

# Conference Call Transcript

VIP Industries

Q3FY17 Results

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## *Corporate Participants*

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**Ms Radhika Piramal**  
*Managing Director*

**Mr Jogendra Sethi**  
*CFO*

## Questions and Answers

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**Manoj Bahety:** Thanks. Good afternoon everyone. On behalf of Edelweiss, I welcome you all to Q3 FY2017 con-call of VIP Industries. Today we have Miss Radhika Piramal, M.D. and Jogendra Sethi, CFO of VIP. Now, without further ado I will hand over the call to VIP management to give a brief overview of the industry and VIP this quarter performance and then we will open up the session for Q&A. Over to you Radhika and Jogendra!

**Radhika Piramal:** Thank you Manoj. Thank you Edelweiss for hosting this conference and welcome everybody to VIPs Q3 Earnings call.

I will get right into the sales. I will talk about the industry and the competition then I will discuss our margins and finally our profits.

Our sales were Rs. 307 Crores in Q3 of this year up from Rs. 291 Crores in Q3 of last year that is a growth of 6%. I am reasonably satisfied with 6% growth given demonetization, which happened in November. So, in November we declined in absolute terms. October was obviously better. October was a strong start to the Diwali season and marriage season and then November was very bad and we stabilized reasonably well in December, which has resulted in 6% growth.

I can share a breakdown of this 6%. Our domestic luggage growth was 10%. Our international luggage has declined quite significantly and the reason for this is absolutely unrelated to demonetization. We are facing an issue in one of our key markets and we are taking steps to address that issue but it is going to take some time. I just urge to keep in mind that the domestic luggage growth is 10% and the international has declined quite significantly.

Now, within this domestic luggage growth of 10%, all of this is volume growth and none of it is price.

Whether 10% is good or not, is a mixed view. In the phase of demonetization and some of the other categories that we have seen you can say this is good. I must have acknowledged you however that our competitor has also released Q3 results and their sales growth is much higher than 10%. So, that is some sort of concern and we are reviewing the market very closely as to exactly which channels this is happening and why and we will be taking steps to address this.

We see a lot of benefit from demonetization towards the organized sector and within the organized sector. We see a lot of action happening at the value end because essentially as the unorganized sector get captured in the tax net and would have to pay more tax, the cost of unorganized increases and the price difference between unorganized and organized reduces, which makes entry level brands and even the middle brands from our portfolio more attractive.

So overall going into 2017, I can say that the demand seems strong, the wedding season seems good and I am quite confident going into Q1. Major sales

challenge for VIP industry to address at this point is a low cost competition from the organized sector rather than any overall market demand situation.

Gross margins in the current year were 48% as compared to 44% last year. This is a tremendous improvement and is a primary reason for our increase in profits. Gross margins have increased for a number of reasons. First, we were able to negotiate lower FOB cost in dollar terms for soft luggage. Secondly, the rupee remained broadly stable. Rupee depreciation was not terribly significant and also there was continued containment of plastic prices. With all of these, our gross margins improved.

**Fixed cost:** our employee expenses and depreciation remained the same. In other expenses, there was a slight increase in absolute terms. Our other expenses were Rs. 85.8 Crores up from Rs. 77.3 Crores. Even as a percentage of sales, it was a little bit higher. I can share that this is primarily an increase in advertising in October and November. We spent for our Diwali season on VIP ad with Hrithik Roshan. We also spent on Caprese with Alia Bhatt ad and majority of this expense happening in October just before Diwali. Hence, advertising as a percentage of sales in Q3 were a bit higher than we had initially imagined yet the improvement in gross margins has meant that it has not really affected our profits in anyway. I am referring the consolidated results.

Our profits before tax were Rs. 23.1 Crores up from Rs. 15.3 Crores that is a growth of about 50%. Our EBITDA was Rs. 15.5 Crores up from Rs. 10.4 Crores that is also a growth of about 49%. Overall our EBITDA is 8.6% in Q3 of this year compared to 6.6% of Q3 of last year, which is definitely an improvement.

You can see on a running basis our EBITDA of Q3 was 8.6% of sales whereas in Q2 was actually higher at 10.2% and again the reason for difference is the advertising. In Q2, it is usually a monsoon or weak season not a very strong season and we do not advertise. In Q2, our sales were quite good, which is why for us we had a very good Q2 and in Q3. We advertised more so that is why the EBITDA margin in Q3 is lower than Q2.

Overall I would say as a quarter, I am very pleased that the gross margins are something I wish to continue. The rupees is remaining pretty stable right now and just at Rs.68/US\$. If it continues for the next few months, we can expect good margins to continue. The main priority for the management is to address the sales growth by addressing issues we might be facing in some channels with respect to the value competition from the organized sector.

One last comment, I will give on VIP Bangladesh, which is a 100% subsidiary. We also had a good quarter in VIP Bangladesh and made a profit. It has a very steady supply chain and operating system and our margins are decent there to.

So with that I turn over to questions please.

**Moderator:** Thank you. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Pritesh Chedda from Lucky Investments. Please go ahead.

**Pritesh Chedda:** Just wanted to check on VIP brand specifically how it has

done in the quarter and the nine months and some comments on the other brands in our portfolio?

**Radhika Piramal:** The picture in Q3 is similar to what it has been for last nine months. Our best performing brand is Skybags and it is growing very healthy. VIP remains the brand that we are having the most trouble growing so Skybags would have taken a good amount of share from our competition but possibly also cannibalize some of VIP. In terms of finding the correct brand positioning and design language for VIP, which is something where we as a management have to do the most work. So, VIP remains where it is. Skybags is growing well. We have three other brands that is Carlton at the premium end and Alfa and Aristocrat at entry level which are both delivering average growth.

**Pritesh Chedda:** For nine months also it is a similar picture.

**Radhika Piramal:** Yes, it is broadly the similar picture.

**Pritesh Chedda:** What would be Skybags now as a percentage of the revenue?

**Radhika Piramal:** We do not give specific sales by brand.

**Pritesh Chedda:** The strategy to fix up VIPs growth what is we looking at?

**Radhika Piramal:** We are doing a fair amount of consumer research. We are looking or the product portfolio assortment and we are working on refining it. VIP is a large brand and so in some ways it is harder to re-ignite an old brand. So, Skybags has just clicked very well in the market with an exciting range of designs, prints and affordable pricing. It is present in all channels, ranging from traditional trade to modern trade to e-commerce which is helping its growth. VIP's channel assortment is slightly different from Skybags so we are looking at all the elements of the marketing mix for VIP whether its product, channel, pricing and distribution and we are confident that we will find ways to improve its growth rate over a period of time.

**Pritesh Chedda:** Just follow up two clarifications I have. Skybags and Carlton will it have a gross margin higher than company level?

**Radhika Piramal:** Carlton yes, Skybags and VIP are the company's average.

**Pritesh Chedda:** And Alfa and Aristocrat were below right?

**Radhika Piramal:** Slightly below.

**Pritesh Chedda:** Second clarification the new range of these Polycarbonate bags which are there in the market which also is hard luggage there the gross margins will be higher than the soft luggage?

**Radhika Piramal:** It is about the same as soft luggage. It has the wheels and trolley. We have polycarbonate luggage across all price points so even our Aristocrat has Polycarbonate and even Carlton has Polycarbonate. So, the gross margins are more a function of the brand.

**Pritesh Chedda:** Will be similar to soft luggage right.

**Radhika Piramal:** That is correct.

**Pritesh Chedda:** Thank you very much.

**Moderator:** Thank you. We will take the next question from the line of Nikhil Upadhayay from Securities Investment Management. Please go ahead.

**Nikhil Upadhayay:** Thanks for the opportunity. Madam, my first question was as you mentioned that we would be looking at what is happening in the mass segment organized player competing. So does it mean that there could be a largest play for Alfa and Aristocrat in that segment because that was always our key segment in the mass market?

**Radhika Piramal:** That is correct.

**Nikhil Upadhayay:** So do you think of adding more products or increasing the product assortment in that segment or how are you looking at that phase there?

**Radhika Piramal:** There is going to be a lot more focus on the value segment. It is also where people are moving from unorganized to organized. We may address with a combination of product assortment, adding more lines, and more marketing activities in that segment. Until now, most of our marketing activities had been focused on our Caprese, Carlton, VIP and Skybags, which are either fashion or the upper end of the luggage market.

**Nikhil Upadhayay:** But there would not be any new brand in that particular segment so probably we will continue with these two brands?

**Radhika Piramal:** Yes, Alfa and Aristocrat are quite strong brands with good equity and good distribution so it would make more sense to focus on these two rather than explore something new.

**Nikhil Upadhayay:** Secondly madam on Bangladesh, how do you see the scale up over next two or three years, because I think...

**Radhika Piramal:** We are evaluating it. The numbers wise it make sense so we are very open to expanding. My personal philosophy is definitely slow and steady with good planning so that there are no problems so we can see whether we do expand capacities.

**Nikhil Upadhayay:** And just one bookkeeping question, when we buy from Bangladesh we just add the custom duty and sell it in India or we also had further mark up to the product?

**Radhika Piramal:** Jogendra you want to take them.

**Jogendra Sethi:** We buy from Bangladesh like we buy from any other vendor and we sell the products according to our fixed MRP. We have standard products with their MRP and their billing price for our customers.

**Nikhil Upadhayay:** And last question Madam on VIP although you did talk about the brand in the previous question, but if you just can highlight some of the things they do see are the major challenges for VIP as a brand to grow because if you look at last five years or history of VIP growth that is always lacked the overall company growth and it is a large brand for us so where do you see the challenges?

**Radhika Piramal:** The challenge is because VIP is such an old brand that in the minds of the consumers it is sort of stands for overall luggage as suppose to

something distinct that is the fundamental marketing challenge. I do not want to take other categories names but I am sure we can all think of one or two or three other brands that have the same issue when the consumer comes to the market. They want something new. So, it is fairly a large brand issue to fix. We have tried a few different routes in the last five years. As you correctly said, our latest campaign featuring Hrithik Roshan we advertised in Q1 of current year and then again in Q3 and qualitatively it has been well received when in terms of the sales it is not driving the change

**Nikhil Upadhayay:** I am not sure but is it also related to something on the perspective of people the perception of people that the quality of VIP brand is a bit lower than probably an American Standard?

**Radhika Piramal:** No, I totally disagree with because VIP known for its high quality and every brand from our stable known for its high quality. VIP is doing fine but yes it is not growing. Skybags is growing very well and Skybags is growing well partly because of the assurance that people have that it has come from the company of VIP and therefore it is very high quality. Our quality reputation with the trade and with trade buyers is high and it is better than competition.

**Nikhil Upadhayay:** Thanks a lot Madam.

**Moderator:** Thank you. The next question is from the line of Amit Mantri from 2point 2 Capital. Please go ahead.

**Amit Mantri:** I wanted to know what is our channel strategy because you mentioned that there is some cannibalization happening between Skybags eating away VIP share so are we selling these products in the same channel and second question which channels are doing well for us?

**Radhika Piramal:** Let me take the second question first. Our modern trade continues to be the channel that is growing the fastest. Our traditional trade channel continues to be our largest channel. Traditional trade had bad November which is the channels most affected by demonetization. Shoppers like end consumers move towards modern trade who could accept debit card and credit card payments and our own company stores could accept debit and credit card payments rather than a dealer channel which is still gearing up fully for digital world. We are relooking continuously at the channel mix to put up the assortment and the advertising to turn around VIP and make it as successful in terms of growth as what we have seen in Skybags.

**Amit Mantri:** That is fine. Thank you.

**Moderator:** Thank you. We will take the next question from the line of Sandeep Patel from Hornbill Capital. Please go ahead.

**Sandeep Patel:** Good afternoon. Thanks for taking my question. I just wanted to ask you with so many brand that we have and so many products that we sell across brands. So is there a little bit of a clutter that we now find ourselves in and is there a thought towards clearing up this a little bit?

**Radhika Piramal:** It is pretty good. We have Carlton for the premium end. We

have VIP and Skybags in the middle and I do not think there is too much clutter there, because as the discussion shows Skybags is doing very well and has found a certain place in the market. It is extremely important to have VIP and Skybags, two brands competing in middle segment. When come to the value segment, Alfa and Aristocrat, each have their pockets of strength when it comes to different regions of India and that is why again it is not too much to have two brands there. Both brands have been in the market for more than 20 years and have lot of brand equity and areas of strength. It is a portfolio brand strategy as opposed to just having a few brands but we can see that even our largest competitor which is Samsonite now have several brands in the market which are Samsonite, American Tourister and Kamiliant and they launched High Sierra for Backpacks so now they also have several brands in India.

**Sandeep Patel:** The other question is regarding the growth rate if you could give us some ballpark about Carlton and Caprese what kind of growth rate and also on the lower end Alfa and Aristocrat because I think until last quarter for a little while before that these two brands have gradually moving share I think?

**Radhika Piramal:** As I said, Alfa and Aristocrat grew at 10% in Q3 which is in line with the average. Alfa and Aristocrat are growing at 10% and Safari is growing at 35%, it mean we are losing some share at the value end to Safari.

**Sandeep Patel:** Caprese what are the growth rate now?

**Radhika Piramal:** It continues to do well. It has been growing very well.

**Sandeep Patel:** And Backpacks as a category?

**Radhika Piramal:** Also continue to do well.

**Sandeep Patel:** Thank you so much.

**Moderator:** Thank you. We will take the next question from the line of Kinjal Desai from Reliance Mutual fund. Please go ahead.

**Kinjal Desai:** I just wanted to understand one thing you said that due to demonetization we would see the conversion from unorganized to organized that also with the upgrading from that there are smaller brands to our brands so when we say upgrading are we looking at something like a Aristocrat, Alfa which would be growing better, the expecting of those growing better or even VIP and Skybags should see that accelerated growth?

**Radhika Piramal:** I think all four because Alfa, Aristocrat are at lower price points as compared to VIP and Skybags so in that sense somebody who is just coming from unbranded to any brand for the first time, there is potential for Alfa and Aristocrat. VIP and Skybags also have the potentials just because they are such strong brands in the market place.

**Kinjal Desai:** When we said that we saw modern trade and all of that growing well while our MBOs are not growing that well are we seeing any regional dispersion and saying that the probably smaller towns are not doing that well?

**Radhika Piramal:** In our case, we found it fairly equal throughout and not significant differences and also between towns. We are a smaller industry. Other

reason could be why our sales growth of 10% is pretty decent. In the wake of what happened and definitely compared to FMCG or two wheelers, branded luggage are much smaller industry. Our penetration is nothing compared to what FMCG or two wheelers have so.

**Kinjal Desai:** Just a curiosity sake it has done with more or less but when we see marriage demand would not have VIP grown at least a bit or a bit higher than what our expectation would have been given demonetization because I think marriage demand for VIP is very, very strong I mean irrespectively people are going to spend demonetization, no demonetization.

**Radhika Piramal:** These are results.

**Kinjal Desai:** No, my point is that is it that the flat growth for VIP is we would say it as a because of marriage demand it is where it is and it would have been much lower without it in the given situation?

**Radhika Piramal:** Marriage season was good and people bought the brands they bought. Maybe some people have bought Skybags as our Skybags growth has been very good.

**Kinjal Desai:** Thank you I am done. Thank you very much.

**Moderator:** Thank you. The next question is from the line of Dimpal Kotak from SKS Capital. Please go ahead.

**Dimpal Kotak:** Madam in the initial commentary as you pointed out there are certain issues in Dubai so can you just tell us or throw some light what are the kind of issues we are facing?

**Radhika Piramal:** In Dubai, we work with the distribution partner. Most Indian companies have distributors in Dubai and distributor may be facing some issues in the market with respect to receivables. We are evaluating our choice of partner in the UAE because until unless things improve, we may need to be make a decision as to whether we need to be with the stronger or financially stronger party.

**Dimpal Kotak:** Any receivables in the balance sheet which we had due to from that end?

**Radhika Piramal:** No, there is no concern on that whatsoever.

**Dimpal Kotak:** And I just missed on the part that we are losing with Safari in which segment.

**Radhika Piramal:** In the value segment.

**Dimpal Kotak:** For the year to go from Q4 has the demonetization effect nullified or we are seeing some more in Q4 and for year ahead?

**Radhika Piramal:** It is early to comment but I can say that December was much better than November and I can say that January was better than December.

**Dimpal Kotak:** That is all from my side. Thank you.

**Moderator:** Thank you. We will take the next question from the line of Amar

Kalkundrikar from HDFC Mutual Fund. Please go ahead.

**Amar Kalkundrikar:** I just have two questions, one is have you seen actually any price increases in unorganized to imported merchandise post December or January?

**Radhika Piramal:** I have got mixed reviews on this. From some sources I have heard yes and from other sources no. So, it is a mixed bag. It is a wide variety of traders so sometimes it can be hard to get the whole picture together. I have broken it up into two segments one is a group of wholesale traders who have chains of shops and they actually import containers. This group of people has increased their prices of their unbranded Chinese goods. There is the second group of dealers who themselves do not import containers. They buy from wholesalers in the Delhi markets and sale. This group of people is saying they have not seen any increase in prices so there will be more clarity as we enter the main Q1 season.

**Amar Kalkundrikar:** So far nothing to show that these guys are now reading or writing on the wall and going more for organized brands as we had at least so you see some evidence?

**Radhika Piramal:** It is early stage is to comment but the potential is very much there.

**Amar Kalkundrikar:** Great, thank you very much.

**Moderator:** Thank you. The next question is from the line of Lakshmi Narayanan from Catamaran. Please go ahead.

**Lakshmi Narayanan:** Thanks for the opportunity. I have a couple of questions; one is to understand how the canteen stores department contracting actually works and what has been our exposure there and how has been trending with the last towards a year or so? The second is that when I go around I see that luggage's have always been kind of markdown from MRP so what is the overall discount that is actually prevailing and has it expanded not only for you for the industry and the third is you mentioned a specific thing related to value brand and how you are planning to expand what could be the source of differentiation in a sense that does the customer look for distribution or the customer look for distribution plus servicing or what is that and how do you think we can actually win?

**Radhika Piramal:** CSD is the first question second question is what?

**Lakshmi Narayanan:** On discounting?

**Radhika Piramal:** CSD works like a modern trade partner similar to let us say a Big Bazaar that has 800 stores except that CSD has 3000 canteens and luggage's stocked in maybe 1000 out of these 3000 canteens. Demonetization is positive for CSD. The clientele is the same and they would anyway buy in CSD rather than outside because they get more favorable rates. There is no trade margin. In some states, there is no sales tax that is the advantage in buying CSD over buying in the regular markets.

**Lakshmi Narayanan:** You would negotiate this one CSD or you have like

multiple CSD like north, east, west commands and things like that?

**Radhika Piramal:** The product listing is through on central office and then orders are received individually from each canteen and then from each canteen to a depot and then there are 33 depots who place orders onto us it is a fairly decentralized system.

**Lakshmi Narayanan:** Especially you negotiate with only, one?

**Radhika Piramal:** Pricing and product assortment is at head office. There is a central buyer for Big Bazaar and orders for those items come from each outlets based on their requirement and their stock.

**Lakshmi Narayanan:** And broadly what is the mix of this channel for us in the last three four years what has been the proportion for our revenues?

**Radhika Piramal:** It is about 20% of our revenues.

**Lakshmi Narayanan:** Thank you. And the other two questions...

**Radhika Piramal:** The second question was on discounts, luggage has been a fairly discounted category as compared to watches or shoes so your observation is correct. You can see from our margins that we are not suffering from too much discounting so it is hard for me to comment overall on the industry.

**Lakshmi Narayanan:** So average MRP to discount for your industry for VIP?

**Radhika Piramal:** I cannot give numbers.

**Lakshmi Narayanan:** The last thing on the differentiation with respect to...

**Radhika Piramal:** I think that is a co-marketing question differentiating a value brand versus any other brand. Customers look for convenience of availability. They definitely look for pricing, quality, a good warranty period and a good after sales service. As a market leader, with most number of people and the widest distribution we are definitely well placed to compete on all of these points.

**Lakshmi Narayanan:** When I look into the warranty period or a warranty cost it seems to be quite miniscule so it is more a hygiene factor but the customer does not really exercise is right is that a fair assumption?

**Radhika Piramal:** Our quality is good so they do not exercise it. If somebody has that break, they definitely come to us and expect good service and good spares and we are able to offer all these things.

**Lakshmi Narayanan:** Thank you so much.

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

**Nitin Gosar:** I think in past there has been debate on concalls regarding sales promotion versus advertisement and I think you took a stand in past that advertisement is required to promote the brand but since the sales are not responding as we have seen in case of VIP any thoughts on the same subject sales?

**Radhika Piramal:** I do not want to give some global so I will say that Skybags

brand has grown very well. We have also invested in TV advertising for Skybags. Caprese brand has grown very well and we have advertised on TV for Caprese. We are finding it little bit more challenging to change the brand perception of VIP versus launching or re-launching brands like Skybags, Caprese and Carlton.

**Nitin Gosar:** Your understanding on the value which is hitting up now it seems Safari is also getting overactive over there and so is with the Samsonite so does it mean that we should be now equally going hard on brands like Alfa, and Aristocrat rather than giving more mind share or time share to brands like VIP which is right now seeing lot of a take?

**Radhika Piramal:** It is true that there seems to be more action in the value end so definitely we have to give proper attention to Alfa and Aristocrat but that is not taking away anything from the attention we give to VIP and Skybags both have to happen simultaneously.

**Nitin Gosar:** Thank you.

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

**Tejas Shah:** Thanks for the opportunity. Madam, just wanted to know that mainly for last three quarters we have been mentioning that bargaining power is directing in favor of buyers in terms of sourcing from China so how much scope do you still see in that direction and second what are the key factors are they running with overcapacity or demand is for last quarter the fact is actually shifting the brand is in our favor?

**Radhika Piramal:** The factor is basically overcapacity and also that underlying commodity prices were not increasing so in the phase of weak demand and no cost pressure inputs from their side, we could squeeze a bit. There is very little potential to do more than this because the commodity cycle is changing and we are beginning to see effects of that in plastics and paper products like cartoons so it would be great to maintain this improvement in margins that we saw. I think that expecting further improvement on this by further lowering cost would be challenging.

**Tejas Shah:** The delta or tailwind that you are mentioning sure in other consumer companies in last 24 months but in our industry it is happening with slightly a lag. So should we building that for you does cycle continue at least for next two, three quarters unlike other players in the sector?

**Radhika Piramal:** I desire so.

**Tejas Shah:** Madam just wanted to know all the brands in our portfolio EBITDA positive?

**Radhika Piramal:** Yes.

**Tejas Shah:** Including Caprese?

**Radhika Piramal:** Yes.

**Tejas Shah:** Lastly one just extension of the previous question on the brand

construct and you mentioned in your opening commentary that somehow VIP has gone into that legacy brand of some other category where consumers are not responding. Do you believe that VIP can be pushed downwards since Skybags and we brought up so that we have taken can actually offer that kind of value at value segment?

**Radhika Piramal:** There are easier things to do but that may not be correct like we can drop the prices of VIP but it is a brand with which consumers associated a certain trust, quality, premium and guarantee. We have VIP lounges across the country. There are expensive retail locations even more expensive than high streets and they are doing well. We are growing the stores as there is brand equity, which is very strong with VIP. We have to figure out how to make it more exciting. I agree that it is taking longer than we would like as a management but that is our strategy and drop in prices would be the easiest thing.

**Tejas Shah:** Lastly for last three four quarters we have seen sustainable improvement in EBITDA margins. In fact in this quarter where our wholesales proportion was lower you would have assume that margins will get it because of negative operating average playing out but then also margins are improving so are we gunning for sustainable double digit margin in near future?

**Radhika Piramal:** It is certainly my dream and my goal but I would not like to put a timeline on it.

**Tejas Shah:** Lastly Madam last time you had reported we had some contingent liability pertaining to some years back I just want any update on the same?

**Radhika Piramal:** There has been no change in the status on that and being sales tax matter of that magnitude, I think it is going to be for years.

**Tejas Shah:** Thanks and all the best Madam.

**Moderator:** Thank you. The next question is from the line of Sandeep Patel from Hornbill Capital. Please go ahead.

**Sandeep Patel:** Thanks again for taking this question. Just a broad thought we have increased activity focus towards Alfa and Aristocrat. We have a slight slowdown in Carlton, which is our probably highest margin brand and we will probably need to figure out is where it would rejuvenate VIP so the question is about margins going forward and you also mentioned the raw material pressure so how do you see it for the next couple of quarters or for the next year or so.

**Radhika Piramal:** I would like to remain cautiously optimistic that what margin improvement we saw from Q2 to Q3 and also Q1 to Q3 and we desire these margins to continue assuming the rupee remains where it is. What you mentioned about Carlton it is a slight slowdown for one quarter. I do not put a lot of stuff and it is sort of very unusual quarter in the history of India's economic so I do not put too much talk in that and Carlton is growing well. In response to the raw material question, there is some pressure though it has not come through in terms of cost increases yet,

**Sandeep Patel:** Yes but I am just correlating the commodity prices going up so

we would also see that at some point?

**Radhika Piramal:** Let us see what happens. Industry keeps three months of stock that is why the lag effect happens in the luggage industry. Going into a larger selling season, we have purchased a fair amount of inventory already so let us see how the margins workout for this year.

**Sandeep Patel:** Thanks a lot and best of luck.

**Moderator:** Thank you. The next question is from the line of Darshan Sanghavi from Reliance Capital. Please go ahead.

**Darshan Sanghavi:** My question is on 70% of the sales that is coming from the soft luggage, which is imported from China so till what will be Yuan level you are able to maintain the margins, and is any import substitution done in place?

**Radhika Piramal:** We do not get so much into the Yuan level. We buy in dollars and we pay in rupees so at the current rate of Rs.68/US\$, we can expect of current margins to continue.

**Darshan Sanghavi:** Any substitutions?

**Radhika Piramal:** We have a few vendors in India. They have been pretty constant for the last two years. China has a scale and a variety that Indian vendors are not able to match.

**Darshan Sanghavi:** And at what rate are you adding distributors the newer stores, any additions over there?

**Radhika Piramal:** What is your specific question on the stores?

**Darshan Sanghavi:** Yes.

**Radhika Piramal:** Typically we add around 50 stores.

**Darshan Sanghavi:** Thanks.

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

**Nitin Gosar:** Just wanted to check are we having any kind of presence in the four to ten year kind of segment?

**Radhika Piramal:** You mean kids luggage?

**Nitin Gosar:** Yes.

**Radhika Piramal:** At the moment no and what we find is the price points in that segment are pretty hard for us to make a decent margin on that. We may consider, if we get a price where we could make a decent margin. The market for these items is very small.

**Nitin Gosar:** Your thought process on this is similar like you talked specifically about children luggage my reference to be more broader category like schooling, school bags also?

**Radhika Piramal:** In Backpacks, we have a very great range of Skybags backpacks and within that some of them are designed specifically for school kids

and they have done very well and this year. We have also launched in tie-up with Disney and we have a whole range of marvel character backpacks which we just launched in January. So far, response has been pretty good. In the luggage segment, I do not see too much opportunity but in the backpack segment which is sold to school children there is plenty of opportunity but again starting at the sort of age of eight or ten years onwards and not in that in the age of four onwards where bags are very small.

**Nitin Gosar:** One more question would be with regard to inflationary environment, how does the pricing strategy really work out there?

**Radhika Piramal:** We try to take two price increases per year in general trade channel. In modern trade and CSD, we try and take one price increase a year. With modern trade and CSD, there is a whole sort of process of getting price increase approvals so it is a bit longer than what we can do in the general trade and we have been consistent for the last several years so we plan to continue that.

**Nitin Gosar:** Those price hikes are really relatively easier in the value segment, mid range premium segment how is it?

**Radhika Piramal:** They are definitely easier in the mid range and premium compared to the value.

**Nitin Gosar:** Thank you.

**Moderator:** Thank you. We will take the next question from the line of Manoj Bahety from Edelweiss Securities. Please go ahead.

**Manoj Bahety:** Radhika, my first question is mainly on the thing which you have shared in your opening remarks that unorganized to organized shift and you mentioned that the cost for unorganized player have gone up because of the demonetization now three, four months down the line we will have GST implementation and luggage is one of the industry where we see a significant presence of unorganized player so whether you are working to make good of this opportunity like in terms of expanding your distribution range to capture this kind of opportunity?

**Radhika Piramal:** I see an opportunity for sure. Little bit depends on the resistance or acceptance of the traders in GST to pay tax. It is a question of time. They can resist for 6 months, 12 months or 18 months. Sooner or later, it is coming. The price between unbranded and branded will shrink and the traders will come into the branded fold more and more and more branded than unbranded or will eventually become marginalize. I see great opportunity for us.

**Manoj Bahety:** Based on your assessments what kind of price difference which is mainly on account of this tax arbitrage between organized and unorganized obviously there will be some cost involved for doing the tax revision also, so what kind of pricing difference we will see right now it is there and it may shrink?

**Radhika Piramal:** If a branded luggage is Rs.4000 and unbranded luggage to the customer is Rs.2000. It is hard for me to say what will that unbranded

become. I have asked the question many times to many people and I am not getting exactly the consistent replies from people.

**Manoj Bahety:** Exactly so with GST is it likely that your focus may shift from the expensive brands to the value brands to capture the opportunity from that?

**Radhika Piramal:** We are catering to all of India. We can very successfully promote our premium brands Skybags and also focus on the value. I do not think where we have to choose.

**Manoj Bahety:** Last question from my side how you are seeing the competitive intensity in the industry like one of the participants did ask that luggage is a discount industry so in terms of competitive pricing and also all the market share of major player is placed right now?

**Radhika Piramal:** The competitive intensity was pretty high. Safari's good growth in Q3 will be going to intensify the competition.

**Manoj Bahety:** Thanks for taking my question, I think we have one more question from the participant.

**Radhika Piramal:** Okay, but Manoj just make that the last now as it has been on for almost an hour yes.

**Moderator:** Thank you. We will take the next question from the line of Jatinder Agarwal from Relax Capital. Please go ahead.

**Jatinder Agarwal:** Madam, what is the overall market size? Yes is the market size is about 7000, 7500 and then we see that only about 33% is organized which is probably the top three brands that I can take of VIP, Safari and Samsonite then in the other 66% how would you plug that between domestic manufactures and Chinese imports?

**Radhika Piramal:** At least 80% Chinese and 20% domestic, maybe 70:30.

**Jatinder Agarwal:** Second and Madam can you just clarify this for me, in terms of import policy, today when the VIP imports luggage from China that is the soft luggage what type of duty do you pay when you import Madam?

**Radhika Piramal:** It is about 20%, Jogendra you want to more strategic.

**Jogendra Sethi:** It is around 26%.

**Radhika Piramal:** If the product cost \$100 in China then you would pay \$26 when it gets imported into India?

**Jogendra Sethi:** Yes.

**Jatinder Agarwal:** And then you would also face in fact the state in which you sell right?

**Radhika Piramal:** Correct.

**Jatinder Agarwal:** So the way I would understand is if there is unorganized competition from Chinese importers whatever and there is also a risk that these guys could be under pricing so the way they would do is when they import they pay \$80 probably so suppose they have under invoiced it by at \$80 so they will also pay 25%, 26%. So how will this change under GST because it is both are

still paying so the only unorganized to organized difference will be the under invoicing part right?

**Radhika Piramal:** But your assumption is that the under invoicing is to the tune of 20. I may not be able to comment on the same.

**Jatinder Agarwal:** Right because they import and perfect.

**Radhika Piramal:** Nobody knows exactly because nobody knows the degree of the price.

**Jatinder Agarwal:** I think that is good enough. Thanks a lot madam.

**Moderator:** Thank you. Ladies and gentlemen that was the last question I would now like to hand the conference over to Mr. Manoj Bahety for his closing comments.

**Manoj Bahety:** Thanks everyone and thanks Radhika and Jogendra for giving overview of the industry as well as taking all the questions. Radhika if you would like to make any closing comments. Over to you!

**Radhika Piramal:** Thank you Manoj. Thank you everybody for attending the call. Just to summarize the first our quarter and then the industry. It was a decent quarter and sales growth was acceptable. There is more competition that we need to address so the management's focus is very much on how to improve our sales growth and how to turn around VIP brand. Right now our margins are good and going forward we want the same to continue and there is a great potential for shift from unbranded to branded. I am fairly confident entering 2017 and look forward to talking to you in the next quarter. Thank you.

**Moderator:** Thank you. Ladies and gentlemen on behalf of Edelweiss Securities that concludes today's conference. Thank you for joining us. You may now disconnect your lines.

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