand. Is that your question?
- Manas:** Yeah, that was my question.
- Moderator:** Thank you. We have our next question from the line of Richard D'souza from SBI Mutual Fund. Please go ahead.
- Richard D'Souza:** Just one question from my side is that on the inventory front, what would be your strategy to handle it? And by when do you think we will have a decent kind of inventory on the books?
- Neetu Kashiramka:** Yeah, it will take 12 months for us to have a reasonable inventory. A lot of work has started, but it is something which is time consuming.
- Radhika Piramal:** We also don't want to sell too much at a discount. Yeah, so that actually adds time to it, but I feel it is a worthwhile time

- Neetu Kashiramka:** Also soft luggage per se does not have shelf life problem because you remember in the past, we used to use luggage for 7, 10 years. So, there is nothing is like and most of these inventories what I have is 9 to 12 months old. Nothing is one year and above.
- Radhika Piramal:** In the previous year, we obviously forecasted a much higher sales growth than what we achieved, in the previous three quarters and secondly, we forecasted a lot of soft luggage, where the market moved to hard luggage so that is why the inventory is so high. However, going forward with a systematic plan, it will come down and then gradually we will remove the supplies of our luggage so that we can also cater to the market demand.
- Neetu Kashiramka:** We are looking at different GTM strategies for doing that like I am going to the cities where I am not there, some such things which I can't talk in detail in this call.
- Richard D'Souza:** Just two questions here based on this thing. On the soft luggage thing, while you said that life is not a problem for soft luggage, but is it a matter of concern that maybe the soft luggage which we have is not what is in demand by customers?
- Neetu Kashiramka:** No, because in soft luggage, there is not much color, design issues like hard luggage. Hard luggage, you need freshness every time. Soft luggage is standard with few pockets, more or less some product will have three pockets, and some will have four pockets.
- Radhika Piramal:** The underlying ranges and inventory is good quality. It's not perishable. If we feel it is slow moving, we can use a range of discounts to make it fast moving but having said all of that, the key issue, I believe, is the speed to market of forecasting which needs to improve. If you have a given set of inventory and its subcategories, its ranges, its brands, like does that mean to the market and if the market shifts, how quickly can, we shift? That will determine the success. That's why I'm not so, I mean, the inventory is a concern. Don't get me wrong. The inventory and the cash management are concerned and the borrowings are also not desirable. But I do believe that Neetu combination of CFO and MD will definitely address it.
- Richard D'Souza:** The second question is on the forecasting front. I mean, we got the soft luggage thing wrong. We got the quantities which could be sold wrong. How have we corrected this thing going at? Now that we are looking at premiumization, do you think that's the way to go? I mean, is there any hardcore data which is telling you that premiumization is the need of the hour? Or is it something which you feel that given your cost structure, you can't go below mid-premium segment?
- Radhika Piramal:** I think it's about responding to the market. I believe there is sufficient premium, mid-premium and value demand. We are lucky in India to have so much demand across so many segments. It's about the company's ability to respond to the market demand with good products quickly.

What do I mean by quickly? I mean 3 to 6 months instead of 9 to 12 months. With the changes in leadership that we have had with those changes in leaders, and I mean that starting with Neetu, I believe the pace of decision-making is faster, the frequency of forecast revisions is faster, and the underlying processes underneath these forecasting will improve.

Neetu Kashiramka: We are also going with a software which will do a data-based forecasting and then there will be a moderation which will happen. We will use AI also.

Radhika Piramal: Neetu's management style is detail oriented and granular and you need that for to re-make an excellent supply chain department.

Moderator: Thank you. Due to the paucity of time, we will now hand over the call to Ms. Neetu Kashiramka from VIP Industries Limited for closing comments. Over to you, ma'am.

Neetu Kashiramka: Thanks for joining this call. I can only reiterate that have some confidence, a little patience. You will start to see green shoots soon. And yes, I welcome all of you to come and see the new ranges if you want to have more confidence. Be assured, I think the organization is in the right hands we are doing everything which is good for long term, there is no shortcut to success that's the mantra which I am following and definitely, you will start seeing results soon. Thank you.

Moderator: Thank you, ma'am. On behalf of VIP Industries, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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