3rd February, 2025

BSE Limited Phiroze Jeejeebhoy Towers, Dalal St, Kala Ghoda, Fort, Mumbai – 400 001. **Code No. 507880**	**National Stock Exchange of India Ltd.** Exchange Plaza, 5th Floor, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051. **Code – VIPIND**

Dear Sir/Madam,

Subject: Transcript of Earnings Conference Call on Un-audited Financial Results (Standalone and Consolidated) for the Quarter and Nine Months ended 31st December, 2024

In terms of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith transcript of the Earnings Conference Call held on Wednesday, January 29, 2025 on the Un-audited Financial Results (Standalone and Consolidated) for the Quarter and Nine Months ended 31st December, 2024. The same is also available on the Company's website https://vipindustries.co.in/investor/investor_con_call_transcript

Kindly take the same on record.

Thanking you,

Yours faithfully,

For **V.I.P. Industries Limited**

Ashitosh Kamlesh Sheth

Digitally signed by Ashitosh Kamlesh Sheth
Date: 2025.02.03 10:43:15 +05'30'

Ashitosh Sheth
Company Secretary & Head – Legal
ACS 25997

VIP Industries Limited
Q3 & 9M-FY25 Earnings Conference Call
29th January, 2025

MANAGEMENT

MS. NEETU KASHIRAMKA – MANAGING DIRECTOR - VIP INDUSTRIES LIMITED

MR. MANISH DESAI - CHIEF FINANCIAL OFFICER - VIP INDUSTRIES LIMITED

Moderator: Ladies and gentlemen, good afternoon and welcome to the Q3 & 9MFY25 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 the "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Pratik Patil from Adfactors PR Investor Relations team. Thank you and over to you.

Pratik Patil: Thank you Yashashri. A very good afternoon to everyone. From the Senior Management, we have with us Ms. Neetu Kashiramka – Managing Director and Mr. Manish Desai – 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 Call may involve risks and uncertainties. Thank you and over to you, Ms. Neetu Kashiramka.

Neetu Kashiramka: Good afternoon, everyone. Thanks for joining the call. We announced our 3rd Quarter results for FY25 yesterday.

Before we move on to the quarter revenue and profitability performance, I would like to give some broad highlights for the period, we have been able to reduce inventory in last nine months by Rs. 224 crore, volume by 64 lakhs reduced to 47 lakhs, debt reduction of Rs. 86 crore. Further, as promised we are at 6% EBITDA versus nil last quarter. Another positive in this quarter was a favorable judgment received from tribunal on CST demand of Rs. 357.56 crore. Bangladesh turned positive for the quarter as promised. We have also finished overall off structure across the organization, the fruits of which will be visible in the coming quarters. New Carlton store with renewed identity opened at Colaba. We have planned to open 25 such stores in next six months. Market share gain of 2% in last one year.

Moving on to the revenue performance:

Volume growth of 13% yes, definitely value has regrown largely on account of netting off of e-commerce price support, lower secondary's and reduce ASPs amidst intense competition and liquidation of SL inventory. If I have to talk on channel wise, e-commerce continued its growth trajectory. However, it was slightly lower pace as compared to H1. Within offline, modern trade was relatively better given the expansion of doors and better product assortment. Institutional sales were better given the festive demand and opening of new B2B accounts. Institutional sales has been growing consistently for us, and the saliency has improved. International Business suffered due to the underperformance of key countries like Asia and GCC.

Talking about brand:

Value segment continues its growth story largely driven by e-commerce. While the lower-end offering growth our premium share of business continued to hold +50% revenue. Focus on Carlton has resulted in increasing its salience in the overall revenue. More in the pipeline given the new launches planned in the near future, along with more stores, exclusive stores coming up. VIP also continued to hold share on back of successful new launches and price calibration with online and offline. Kiara collection continued its stellar performance during Q3. Expansion of the category in GT helped us to register higher single digit growth for quarter three for Caprese. Hard luggage continues to be the fastest growing category, having share of 63% in the overall performance.

Moving on profitability:

The gross margin improved by 150 bps, giving confidence on various initiatives which are underway, further cementing on this front. Focus on cost rationalization and better absorption of fixed overhead, coupled with gross margin improvement, resulted in sequential improvement of 600 bps in EBITDA, the complete benefit of all the initiatives will be visible only in subsequent quarters to come. The overall loss has further contained sequentially on reduced turnover.

Future outlook:

Industry is seeing tailwinds on the back of number of wedding days, religious travel, hotel occupancy month-on-month increase in the passenger travel numbers. We are on track for our transformation journey. The early signals are already visible in quarter three results and more of the same will be visible in quarter four. As promised earlier, for a 12% EBITDA for exit quarter, I am quite confident that we will deliver this promise.

New launches across all product categories are on track and hopeful of some handsome contribution in the overall revenue during the upcoming season. Bangladesh operations are running without any disruption, and capacity utilization is likely to exceed in the coming quarters, and it will start contributing positively to the overall results.

With this, I would like to conclude my opening remarks and open the floor for questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press "*" and "1" on the touchstone telephone. If you wish to withdraw yourself from the question queue, you may press "*" and "2". Participants are requested to use handsets while asking a question. In order to ensure that management is able to answer queries from all participants, kindly restrict to two questions at a time. You may join back the queue for follow up questions. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We will take our first question from the line of Ritesh Gandhi from Discovery Capital. Please go ahead.

Ritesh Gandhi: Hello, Could you just talk a little bit about how much of your excess inventory you have been able to liquidate in Q3 and how much is still balance, and overall how much your debt levels are right now?

Neetu Kashiramka: We have reduced our inventory overall by Rs. 224 crore. If I have to talk about the slow moving, it is in the range of around Rs. 80 to Rs. 100 crore now and hopefully this should be meaningfully reduced in quarter four. Debt we have reduced by Rs. 87 crore.

Ritesh Gandhi: I think initially what you had guided towards in Q2 and at some of the conferences was that, there was going to be a higher amount of liquidation of the slow moving inventory and a higher reduction in your debt levels in Q3. So just wanted to understand the reason we have been slightly slow?

Neetu Kashiramka: We had indicated Rs. 100 crore reduction in debt by March, we are at Rs. 87 crore by quarter three. Liquidation of inventory, yes we had indicated that it will be in the range of Rs. 500 to Rs. 550 crore by end of the quarter, we are still striving to reach there.

Ritesh Gandhi: With regards to your EBITDA margin, do we expect from Q4 onwards, for it to inch towards the double digit EBITDA margin as well?

Neetu Kashiramka: Yes. That was a part of my commentary also, that we had promised 12% and we are there to deliver that for quarter four.

Ritesh Gandhi: Got it, all right thank you. That's all for me for now. Thank you.

Neetu Kashiramka: Okay, thank you.

Moderator: Thank you. We will take our next question from the line of Jinesh Joshi from Prabhudas Lilladher. Please go ahead.

Jinesh Joshi: If look at our other expense, it has come off meaningfully to about Rs. 150 crore in this quarter so, Is it primarily due to reduction in the warehousing and freight cost given the progress made on inventory liquidation and the fact that you have mentioned that about Rs. 80 to Rs. 100 crore of slow moving inventory is yet to be liquidated. What should be the new normal as far as your other expense cost is concerned?

Manish Desai: Your understanding is right, the larger reduction of the overall part of ~~mine~~ inventory associated cost, including warehouse as well as the secondary freights, what we used to incur between the two storage locations. Going forward, in the quarter four, further inventory liquidation will help us to reduce such kind of cost for you to keep in mind, that we will be preparing ourselves for the quarter one which is Shubh Muhurat in our offline channel. We may have to probably the level of warehouse and the cost may remain same. However, the composition of the inventory, in terms of the slow moving will substantially get reduced and will be having a larger share of the inventory catering to the new product launches for the upcoming season.

Jinesh Joshi: Sure, is it possible to call out what is your excess warehousing cost in order to house the Rs. 80 to Rs. 100 crore of slow moving inventory that you still have with you?

Manish Desai: I would not like to do too much quantification, but if we, give a flavor of it, we could reduce around a five lakhs square feet space in the last four months time frame, and hopeful to go further down, by another one to two lakhs minimum keeping in mind that we may require some of the space for inventory buildup which will take it for the quarter four, for Q1FY26 preparation.

Jinesh Joshi: Sure. My second question is on our Bangladesh operations, apparently after three to four quarters, I think we were profitable in that region. So can you highlight what would the capacity utilization in this quarter. And given the fact that now industry is moving towards a hard luggage, and we predominantly manufacture soft luggage over there, so do you foresee material improvement in the utilization to come through and in that context, if you can also highlight what is your annual fixed cost of running the Bangladesh operation?

Neetu Kashiramka: For the quarter three our utilization was at 60%, it is profitable because we have done quite a lot of work in reducing the overall cost there, including manpower, because manpower is the largest cost. As indicated earlier also, last year same time we had 8,500 people there, today we have 3,500. With more capacity utilization, because till now we haven't started producing upright. However, from January we are starting to produce soft language uprights in Bangladesh. With that, our utilization will be in the range of 85% and therefore it will have a meaningful profit. But way the cost structure is, at 50% utilization we will break even.

Jinesh Joshi: One last bookkeeping question from my side. I think the inventory reduction number is Rs. 224 crore over the nine month period. But if I look at one of your slides on the balance sheet in the PPT, the inventory for December 2023 is at about Rs. 829 crore versus the March number of Rs. 916 crore. So if you can just highlight the difference part over here?

Manish Desai: When we are talking about reduction of Rs. 224 crore, we are talking from the March 2024 level, which is at the peak Rs. 916 crore. Yes, the December inventory was on a lower side. Our expectation is to go back to those levels in the near one or two quarters, once we are through with the slow moving SL Upright inventory.

Moderator: Thank you. We will take our next question from the line of Bharghav from Ambit Asset Management. Please go ahead.

Bharghav: Congratulations on the return back to profitability in Q3. So my first question is on gross margin. So if we look at Q1, Q2, Q3, consistently we have seen gross margin improvement, but this is on the back of significant pricing pressure. So how are we sort of managing this, is it that the share of Bangladesh is rising and that is what is helping us to improve gross margin despite such pricing pressure?

Manish Desai: I would say that quarter one, quarter two, we know that Bangladesh was having a negative results, quarter three has just a break even in terms of it, and contribution has come positively from the Bangladesh side, so one aspect on a Bangladesh turnaround and second thing is, as you recollect, we were working on various cost initiatives, as well as benchmarking of our product with the competition, that helped us to calibrate our price in a more meaningful manner, contributing to the overall gross margin increment.

Neetu Kashiramka: There are some more actions which we are doing on the product as well.

Bharghav: When we are guiding for the 12% exit margin in fourth quarter, is it primarily led by gross margin improvement, or you think there is scope for further savings in the OPEX as well?

Neetu Kashiramka: Yes. 3% on account of gross margin balance on account of operating leverage.

Bharghav: If you look at your other expenditure, the run rate has reduced significantly Q-on-Q, Rs. 190 to Rs. 150 odd crore, so on a sustainable basis assuming that we grew at about 15%, 20% maybe next year. What can be the run rate we can look at in other expenses on a quarterly basis?

Neetu Kashiramka: Other than freight everything else is fixed, right Manish?

Manish Desai: Yes. We have to keep in mind that as we move forward, probably expenditure on our brand advertisement will slightly go up from where we are currently. I would say that rather look into the level at which fixed overheads operates, we need to see how I quickly or in a meaningful way absorb expenditure in order to contain the overall percentage of overheads to turn.

Bharghav: Is it possible to highlight what has been the operating cash flow and pre cash flow in nine months?

Manish Desai: If I look from the operating cash flow perspective, it is around Rs. 200 odd crore we generated in the period of nine months, and the utilization of that is towards our prepayment of the debt to the tune of Rs. 86 to Rs. 87 crore, interest and some moderate CAPEX we incur of Rs. 32 to Rs. 35 crore. Remaining is in the cash to cash equivalent.

Bharghav: Perfect, great. Thank you very much, and all the very best.

Moderator: Thank you. Next question is from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Yes, hi ma'am. Thanks for the opportunity. Ma'am first question is, can you quantify what is the absolute quantum of inventory that we are holding right now, December end?

Neetu Kashiramka: Rs. 692 crore.

Ritesh Shah: Ma'am, what will be our target say by March end and June end?

Manish Desai: Our inventory level is slightly on a higher side given our Q1 season. We are hopeful to remain within another Rs. 700 to Rs. 720 odd crore by 31st March 2025, but by June 2025 we should go back to a normalcy of Rs. 500 to Rs. 550 crore.

Ritesh Shah: Okay, that's helpful. Sir my second question is, just if you could give us some flavor on we have appointed BCG. Basically, they are working on multiple variables including revenue optimization, reduction in cost and optimization of supply chains. If you could highlight from a top down standpoint what is it strategically that we are looking to achieve and if there is any possible quantification over there, that would be quite useful ma'am.

Neetu Kashiramka: Basically we are looking across all areas, how can we reduce costs and improve our margins. The project is to add Rs. 250 crore to the bottom line in a nutshell. We are 50% through, and it's working around, so basically, increase gross margin, reduce cost, supply chain, secondary freight across all areas.

Ritesh Shah: Ma'am specific to supply chain are we looking to try a different model, Hub and Spoke outsourcing.

Neetu Kashiramka: Not looking at a different model, but maybe optimize our network where and how we should have and secondly, also working on a fill rate, because that is something which was a problem. Also, if you see our freight percentage as a revenue was higher than the peers, so these are the three things particularly in supply chain.

Manish Desai: More meaningfully inventory level comes down to normalcy, probably some kind of leverage will certainly start flowing in.

Ritesh Shah: I think you had indicated on revenue optimization as well. Is there any internal benchmark that we are at versus where the competition would be and we look to reach there any, any numbers?

Neetu Kashiramka: As we said, definitely in last one year we have gained 2% market share, but we are still below the industry growth, that is something where we want to do better than industry, and that is the only part where the market share can go up. Today, we are at 38% market share. The idea is to have stable market share at 40% and then maybe 1% or 2% increase from there.

Ritesh Shah: Any other operational parameters ma'am, be it fill rate or sales velocity or store economics that you would like to highlight or call out for?

Neetu Kashiramka: Each and everything, is what we are working on currently. For example, in E-commerce we are working on how we can increase our share on marketplace. In case of retail, we are working on how we can increase same store growth, so like that we are working on each channel. We are also working on better assortment, like for example in CSD we are listing other products which are newly launched. Each channel we are having areas of improvement. In case of institution we are adding more customers, so more corporates into the fold.

Ritesh Shah: Sure, that's helpful. I will join back the queue. Thank you so much.

Moderator: Thank you. We will take our next question from the line of Naveen Baid from Nuvama Asset Management. Please go ahead.

Naveen Baid: Thank you for the opportunity. So ma'am, I have a question on volume growth and price growth, realization growth for next year. So this year we have seen almost 15%, 16% volume growth, but almost entire amount has been taken away by either realization change or change in mix. Can you throw some color on what the volume growth could look like for the next year and are we, you know at the bottom end of the pricing decline?

Neetu Kashiramka: I think yes, we are at the bottom end of pricing decline. Next year we believe that whatever is the volume growth will be the value growth, because there are lot of initiatives which we are working on to make sure that our realizations improve. One thing on realizations is also because of the liquidation, which is currently post quarter four, I think that quantum will definitely come down, which will help us to increase our realizations.

Naveen Baid: You have guided for double digit volume growth over the next year. So you know, can you just throw some more color as to you know whether it?

Neetu Kashiramka: I would say may be industry growth, and industry is expected to grow 8% to 10%, so that is the kind of growth you can consider at this point of time.

Naveen Baid: Okay, that's helpful. Thank you.

Moderator: Thank you. Next question is from the line of Tejas Shah from Avendus Park Institutional Equities. Please go ahead.

Tejas Shah: Hi, thanks for the opportunity. First question pertains to ma'am, your guidance or your comments opening remarks that weighted average margins at gross largely dragged down by the SL up rights liquidation. So, I was just looking at saliency of upright is just 13% left now, which was 23% last year so commendable job there. But was just finding that 87%, the balance 87% saliency is it operating at north of 50% and this is like very US is kind of liquidation hence it must be at a very, very low level, or the gross margin delta is not marginally different from what average is today, which is 46.5% and hence the 300 basis point guidance that you have set for the next quarter improvement will be largely driven by this 13% going to zero, and that itself will improve our number?

Neetu Kashiramka: 13% will not go to zero, there is always some natural demand. However, today what we are doing is, let's assume we are maybe operating at a 15% to 20% of gross margin versus a company average of 47%, now that share when the liquidation piece comes down that gets into the delta, the second piece is, as I said, we are working on improving the realizations across the brand, so brand mix also, we want to sell more on the VIP and Skybag last time also I touched upon this, that in the opening price point set pricing today we are focusing more on Aristocrat going forward, we want to focus more on Skybag and VIP which will give us additional revenue, let's assume today, Aristocrat set is sold at a Rs.7,000. Instead, I will sell a set of Rs.10,000 more, which is VIP and Skybag that will help me to improve my margins also increase the realizations.

Tejas Shah: Ma'am your guidance on double digit margin by fourth quarter. So, how should we think about margins now sustainably going ahead in FY26 and beyond?

Neetu Kashiramka: FY26, I always said that we should be able to do 15%, by spending more on the brand because whatever initiatives we are doing today, if you see brand visibility is low, most of the spend what we are doing today is on the performance marketing in e-commerce. I think next year we want to spend 2%, 3% more on the brand otherwise, we can do 18% but I want to spend more on the brand, therefore 15% is what I want to do for the next year, with more spend on the brand.

Tejas Shah: This 10% to 15% gap will be bridged by gross largely or operating leverage?

Neetu Kashiramka: Today if you see lot of these initiatives, one is gross margin, the second piece is today, whatever initiatives we have done, it's not fully kicked in, for example, I spoke about org restructuring now that benefit will start from January, 2025 and in the next year it will be a full year impact.

Tejas Shah: Okay. And org restructuring.

Neetu Kashiramka: Every line item it is like for example now warehousing cost, so as in the earlier question Manish said that our inventory going forward from June onward it will be in the range of Rs. 550 crore.

Today we are at Rs. 700 crore, so that Rs. 150 crore reduction in inventory will automatically reduce all my cost associated with, loading, unloading, warehousing, across.

Tejas Shah: We had some credit, credit rating downgrade around December. So had it impacted, has it impacted our cost of borrowing or and is the Board considering any equity infusion to improve the balance sheet situation inorganically, rather than waiting for demand situation and other things to improve the balance sheet?

Manish Desai: If you look into it our short term borrowing rating remains the same at the highest level. It's the long term which was impacted and today we are having all the working capital loans having the short term in nature, so the interest cost has not been impacted severely on this ground. Furthermore, once we have the debt reduction plan which we have already done it. Furthermore, with the improved results, I am sure that in the next year, we look forward for the upgradation in our overall rating and a stable rating on the long term perspective.

Tejas Shah: Got it. Thanks a lot and all the best.

Moderator: Thank you. Next question is from the line of Niharika Karnani from Cap Grow Capital. Please go ahead.

Niharika Karnani: We understand that there has been a value degrowth this quarter, compared to volume growth of 13% and market share has been around 38% which was there in last quarter as well, as far as I remember which was around 200 basis points from 40%. So, I mean, I know we are moving towards premiumization, but that has been the talk for last two quarters. When would it start getting reflected in the numbers, is the question that I would go for because, I mean not much needed improvement has been witnessed in last couple of quarters.

Neetu Kashiramka: I would say that you are saying that because today, the numbers are having a liquidation impact. As soon as, I remove the liquidation impact which is maybe from a quarter end and from now, so maybe first quarter of the next year is when you will see a meaningful difference or improvement. When the gross margin goes above 50%.

Niharika Karnani: 50%?

Neetu Kashiramka: Gross margin yes, today it is in 47%, it will be become 50% once this liquidation piece gets reduced, and that is when the impact for premiumization will come. If you go to our store, please visit you will know that lot of premium products have been launched, but that is not visible because of this liquidation which is a continuous hang on us, which should get over in maybe in next three to four months.

Niharika Karnani: Understood. And just one follow up question on this, so I discussed today will be sitting on inventory of around INR Rs. 500 to Rs. 550 crore, even at Q2. So just wanted to speak on liquidation so from the current levels of RS. 693 crore of inventory to Rs. 560 crore of inventory in quarter two. Liquidation will continue beyond Q2 as well or do you foresee previously four months?

Neetu Kashiramka: Rs. 500 to Rs. 550 crore is a normal inventory which as an organization if we will always have. What we are talking about liquidation is only extended to mostly quarter four a little bit maybe in the April month. However, for April, May, June, which is our largest quarter, we are getting ready and therefore 31st March, 2025 we are guiding for no reduction in inventory. However, the composition of inventory will be good inventory versus bad inventory.

Manish Desai: I will just add on what MD said, you have to keep in mind that quarter two again we are E-com driven quarter so some level of inventory, Rs. 550 crore when we are talking about is keeping in mind the E-com seasonality, given a choice to us, and as we are planning today, the average inventory level should go down to Rs. 465 to Rs. 480 crore level as we come out from both the season of quarter one and quarter two.

Niharika Karnani: We were speaking about facing intense competition in both e-commerce, modern retail space. So like, apart from new launches, what steps I mean are we taking to counter this competition. And again, regain market share of 40% which is the ideal market share?

Neetu Kashiramka: I actually answered this earlier somebody had asked, each channel we are looking at various initiatives for example, in E-commerce, we are looking at, how can we increase our share on marketplace and quick commerce. In case of retail, how can we increase our same store sales growth, plus add more stores like I spoke about Carlton exclusive store, additional 25 to be opened in next six months. In case of general trade, we will be looking at expanding the doors. In case of institution, we will be looking at adding more corporates into the fold. Each channel, we have a strategy to expand, and that is where it will help.

Niharika Karnani: Okay. Understood. Thank you.

Moderator: Thank you. Next question is from the line of Jigar Jani from B&K Securities. Please go ahead.

Jigar Jani: Thanks for taking my question, and congratulations on a good set of numbers to both of you. So on inventory, out of this Rs. 692 crore inventory, I believe last quarter, we had said that Rs. 180 odd crore is soft luggage inventory upright which is slow moving. This should, number should be around Rs. 100 crore now is that a fair assumption?

Neetu Kashiramka: Rs. 95 to Rs. 100 crore absolutely correct.

Jigar Jani: And this should ideally given you run rate rundown by Q4 and probably some part of Q1?

Neetu Kashiramka: Yes, that's what I said, partly maybe April.

Jigar Jani: Okay, understood. And, and the remaining is HL right.

Neetu Kashiramka: There is HL, duffel and backpack, which is a normal inventory, so 90 days inventory is something which will always have for our kind of businesses.

Jigar Jani: Understood and ma'am, last time you had mentioned 55% gross margin you are targeting for FY26 would it be fair to say it will be more an exit quarter guidance for Q2?

Neetu Kashiramka: I never guided for 55%, I have guided for always 50% for exit quarter and then 52% to 53% in FY26, 55% it can never go because our mix has now changed for permanently, like Aristocrat is not going to go away, only 2%, 3% mix can change, so therefore 55% is a dream. 52% is something where best case scenario in FY26.

Jigar Jani: And exit quarter?

Neetu Kashiramka: In exit quarter, I guided for 50% which I am still guiding for.

Jigar Jani: So, FY26 average we should be able to do 50% for the full year?

Neetu Kashiramka: Yes correct. Starting with 50% and going upward, right.

Jigar Jani: Yes, it will gradually move up.

Neetu Kashiramka: Yes.

Jigar Jani: On this E-commerce thing, I think last quarter you had highlighted that you are entering into agreement with the e-commerce portals to not sell VIP and Skybags beyond certain price that is in place now?

Neetu Kashiramka: That is in place for VIP. So if you see VIP, it is sold at a MOP, which is the minimum price at which they cannot sell below that, so it's an MOP now for any product of VIP across all the channels, there is no discounting.

Jigar Jani: Right. And have peers also kind of adopted this strategy, or they are still opening an E-commerce store?

Neetu Kashiramka: I can't comment on that.

Jigar Jani: Okay, understood. Thank you so much for answering my questions and best of luck.

Moderator: Thank you. We will take our next question from the line of Prerna Junjunwala from Elara Capital. Please go ahead.

Prerna Junjunwala: Hello, thank you for the opportunity. I just wanted to understand the revenue forecasting methodology that was also a part of BCG KRA so, wanted to understand how it has, it is improving the inventory position for you and overall sales forecasting, how it has changed as an organization?

Neetu Kashiramka: It is a continuous process, we have put up some mechanism also use of technology, whereby for A class, we are moving into a replenishment model versus B&C which will get into forecasting because one thing we have realized that, before four months it is very difficult to forecast something which is now more fashionable, rather than convenience. Our industry is becoming more fashionable and priorities are changing, and therefore we are following now A class replenishment, B&C will be forecasting so yes, freeways have improved by 15% to 20% in last six months. It is further expected to improve as we move along.

Manish Desai: Just to add what MD said, the revenue fixation target was never part of the BCG exercise, more driven by the industry and our own aspiration till now.

Prerna Junjunwala: Just wanted to also understand that you know, eventually can the inventory days that you mentioned right now that you know we should be four months and three months inventory we should keep, can with more India operations and more sales coming from India manufacturing, this number of days can reduce further. Can that happen?

Neetu Kashiramka: We want to reduce it to 75 but first let us reach 90, and then definitely aspiration is to be at 75 days.

Prerna Junjunwala: Okay, understood ma'am. Thank you, and all the best.

Moderator: Thank you. We will take our next question from the line of Karan from Keynote Capital. Please go ahead.

Karan: Thank you for the opportunity. The first question is on, if you can share, are you seeing any meaningful shifts in consumer presence shifting towards offline channels and mid premium segment, if you can give some on ground insights?

Neetu Kashiramka: Basically online share in our industry is actually increasing. However we have to do something different to bring customers to our store and few of the strategies where we are following this is that some of the products exclusively available only in our store, only in offline online, it is not available and few of such things but there is a set of customer who will always touch and feel before buying. Consumer preference definitely is moving towards online, more people, maybe at sitting at home with their convenience they just want to buy and there is an option to return as well, so, call for three, keep one return two think that's where it's happening, but we have to do meaningful changes to bring customer to our store, which is what we will be doing like exclusive products available only at VIP lounges and so on.

Karan: Understood. My last question is on the current competition landscape, if you can give in terms of categories like soft luggage and hard luggage, what is the current competitive landscape?

Neetu Kashiramka: Basically, I would say that soft luggage we do not have much competition as such. However, soft luggage demand per se has fallen, but hard luggage definitely there is an intense competition from not only top organized players, but there are new D2C players who have come into the market in hard luggage. In fact, I believe that every six months there is one new player entering into this market, but which also gives us the confidence that the market is doing well, and therefore so many entrants. If we do right things, I think we can definitely do better. Thank you.

Karan: Thank you, that was helpful.

Moderator: Thank you. Next question is from the line of Varun Singh from AAA PMS. Please go ahead.

Varun Singh: My first question, Neetu ma'am is, you know given that e-commerce and hard luggage, these are the two maybe sunrise channel and segment, so with regards to the growth driver, because as you rightly pointed out that in e-commerce space, it's all about pop colors design and the price, maybe the customer reviews, et cetera, with customers are browsing at the convenience of their home. So, like as a category leader, you know, what are the incremental hard work that that we are doing to maybe tap on this growth opportunity? Because, you know when I see over last six months, maybe data, whatever is publicly available on Amazon, Flipkart, et cetera maybe I would have missed figuring out the extra work that we are doing. So if you can highlight some bit on that part?

Neetu Kashiramka: See your voice was very feeble. But whatever I understood your question is that, what are we doing differently to compete with the players in the online market, right?

Varun Singh: I mean, not just differentiate in terms of, you know what are the growth drivers that we are, you know tapping on these two, on e-commerce platform and the hard luggage segment, what are the incremental?

Neetu Kashiramka: We are working on a better portfolio, giving a better product to the consumer. Also, VIP is known for its product durability and reliability. Like today, also Aristocrat has a warranty of seven years. The other competition is at three years, we are at seven and five depending on the model. Basically, giving a better looking product with better quality is something which is our forte and we will be communicating this more and more to succeed and if you see our product portfolio, I think we have done good work, and it is actually better than competition today as we speak.

Varun Singh: Yes, that's correct. You know, why I was asking this question is because, on the e-commerce channel or platform itself, it becomes tough for a customer to you know, objectively conclude that which products quality is also how much superior other than whatever customer review rating they could just have a look upon. So given that price becomes so much sensitivity variable in customer decision making framework. I mean, don't you think that it is counter intuitive when we say that on VIP, we will not be selling at a maybe offering at selling at a lower price at the same time trying to premiumize the entire portfolio, whereas the customers don't want to premiumize, they want to go down the value chain, looking for the design and price and keep switching the.

Neetu Kashiramka: Yes, its chicken and egg story. We will have to live with it and deal with it as it comes. The good part is that we have four brands to play with, offline is the largest portion of our business today also, unlike some of the people who have only online business, some of the people have +60% business coming from online, and therefore I have to protect my offline. This is the reason why one brand I am keeping away from stiff pricing that helps my offline channel to grow, because offline is 70% of my business, and I can play a similar thing with Skybag, because Skybag is also a premium. Carlton is one which I have, so that is the reason why, from online I am removing, I am not removing VIP, I am only saying VIP will not go below a particular price, that is to safeguard my offline business. A few things which actually I am doing to safeguard my offline business is, , I have started a loyalty program, I have also started a buyback program for offline customer, I have also started extra warranty if they buy offline so in fact, I am doing the other way, I want my offline business to also grow along with online.

Varun Singh: Fantastic. And my second question is on the BCG 15 months project part. So as you know over last call you highlighted that in five wave, I mean there is a five wave project, and from the October month itself we should be start seeing the benefits. And maybe by the end of fourth quarter, the result of the third wave will be visible. Maybe that is what you are pointing out with regards to gross margin benefit expansion. But do you think that Rs. 250 crore a bottom line improvement that you said, that is likely to take more time compared to the 15 months project time which the guideline which was given earlier. Anything you want to call out on, on that, on that part?

Neetu Kashiramka: Because it's a Rs. 250 crore addition to the bottom line when we say, it's a full year impact right. Now each wave will have something which will add to quarter two, then something to quarter three, something to quarter four. This 15 months project is getting over only in the next year, and therefore some benefits will definitely be in the next year, and that is where I said that we have a potential to go up to 18% EBITDA. However, I want to spend 2%, 3% more on the brand, and therefore I am happy to have a 15% EBITDA overall for the organization.

Varun Singh: Sure. And just one last question, if I may, when are these, you know, hyper discount kind of situation is going to normalize, as per your honest assessment in the hard luggage space itself?

Neetu Kashiramka: Difficult to comment on that, because we are not seeing competition coming down, making any efforts in that direction. However, if the crude price goes up that is when things will can change, but that is also not something which is on the cards or visible immediately.

Varun Singh: Understood.

Manish Desai: What we can foresee, such kind of substantial reduction what we have seen in the last 15 months is not.

Neetu Kashiramka: Yes, yes it bottomed out now.

Manish Desai: Yes.

Varun Singh: Understood, thank you very much madam.

Neetu Kashiramka: Okay, maybe this is a new normal.

Varun Singh: Sure. Thank you very much and wish you all the best.

Neetu Kashiramka: Okay, thank you.

Moderator: Okay, thank you. Next question is from the line of Akhil Gulecha from Hornbill Capital. Please go ahead.

Akhil Gulecha: Yes, hi ma'am. So actually, I am new to the industry, so pardon me if my question is a little generic, but I wanted to understand what is actually happening in the industry, why are the incumbents struggling with growth as well as margin pressure because travel by all other indicators is doing very well and it is growing. So what is happening, is it that the whole market is struggling, is it that it's a challenge because of the incumbent just, what is happening in this industry?

Neetu Kashiramka: Multiple things. One good part is that demand indicators are good. Travel is happening it's actually the industry which is still doing better than all the other industries. What is happening is, lot of new entrants into the market. Now, why new entrants were not there earlier, and why they are coming now. In the past, lot of these luggage like 50%, 60% used to be soft luggage, versus today it is becoming hard luggage. Hard luggage is actually easier to produce versus soft luggage. Soft luggage needs lot of craftsmanship, and whereas hard luggage it's a machine driven injection molding machine if somebody has they can definitely look at producing this. Since this is market is doing well, lot of the entrance are entering, also lot of these garment industry actually, if you go to the market you will see that everybody is starting with luggage and that is where the competition, that is where the pricing pressure. In soft luggage, our opening price point never fell below Rs. 2,500 whereas in hard luggage now, we also have a product at Rs. 1,399, and Rs. 1,499. Consumer preference, consumer is habituated now to buy something at cheaper, more colorful, good looking, and they don't mind buying something and then changing it after a year or two so that is another big change. In the past, the replacement cycle used to be seven to 10 years. I am talking maybe five, seven years ago, then it reduced to three to five years. Today, as we speak, when I talk to consumer they want to change their luggage every one to two years so that's the big change which has happened, and therefore they want to shelve less money, buy cheaper, replace it, maybe almost every year. The other thing is that hard luggage will get scratches, whether it is a Rs.5,000 product or it is a Rs.15,000 product, because the way it is handled at the airport. Now, that also makes the consumer feel that why spend more buy something which is reasonable, and then maybe change. These are various factors which have changed for this industry in last, I would say post COVID.

Akhil Gulecha: So replacement cycle reducing is actually good for us, right because it's a bit positive. So the other part is, you said that the prices have sort of gone down. So do you think this is going to be the standard now that the margins will reduce in this industry, whatever, pre COVID?

Neetu Kashiramka: Yes, it is like a new normal. However, there's a set of customer who is also wanting to premiumize and more, so we will have to do work for those customers alongside. Today, I don't want Aristocrat to further move up from this 42%, 43% to maybe 50% that will be our aim, which means I need to grow my other brand by doing different things so launching something which is new for the industry, like I am doing lot of work on Carlton, so that my share of Carlton goes up. Today, the share of Carlton is 6% our intent is that how we can make it 10% that will have a meaningful difference in our profitability as well as the overall stress on that, reduce the stress on the P&L.

Akhil Gulecha: Okay, okay, understood, but the 17%, 18% EBITDA margins that we used to make pre COVID, that is unlikely unless the premium segment does really, really well?

Neetu Kashiramka: As I said, I want to spend more on the brand so it can become 18%, but I want to spend more on the brand, and therefore I am okay to do 15% maybe the new normal, 18% will become 15%.

Akhil Gulecha: Okay, okay, understood. Thank you so much and best of luck.

Moderator: Thank you. We will take our next question from the line of Ritesh Shah from Investec. Please go ahead.

Ritesh Shah: Yes, hi ma'am couple of questions. First, was on the tribunal favorable judgment that you indicated. Can you help us refresh what this was exactly pertaining to, I think it was pertaining to some transfer frames. And when do we see a cash flow impact on pack of this?

Neetu Kashiramka: There won't be any cash flow impact, this was in the contingent liability, hanging on us at any point of time we could have like department would have come and said pay Rs. 400 crore today.

Now that is behind us and this was basically on stock transfer, so basically it was in a VAT regime where we have paid tax in the state where we sold. However, the department said that pay on the stock at the time of stock transfer also, but then it would have meant double taxation. Yes there was a demand with penalty of Rs. 400 crore.

Ritesh Shah: Okay, so it basically moves out of contingent liability that's how one should read into the impact?

Manish Desai: Yes, correct.

Ritesh Shah: Okay, fine. Ma'am second is you made a very interesting point on MOP with respect to VIP and to protect the retail channel, any particular reason on why we are doing it now, and why only on VIP, and why not some other brand of ours?

Neetu Kashiramka: Basically, between September, October, when all the online, platforms reduce the pricing to such an extent that it was unbelievable. Our offline partners got offended, and they actually said that we will stop buying. I cannot leave E-commerce because that's a growing channel same time, 70% of our business is coming from offline. I had to devise a strategy to protect both, and that is when we thought that VIP and Skybag is something which is in the premium segment and we can think of doing MOP to protect my offline customer and that is what we did and why only VIP, because I can't do it with all the others because if I do with all then my online will suffer. Online is a growing channel which I have cater to, so this helped me to actually cater to both. This also impacted my revenue in October, November, and after implementing this, I got good numbers in December.

Ritesh Shah: Okay. So ma'am VIP is around 25% of our revenues, what part of VIP will be ex-e-com?

Neetu Kashiramka: E-commerce was a small portion, like overall E-commerce it was 10% and therefore sacrificing that was easy versus sacrificing the offline.

Ritesh Shah: Okay, that's helpful. And ma'am, just for the sake of repetition, I think discounting has been pretty hefty in the marketplace. Would it be possible for you to give some sense on who is driving it and who is following it? So there are several D2C players obviously who are very aggressive in the marketplace. We also want to liquidate our inventory.

Neetu Kashiramka: Yes, we are doing it only in soft luggage okay, we are not doing deep discounting in anything other than soft luggage. However, the online platform like Flipkart and Amazon of the world, they are giving discount, in fact sometimes they are selling below their purchase price so that is the big problem, and they are investing in the brand and not in us. Yes, I think it has come down, because they also have pressure on profitability now.

Ritesh Shah: You have indicated how the inventory will actually move into March into June. How are we looking at our production scheduling as we go into March into June?

Manish Desai: This will be aligned with the requirement, the seasonal thing which is coming up so our production will be slightly higher in the quarter four both at Bangladesh and our India factory.

Ritesh Shah: Ma'am basically we indicated that we will reduce our inventory as we go into March and into June.

Neetu Kashiramka: We said Rs. 692 crore will become Rs. 720 crore and then in June it will reduce to Rs. 550 crore.

Neetu Kashiramka: I think quarter one is a big quarter, and we are getting ready for it, therefore we increase now. The only difference will be that, the inventory composition will be new inventory and not liquidation inventory.

Ritesh Shah: Sure. And ma'am lastly, any numbers that you would like to qualify on channel expansion, EBO, MBO where we are right now, and where do we intend to be say 12 months, 24 months out?

Neetu Kashiramka: We want to increase by 50 stores in next 12 months, and to start we will be focusing mostly on the top 20 cities.

Ritesh Shah: And ma'am, what's the count right now?

Neetu Kashiramka: 410.

Ritesh Shah: Okay, that's useful. Thank you so much, and all the very best ma'am.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Manish Desai from VIP Industries Limited for closing comments. Over to you, sir.

Manish Desai: Yes. So thanks to all of you for attending the call. Hope we have answered all your questions. If anything, still remains unanswered, we are just a phone call away. Thank you and wish all of you a good day, bye.

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

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