



“VIP Industries Q3 FY ’20 Conference Call hosted by
Edelweiss Securities Limited”

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MODERATOR: **MS. SHRADHA SHETH – EDELWEISS SECURITIES
LIMITED**



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Moderator: Ladies and Gentlemen, Good Day and Welcome to the VIP Industries Q3 FY'20 Conference Call hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Shradha Sheth from Edelweiss Securities. Thank you and over to you, Madam.

Shradha Sheth: Thanks, Ayesha. On behalf of Edelweiss, let me Welcome you all to the Q3 FY '20 earnings call of VIP Industries. From the management today, we have Mr. Dilip Piramal – Chairman; Ms. Radhika Piramal – Executive Vice-Chairman; and Mr. Sudip Ghose – MD, so without any further ado I will hand over the call to Mr. Piramal for his initial comments post which we will open the floor for Q&A. Thank you and over to you, Sir.

Dilip Piramal: Good Afternoon everyone. The last quarter has been a mixed bag, sales were flat at Rs. 432 crores which is obviously not a very good performance. We have ceded market share, however, the good part is that our margins have gone up by 500 basis points over the same quarter last year. In fact, this has been the trend in all the nine months of this year, loss in market share but gain in margins. My colleagues will elaborate in a few minutes on this, but we will definitely take steps to regain our market share and keep our margins at the current higher level. The EBITDA margins have also increased from 9.4% to 16.1% over the last quarter and that has also been the trend in the whole of the nine months of this year. Our profit after tax has gone up substantially from 23.8 crores last quarter to 34.2%, an increase of 43%. Obviously the 10% reduction in tax has been one major boost, but now our Bangladesh operations have also started contributing a little bit more so that has been a helpful point. With that, I now pass on the floor for question and answers.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Chirag Lodaya from Value Quest. Please go ahead.

Chirag Lodaya: Sir, my first question is on growth, so as you mentioned we have ceded market share, if you can throw some light what is the reason for the same and what steps we are taking to revive this growth back?

Radhika Piramal: Thank you for the question. There are some external factors and some internal factors. We lost market share in a few specific large orders where we were not willing to come down on price, that is one issue. The second is we have had some internal challenges also in terms of new software system we have been implementing and as the majority of that implementation was in Q3 so that is the internal factor that we have almost resolved. The third I would say strategic reason why we have currently lost a bit of market share is that our efforts in e-commerce are admittedly not up to the mark. We at VIP have a very large share in the general trade channel and the modern trade channel, hyper markets, independent stores, so as a percentage of total



sales, e-commerce sales are low for us. This means that as an organization and as a culture, we do not give e-commerce the importance it deserves although it is the fastest growing channel. One of the reasons our competitors are growing faster than us is because some of their efforts in e-commerce have been more successful with consumers than us. It is something that we are aware of and are working on. I would say this would be the three main reasons why we lost market share.

Sudip Ghose:

Our quest was to keep the margins up because last year we went through a situation where the margins were quite low and it was a mandate to improve. I kept on saying in all the investor calls that we need to keep the margins up, and therefore, you also see a healthy margin growth of close to about 20% in spite of lack of top line. We have held the margins, we could have let go of certain margins to get top line, but we felt that it was a sluggish market, and therefore, we held on to the margin, which I think is the right strategy. But yes as I said particular channels performance needs to be improved and the sales team is working on it and I am sure we will come back very strong. We have a history of very high sales growth in last couple of years and we understand the luggage market very well and we will get back our market share.

Chirag Lodaya:

Again on margin, two pronged question, one we are seeing sharp improvement in gross margin almost 300 basis point and when I compare like-to-like numbers, our operating margins are up by just 100 basis points, so employee cost has grown at a substantial pace despite lower growth. In past, we used to say it is linked to channel, so channel is growing as well as employee cost is growing, so this year again there was no growth, but employee cost has significantly gone up?

Dilip Piramal:

Employee cost has gone up because our manufacturing has increased substantially, so that is something, which does not impact our top line because our manufacturing is for our own consumption, but the number of employees we have is much lower, but this is reflected in the bottom line also, so this is reflected in the employee cost goes up, but our bottom line also goes up, so you have to kindly understand this.

Chirag Lodaya:

Lastly Sir if you can just help us understand what could be the impact of Coronavirus, so we have largesourcing from China till what time we are protected and what is the situation right now?

Dilip Piramal:

I will give a very broad answer on that and then my colleagues will elaborate if required. This is very unusual, unprecedented, unexpected phenomenon which is happening and because the entire luggage industry is dependent on China for its sourcing, it impacts us greatly. Definitely, let me also explain to you that the first quarter of the year, April to June is our largest quarter and we start planning for that right from October. The whole of January this year was holidays in China because of their Lunar New Year. This year the lunar calendar was a little bit ahead, every three years it goes back by 20 days as you might be aware (like our Diwali) and, so this year was very early and they were supposed to come back by first week of February. The whole of China manufacturing virtually closes during the lunar period holidays. All these



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manufacturing factories especially in the low end like luggages all the labor is migrant labor, so they go back to their homes, this might be hundreds to thousands of kilometers away or wherever and then they come back at the end of the holidays which was to be on February 1st. This year, Nobody(labour) has come back till now. Some factories are expected to open on Monday, that is the middle of February and some will open only in March. We have already ordered about 60% before the factories closed, so all that is being shipped; i.e. we have secured 60% of our first quarter requirement. February production, which was going to be very high is absolutely lost, so nothing is going to be made in February, so definitely there is going to be some shortfall. I think we are the best placed amongst the Indian luggage companies in this situation because our own manufacturing (hard side in India and soft side in Bangladesh) also is now quite substantial, it is nearly 50% of our overall sales. Of course, in the first quarter it might not be so much, not 50% it could be 40%-45%, but I still think that we are better placed than any other company in India. We will make efforts to see that we do not lose much sales, but I think in a way it can be a good opportunity for us, because I do not think the other companies have so much of their own manufacturing from non-Chinese sources.

Chirag Lodaya: Just a follow up in case till what time factories resume we can get our inventory at time and will be able to?

Dilip Piramal: That is very uncertain, nobody has a answer to that.

Chirag Lodaya: What is the lead time generally once you order, how much time it takes?

Radhika Piramal: Normal lead time is three months, in this situation it is a bit different, we have placed our orders a long time ago back in October 2019 since the order quantity for Q1 sales is very high. Some factories would have purchased raw material and are just waiting for the labor to come and then they can produce it right away. Other factories where theraw material is still in process of being bought might take longer. I know it is the important question but it is difficult for us to give a clear timeline. In another four weeks, we will have so much more information but unfortunately our call is today when we do not have enough information. What we can say is we are pretty secure for April sales, and then we just have to see how we go for May and June.If things go well, we should have enough supplies; if they go very badly, we might be a little bit short stocked.

Chirag Lodaya: Lastly, can one expect substantial price increase because of this disruption happening in coming months, is it a fair assumption or?

Radhika Piramal: At this point, we just discussed how our margins are healthy and that a lot of market share is the management concern, so in that scenario regardless of stock position, we are not seeking an increase in prices.

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



- Tejas Shah:** First is if you can help us with split between volume and value growth for the quarter?
- Sudip Ghose:** Since the price increases have not been too large, the volume growth will be little more than the value growth, not as flat, but the value growth is flat.
- Tejas Shah:** Sir, as a strategy when we started this year, we clearly called out that our focus will be on margins and it actually played out that way. Now, when we see the current demand scenario which we actually been built in the beginning of the year, can we desire growth holding onto current margins or there will be trade-off between the two?
- Sudip Ghose:** The previous caller had asked us the same question. Definitely we are not looking into immediate price increase because, as I said earlier, the margins are currently healthy. In terms of stocks, we are still covered quite a bit in Quarter-1. I don't support off trading margins to get market share so neither will we reduce prices. We are working towards getting the market share without compromising on margin and I think that is what you will see in Quarter-1. So to answer, would I cut my margin and do top line? No, I would grow top line by giving right products in the market across all our margins. Bangladesh is going to be a big support for us in Q1 because there we can make competitively priced products at a good margin.
- Tejas Shah:** Lastly, 1% growth also means that some channels and Radhika elaborated in the beginning, it also means that perhaps some channels would have degrown, so you called out e-commerce but how is the performance in other channels?
- Radhika Piramal:** Just to clarify, e-commerce has not declined, but it has not grown as strongly as it was growing earlier.
- Sudip Ghose:** It has not declined, most of the channels are flat, there is no major decline in any channel.
- Radhika Piramal:** There are two channels that were growing very fast, i.e. modern trade and e-commerce. Earlier growth of VIP, when we were growing, let us say the company was growing at 10% or 15%, some channels were flat, some channels were growing at 30%. That 30% growth in some channels is what we are missing out on right now.
- Dilip Piramal:** I think institutional sales is one area, it is not a retail channel. I think that is where we have ceded some orders.
- Radhika Piramal:** Correct, these are large orders for gifting by corporates, it is a price driven market where we lost out on some large orders due to price.
- Tejas Shah:** Just one follow up on this one, we are hearing from a lot of established consumer companies which has a decent GT, general trade, exposure already, that is a trade conflict between the GT and e-commerce in the recent past in terms of pricing and merchandising, so are we also experiencing any such conflict?



- Radhika Piramal:** Yes, we are and in fact that is one of the reasons why we have not done as well in e-commerce. I mentioned earlier on the call that our percentage of e-commerce to our total sales is much less than our competitors, and therefore, when we manage channel conflicts, we sometimes make some trade-offs to manage our general trade.
- Sudip Ghose:** The trick is to grow e-commerce without impacting the general trade and that is where we have to think and strategize. We have some answers and we will see some improvement this year. Yes, channel conflict is a big issue to manage these two channels together.
- Tejas Shah:** Sir, any comment on CSD channel sales?
- Radhika Piramal:** It continues as normal, no change.
- Tejas Shah:** What was the debt on book as on December 31st?
- Radhika Piramal:** We will have our balance sheet published in March.
- Dilip Piramal:** We have no debt.
- Moderator:** Thank you. The next question is from the line of Girish Joshi from Prabhudas Lilladher. Please go ahead.
- Girish Joshi:** In the opening remarks, you mentioned that for the April month we are more or less hedged as far as our sales are concerned, but there could be some shortfall for the month of May or June but if I believe, we had some soft luggage inventory on books which was lying idle, so will that not be sufficient to meet any demand which comes up in 1Q?
- Radhika Piramal:** Not the entire quarter, because it is our largest quarter, but yes we are relatively well positioned.
- Girish Joshi:** If I understand correctly, we have recently expanded Caprese's scope beyond handbags to luggage as well, so what was the broader thought of launching the women's travel luggage under brand Caprese and do we have any internal targets for this category?
- Sudip Ghose:** Research has always shown that working women and the number of women travelling for work today is increasing, so there is a demand of luggage which looks different and caters to women when they travel. Hence we decided to launch Caprese luggage. We are the only company which has women-specific luggage under Caprese. The general market the feedback has been very good so there is a market available for women and women-specific luggage.
- Girish Joshi:** But gender categorization does it really exist in luggage, I am a bit surprised on that front?



- Sudip Ghose:** Yes, if you ask your female friends they would say they have distinct tastes and preferences in luggage compared to men.
- Dilip Piramal:** That is how we expand the market and create a new market segment.
- Girish Joshi:** Lastly, can you share the sales and PAT figures for Bangladesh operations for this quarter?
- Dilip Piramal:** We do not do that independently.
- Girish Joshi:** Every quarter we share the figure, Bangladesh operations?
- Sudip Ghose:** We will share the annual figures.
- Moderator:** Thank you. The next question is from the line of Abhijeet Dey from BNP Paribas. Please go ahead.
- Abhijeet Dey:** Sir, one question in terms of the sourcing from Bangladesh what is the overall potential and as a percentage of our overall raw material sourcing, how much can come from Bangladesh in the future?
- Dilip Piramal:** There is no percentage I can share with you at this time. If we increase our production in Bangladesh that portion will increase, the percentage will increase. It also depends on how much are in the past. What has happened is that our sales have increased so much and our Bangladesh base was so small that even though we doubled our capacity in one year, our percentage of imports from Bangladesh was just hardly 5%. Now of course in the current year, our sales are flat and our production has gone up so that sourcing has increased, but it is yet under 20%, it is still quite low. Generally, our aim is to increase it gradually.
- Abhijeet Dey:** And the rest would be largely China?
- Dilip Piramal:** India also, we make about 25% of our luggage in India in our own factories for hard luggage and we have outsourcing in India also for soft luggage, so it is a broad mix.
- Moderator:** Thank you. The next question is from the line of Ronak Vora from AUM Advisors. Please go ahead.
- Ronak Vora:** Can all these new brands which are coming up say by Amazon Basics in anyway hamper our sales and how much?
- Radhika Piramal:** Privatelabel in non-e-commerce channel has not really been successful in India. Now the question is can it be successful in e-commerce? On scale I doubt it. Does it provide pricing pressure for how we launch our brands in e-commerce? The answer is yes. At this time, it is not



likely to reduce our sales opportunity in e-commerce, nor is it a significant competition that takes market share, but it affects our sales growth in terms of how fast we grow.

Ronak Vora: The second is they do not affect your sales in terms of volumes, but do not they put pricing pressure on you?

Radhika Piramal: It does put pricing pressure, therefore, it affects how and which brands we launch in e-commerce, which affects our sales growth as a company. But it is not like specifically the scale of the pricing label in e-commerce is enough to take significant national market share from us. I would say the organized competition remains the larger competitor although there is much more competition in e-commerce from private labels than it is in other channels.

Ronak Vora: Can you just give me the breakup as in segment wise say backpack, it would be how much percent of the revenues say Caprese or luxury or economic?

Radhika Piramal: We do not really give this information. We may give a more detail update in our annual performance during the Q4 call.

Moderator: Thank you. The next question is from the line of Ravichandran M. an Individual Investor. Please go ahead.

Ravichandran M.: I have couple of questions, while going through your numbers I find that your stock in trade is down almost 50% year-on-year which means that the amount of traded goods in your overall revenue is in a declining trend and when I look at your inventory, it appears to be lower than what it used to be in the month of December, as we are getting into season in Q1 of next financial year, it appears that we are going with lesser inventory or perhaps lesser than what it is supposed to be, so in the last two conference call Radhika talked about how she is pushing the Chinese suppliers to reduce the price, increase the volume and all these things, so how are you planning to mitigate this assuming that considering the low inventory level and then the issues in the China?

Radhika Piramal: I think we should look at inventory in terms of number of days rather than the amount in value. If anything, I would say if we look at the last 24 months, starting from around 12 months ago, we had excessively high inventory levels, which we have been gradually bringing down. So I would say right now in terms of inventory days we are still higher in inventory days than we would have been in...

Dilip Piramal: There was a flaw in the question that the inventory is lower than what it should be, I mean how do you assume what should be.

Ravichandran M.: Sir, there was an increase in the inventory in the published results for December last year as compared to this year, this year it is decreased in inventory?



- Dilip Piramal:** No, but you said it was lower than what should be, there is no should be. This was higher than what should have been. What inventory we had even in March '19 was very high and also in December what you are referring to, I think last year was the higher level so in most of the calendar year '19, we have had higher inventories than what was the ideal level, so it was I referred to reduce the inventory and because of the flat sales that was a little bit of a challenge.
- Ravichandran M.:** As far as Q1 of next year is concerned your best quarter historically...?
- Dilip Piramal:** We already addressed that thing in the beginning, that was the first question that was asked how we are dealing with the Coronavirus issue and the production in China, so that we have already covered that.
- Moderator:** Thank you. The next question is from the line of Vaibhav Kukreja from Blend Financial Services Limited. Please go ahead.
- Vaibhav Kukreja:** I wanted to ask that in the middle of the session Sir mentioned that we will be looking to increase our market share in the e-commerce setup, so I wanted to ask that considering the pricing pressure, will you be able to retain our margins if you want to increase our share in the e-commerce sector?
- Radhika Piramal:** Yes, I think it will be totally doable because we have to slightly improve our product lines and our growth strategy for e-commerce. Also, e-commerce as a channel is not so big as a percentage of our total company sales that pricing pressure in e-commerce is something that will affect the gross margins of the whole company. I do not see any conflicts in improving our market share in e-commerce and maintaining our current margins.
- Vaibhav Kukreja:** Secondly, I just wanted was if you could give a bit of inside on the industry like which channels are more preferred in terms of the products that we sell?
- Radhika Piramal:** To define that it is a question of channel growth, channel profitability, the size of the base. All channels are important, some channels are small but growing faster, some channels are big but growing less fast, ultimately it is important for the market leader in India to address all consumers through our all channels. For us I think managing channel conflict effectively, having the correct price points and the correct brands and the correct categories across all channels is very important, we cannot say XYZ channel is more important than the other.
- Moderator:** Thank you. The next question is from the line of Abhishek Agarwal from Quest Capital. Please go ahead.
- Abhishek Agarwal:** Sir, I just had one question, I have been observing since two months now, we have been getting into different categories under our brands like Footloose by Skybags and Carlton London, so I just wanted to understand do we have specific plans with respect to getting into different categories like a footwear, wallet, and stuffs?



Radhika Piramal: Let us just separate the two brands you mentioned, one is Carlton. There we continue with our strategy, which has been aimed as the new age business traveler. We have a range of products that includes luggage but it often includes business bags, backpacks, wallets. At this time, there is no plan for shoes in Carlton brand, it is bags, backpacks, wallets, luggage. With respect to Footloose and Skybags, I will let Sudip elaborate.

Sudip Ghose: We have launched Footloose by Skybags on a very specific purpose At this point of time, I would not be in a position to actually say more than it has been launched with a particular purpose and over next six to nine months' time you would see the reason would get more clearer how we manage this brand.

Moderator: Thank you. The next question is from the line of Mithun Soni from GeeCee Investments. Please go ahead.

Mithun Soni: Would you be able to share how are each of your brands like broadly doing, which one is growing faster, not growing faster in different channels?

Radhika Piramal: There is no major difference from the past really. I will say the reason for the flatter sales is more a question of channel management and overall market sentiment, more than one particular brand being weaker or stronger. As in quarters before, Carlton and Aristocrat in luggage grow very fast or faster than VIP and Skybags, but VIP and Skybags are much larger brands with bigger bases. Caprese also grows faster because it is smaller. So we have three smaller brands which are Carlton, Aristocrat, Caprese. They grow faster than VIP and Skybags, both of which are much larger brands with much larger bases.

Mithun Soni: Second question is in terms of scalability, in terms of the size do you feel that among the four brands, the Caprese and the Carlton also has the potential to be a very big brand like VIP or Skybags and it will be fair to divide the resources, the advertising money on all four of them or you would like to focus on the two or three main ones which you believe can really scale up in a big way?

Radhika Piramal: It is a good question as to how to best allocate advertising resources in a slow demand market scenario. The potential for Carlton and Caprese is to some degree driven by their pricing strategy. As long as we keep their prices higher, they may not achieve the same value sizes as VIP and Skybags. Then the question is, do we advertise all four brands or just focus on three or two. In an ideal world, one will definitely advertise all four, because to create new brands or grow new categories, such as branded Ladies handbags, which is a relatively new category in India, one needs to spend on advertising. Premium luggage from our company is relatively new for us, we are not so strong in the premium segment, so therefore these new brands need advertising. However, in a subdued market demand scenario, will we advertise all four brands, given that we want to maintain our ad spends at 5% to 7% of sales? This is a question mark. We are in the process of looking at our annual budgets and our annual ad spends, so more on that as and when we continue.



Mithun Soni: The reason I am asking is we see majority of the companies have started following what you call as an umbrella brand strategy, they identify one or two brands, that is the only way you stand out despite spending the full advertisement budget?

Dilip Piramal: Can you give an example?

Mithun Soni: If you take the Titan, it is all by Tanishq or it is Titan Fastrack, there are only three brands which they focus on. If you take the FMCG companies also, they are consolidating their brands among the few top brands and then they will bring some brand, but the idea is that they will have their own umbrella brand which is like the top eight brands which they want to focus on, that helps in consolidating the ad budget and it becomes more impactful.

Dilip Piramal: Top eight brands?

Mithun Soni: The main name...

Dilip Piramal: Eight is a very, very large number.

Mithun Soni: If you look at their size wise, from that perspective point the argument is that since we have four, now Skybags is a very clear proposition, very different from VIP. Carlton is at a much premium, much expensive value and there is a specific market for that, but if we look at VIP and Skybags, there is a much bigger potential, I do not know how big the potential maybe in Caprese?

Radhika Piramal: It is something that we definitely evaluate on an ongoing basis and sometimes you can see what we do based on the kind of output or campaigns we run every quarter. All I can say at this point is we hear your point, we evaluate it every time and we take a balanced decision.

Moderator: Thank you. The next question is from the line of Ankit Tanojia from Smartsync Services. Please go ahead.

Ankit Tanojia: As you have already said that channel management is the most crucial aspect to get back to growth in terms of earnings, how do we see the e-commerce channel as a percentage of our total volume say about a year or two from here?

Radhika Piramal: It is too early for us to comment.

Ankit Tanojia: What is the consumer pattern we are seeing right now in terms of say total market, say there are 100 bags being sold in the total market, how many are being sold through e-commerce channel, if you like to comment on that?

Sudip Ghose: In luggage there are two parts to it, one is the luggage and one is the backpack, so there is one volumes which is the basically the suitcase we say it as the luggage and then there is a



backpack, so if you see the luggage market I think anything between 7% to 12%-15%, maybe 12% is being sold luggage, but if you see the backpack I think about 30% of backpack is now getting sold from e-commerce.

- Ankit Tanojia:** You are talking about your company or the total market?
- Sudip Ghose:** I am talking about the market.
- Moderator:** Thank you. The next question is from the line of Hitesh Chedda from Lucky Investments. Please go ahead.
- Hitesh Chedda:** What would be the ballpark growth rate for the industry in Quarter-3 and nine months if you have any indicative number?
- Radhika Piramal:** It is difficult for us to comment, we have Safari numbers in public and we have some estimates of Samsonite and American Tourister. But they are estimates only and again we only have estimates of unorganized and private label. I can say that definitely Safari has grown faster than us, we have lost some market share to them. Difficult for us to comment on the industry as a whole.
- Hitesh Chedda:** Nine month any indicative, estimated number if possible?
- Radhika Piramal:** I cannot give you a number, I can tell you that the overall demand is less in these nine months then the previous nine months. What I can say that a proxy for our industry demand would be domestic air passenger volumes, you can use that as a proxy. Beyond that I cannot share the figures.
- Hitesh Chedda:** My second question is I could not get your comments on the channel growth rate, so you said that e-commerce has declined but...
- Radhika Piramal:** I did not say that, I said it has not grown as fast as it should have, e-commerce has definitely not declined.
- Hitesh Chedda:** Okay, so e-commerce has not grown as fast as the other channels and you are not worried...?
- Radhika Piramal:** No, I did not even say that e-commerce is growing slower than other channels. I said that the growth of e-commerce has slowed down compared to earlier months.
- Dilip Piramal:** E-commerce in our company is our fastest growing channel, fastest growing but the base is very small.
- Hitesh Chedda:** On the brand side, your comments were that there is no major difference within your brands, that was your comments on the brands, right?



- Radhika Piramal:** I said there is no change in the relative growth rate of various brands from previous years. Whatever order they were growing before, they have all slowed down a bit. The main issue is the channel issue not a brand issue. Then I said there are smaller brands are growing faster which are Caprese, Carlton, and Aristocrat, and there are larger brands VIP and Skybags because of the high base and their penetration are going little bit slower than the other three bags, but that is the same situation which has been in our company for the last four to five years.
- Moderator:** Thank you. The next question is from the line of Shiva Kumar from Unify Capital. Please go ahead.
- Shiva Kumar:** Just wanted to know whether there will be an improvement in margins, due to the recent sell off in crude oil prices especially in the hard luggage segment?
- Radhika Piramal:** At this point, we are pretty happy with our margins and we would like to focus on recovering our market share, therefore if we see any opportunities on costs we might tweak our product mix to offer some aggressively priced products.
- Dilip Piramal:** Let me add that the correlation between plastic raw material prices and oil prices is very little and the component of plastic raw material also is very little in our overall sales value as compared to our sales value.
- Shiva Kumar:** Sir, should we expect any increase in ad expenses as you try to regain your market share?
- Radhika Piramal:** Not as a percentage of sales.
- Shiva Kumar:** Any comment on the employee expenses, they seem to have come down on a quarter-on-quarter basis, would you be able to hold it at these levels?
- Radhika Piramal:** Yes.
- Moderator:** Thank you. The next question is from the line of Kamlesh Kotak from AMSEC. Please go ahead.
- Kamlesh Kotak:** Just wanted to understand how much investment we are planning to making in our sourcing in Bangladesh or maybe in India?
- Radhika Piramal:** We are just in the process of firming up our annual CAPEX plans. In the last three or four years, we have been spending 30 to 50 crores per year on capex, we expect those levels to continue and is in a range, but it is in that range.
- Dilip Piramal:** The 30 to 50 crores is not only for sourcing, in fact the smaller portion is for sourcing or production, and the major portion is for our distribution expenses relating to warehousing and



new software, which is more related to the administration of the company. Today, our growth block in Bangladesh is hardly 45 crores and net block is about 32 crores.

Kamlesh Kotak: Just wanted to understand Sir that the current situation the way China is now into, can we get some higher sourcing from our Bangladesh facility, do we have that much of utilization availability, so that we can get that kind of an advantage in the current scenario?

Dilip Piramal: We cannot get higher utilization, we are producing at the maximum since we are just ahead of our high season, so unless we increase the capacity, we cannot produce more.

Kamlesh Kotak: My second question is regarding companies Caprese, how the distribution channel has been expanding in that and how we see that growth traction, we have been talking of that, it is still underpenetrated channel, so how has been the trend?

Sudip Ghose: The Capresedistribution has changed over last 12 months to 18 months. Earlier, it used to sell maximum from Department stores and Co-run showrooms, followed by general trade. When I say departmental stores, I mean organized premium stores such as Shoppers Stop, Lifestyle and Central. Now, we have seen a large shift of Caprese or Ladies handbag sales moving from the traditional and retail trade to e-commerce. More and more women are buying Capresehandbags from e-commerce.

Kamlesh Kotak: So distribution will be the smallest of the channels in that category?

Sudip Ghose: General distribution will be the smallest, yes. Most of the Ladies handbag is now getting sold in departmental stores like Shoppers Stop, Lifestyle, or Central or Pantaloon, our company run VIP Loungesand e-commerce.

Kamlesh Kotak: Secondly, about the modern trade channel, are we present across all the markets in terms of pan-India presence as well as Tier 1, Tier 2, Tier 3 cities?

Sudip Ghose: There are certain chains within modern trade channel where we had not been present earlier primarily because of price, or where we are present in some doors but not all doors of that chain, say we are present only at about 200 outlets, but we are not going to all outlets. Currently, we have managed to work on developing new products for these chains and this year we would like to be present in across all the chains within the hyper trade channel. We are the market leader in the majority of the modern trade chains, but there are certain chains where competition is stronger along with a lot of unorganizedplayers, which get sold at a price point which is pretty aggressive. We are now developing the products so we would gain in these chains.

Moderator: Thank you. The next question is from the line of Vivek Shah, an Individual Investor. Please go ahead.



- Vivek Shah:** My question was do we have any plans to manufacture soft luggage in India or it will sourced only from China and Bangladesh?
- Radhika Piramal:** Currently, we source soft luggage from Bangladesh and China and also from India, but we do not manufacture our own soft luggage in our own factories in India. We are continuously evaluating that option.
- Moderator:** Thank you. The next question is from the line of Nidhi Agarwal from Sunidhi Securities. Please go ahead.
- Nidhi Agarwal:** One clarification on China imports, are we sourcing from Guangzhou in China which is in Southern part?
- Radhika Piramal:** No, we purchase our luggage in another region that is West of Shanghai.
- Nidhi Agarwal:** How is the Coronavirus impact there, you are saying that people have not come from leave?
- Dilip Piramal:** We have discussed everything now, why do you want to repeat it, we cannot give you any more information.
- Nidhi Agarwal:** I have listened to that but I just wanted to understand that what is the impact, if sourcing from China cannot be done, what alternative arrangements can be made?
- Radhika Piramal:** We are working on it, we I would say have a decent stock level at the moment, we are working on our alternate supply, it is really too premature for us to comment now.
- Moderator:** Thank you. The next question is from the line of Bhavesh Chauhan from IDBI Capital. Please go ahead.
- Bhavesh Chauhan:** Can you share the mix between soft and hard luggage for the quarter?
- Radhika Piramal:** It is the same as before, I am not being specific in this call. At the year-end call, we can give you some broad outline of hard and soft changed compared to the previous year.
- Dilip Piramal:** Generally, the trend is in the entire luggage industry is that the hard luggage share is increasing.
- Bhavesh Chauhan:** As I understand, you guys produce your own hard luggage and with this issue in China there is a problem in sourcing in case there is, do we see constraint to manufacturing the hard luggage in India also because I understand that lot of components are actually imported from China for hard luggage as well?



Radhika Piramal: If anything, this constraint is the opportunity that Chairman was referring to, in terms of how we are relatively better placed than our competitors, because our Indian hard luggage capacities are the largest in our industry and there is a good appetite from consumers shifting from soft to hard. When you talk about alternate supplies from China, hard luggage is one good area that we can look at.

Moderator: Thank you. I now hand the conference over to Ms. Shradha Sheth from Edelweiss, please go ahead.

Shradha Sheth: Thank you very much.

Radhika Piramal: Thank you Shradha and thank you everyone for joining this call. As Chairman stated at the start of this call, it has been a mixed bag. The flat sales and loss of market share is deeply disappointing and it is something our team is working hard to correct. However, in terms of margins, we are pleased with the progress we have made. We are confident that the right channel strategy is in place and after solving some of the internal operational issues we have faced in the last couple of months, we can improve our growth rate in the next three to four quarters, regardless of market sentiments and market demand and despite Coronavirus.

Dilip Piramal: I would like to add something that because of this Coronavirus, I think we are the best placed amongst the Indian companies because of our own manufacturing facilities, we are best placed to face this problem.

Radhika Piramal: I have one final comment, in terms of the timing, whether our growth resumes now in Q4 or Q1 remains to be seen, but definitely flat sales growth is something that is not in line with our expectations. We are looking forward to growth and we have some plans; now, whether we are able to action them in Q4 or Q1 is the question. We are working on it and this is regardless of Coronavirus and market demand or economy situation. Thank you.

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