

# Conference Call Transcript

VIP Industry  
Q3FY18 Results  
January 25, 2018 | 4 p.m. IST

## *Corporate Participants*

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**Mr Dilip Piramal**  
*CMD*

**Ms Radhika Piramal**  
*Vice Chairperson & Executive Director*

**Mr Jogendra Sethi**  
*CFO*

## Questions and Answers

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**Moderator:** Ladies and gentlemen, good day and welcome to the Q3 FY18 Earnings Conference Call of VIP Industry Limited, 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 the operator by pressing "\*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Shradha Sheth from Edelweiss Securities. Thank you and over to you, Ma'am.

**Shradha Sheth:** Thank you Lizzan. On behalf of Edelweiss let me welcome you all to the Q3 FY18 earnings call of VIP Industries. From the management today, we have Mr. Dilip Piramal – the CMD, Ms. Radhika Piramal – the Vice Chairman and Executive Director and Mr. Jogendra Sethi – the CFO of VIP. So, without any further ado I will hand over the call to Mr. Dilip Piramal for his initial comments post which we will open the floor for Q&A. Thank you and over to you, sir.

**Dilip Piramal:** Thank you Shradha. Good afternoon, ladies and gentlemen. Thanks for taking out time and joining our Conference Call.

During the quarter 3 FY18, the company achieved income from operations of Rs. 338 crores against Rs. 311 crores in the corresponding quarter of the previous year, registering a growth of 8.7%. However, this is slightly misleading because and I will explain you why. The overall growth is about 20% as corresponding to the corresponding quarters of the last year.

Consequent to the introduction of the GST, several indirect taxes including central excise and VAT have been subsumed into GST. As per the new accounting standard Ind-AS, revenue has to be reported net of GST or VAT and inclusive of excise duty. Hence, results for the current quarter 3 and last quarter 3 are not comparable. GST for Q3 FY18 was higher by around 25 crores as compared to VAT in Q3 FY17. Excise duty of around 9 crores was also included in the revenue of Q3 FY17 which has been subsumed in GST now. Hence, there was a total difference of around Rs. 34 crores. In that case, the total revenue would have been Rs. 372 crores, 338 plus 34, a growth of around 20% over Rs. 311 crores for Q3 FY17 against reported sales growth of 8.7% in Q3 FY18.

For the 9 months ended 31<sup>st</sup> December 2017, the company achieved income from operations of Rs. 1,054 crores against Rs. 970 crores in the corresponding 9 months of the previous year registering a growth of 8.7%. Here again that 8.7% corresponds to about 15% growth for the 9 months.

For majority of the call, I will be referring to our consolidated financial figures.

For Q3, sales growth was achieved from domestic business as international business growth is negative.

Domestic business growth is mainly volume growth.

Government has considered industry representations and reduced GST rate for luggage and bags to 18% with effect from 15<sup>th</sup> November, 2017, which is in line with effective indirect tax rate under pre-GST regime. GST is expected to benefit the organized sector in the long run. GST should improve tax compliance of the unorganized sector leading to reduction in difference in prices of organized and unorganized sector. The entry level brands and even the mass premium brands from our portfolio will become more attractive.

**I would like to talk about our brands now:**

Skybags brand is growing extremely well. Skybags is also the leading brand for backpack. VIP brand has started growing. Aristocrat's latest collection has also been very well received and sale of Aristocrat is going very well. Carlton brand has also shown good growth at Q3. Caprese, our ladies' handbags brand, is also doing well and grown well during the quarter and margins are also very good.

During the quarter, all channels have done well. E-commerce channel has picked up strong pace. Modern trade channel has grown very well in spite of our high base.

**Now, I would like to talk about profitability:**

Our EBITDA was at Rs. 43 crores during Q3 FY18 up from Rs. 27 crores in Q3 FY17, a growth of about 59%. Overall our EBITDA is 12.7% in Q3 as compared to 8.7% in Q3 of the last year, which is a significant improvement. EBITDA has improved due to product mix and strong rupee. Advertisement and marketing expenses were around 7%. Also EBITDA goes up when the volume growth is good and we have had that in the last quarter.

For 9 months' ended 31<sup>st</sup> December 2017, our EBITDA was at Rs. 146 crores up from Rs. 108 crores that is a growth of about 35%. Overall, our EBITDA is 13.9% for 9 months ended 31<sup>st</sup> December as compared to the 9 months of the previous year where the EBITDA was 11.1%. So 13.9% against 11.1% which is a good improvement.

Our profit before tax for Q3 was Rs. 39.6 crores up from RS. 23.7 crores during Q3 last year which is a growth of 67%.

For 9 months' ended 31<sup>st</sup> December 2017, our profit before tax was at Rs. 136.5 crores up from Rs. 97.4 crores which is a growth of around 40%.

Fixed overheads are well under control.

**I will now give you an update on our VIP Bangladesh operations:**

VIP Bangladesh Limited, which is the 100% subsidiary, had income from operations of Rs. 18.4 crores during Q3 FY18 against Rs. 11 crores in the Q3 FY17, a growth of 67%. Income from operations for 9 months ended 31<sup>st</sup> December 2017 was Rs. 37.1 crores as compared to 33.4 crores, a growth of 11%. VIP Bangladesh EBITDA was at Rs. 5.1 crores during Q3 FY18 up from Rs. 2.4 crores in Q3 FY17 a growth of 112%. For 9 months ended 31<sup>st</sup> December 2017, VIP Bangladesh EBITDA was at Rs. 10 crores up from 7.5 crores that is

the growth of about 33%.

VIP Bangladesh profit before tax for Q3 was Rs. 4.6 crores up from Rs. 1.9 crores during Q3 last year which is the growth of 142%. For 9 months ended 31st December 2017, VIP Bangladesh profit before tax was at Rs. 8.5 crores up from Rs. 5.9 crores during 9 months of last year which is a growth of around 44%.

A new company VIP Industries BD Manufacturing Private Limited has been incorporated in Bangladesh on 28<sup>th</sup> September 2017.

With that, I turn over for questions please. Thank you.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We will take the first question from the line of Chirag Lodaya from Value Quest. Please go ahead.

**Chirag Lodaya:** I have 2 questions. First on growth, so last 2 quarters we have seen acceleration in our overall growth rate vis-à-vis past several quarters. So, if you can highlight some key drivers and trends which has led to such acceleration and how one should look at FY19 in terms of growth?

**Radhika Piramal:** So the reason for the higher sales growth is, one is definitely GST which has reduced the gap between unorganized and organized. Imports have reduced in unorganized sector. We do not have any specific data. We are gaining some share in the general trade segment which is a very big base for us and which was not growing well. Now, we are growing well in general trade. Secondly, we still believe that hypermarkets and e-commerce are taking share from the traditional dealers. But within the traditional dealer market, we have taken some share from the unorganized. Hypermarkets and e-commerce are both growing also faster than expected and again we feel this could be linked to actually demonetization because more and more consumers are coming into the formal economy. So, we see these are some reasons. We have taken some share from Samsonite- American Tourister because we continued to do well in Our premium brand, Carlton, and our mid brands VIP and Skybags. VIP has also shown some growth after long time, Skybags continues to do well. Our value brand, Aristocrat, is growing well. So, in all segments our brands are doing well and all channels are also doing well.

**Chirag Lodaya:** How big would be e-com for us now?

**Radhika Piramal:** We do not get the specific number

**Chirag Lodaya:** And when we say we are gaining market share from Samsonite, American Tourister is it to do with pricing change and pricing strategy or what would be the reason?

**Radhika Piramal:** I think that it is overall combination of pricing strategy, assortment, supplies and operations. It is the whole package, we are delivering to the market at the right time. Supplies are also regular and good fill rates, etc. are the big part of efficient operations in modern retail.

**Chirag Lodaya:** And in terms of sale now FY19 onwards how one should look at our growth trajectory one should factoring? Just a sense.

**Radhika Piramal:** Now, it is too early to comment. Let's see how current quarter goes. We would not look at single digit and we are looking at double digit. I want to clarify that overall sales growth is higher than the number shows because the revenue excluding GST, etc. is lower but that is also one reason why the margins look higher than they actually are because when you do margins as a percentage the revenue is a denominator. Now in this case the revenue, the denominator, is less than it would have been had we like-to-like reporting. So, actually the correct way to read our results is the revenue growth is much higher than as indicated and the margin growth is not as high as what it seems and there is a small margin growth due to strong Rupee against the Dollar. But it is not the same expansion that is what is indicated in these results. So, I just wanted to clarify that one point.

**Chirag Lodaya:** And are we seeing overall industry itself growing at much faster rate or it just a shift?

**Radhika Piramal:** Industry is growing well. Domestic and international passenger volume is up. This is the figure we track. So, we see that domestic and international air passenger volume is up by about it ranges 16%-17% month-on-month over the previous month of the year.

**Chirag Lodaya:** And secondly on gross margins, so comparing gross margins on adjusted GST number Q-o-Q now it has been 3 quarter. So we have seen again improvement on quarter-on-quarter on gross margin front. So how one should look at this number because crude going up the Rupee being stable.

**Radhika Piramal:** That is mainly the Rupee. Actually, we are beginning to face cost pressures after a long time both on our FOB basis from China in Dollar terms as well as our plastic prices. So, we had a long spell of 14 months to 16 months where we have not had any cost pressure as such. But in the last 2 months that has changed. However, what is helping certainly is the strong Rupee against the weak Dollar. Actually the margin improvement over Q3 of the previous year is only about 100 basis points and it is primarily due to the Dollar and the Rupee.

**Chirag Lodaya:** So, till what Dollar Rupee level we are comfortable maintaining this kind of margins?

**Radhika Piramal:** I expect us to be able to do continue at these margins.

**Chirag Lodaya:** So second quarter margins are sustainable at this point of time?

**Radhika Piramal:** I feel so.

**Moderator:** Thank you. We will take the next question from the line of Tejas Shah from Spark Capital. Please go ahead.

**Tejas Shah:** Just wanted to know CSD was missing from the commentary today. So, any update on that how that panel is performing?

**Radhika Piramal:** Yes, it is not growing but it seems to be not declining as much as before. We maintain our market share. CSD is a government department and they have to be very cautious and correct as they make their

decisions. So, when GST happened they took a certain amount of time to make their decisions as to what they have to do with pricing and so there was whole period in which they did not place orders at all that was back in the month of last July. And then since then they continue to sort of destock and place orders on a lower basis but I remained confident about our competitive market position and as and when the channel decides what it wants for its future and what kind of demand it is willing to meet then we can grow with it again.

**Tejas Shah:** So has not it restored to pre-GST level yet?

**Radhika Piramal:** It is just about tracking. It is not growing.

**Tejas Shah:** And another thing you mentioned about unorganized being less competitive since GST has come and do you feel whatever reading in this early period perhaps but whatever reading you have you believe that this advantage is here to stay?

**Radhika Piramal:** It is hard to tell the future but the price difference between organized and unorganized has reduced. So that is good for brands.

**Tejas Shah:** And last question if you can spend some time in explaining what is happening in international business because sequentially its been declining.

**Radhika Piramal:** It has been declining for the last 12 months and the reason for that is in India we are strong, we have strong brand premiums and excellent distribution network and we are not that strong internationally and therefore our ability to focus and gain market share is difficult. It is simply not a strong focus area of management and as a result it is showing in the sales. We have some plans to try to revive it and we will do that for the best of our ability but not at the expense of our efforts in the domestic market which is our strength.

**Dilip Piramal:** Also building the brand abroad is quite expensive. So, we are not inclined to make any great investments in building a brand abroad at this time.

**Tejas Shah:** And sir, if I may squeeze in one more. Sir, Bangladesh seems to be the bright spot in our numbers for last 2-3 quarters and we had expanding capacity also. So, just wanted to understand where are we seeing that capacity expanding to in terms of numbers and how it can help our margins?

**Dilip Piramal:** Bangladesh is a difficult country to operate in. Infrastructure is quite poor and we are not operating in either of two big cities in Bangladesh i.e. Dhaka and Chittagong which are two big export promotion zones as we did not get any places there. We are in a very remote area and it has taken us very long time to get to this profitability in Bangladesh. While the margins are good, it is a very difficult place to operate in. So, we have to expand very carefully, and we have plans to expand but we have to be cautious because it is quite a difficult terrain to operate in.

**Tejas Shah:** What is current capacity utilization and what will expand to?

**Radhika Piramal:** So we have reached our capacity utilization of the first plant which is why we have set up the new company with the second plant

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

**Chirag Lodaya:** Ma'am I have a one question on advertisement. So what is current advertisement spent for first 9 months vis-à-vis last 9 months?

**Radhika Piramal:** It is about the same around 7%. So, our advertising is increasing in line with our sales growth.

**Chirag Lodaya:** And we will be maintaining this 7% to sales or we may see some moderation or escalation?

**Radhika Piramal:** No, certainly no moderation possibly.

**Chirag Lodaya:** And any plans of using surplus cash going ahead?

**Dilip Piramal:** Yes, that is something which is bringing down our ROCE because now as on December 31<sup>st</sup> we had around Rs. 150 crores in surplus cash and I do not have any great option at the moment.

**Moderator:** Thank you. We will take the next question from the line of Chanchal Khandelwal from Birla Mutual Fund. Please go ahead.

**Chanchal Khandelwal:** Now Caprese as a brand, how big is it today and what can be the other growth driver say going forward? How are you looking to build that up?

**Radhika Piramal:** It is a good question. It remains smaller than what we had expected and the main reason for that is we still do not have a very great distribution in general trade for Caprese. For Caprese, our main distribution is department stores, online and Company run stores. And so, we are not present in hypermarkets and we are not present in dealers which remain the main retail channels for Indians.

**Chanchal Khandelwal:** Own store by the name of Caprese?

**Radhika Piramal:** We have a few and then primarily we sell through our VIP Lounges, department stores and online. We are not present in hypermarkets because we do not have a product at a price point which would be suitable for the hypermarket consumer and same for dealers. So, we are working on it. It will take a little more time than expected to scale up. But on the other hand, our margins are good.

**Chanchal Khandelwal:** How big is the entire market? Can this be say two to three years from now this be a growth opportunity for you? Are you looking to build this up or?

**Radhika Piramal:** In terms of our market size, we are amongst the top 5 ladies hand bag brands in India already and it is just about creating a market. It is about creating a branded market, the same way VIP Luggage created branded luggage 50 years ago. It takes time to change consumer habits.

**Moderator:** Thank you. We will take the next question from the line of Karan Khanna from Ambit Capital. Please go ahead.

**Karan Khanna:** Sir, firstly I wanted to understand at a broader industry levels

what sort of growth rates are we seeing and so, if you look at soft luggage, hard luggage, backpacks which is the fastest growing category amongst this three or four products. So, if you could just throw some light on it?

**Radhika Piramal:** Backpacks is the fastest and then soft luggage and hard luggage are about the same. Hard luggage is split into one category which is growing very fast and then one category which is declining. Growing fast is polycarbonate and the declining is polypropylene. Polypropylene is the old fashion luggage which has a metal strip all around it called a frame and polycarbonate is a new plastic light and strong which has the trolleys and the wheels. So, backpacks are growing the fastest because generally the industry in terms of branded backpacks started maybe 5 years to 7 years ago, Now, we are the largest with Skybags backpacks. It should continue to do well because there is a room for distribution expansion and penetration. There is also a scope for segmentation because we can offer some lower price as well as some premium products. And then hard luggage and soft luggage grow about the same rate and fundamentally that is really the growth rate of the company. Bulk of which is volume growth.

**Karan Khanna:** Since soft luggage I understand especially in the economy and to some extent even the premium segments we are quiet dominant. But in hard luggage, I think Safari is become pretty aggressive when you look at the new range that they have launched in 2017-2018. So what is the strategy to tackle this increase competitive intensity?

**Radhika Piramal:** We are by far the market leader in hard luggage. We sell more polycarbonate bags in India than anybody else. Safari is aggressive in terms of they have a good product mix at entry level price points but if you go to any hyper market or dealer store you will see our hard luggage fairly dominant. So, we continued to grow well in hard luggage.

**Karan Khanna:** And finally, just one more question, now that GST rates have been reduced from 28% to 18%. So, are we seeing any sort of shift in favor of the organized players?

**Radhika Piramal:** I feel so. I think that is the result, I mean that is what has driven the higher volume growth for us in Q3.

**Karan Khanna:** So, our volume growth was around 18%-19%, right?

**Radhika Piramal:** That is right.

**Karan Khanna:** And industry growth would be?

**Radhika Piramal:** May be a little bit lower. We can wait for Safari's results and see.

**Shradha Sheth:** Radhika, one question from my side. Just wanted to understand further margin levers from hereon because as you said gross margin wise there are cost pressures evolving in terms of Chinese currency but at the operating level how is the profitability of Caprese, is it breaking even?

**Radhika Piramal:** Yes, Caprese is breaking even. I think we are in a pretty good shape on the margin front, if the Rupee remains at these levels. So, that is

one opportunity. The second opportunity is the Bangladesh expansion because certainly we can see the good EBITDA there and if we can double our sales in some period of time that is the second opportunity and finally if the gross margins towards the end of the year remains a bit stronger than they were a year ago. So, with these gross margins if we can continue our sales volume growth, it looks to be very positive.

**Moderator:** Thank you. We will take the next question from the line of Tinkesh Punjabi from Taurus Mutual Fund. Please go ahead.

**Pinkesh Punjabi:** Sir, could you give some data point like what is your CAPEX plan and any category expansion you have thoughts on?

**Radhika Piramal:** In the current year, we have done a little bit more capex than usual. We have invested in a modern warehouse facility. Other than that, the remainder of the CAPEX remains similar, obviously the Bangladesh facility that is sort of another sort of Rs. 25 crores-30 crores that we will spend in the current quarter and in the next quarter. Other than these 2 major investments, it remains the same as usual and no category expansions at this time.

**Pinkesh Punjabi:** And coming to know overseas business currently how much is the exports and what is the aspiration there?

**Radhika Piramal:** It is not a very large part of our business. It has been declining and I think we would be satisfied if we could stabilize it. It is not the main growth driver for this company.

**Pinkesh Punjabi:** Ahead also?

**Radhika Piramal:** Correct.

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

**Nitin Gosar:** Two questions. One is on VIP you mention that the growth is coming back. Is it that we got the pricing right?

**Radhika Piramal:** Yes, it is just pricing and assortment. Pricing in the specific ranges have been well-received.

**Nitin Gosar:** And second question is pertaining to the segmentation you talked about creating more segmentation in backpacks. Would you mind elaborating more on this?

**Radhika Piramal:** Yes, we are pretty strong in Skgbags backpacks but we have range of brands. So, we have also just launched Aristocrat backpacks in the current quarter which is slightly more value pricing and then we have also launched VIP backpacks that is just a slightly premium pricing to Skybags. So, that is what I meant and both collections have been well-received. So that should play out in the calendar year 2018.

**Nitin Gosar:** Should we consider as Skybag as young and VIP as much more mature in terms of ...

**Radhika Piramal:** Yes, we can consider VIP as professional and Skybags as like college.

**Moderator:** Thank you. We will take the next question from the line of Tejas Shah from Spark Capital. Please go ahead.

**Tejas Shah:** And lastly you mentioned that unorganized is losing market share and in general trade even a ballpark will help, what be the proportion of unorganized and GT in general?

**Radhika Piramal:** More than half the market, I feel.

**Dilip Piramal:** We do not bother too much about all these because at the end of the day it does not affect our action in any manner. Because whatever action we want to take let's say against we want to gain more market share whether it is against our competitor in the branded sector or it is against unorganized sector the action is the same. So, it does not matter whether unorganized sector is 55% of the total or 60% of the total. We have to see the trend and the trend is in our favor. So, we feel that whatever action we are doing is correct. So, we do not bother too much and there is no accurate way of getting this information. So, we do not spend too much time and effort in getting too many details.

**Tejas Shah:** And lastly at least in Mumbai circle we are seeing that one competitor Tommy Hilfiger is actually getting very aggressive. So, any insights if you can share how serious the competition as or it is restricted only to Mumbai or urban circles?

**Radhika Piramal:** Yes, I do not find very significant spike in competition from Tommy. It is a license brand which means it is not a luggage expert.

**Dilip Piramal:** Tommy is different from Tumi.

**Tejas Shah:** Yes, I am referring to Tommy Hilfiger, yes.

**Dilip Piramal:** No, Tumi or what is it?

**Tejas Shah:** Tommy.

**Dilip Piramal:** Tommy okay I do not know.

**Radhika Piramal:** It is Tommy and that is not very big.

**Dilip Piramal:** Not even aware of it, yes.

**Moderator:** Thank you. As there are no further questions, I now hand the conference over to the management for their closing comments.

**Radhika Piramal:** It has been a good quarter and a good 9 months. What is very encouraging is that we have had volume growth. We are very happy with the decision of the government to put GST back into 18%. If the Rupee remains strong against the Dollar and we continue the volume growth. I am looking forward to a very positive year ahead. Thank you.

**Moderator:** Thank you. Ladies and gentlemen on behalf of Edelweiss Securities, that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.

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