



**“VIP Industries Limited
Q2 & H1 FY23 Earnings Conference Call”**

October 21, 2022

MANAGEMENT

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Moderator: Ladies and gentlemen, a very warm welcome to the VIP Industries Limited Q2 FY23 Earnings Conference Call. From the senior management we have with us today, Mr. Anindya Dutta - Managing Director and Ms. Neetu Kashiramka – Chief Financial Officer. 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 “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anindya Dutta - Managing Director of VIP Industries Limited. Thank you and over to you, sir.

Anindya Dutta: Thank you. Good evening everyone. Thank you for taking out time for this earnings call late in the evening and at the outset, apologies for late upload of the presentation as well as the results, we just about finished the Board meeting and that caused the delay. However, I am hoping that you would like the presentation that we have sent across to you. It’s more detailed than what we’ve shared in the past. Having said that I think it’s quite a delightful moment to announce a really good set of results for Q2 FY23. This is somewhat the whole organization is working towards. This may be one of the milestones that you wanted to achieve in terms of the all-round result that the organization has been able to put forward.

We saw revenue grow about 56% year-on-year. Why year-on-year is important now because somewhere from Q2 FY22 things have started to normalize. However, even if we were to look at it from the base year point of view which is FY20, the growth rate for the quarter has been 25%. The flow through of the revenue with a healthy gross profit at about 48% has been through a good fixed cost management, which results profit as well with a PBT at about 10% and EBITDA at 14.8%. All key matrices that we see has gone through a very positive uptick as far as the quarter performance is concerned. If we were to talk a little bit detail on the revenue and as you will see in the presentation shared, all channels and equally brands and categories have worked very well. Of all the physical channels general trade, retail and modern trade has done extremely well, so has e-commerce.

Specifically speaking about some of the key shifts that has happened at channel level, what we were pursuing in terms of increasing our exclusive retail outlets in the market has really worked for us. As of Q2 FY23, we were still lower corresponding to Q2 FY20 In terms of total number of retail outlets. However, the total revenue in retails has seen a growth which means that our



store throughput has been extremely good. Just wanted to share some numbers so with all of you, as of Q2 FY23, we are at about 413 operational stores and we have almost about 45 odd in **Fit outs**, so that takes the tally to about 458 stores. We should definitely have this number to be more than 500 by the end of the year. The same number was about 485 exclusive stores in the corresponding quarter in FY20. The mix is quite different, majority of the new stores that we are opening are franchisee stores, after we have reached the lowest of 365 stores.

The other highlight worth mentioning here is modern trade. In modern trade we had a headwind in terms of Future Group not being active and of the 432 stores they had only a fraction of that was operational in Q2 FY23. We've done a great job in making sure that the demand that was lost because of the Future Group shutdown has been caught very well in all the other modern trade chain stores as well as in retail or in MBOs in the same catchment area and from our internal estimates modern trade has surpassed the budget and the internal estimates that we had for the quarter which has resulted in a growth despite this off about 22% over the base year. Likewise all channels have done extremely well. E-com has been able to leverage the buying season, as usually Q2 is almost 1/3 the annual sale in e-commerce because of the **EOSS** that are there in Q2, big days and festive buying we have done very well, the growth numbers is almost double in Q2 FY23 compared to the base year. One more key highlight here worth mentioning is on international business, we've been pursuing it not in our big mega strategy, but to make sure that where we were present and in geographies where we could get a inroad, we've started to get that in Middle East as well as 7 – 8 new countries that we have been able to open in H1 FY23. The international business in H1 FY23 stands at 5% of the total business this was about 2% - 2.5% in the pre COVID era.

When I talk about brands and categories, the heartening news there is that while in Q2 FY23, Value and Aristocrat has been on a run, the premium and mid premium brands like SkyBags, VIP, and Carlton have also joined in, it is very heartening to see all the three brands growing on the base numbers of FY20. So, not only we have renewed strength in value, but our past strength in the mid premium segment has come back and it's full play as far as Q2 is concerned. So with that good set of revenues, our supply chain strategy, our own manufacturing strategy and our cost controls have resulted in the profit that you're seeing on the results that we have announced.

So, by and large a good quarter and really looking forward to even a possibly a better one with much more in terms of consumer impact activity is coming out that you would see in the coming quarter and the presentation that we have sent across gives some sneak preview of what we are about to launch for our consumers in Q3 FY23. So quite positive about how we see the future from here onwards for the rest of the year. Thank you and now I open the floor for questions.



Moderator: Thank you, we will now begin the question-answer session. We have the first question from the line of Tejash Shah from Spark Capital. Please go ahead.

Tejash Shah: So my first question pertains to demand environment in general and your read on the same, we have seen a lot of categories like ours where there was an element of pent up demand, which was very much loud in the second half of the last year and even first quarter this year. So are we seeing the pent up part still playing out or you are seeing that the recovery what we're seeing now is more of a sustainable one and the pent up element is actually receding in this phase now?

Anindya Dutta: So, it's a mix of both and somewhere it's more middling out. There is a bit of pent up that we are experiencing, however, a large part of this could be sustained because of shift from unorganized sector into organized sector. This shift could be sustained for a much longer period unless something very differently evolves as far as the unorganized sector is concerned. So that's working differently in our sector than any other sector. Generally travel and the whole buoyancy on spending and the marriage season is ahead of us in the next half of the year. So, quite hopeful and quite optimistic about the demand environment to sustain the way we are seeing right now.

Tejash Shah: Sure. First of all, congrats and thanks on a very detailed presentation. In fact, quarter-on-quarter we are improving on disclosure levels. One thing which one can't miss out is premiumization, which is very much clear on most of the slides. So if you can elaborate what we are doing exactly on this and when we talk about premiumization, Carlton has actually not gotten much slide space. So just wanted to understand how are we going about the whole portfolio premiumization and all the premiumization initiatives in the existing brands also.

Anindya Dutta: Right, I don't think we should measure it from the slide share point of view in terms of how many slides, what it has got, but really premiumization is something that we've been driving. The starting point is that this is something that we were strong at, it is not a new strength, value is our new strength and we are doing pretty well there. In terms of premiumization, consumer activation in terms of innovation, communication and promotions, all that if you were to look through the presentation, and otherwise that's most visible, if you go to our stores you would see all the new launches in VIP and SkyBags there is certain things that we are working on which are extremely premium for adding consumer value themes and more and more products are coming there. In terms of advertising SkyBags, is taking it to the next level on how we are connecting with the Gen Z and also if you see the whole retail strategy, and I spoke in detail about how we are expanding our exclusive business outlet network. That is also something that is adding hugely to be able to sell that experience to the consumers and therefore sell more premium products. It's a 360 degree around this in terms of driving the mid premium and the premium agenda, and it is something that will continue to be there and in fact gets strengthen going forward.



Tejash Shah: Sure. And VIP Highlander is this just a collection, or we have launched a flanking brand along with the mother brand there?

Anindya Dutta: Every product has a name in the presentation so it's not going to be something that will be advertised to the consumer, it's a VIP product, and it is designed with an SUV in mind. So in a way, this is the rugged & macho looking bag that you would make you believe that taking it with you enhances to the image that you want to portray. So that's the theme behind what VIP wanted to bring to the consumer. And as we call it, it's an all-terrain luggage and if you see every component of that be it handles, the wheels and the whole composition has built to sustain tougher environment. So, it's not a new brand launch, it's a new range.

Tejash Shah: Yes, looks very classy though, congrats on that. So, last one on business part on market share. We have been very transparent there also in sharing the detail. So should we believe that the worst is behind in terms of losing market share and then you should somewhere bottom out here and start gaining market share from here on?

Anindya Dutta: The numbers are saying so, and we strongly believe that this is something that we would pursue very aggressively but it's important to have a stance very clear that I am pursuing it along with making sure that we have sustained profitability.

Tejash Shah: Perfect. And two financial questions if I am may, ma'am have we provided for future group exposure totally in this year and second any update on the insurance?

Neetu Kashiramka: The Future Group (Big Bazaar) fees were provided fully last year itself. So this year what open exposure we have is only FL which is the central and the brand store, that also around 25% is provided and on the insurance fees, we should get that in 4th quarter.

Tejash Shah: What would that be in absolute, the exposed un-provided number?

Neetu Kashiramka: Should be around Rs. 9 crores

Tejash Shah: Okay, thanks for you were saying the insurance.

Neetu Kashiramka: Yes, so the insurance fees in the last leg of final survey report. So we should get that in quarter four.

Moderator: Thank you. We have the next question on the line of Jinesh Joshi from Prabhudas Lilladher. Please go ahead.

Jinesh Joshi: I have a question on export, post COVID I believe that many countries are looking to diversify their supply chain from China so in that context which other countries can emerge as a properly alternative destination apart from India and do we have any structural advantage to vis-à-vis



those countries like UT benefits, et cetera, the reason I'm asking this is because our current export share is approximately 5% odd. But we plan to scale this up over the next couple of years so any thoughts on that?

Anindya Dutta:

Yes, so Jinesh definitely we would like to scale it up going ahead and there is definitely a huge opportunity. It's just not a duty or advantage that we are only looking at being a cost effective manufacturer would give us a right to success in markets which we are buying from China. So, here over a period of time being competitive to China in manufacturing would be the key that would get us access to international markets. So that's what we are pursuing. As of right now yes, we had seen some low hanging fruits which we have initiated but obviously the bigger opportunities will be in the larger markets like US, Europe, Canada, and so on and so forth where the higher quantum of luggage sale happens would entail but some of these markets will be equally difficult to enter from a branded point of view. So, it's too early for me to talk in any more detail other than what is the opportunity in terms of how we will go about it. Maybe, once we are ready we will talk about how we are going to approach it. As of right now, our strategy on international business is to make sure the market we were present before we go deeper into the market for example, you have had a huge jump in UAE alone, where our penetration into at a store level, into all the modern trade chain has gone through a big change in the last eight to nine months post COVID and that itself has brought us a benefit good enough to get us growth over our pre COVID base to more than double in investment, Although a very small base but focus strategy, creating a good amount of approach in a particular market and going deeper is working and that's what we're doing right now till we have reached to a stage where we look at a wider strategy.

Jinesh Joshi:

Second question is on your profit margin profile, if I look at this quarter we are at about 48% odd and in Q1 FY23 we were at about 50% is there some erosion in gross margin on a sequential basis. But, given the fact that raw material prices have subsided and the freight cost is also cooling off, can you give us a fair estimate of what could be the gross margin expansion in second half vis-à-vis what is the average number in first half and that will be of great help.

Anindya Dutta:

I can't give you specific numbers for the future but what you said was absolutely right that the raw material cost and the freight cost was possibly at its peak in Q2 FY23 and it is only going to go down from here and how much exactly in Q3 FY23, how much in quarter four way it stabilizes is a matter of crunching the numbers. But I've always kept that, our gross margin profile that I would want to keep it is around between 50% and 52% and the aspiration is to make sure that we take it to 55% and hold it. But we would always want our ship to be between these two guardrails of 50% and 55%, and keep working on our market share and growth, given margin we try and bring it within that range.

Jinesh Joshi:

Sure. One last question from my side, if I look at the brand wise revenue mix which we have given this time around, the share of Aristocrat has risen from about 22% to 37% while the share



of VIP and SkyBags has declined a bit when I compare it with the pre COVID phrase now, we had given the fact that growth in the mark segment is expected to be higher than the economy or premium segment. Does it mean that the rising share of Aristocrat from here on would essentially mean a lower gross margin profile for us because essentially this product commands a lower margin to, just wanted to understand this bit from your side.

Anindya Dutta: No, absolutely a right question and the answer lies in the current gross margin also. So, if you see the table has shifted from 22% to 37% in Aristocrat favor, despite the inflation that we are talking about now, compared to any base year that you want to compare, the gross margin erosion is not there. So, therefore, this is what I was talking about that we would like to play the value market share gain in a manner that we have done the cost reduction to fight this game better. So all our own manufacturing, upstream, integration, all that is helping us towards this approach where we would possibly increase our Aristocrat sales, which will help us gain market share but it will not cause us to erode our margins commensurately.

Moderator: Thank you. We have the next question from the line of Nihal Jham from Novama. Please go ahead.

Nihal Jham: Sir, couple of questions from my side. First you have given the data of your increasing distribution versus FY20 in Tier-4 and Tier-5 towns, is it right to relate the improvement in market share and the consequent increase in Aristocrat and Alpha to that expect that maybe that's a key driver to these aspects happening across increasing our top line in this segments and also increasing the market share?

Anindya Dutta: It's one of the factors it does not involve the correlated 1:1, if you see our better traction in e-commerce would also help corroborate the fact that, it's also selling a lot of value and that also has a higher share of Tier II & Tier III towns. So, many factors come together to make sure that value as a segment works for us, it is product, it is pricing, it is general trade as well as distribution which is accessibility which is through e-commerce. So it's a mix game.

Nihal Jham: Sure, sir. And just a related question to that, looking ahead is your expectation that the value segment is expect to see a much higher growth versus the mid premium and premium segments in the future as an industry, not for you specifically?

Anindya Dutta: So, the industry has been growing more in the value side, and for the organized player the value will grow faster going forward because of the unorganized to organized shift as well. So yes, value will continue to grow faster, then the mid and the premium side.

Nihal Jham: Yes. In terms of Caprese our plans are very aggressive. So what are the incremental steps we are taking post COVID to driving the share of that business or the overall top line in that segment?



Anindya Dutta: Once again from our product point of view there is a lot that is up in store for us going forward. The presentation has some hint of what we are getting into in Q3 FY23. From a distribution point of view, we are supremely active even in e-commerce. Additionally, we are also activating physical channels as well both in modern trade (Shopper Stop, and all the Lifestyle chains) as well as some exclusive outlets is something that we are experimenting with right now, and largely, the mall kiosks and things like that; but these are all in foundation stage right now and what you will see us basis this we will formulate something which is supremely more bigger and aggressive in the coming year and that's where we will start seeing more aggressive numbers as well as plans.

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

Ankit Kanodia: First of all, I would just echo one of the other participants comment that thank you so much for improving the quality of your presentation quarter-on-quarter so that really helps us in getting more understanding about the business and the industry. If my understanding is right, historically Q2 used to be the worst quarter for you and given some sort of pent up demand plus we are entering into the marriage season and all, I just wanted to understand how are we placed in the capacity front, what is the capacity utilization and how easy or difficult or what time does it take to ramp up our capacity, if required?

Anindya Dutta: I think it's a very valid question and that gives me the opportunity to tell you that we are continuously investing to increase our capacity in India (Nashik) and in Bangladesh. We have invested to increase our capacity on our existing base by about 25% which should help us cover for our growth next year and we are continuously doing this exercise and maybe early next year, we would look at the subsequent year and continue to expand the capacity if required. So this is something that is definitely on the radar and we will ensure that we have the in-house capacities as well as our network of outsourcing is more than the demand that we are envisaging for ourselves.

Ankit Kanodia: Thank you sir. Next question is on one of the slides, slide number #33. So, where we have mentioned about the market share of VIP against the two organized player. So we have mentioned till Q1 FY23 is it fair to assume it is at a similar level in Q2 as well?

Anindya Dutta: Now see, that's the difficult part to estimate and do a projection here. But given the results, I am hopeful that if not gaining we would hold it at this level.

Ankit Kanodia: So just a follow up sir. If you look at pre COVID levels, our market share was at about 50% and right now we are at 43%, so how do we look at it?



Anindya Dutta: I think, 50% is an aberration, of that particular quarter if we look back in the previous quarters, it's sobering around 45% on an average for a year. I would want this organization to be is at a 45% plus and having done that share in luggage, I would focus on newer and more growth areas which are in the adjacent areas which adds more faster top line growth and overall business growth.

Ankit Kanodia: Earlier you spoke about the unorganized to organized shift, and what we witnessed during the COVID period that the unorganized sector was hit far more hard compared to the organized sector probably because of the strength of the balance sheet if I'm not wrong. Also, right now India continues to be looking at strong demand but let's say if we are about to enter recession like in US and UK. Is it fair to assume that again the unorganized sector will be hit harder than the organized sector or do you have some other views?

Anindya Dutta: There are a lot of scenarios within which you're building, but underlying thing is that, yes, in the future, the environment for unorganized sector will not be as conducive as it was in the past and the change started happening more from the GST, the COVID and the China situation made it more acute, it will possibly ease out a bit from where it was, the worst situation last year, same time and even now. But really speaking, going forward there will be a different scenario where the organized players for various reasons will have slightly more advantage than what it had before COVID.

Ankit Kanodia: In that sense apart from the top three players incumbents do we look at more competition in the organized sector and how do we look at that space in that sense from the competition perspective?

Anindya Dutta: If you look globally, the biggest player is here and there has been some consolidation that has happened, so really speaking there are not a lot of large player outside the country who are yet to enter India. So therefore, yes, barring the top three players, the list is really long, it's quite fragmented. So, there is endless list of brands & players and there are continuously many coming because the entry barriers are not that high, that has always been the case and will continue to be more, but to that extent unless you have a proper supply chain, this market is not as evolved that you can just buy some products and create a brand and launch it, you will need to have a little bit more structured approach for a completely new entrant to enter the category in India. So some bit of discouragement, maybe, but largely it's a fragmented industry and I expect smaller & newer competition to continuously keep entering the category.

Ankit Kanodia: Sir, one last question as you mentioned earlier that the value segment is growing much faster than the other segments and one of our competitors is predominantly present in the value segment. Are we also trying to focus more on that or we continue to have our strategy of focusing on the whole range of brands, which we have?



Anindya Dutta: Absolutely, the second one as you said, we are obviously keeping all competition on watch understanding what they're doing, understanding their strengths and the opportunities that we have in the market in terms of where we could pursue something against competition. But largely, we are governed with our own agenda that we have built and our agenda comes from what opportunities we have with consumers, and how can we service consumers better; that's the starting point and everything else follows from there.

Moderator: Thank you. We have the next question from the line of Harsh Shah from Incred Capital. Please go ahead.

Harsh Shah: Looking predominantly between margin and market share, basically this quarter you posted a very good numbers on top line and last quarter you did kind of something like that you have an aspiration of maintaining 18% EBITDA margins in second half of the year. So my question was that.

Anindya Dutta: We can't hear you, you are not audible, your voice is breaking.

Harsh Shah: My question was more about the interplay between margins and market share so if we were to look at this quarter, we have done well in terms of top line but however, last quarter we did talk about an aspiration of 15% to 20% EBITDA margin in the second half. Do we see a market share or do we have a hard target of achieving that 18% - 20% margin?

Anindya Dutta: So, we need to see the margins with a slightly longer period in mind for the full year and from a strategy point of view, and way we are pursuing both market share and margin, we have a good balance in our mind how we are pursuing and I would repeat again, that we are trying to find the ammunition to fight the market share gain, and that is not profit but cost reduction and that's how we are inspired and that is our agenda, now in this quarter you're right this is our peak inflation quarter and it's also by seasonality our lowest revenue quarter, therefore absorption of the revenue across all cost is lower and so on, and so forth. So, the ambition of 18% gross margin going up to 20% continues, and that's something that we will keep driving, there'll be one off quarter where it will not be on those lines and therefore some other quarter we possibly will make up to get the year to be at that particular number that's what I would like to position our self-right now.

Harsh Shah: Okay. If we were to prioritize between gaining market share and achieving the margin targets we will give priority to gaining market share?

Anindya Dutta: As of today if you ask me to choose only one between the two then yes, it is market share.

Harsh Shah: Higher market share with consistent level of margins would be better



Anindya Dutta: You're right, gaining higher market share while maintaining profitability is what one would like to deliver.

Moderator: Thank you. We have the next question on the line of Jaiveer Shekhawat from Ambit Capital. Please go ahead.

Jaiveer Shekhawat: Firstly, can you tell me the volume recovery versus the pre COVID levels and also how it would be across value mass premium and premium segment?

Anindya Dutta: Volume recovery was also pretty good, the underlying volume growth was about 13%-14% overall for the category and this quarter over the base quarter of FY20 and obviously, this was like the value trend is showing it is more higher in the value segments than in the mid premium but overall, it's about 13%-13.5%.

Jaiveer Shekhawat: Got it and given the amount of revenue that you have achieved already in second quarter, would you update your revenue guidance of about Rs. 2000 crores for FY23?

Anindya Dutta: Yes, I don't see any reason why in the remaining quarters it will go down from the guidance that we had earlier given. So whatever has happened till now should stretch us to that limit. But, I am not fixated on the number but directionally it is getting better from what we started the year with for sure. It could be even well than that.

Jaiveer Shekhawat: Understood and sir any update on the Walmart contract, you would like to share about?

Anindya Dutta: I am not very sure where this is coming from, I've not spoken about this, which Walmart contract are we talking about. This has actually come as a question somewhere before also but is there a reference to this?

Jaiveer Shekhawat: This is what we have picked up from our channel page itself. But would you have any update about say any negotiations that are already underway.

Anindya Dutta: No, there is nothing much to talk about there. From OEM point of view, we are interested in possibly taking up a few but it has to be only the bigger accounts that's how we are seeing it right now and in that context, one of the illustrations or example could be Walmart. And the team is in touch with not only them but across many other such larger potential customers. But that's about it, there has been no discussions beyond that, which is worthy to talk about here.

Jaiveer Shekhawat: Sure. And sir one more question on your margins as well, I understand what you're guided in terms of your gross margins where you'd like to achieve it. But say, given what we have seen with the crude oil prices happen as well. So they have corrected from as high as about \$120



per barrel in June, to about \$90 currently. So purely from an RM pricing standpoint, what kind of a GM expansion should we expect in the coming quarters because of that?

Neetu Kashiramka: Actually you already answered that question, right.

Anindya Dutta: It is positive, I can't give you an exact number, but it's also important to see there is a cycle in which we buy our raw materials specially for soft luggage and all other components, which has a lead time, which makes any benefit or inflation that happens today result into the business at a time later than next three months or five months. So to that extent if there is something reducing right now in the environment we will not get the benefit in the immediate quarter. So yes when that reduces eventually that will flow into the business and maybe in five to six months' time.

Jaiveer Shekhawat: And sir were there any price hikes further, post the March hike?

Anindya Dutta: No, absolutely no.

Jaiveer Shekhawat: No. Is that because probably customers are not willing to absorb for the price hikes or do you see no need to do that?

Anindya Dutta: We didn't see any need we had a strategy which we put in place in terms of pricing and the cost reduction that we wanted to do within our operations and we are on track with that so it's moving on the plan so we don't need to react in any way as far as consumer pricing is concerned.

Jaiveer Shekhawat: Mr. Anindya, if I may just sneak in another question on upper case. We have looked at the new launches that they've done so looks quite fashionable and also they have 2500 day warranty and very attractive price point so soft luggage so what's your reading of the situation, do you see the e-commerce space getting more intensified?

Anindya Dutta: Undoubtedly, e-commerce just makes the accessibility to consumer is really easy and fast. If you burn cash, you will be able to get not only eyeballs but also transaction. So, that is definitely something that we are watching out on whether it is Uppercase or players like Mokobara or there are many such players who are spending money with a range that is listed on the marketplaces. So, we give it due importance and we're tracking it and making sure everything that we need to do to benefit our cause we are taking those actions.

Moderator: Thank you. We have the next question from the line of Akhil Parekh from Centrum Broking. Please go ahead.

Akhil Parekh: Okay. Sir my first question is in the other consumer categories, what we're observing is that value segment is **(inaudible) 43.49** underperforming while the mid premium & premium



segments are doing well, while on the contrary in luggage over last few quarters, the trend is the other way around. So, is it because the unorganized segment is struggling from a standpoint we have a supply chain issues and that's why the branded players including us are gaining market share, or is it the brand salience the organized player is organically growing over the last few quarters and that's why the market share gains have happened from unorganized.

Anindya Dutta:

No, one needs to understand when you're comparing with any other category the penetration of that category in India is important, if it is highly penetrated category then it's very different from our industry and our category where the penetration is not good and as and when new consumers/ first time buyers and non-buyers for many years come in the lower economic strata, as well as the lower town classes is driving growth for value product range in this industry and that is possibly a bigger source of growth, than this all unorganized to organized. So that is growing and adding to that for organized player the shift of unorganized which is not able to meet the consumer demand with the same economic advantage that the unorganized sector used to have before, that is yielding into the organized player. So, the underlying source is penetration that is increasing in India and that therefore is not temporary, it is going to be sustained for a good amount of time going forward because luggage is a category compared to many other categories not that penetrated. The usage of luggage in a middle class household is largely when it is an occasion like a marriage and all that, the travel in India, occasional holidays and all it is prevalent at a certain economic and a certain social strata and above. Now as India is becoming more and more prone to indulge itself in traveling, better more spending in marriages and all that. Kids going out of their homes and studying in other cities. These are the bigger drivers which will drive the consumption of travel products and things like luggage, and bags, and all this continues to become a bigger opportunity going forward.

Akhil Parekh:

Sure, this is helpful. So essentially what we're saying is probably this trend is more sustainable and might not be a one off.

Anindya Dutta:

Absolutely, and could be better than the overall category and industries that you're comparing with, when you compare categories across what consumers use, this will possibly have a more sustained growth overall in the industry than comparable or other categories.

Akhil Parekh:

Mid premium and premium segment has started seeing good traction, so is it correlated with opening up of international travel and that's why we are seeing more traction now?

Anindya Dutta:

Yes, absolutely and not only that, overall the segment has started a little late in leisure holidays and buying of products after that so this definitely is very robust right now in terms of this consumer segments starting to spend on travel and all other consumption cohorts that we cater to, there is an underlying demand which was always there, and may have got activated with a little bit of delay, then the value or the other part of the category.



- Moderator:** We have the next question from the line of Jignesh Kamani from GMO. Please go ahead.
- Jignesh Kamani:** So last quarter it was guided close to Rs. 100 crore annual saving is possible because of the COVID return you can say all the cost control which is permanently sustainable. So which is Rs. 25 crore in –48:39 so what was the actual saving that happened in the first half, because of all the cost control activities which we did last year?
- Anindya Dutta:** You're referring to Rs. 100 crore, the calculation is leading to this quarter we might find it difficult to answer exactly in what you are saying. But we need to understand in a way that whatever cost reduction we did with one stroke when COVID happened, we said some of it will come back when business comes back and that has come back and whatever we said at that point of time we would not let come back like headcount or some structural cost like offices and rentals of exclusive business outlets all that has not come back and those are the numbers I was sharing that we have not added while our total EBOs have gone up from 365 to 413. Only, four has gone up in company own stores, rest everything has gone in franchises. So this is just an illustration of the fixed cost in rentals has not gone up and therefore, we have retained it while the business has come back and the exclusive business outlets is through putting a growth over the base year.
- Jignesh Kamani:** If I take about Rs. 25 crore annual saving which is close to around 2% - 2.5% of the quarterly EBITDA, but we are not able to see the improvement so advertisement spend has increased drastically which has taken against that selling has been taken care by debt or how is the scenario?
- Anindya Dutta:** No, you are comparing at a static way of cost, the cost also is going through an inflation whether it is a people cost, manpower cost and all that. So it's not an absolute of Rs. 25 crore that can be compared like that.
- Jignesh Kamani:** Understood, sure. Second question on the supply chain side, how is the number of SKU in our Bangladesh factory able to manufacture right now because in past we had an issue that because of the limited supply chain at the Bangladesh we will lost some of the revenue in India?
- Anindya Dutta:** Absolutely not, Bangladesh is not only able to make all the SKUs, but is also making all the five category of bands that we are in, whether it is hard luggage, soft luggage, uprights, backpack, duffel bags, as well as lady's handbag. So in a short period of two years we've been able to increase the Bangladesh operation not only in total volume but also in terms of its capability to produce all the categories that we sell, and therefore with the category comes designs and SKUs so it's come up to the level what we wanted it to be in terms of its capability, yes but as in when we innovate more and more the number of SKUs and complexity keeps going up and that is a challenge that would be there in any manufacturing sector, and therefore there is nothing.



- Moderator:** We have the next question from the line of Madhuchandar Dey. Please go ahead.
- Madhuchandar Dey:** I have couple of questions. One is, as you rightly pointed out some of these secular trends like people traveling more, marriage etc. discretionary expenditure, which is benefiting luggage coupled with this shift from unorganized to organized, given all these pieces, putting all this together what is the expected normal trend of growth for this industry beyond FY23 because FY23 will have a little bit of this pent up demand. So not really the number to look at from a long term perspective. So for the next five years, what is the growth rate do seek this organized industry.
- Anindya Dutta:** Okay. Well, there is always an element of projection and an assessment of overall economy, how it is growing, it is dependent on the macro situation in the country but if I was to keep that variable aside, getting to about 15% CAGR over the next five years for the industry is definitely a possibility and I would think it should definitely continue to grow at that rate, and maybe a little bit we enhance it, I am talking more about the luggage segment. I don't think we have a full understanding from our side to talk about the whole women's fashion accessory or lady's handbag at what growth rate it will have. From luggage and backpack, this is where we are looking at an industry to definitely grow at.
- Madhuchandar Dey:** And efficient players would have some edge, over this growth rate, if that's the correct understanding.
- Anindya Dutta:** That's right.
- Madhuchandar Dey:** Yes. I have just two other book keeping questions. What is the total CAPEX plan for FY23 and FY24 and where would your own manufacturing stand at the end of FY23 and FY24?
- Anindya Dutta:** So, I will tell you about FY23 it will be in the order of magnitude Rs. 100 crores in terms of CAPEX and purely all manufacturing we are hovering around 65% odd till beginning of this year and we will end up at about 70%-75% by the end of this financial year by FY23.
- Madhuchandar Dey:** And any outlook on FY24?
- Anindya Dutta:** Too early to say, we will work out the plan and as I said the CAPEX will be a resultant of the growth that we are going to target which would be quite healthy and robust and therefore, what part of that we would like to produce ourself and what kind of investment would it need from plant and machinery, facilities and buildings and all that. So, when we get there we will kind of have our number, we are not in a stage to talk about it right now.
- Moderator:** Thank you. That was the last question. I now hand the conference over to Ms. Neetu Kashiramka from VIP Industries Limited for closing comments.



VIP Industries Limited
October 21, 2022

Neetu Kashiramka: Thanks everybody for joining the call. Happy Diwali, in case of any questions you can connect with us anytime. Thank you so much.

Anindya Dutta: Thank you and Happy Diwali everyone.

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

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